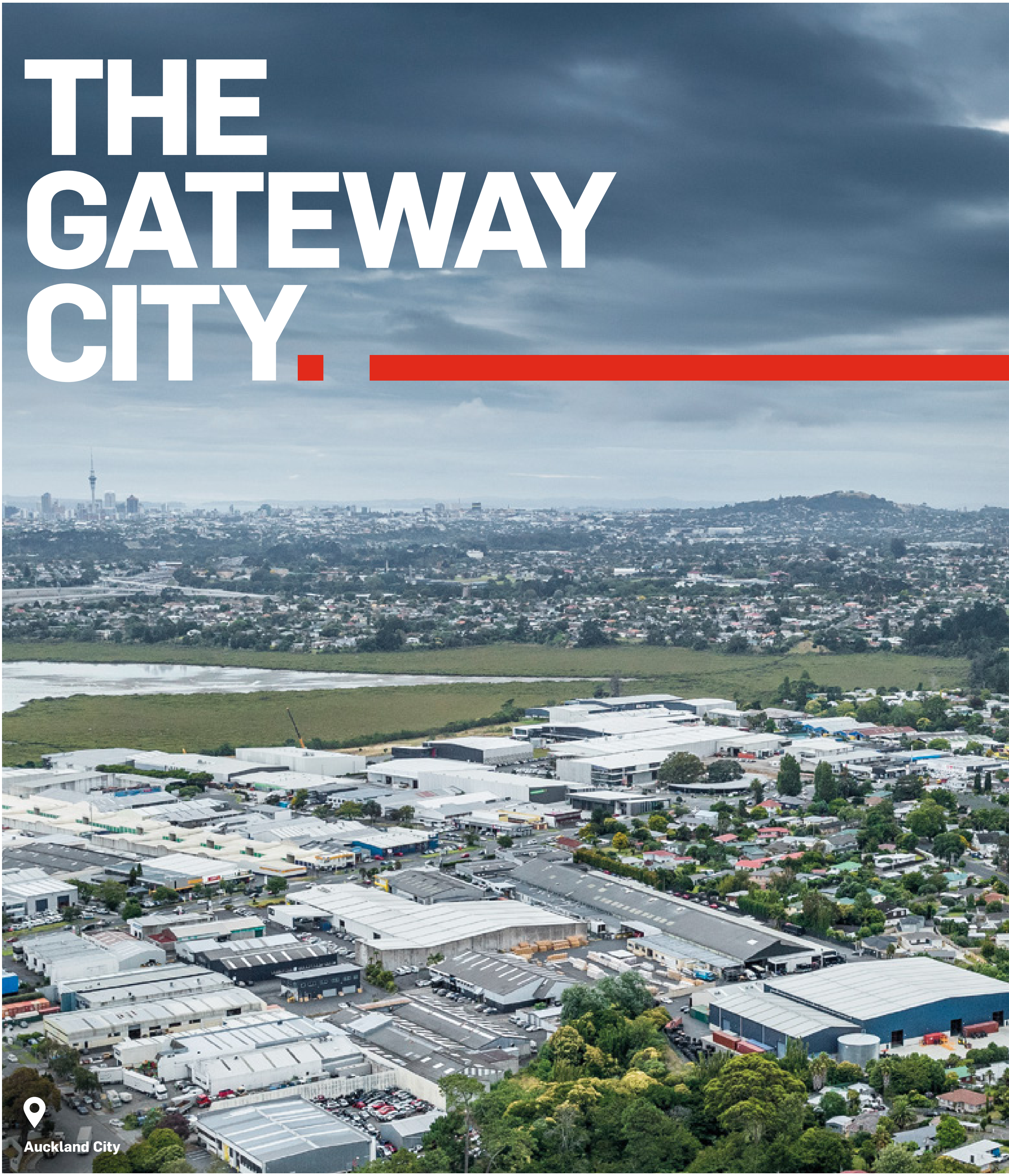
PFi

Property For Industry Limited

Annual Report 31 December 2016

GLOBAL MEETS LOCAL

THE GATEWAY CITY.



> **Nowhere is the spirit of the age better embodied than in the world's gateway cities.**

It's Auckland, so of course there was a road involved. Early on, there was nothing particular to suggest that Auckland would become New Zealand's largest city, its industrial centre and commercial capital. It had a port, certainly, but so did a hundred or more other places. It was the capital, briefly, but Wellington took that. Back then, Dunedin— thanks to the Otago gold rush— was the front-runner: New Zealand's first real city. However, **Governor Grey** wanted a road built. In preparation for what became the Waikato Wars, Grey shipped in 12,000 Imperial troops to build the Great South Road from Auckland and to do the fighting. Afterwards many of those soldiers stayed on.

It's in the nature of things for the big to get bigger — accumulative advantage they call it — and once Auckland got to the front, it stayed in front. Waves of other migrants — from the UK, the Pacific Islands and Asia — arrived in New Zealand and chose to settle in Auckland, boosting its relentless natural growth. As a result, Auckland is now four times as big as New Zealand's second largest city and growing faster than everywhere.

Airbus predicts that within **20 years** Auckland will be one of the world's aviation 'megacities', joining **90** others handling more than **10,000** long-haul passengers a day: a significant hub in the global economy, a centre of urbanisation and wealth creation. As **CBRE Global Chief Economist Richard Barkham** puts it...

"Nowhere is the spirit of the age better embodied than in the world's gateway cities. They are networked into the global economy via their ports and airports, and to their hinterlands via road and rail networks. They are large, important markets in their own right."

As you'd expect, PFI is focused on Auckland. Of the 83 properties in PFI's portfolio, **70** are in the gateway city, enabling our tenants to play their parts in driving New Zealand's economy.

CONTENTS / SNAPSHOT

> *The economy is strong, demand for industrial space is robust and supply is constrained. That's good for PFI as a landlord, because we can maximise the return on the portfolio, but it reduces our scope as an investor because there are few properties available and prices are at a premium."*

01

PROCEED WITH CARE

Playing the conditions and steadily accumulating shareholder value

Read more
p.04

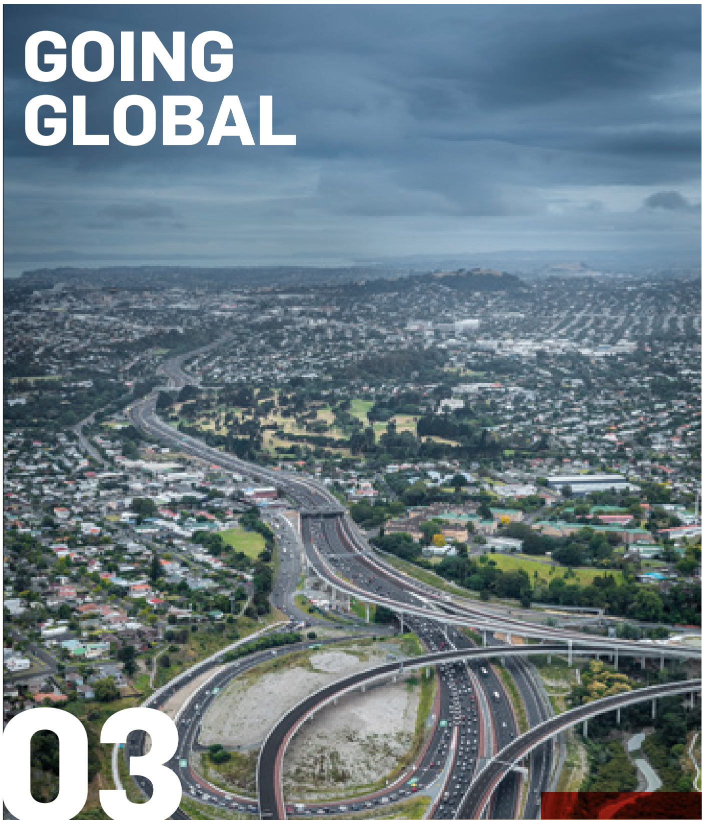
02

NO STOPPING

84 rent reviews and 32 lease negotiations with new and existing tenants

> *All of our tenants play a key role in New Zealand Inc. and in the Auckland economy in particular."*

Read more
p.06



GOING GLOBAL

03

60%
OF NEW ZEALAND'S IMPORTS COME THROUGH AUCKLAND.

2/3
OF NEW ZEALAND'S TOP 200 COMPANIES ARE HEADQUARTERED IN AUCKLAND.

$20B
INVESTMENT IN AUCKLAND'S INFRASTRUCTURE.

47,000
RESIDENTS LIVING IN AUCKLAND'S CITY CENTRE.

Read more
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04

STORIES FROM THE GATEWAY

How Auckland businesses are seeing the benefits of being located in a gateway city

Read more
p.10

PEAK FLOWS

9.45% per annum average return since PFI listed in 1994

It's by having a focus and a deep understanding of our particular niche, industrial property, that PFI has been able to consistently deliver strong, stable returns."

Read more
p.14

MEET THE PFI TEAM

PETER MASFEN
Chairman and Independent Director

ANTHONY BEVERLEY
Independent Director

HUMPHRY ROLLESTON
Independent Director

SUSAN PETERSON
Independent Director

GREG REIDY
Managing Director

SIMON WOODHAMS
General Manager

CRAIG PEIRCE
CFO and Company Secretary

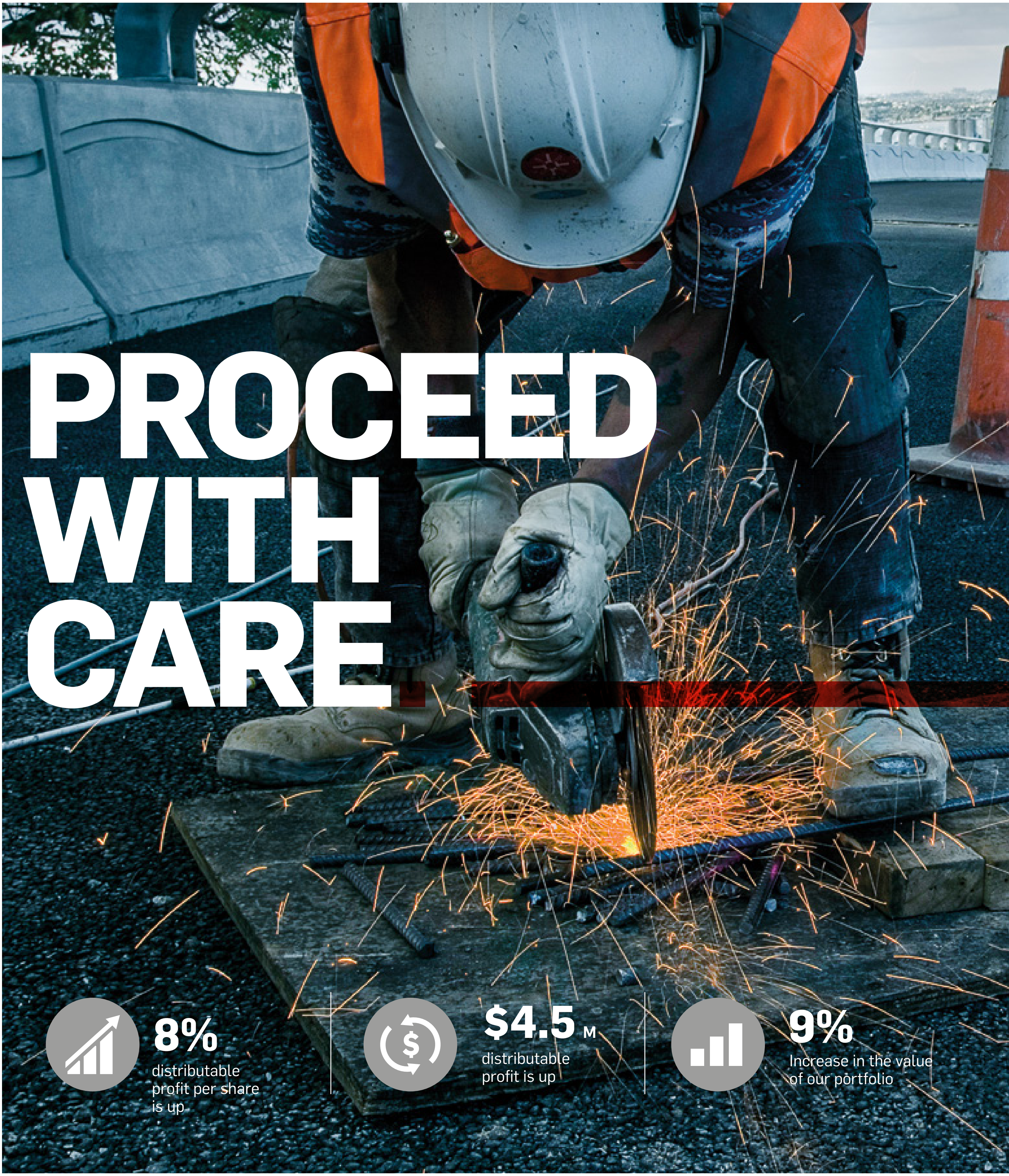
Profiles of our team members can be found on our website at
pfi.co.nz/people

JOHN WALLER OMNZ

PFI Board member John Waller passed away in September 2016. John joined the Board in 2013, as part of the merger with Direct Property Fund where he had served as an independent director since 2010.

John made an outstanding contribution to PFI and the Board," said Chairman Peter Masfen. "He represented Direct Property Fund during the merger and was an active member of the PFI Board, Audit and Nominations committees."

The PFI team extends their deepest sympathy to John's family.



PROCEED WITH CARE.

8%
distributable profit per share is up

$4.5 M
distributable profit is up

9%
Increase in the value of our portfolio

01

Operating environment and key achievements in 2016.

> **“That’s taken the total portfolio value over the billion dollar mark.”**

“**Investing** is like test cricket,” says PFI Chairman, Peter Masfen. “In the long run, winning often depends on one’s ability to resist the dramatic.” “No big hits,” says PFI General Manager Simon Woodhams; “just playing the conditions and steadily accumulating shareholder value.”

“The operating environment is much as we described in the Interim Report,” says Peter Masfen. “The economy is strong, demand for industrial space is robust and supply is constrained. That’s good for PFI as a landlord, because we can maximise the return on the portfolio, but it reduces our scope as an investor because there are few properties available and prices are at a premium. In the Interim Report I said that if the right opportunity presented itself we would consider it, and — subsequent to year-end — the opportunity arose to purchase a property at **11 Turin Place, East Tamaki**.

“What you’ll see then, looking at the numbers, is an uplift of **rental income of about 6%** over the past year. In part, that’s the full-year benefit of last year’s acquisitions and developments, but it also reflects, as I say, good portfolio management. And you’ll see that this incremental revenue effectively drops straight to the bottom line. Distributable profit is up by **more than $4.5 million** and distributable profit per share is also up: **by 8%,** to **7.58 cents per share**. We are very pleased with that result.

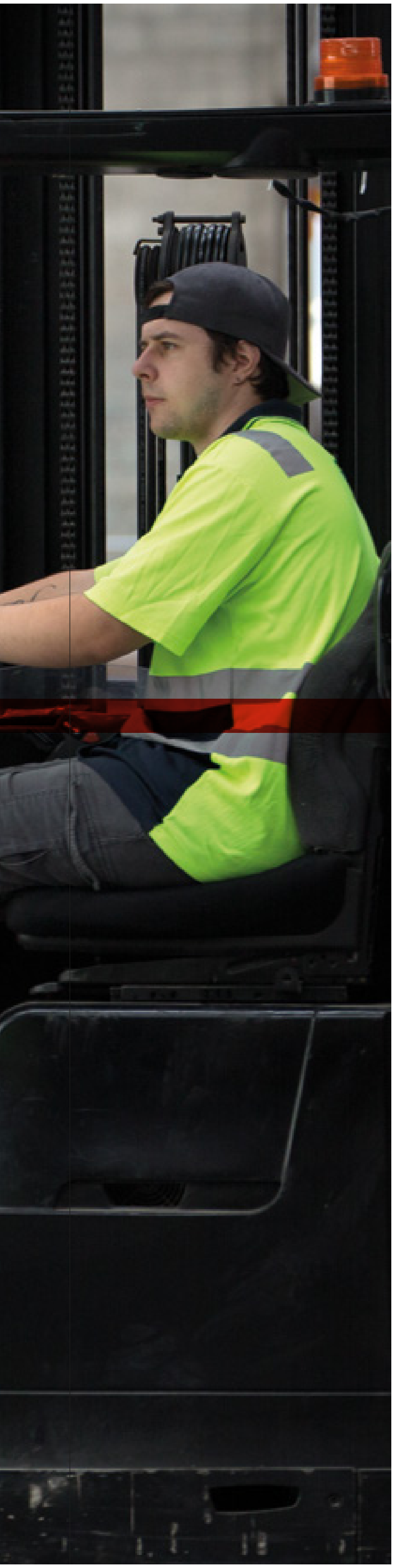
“You’ll note that the market conditions have boosted the value of the portfolio— nearly a **9% increase**— and that’s taken the total portfolio value over the **billion dollar mark**. As a result, Net Tangible Assets per share are up and our Loan to Value ratio is down. In our opinion, all that is very satisfactory. Nothing dramatic certainly, but entirely consistent with our purpose of delivering strong, stable returns.” ■

For further detailed commentary on our annual results please visit
pfi.co.nz/results

NO STOPPING

> "All of our tenants play a key role in New Zealand Inc. and in the Auckland economy in particular."

Go Logistics, Penrose



02

Managing the portfolio to achieve our objectives.

83
properties

84
rent reviews

32
lease negotiations

There are now 83 **properties** in the PFI portfolio," says Simon Woodhams. " In 2016, that meant **84 rent reviews** and **32 lease negotiations** with new and existing tenants. To continue Peter's cricketing metaphor, they are the key to a good result: protecting your wicket; steady accumulation.

"Of course we get a buzz from an acquisition, such as the recent sale and lease-back agreement with **Thermakraft in Turin Place, East Tamaki**. Yet, I find it also very satisfying when, for example, a tenant like **Mainfreight** renews their lease, as they've just done at **Neales Road**, or when, for example, **Fletcher Building** expands their relationship with us, as they've done at **Narek Place**.

"We say we're out the back where the work gets done. These businesses — all of our tenants — play a key role in New Zealand Inc. and in the Auckland economy in particular. It's exciting to see them doing well. I really enjoy seeing a company like **Boxcraft** becoming a PFI tenant: a smaller business that's prospering and moving up.

"Elsewhere in this report, there's mention of the **Waterview tunnel** opening. It's worth highlighting that PFI has a significant presence — around **20 tenants**— in the Avondale industrial precinct: **Rosebank Road and Patiki Road**. The benefits to those tenants of the upgraded transport links to the city and to the airport are huge, so we'll likely see a lift in demand in that area. It's pleasing to see the Government's investments in infrastructure coming on stream." ■

To take a better look at our properties visit
pfi.co.nz/properties

The Kaikoura earthquake on 14 November caused superficial damage to four of our Wellington properties and no damage in Christchurch. Repairs and minor improvements have been implemented at a cost below our insurance excesses and engineers will be assessing the buildings again once aftershocks have ceased.

GOING GLOBAL

03

PFI is part of Auckland's operating system.

The Waterview tunnel will have the biggest impact on travel around and through Auckland since the opening of the Harbour Bridge, **60 years ago**. This is significant because transport is fundamental to the Auckland economy: Auckland is New Zealand's gateway city. It has New Zealand's two largest ports, Ports of Auckland and Auckland Airport, and **60% of New Zealand's imports**, and **70% of international visitors** transit Auckland. Auckland is where global meets local.

Throughout history, people and businesses have congregated at these nodes in transport networks. Like other global gateways, Auckland is New Zealand's largest city and its fastest growing. Almost half of all immigrants choose to settle in Auckland, accelerating its natural growth and making it New Zealand's most diverse city: **25%** of Aucklanders now associate with an Asian ethnicity. **Two thirds of New Zealand's top 200 companies are headquartered in Auckland**, so that the city has a large proportion of highly skilled people with higher levels of education and income. But Auckland is also New Zealand's manufacturing centre: manufacturing contributes as much to Auckland's GDP as Professional, Scientific and Technical Services. Transport and Logistics are major employers too, as is Construction, especially because of the major investments — almost **$20 billion** — currently under way in the city's infrastructure.

This agglomeration of economic activity is the reason that of the **83 properties** in the PFI portfolio, **70** are in Auckland. Our tenants are here because everyone else is. They are part of and contribute to the city's intensity — they make things, move things, build things: for the city, and for New Zealand — and they look to us for industrial premises that enable them to operate at peak efficiency. PFI is part of Auckland's operating system. We contribute to the city's kinetic energy.

Cities grow; times change. Industry was once at the 'front' of our cities: near the water, the docks, the ships. Today, however, as the knowledge economy expands, this has become where people want to live: Auckland's city centre now has **47,000 residents**, up from just **5,000** twenty years ago. Industrial activity is being pushed aside, increasing the pressure on the 'back' of the city and exacerbating the already constrained availability of industrial land.

Above all, then, Auckland is changing because New Zealand has changed. When PFI listed, back in **1994**, New Zealand was in the process of dismantling decades of barricades to engagement with the rest of the world, embracing globalisation and freeing up the economy. Auckland has been shaped by this and has benefited from it, the infrastructural lag notwithstanding.

Globalisation and specialisation go hand on hand. Auckland is a complex, dynamic ecosystem: the challenges and opportunities are ever-present but ever changing. It's by specialising— having a focus and a deep understanding of our particular niche, industrial property — that PFI has successfully responded to change and been able to deliver strong, stable returns consistently.

60%

OF NEW ZEALAND'S IMPORTS COME THROUGH AUCKLAND.

25%

OF NEW ZEALANDER'S ASSOCIATE WITH ASIAN ETHNICITY.

2/3

OF NEW ZEALAND'S TOP 200 COMPANIES ARE HEADQUARTERED IN AUCKLAND.

$20B

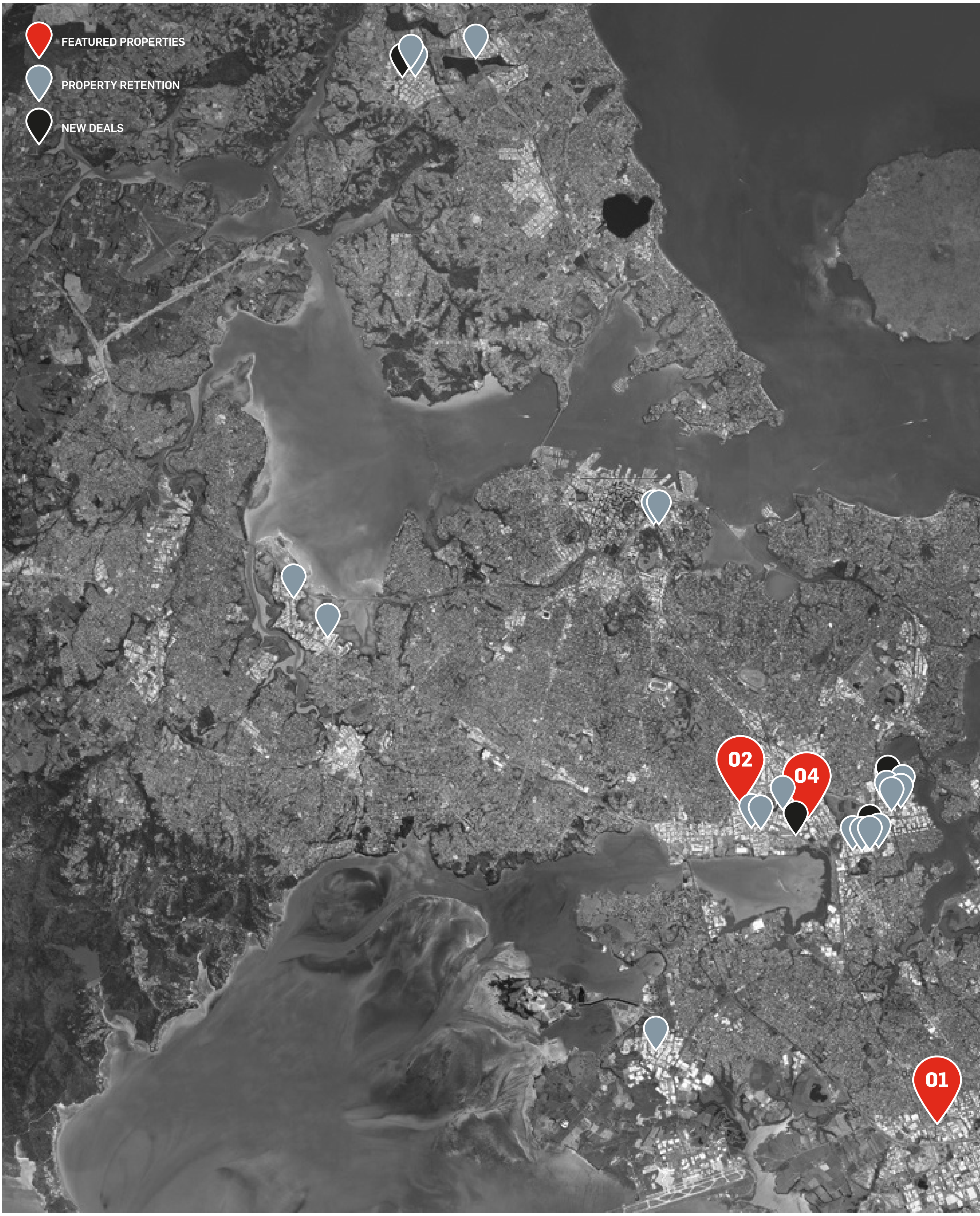
INVESTMENT IN AUCKLAND'S INFRASTRUCTURE.

47,000

RESIDENTS LIVING IN AUCKLAND'S CITY CENTRE.

70%

OF INTERNATIONAL VISITORS TRANSIT THROUGH AUCKLAND AIRPORT.


FEATURED PROPERTIES
PROPERTY RETENTION
NEW DEALS
02
04
01

STORIES FROM THE GATEWAY.

ACTIVITY IN THE PFI PORTFOLIO DURING 2016 ILLUSTRATES THE AUCKLAND INDUSTRIAL ECONOMY IN ACTION...

04

How Auckland businesses are seeing the benefits of being located in a gateway city.

Take a look at some of our case studies
pfi.co.nz/case-studies

01

FIRTH READY-MIX PLANT

9 NAREK PLACE, WIRI

Construction in New Zealand is at its highest level by value than ever before and current levels of recorded activity are expected to grow another 20% to a peak of $37 billion towards the end of 2017.

As Auckland dominates the national demand, Fletcher Concrete and Infrastructure (trading as Firth) has taken a 10-year lease on a PFI site at 9 Narek Place in Wiri and is constructing a ready-mix plant, expanding their capacity to respond.

02

GO LOGISTICS

102 MAYS ROAD, PENROSE

Go Logistics is a New Zealand-owned company that designs, implements and manages complete logistics solutions for importers and exporters in New Zealand, Australia, China, the United Kingdom and beyond.

The Mays Road premises are in the heart of the Penrose industrial zone, close to current and future transport links. It's an ideal location for Go Logistics' warehousing and distribution activity.

03

MAINFREIGHT

36 NEALES ROAD,
EAST TAMAKI

Handy to the Southern Motorway, the Neales Road site is ideally located for Mainfreight's specialist DIY logistics facility: a service for Mainfreight customers.

Mainfreight leased the property from PFI three years ago, with a right of renewal that they have now exercised.

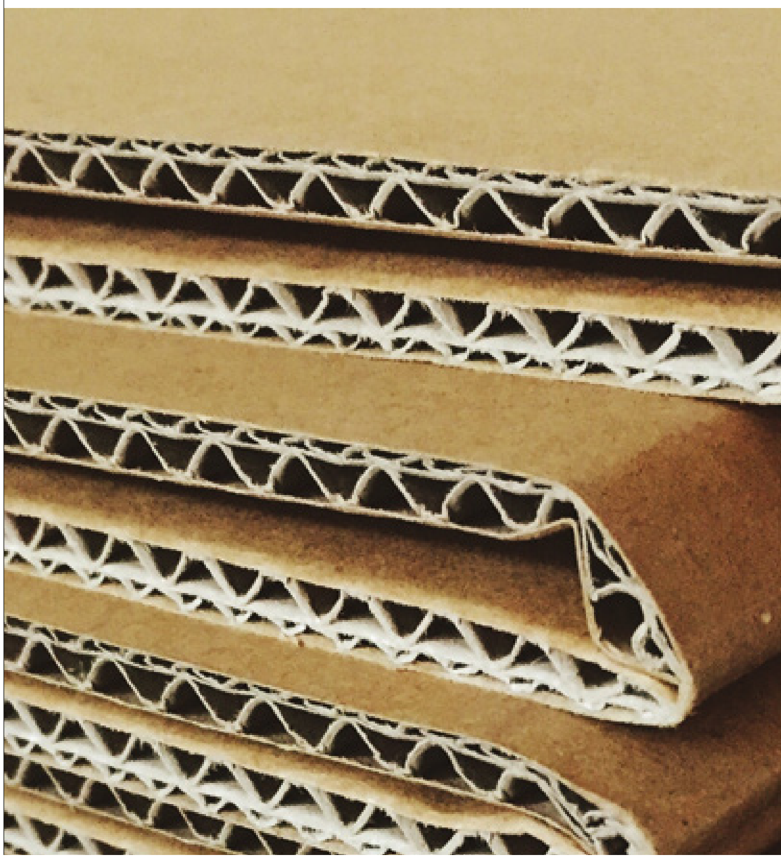
04

BOXCRAFT

80 HUGO JOHNSON DRIVE,
PENROSE

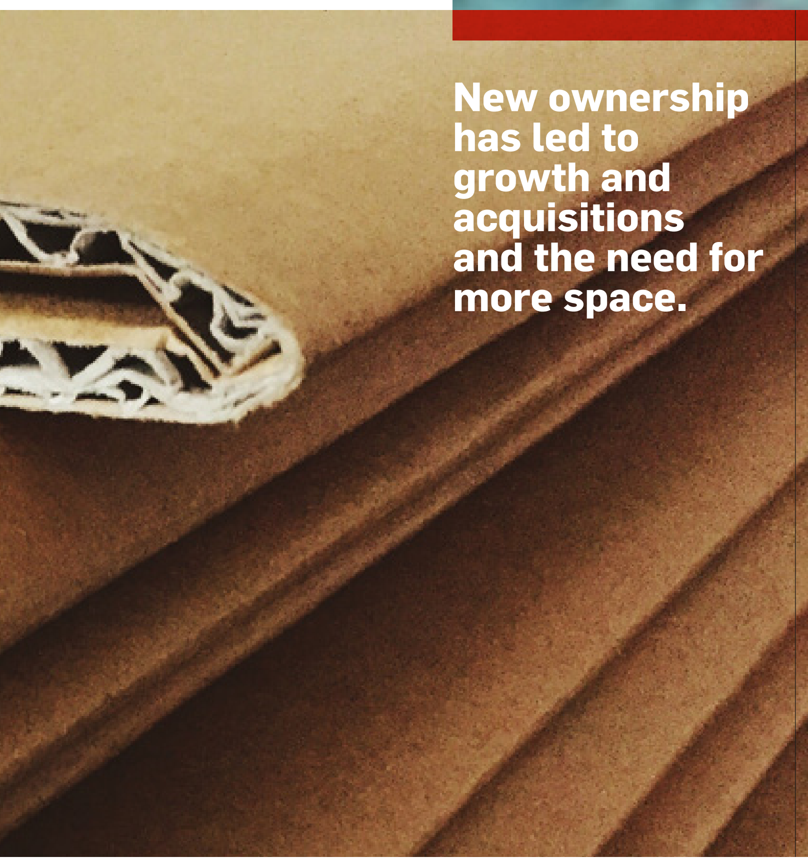
No matter what they make, New Zealand manufacturers and exporters need a box to put it in. Boxcraft produces a variety of innovative and purpose-specific packaging solutions for a wide range of consumer and industrial markets.

New ownership has led to growth and acquisitions and the need for more space. Boxcraft has taken over one of the properties in the Sistema portfolio PFI recently acquired.



Road site is ideally Mainfreight's IY logistics facility

Astron have recently extended their lease for another five year term.



New ownership has led to growth and acquisitions and the need for more space.

05

ASTRON PLASTICS

43 CRYERS ROAD,
EAST TAMAKI

The bigger the city, the more waste to be recycled. Astron has been at the forefront of plastic recycling for over 30 years and continues to be a market leader in converting plastic scrap into recycled plastic resin.

Astron has been based at the Cryers Road site since 2002 and recently extended their lease for another five-year term.

PEAK FLOWS

7

THINGS YOU SHOULD KNOW ABOUT THE INDUSTRIAL PROPERTY SECTOR AND PFI...

3.5%

economic growth

01

ANZ Bank estimates the New Zealand economy grew around 3.5% over 2016 and they suggest a similar pace of annualised growth is on track for at least the first half of 2017.

1.9%

Auckland's vacancy rates

02

CBRE advises that an increasing supply of industrial property in Auckland is helping absorb increased demand but they are nevertheless predicting vacancy rates continuing at levels below historical norms (five years to 2020: 1.8%; five years to 2015: 2.8%).

35th

Auckland global ranking for industrial rent

03

At NZ$118 Average Prime Warehouse Rent (sqm, p.a.), Auckland ranks 35th on Colliers' survey of 145 cities. At NZ$158, Sydney ranks 10th. Hong Kong tops the rankings at NZ$348, followed by London Heathrow at NZ$327.

05

Key Performance Indicators.

99.6%

occupancy

04

Strong demand for prime industrial property has helped us keep the portfolio effectively fully leased. Incentives required to retain and attract tenants have reduced noticeably during 2016.

4.79

years Weighted Average Lease Term (WALT)

05

WALT is back slightly from a year ago, as we transition the Sistema properties to new tenants. The seven leases to new tenants completed in 2016 were for an average term of 6.7 years.

$1,083.3M

valuation

06

Independent valuations increased the value of the portfolio by 8.9% over the year.

9.45%

p.a. annual return since inception

07

Over the 22 years since PFI listed in 1994, annual returns to shareholders have averaged 9.45% per annum[1]; $1,000 invested in 1994 would now be worth seven times that.

1 Cash dividends plus change in share price, assuming dividends are reinvested. Source: DataStream.

Property
For Industry
Limited
Group

Financial
Statements
31 December
2016

FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

ALL VALUES IN $000'S	NOTE	2016	2015
OPERATING REVENUE			
Rental and management fee income	2.2	71,086	66,912
Interest income		22	15
Total operating revenue		71,108	66,927
OPERATING EXPENSES			
Non-recoverable property costs	2.3	(1,646)	(2,183)
Interest expense and bank fees		(17,839)	(19,398)
Audit fees and other fees paid to auditors	5.1	(141)	(143)
Management fees	5.8	(7,259)	(7,608)
Directors' fees		(336)	(280)
Other expenses		(753)	(754)
Total operating expenses		(27,974)	(30,366)
Total operating earnings		43,134	36,561
NON-OPERATING INCOME AND EXPENSES			
Fair value gain on investment properties	2.1	88,214	46,471
Gain on disposal of investment properties		302	479
Material damage insurance income		–	17
Fair value gain / (loss) on derivative financial instruments		433	(3,952)
Total non-operating income and expenses		88,949	43,015
Profit before taxation		132,083	79,576
INCOME TAX (EXPENSE) / BENEFIT			
Current taxation	5.2	(8,535)	(7,151)
Deferred taxation	5.2	(136)	400
Total income tax expense		(8,671)	(6,751)
Profit and total comprehensive income after income tax attributable to the shareholders of the Company	4.1	123,412	72,825
Basic and diluted earnings per share (cents)	4.2	27.42	17.25

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Cents per Share	No. of Shares	Ordinary Shares ($000s)	Retained Earnings ($000s)	Total Equity ($000s)
Balance as at 1 January 2015	–	411,502,391	434,986	129,984	564,970
Total comprehensive income	–	–	–	72,825	72,825
Issue of shares					
Rights issue	–	34,361,996	47,925	–	47,925
Dividends and reinvestment					
Q4 2014 final dividend – 12/3/2015	1.95	–	–	(8,025)	(8,025)
Q1 2015 interim dividend – 27/5/2015	1.75	–	–	(7,201)	(7,201)
Q1 2015 dividend reinvestment	–	841,562	1,282	–	1,282
Q2 2015 interim dividend – 3/9/2015	1.75	–	–	(7,216)	(7,216)
Q3 2015 interim dividend – 25/11/2015	1.80	–	–	(8,041)	(8,041)
Q3 2015 dividend reinvestment	–	986,511	1,495	–	1,495
Balance as at 31 December 2015	–	447,692,460	485,688	172,326	658,014
Total comprehensive income	–	–	–	123,412	123,412
Dividends and reinvestment					
Q4 2015 final dividend – 9/3/2016	2.00	–	–	(8,954)	(8,954)
Q4 2015 dividend reinvestment	–	1,471,253	2,309	–	2,309
Q1 2016 interim dividend – 23/5/2016	1.75	–	–	(7,860)	(7,860)
Q1 2016 dividend reinvestment	–	1,230,441	2,002	–	2,002
Q2 2016 interim dividend – 1/9/2016	1.75	–	–	(7,882)	(7,882)
Q2 2016 dividend reinvestment	–	963,921	1,583	–	1,583
Q3 2016 interim dividend – 23/11/2016	1.80	–	–	(8,124)	(8,124)
Q3 2016 dividend reinvestment	–	1,100,517	1,638	–	1,638
Balance as at 31 December 2016	–	452,458,592	493,220	262,918	756,138

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

ALL VALUES IN $000'S	NOTE	2016	2015
CURRENT ASSETS			
Cash at bank		–	542
Accounts receivable, prepayments and other assets	5.3	9,029	10,934
Total current assets		9,029	11,476
NON-CURRENT ASSETS			
Investment properties	2.1	1,083,300	986,565
Derivative financial instruments	3.2	384	117
Goodwill	5.5	29,086	29,086
Total non-current assets		1,112,770	1,015,768
Total assets		1,121,799	1,027,244
CURRENT LIABILITIES			
Bank overdraft		113	–
Derivative financial instruments	3.2	242	299
Accounts payable, accruals and other liabilities	5.4	8,669	14,740
Taxation payable		2,579	2,164
Total current liabilities		11,603	17,203
NON-CURRENT LIABILITIES			
Borrowings	3.1	332,924	330,920
Derivative financial instruments	3.2	10,108	10,217
Deferred tax liabilities	5.2	11,026	10,890
Total non-current liabilities		354,058	352,027
Total liabilities		365,661	369,230
Net assets	4.3	756,138	658,014
EQUITY			
Share capital		493,220	485,688
Retained earnings		262,918	172,326
Total equity		756,138	658,014

These group financial statements are signed on behalf of Property for Industry Limited and were authorised for issue on 13 February 2017.

Peter Masfen
Chairman

Anthony Beverley
Chairman, Audit and Risk Committee

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

ALL VALUES IN $000'S	NOTE	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Property income received		71,194	67,278
Material damage insurance income		–	17
Net GST received / (paid)		350	(313)
Interest received		22	15
Interest and other finance costs paid		(18,105)	(20,040)
Payments to suppliers		(12,542)	(8,646)
Income tax paid		(8,120)	(6,819)
Net cash flows from operating activities		32,799	31,492
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment properties	2.1	9,927	200
Acquisition of investment properties		–	(46,989)
Expenditure on investment properties		(19,903)	(23,042)
Capitalisation of interest on development properties		(190)	(135)
Net cash flows from investing activities		(10,166)	(69,966)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds of borrowings		2,000	18,200
Issue of new shares		–	47,925
Dividends paid to shareholders		(25,288)	(27,705)
Net cash flows from financing activities		(23,288)	38,420
Net decrease in cash and cash equivalents		(655)	(54)
Cash and cash equivalents at beginning of year		542	596
Cash and cash equivalents at end of year		(113)	542

Cash and cash equivalents at end of year comprises:

ALL VALUES IN $000'S	2016	2015
Cash at bank	–	542
Bank overdraft	(113)	–
Cash and cash equivalents at end of year	(113)	542

The accompanying notes form part of these financial statements.

RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES

FOR THE YEAR ENDED 31 DECEMBER 2016

ALL VALUES IN $000'S	2016	2015
Profit for the year after income tax	123,412	72,825
Non cash items:		
Fair value gain on investment properties	(88,214)	(46,471)
Gain on disposal of investment properties	(302)	(479)
Fair value (gain) / loss on derivative financial instruments	(433)	3,952
Deferred taxation	136	(400)
Movements in working capital items:		
Accounts receivable, prepayments and other assets	287	(623)
Accounts payable, accruals and other liabilities	(2,502)	2,356
Taxation payable	415	332
Net cash flow from operating activities	32,799	31,492

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

IN THIS SECTION
This section sets out the basis upon which the Group's Financial Statements are prepared. Specific accounting policies are described in the note to which they relate.

1.1. Reporting entity

These financial statements are for Property for Industry Limited (the Company) and its subsidiary P.F.I. Property No. 1 Limited (PFI No. 1) (together, the Group). The Company is a limited liability company incorporated in New Zealand and is registered under the New Zealand Companies Act 1993. The Company is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013 and these audited consolidated financial statements have been prepared in accordance with the requirements of the NZX Main Board Listing Rules. The Company is registered on the New Zealand Stock Exchange (NZSX: PFI).

The Group's principal activity is property investment and management in New Zealand.

1.2. Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013. They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to profit oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on the historical cost basis except where otherwise identified. All financial information is presented in New Zealand dollars and has been rounded to the nearest thousand.

1.3. Group companies

As at 31 December 2016 and 31 December 2015, PFI No. 1 is the only controlled entity and is wholly owned.

1.4. Basis of consolidation

The consolidated financial statements comprise the Company and the entity it controls. All intercompany transactions are eliminated on consolidation.

1.5. New standards, amendments and interpretations

New standards, amendments and interpretations have been published that are not yet effective and have not been early adopted by the Group. Those which may be relevant to the Group are explained below:

- NZ IFRS 9 'Financial Instruments'. This standard will eventually replace NZ IAS 39 Financial Instruments - Recognition and Measurement. It is required to be adopted by the Group in the financial statements for the year ending 31 December 2018, the Group has not yet assessed the impact of this standard.
- NZ IFRS 15 'Revenue from Contracts with Customers'. This standard addresses the recognition of revenue from contracts with customers. It specifies the revenue recognition criteria governing the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It is required to be adopted by the Group in the financial statements for the year ending 31 December 2018, the Group has not yet assessed the impact of this standard.
- NZ IFRS 16 'Leases'. This standard will replace the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

  For lessors, the accounting for leases under NZ IFRS 16 is almost the same. However, as the guidance on the definition of a lease has been updated (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.

  The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with NZ IFRS 15, 'Revenue from Contracts with Customers. The Group intends to adopt NZ IFRS 16 on its effective date and has yet to assess its full impact.

1. GENERAL INFORMATION (CONTINUED)

1.6. Critical judgements, estimates and assumptions

In applying the Group's accounting policies, the Board and Management continually evaluates judgements, estimates and assumptions that may have an impact on the Group. The significant judgements, estimates and assumptions made in the preparation of these financial statements are as follows:

2.1. Investment properties Page 27
3.2. Derivative financial instruments Page 39
5.2. Taxation Page 42
5.5. Goodwill Page 44

1.7. Accounting policies

No changes to accounting policies have been made during the year and policies have been consistently applied to all years presented.

Significant accounting policies have been included throughout the notes to the financial statements.

Other relevant policies are provided as follows:

Share capital
All shares on issue are fully paid, carry equal voting rights, share equally in dividends and any surplus on wind up and have no par value. All shares are recognised at the fair value of the consideration received by the Company. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Measurement of fair values
A number of the Group's accounting policies and disclosures require the measurement of fair values. The Board and Management have overall responsibility for overseeing all significant fair value measurements and transfers between levels of the fair value hierarchy. The Group's policy is to recognise transfers into and out of fair value levels as of the date of transfer or change in circumstances that caused the transfer.

The carrying values of all balance sheet financial assets and liabilities approximate their estimated fair values.

The Board and Management review significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the Board and Management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of NZ IFRS, including the level of the fair value hierarchy in which such valuations should be classified.

Goods and services tax
These financial statements have been prepared on a goods and services tax (GST) exclusive basis except for the accounts receivable balance, accounts payable balance and other items where GST incurred is not recoverable. These balances are stated inclusive of GST.

1.8. Significant events and transactions

The financial position and performance of the Group was affected by the following events and transactions that occurred during the reporting period:

Investment property disposal
In December 2016 the Group entered into an unconditional contract to dispose of a non-core property at 27 Zelanian Drive, East Tamaki for a net sales price of $8.3 million.

2. PROPERTY

IN THIS SECTION
This section shows the real estate assets used to generate the Group's trading performance which are considered to be the most relevant to the operations of the Group.

2.1. Investment properties

ALL VALUES IN $000'S	2016	2015
Opening balance	986,565	876,005
Capital movements:		
Additions	–	48,203
Disposals	(7,993)	(8,973)
Capital expenditure	17,058	23,025
Capitalised interest[a]	190	135
Movement in lease incentives, fees and fixed rental income	(734)	1,699
	8,521	64,089
Unrealised fair value gain	88,214	46,471
As at 31 December	1,083,300	986,565

a The effective interest rate applied to capitalised interest was 5.17% (2015: 5.88%).

2. PROPERTY (CONTINUED)

2.1. Investment properties (continued)

ALL VALUES IN $000'S UNLESS NOTED	Key tenant	Occupancy (%)	
	2016	2016	2015
Avondale:			
15 Copsey Place	Canterbury	100%	100%
15 Jomac Place	Southern Spars	100%	100%
61-69 Patiki Road	Bidvest	100%	100%
320 Rosebank Road	Doyle Sails	100%	100%
686 Rosebank Road	New Zealand Comfort	97%	97%
		99%	99%
East Tamaki:			
17 Allens Road	TSB Living	100%	100%
43 Cryers Road	Astron Plastics	100%	100%
6-8 Greenmount Drive	Bridon	100%	100%
92-98 Harris Road	GrainCorp	100%	100%
36 Neales Road	Mainfreight	100%	100%
1 Ron Driver Place	Stewart Scott Cabinetry	100%	100%
78 Springs Road	Fisher & Paykel Appliances	100%	100%
10c Stonedon Drive	Chemical Freight Services	100%	100%
12 Zelanian Drive	Central Joinery	100%	100%
23 Zelanian Drive	Exclusive Tyre Distributors	100%	100%
27 Zelanian Drive	n/a	n/a	100%
		100%	100%
Manukau:			
212 Cavendish Drive[a]	Mainfreight	100%	100%
232 Cavendish Drive[a]	Pacific Asset Leasing	100%	100%
47 Dalgety Drive	Peter Hay Kitchens	100%	100%
59 Dalgety Drive	Goodman Fielder	100%	100%
1 Mayo Road	Transdiesel	100%	100%
9 Nesdale Avenue	Brambles	100%	100%
9 Narek Place[a]	Z Energy	100%	100%
		100%	100%

a Excludes development land shown separately below.

Yield on valuation (%)		Contract rent		Lettable area (sqm)	Valuer	Carrying value	Capital movements	Fair value adjustment	Carrying value
2016	2015	2016	2015	2016	2016	2015	2016	2016	2016
6.2%	7.1%	732	719	6,878	CBRE	10,100	(15)	1,735	11,820
6.6%	7.3%	1,568	1,524	9,378	CBRE	21,000	22	2,578	23,600
7.4%	8.0%	1,120	1,119	9,705	Savills	14,000	45	1,155	15,200
6.3%	7.4%	679	679	6,625	JLL	9,150	241	1,309	10,700
6.8%	7.0%	2,276	2,261	21,563	Savills	32,200	(48)	1,248	33,400
6.7%	7.3%	6,375	6,302	54,149		86,450	245	8,025	94,720
6.5%	7.6%	1,000	1,000	9,926	Colliers	13,100	50	2,150	15,300
6.2%	7.8%	703	703	6,068	Savills	9,000	2	2,248	11,250
7.5%	7.7%	644	591	6,590	CBRE	7,700	6	894	8,600
8.3%	8.5%	1,265	1,222	10,687	Colliers	14,300	43	907	15,250
6.4%	7.3%	1,160	1,082	12,546	JLL	14,800	45	3,155	18,000
5.3%	5.9%	403	394	4,032	Colliers	6,700	(19)	869	7,550
7.1%	7.5%	5,580	5,418	41,387	JLL	72,000	722	5,778	78,500
7.1%	7.4%	824	824	8,711	Colliers	11,100	16	534	11,650
5.7%	6.1%	564	559	6,098	CBRE	9,160	18	672	9,850
5.9%	6.8%	385	380	3,811	Savills	5,550	(3)	953	6,500
n/a	6.4%	n/a	492	n/a	n/a	7,675	(7,675)	–	–
6.9%	7.4%	12,528	12,665	109,856		171,085	(6,795)	18,160	182,450
6.7%	7.5%	1,288	1,284	18,596	Colliers	17,100	400	1,600	19,100
6.8%	7.4%	1,354	1,345	16,832	JLL	18,250	33	1,517	19,800
7.5%	8.0%	979	979	8,860	Savills	12,250	248	552	13,050
7.8%	7.7%	1,300	1,256	8,649	Savills	16,350	(88)	438	16,700
6.5%	6.9%	515	498	6,361	Savills	7,200	3	747	7,950
6.2%	6.7%	610	607	14,182	JLL	9,050	45	705	9,800
5.3%	5.1%	518	377	5,663	Savills	6,500	1,667	1,683	9,850
6.8%	7.3%	6,564	6,346	79,143		86,700	2,308	7,242	96,250

2. PROPERTY (CONTINUED)

2.1. Investment properties (continued)

ALL VALUES IN $000'S UNLESS NOTED	Key tenant	Occupancy (%)	
	2016	2016	2015
Mt Wellington:			
30-32 Bowden Road	Fletcher Building Products	100%	100%
50 Carbine Road	Atlas Copco	100%	100%
54 Carbine Road & 6a Donnor Place	EBOS	100%	91%
76 Carbine Road	Atlas Gentech	100%	100%
7 Carmont Place	CMI	100%	100%
6 Donnor Place	Wickliffe	100%	100%
4-6 Mt Richmond Drive	Brambles	100%	100%
509 Mt Wellington Highway	Fletcher Building Products	100%	95%
511 Mt Wellington Highway	Bremca Industries	100%	100%
515 Mt Wellington Highway	Stryker	100%	100%
523 Mt Wellington Highway	BGH Group	100%	100%
1 Niall Burgess Road	R L Button & Co	100%	100%
2-6 Niall Burgess Road	McAlpine Hussmann	100%	100%
3-5 Niall Burgess Road	Electrolux	100%	100%
7-9 Niall Burgess Road	DHL Supply Chain	100%	100%
10 Niall Burgess Road	Outside Broadcasting	100%	100%
2 Pacific Rise	Hewlett-Packard	100%	100%
5 Vestey Drive	PPG Industries	100%	100%
7 Vestey Drive	True North	100%	100%
9 Vestey Drive	Multispares	100%	100%
11 Vestey Drive	ASB Bank	100%	100%
15a Vestey Drive	PMP Maxum	100%	100%
36 Vestey Drive	Exlair	100%	100%
		100%	99%

Yield on valuation (%)		Contract rent		Lettable area (sqm)	Valuer	Carrying value	Capital movements	Fair value adjustment	Carrying value
2016	2015	2016	2015	2016	2016	2015	2016	2016	2016
6.8%	7.0%	1,457	1,444	17,047	CBRE	20,700	(105)	795	21,390
5.2%	5.8%	190	190	2,592	Colliers	3,280	25	375	3,680
6.6%	6.9%	1,710	1,548	16,872	Colliers	22,400	(169)	3,569	25,800
5.9%	6.5%	433	422	5,080	Colliers	6,450	100	850	7,400
5.8%	6.3%	581	577	5,336	Colliers	9,200	85	815	10,100
5.2%	9.2%	780	1,328	14,555	Colliers	14,500	90	410	15,000
5.8%	6.4%	805	805	7,946	JLL	12,600	57	1,343	14,000
6.2%	6.3%	979	873	8,745	Savills	13,760	160	1,830	15,750
6.0%	6.2%	443	408	3,247	Colliers	6,600	(45)	845	7,400
5.2%	6.0%	259	253	1,708	Colliers	4,250	19	731	5,000
5.7%	6.0%	220	219	1,677	Savills	3,620	22	208	3,850
5.5%	6.1%	218	216	1,742	CBRE	3,550	(14)	424	3,960
7.4%	8.1%	914	864	6,874	CBRE	10,720	(10)	1,690	12,400
6.0%	6.6%	1,038	1,031	9,373	CBRE	15,675	(30)	1,630	17,275
7.2%	7.5%	2,069	2,052	23,565	Colliers	27,300	(158)	1,758	28,900
6.4%	6.5%	258	258	1,725	CBRE	3,940	(2)	112	4,050
10.6%	10.1%	916	890	2,757	CBRE	8,825	(3)	(147)	8,675
5.7%	5.9%	220	220	1,269	Savills	3,700	(7)	157	3,850
5.8%	6.8%	481	481	4,598	Colliers	7,100	27	1,223	8,350
5.3%	5.7%	193	193	1,600	Savills	3,400	(15)	265	3,650
8.1%	7.8%	537	537	3,625	Savills	6,850	5	(205)	6,650
6.8%	7.4%	544	534	3,261	JLL	7,200	(51)	851	8,000
5.9%	6.1%	150	142	1,120	Colliers	2,330	8	212	2,550
6.5%	7.1%	15,395	15,485	146,314		217,950	(11)	19,741	237,680

2. PROPERTY (CONTINUED)
2.1. Investment properties (continued)

ALL VALUES IN $000'S UNLESS NOTED	Key tenant	Occupancy (%)	
	2016	2016	2015
North Shore:			
2-4 Argus Place	Pharmapac	100%	100%
47 Arrenway Drive	Device Technologies	100%	100%
51 Arrenway Drive	Pacific Hygiene	100%	100%
229 Dairy Flat Highway	Massey University	100%	100%
15 Omega Street	Wesfarmers	100%	100%
322 Rosedale Road	Imake	100%	100%
41 William Pickering Drive	Innopak Global	100%	100%
		100%	100%
Penrose:			
4 Autumn Place	Sistema Plastics	100%	100%
6 Autumn Place	Sistema Plastics	100%	100%
10 Autumn Place	Sistema Plastics	100%	100%
122 Captain Springs Road	New Zealand Crane Group	100%	100%
8 Hugo Johnston Drive	Argyle Schoolwear	100%	100%
12 Hugo Johnston Drive	W H Worrall	100%	100%
16 Hugo Johnston Drive	Modempak	100%	100%
65 Hugo Johnston Drive	Sistema Plastics	100%	100%
80 Hugo Johnston Drive	Boxkraft	100%	100%
102 Mays Road	Go Logistics	100%	100%
304 Neilson Street	Fletcher Building Products	100%	100%
312 Neilson Street	Transport Trailer Services	100%	100%
314 Neilson Street	Wakefield Metals	100%	100%
12 Southpark Place	Storepro Solutions	100%	100%
		100%	100%
Other Auckland:			
58 Richard Pearse Drive, Mangere	EBOS	100%	100%
Carlaw Park Gateway Building, Parnell	Quest	100%	100%
Carlaw Park Office Complex, Parnell	Jacobs	100%	100%
170 Swanson Road, Swanson	Transportation Auckland	100%	100%
		100%	100%

Yield on valuation (%)		Contract rent		Lettable area (sqm)	Valuer	Carrying value	Capital movements	Fair value adjustment	Carrying value
2016	2015	2016	2015	2016	2016	2015	2016	2016	2016
5.2%	6.9%	409	433	3,560	Colliers	6,300	(52)	1,552	7,800
5.9%	6.8%	220	220	1,245	CBRE	3,250	5	470	3,725
5.1%	5.9%	368	366	2,680	Colliers	6,200	(4)	1,004	7,200
7.3%	7.7%	1,794	1,774	6,719	JLL	22,900	(197)	1,997	24,700
6.5%	6.8%	551	551	3,498	Colliers	8,100	32	368	8,500
6.5%	7.0%	990	942	7,940	Savills	13,450	312	1,438	15,200
5.7%	6.6%	411	377	3,025	JLL	5,750	109	1,341	7,200
6.4%	7.1%	4,743	4,663	28,667		65,950	205	8,170	74,325
6.4%	7.2%	148	148	1,364	JLL	2,050	(36)	286	2,300
6.3%	7.2%	166	166	1,645	JLL	2,300	(24)	374	2,650
6.8%	7.4%	613	613	7,042	JLL	8,300	(147)	847	9,000
6.1%	6.9%	496	496	7,431	Savills	7,220	(11)	891	8,100
6.3%	6.9%	651	646	4,359	JLL	9,300	(55)	1,155	10,400
6.1%	7.6%	329	329	2,639	JLL	4,350	284	766	5,400
6.6%	7.3%	362	352	2,619	Colliers	4,850	(16)	616	5,450
7.4%	7.8%	896	896	6,975	JLL	11,500	(222)	822	12,100
6.3%	8.0%	457	456	3,872	JLL	5,675	(48)	1,673	7,300
6.3%	7.4%	500	425	7,588	JLL	5,750	822	1,428	8,000
6.6%	8.4%	703	743	13,438	Colliers	8,850	783	1,067	10,700
5.6%	6.5%	308	299	3,862	CBRE	4,570	35	885	5,490
6.0%	6.4%	524	524	5,773	CBRE	8,220	3	517	8,740
5.9%	7.4%	490	447	5,477	CBRE	6,070	155	2,125	8,350
6.4%	7.3%	6,643	6,540	74,084		89,005	1,523	13,452	103,980
6.5%	6.6%	1,180	981	10,549	JLL	14,800	(77)	3,527	18,250
7.2%	7.6%	2,523	2,564	2,369	JLL	33,800	118	1,082	35,000
7.1%	7.2%	4,367	4,357	11,149	JLL	60,800	59	941	61,800
5.8%	6.3%	994	994	37,601	CBRE	15,800	49	1,261	17,110
6.9%	7.1%	9,064	8,896	61,668		125,200	149	6,811	132,160

2. PROPERTY (CONTINUED)

2.1. Investment properties (continued)

ALL VALUES IN $000'S UNLESS NOTED	Key tenant	Occupancy (%)	
	2016	2016	2015
North Island (outside Auckland):			
124 Hewletts Road, Mt Maunganui	RMD Bulk Storage	100%	100%
124a Hewletts Road, Mt Maunganui	Fonterra	100%	100%
124b Hewletts Road, Mt Maunganui	Ballance Agri-Nutrients	100%	100%
3 Hocking Street, Mt Maunganui	Trayco Manufacturing	100%	100%
558 Te Rapa Road, Hamilton	DEC Manufacturing	100%	100%
Shed 22, 23 Cable Street, Wellington	Lion Liquor Property Division	100%	100%
143 Hutt Park Road, Wellington	EBOS	100%	100%
8 McCormack Place, Wellington	Information Management Group	100%	100%
50 Parkside Road, Wellington[a]	Waste Management	100%	100%
48 Seaview Road, Wellington[a]	Goughs Gough & Hamer	100%	100%
		100%	100%
Christchurch:			
8a & 8b Canada Crescent	Polarcold Stores	100%	100%
44 Mandeville Street	Fletcher Building Products	77%	100%
127 Waterloo Road	DHL Supply Chain	100%	100%
		90%	100%
Investment properties subtotal		100%	100%
Development land:			
212 Cavendish Drive, Manukau			
232 Cavendish Drive, Manukau			
9 Narek Place, Manukau			
50 Parkside Road, Wellington			
48 Seaview Road, Wellington			
Development land - subtotal			
Investment properties - total			

[a] Excludes development land shown separately.

Yield on valuation (%)		Contract rent		Lettable area (sqm)	Valuer	Carrying value	Capital movements	Fair value adjustment	Carrying value
2016	2015	2016	2015	2016	2016	2015	2016	2016	2016
6.8%	6.7%	2,730	2,716	29,270	JLL	27,240	11,723	5,137	44,100
7.4%	7.7%	973	965	10,497	JLL	12,500	(48)	748	13,200
6.1%	6.5%	857	853	8,867	JLL	13,100	–	1,000	14,100
7.2%	7.1%	120	117	1,211	JLL	1,650	–	25	1,675
7.0%	7.1%	461	453	4,606	Colliers	6,350	–	250	6,600
6.9%	6.9%	792	792	2,816	Colliers	11,450	9	41	11,500
7.1%	7.2%	1,169	1,169	9,437	CBRE	16,240	82	28	16,350
9.1%	8.9%	848	841	6,405	Colliers	9,450	(7)	(133)	9,310
9.5%	9.9%	335	335	7,104	Colliers	3,375	2	153	3,530
9.2%	9.4%	564	555	8,996	JLL	5,900	(15)	215	6,100
7.0%	8.2%	8,849	8,796	89,209		107,255	11,746	7,464	126,465
7.7%	7.6%	1,129	1,119	9,500	JLL	14,750	–	–	14,750
7.0%	8.6%	915	1,183	11,332	JLL	13,700	380	(980)	13,100
7.7%	7.6%	297	293	3,519	Colliers	3,870	371	(371)	3,870
7.4%	8.0%	2,341	2,595	24,351		32,320	751	(1,351)	31,720
6.7%	7.3%	72,502	72,288	667,441		981,915	10,121	87,714	1,079,750
					Colliers	1,400	–	500	1,900
					JLL	600	–	–	600
					Savills	1,600	(1,600)	–	–
					Colliers	550	–	–	550
					JLL	500	–	–	500
						4,650	(1,600)	500	3,550
						986,565	8,521	88,214	1,083,300

2. PROPERTY (CONTINUED)

2.1. Investment properties (continued)

Recognition and Measurement

Investment properties are held to earn rental income and for long term capital appreciation. After initial recognition at cost including directly attributable acquisition costs, investment properties are measured at fair value, on the basis of valuations made by independent valuers on at least an annual basis. Gains or losses arising from changes in the fair values of investment properties are included in the Consolidated Statement of Comprehensive Income in the year in which they arise.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The fair value of investment property reflects the Directors' assessment of the highest and best use of each property and amongst other things, rental income from current leases and assumptions about rental income from future leases in light of the current market conditions. The fair value also reflects the cash outflows that could be expected in respect of the property.

No depreciation or amortisation is provided for on investment properties. However, for tax purposes, depreciation is claimed on building fit-out and a deferred tax liability is recognised where the building component of the registered valuation exceeds the tax book value of the building. The deferred tax liability is capped at the amount of depreciation that has been claimed on each building.

Investment properties under construction are carried at cost until it is possible to reliably determine their fair value, from which point they are carried at fair value less costs to complete.

Gains or losses on the disposal of investment properties are recognised in the Consolidated Statement of Comprehensive Income in the period in which the risks and rewards of the investment property have been fully transferred to the purchaser.

Borrowing costs are capitalised if they are directly attributable to the acquisition or construction of a qualifying property. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalisation of borrowing costs will continue until the asset is substantially ready for its intended use. The rate at which borrowing costs are capitalised is determined by reference to the weighted average borrowing costs of the Group and the average level of borrowings by the Group.

Key estimates and assumptions: Investment properties

The fair value of investment properties are determined from valuations prepared by independent valuers using Level 3 valuation techniques. All investment properties were valued as at 31 December 2016 and 2015 by CB Richard Ellis (CBRE), Colliers International (Colliers), Jones Lang LaSalle (JLL) or Savills. CBRE, Colliers, JLL and Savills are independent valuers and members of the New Zealand Institute of Valuers.

As part of the valuation process, the Manager, PFIM Limited (PFIM), verifies all major inputs to the independent valuation reports, assesses movements in individual property values and holds discussions with the independent valuer.

The fair value was determined using Level 3 valuation techniques via a combination of the following approaches:

- Direct Capitalisation: The subject property rental is divided by a market derived capitalisation rate to assess the market value of the asset. Further adjustments are then made to the market value to reflect under or over renting, additional revenue and required capital expenditure.
- Discounted Cash Flow: Discounted cash flow projections for the subject property are based on estimates of future cash flows, supported by the terms of any existing lease and by external evidence such as market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

Significant inputs used together with the impact on fair value of a change in inputs:

	RANGE OF SIGNIFICANT UNOBSERVABLE INPUTS		MEASUREMENT SENSITIVITY	
	2016	2015	Increase in input	Decrease in input
Market capitalisation rate (%)[1]	5.13 - 8.75	5.75 - 8.75	Decrease	Increase
Market rental ($ per sqm)[2]	28 - 368	28 - 368	Increase	Decrease
Discount rate (%)[3]	6.75 - 10.00	7.37 - 10.00	Decrease	Increase
Rental growth rate (%)[4]	1.61 - 2.80	1.95 - 2.78	Increase	Decrease
Terminal capitalisation rate (%)[5]	5.25 - 9.00	6.00 - 9.00	Decrease	Increase

1. The capitalisation rate applied to the market rental to asses a property's value, determined through analysis of similar transactions taking into account location, weighted average lease term, customer covenant, size and quality of the property.
2. The valuers assessment of the net market income which a property is expected to achieve under a new arm's length leasing transaction. Includes both leased and vacant areas.
3. The rate applied to future cash flows reflecting transactional evidence from similar properties.
4. The rate applied to the market rental over the future cash flow projection.
5. The rate used to assess the terminal value of the property.

2. PROPERTY (CONTINUED)

2.1. Investment properties (continued)

Generally, a change in the assumption made for the adopted market capitalisation rate is accompanied by a directionally similar change in the adopted terminal capitalisation rate. The adopted market capitalisation rate forms part of the direct capitalisation approach and the adopted terminal capitalisation rate forms part of the discounted cash flow approach. Both valuation methodologies are considered when determining an investment property's fair value.

When calculating the direct capitalisation approach, the market rental has a strong interrelationship with the adopted market capitalisation rate given the methodology involves assessing the total market rental income receivable from the property and capitalising this in perpetuity to derive a capital value. In theory, an increase in the market rent and an increase in the adopted market capitalisation rate could potentially offset the impact to the fair value. The same can be said for a decrease in the market rent and a decrease in the adopted market capitalisation rate. A directionally opposite change in the market rent and the adopted market capitalisation rate could potentially magnify the impact to the fair value.

When assessing a discounted cash flow, the adopted discount rate and adopted terminal capitalisation rate have a strong interrelationship in deriving a fair value given the discount rate will determine the rate at which the terminal value is discounted to the present value. In theory, an increase in the adopted discount rate and a decrease in the adopted terminal capitalisation rate could potentially offset the impact to the fair value. The same can be said for a decrease in the discount rate and an increase in the adopted terminal capitalisation rate. A directionally similar change in the adopted discount rate and the adopted terminal capitalisation rate could potentially magnify the impact to the fair value.

2.2. Rental and management fee income

ALL VALUES IN $000'S	2016	2015
Gross rental receipts	70,817	67,144
Fixed rental income adjustments	102	(309)
Capitalised lease incentive adjustments	(196)	(277)
Management fee income	363	354
Total rental and management fee income	71,086	66,912

Recognition and Measurement

Rental income from investment properties is recognised in the Consolidated Statement of Comprehensive Income on a straight line basis over the term of the lease. Lease incentives are capitalised to investment properties in the Statement of Financial Position and amortised on a straight line basis in the Consolidated Statement of Comprehensive Income over the length of the lease to which they relate, as a reduction to rental income.

Management fee income is recognised in the Consolidated Statement of Comprehensive Income in the period in which the services are rendered.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

ALL VALUES IN $000'S	2016	2015
Within one year	69,017	70,162
After one year but not more than five years	193,373	194,260
More than five years	86,557	111,302
Total	348,947	375,724

2.3. Non-recoverable property costs

Other non-recoverable costs represents property maintenance and operating expenses not recoverable from tenants, property valuation fees and property leasing costs.

ALL VALUES IN $000'S	2016	2015
Service charge expenses	(7,762)	(7,374)
Service charge income recovered from tenants	7,762	7,374
Bad and doubtful debts recovery / (expense)	175	(258)
Other non-recoverable property costs	(1,821)	(1,925)
Total non-recoverable property costs	(1,646)	(2,183)

3. FUNDING

IN THIS SECTION
This section outlines how the Group manages its capital structure, financing costs and exposure to interest rate risk.

3.1. Borrowings

(i) Net borrowings

ALL VALUES IN $000'S	2016	2015
Facility drawn down - non-current	333,700	331,700
Prepaid loan fees	(776)	(780)
Net borrowings	332,924	330,920

Recognition and Measurement
All borrowings are initially measured at fair value, plus directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest rate method. Under this method, directly attributable fees, costs, discounts and premiums are capitalised and spread over the expected life of the facility. All other interest costs and bank fees are expensed in the period they are incurred.

(ii) Facility
On 3 February 2016, the Group entered into revised facilities (A and B) with a banking syndicate comprising ANZ Bank New Zealand Limited (ANZ), Bank of New Zealand (BNZ), Commonwealth Bank of Australia (CBA) and Westpac New Zealand Limited (Westpac) for $375,000,000.

Facility A for $187,500,000 and Facility B for $187,500,000 are provided by ANZ, BNZ, CBA and Westpac. Facility A is a revolving facility of a long term nature and expires 4 May 2020. Facility B is a revolving facility of a long term nature and expires 4 May 2021.

ALL VALUES IN $000'S	2016	2015
ANZ	101,625	101,625
BNZ	91,125	91,125
CBA	91,125	91,125
Westpac	91,125	91,125
Total facilities available	375,000	375,000
Facility drawn down - non-current	333,700	331,700
Undrawn facility available	41,300	43,300
Total facilities available	375,000	375,000
Weighted average term to maturity (years)	3.84	3.84

After taking into account the impact of current interest rate swaps, the blended interest rate as at 31 December 2016 for the drawn down borrowings was 5.24% (31 December 2015: 5.71%).

(iii) Security
The facility is secured by way of a security trust deed and registered mortgage security which is required to be provided over Group properties with current valuations of at least $750,000,000. In addition to this, the facility agreement contains a negative pledge. The Company and PFI No. 1 are guarantors to the facility. As at 31 December 2016, investment properties totalling $1,059,575,000 (31 December 2015: $968,115,000) were mortgaged as security for the Group's borrowings.

3. FUNDING (CONTINUED)

3.2. Derivative financial instruments

(i) Fair values

ALL VALUES IN $000'S	2016	2015
Non-current assets	384	117
Current liabilities	(242)	(299)
Non-current liabilities	(10,108)	(10,217)
Total	(9,966)	(10,399)

(ii) Notional values, maturities and interest rates

	2016	2015
Notional value of interest rate swaps - start dates commenced ($000'S)	243,000	253,000
Notional value of interest rate swaps - forward starting ($000'S)	70,000	55,000
Total ($000'S)	313,000	308,000
Average period to expiry - start dates commenced (years)	3.00	3.57
Average period to expiry - forward starting (years from commencement)	2.86	2.91
Average (years)	2.97	3.45
Average interest rate[1] - start dates commenced (%)	4.53%	4.66%
Average interest rate[1] - forward starting (% during effective period)	3.54%	3.92%
Average (%)	4.31%	4.52%

1 Excluding margin and fees.

Recognition and Measurement

The Group is exposed to changes in interest rates and uses derivative financial instruments, principally interest rate swaps, to mitigate this risk. The Group does not apply hedge accounting. Derivative financial instruments are entered into to economically hedge the risk exposure.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to fair value at each reporting date. Transaction costs are expensed on initial recognition and recognised in the Consolidated Statement of Comprehensive Income. The fair value of derivative financial instruments is based on valuations prepared by independent treasury advisers and is the estimated amount that the Group would receive or pay to terminate the derivative contract at reporting date, taking into account current interest rates and creditworthiness of the derivative contract counterparties.

Key estimates and assumptions: Derivatives

The fair value of derivative financial instruments are determined from valuations prepared by independent treasury advisers using Level 2 valuation techniques (2015: Level 2). These are based on the present value of estimated future cash flows accounting for the terms and maturity of each contract and the current market interest rates at reporting date. Fair values also reflect the current creditworthiness of the derivative counterparty. These values are verified against valuations prepared by the respective counterparties. The valuations were based on market rates at 31 December 2016 of between 2.00% (31 December 2015: 2.75%) for the 90 day BKBM and 3.49% (31 December 2015: 3.75%) for the 10 year swap rate. There were no changes to these valuation techniques during the period.

4. INVESTOR RETURNS AND INVESTMENT METRICS

IN THIS SECTION
This section shows the relationship between the Group's accounting profit and dividends paid. It also summarises the earnings per share and net tangible assets per share which are common investment metrics.

4.1. Relationship of total comprehensive income to dividends paid

The Group's dividend policy is to distribute between 95% to 100% of its annual distributable profit, subject to the approval of the Board of Directors. This can be increased to above 100% should management performance fees be earned in any given period.

Distributable profit is a non-GAAP measure determined as total comprehensive income for the period (as determined in accordance with NZ IFRS for the period) adjusted for fair value gains or losses on investment properties, material damage insurance income, gains or losses on disposal of investment properties (net of tax on depreciation claw-back), fair value gains or losses on derivative financial instruments, deferred tax, additional revenue booked as a result of fixed rental review accounting entries and other one off items.

In the prior year, the definition of distributable profit included an additional adjustment for management performance fees net of tax. Applying the previous definition the pay-out ratio for the year ended 31 December 2016 is 93% (2015: 100%). The table below shows the current policy calculation.

ALL VALUES IN $000'S UNLESS NOTED	2016	2015
Total comprehensive income for the year attributable to the shareholders of the Company	123,412	72,825
Adjusted for:		
Fair value gains on investment properties	(88,214)	(46,471)
Material damage insurance income	–	(17)
Gain on disposal of investment properties	(302)	(479)
Tax on depreciation claw-back on disposals of investment properties	132	–
Fair value (gain)/loss on derivative financial instruments	(433)	3,952
Deferred taxation	136	(400)
Movement in fixed rent reviews	(607)	200
Other[1]	(12)	(12)
Distributable profit	34,112	29,598
Weighted average number of ordinary shares (shares)	450,078,636	422,274,716
Distributable profit per share (cents)	7.58	7.01
Dividends paid relating to the year reported[2]	33,141	31,412
Pay-out ratio (%)	97%	106%

1 Other comprises the current tax impact of an adjustment to one of the Company's derivative financial instruments.

2 Includes dividends paid for the first three quarters of 2016 totalling $23,866,000 as per the Consolidated Statement of Changes in Equity, plus the fourth quarter dividend for 2016 due to be paid on 8 March 2017 of $9,275,000

4. INVESTOR RETURNS AND INVESTMENT METRICS (CONTINUED)

4.2. Earnings per share

	2016	2015
Total comprehensive income for the year attributable to the shareholders of the Company ($000)	123,412	72,825
Weighted average number of ordinary shares (shares)	450,078,636	422,274,716
Basic and diluted earnings per share (cents)	27.42	17.25

4.3. Net tangible assets per share

	2016	2015
Net assets ($000)	756,138	658,014
Less: Goodwill ($000) (note 5.5)	(29,086)	(29,086)
Net tangible assets ($000)	727,052	628,928
Closing shares on issue (shares)	452,458,592	447,692,460
Net tangible assets per share (cents)	161	140

5. OTHER

IN THIS SECTION
This section includes additional information that is considered less significant in understanding of the financial performance and position of the Group, but must be disclosed to comply with New Zealand Equivalents to International Financial Reporting Standards.

5.1. Audit fees and other fees paid to auditors

ALL VALUES IN $000'S	2016	2015
Audit of annual financial statements	(97)	(94)
Review of interim financial statements	(28)	(28)
Review of management fee calculation	(4)	(4)
Audit of share registry	(3)	(3)
Benchmarking of director remuneration	(9)	–
Review of risk management framework	–	(14)
Total audit fees and other fees paid to auditors	(141)	(143)

5. OTHER (CONTINUED)

5.2. Taxation

(i) Reconciliation of accounting profit before income tax to income tax (expense) / benefit

ALL VALUES IN $000'S	2016	2015
Profit before income tax	132,083	79,576
Prima facie income tax calculated at 28%	(36,983)	(22,281)
Adjusted for:		
Non-tax deductible revenue and expenses	(14)	(6)
Fair value gain on investment properties	24,700	13,012
Gain on disposal of investment properties	85	134
Depreciation	2,505	2,520
Disposal of depreciable assets	(122)	57
Deductible capital expenditure	910	591
Lease incentives, fees and fixed rental income	(51)	(95)
Derivative financial instruments	133	(1,095)
Impairment allowance	298	(73)
Current tax prior period adjustment	4	85
Current taxation expense	(8,535)	(7,151)
Depreciation	244	(863)
Lease incentives, fees and fixed rental income	51	95
Derivative financial instruments	(133)	1,095
Impairment allowance	(298)	73
Deferred taxation benefit	(136)	400
Total taxation reported in Consolidated Statement of Comprehensive Income	(8,671)	(6,751)

(ii) Deferred tax

	2014	2015	2015	2016	2016
ALL VALUES IN $000'S	As at	Recognised in profit	As at	Recognised in profit	As at
Deferred tax assets					
Derivative financial instruments	(1,847)	(1,095)	(2,942)	133	(2,809)
Impairment allowance	(289)	(73)	(362)	298	(64)
Gross deferred tax assets	(2,136)	(1,168)	(3,304)	431	(2,873)
Deferred tax liabilities					
Investment properties	13,426	768	14,194	(295)	13,899
Gross deferred tax liabilities	13,426	768	14,194	(295)	13,899
Net deferred tax liability	11,290	(400)	10,890	136	11,026

5. OTHER (CONTINUED)

5.2. Taxation (continued)

(iii) Imputation credit account

The amounts below represent the balance of the imputation credit account as at the end of the reporting period, adjusted for imputation credits that will arise from the payment of taxation payable represented in the Consolidated Statement of Financial Position.

ALL VALUES IN $000'S	2016	2015
Opening balance	1,507	1,214
Taxation paid / payable	8,435	7,082
Imputation credits attached to dividends paid	(7,685)	(6,789)
Closing balance available to shareholders for use in subsequent periods	2,257	1,507

Recognition and Measurement

The Company and Group are a listed Portfolio Investment Entity (PIE) for the purposes of the Income Tax Act 2007. Tax is accounted for on a consolidated Group basis and the Group is required to pay tax to the Inland Revenue as required by the Income Tax Act 2007. Income tax expense comprises current and deferred tax and is recognised in the Consolidated Statement of Comprehensive Income for the year.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is recognised on all temporary differences, including:

- The tax liability arising from accumulated depreciation claimed on investment properties, where applicable;
- The tax asset arising from the allowance for impairment;
- The tax liability arising from certain prepayments and other assets; and
- The tax asset / liability arising from the unrealised gains / losses on the revaluation of interest rate swaps.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different entities, but they intend to settle current tax assets and liabilities on a net basis.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income tax arising from distribution of dividends is recognised at the same time as the liability to pay the dividend is recognised.

Key estimates and assumptions: Deferred tax

Deferred tax is provided on the accumulated depreciation claimed on the building component of investment properties. Investment properties are valued each year by independent valuers (as outlined in note 2.1). These values include an allocation of the valuation between the land and building components. The calculation of deferred tax on depreciation recovered places reliance on the land and building split provided by the valuers.

5. OTHER (CONTINUED)

5.3. Accounts receivable, prepayments and other assets

ALL VALUES IN $000'S	2016	2015
Accounts receivable	1,082	1,605
Property sale proceeds to be settled	7,628	9,658
Provision for doubtful debts	–	(462)
Prepayments and other assets	319	133
Total accounts receivable, prepayments and other assets	9,029	10,934

Recognition and Measurement
Accounts receivable are recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. Receivables are assessed on an ongoing basis for impairment. A provision for doubtful debts is established where there is evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Those which are anticipated to be uncollectable are written off.

5.4. Accounts payable, accruals and other liabilities

ALL VALUES IN $000'S	2016	2015
Accounts payable	715	2,218
Accrued interest expense and bank fees	2,417	2,687
Accruals and other liabilities in respect of investment properties	2,335	5,904
Other accounts payable, accruals and other liabilities	3,202	3,931
Total accounts payable, accruals and other liabilities	8,669	14,740

Recognition and Measurement
Expenses are recognised on an accruals basis and, if not paid at the end of the reporting period, are reflected as a payable in the Consolidated Statement of Financial Position.

5.5. Goodwill

ALL VALUES IN $000'S	2016	2015
Goodwill	29,086	29,086

Recognition and Measurement
Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the fair value of the identifiable net assets acquired.

Goodwill is measured at cost less accumulated impairment losses. It is tested annually for impairment or more frequently if events or changes in circumstances indicate potential impairment. An impairment loss is recognised if the carrying amount exceeds the estimated recoverable amount. Impairment losses are recognised in the Consolidated Statement of Comprehensive Income.

Goodwill is allocated to the Group's cash generating units (CGU) identified according to the lowest level at which the goodwill is monitored.

To assess whether goodwill is impaired, the carrying amount of the CGU is compared to the recoverable amount, determined based on the greater of its value in use and its fair value less costs of disposal.

Key estimates and assumptions: Goodwill
All goodwill relates to the Property for Industry Limited CGU.

The fair value of goodwill is determined using Level 3 valuation techniques (2015: Level 3). Fair value less costs of disposal is measured by calculating the fair value of the Property for Industry Limited CGU using a 1 day volume-weighted average share price at the reporting date, applying a control premium and deducting costs of disposal.

As at 31 December 2016 the estimated fair value less costs of disposal of the Property for Industry Limited CGU exceeded the carrying value (2015: nil impairment).

5. OTHER (CONTINUED)

5.6. Financial instruments

The following financial assets and liabilities, that potentially subject the Group to financial risk, have been recognised in the financial statements:

ALL VALUES IN $000'S	2016	2015
Financial Assets		
Loans and receivables:		
Cash at bank	–	542
Accounts receivable and other assets	8,710	10,801
Total - Loans and receivables	8,710	11,343
Fair value through profit or loss - held for trading:		
Derivative financial instruments	384	117
Total - Fair value through profit or loss	384	117
Total Financial Assets	9,094	11,460
Financial Liabilities		
Liabilities at amortised cost:		
Bank overdraft	113	–
Accounts payable, accruals and other liabilities	8,669	14,740
Borrowings	332,924	330,920
Total - Liabilities at amortised cost	341,706	345,660
Fair value through profit or loss - held for trading:		
Derivative financial instruments	10,350	10,516
Total - Fair value through profit or loss	10,350	10,516
Total Financial Liabilities	352,056	356,176

5.7. Financial risk management

The Group's activities expose it to a variety of financial risks: interest rate risk, credit risk, and liquidity risk. The Group's overall risk management strategy focuses on minimising the potential negative economic impact of unpredictable events on the Group's financial well being.

(a) Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to the Group's borrowings with a floating interest rate. The Group has an interest rate hedging policy which has been reviewed by an external firm with expertise in this area. The policy calls for a band of the Group's borrowings to be at fixed interest rates, with a greater proportion of the near term to be fixed and a lesser percentage of the far dated to be fixed.

The Group uses derivative financial instruments, principally interest rate swaps, to exchange its floating short term interest rate exposure for fixed long term interest rate exposure in accordance with its policy bands. As the Group holds derivative financial instruments, there is a risk that their fair value will fluctuate because of underlying changes in market interest rates. This is accepted as a by-product of the Group's interest rate hedging policy. The fair value of derivative financial instruments is disclosed in the Consolidated Statement of Financial Position (refer note 3.2).

The following sensitivity analysis shows the effect on profit before tax and equity if interest rates at balance date had been 50 basis points (0.50%) higher or lower with all other variables held constant.

	2016		2015	
ALL VALUES IN $000'S	Gain/(loss) on increase of 0.50%	Gain/(loss) on decrease of 0.50%	Gain/(loss) on increase of 0.50%	Gain/(loss) on decrease of 0.50%
Impact on profit before tax	2,030	(2,030)	1,873	(1,873)
Impact on equity	1,462	(1,462)	1,349	(1,349)

5. OTHER (CONTINUED)

5.7. Financial risk management (continued)

(b) Credit risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to discharge its obligations and the Group will suffer financial loss as a result. Financial instruments which potentially subject the Group to credit risk consist of cash and cash equivalents, accounts receivable and other assets, and interest rate swap agreements.

With respect to the credit risk arising from cash and cash equivalents, there is limited credit risk as cash is deposited with ANZ Bank New Zealand Limited, a registered bank in New Zealand with a credit rating of AA– (Standard & Poor's).

With respect to the credit risk arising from accounts receivable, the Group only enters into lease arrangements over its investment properties with parties whom the Group assesses to be creditworthy. It is the Group's policy to subject all potential tenants to credit verification procedures and monitor accounts receivable balances. Credit risk does not arise on property sale proceeds to be settled as title will not transfer until settlement.

With respect to the credit risk arising from interest rate swap agreements, there is limited credit risk as all counterparties are registered banks in New Zealand. The credit ratings of these banks are all AA– (Standard & Poor's).

The carrying amount of financial assets as per note 5.6 approximates the Groups maximum exposure to credit risk . For certain receivables the Group holds bank guarantees, parent company guarantees or personal guarantees.

(c) Liquidity risk

Liquidity risk is the risk that the Group will have difficulty realising assets and raising sufficient funds to satisfy commitments associated with financial liabilities.

The Group manages its liquidity risk by ensuring that it has committed funding facilities at a minimum of 105% of the projected peak debt level over the next twelve months (excluding business acquisitions).

The maturities of the Group's borrowings based on the remaining period is 3.8 years (2015: 3.8 years), with all borrowings due later than one year (2015: later than one year). Further details of the Group's borrowings, including the maturities of the Group's borrowings, are disclosed in note 3.1 to the financial statements.

The table below analyses the Group financial liabilities (principal and interest) by the relevant contracted maturity groupings based on the remaining period as at 31 December 2016 and 31 December 2015.

	Carrying amount	Contractual cash flows				
ALL VALUES IN $000'S		0 - 1 year	1 - 2 years	2 - 5 years	> 5 years	Total
Financial liabilities						
Bank overdraft	113	113	–	–	–	113
Accounts payable, accruals and other liabilities	8,669	8,669	–	–	–	8,669
Derivative financial instruments[1]	9,966	5,232	3,671	2,865	(289)	11,479
Borrowings	332,924	11,460	11,460	354,276	–	377,196
Total as at 31 December 2016	351,672	25,474	15,131	357,141	(289)	397,457
Accounts payable, accruals and other liabilities	14,740	14,740	–	–	–	14,740
Derivative financial instruments[1]	10,399	4,560	3,526	4,227	(345)	11,968
Borrowings	330,920	14,374	14,374	357,497	–	386,245
Total as at 31 December 2015	356,059	33,674	17,900	361,724	(345)	412,953

1 The carrying amount of derivative financial instruments shown is the net position of both derivative financial instrument assets and derivative financial instrument liabilities.

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern whilst maximising the return to shareholders through maintaining an optimal balance of debt and equity. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's capital structure includes borrowings and shareholders equity. The Group monitors capital on the basis of the loan to value ratio and borrowing covenant compliance. The loan to value ratio is calculated as borrowings divided by investment properties. The Group's strategy is to maintain a loan to value ratio of no more than 40%. The covenants on all borrowings require a loan to value ratio of no more than 50%.

The Group operates a Dividend Reinvestment Scheme (DRS) which allows eligible shareholders to reinvest dividends in shares. The board, at its sole discretion, may suspend the DRS at any time and/or apply a discount to which shares are issued under the DRS.

5. OTHER (CONTINUED)

5.8. Related party transactions

(i) Management fees

The Manager, PFIM Limited (PFIM) is entitled to be paid base management and performance fees for the provision of management and administrative services, pursuant to a management and administrative services contract. During the year, Gregory Reidy was a Director of both PFIM and the Company. During the year, the Group incurred management fees of $7,259,000 (2015: $7,608,000) comprising:

(a) Base management fees

The base management fee payable monthly and is calculated as one twelfth of:

- 0.725% of total tangible assets under management up to $425 million;
- 0.450% of total tangible assets under management above $425 million and below $775 million; and
- 0.350% of total tangible assets under management above $775 million.

During the year, the Group incurred base management fees totalling $5,482,000 (2015: $5,194,000) from PFIM, for the provision of management and administrative services. As at 31 December 2016 $458,000 (2015: $446,000) was owing and included in accounts payable, accruals and other liabilities.

(b) Performance fees

The performance fee is calculated and payable on a quarterly basis. The performance fee is calculated as 10% of the change in shareholder returns above 10% per annum (2.5% per quarter) and under 15% per annum (3.75% per quarter). Where shareholder returns exceed 3.75% in a quarter, no payment is due for the actual amount of the increase above 3.75% but the amount of the increase above 3.75% is carried forward and added to the calculation of shareholder returns in the next seven quarters. However, if shareholder returns are less than 2.5% in a quarter, the deficit is carried forward and subtracted from the calculation of shareholder returns in the next seven quarters.

During the year, the Group incurred $1,777,000 performance fees from PFIM (2015: $2,414,000). As at 31 December 2016, a deficit amount of $4,122,000 (2015: surplus $1,988,000) has been carried forward to be included in the calculation to determine whether an performance fee is payable in the next seven quarters. As at 31 December 2016 nil (2015: $830,000) was owing and included in accounts payable, accruals and other liabilities.

(ii) Other related party transactions

During the year, the Group incurred $12,816,440 (2015: $19,843,000) for construction and maintenance works from Haydn & Rollett Limited. John Waller was a Director of both Haydn & Rollett Limited and the Company until he passed away on 21 September 2016. As at 31 December 2016 $311,000 (31 December 2015: $1,558,000) was owing and included in accounts payable, accruals and other liabilities.

John Waller was a Director of both Bank of New Zealand and the Company until his retirement from the Bank of New Zealand on 31 July 2015. During the prior year, the Group incurred $4,317,000 for interest expense and bank fees from the Bank of New Zealand. As at 31 December 2015: $630,000 was owing and included in accounts payable, accruals and other liabilities.

No related party debts have been written off or forgiven during the year (2015: nil).

During the year, fees paid to Directors of the Group were $336,000 (2015: $280,000).

As at 31 December 2016, Directors of the Company held 8,007,684 (31 December 2015: 9,153,462) shares beneficially in the Company and 371,583 (31 December 2015: 371,583) shares non-beneficially in the Company. Included in the shares beneficially owned are 3,657,121 (31 December 2015: 3,657,121) shares held in the name of PFIM.

5.9. Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors. The Group is internally reported as a single operating segment to the chief operating decision-maker.

5.10. Capital commitments

As at 31 December 2016 the Group had capital commitments totalling $3,638,000 (31 December 2015: $12,416,000) relating to work on investment properties.

5.11. Subsequent events

On 9 January 2017, 686 Rosebank Road, Avondale sustained fire damage. A business interruption (loss of rents claim) and a material damage claim will be submitted in due course to recover the loss of rents (if any) and the full cost of reinstatement.

On 2 February 2017, the Group purchased an investment property located at 11 Turin Place, East Tamaki for a net purchase price of $14,220,000.

On 13 February 2017, the Directors of the Company approved the payment of a net dividend of $9,275,000 (2.0500 cents per share) to be paid on 8 March 2017. The gross dividend (2.5488 cents per share) carries imputation credits of 0.4988 cents per share. The payment of this dividend will not have any tax consequences for the Group and no liability has been recognised in the Consolidated Statement of Financial Position as at 31 December 2016 in respect of this dividend.

Independent auditor's report

To the shareholders of Property for Industry Limited

We have audited the consolidated financial statements which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements of Property for Industry Limited (the Company), including its controlled entity (the Group), present fairly, in all material respects, the financial position of the Group as at 31 December 2016, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

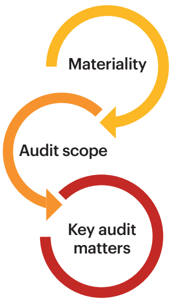
We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of other related assurance services and the benchmarking of director remuneration. The provision of these other services has not impaired our independence as auditor of the Group.

Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.



Overall group materiality: $2.2 million, which represents 5% of profit before tax excluding valuation movements relating to investment properties and interest rate derivatives.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above $0.2 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

We have two key audit matters:

- Valuation of Investment Properties; and
- Goodwill impairment assessment

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall group materiality	$2.2 million.
How we determined it	5% of profit before tax excluding valuation movements relating to investment properties and interest rate derivatives.
Rationale for the materiality benchmark applied	We applied this benchmark because, in our view, profit before tax is the metric against which the performance of the Group is most commonly measured.

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of Investment Properties Refer to note 2.1 of the consolidated financial statements. The Group's Investment Properties at $1,083 million represent the majority of the assets as at 31 December 2016. The valuation of the Group's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental income for that particular property. The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuation assumptions, when aggregated, could result in material misstatement, is why we have given specific audit focus and attention to this area. The valuations were carried out by third party valuers, Colliers International New Zealand Limited, Jones Lang Lasalle Limited, CBRE Limited and Savills New Zealand Limited (the Valuers). The Valuers were engaged by the Group, and performed their work in accordance with International Valuation Standards and the Australia and New Zealand Valuation and Property Standards. The Valuers used by the Group are well known firms, with experience in the market in which the Group operates and are rotated across the portfolio on a three-yearly cycle. In determining a property's valuation, the Valuers take into account property specific current information such as the current tenancy agreements and rental income earned by the asset. They then apply assumptions in relation to capitalisation rates and	**External valuations** We read and discussed the valuation reports with each of the Valuers. We confirmed that the valuation approach for each property was in accordance with accounting standards and suitable for use in determining the carrying value of Investment Properties at 31 December 2016. It was evident from our discussions with management and the Valuers and our review of the valuation reports that close attention had been paid to each property's individual characteristics and its overall quality, geographic location and desirability as a whole. We assessed the Valuers' qualifications, expertise and their objectivity and we found no evidence to suggest that the objectivity of any Valuer in their performance of the valuations was compromised. On a sample basis we agreed property-specific information supplied to the Valuers by the Group to the underlying property records. No issues were identified. **Assumptions** Our work over the assumptions focused on the largest properties in the portfolio and those properties where the assumptions used and/or year-on-year fair value movement suggested a possible outlier versus market data. We also engaged our own in-house valuation specialist to critique and challenge the work performed and assumptions used by the Valuers. In particular, we compared the valuation metrics used by the Valuers to recent market activity. We concluded that the assumptions used in the valuations were supportable in light of available market evidence.

Independent auditor's report (continued)

Key audit matter	How our audit addressed the key audit matter
current market rent and anticipated growth, based on available market data and transactions, to arrive at a range of valuation outcomes, from which they derive a point estimate. Due to the unique nature of each property, the assumptions applied take into consideration the individual property characteristics at a granular tenant by tenant level, as well as the qualities of the property as a whole. The Group has adopted the assessed values determined by the Valuers.	**Overall valuation estimates** Because of the inherent level of precision and subjectivity involved in determining valuations for individual properties and the existence of acceptable alternative assumptions and valuation methods, we determined a range of values that were considered reasonable to evaluate each independent property valuation used by management. The valuations adopted by the Group were all, individually, within an acceptable range. We also considered whether or not there was bias from management in determining individual valuations and found no evidence of such bias.
Goodwill impairment assessment Refer to note 5.5 of the consolidated financial statements. The goodwill balance of $29 million was recognised when Property for Industry Limited merged with Direct Property Fund and is supported by an annual impairment review. No impairment charge has been recorded against this balance in the current financial year. Management have used the fair value of the Group less costs of disposal to support the continued carrying value for the goodwill balance and this involves the application of subjective judgement about the control premium. The control premium is considered to be a key area of judgement.	We evaluated management's process around testing for goodwill impairment and performed the following procedures: • Agreed the daily high and low trade prices for the Group's shares at year end to NZX trading data; • With the assistance of our in-house valuation specialist, we assessed the reasonableness of the control premium applied in the goodwill impairment calculation as well as the costs of disposal estimate through examining market evidence from past transactions; and • Recalculated the Group's net assets as at 31 December 2016. We also performed sensitivity analysis around the control premium assumption to ascertain the extent of change that individually would be required for the goodwill balance to be impaired and noted goodwill would not be impaired if the control premium applied to the calculation was decreased by 50%.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. The other information included in the annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information included in the annual report and we will not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the other information in the annual report, if we conclude that there is a material misstatement of this other information, we are required to communicate the matter to the Directors and consider further appropriate actions.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Sam Shuttleworth.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants — Auckland

13 February 2017

FIVE-YEAR PERFORMANCE SUMMARY

YEAR ENDED 31 DECEMBER	2016	2015	2014	2013	2012
ALL VALUES IN $M UNLESS OTHERWISE NOTED					
FINANCIAL PERFORMANCE					
Operating revenue	71.1	66.9	63.8	48.1	29.4
Operating expenses	(28.0)	(30.3)	(26.9)	(21.2)	(12.2)
Total operating earnings	43.1	36.6	36.9	26.9	17.2
Non-operating income and expenses	88.9	43.0	29.0	20.5	14.7
Profit before taxation	132.1	79.6	65.9	47.4	31.9
Total taxation expense	(8.7)	(6.8)	(6.0)	(6.9)	(5.0)
Total comprehensive income after tax	123.4	72.8	59.9	40.5	26.9
Weighted average number of ordinary shares ('000 shares)	450,079	422,275	411,502	316,742	220,018
IFRS earnings per share (cents per share)	27.42	17.25	14.55	12.79	12.24
DISTRIBUTIONS					
Total comprehensive income after tax	123.4	72.8	59.9	40.5	26.9
Distributable profit adjustments	(89.3)	(41.5)	(28.9)	(17.2)	(12.3)
Distributable profit	34.1	31.3	31.0	23.3	14.6
Weighted average number of ordinary shares ('000 shares)	450,079	422,275	411,502	316,742	220,018
Distributable profit per share (cents per share)	7.58	7.01	7.41	7.28	6.64
Gross dividends paid relating to the period reported (cents per share)	9.19	9.06	9.04	8.69	8.21
Net dividends paid relating to the period reported (cents per share)	7.35	7.30	7.25	7.20	6.60
Pay-out ratio (%)	97.2%	106.1%	97.8%	100.4%	99.6%
FINANCIAL POSITION					
Investment properties	1,083.3	986.6	876.0	841.8	382.2
Goodwill	29.1	29.1	29.1	29.1	-
Other assets	9.4	11.5	1.8	6.1	2.4
Total assets	1,121.8	1,027.2	906.9	877.0	384.6
Borrowings	332.9	330.9	312.8	314.6	114.2
Other liabilities	32.7	38.3	29.1	27.2	20.3
Total liabilities	365.7	369.2	341.9	341.8	134.5
Total equity	756.1	658.0	565.0	535.2	250.1
Closing shares on issue ('000 shares)	452,459	447,692	411,502	411,502	220,411
Net tangible (excluding goodwill) assets (cents per share)	160.7	140.5	130.2	123.0	113.5
Gearing (%)	30.1%	33.3%	35.8%	37.4%	29.9%
PROPERTY PORTFOLIO METRICS					
Number of properties (#)	83	84	79	83	50
Number of tenants (#)	143	141	134	136	86
Contract rent	72.5	72.3	65.8	65.4	32.6
Occupancy (%)	99.6%	99.6%	98.5%	97.1%	97.4%
Net lettable area including yard (sqm)	667,441	673,112	626,755	627,575	379,306
Weighted average lease term (years)	4.79	5.18	5.26	5.31	4.80
Capitalisation rate (%)	6.6%	7.0%	7.2%	7.8%	8.5%

COMPANY STRUCTURE & STATUTORY INFORMATION.

COMPANY STRUCTURE AND STATUTORY INFORMATION

Property for Industry Limited (the Company, PFI) is a publicly listed company established in 1994 and managed by PFIM Limited (the manager). The manager reports to the board of directors (the board) and is responsible for all investment, property and administration management functions. The manager is paid a management fee for carrying out these responsibilities. The board currently has five directors, four of whom are independent and one representing the manager.

More information on the PFI board and management team is available on the PFI website at propertyforindustry.co.nz/about-pfi/our-people-investors/.

PRINCIPAL ACTIVITY

PFI is a listed industrial property investment company. PFI and its subsidiary, P.F.I. Property No. 1 Limited (together, the Group), invest solely in New Zealand. There has not been any change in the nature of the Company's or Group's business in the year ended 31 December 2016, nor in the classes of business in which the Company has an interest.

MANAGEMENT STRUCTURE

PFI is managed by PFIM Limited, a private company owned by interests associated with McDougall Reidy & Co Limited. PFIM Limited has appointed McDougall Reidy & Co Limited as its subcontractor to provide the property and administrative management services required under the PFI management agreement.

PFI's management fee structure is designed to align the interests of the manager and shareholders, and to reward the manager for outperformance in the growth of shareholder wealth over time. PFI pays a base management fee plus a performance fee calculated on total shareholder returns.

The base fee is calculated as:

- 0.725% of total tangible assets under management up to $425 million;
- 0.450% of total tangible assets under management above $425 million and below $775 million; and
- 0.350% of total tangible assets under management above $775 million.

The performance fee is calculated as 10% of the change in shareholder wealth above 10% per annum (2.5% per quarter) and under 15% per annum (3.75% per quarter), calculated and payable on a quarterly basis.

Where shareholder returns exceed 3.75% in a quarter, no payment is due for the actual amount of the increase above 3.75%, but the amount of the increase above 3.75% can be carried forward and added to the calculation of shareholder returns in the next seven quarters. However, if shareholder returns are less than 2.5% in a quarter, the deficit can also be carried forward and subtracted from the calculation of shareholder returns in the next seven quarters.

GOVERNANCE

The board of PFI is committed to the highest standards of business behaviour and accountability. The board regularly reviews and assesses the Group's governance structures and processes to ensure they are consistent with best practice standards.

As part of the board's ongoing monitoring and review of the Group's governance framework, the board has developed a Corporate Governance Manual (the manual) that forms the Group's corporate governance framework. The manual was reviewed by the board during 2014 except for the Audit and Risk Committee Charter and Continuous Disclosure Policy, which were reviewed during 2015. It incorporates the NZX Main Board Listing Rules relating to corporate governance and the recommendations of the NZX Corporate Governance Best Practice Code.

A copy of the manual is available on the PFI website at propertyforindustry.co.nz/about-pfi/governance/ and includes:

1. Code of Ethics;
2. Board Charter;
3. Audit and Risk Committee Charter;
4. Nomination Committee Charter;
5. Remuneration Policy;
6. Securities Trading Policy; and
7. Continuous Disclosure Policy.

COMPLIANCE WITH NZX REQUIREMENTS

The NZX Main Board Listing Rules require that companies such as PFI disclose the ways in which their corporate governance processes materially differ from the processes prescribed by the NZX Corporate Governance Best Practice Code.

PFI considers that it materially complies with the NZX Corporate Governance Best Practice Code except in respect of the fact that the Company has not established a remuneration committee. This is discussed further below, under the heading 'Other Committees'.

PFI notes that the rules relating to corporate governance under the NZX Listing Rules are changing. From later this year, is expected that a new form of the NZX Corporate Governance Best Practice Code (the New Code) will apply under the NZX Listing Rules.

PFI is considering the application of the New Code to its current governance practices, and in particular whether those practices meet the recommendations of the New Code. PFI expects to report on its compliance with the New Code in its annual report for the year ending 31 December 2017.

CODE OF ETHICS

The board has developed a Code of Ethics that forms part of the Corporate Governance Manual. The Code of Ethics is intended to provide a framework for PFI's directors, managers, representatives and subsidiary by which they are expected to conduct their duties by facilitating behaviour that is consistent with PFI's business standards.

BOARD COMPOSITION, APPOINTMENTS, INDEPENDENCE & OPERATION

The constitution allows for between three and eight directors. As at 31 December 2016, there were five directors: four of whom are independent and one representing the manager. It is the Company's policy that there should always be a majority of independent directors.

The directors of the Company who held the office during the 12 months to 31 December 2016, their status, date of appointment and meeting attendances follows:

DIRECTOR	STATUS	DATE OF APPOINTMENT	LAST RE-ELECTED	DATE CEASED TO BE A DIRECTOR	MEETINGS ATTENDED (SIX MEETINGS HELD)
Peter Masfen	Board Chairman Independent director	17 May 2002	15 June 2016	N/A	6
Anthony Beverley	Audit and Risk Committee Chairman Nomination Committee Chairman Independent director	2 July 2001	20 May 2015	N/A	6
Humphry Rolleston	Independent director	5 July 1994	16 May 2014	N/A	6
Susan Peterson (1)	Independent director	24 May 2016	15 June 2016	N/A	4
Gregory Reidy	Director representing the manager	20 January 2012	20 May 2015	N/A	6
John Waller (2)	Independent director	1 July 2013	15 June 2016	20 September 2016	4

(1) Susan Peterson was appointed to the board during 2016 and four meetings were held since her appointment.

(2) John Waller passed away on the 20th of September 2016 and as such ceased to be a board member on that date. Four meetings were held prior to his passing.

The constitution provides that one third (or the nearest whole number to one third) of the board must offer themselves for re-election at a meeting of shareholders each year.

All current directors are also directors of the Company's subsidiary, P.F.I. Property No. 1 Limited.

BOARD COMMITTEES

Audit & Risk Committee

The board has established an Audit and Risk Committee in accordance with the NZX Corporate Governance Best Practice Code. The Audit and Risk Committee has developed a written charter that outlines the committee's authority, duties, responsibilities, relationship with the board and a policy on audit independence. The board is required to regularly review the performance of the Audit and Risk Committee.

The manager is responsible for attending to the financial and reporting needs of the Company. Amongst other things, the Audit and Risk Committee meets at least twice a year (or more frequently if required) with the Group's auditor to review the outcome of the interim review (30 June) and annual audit (31 December).

At 31 December 2016, the members of the Audit and Risk Committee were Anthony Beverley (Chairman of the Audit and Risk Committee), Peter Masfen and Susan Peterson. Anthony Beverley and Peter Masfen were members of the committee at all times during 2016. Susan Peterson was appointed to the committee on the 28th of October 2016. John Waller passed away on the 20th of September 2016 and as such ceased to be a member of the committee on that date. Anthony Beverley and John Waller attended all three meetings of the Audit and Risk Committee held during 2016. Peter Masfen attended two meetings of the Audit and Risk Committee held during 2016. There were no meetings of the Audit and Risk Committee during 2016 following Susan Peterson's appointment.

Nomination Committee

The board has established a Nomination Committee in accordance with the NZX Corporate Governance Best Practice Code. The Nomination Committee has developed a written charter that outlines the committee's authority, duties, responsibilities and relationship with the board. The board is required to regularly review the performance of the Nomination Committee.

At 31 December 2016, the members of the Nomination Committee were Anthony Beverley (Chairman of the Nomination Committee) and Susan Peterson. Susan Peterson was appointed to the committee on the 15th of December 2016. John Waller passed away on the 20th of September 2016 and as such ceased to be a member of the committee on that date. This committee met informally during the year to consider the appointment of an additional director.

Other Committees

The board has not established a remuneration committee. This differs from the NZX Corporate Governance Best Practice Code recommendation that the board establishes this committee to recommend remuneration packages for directors to the shareholders. However, the board has developed a remuneration policy which forms part of the Corporate Governance Manual and is intended to guide the directors in considering remuneration for directors. The board considers that the policies are consistent with best practice governance standards and this approach is appropriate, given that, as a result of its external management arrangements, PFI does not have its own employees for whom remuneration needs to be considered.

BOARD CHARTER

The board has developed a charter that sets out its authority, duties and responsibilities. The board has adopted the following governance objectives:

- Establishes a clear framework for oversight and management of PFI's operations and for defining the respective roles and responsibilities of the board and the manager;
- Structures itself to be effective in discharging its responsibilities and duties;
- Sets standards of behaviour expected of the Company's managers and representatives;
- Safeguards the integrity of the company's financial reporting;
- Ensures timely and balanced disclosure;
- Respects and facilitates the rights of shareholders;
- Recognises and manages risk;
- Encourages board and management effectiveness;
- Remunerates fairly and responsibly; and
- Recognises the legitimate interests of all stakeholders.

The board also has statutory responsibility for the affairs and activities of the Company. It is responsible for producing annual financial statements that comply with generally accepted accounting practice and provide a true and fair view of the Group's financial performance and position.

The board has an obligation to protect and enhance the value of the assets of the Company for the benefit of shareholders. It achieves this through approval of appropriate corporate strategies, with particular attention to capital structure, acquisition and divestment proposals, capital expenditure and the review of the performance of the manager on a regular basis.

The board delegates implementation of the adopted corporate strategies to the manager.

The manager is contractually bound to manage the Company, for which it receives a management fee. The manager's duties are defined as:

- Investment management duties;
- Property management duties; and
- Administrative management duties.

GENDER COMPOSITION OF DIRECTORS AND OFFICERS

The breakdown of the gender composition of PFI's directors as at the end of the previous two financial years is as follows:

FINANCIAL YEAR	MALE	FEMALE
Year ending 31 December 2015	5	0
Year ending 31 December 2016	4	1

The Company does not have any employees and therefore has no officers. The Company does not have a diversity policy.

DIRECTORS' INTERESTS REGISTER

During the year, the board authorised the renewal of the directors' and officers' insurance cover as at 30 June 2016 for a period of 12 months and has certified, in terms of section 162 of the Companies Act 1993, that this cover is fair to the Company.

As permitted by the Company's constitution and the Companies Act 1993, the Company has also executed a deed indemnifying its directors against potential liabilities and costs they may incur for acts or omissions in their capacity as directors of the Company and its subsidiary.

Please refer to the Directors' Relevant Interests section below for information regarding the acquisition and disposition of relevant interests in the Company's shares by its directors.

No director has sought authorisation to use Company information.

There were no other interest register entries recorded for the Company or its subsidiary for the year ended 31 December 2016.

DIRECTORS' REMUNERATION

As noted previously, the board, in setting the directors' remuneration, is to be guided by the remuneration policy that forms part of the Corporate Governance Manual. The table below sets out the total remuneration received by the Company's directors during the year to 31 December 2016. The increase in fees from the previous period represents the increase in the remuneration pool that was approved at the 2016 PFI annual general meeting.

Other than noted in this report, neither the Company nor its subsidiary have provided any other benefits to a director for services as a director or in any other capacity.

Neither the Company nor its subsidiary have made loans to a director.

Neither the Company nor its subsidiary have guaranteed any debts incurred by a director.

DIRECTOR	ROLE	FEES PAID 2016 $000	FEES PAID 2015 $000
Peter Masfen	Board Chairman	106	90
	Independent director		
Anthony Beverley	Audit and Risk Committee Chairman	75	70
	Nomination Committee Chairman		
	Independent director		
Humphry Rolleston	Independent director	65	60
Susan Peterson (1)	Independent director	41	–
Gregory Reidy (2)	Director representing the manager	–	–
John Waller (3)	Independent director	48	60
Total		**336**	**280**

(1) Susan Peterson appointed to the board on the 24th of May 2016.

(2) No directors' remuneration was paid to Gregory Reidy due to his role as a director representing the manager.

(3) John Waller passed away on the 20th of September 2016 and as such ceased to be a board member on that date.

DIRECTORS' RELEVANT INTERESTS

The board has developed a policy that deals with directors, managers and representatives acquiring and disposing of relevant interests in PFI's shares and the disclosure requirements. This policy forms part of the Corporate Governance Manual.

Details of directors' dealings in the Company's shares since 1 January 2016 are as follows:

DIRECTOR	NO. OF SHARES ACQUIRED / (DISPOSED)	CONSIDERATION PER SHARE	DATE
Peter Masfen (legal, but not beneficial, holder)	(270,833)	$1.60	Wednesday, 13 January 2016
Peter Masfen (legal, but not beneficial, holder)	270,833	$1.60	Wednesday, 13 January 2016
John Waller (beneficial holder)	(158,442)	$1.60	Thursday, 16 June 2016
John Waller (beneficial holder)	(39,401)	$1.62	Wednesday, 29 June 2016
John Waller (beneficial holder)	(27,157)	$1.62	Thursday, 30 June 2016
Humphry Rolleston (legal and beneficial holder)	(100,750)	$1.65	Thursday, 29 September 2016
Humphry Rolleston (legal, but not beneficial, holder)	100,750	$1.65	Thursday, 29 September 2016

Details of directors' relevant interests in the Company's shares as at 31 December 2016 are as follows:

DIRECTOR	NATURE OF RELEVANT INTEREST	NUMBER OF SHARES
Peter Masfen	Beneficial holder	4,334,313
	Legal, but not-beneficial, holder	270,833
Humphry Rolleston	Beneficial holder	16,250
	Legal, but not-beneficial, holder	100,750
Gregory Reidy	Beneficial holder	3,657,121

EMPLOYEE REMUNERATION

Neither the Company nor its subsidiary has any employees; accordingly no employees, or former employees, of the Company or its subsidiary received remuneration or other benefits in their capacity as employees, the value of which was or exceeded $100,000 per annum.

DONATIONS

Neither the Company nor its subsidiary made any donations during the year.

SUBSTANTIAL PRODUCTHOLDERS AS AT 31 DECEMBER 2016

As at 31 December 2016, the total number of ordinary shares on issue was 452,458,592. The Company has only ordinary shares on issue.

The persons, who, for the purposes of section 293 of the Financial Markets Conduct Act 2013, were substantial productholders as at 31 December 2016 are:

SECURITY HOLDER	NO. OF SHARES	%
ANZ New Zealand Investments Limited	24,022,302	5.31%

DETAILS OF DIVIDENDS PAID

DIVIDENDS	DATE PAID	CENTS PER SHARE	TOTAL PAID 2016 $000	TOTAL PAID 2015 $000
Q4 2014 final dividend	Wednesday, 12 March 2014	1.95	–	8,025
Q1 2015 interim dividend	Wednesday, 27 May 2015	1.75	–	7,201
Q2 2015 interim dividend	Thursday, 3 September 2015	1.75	–	7,216
Q3 2015 interim dividend	Wednesday, 25 November 2015	1.80	–	8,041
Q4 2015 final dividend	Wednesday, 9 March 2016	2.00	8,954	–
Q1 2016 interim dividend	Monday, 23 May 2016	1.75	7,860	–
Q2 2016 interim dividend	Thursday, 1 September 2016	1.75	7,882	–
Q3 2016 interim dividend	Wednesday, 23 November 2016	1.80	8,124	–
Total dividends per statement of changes in equity			**32,820**	**30,483**

SHAREHOLDER STATISTICS

20 LARGEST REGISTERED SHAREHOLDERS

AS AT 31 JANUARY 2017

	HOLDER	HOLDING	HOLDING %
1	FNZ Custodians Limited	31,725,407	7.01%
2	Forsyth Barr Custodians Limited	21,639,484	4.78%
3	BNP Paribas Nominees (NZ) Limited - NZCSD	17,428,835	3.85%
4	Accident Compensation Corporation - NZCSD	15,599,169	3.45%
5	Custodial Services Limited (A/c 3)	14,025,073	3.10%
6	Citibank Nominees (New Zealand) Limited - NZCSD	11,584,254	2.56%
7	ANZ Wholesale Trans-Tasman Property Securities Fund - NZCSD	8,942,824	1.98%
8	Investment Custodial Services Limited (A/c C)	8,276,476	1.83%
9	MFL Mutual Fund Limited - NZCSD	7,523,177	1.66%
10	Messrs. Wildermoth, Wilson, Young and Spence	6,594,217	1.46%
11	Guardian Nominees No 2 A/C Westpac W/S Enhanced Cash Trust - NZCSD	6,527,872	1.44%
12	ANZ Wholesale Property Securities - NZCSD	6,117,927	1.35%
13	National Nominees New Zealand Limited - NZCSD	6,013,576	1.33%
14	Mr. Mckee, Ms. Mckee and NWM Trustees 120 Limited	5,566,373	1.23%
15	Custodial Services Limited (A/c 2)	5,134,790	1.13%
16	Masfen Securities Limited	4,334,313	0.96%
17	HSBC Nominees (New Zealand) Limited - NZCSD	4,134,439	0.91%
18	Carlaw Heritage Trust Inc	4,115,481	0.91%
19	PT (Booster Investments) Nomineeds Limited	3,946,579	0.87%
20	Heatherfield Investments Limited	3,802,988	0.84%
	Shares held by top 20 shareholders	**193,033,254**	**42.66%**
	Balance of shares	259,425,338	57.34%
	Total of issued shares	**452,458,592**	**100.00%**

SHAREHOLDER SPREAD

AS AT 31 JANUARY 2017

ORDINARY SHARES	NUMBER OF HOLDERS	HOLDING	HOLDING %
Up to 4,999	856	2,220,782	0.49%
5,000 - 9,999	1,001	7,279,740	1.61%
10,000 - 49,999	2,456	51,994,222	11.49%
50,000 - 99,999	382	25,991,681	5.74%
100,000 - 499,999	292	58,121,581	12.85%
500,000 and above	100	306,850,586	67.82%
Total	**5,087**	**452,458,592**	**100.00%**

GEOGRAPHICAL SPREAD

AS AT 31 JANUARY 2017

ORDINARY SHARES	HOLDING	HOLDING %
Auckland & Northern Region	248,471,409	54.92%
Hamilton & Surrounding Districts	86,232,722	19.06%
Wellington & Central Districts	66,993,664	14.81%
Dunedin & Southland	33,583,936	7.42%
Nelson, Marlborough & Christchurch	15,601,844	3.45%
Overseas	1,575,017	0.35%
Total	**452,458,592**	**100.00%**

DIRECTORY

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Humphry Rolleston
Susan Peterson
Gregory Reidy

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VALUATION PANEL
CBRE Limited
Colliers International New Zealand Limited
Jones Lang LaSalle Limited
Savills (NZ) Limited

BANKERS
ANZ Bank New Zealand Limited
Bank of New Zealand
Commonwealth Bank of Australia
Westpac New Zealand Limited

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CALENDAR

2017

MARCH
- 2016 Final dividend payment
- 2016 Annual report mailed

MAY
- 2017 First-quarter announcement
- 2017 First-quarter dividend payment
- Annual meeting

AUGUST
- 2017 Half-year announcement

SEPTEMBER
- 2017 Interim report mailed
- 2017 Half-year dividend payment

NOVEMBER
- 2017 Third-quarter announcement
- 2017 Third-quarter dividend payment

2018

FEBRUARY
- 2017 Full-year announcement

MARCH
- 2017 Final dividend payment
- 2017 Annual report mailed

This Annual Report is dated 28 February 2017 and signed on behalf of the board by:

Peter Masfen
Chairman

Anthony Beverley
Director

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