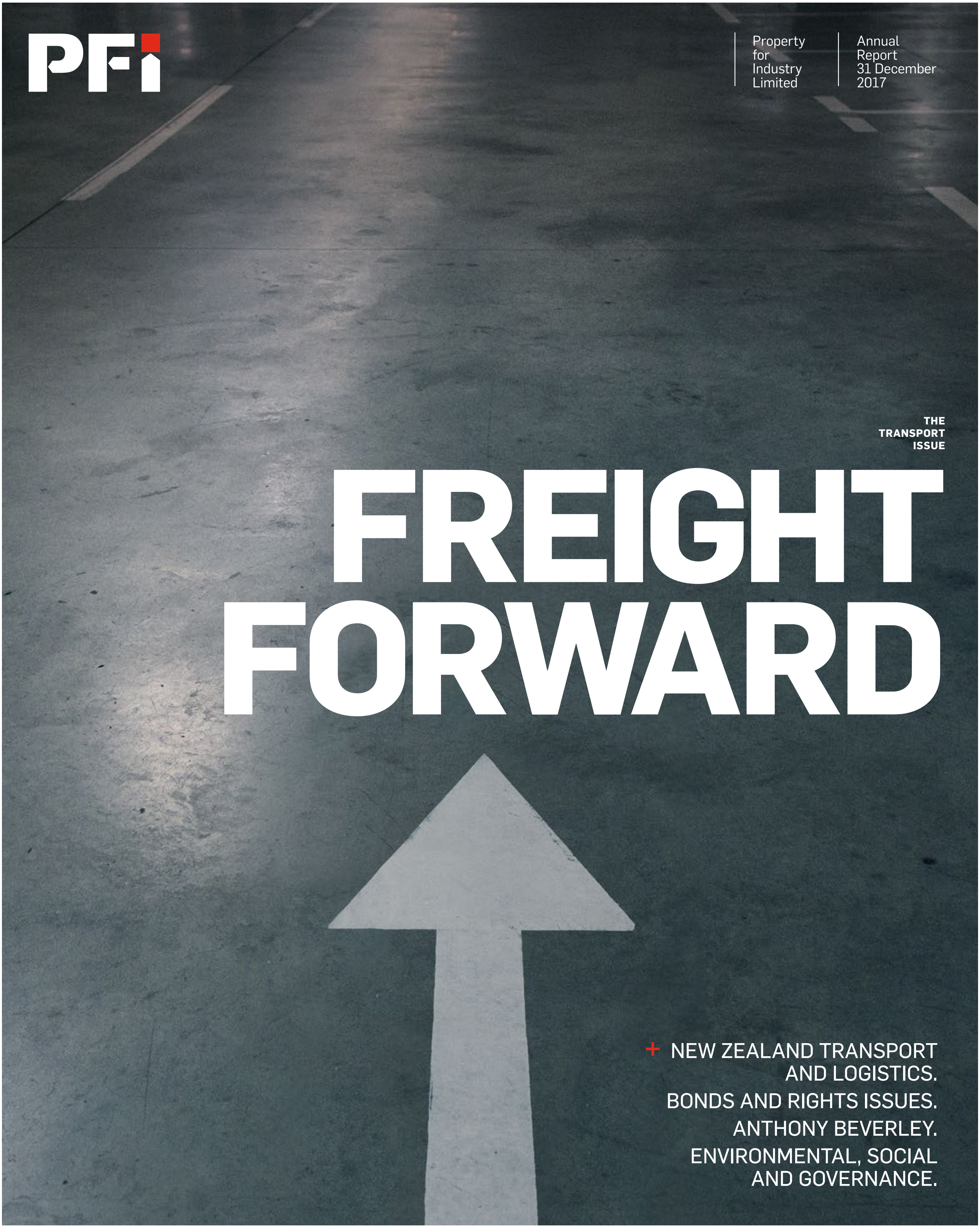


PFI

Property for Industry Limited

Annual Report 31 December 2017

THE TRANSPORT ISSUE

FREIGHT FORWARD

+ NEW ZEALAND TRANSPORT AND LOGISTICS.

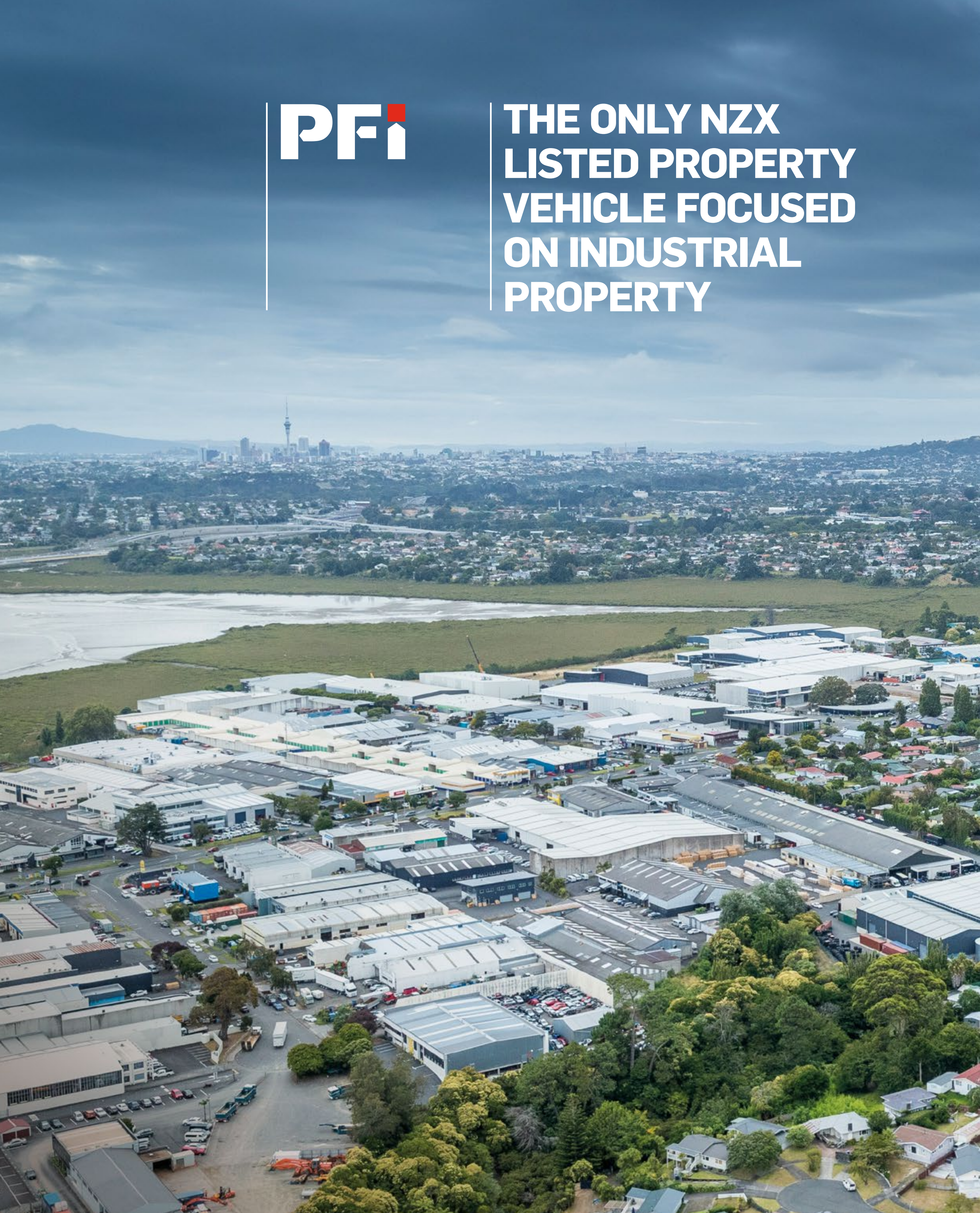
BONDS AND RIGHTS ISSUES.

ANTHONY BEVERLEY.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE.

PFI

THE ONLY NZX LISTED PROPERTY VEHICLE FOCUSED ON INDUSTRIAL PROPERTY



The PFI team are New Zealand's industrial property experts. Collectively our team has decades of property experience and extensive experience in the ownership, management and development of industrial property. Our expertise is key. Because we specialise in industrial property, we know the market, we are known in the market, and we understand industrial tenants' needs. As a result, our portfolio is fit and healthy and able to perform at its peak. PFI's portfolio is significant, its tenant quality is high, its portfolio is almost 100% occupied and it has an enviable lease expiry profile.

PFI.CO.NZ

In 2017, transport conglomerate TIL identified PFI as its logical industrial property partner. In this Annual Report, therefore, we learn more about TIL, the agreement we reached with them and we look at the fundamental importance of the transport, logistics and storage sector.

THIS IS PFI'S WORLD. THIS IS PFI AT WORK.

CONTENTS / SNAPSHOT

SECTION

6

IMPACT RATING

PFI assesses its environmental, social and governance impacts.

READ MORE
p.14

SECTION

7

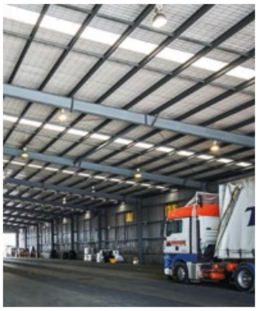
MARKET DRIVEN

Anthony Beverley, Board member since 2001, became Deputy Chairman in May 2017.

READ MORE
p.16

SECTION

8



TRAFFIC CAM

Key Performance Indicators.

READ MORE
p.18

MEET THE PFI TEAM

PETER MASFEN
Chairman and Independent Director

ANTHONY BEVERLEY
Deputy Chairman and Independent Director

NEW DIRECTOR

DAVID THOMSON
New Independent Director

HUMPHRY ROLLESTON
Independent Director

SUSAN PETERSON
Independent Director

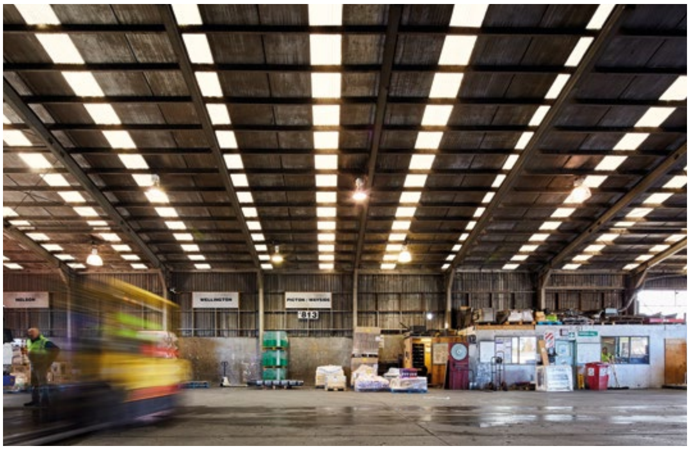
GREG REIDY
Managing Director

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

2017 REVIEW



Internalisation of management and a major acquisition are the standout events of 2017 for PFI.

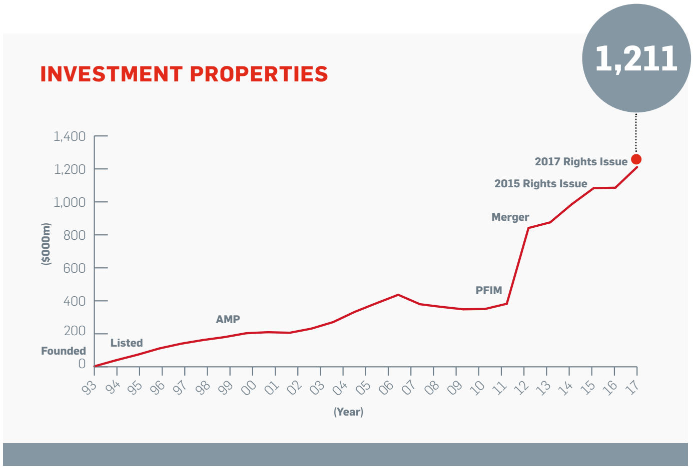
The immediate impact of internalisation is a contribution to a 7.3% reduction in costs for the year. The ongoing benefit, however, is the retention of the PFI team's experience, knowledge and capability: the industrial property expertise that powers shareholder returns.

In October, PFI acquired a nationwide portfolio of nine properties, seven of which are leased to Transport Investments Limited Group (TIL). At $70 million, the acquisition was PFI's largest to date and it helped lift the overall value of the PFI portfolio to around $1.2 billion. A $100 million retail bond offer and a $70 million rights offer were successfully concluded, so that – at year-end – PFI's Loan to Value Ratio was 30.8%, in line with the prior year and well within policy and covenants.

With other acquisitions and disposals – the acquisition in February of 11 Turin Place, East Tamaki, for $14.3 million and the sale in June of 65 Hugo Johnston Drive, Penrose, for $14.0 million – there were 92 properties in PFI's portfolio at year-end (2016: 83), with 148 tenants (2016: 143). Total operating revenue was $73.5 million (2016: $71.1 million), up 3% on the back of the acquisitions and a broad-based year of successful leasing.

Distributable profit (cents per share) for 2017 was 8.08 (2016: 7.58), a 7% increase.

For more information on our annual results, please visit
pfi.co.nz/investor-centre/results-centre/



ACQUIRED

11 Turin Place, East Tamaki, for $14.3 million and nine properties in locations from Auckland to Christchurch for $70 million.

COMPLETED

A $100 million retail bond offer and a $70 million rights offer. (SEE STORY P. 12)

$ 14.0 million

65 Hugo Johnson Drive for $14.0 million

Around **20%** of PFI's tenants are directly involved in the transport, logistics and distribution sector.

(SEE STORY P. 06)

> *"It's not a one-off transaction: it'll be a long-term partnership."*
>
> JIM RAMSAY,
> MANAGING DIRECTOR, TIL

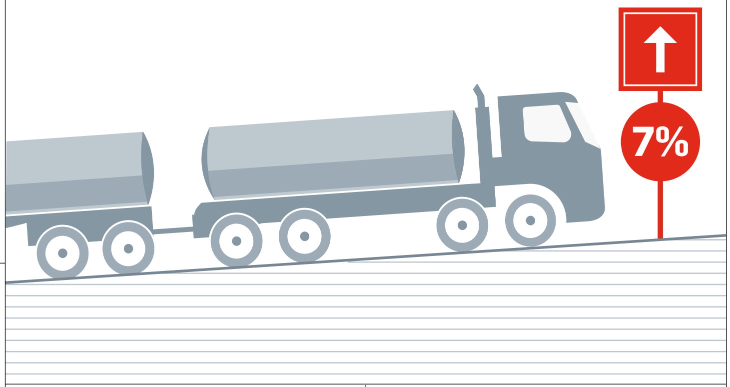
> *"PFI is well set to respond to market-driven change."*
>
> ANTHONY BEVERLEY,
> DEPUTY CHAIRMAN, PFI

> *"Opportunities like this come PFI's way because we are the recognised industrial specialists."*
>
> SIMON WOODHAMS,
> GENERAL MANAGER, PFI

01

OUR STANDOUT EVENTS FOR THE 2017 YEAR.

A 7% increase in distributable profit, a substantial acquisition and the internalisation of management all contributed to 2017 being a significant year for PFI.



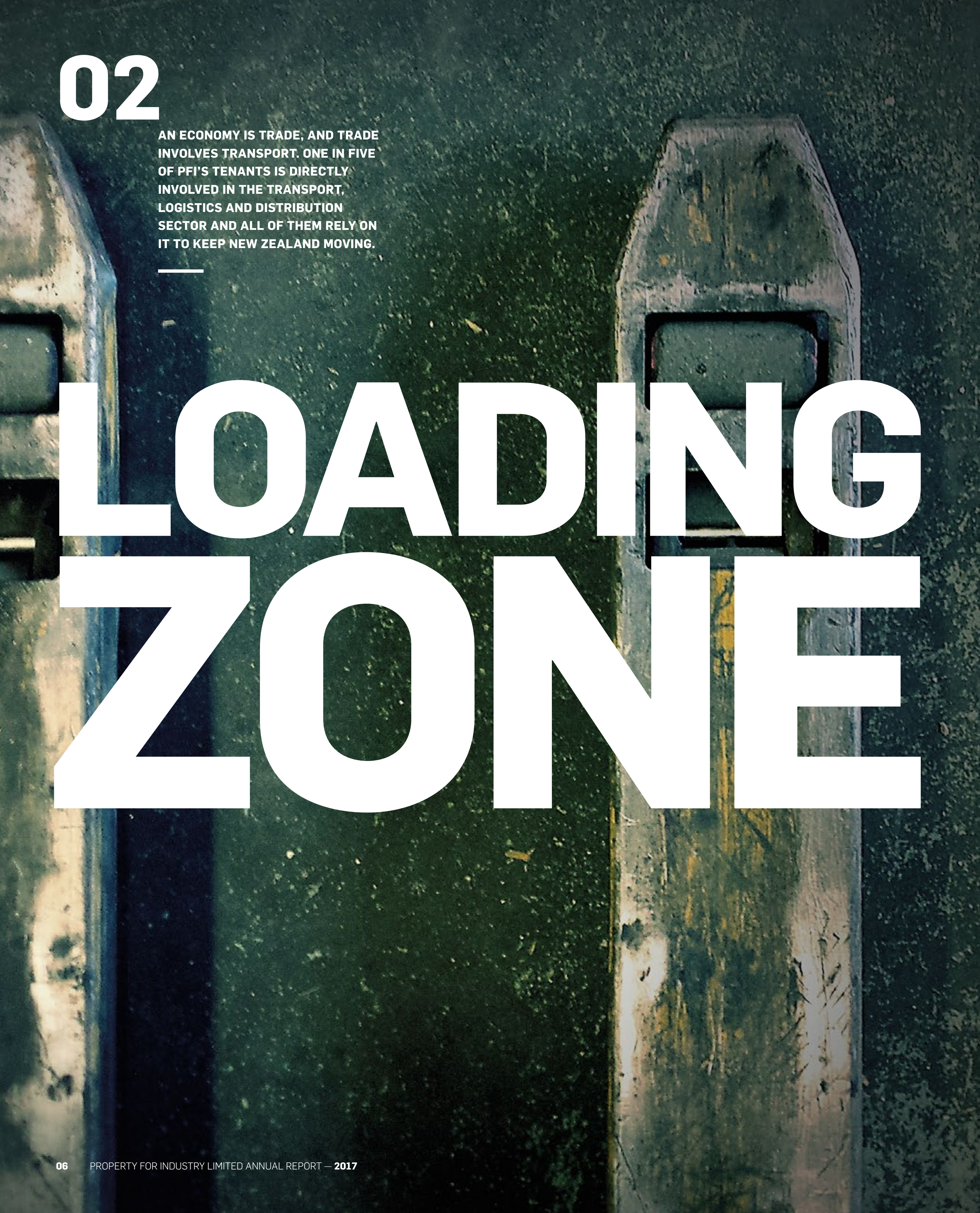
92
2017

PORTFOLIO
GROWTH

83
2016

The immediate impact of internalis-ation is a contribution to a 7.3% reduction in costs for the year.

At the June annual meeting, shareholders approved the internalisation of the management of PFI.



02

AN ECONOMY IS TRADE, AND TRADE INVOLVES TRANSPORT. ONE IN FIVE OF PFI'S TENANTS IS DIRECTLY INVOLVED IN THE TRANSPORT, LOGISTICS AND DISTRIBUTION SECTOR AND ALL OF THEM RELY ON IT TO KEEP NEW ZEALAND MOVING.

LOADING ZONE

> **“The nationwide freight task is expected to increase by 48% in tonne-kilometres in the period to 2042.”**

To appreciate the significance of transport to the New Zealand way of life, consider this: 50 tonnes of freight, per person, per year, the Ministry of Transport tells us. Think of it as your own freight shadow: your personal B-Train following behind as you wander out for a coffee.

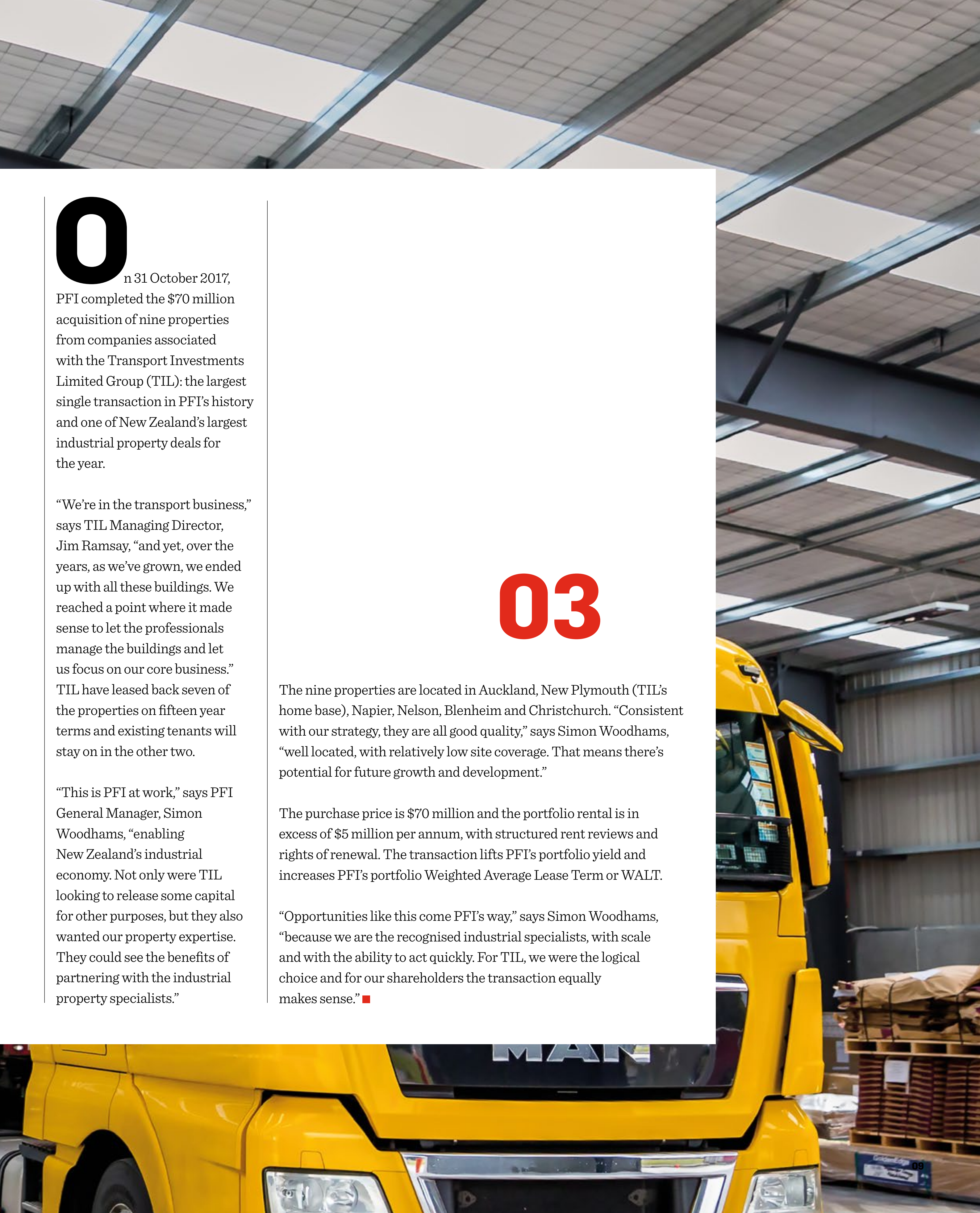
What's in that truck? Mostly, milk powder and logs going one way, vehicles and machinery going the other . Imports and exports, commodities and goods. Over 140,000 trucks and half a million light commercial vehicles, shifting everything we grow and sell; delivering everything we buy and consume. An economy is trade, and trade is transport: the more prosperous a society, the more stuff it moves. Or, paradoxically, the more stuff we move, the more prosperous we become.

Of course, the people doing the moving – the transport, logistics and distribution sector – make up a significant economy in their own right: nearly 90,000 full-time equivalent staff across New Zealand, producing around 5% of GDP (2014 figures). And growing: the nationwide freight task is expected to increase by 48% in tonne-kilometres in the period to 2042, most of which will be taken by road.

No surprises, then, that around one in five of PFI's tenants is in the business of moving, storing and distributing stuff: approximately 25% of rental income. That transport, logistics and storage are critical to every PFI tenant. Or that TIL has chosen to partner with PFI, transferring the ownership of their premises to the industrial property specialists, in order to free up capital and allow their people to concentrate on their role keeping New Zealand moving. ■

LOGIC__AL

THE $70 MILLION ACQUISITION OF NINE PROPERTIES FROM TIL WAS THE LARGEST TRANSACTION IN PFI'S HISTORY.



On 31 October 2017, PFI completed the $70 million acquisition of nine properties from companies associated with the Transport Investments Limited Group (TIL): the largest single transaction in PFI's history and one of New Zealand's largest industrial property deals for the year.

"We're in the transport business," says TIL Managing Director, Jim Ramsay, "and yet, over the years, as we've grown, we ended up with all these buildings. We reached a point where it made sense to let the professionals manage the buildings and let us focus on our core business." TIL have leased back seven of the properties on fifteen year terms and existing tenants will stay on in the other two.

"This is PFI at work," says PFI General Manager, Simon Woodhams, "enabling New Zealand's industrial economy. Not only were TIL looking to release some capital for other purposes, but they also wanted our property expertise. They could see the benefits of partnering with the industrial property specialists."

03

The nine properties are located in Auckland, New Plymouth (TIL's home base), Napier, Nelson, Blenheim and Christchurch. "Consistent with our strategy, they are all good quality," says Simon Woodhams, "well located, with relatively low site coverage. That means there's potential for future growth and development."

The purchase price is $70 million and the portfolio rental is in excess of $5 million per annum, with structured rent reviews and rights of renewal. The transaction lifts PFI's portfolio yield and increases PFI's portfolio Weighted Average Lease Term or WALT.

"Opportunities like this come PFI's way," says Simon Woodhams, "because we are the recognised industrial specialists, with scale and with the ability to act quickly. For TIL, we were the logical choice and for our shareholders the transaction equally makes sense."

"We never set out to be property investors," says Jim Ramsay, Managing Director of TIL. "But when you've got trucks you need yards and when you're moving goods you need storage. It was only when we were restructuring the business, that we realised what a large business managing our premises had become."

TIL goes back a long way. Back to 1869, when young John Hooker started working as a 'bullocky', carting the stone being used to build New Plymouth. Today, Hooker Pacific is just one of the transport, logistics and distribution companies that make up the Transport

N

G

LEASING PREMISES FROM THE INDUSTRIAL PROPERTY SPECIALISTS, PFI, MADE BETTER COMMERCIAL SENSE FOR TIL THAN CONTINUING TO OWN AND MANAGE THE PROPERTIES THEMSELVES.

Investments Limited Group. In total, over 1,700 dedicated employees and contractors, over 900 trucks and 1,100 trailers, 310 forklifts and 170 light vehicles. More than 60 locations. Around 150,000 sqm of storage space. Prior to the listing in late-2017, it was the largest private company in the sector.

“It was time for a transition,” says Jim Ramsay. “My partners and I would go on running this business forever if we could, but we have to set it up to go forward; so we’ve established an independent Board and we have listed on the sharemarket. We want to see it continue to grow and we want the opportunity for staff to participate in the ownership.

“When we were talking about a sale and lease arrangement for all these properties, I said we’ve got to have a proper landlord; someone who’ll do things right for our people, forever. PFI is a listed company, with the size and reputation, able to put something together on a structured, commercial basis. Dealing with them, I found them to be thoroughly professional. I expect this to be an ongoing relationship: as we grow, we’ll go to PFI and say ‘we need some new premises for this particular business: what have you got, or what can you organise?’ It’s not a one-off transaction: it’ll be a long-term partnership.” ■

04

Number of properties in each location

STATUS::

BUY

CATEGORY::

TRANSPORT

OUR ROLE::

PFI enabled TIL to free up capital by purchasing their premises and leasing them back.

CASE STUDY

U

L

05

AUTHORISED VEHICLES

THE WAY IN WHICH PFI FINANCED THE TIL ACQUISITION WAS JUST AS IMPORTANT TO SHAREHOLDERS AS THE TERMS OF THE TRANSACTION ITSELF.

Acquiring the TIL portfolio of properties – and then leasing them back on favourable terms – expanded the PFI portfolio, increased revenue, extended the Weighted Average Lease Term and contributed to increased distributable profit. What's more, however, the deal was financed in a way that lowered PFI's Loan to Value Ratio, extended its debt maturity profile, as well as ensuring the availability of capital for committed development projects and further portfolio activity.

A short-term loan facility from the ANZ enabled PFI to respond immediately to TIL's off-market approach. The financing plan for the longer term was in two parts: a rights offer and a bond offer.

Existing shareholders were given the opportunity to purchase one additional share for every ten held and there was a high level of take-up by those existing shareholders: almost 80% of the new shares available under the rights offer. The offer closed in November and realised an additional $70 million in equity – the purchase price of the TIL portfolio – and this was used to repay the extension from ANZ. The bond offer closed at the end of November and raised $100 million. This replaced other bank debt.

"This was the PFI management working as a team," says Chief Financial Officer and Company Secretary Craig Peirce. "The approach from TIL represented a great opportunity to establish a valuable long-term relationship with a high-quality tenant, but only if it didn't stress the business financially. We successfully achieved the balance."

$70m
Equity raised in rights offer

$100m
Raised in bond offer

06

A FORMAL REVIEW OF BUSINESS IMPACTS HAS REINFORCED PFI'S COMMITMENT TO BEING A RESPONSIBLE CORPORATE CITIZEN AND LANDLORD.

IMPACT RATING

“Our ESG vision is ‘to be a responsible and responsive landlord’.”

Building Safety

Health & Safety

Policies & Procedures

Stakeholder Rights

“Given the nature of our business, investors will not be surprised that ensuring that the properties we own are safe for those who use them has to be a high priority,” says PFI Chairman, Peter Masfen.

During 2017, PFI undertook a formal assessment of its environmental, social and governance (ESG) impacts. To do that, we interviewed key stakeholders to help identify all of the material issues and the matrix later on in this Annual Report presents the findings. In addition to ‘Building Safety’ and ‘Health and Safety’, ‘Policies and Procedures’ and ‘Stakeholder Rights’ emerged as the highest priorities.

“It’s been a worthwhile exercise,” says Peter Masfen. “The objective is greater transparency for investors, but the process itself has been useful. We’ve confirmed that we are already addressing ESG issues in various ways, but we now have a structured way of thinking and a more formal process for setting targets and assessing progress.

“Our ESG vision is ‘to be a responsible and responsive landlord in order to create long term value for our key stakeholders’. We think we’re performing pretty well in that regard – we certainly place considerable emphasis on “Building Safety” and “Health and Safety” – and we’ll be looking to improve our performance across all the material issues.” ■

ANTHONY BEVERLEY

“What experience has reinforced to me over the years is that the industrial sector is a really good place to be invested.”

07

ANTHONY BEVERLEY

MARKET DRIVEN

Independent Directors like Deputy Chairman Anthony Beverley help PFI maintain its clear focus on shareholder returns.

"If you look at a number of our recent transactions, particularly the TIL transaction, and the earlier Sistema transaction," says Anthony, "you see PFI operating at a scale that for a long time it didn't have. And yet strategically nothing has changed: the yardstick has always been maintaining and growing earnings per share, not portfolio growth.

"What experience has reinforced to me over the years is that the industrial sector is a really good place to be invested. It doesn't have the volatility of other property sectors and so you can achieve more consistent returns. PFI has quality assets, is well governed and well managed and has always had this sole focus on returns to shareholders."

"But having said that, what those deals do signal is that PFI is entrepreneurial and secures a lot of its property deals off-market. We're not speculators, but we have the depth and the expertise to respond to a changing market. Distribution and logistics, for example, are expected to continue to evolve and grow significantly, and PFI is well set to respond to that market-driven change."

Anthony Beverley joined the PFI Board as a Director in 2001, became an Independent Director in 2012 and became Deputy Chairman in May 2017. He is a professional director and consultant, consulting to both the private and public sectors on a wide variety of property matters. Anthony was formerly head of property for AMP Capital Investors (New Zealand) Limited and is a Chartered Fellow of the New Zealand Institute of Directors, a Fellow of the New Zealand Institute of Valuers, a Fellow and Life Member of the Property Institute of New Zealand, and a Fellow of the Financial Services Institute of Australasia.

TRAFFIC CAM

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

08

KEY PERFORMANCE INDICATORS

7.0%

INCREASE IN LAND VALUES

02. Auckland industrial land values have increased at a 7% average annual rate over the past five years (CBRE).

99.9%

OCCUPANCY

04. Despite adding a net nine properties to the portfolio in 2017, occupancy is up even further: from 99.6% a year ago to 99.9% at year-end.

1.21B

PORTFOLIO VALUE

06. The portfolio value has increased by 12% on a year ago and by 44% on five years ago.

3.0%

ECONOMIC GROWTH

01. ANZ Bank estimates annual growth to be nearing 3% by the end of 2018.

51%

INDUSTRIAL BUILDING CONSENT INCREASE

03. Industrial building consents issued in the year to Q2 2017 in New Zealand totalled over $440 million in value, a 51% increase from Q2 2016 (Colliers).

5.3 YEARS

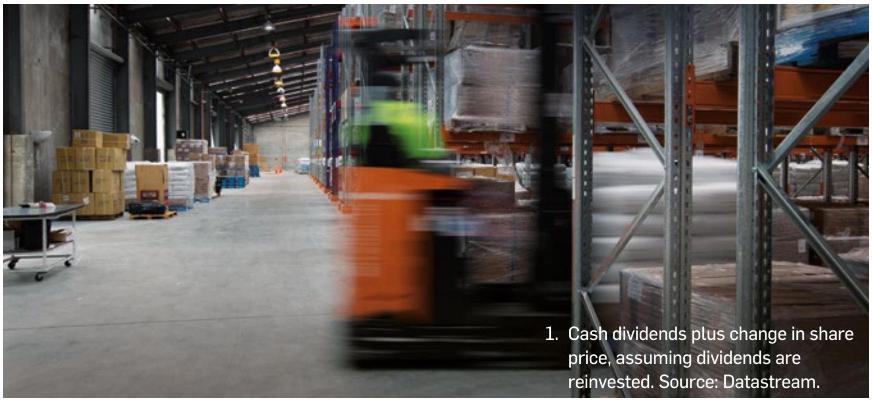
WEIGHTED AVERAGE LEASE TERM (WALT)

05. With all of the former Sistema portfolio now tenanted and favourable lease arrangements on the TIL portfolio, WALT is up from 4.79 years a year ago and the highest it has been since 2013.

9.7%

P.A. ANNUAL RETURN SINCE INCEPTION

07. Over the 23 years since PFI listed in 1994, annual returns to shareholders have averaged 9.7% per annum.[1]



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

FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

ALL VALUES IN $000'S	NOTE	2017	2016
OPERATING REVENUE			
Rental and management fee income	2.2	73,450	71,086
Licence income	6.8	50	–
Interest income		28	22
Total operating revenue		73,528	71,108
OPERATING EXPENSES			
Non-recoverable property costs	2.3	(2,357)	(1,646)
Interest expense and bank fees		(17,768)	(17,839)
Administrative expenses	6.1	(2,891)	(1,230)
Management fees	6.8	(2,919)	(7,259)
Total operating expenses		(25,935)	(27,974)
Total operating earnings		47,593	43,134
NON-OPERATING INCOME AND EXPENSES			
Fair value gain on investment properties	2.1	43,595	88,214
Gain on disposal of investment properties		1,949	302
Material damage insurance income		504	–
Fair value (loss) / gain on derivative financial instruments		(1,230)	433
Termination of management agreement	5	(42,869)	–
Total non-operating income and expenses		1,949	88,949
Profit before taxation		49,542	132,083
INCOME TAX BENEFIT / (EXPENSE)			
Current taxation	6.2	–	(8,535)
Deferred taxation	6.2	2,142	(136)
Total income tax benefit / (expense)		2,142	(8,671)
Profit and total comprehensive income after income tax attributable to the shareholders of the Company	4.1	51,684	123,412
Basic and diluted earnings per share (cents)	4.2	11.25	27.42

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Cents per Share	No. of Shares	Ordinary Shares ($000s)	Retained Earnings ($000s)	Total Equity ($000s)
Balance as at 1 January 2016	–	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
Total comprehensive income	–	–	–	51,684	51,684
Issue of shares					
Rights issue	–	45,337,280	67,690	–	67,690
Dividends and reinvestment					
Q4 2016 final dividend - 8/3/2017	2.05	–	–	(9,275)	(9,275)
Q1 2017 interim dividend - 29/5/2017	1.75	–	–	(7,918)	(7,918)
Q2 2017 interim dividend - 1/9/2017	1.75	–	–	(7,918)	(7,918)
Q2 2017 dividend reinvestment	–	927,458	1,519	–	1,519
Q3 2017 interim dividend - 22/11/2017	1.80	–	–	(8,977)	(8,977)
Balance as at 31 December 2017	–	498,723,330	562,429	280,514	842,943

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

ALL VALUES IN $000'S	NOTE	2017	2016
CURRENT ASSETS			
Cash at bank		605	–
Accounts receivable, prepayments and other assets	6.3	1,295	9,029
Taxation receivable		32	–
Total current assets		1,932	9,029
NON-CURRENT ASSETS			
Investment properties	2.1	1,210,805	1,083,300
Property, plant and equipment		95	–
Derivative financial instruments	3.2	272	384
Goodwill	6.5	29,086	29,086
Total non-current assets		1,240,258	1,112,770
Total assets		1,242,190	1,121,799
CURRENT LIABILITIES			
Bank overdraft		–	113
Derivative financial instruments	3.2	372	242
Accounts payable, accruals and other liabilities	6.4	8,261	8,669
Taxation payable		–	2,579
Total current liabilities		8,633	11,603
NON-CURRENT LIABILITIES			
Borrowings	3.1	370,635	332,924
Derivative financial instruments	3.2	11,095	10,108
Deferred tax liabilities	6.2	8,884	11,026
Total non-current liabilities		390,614	354,058
Total liabilities		399,247	365,661
Net assets	4.3	842,943	756,138
EQUITY			
Share capital		562,429	493,220
Retained earnings		280,514	262,918
Total equity		842,943	756,138

These Group financial statements are signed on behalf of Property for Industry Limited and were authorised for issue on 12 February 2018.

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 2017

ALL VALUES IN $000'S	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Property income received	72,853	71,194
Material damage insurance income	504	–
Licence income	50	–
Net GST received	95	350
Interest received	28	22
Interest and other finance costs paid	(19,244)	(18,105)
Payments to suppliers and employees	(6,801)	(12,542)
Income tax paid	(2,611)	(8,120)
Termination of management agreement	(42,869)	–
Net cash flows from operating activities	2,005	32,799
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investment properties	21,765	9,927
Acquisition of investment properties	(84,283)	–
Acquisition of assets relating to a business combination	(106)	–
Acquisition of property, plant and equipment	(15)	
Expenditure on investment properties	(12,769)	(19,903)
Capitalisation of interest on development properties	–	(190)
Net cash flows from investing activities	(75,408)	(10,166)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayment of) / proceeds from syndicated bank facility	(61,000)	2,000
Proceeds from fixed rate bonds	100,000	–
Proceeds from the issue of new shares	67,690	–
Proceeds from institutional credit facility	61,400	–
Repayment of institutional credit facility	(61,400)	–
Dividends paid to shareholders	(32,569)	(25,288)
Net cash flows from financing activities	74,121	(23,288)
Net increase / (decrease) in cash and cash equivalents	718	(655)
Cash and cash equivalents at beginning of year	(113)	542
Cash and cash equivalents at end of year	605	(113)

Cash and cash equivalents at end of year comprises:

ALL VALUES IN $000'S	2017	2016
Cash at bank	605	–
Bank overdraft	–	(113)
Cash and cash equivalents at end of year	605	(113)

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 2017

ALL VALUES IN $000'S	2017	2016
Profit for the year after income tax	51,684	123,412
Non cash items:		
Fair value gain on investment properties	(43,595)	(88,214)
Gain on disposal of investment properties	(1,949)	(302)
Fair value loss / (gain) on derivative financial instruments	1,230	(433)
Deferred taxation	(2,142)	136
Depreciation	26	–
Provision for doubful debts	67	–
Movements in working capital items:		
Accounts receivable, prepayments and other assets	(1,250)	287
Accounts payable, accruals and other liabilities	545	(2,502)
Taxation receivable / payable	(2,611)	415
Net cash flows from operating activities	2,005	32,799

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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 listed on the NZX Main Board (NZX: 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 2017 and 31 December 2016, 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 replaces NZ IAS 39 Financial Instruments - Recognition and Measurement and addresses the recognition, measurement and classification of financial assets and financial liabilities. It is required to be adopted by the Group in the financial statements for the year ending 31 December 2018. PFI has assessed the impact of this standard on the Group and no significant changes are expected to the recognition, measurement, classification of financial assets and liabilities compared with the Group's existing accounting policies.
- NZ IFRS 15 'Revenue from Contracts with Customers'. This standard addresses the recognition of revenue from contracts with customers and is required to be adopted by the Group in the financial statements for the year ending 31 December 2018. 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. PFI has assessed the impact of this standard on the Group and no significant changes are expected to the recognition of revenue compared with existing accounting policies.
- 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 29
3.2.	Derivative financial instruments	Page 43
5.	Internalisation of Management	Page 45
6.2.	Taxation	Page 47
6.5.	Goodwill	Page 49

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, apart from the fixed rate bonds (refer Note 3.1 (iii) for further details).

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:

Internalisation

On 22 June 2017, the Company's shareholders approved the internalisation of management which was effective 30 June 2017. For further details, refer Note 5.

Investment property acquisitions and disposals

On 2 February 2017, the Group purchased an investment property located at 11 Turin Place, East Tamaki for a net purchase price of $14.3 million.

On 21 June 2017, the Group disposed of an investment property located at 65 Hugo Johnston Drive, Penrose for a net sales price of $14.0 million.

1. GENERAL INFORMATION (CONTINUED)

1.8. Significant events and transactions (continued)

On 31 October 2017, the Group purchased a portfolio of nine investment properties comprising:

Property	Net Purchase Price (million)
61 McLaughlins Road, Manukau	$20.9
39 Edmundson Street, Napier	$2.7
330 Devon Street East, New Plymouth	$1.4
2 Smart Road, New Plymouth	$4.1
20 Constance Street, New Plymouth	$3.3
28 Paraite Road, New Plymouth	$14.9
11 Sheffield Street, Blenheim	$6.1
15 Artillery Place, Nelson	$7.0
41 & 55 Foremans Road, Christchurch	$9.6
	$70.0

For further details, refer Note 2.

Capital Raising
On 7 November 2017, the Company completed a 1 for 10 rights issue, raising a total of $67.7 million (net of issue costs) through the issue of 45 million shares at $1.54 per share.

Bond Issue
On 28 November 2017, PFI issued $100 million of fixed rate bonds with a 7 year term expiring 28 November 2024, paying an interest rate of 4.59%. For further details, refer Note 3.1 (iii).

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	2017	2016
Opening balance	1,083,300	986,565
Capital movements:		
Additions	84,283	–
Disposals	(12,188)	(7,993)
Capital expenditure	10,422	17,058
Capitalised interest[a]	–	190
Movement in lease incentives, fees and fixed rental income	1,393	(734)
	83,910	8,521
Unrealised fair value gain	43,595	88,214
As at 31 December	1,210,805	1,083,300

[a] No interest was capitalised to investment properties in 2017. The effective interest rate applied to capitalised interest in 2016 was 5.17%.

2. PROPERTY (CONTINUED)

2.1. Investment properties (continued)

ALL VALUES IN $000'S UNLESS NOTED	Key tenant	Occupancy (%)	
	2017	2017	2016
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	98%	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%
11 Turin Place	Thermakraft Industries	100%	n/a
12 Zelanian Drive	Central Joinery	100%	100%
23 Zelanian Drive	Exclusive Tyre Distributors	100%	100%
		100%	100%
Manukau:			
212 Cavendish Drive[a]	Mainfreight	100%	100%
232 Cavendish Drive[a]	TIL Logistics	100%	100%
47 Dalgety Drive	Peter Hay Kitchens	100%	100%
59 Dalgety Drive	Goodman Fielder	100%	100%
1 Mayo Road	Transdiesel	100%	100%
61 McLaughlins Road	TIL Logistics	100%	n/a
9 Nesdale Avenue	Iron Mountain	100%	100%
9 Narek Place	Z Energy	100%	100%
		100%	100%

[a] Excludes development land shown separately.

Yield on valuation (%)		Contract rent		Lettable area (sqm)	Valuer	Carrying value	Capital movements	Fair value adjustment	Carrying value
2017	2016	2017	2016	2017	2017	2016	2017	2017	2017
5.9%	6.2%	751	732	6,878	CBRE	11,820	56	784	12,660
6.7%	6.6%	1,614	1,568	9,378	CBRE	23,600	(27)	427	24,000
7.0%	7.4%	1,174	1,120	9,767	Savills	15,200	486	1,064	16,750
6.0%	6.3%	679	679	6,625	JLL	10,700	(33)	733	11,400
7.0%	6.8%	2,447	2,276	21,563	Savills	33,400	899	701	35,000
6.7%	6.7%	6,665	6,375	54,211		94,720	1,381	3,709	99,810
6.7%	6.5%	1,034	1,000	9,926	Colliers	15,300	605	(405)	15,500
6.1%	6.2%	721	703	6,068	Savills	11,250	120	380	11,750
7.7%	7.5%	644	644	6,590	CBRE	8,600	81	(306)	8,375
8.6%	8.3%	1,309	1,265	10,687	CBRE	15,250	(69)	69	15,250
6.3%	6.4%	1,160	1,160	12,546	JLL	18,000	21	379	18,400
5.3%	5.3%	403	403	4,032	Colliers	7,550	(23)	73	7,600
6.9%	7.1%	5,748	5,580	41,387	JLL	78,500	478	3,822	82,800
7.0%	7.1%	824	824	8,711	Colliers	11,650	–	50	11,700
6.0%	n/a	925	n/a	8,523	Savills	–	14,365	1,135	15,500
5.5%	5.7%	564	564	6,098	CBRE	9,850	8	417	10,275
6.2%	5.9%	416	385	3,811	Savills	6,500	(5)	255	6,750
6.7%	6.9%	13,748	12,528	118,379		182,450	15,581	5,869	203,900
6.1%	6.7%	1,368	1,288	18,596	Colliers	19,100	980	2,320	22,400
6.7%	6.8%	1,354	1,354	16,832	JLL	19,800	22	378	20,200
7.3%	7.5%	979	979	8,860	Savills	13,050	21	429	13,500
8.1%	7.8%	1,345	1,300	8,649	Savills	16,700	86	(86)	16,700
6.5%	6.5%	542	515	6,361	Savills	7,950	(18)	418	8,350
5.3%	n/a	1,150	n/a	13,347	Colliers	–	20,894	906	21,800
6.1%	6.2%	622	610	14,182	JLL	9,800	31	369	10,200
5.3%	5.3%	530	518	5,663	Savills	9,850	(5)	155	10,000
6.4%	6.8%	7,890	6,564	92,490		96,250	22,011	4,889	123,150

2. PROPERTY (CONTINUED)

2.1. Investment properties (continued)

ALL VALUES IN $000'S UNLESS NOTED	Key tenant	Occupancy (%)	
	2017	2017	2016
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%	100%
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%	100%
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	N & Z	100%	100%
15a Vestey Drive	Hills	100%	100%
36 Vestey Drive	Hose Supplies	100%	100%
		100%	100%

Yield on valuation (%)		Contract rent		Lettable area (sqm)	Valuer	Carrying value	Capital movements	Fair value adjustment	Carrying value
2017	2016	2017	2016	2017	2017	2016	2017	2017	2017
6.6%	6.8%	1,672	1,457	17,047	CBRE	21,390	(26)	3,986	25,350
5.3%	5.2%	202	190	2,592	Colliers	3,680	2	118	3,800
6.5%	6.6%	1,723	1,710	16,872	CBRE	25,800	401	199	26,400
5.5%	5.9%	433	433	5,080	Colliers	7,400	(70)	520	7,850
5.6%	5.8%	588	581	5,336	Colliers	10,100	63	337	10,500
5.6%	5.2%	840	780	14,555	Colliers	15,000	34	66	15,100
5.5%	5.8%	805	805	7,946	JLL	14,000	110	640	14,750
6.2%	6.2%	985	979	8,745	Savills	15,750	73	177	16,000
5.8%	6.0%	443	443	3,247	Colliers	7,400	(43)	243	7,600
5.4%	5.2%	259	259	1,708	CBRE	5,000	4	(204)	4,800
5.5%	5.7%	220	220	1,677	Savills	3,850	–	150	4,000
5.7%	5.5%	230	218	1,742	CBRE	3,960	–	100	4,060
6.2%	7.4%	813	914	6,874	CBRE	12,400	61	739	13,200
5.9%	6.0%	1,038	1,038	9,373	CBRE	17,275	30	345	17,650
6.8%	7.2%	2,108	2,069	23,565	Savills	28,900	959	1,141	31,000
6.1%	6.4%	258	258	1,725	CBRE	4,050	(5)	155	4,200
10.7%	10.6%	944	916	2,757	CBRE	8,675	11	164	8,850
5.6%	5.7%	223	220	1,269	Savills	3,850	(3)	153	4,000
5.3%	5.8%	516	481	4,598	Colliers	8,350	183	1,117	9,650
5.5%	5.3%	212	193	1,600	Savills	3,650	(34)	234	3,850
5.5%	8.1%	431	537	3,470	Savills	6,650	1,263	(113)	7,800
6.2%	6.8%	553	544	3,261	Savills	8,000	86	814	8,900
5.3%	5.9%	159	150	1,120	Colliers	2,550	178	272	3,000
6.2%	6.5%	15,655	15,395	146,159		237,680	3,277	11,353	252,310

2. PROPERTY (CONTINUED)

2.1. Investment properties (continued)

ALL VALUES IN $000'S UNLESS NOTED	Key tenant	Occupancy (%)	
	2017	2017	2016
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	Ryco Hydraulics	100%	100%
6 Autumn Place	MOTAT	100%	100%
10 Autumn Place	MOTAT	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	Newflor Industries	100%	100%
65 Hugo Johnston Drive	Sistema Plastics	n/a	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%

Yield on valuation (%)		Contract rent		Lettable area (sqm)	Valuer	Carrying value	Capital movements	Fair value adjustment	Carrying value
2017	2016	2017	2016	2017	2017	2016	2017	2017	2017
5.2%	5.2%	419	409	3,560	Colliers	7,800	55	245	8,100
5.5%	5.9%	225	220	1,245	CBRE	3,725	7	378	4,110
5.1%	5.1%	376	368	2,680	Colliers	7,200	(46)	246	7,400
6.9%	7.3%	1,857	1,794	6,719	JLL	24,700	(7)	2,307	27,000
6.6%	6.5%	567	551	3,498	Colliers	8,500	(16)	116	8,600
6.2%	6.5%	1,078	990	7,936	Savills	15,200	52	2,248	17,500
5.7%	5.7%	419	411	3,025	JLL	7,200	60	140	7,400
6.2%	6.4%	4,941	4,743	28,663		74,325	105	5,680	80,110
5.5%	6.4%	148	148	1,210	JLL	2,300	160	250	2,710
6.1%	6.3%	171	166	1,718	JLL	2,650	131	9	2,790
5.7%	6.8%	653	613	7,646	JLL	9,000	906	1,594	11,500
5.9%	6.1%	496	496	7,431	Savills	8,100	(14)	314	8,400
6.0%	6.3%	658	651	4,359	JLL	10,400	21	479	10,900
5.9%	6.1%	337	329	2,639	JLL	5,400	(6)	366	5,760
5.8%	6.6%	373	362	2,619	Colliers	5,450	32	918	6,400
n/a	7.4%	n/a	896	n/a	n/a	12,100	(12,100)	–	–
6.0%	6.3%	457	457	3,872	JLL	7,300	272	28	7,600
6.4%	6.3%	513	500	7,588	JLL	8,000	141	(141)	8,000
6.6%	6.6%	720	703	13,438	Colliers	10,700	(24)	274	10,950
5.6%	5.6%	344	308	3,862	CBRE	5,490	231	429	6,150
5.7%	6.0%	551	524	5,818	CBRE	8,740	313	607	9,660
5.5%	5.9%	490	490	5,477	CBRE	8,350	298	202	8,850
5.9%	6.4%	5,911	6,643	67,677		103,980	(9,639)	5,329	99,670

2. PROPERTY (CONTINUED)

2.1. Investment properties (continued)

ALL VALUES IN $000'S UNLESS NOTED	Key tenant	Occupancy (%)	
	2017	2017	2016
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%
North Island (outside Auckland):			
124 Hewletts Road, Mt Maunganui	RMD Bulk Storage	100%	100%
124a Hewletts Road, Mt Maunganui	Ballance Agri-Nutrients	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%
39 Edmundson Street, Napier	TIL Logistics	100%	n/a
20 Constance Street, New Plymouth	Aviagen	100%	n/a
330 Devon Street East, New Plymouth	TIL Logistics	100%	n/a
28 Paraite Road, New Plymouth	TIL Logistics	100%	n/a
2 Smart Road, New Plymouth	New Zealand Post	100%	n/a
Shed 22, 23 Cable Street, Wellington	Shed 22 Hospo	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%

[a] Excludes development land shown separately.

Yield on valuation (%)		Contract rent		Lettable area (sqm)	Valuer	Carrying value	Capital movements	Fair value adjustment	Carrying value
2017	2016	2017	2016	2017	2017	2016	2017	2017	2017
6.0%	6.5%	1,174	1,180	10,549	JLL	18,250	316	1,034	19,600
7.2%	7.2%	2,545	2,523	2,369	JLL	35,000	13	487	35,500
7.2%	7.1%	4,484	4,367	11,149	JLL	61,800	107	193	62,100
5.3%	5.8%	994	994	37,601	CBRE	17,110	211	1,399	18,720
6.8%	6.9%	9,197	9,064	61,668		132,160	647	3,113	135,920
6.3%	6.8%	2,814	2,730	29,270	JLL	44,100	30	870	45,000
7.6%	7.4%	1,013	973	10,497	JLL	13,200	(54)	234	13,380
6.1%	6.1%	875	857	8,867	JLL	14,100	–	250	14,350
7.1%	7.2%	120	120	1,211	JLL	1,675	1	4	1,680
6.8%	7.0%	461	461	4,606	Savills	6,600	16	134	6,750
7.9%	n/a	220	n/a	8,540	Colliers	–	2,710	90	2,800
11.4%	n/a	388	n/a	1,366	Colliers	–	3,273	127	3,400
7.5%	n/a	112	n/a	482	Colliers	–	1,456	44	1,500
7.7%	n/a	1,195	n/a	15,636	Colliers	–	14,976	624	15,600
7.4%	n/a	320	n/a	2,359	Colliers	–	4,143	157	4,300
6.2%	6.9%	831	792	2,809	Colliers	11,500	540	1,260	13,300
7.1%	7.1%	1,200	1,169	11,372	Colliers	16,350	68	382	16,800
11.2%	9.1%	848	848	6,405	Colliers	9,310	89	(1,799)	7,600
9.9%	9.5%	335	335	7,104	Colliers	3,530	(3)	(127)	3,400
9.4%	9.2%	573	564	8,996	Colliers	6,100	(15)	(5)	6,080
7.2%	7.0%	11,305	8,849	119,520		126,465	27,230	2,245	155,940

2. PROPERTY (CONTINUED)

2.1. Investment properties (continued)

ALL VALUES IN $000'S UNLESS NOTED	Key tenant	Occupancy (%)	
	2017	2017	2016
South Island:			
11 Sheffield Street, Blenheim	TIL Logistics	100%	n/a
15 Artillery Place, Nelson	TIL Logistics	100%	n/a
8a & 8b Canada Crescent, Christchurch	Polarcold Stores	100%	100%
41 & 55 Foremans Road, Christchurch	TIL Logistics	100%	n/a
44 Mandeville Street, Christchurch	Fletcher Building Products	100%	77%
127 Waterloo Road, Christchurch	DHL Supply Chain	100%	100%
		100%	90%
Investment properties - subtotal		100%	100%
Development land:			
212 Cavendish Drive, Manukau			
232 Cavendish Drive, Manukau			
50 Parkside Road, Wellington			
48 Seaview Road, Wellington			
Development land - subtotal			
Investment properties - total			

Yield on valuation (%)		Contract rent		Lettable area (sqm)	Valuer	Carrying value	Capital movements	Fair value adjustment	Carrying value
2017	2016	2017	2016	2017	2017	2016	2017	2017	2017
7.8%	n/a	490	n/a	10,757	Colliers	–	6,068	232	6,300
7.4%	n/a	540	n/a	18,052	Colliers	–	7,014	286	7,300
7.6%	7.7%	1,129	1,129	9,500	CBRE	14,750	–	25	14,775
6.7%	n/a	670	n/a	14,710	Colliers	–	9,605	395	10,000
8.4%	7.0%	1,118	915	11,150	JLL	13,100	270	(130)	13,240
7.0%	7.7%	314	297	3,519	Colliers	3,870	91	529	4,490
7.6%	7.4%	4,261	2,341	67,688		31,720	23,048	1,337	56,105
6.6%	6.7%	79,573	72,502	756,455		1,079,750	83,641	43,524	1,206,915
					Colliers	1,900	269	31	2,200
					JLL	600	–	150	750
					Colliers	550	–	(230)	320
					Colliers	500	–	120	620
						3,550	269	71	3,890
						1,083,300	83,910	43,595	1,210,805

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 2017 and 2016 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 Group's management 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	
	2017	2016	Increase in input	Decrease in input
Market capitalisation rate (%)[1]	5.13 - 10.50	5.13 - 8.75	Decrease	Increase
Market rental ($ per sqm)[2]	26 - 420	28 - 368	Increase	Decrease
Discount rate (%)[3]	6.75 - 12.00	6.75 - 10.00	Decrease	Increase
Rental growth rate (%)[4]	1.61 - 2.93	1.61 - 2.80	Increase	Decrease
Terminal capitalisation rate (%)[5]	5.25 - 12.00	5.25 - 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, tenant 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	2017	2016
Gross rental receipts	72,698	70,817
Fixed rental income adjustments	603	102
Capitalised lease incentive adjustments	(312)	(196)
Management fee income	461	363
Total rental and management fee income	73,450	71,086

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 Consolidated 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	2017	2016
Within one year	76,061	69,017
After one year but not more than five years	218,152	193,373
More than five years	129,840	86,557
Total	424,053	348,947

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	2017	2016
Service charge expenses	(8,502)	(7,762)
Service charge income recovered from tenants	8,502	7,762
Bad and doubtful debts recovery	79	175
Other non-recoverable property costs	(2,436)	(1,821)
Total non-recoverable property costs	(2,357)	(1,646)

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	2017	2016
Syndicated bank facility drawn down - non-current	272,700	333,700
Fixed rate bonds - non-current	100,000	–
Unamortised borrowings establishment costs	(2,065)	(776)
Net borrowings	370,635	332,924
Weighted average interest rate for drawn debt (inclusive of current interest rate swaps, margins and line fees)	4.96%	5.24%
Weighted average term to maturity (years)	3.70	3.84

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) Syndicated bank 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	2017	2016
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
Syndicated bank facility drawn down - non-current	272,700	333,700
Undrawn facility available	102,300	41,300
Total facilities available	375,000	375,000

On 31 March 2017, the Group entered into a $40 million 16 month institutional credit facility provided by ANZ. The facility was cancelled on 29 November 2017 and never drawn.

On 3 October 2017, the Group entered into a $70 million 16 month institutional credit facility provided by ANZ. The facility was repaid and cancelled on 7 November 2017.

(iii) Fixed rate bonds
On 28 November 2017, the Group issued $100 million of fixed rate bonds, bearing a fixed interest rate of 4.59% per annum. The bonds are quoted on the NZX Debt Market and mature on 28 November 2024. Interest is payable quarterly in February, May, August and November in equal instalments.

As at 31 December 2017, the fair value of the fixed-rate bonds is $102,333,000 based on their listed market prices at balance date. The fair value is classified as Level 1 in the fair value hierarchy

(iv) Security
The syndicated bank facility and fixed rate bonds are 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 $950,000,000 (31 December 2016: $750,000,000). In addition to this, the syndicated bank facility agreement and the fixed rate bond terms also contain a negative pledge. The Company and PFI No. 1 are guarantors to the facility and fixed rate bonds. As at 31 December 2017, investment properties totalling $1,175,705,000 (31 December 2016: $1,059,875,000) 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	2017	2016
Non-current assets	272	384
Current liabilities	(372)	(242)
Non-current liabilities	(11,095)	(10,108)
Total	(11,195)	(9,966)

(ii) Notional values, maturities and interest rates

	2017	2016
Notional value of interest rate swaps - fixed rate payer - start dates commenced ($000'S)	220,000	243,000
Notional value of interest rate swaps - fixed rate receiver[2] - start dates commenced ($000'S)	100,000	–
Notional value of interest rate swaps - fixed rate payer - forward starting ($000'S)	155,000	70,000
Total ($000'S)	475,000	313,000
Percentage of borrowings fixed (%)	59%	73%
Fixed rate payer swaps:		
Average period to expiry - start dates commenced (years)	2.62	3.00
Average period to expiry - forward starting (years from commencement)	3.65	2.86
Average (years)	3.04	2.97
Fixed rate payer swaps:		
Average interest rate[1] - start dates commenced (%)	4.37%	4.53%
Average interest rate[1] - forward starting (% during effective period)	3.55%	3.54%
Average (%)	4.03%	4.31%

1 Excluding margin and fees.

2 The Group has $100 million fixed rate receiver swaps for the duration of the $100 million fixed interest bond, the effect of the fixed rate receiver swaps is to convert the $100 million bond to floating interest rates.

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 (2016: 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 2017 of between 1.88% (31 December 2016: 2.00%) for the 90 day BKBM and 3.14% (31 December 2016: 3.49%) 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. Prior to the internalisation of management (for further details refer to Note 5) this could have 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, termination of management agreement cost and associated tax benefit and other one off items.

Subsequent to year-end, the Board has resolved to change its dividend policy. The new policy of the Group is to distribute between 80% to 90% of Funds From Operations (FFO) and 95% to 100% of Adjusted Funds From Operations (AFFO). FFO and AFFO are non-GAAP financial information and are common investor metrics. They are calculated in accordance with the guidelines issued by the Property Council of Australia. To provide sufficient flexibility for dividends to be maintained or normalised despite variations in FFO and AFFO, the payout ratios may be decreased or increased from time to time. In fixing a dividend for any period, consideration will be given to, amongst other things, the Group's current and forecast financial performance and position, general business and financial conditions, and the solvency requirements of the Companies Act. Dividends are paid quarterly, the payment of dividends is not guaranteed by the Group, and the Group's dividend policy may change from time to time.

ALL VALUES IN $000'S UNLESS NOTED	2017	2016
Total comprehensive income for the year attributable to the shareholders of the Company	51,684	123,412
Adjusted for:		
Fair value gains on investment properties	(43,595)	(88,214)
Material damage insurance income	(504)	–
Gain on disposal of investment properties	(1,949)	(302)
Tax on depreciation claw-back on disposals of investment properties	34	132
Fair value loss / (gain) on derivative financial instruments	1,230	(433)
Deferred taxation	(2,142)	136
Movement in fixed rent reviews	(490)	(607)
Termination of management agreement	42,869	–
Current taxation without deductibility of termination of management agreement	(10,010)	–
Other[1]	(12)	(12)
Distributable profit	37,115	34,112
Weighted average number of ordinary shares (shares)	459,600,237	450,078,636
Distributable profit per share (cents)	8.08	7.58
Dividends paid relating to the year reported[2]	35,536	33,141
Pay-out ratio (%)	96%	97%

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 2017 totalling $24,813,000 as per the Consolidated Statement of Changes in Equity, plus the fourth quarter dividend for 2017 due to be paid on 7 March 2018 of $10,723,000.

4. INVESTOR RETURNS AND INVESTMENT METRICS (CONTINUED)

4.2. Earnings per share

	2017	2016
Total comprehensive income for the year attributable to the shareholders of the Company ($000)	51,684	123,412
Weighted average number of ordinary shares (shares)	459,600,237	450,078,636
Basic and diluted earnings per share (cents)	11.25	27.42

4.3. Net tangible assets per share

	2017	2016
Net assets ($000)	842,943	756,138
Less: Goodwill ($000) (note 6.5)	(29,086)	(29,086)
Net tangible assets ($000)	813,857	727,052
Closing shares on issue (shares)	498,723,330	452,458,592
Net tangible assets per share (cents)	163	161

5. INTERNALISATION OF MANAGEMENT

On 22 June 2017, the Company's shareholders approved the internalisation of the management of the Company. As a result, effective from 30 June 2017, the Company terminated the management and administrative services contract that was undertaken by PFIM Limited ("PFIM"). PFIM had subcontracted the property and administrative function to McDougall Reidy & Co Limited ("MRCO"), this management and administrative services contract was also terminated.

The Company paid $41.9 million to PFIM for the termination of the management and administrative services contract. In addition the Company acquired certain assets of PFIM and MRCO (comprising $0.1 million, for which a payment of $0.1 million was paid by the Company). Accordingly, the net consideration for the termination of the management and administrative services contract and the purchase of certain assets was $42.0 million. The previous employees of MRCO are now directly employed by the Company with the exception of three senior executives who have entered into independent service contracts with the Company.

Judgement was involved in determining whether these transactions met the definition of a business combination in accordance with NZ IFRS 3 Business Combinations. It has been determined that this transaction was a business combination. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. In making this assessment, the key consideration was whether processes were being acquired. The inputs included the fixed assets and the employees of PFIM and MRCO. The conclusion is that processes were being acquired in the form of the knowledge, skills and experience of the workforce in carrying out the property management processes.

The cancellation of the management arrangements terminates the pre-existing relationships between the Company and PFIM. $41.9 million of the consideration transferred has been attributed to the extinguishment of the pre-existing relationships and has been included in the Consolidated Statement of Comprehensive Income. These arrangements did not contain any substantive settlement provisions that were reasonably available to the Company. It was also determined that there were no favourable or unfavourable terms in the arrangements when compared with terms for current market transactions for similar arrangements. Accordingly, no settlement gain or loss arose from the settlement of the pre-existing relationships. Costs of $1.0 million relating to the internalisation are also recognised in the Consolidated Statement of Comprehensive Income for the period.

Assets acquired
The assets acquired at the date of the acquisition were as follows:

ALL VALUES IN $000'S UNLESS NOTED	2017
Property, plant & equipment	106
Total assets acquired	106

No goodwill arose as a result of this transaction.

6. 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.

6.1. Administrative expenses

ALL VALUES IN $000'S	2017	2016
Auditors remuneration:		
Audit of annual financial statements	(113)	(97)
Review of interim financial statements	(28)	(28)
Review of management fee calculations	(2)	(4)
Voting procedures over the annual shareholders' meeting	(3)	(3)
Benchmarking of director remuneration	–	(9)
Employee and independent contractor benefits expense	(1,310)	–
Directors' fees	(360)	(336)
Office expenses	(253)	–
Rent	(55)	–
Depreciation	(26)	–
Other expenses	(741)	(753)
Total administrative expenses	(2,891)	(1,230)

6. OTHER (CONTINUED)

6.2. Taxation

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

ALL VALUES IN $000'S	2017	2016
Profit before income tax	49,542	132,083
Prima facie income tax calculated at 28%	(13,872)	(36,983)
Adjusted for:		
Non-tax deductible revenue and expenses	115	(14)
Fair value gain on investment properties	12,207	24,700
Gain on disposal of investment properties	546	85
Depreciation	2,391	2,505
Disposal of depreciable assets	(34)	(122)
Deductible capital expenditure	740	910
Lease incentives, fees and fixed rental income	213	(51)
Derivative financial instruments	(333)	133
Impairment allowance	22	298
Current tax prior period adjustment	–	4
Current year tax losses carried forward	(1,995)	–
Current taxation expense	–	(8,535)
Current year tax losses carried forward	1,995	–
Depreciation	49	244
Lease incentives, fees and fixed rental income	(213)	51
Derivative financial instruments	333	(133)
Impairment allowance	(22)	(298)
Deferred taxation benefit	2,142	(136)
Total taxation reported in Consolidated Statement of Comprehensive Income	2,142	(8,671)

Prior to the internalisation of management on 30 June 2017, the Group received a binding tax ruling from Inland Revenue on 22 May 2017 which confirmed that the payment for the termination of the management agreement is deductible for tax purposes. This has resulted in a current year tax losses to be carried forward. The Group expects to utilise these tax losses during 2018.

(ii) Deferred tax

ALL VALUES IN $000'S	2015 As at	2016 Recognised in profit	2016 As at	2017 Recognised in profit	2017 As at
Deferred tax assets					
Losses carried forward	–	–	–	(1,995)	(1,995)
Derivative financial instruments	(2,942)	133	(2,809)	(333)	(3,142)
Impairment allowance	(362)	298	(64)	22	(42)
Gross deferred tax assets	(3,304)	431	(2,873)	(2,306)	(5,179)
Deferred tax liabilities					
Investment properties	14,194	(295)	13,899	164	14,063
Gross deferred tax liabilities	14,194	(295)	13,899	164	14,063
Net deferred tax liability	10,890	136	11,026	(2,142)	8,884

6. OTHER (CONTINUED)

6.2. 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	2017	2016
Opening balance	2,257	1,507
Taxation paid / payable	6	8,435
Imputation credits attached to dividends paid	(2,225)	(7,685)
Closing balance available to shareholders for use in subsequent periods	38	2,257

Due to the current year tax loss, the Group has not generated imputation credits during the current financial year through the payment of taxation.

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.

6. OTHER (CONTINUED)

6.3. Accounts receivable, prepayments and other assets

ALL VALUES IN $000'S	2017	2016
Accounts receivable	1,163	1,082
Property sale proceeds to be settled	–	7,628
Provision for doubtful debts	(67)	–
Prepayments and other assets	199	319
Total accounts receivable, prepayments and other assets	1,295	9,029

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.

6.4. Accounts payable, accruals and other liabilities

ALL VALUES IN $000'S	2017	2016
Accounts payable	2,038	715
Accrued interest expense and bank fees	2,230	2,417
Accruals and other liabilities in respect of investment properties	1,381	2,335
Accruals and other liabilities	2,612	3,202
Total accounts payable, accruals and other liabilities	8,261	8,669

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.

6.5. Goodwill

ALL VALUES IN $000'S	2017	2016
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 (2016: 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 (15.9%, as determined by a third party) and deducting costs of disposal.

As at 31 December 2017 the estimated fair value less costs of disposal of the Property for Industry Limited CGU exceeded the carrying value (2016: nil impairment).

6. OTHER (CONTINUED)

6.6. 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	2017	2016
Financial Assets		
Loans and receivables:		
Cash at bank	605	–
Accounts receivable and other assets	1,096	8,710
Total - Loans and receivables	1,701	8,710
Fair value through profit or loss - held for trading:		
Derivative financial instruments	272	384
Total - Fair value through profit or loss	272	384
Total Financial Assets	1,973	9,094
Financial Liabilities		
Liabilities at amortised cost:		
Bank overdraft	–	113
Accounts payable, accruals and other liabilities	8,261	8,669
Borrowings	370,635	332,924
Total - Liabilities at amortised cost	378,896	341,706
Fair value through profit or loss - held for trading:		
Derivative financial instruments	11,467	10,350
Total - Fair value through profit or loss	11,467	10,350
Total Financial Liabilities	390,363	352,056

6.7. 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 fixed rate payer 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.

	2017		2016	
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	692	(692)	2,630	(2,630)
Impact on equity	498	(498)	1,894	(1,894)

6. OTHER (CONTINUED)

6.7. 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 6.6 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 3.7 years (2016: 3.8 years), with all borrowings due later than one year (2016: 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 2017 and 31 December 2016.

		Contractual cash flows				
ALL VALUES IN $000'S	Carrying amount	0 - 1 year	1 - 2 years	2 - 5 years	> 5 years	Total
Financial liabilities						
Accounts payable, accruals and other liabilities	8,261	8,261	–	–	–	8,261
Derivative financial instruments[1]	11,195	4,265	3,124	4,424	1,117	12,930
Borrowings	370,635	12,639	12,639	289,800	106,887	421,965
Total as at 31 December 2017	390,091	25,165	15,763	294,224	108,004	443,156
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

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.

6. OTHER (CONTINUED)

6.8. Related party transactions

The Company internalised its management on 30 June 2017 and paid $41.9 million to PFIM. For further details refer to Note 5.

Gregory Reidy was a Director of both PFIM and the Company, accordingly this transaction and the management fees detailed below were related party transactions.

As at 31 December 2016, $458,000 in relation to management fees was owing to PFIM and included in accounts payable, accruals and other liabilities.

(i) Management fees

From 30 June 2017 no further base management fees or performance fees are payable. Instead the costs of managing the Company are incurred directly.

Prior to the internalisation, PFIM was 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.

(a) Base management fees

The base management fee was payable monthly and was 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 $2,919,000 (2016: $5,482,000) from PFIM, for the provision of management and administrative services.

(b) Performance fees

The performance fee was calculated and payable on a quarterly basis. The performance fee was 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 exceeded 3.75% in a quarter, no payment was due for the actual amount of the increase above 3.75% but the amount of the increase above 3.75% was carried forward and added to the calculation of shareholder returns in the next seven quarters. However, if shareholder returns were less than 2.5% in a quarter, the deficit was carried forward and subtracted from the calculation of shareholder returns in the next seven quarters.

During the year, the Group incurred no performance fees from PFIM (2016: $1,777,000).

(ii) Key management personnel

ALL VALUES IN $000'S	2017	2016
Directors' fees	360	336
Short-term independent contractors benefits	805	–
Key management personnel	1,165	336

Please note that, as PFI internalised on 30 June 2017, the amounts above represent a half-year of remuneration for the independent contractors.

(iii) Other related party transactions

During the year ended 31 December 2016, the Group incurred $12,816,440 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.

On 30 June 2017, the Group entered into a lease agreement with McDougall Reidy & Co Limited (MRCO) to lease the head office for the Group. Gregory Reidy, a senior executive who became an independent contractor with the Company on 30 June 2017 is also a Director of MRCO. During the year, rental income of $39,000 was paid to MRCO and is included within other expenses. The head office was sold to a unrelated party on 6 November 2017.

On 30 June 2017, the Group entered into a licence agreement with MRCO enabling MRCO to operate its business from the Group's premises, access the Group's IT and support systems and employees for its business. During the year, licence income of $50,000 was received from MRCO.

On 1 July 2017, Susan Peterson became a Director of ASB Bank Limited (ASB), a 100% subsidiary of CBA. During the year, the Group incurred $2,120,000 of interest expense and bank fees and received $48,000 of interest income from CBA during the period that Susan Peterson was a Director of both ASB and the Company. As at 31 December 2017: $499,000 was owing to CBA and included in accounts payable, accruals and other liabilities and $48,000 was owing from CBA and included in accounts receivable.

No related party debts have been written off or forgiven during the year (2016: nil).

During the year, fees paid to Directors of the Group were $360,000 (2016: $336,000).

As at 31 December 2017, Directors of the Company held 5,809,115 (31 December 2016: 8,007,684) shares beneficially in the Company and 408,741 (31 December 2016: 371,583) shares non-beneficially in the Company.

6. OTHER (CONTINUED)

6.9. 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.

6.10. Capital commitments

As at 31 December 2017, the Group had capital commitments totalling $7,666,000 (31 December 2016: $3,638,000) relating to work on investment properties.

6.11. Subsequent events

On 12 February 2018, the Directors of the Company approved the payment of a net dividend of $10,723,000 (2.1500 cents per share) to be paid on 7 March 2018. The gross dividend (2.1500 cents per share) carries no imputation credits. 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 2017 in respect of this dividend.

On 12 February 2018, David Thomson was appointed to the Board of Directors of the Company and PFI No. 1 as an Independent Director.

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 2017;
- 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;
- the reconciliation of profit after income tax to net cash flows from operating activities; 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 2017, 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 comprising the review of management fee calculations and voting procedures over the annual shareholders' meeting. 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 consolidated financial statements are free from material misstatement.

Overall group materiality: $2.5 million.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above $0.25 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

We have three key audit matters:

- Valuation of Investment Properties;
- Goodwill impairment assessment; and
- Internalisation of management.

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	$2.5 million.
How we determined it	Approximately 5% of profit before tax excluding valuation movements relating to investment properties, interest rate derivatives and the termination of management agreement expense.
Rationale for the materiality benchmark applied	We applied this benchmark because, in our view, it is more reflective of 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 judgement, were of most significance in our audit of the consolidated financial statements of the current year. We have three key audit matters: valuation of investment properties; goodwill impairment assessment; and internalisation of management. 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 As disclosed in note 2.1 of the consolidated financial statements, the Group's Investment Properties at $1,211 million represent the majority of the assets held by the Group as at 31 December 2017. The valuation of the Group's property portfolio is inherently subjective due to, amongst other factors, the individual nature of each property, location and the expected future rental income for each respective 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 markets 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 information such as the current tenancy agreements and rental income earned by the asset. They then	**External valuations** We read the valuation reports for all properties and discussed the 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 2017. 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. We carried out procedures, on a sample basis to test whether property-specific information supplied to the Valuers by the Group reflected the underlying property records held by the Group. For the items tested, the information was consistent. **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.

Key audit matter	How our audit addressed the key audit matter
apply assumptions in relation to capitalisation rates and 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 subjectivity involved in determining the appropriate valuations for individual properties with the existence of alternative assumptions and valuation methods, we determined a range of values that were considered reasonable for an individual property to evaluate the independent property valuations used by management. If we find an error in a property valuation or determine that the valuation is outside the reasonable range, we would evaluate the error or difference against overall materiality to determine if there is a material misstatement in the consolidated financial statements. The valuations adopted by the Group were all within an acceptable range. We also considered whether or not there was bias in determining individual valuations and found no evidence of bias.
Goodwill impairment assessment As disclosed in note 6.5 of the consolidated financial statements, the goodwill balance of $29 million was recognised when the Company merged with Direct Property Fund Limited 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 2017. 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. The control premium will need to fall by more than 80% before there is an impairment issue.
Internalisation of management As disclosed in note 5 of the consolidated financial statements, the Company paid $41.9 million to PFIM Limited to terminate the management and administrative services contract with the Company. Management have accounted for this transaction as a business combination in accordance with accounting standards. This transaction is considered to be a significant transaction.	We have evaluated management's accounting treatment for the internalisation and performed the following procedures: • Considered the requirements under accounting standards to that adopted by management in respect of the internalisation of management; • Assessed the accounting treatment and the related disclosures in the consolidated financial statements of the internalisation of management through examining the internalisation agreement supporting the underlying transaction; and • In respect of the payment to cancel the management arrangement, this has been attributed to the extinguishment of the pre-existing relationship and has been expensed in the consolidated statement of comprehensive income. The accounting for the internalisation transaction has been appropriately reflected in the consolidated financial statements.

Information other than the consolidated 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 consolidated 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 consolidated financial statements is located at the External Reporting Board's website at:
https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

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 Samuel Shuttleworth.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
12 February 2018

Auckland

FIVE-YEAR PERFORMANCE SUMMARY

YEAR ENDED 31 DECEMBER	2017	2016	2015	2014	2013
ALL VALUES IN $M UNLESS OTHERWISE NOTED					
FINANCIAL PERFORMANCE					
Operating revenue	73.5	71.1	66.9	63.8	48.1
Operating expenses	(25.9)	(28.0)	(30.3)	(26.9)	(21.2)
Total operating earnings	47.6	43.1	36.6	36.9	26.9
Non-operating income and expenses	2.0	88.9	43.0	29.0	20.5
Profit before taxation	49.6	132.1	79.6	65.9	47.4
Total taxation benefit / (expense)	2.1	(8.7)	(6.8)	(6.0)	(6.9)
Total comprehensive income after tax	51.7	123.4	72.8	59.9	40.5
Weighted average number of ordinary shares ('000 shares)	459,600	450,079	422,275	411,502	316,742
IFRS earnings per share (cents per share)	11.25	27.42	17.25	14.55	12.79
DISTRIBUTIONS					
Total comprehensive income after tax	51.7	123.4	72.8	59.9	40.5
Distributable profit adjustments	(14.6)	(89.3)	(41.5)	(28.9)	(17.2)
Distributable profit	37.1	34.1	31.3	31.0	23.3
Weighted average number of ordinary shares ('000 shares)	459,600	450,079	422,275	411,502	316,742
Distributable profit per share (cents per share)	8.08	7.58	7.01	7.41	7.28
Gross dividends paid relating to the year reported (cents per share)	7.45	9.24	9.06	9.04	8.69
Net dividends paid relating to the year reported (cents per share)	7.45	7.35	7.30	7.25	7.20
Pay-out ratio (%)	95.7%	97.2%	106.1%	97.8%	100.4%
FINANCIAL POSITION					
Investment properties	1,210.8	1,083.3	986.6	876.0	841.8
Goodwill	29.1	29.1	29.1	29.1	29.1
Other assets	2.2	9.4	11.5	1.8	6.1
Total assets	1,242.1	1,121.8	1,027.2	906.9	877.0
Borrowings	370.6	332.9	330.9	312.8	314.6
Other liabilities	28.6	32.7	38.3	29.1	27.2
Total liabilities	399.2	365.7	369.2	341.9	341.8
Total equity	842.9	756.1	658.0	565.0	535.2
Closing shares on issue ('000 shares)	498,723	452,459	447,692	411,502	411,502
Net tangible (excluding goodwill) assets (cents per share)	163.2	160.7	140.5	130.2	123.0
Gearing (%)	30.8%	30.1%	33.3%	35.8%	37.4%
PROPERTY PORTFOLIO METRICS					
Number of properties (#)	92	83	84	79	83
Number of tenants (#)	148	143	141	134	136
Contract rent	79.6	72.5	72.3	65.8	65.4
Occupancy (%)	99.9%	99.6%	99.6%	98.5%	97.1%
Net lettable area including yard (sqm)	756,455	667,441	673,112	626,755	627,575
Weighted average lease term (years)	5.33	4.79	5.18	5.26	5.31
Capitalisation rate (%)	6.4%	6.6%	7.0%	7.2%	7.8%

COMPANY STRUCTURE & STATUTORY INFORMATION.

COMPANY STRUCTURE AND STATUTORY INFORMATION

Property for Industry Limited (the Company, PFI) is a publicly listed company established in 1994. The Board currently has six Directors, five of whom are independent.

More information on the PFI Board and Management Team is available on the PFI website at https://www.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 2017, nor in the classes of business in which the Company has an interest.

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 and revised by the Board during 2017 to reflect the new NZX Corporate Governance Code (the NZX Code).

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

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

COMPLIANCE WITH NZX REQUIREMENTS

PFI considers that it complies with the NZX Code.

NZX CODE: KEY PRINCIPLES

This section sets out PFI's corporate governance policies, practices and processes by reference to the NZX Code's eight key principles and supporting recommendations.

Principle One : Code of Ethical Behaviour

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.

Code of Ethics

The Board has developed a Code of Ethics that forms part of the manual. The Code of Ethics provides a framework for PFI's Directors, Independent Contractors (Gregory Reidy, Simon Woodhams and Craig Peirce, see below) and employees by which they are expected to conduct their duties by facilitating behaviour that is consistent with PFI's business standards.

PFI monitors compliance with the Code of Ethics through its management processes as well as through the whistleblowing procedures set out in the Code of Ethics itself. All Directors, Independent Contractors and employees are informed of the content of the Code of Ethics prior to commencing such roles, and will be informed of any future change to the Code of Ethics.

Financial Products Trading Policy

PFI is committed to transparency and fairness in financial product dealing and the rules for dealing in PFI's listed securities are contained in its Financial Products Trading Policy. The policy's main purpose is to ensure no Director, Independent Contractor, employee or contractor uses their position or knowledge of PFI or its business to engage in financial product dealing for personal benefit, or to provide a benefit to any third party.

The Financial Products Dealing Policy applies to Directors, Independent Contractors, employees and contractors of PFI and its subsidiary, and trusts and companies controlled by those persons (Restricted Persons).

The key points of the policy are:

- A prohibition on "insider trading", meaning persons who hold non-publically available price-sensitive information must not pass on that information, nor acquire or dispose of PFI's listed securities;
- Restricted Persons must obtain consent to trade PFI listed securities at any time; and
- No trading is permitted by Restricted Persons during "blackout periods" from the balance date and the half-year balance date until release of the relevant results to NZX.

Principle Two: Board Composition & Performance

To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives.

Board Charter

The Board has developed a charter that sets out its authority, duties and responsibilities. The Board, through a set of formal policies and procedures:

- Establishes a clear framework for oversight and management of PFI's operations and for defining the respective roles and responsibilities of the Board;
- Structures itself to be effective in discharging its responsibilities and duties;
- Sets standards of behaviour expected of the Company's Management Team 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 Team effectiveness;
- Remunerates fairly and responsibly; and
- Recognises the legitimate interests of all stakeholders.

The Board has an obligation to protect and enhance the value of the assets of PFI 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 Management Team on a regular basis.

The Board delegates implementation of the adopted corporate strategies to PFI's Management Team.

Board Composition, Appointments, Independence & Operation

The constitution allows for between three and eight Directors. As at 31 December 2017, there were five Directors: four of whom are independent. In addition, David Thomson was appointed as an Independent Director on 12 February 2018. The information below excludes Mr Thomson as this appointment was subsequent to 31 December 2017. 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 2017, 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 (TEN MEETINGS HELD)
Peter Masfen	Board Chairman Independent Director	17 May 2002	15 June 2016	N/A	10
Anthony Beverley	Deputy Board Chairman Audit and Risk Committee Chairman Nomination and Remuneration Committee Chairman Independent Director	2 July 2001	22 June 2017	N/A	10
Humphry Rolleston	Independent Director	5 July 1994	22 June 2017	N/A	8
Susan Peterson	Independent Director	24 May 2016	15 June 2016	N/A	9
Gregory Reidy	Managing Director	20 January 2012	20 May 2015	N/A	10

A profile of each Director outlining their experience, length of service and independence can be found on the PFI website.

Details of Directors' relevant interests in the Company's Financial Products as at 31 December 2017 can be found below.

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.

Where a Board vacancy arises or the Board otherwise determines a need to appoint a new Director, it is the responsibility of the Nomination and Remuneration Committee to identify and nominate external candidates to fill Board vacancies as and when they arise (see Principle 3 below for further information). PFI enters into a formal written agreement with all new Directors, which establishes the terms of their appointment.

Directors are encouraged to undertake continuing education to develop and maintain their skills and knowledge. The Chairperson meets annually with Directors of the Company to discuss individual performance of Directors. The Board reviews its performance as a whole on an annual basis.

Under the Board Charter (described in further detail above) the Managing Director of PFI is not eligible to be appointed as the Chair of the Board.

Gender and Diversity
The breakdown of the gender composition of PFI's Directors and Officers as at the end of the previous two financial years is as follows:

	MALE		FEMALE	
FINANCIAL YEAR	DIRECTORS	OFFICERS	DIRECTORS	OFFICERS
Year ending 31 December 2016	4	N/A	1	N/A
Year ending 31 December 2017	4	2	1	0

Note that PFI did not have any Officers for the year ending 31 December 2016 and previous periods.

The Board has established a Diversity Policy in accordance with the NZX Code. The PFI Board believes that a diverse workforce is essential for it to be able to deliver its strategic objectives and continue to meet its responsibilities to its customers, its employees, the communities in which it works, and its shareholders. It is further noted that six members of the team of 10 are female.

Principle 3: Board Committees

The Board should use committees where this will enhance its effectiveness in key areas, while still retaining Board responsibility.

Audit and Risk Committee
The Board has established an Audit and Risk Committee in accordance with the NZX 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 committee develops and monitors procedures to ensure the Board is properly and regularly informed and updated on corporate financial matters. The Board is required to regularly review the performance of the Audit and Risk Committee.

The Audit and Risk Committee's functions include:

- Recommending the appointment and removal of external auditors (see Principle 7 "Auditors" below for further detail);
- Reviewing PFI's financial reporting documents with the view to ensuring PFI maintains accurate financial and accounting records; and
- Reviewing earnings releases and financial reports.

In addition to the committee's audit and financial reporting related functions, it is also responsible for providing a view on PFI's business and financial risk management process, including the adequacy of the overall control environment, independence from management and controls in selected areas representing significant risk.

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). Independent Contractors and employees will only attend Audit and Risk Committee meetings at the invitation of the committee.

The Audit and Risk Committee must have a minimum of three Directors as members and the majority must be Independent Directors. No executive or Managing Director may be a member of the Audit and Risk Committee. The Chair of the Board is not eligible to be chair of the Audit and Risk Committee.

At 31 December 2017, the members of the Audit and Risk Committee were Anthony Beverley (Chairman of the Audit and Risk Committee), Peter Masfen and Susan Peterson. All were members of the committee at all times during 2017 and all attended the two meetings of the Audit and Risk Committee held during 2017.

Nomination and Remuneration Committee
The Board has also established a Nomination and Remuneration Committee in accordance with the NZX Code, whose role includes identifying and recommending individuals for nomination to be members of the Board and its committees and regularly reviewing the remuneration policy (for further information on remuneration, see Principle 5 “Remuneration” below). The Nomination and Remuneration Committee has developed a written charter to assist it fulfil to this purpose, which outlines the committee’s authority, duties, responsibilities and relationship with the Board. The Board is required to regularly review the performance of the Nomination and Remuneration Committee and undertakes a formal review annually of its objectives and activities.

When nominating candidates, the committee takes into account a range of factors as well as perceived needs of the Board at the time. Some of these factors include qualifications, experience, requirements of the NZX Listing Rules and the ability to exercise and independent perspective and informed judgment on matters that come before the Board. While the committee has the authority to obtain legal or other independent professional advice, it may only nominate a person to be a Director of PFI with approval of the Board.

The Nomination and Remuneration Committee must have at least two members, all of whom must be Independent Directors.

At 31 December 2017, the members of the Nomination and Remuneration Committee were Anthony Beverley (Chairman of the Nomination and Remuneration Committee) and Susan Peterson.

Other Committees and Takeover Protocols
The Board does not consider that any additional Board committees as standing Board committees need to be established at this stage. While the Board has not established a standing independent takeover committee, it has adopted appropriate protocols to guide the Board in the event there is a takeover offer for PFI.

Principle Four: Reporting & Disclosure

The Board should demand integrity in non-financial reporting, and in the timeliness and balance of corporate disclosures.

Continuous Disclosure Policy
PFI is committed to its obligation to inform shareholders and market participants of all material information that might affect the price of its listed securities in accordance with the NZX Listing Rules and the Financial Markets Conduct Act 2013. Accordingly, the Board has adopted a Continuous Disclosure Policy which applies to PFI, its subsidiary (the Group) and their respective Directors, and all relevant Independent Contractors and employees of PFI. The Board has also appointed the Chief Financial Officer and Company Secretary to act as the Group Disclosure Officer. The Group Disclosure Officer is responsible for ensuring policy compliance and for investigating any alleged breaches.

Corporate Governance Documents
PFI’s Board and committee charters, annual and interim reports, company announcements, the policies recommended in the NZX Code and other investor-related material are available on PFI’s website.

Financial / Non-Financial Disclosure
PFI is committed to appropriate financial and non-financial reporting. Oversight of the Company’s financial reporting is applied through the Audit and Risk Committee. PFI is also committed to non-financial reporting, in particular on material exposure to ESG (environmental, social and governance) risks and other key risks. You can find more information on PFI’s approach to non-financial disclosure under the heading “Growing sustainably” in this annual report.

Principle Five: Remuneration

The remuneration of Directors and executives should be transparent, fair and reasonable.

As noted previously under Principle 3, the Board, in setting the Directors’ remuneration, is to be guided by the Remuneration Policy that forms part of the manual. The total remuneration pool that was approved at the 2016 PFI annual general meeting is $430,000. This comprised five Independent Director fees of $70,000 each ($350,000 in total), an additional $50,000 for the Board Chair, an additional $10,000 for the Chair of the Audit and Risk Committee, and an amount for specific payments, being $20,000, which provides flexibility to remunerate Directors who assume additional responsibilities.

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.

The table below sets out the total remuneration received by the Company's Directors during the year to 31 December 2017.

DIRECTOR	ROLE	FEES PAID 2017 $000	FEES PAID 2016 $000
Peter Masfen	Board Chairman	50	42
	Independent Director	70	65
Anthony Beverley	Deputy Board Chairman	–	–
	Audit and Risk Committee Chairman	10	10
	Nomination and Remuneration Committee Chairman	–	–
	Independent Director	70	65
	Amount for specific payments	20	–
Humphry Rolleston	Independent Director	70	65
Susan Peterson (1)	Independent Director	70	41
Gregory Reidy (2)	Managing Director	–	–
John Waller (3)	Independent Director	–	48
Total		**360**	**336**

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

(2) No Directors' fees were paid to Gregory Reidy due to his role as Managing Director. You can find further information about Gregory Reidy's remuneration in the "Employee Remuneration" section below.

(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

Details of Directors' dealings in the Company's financial products since 1 January 2017 are as follows:

DIRECTOR	NO. OF SHARES ACQUIRED / (DISPOSED)	CONSIDERATION PER SHARE	DATE
Susan Peterson (beneficial holder)	16,000	$1.65	3 April 2017
Gregory Reidy (beneficial holder)	914,280	$1.64	6 July 2017
Susan Peterson (beneficial holder)	171	$1.64	1 September 2017
Peter Masfen (beneficial holder)	433,431	$1.54	7 November 2017
Peter Masfen (legal, but not beneficial, holder)	27,083	$1.54	7 November 2017
Humphry Rolleston (beneficial holder)	1,625	$1.54	7 November 2017
Humphry Rolleston (legal, but not beneficial, holder)	10,075	$1.54	7 November 2017
Susan Peterson (beneficial holder)	1,617	$1.54	7 November 2017
Gregory Reidy (beneficial holder)	91,428	$1.54	7 November 2017

Details of Directors' relevant interests in the Company's financial products as at 31 December 2017 are as follows:

DIRECTOR	NATURE OF RELEVANT INTEREST	NUMBER OF SHARES
Peter Masfen	Beneficial holder	4,767,744
	Legal, but not-beneficial, holder	297,916
Humphry Rolleston	Beneficial holder	17,875
	Legal, but not-beneficial, holder	110,825
Susan Peterson	Beneficial holder	17,788
Gregory Reidy	Beneficial holder	1,005,708

Please note that no Director had a relevant interest in the Company's bonds.

Employee Remuneration
On 30 June 2017, the management of the Company and its subsidiary was internalised. Following the internalisation, the Company employed seven staff for the remainder of 2017.

The Managing Director, General Manager and Chief Financial Officer are Independent Contractors and their remuneration is set out in accordance with the terms of those contracts, which the Board and Nomination and Remuneration Committee oversee. Their remuneration package comprises of a base amount as well as a performance bonus, which is measured quarterly and based on shareholder return.

During the year ended 31 December 2017, the remuneration of the Independent Contractors was as follows (please note that, as PFI internalised on 30 June 2017, the amounts below represent a half-year of remuneration, and that there are no prior year comparatives as these arrangements did not exist in the prior year):

NAME	POSITION	BASE AMOUNT $000	PERFORMANCE BONUS $000	TOTAL $000
Gregory Reidy	Managing Director	212	56	268
Craig Peirce	Chief Financial Officer	212	56	268
Simon Woodhams	General Manager	212	56	268
TOTAL		**636**	**168**	**804**

During the year ended 31 December 2017, the number of employees who received remuneration with a combined total value exceeding $100,000 is set out below (please note that, as PFI internalised on 30 June 2017, the amounts below represent a half-year of remuneration):

REMUNERATION RANGE	EMPLOYEES
$110,001 - $120,000	1
$100,001 - $110,000	–

During the year ended 31 December 2016, 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.

Principle Six: Risk Management

Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.

The Board is responsible for identifying key risks and managing those risks through internal procedures, which the Audit and Risk Committee regularly reviews (see Principle 3 “Board committees” above).

For example, the Audit and Risk Committee formally considers the Company’s risk register twice annually during the meetings of the Audit and Risk Committee

As identified in our “Growing Sustainably” section, health and safety is one of the highest priorities for our business. The Board is responsible for overseeing PFI’s compliance with health and safety in accordance with industry best practice.

Principle Seven: Auditors

The Board should ensure the quality and independence of the external audit process.

Together with the Audit and Risk Committee (see Principle 3), the Board is responsible for establishing the Company's audit framework and that communication is maintained with external auditors or accountants. Annexed to the Audit and Risk Committee Charter is a separate Policy on Audit Independence, which covers the provision of services by external auditors.

Under the policy, it is the Audit and Risk Committee's role to approve the appointment of PFI's external auditors and assessing PFI's internal controls and systems the support external financial reporting.

PFI's external auditors are subject to a rotation system, which requires the external auditor or lead audit partner to change every five years. There is also a mandatory stand down period before those partners can next be engaged by PFI. Neither will a former Independent Contractor or employee of PFI be engaged in an external audit role within two years of ceasing to be employed by PFI.

The external auditor attends PFI's Annual Meeting each year to answer any questions relating to the audit.

The Audit and Risk Committee must pre-approve all audit services, as well as all non-audit services provided by the auditor. The Policy on Audit Independence sets out a number of principles to guide the committee in assessing whether the services could be perceived as conflicting with the independent role of the auditor. To illustrate, approval will not be granted to produce financial statements (such that they might be perceived as auditing their own work), implement financial systems, or perform any function of management. This ensures that there is a clear separation between internal and external audit roles. The Audit and Risk Committee monitors, and may limit, the amount of non-audit related work being undertaken by the firm holding office as auditor, if that work may, in its opinion, impair the independence of the external auditor.

Principle Eight: Shareholder Rights & Relations

The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.

PFI encourages an open dialogue with its shareholders and stakeholders. The manual, annual report, financial information, and all NZX announcements are available on the Company's website. PFI shareholders are encouraged to receive shareholder communications electronically.

In respect of voting rights, PFI shareholders have one vote per share they hold in PFI, and will have the right to vote on major decisions which may change the nature of PFI in accordance with the NZX Main Board Listing Rules.

In order for shareholders to fully participate in meetings, the Board endeavours to post the annual shareholders' notice of meeting on PFI's website as soon as possible and at least 28 days prior to the meeting.

OTHER MATTERS

Directors' Interests Register

During the year, the Board authorised the renewal of the Directors' and Officers' insurance cover as at 30 June 2017 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 above for information regarding the acquisition and disposition of relevant interests in the Company's financial products by its Directors.

No Director has sought authorisation to use Company information.

Other than noted in this report, there were no other interest register entries recorded for the Company or its subsidiary for the year ended 31 December 2017.

Donations

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

Substantial Productholders as at 31 December 2017

As at 31 December 2017, the total number of ordinary shares on issue was 498,723,330. 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 2017 are:

SECURITY HOLDER	NO. OF SHARES	% WHEN NOTICE WAS FILED
ANZ New Zealand Investments Limited	22,829,768	5.035%
Accident Compensation Corporation	26,579,257	5.329%

Details of Dividends Paid

DIVIDENDS	DATE PAID	CENTS PER SHARE	TOTAL PAID 2017 $000	TOTAL PAID 2016 $000
Q4 2015 final dividend	9 March 2016	2.00	–	8,954
Q1 2016 interim dividend	23 May 2016	1.75	–	7,860
Q2 2016 interim dividend	1 September 2016	1.75	–	7,882
Q3 2016 interim dividend	23 November 2016	1.80	–	8,124
Q4 2016 final dividend	8 March 2017	2.05	9,275	–
Q1 2017 interim dividend	29 May 2017	1.75	7,918	–
Q2 2017 interim dividend	1 September 2017	1.75	7,918	–
Q3 2017 interim dividend	22 November 2017	1.80	8,977	–
Total dividends per statement of changes in equity			**34,088**	**32,820**

NZX Waivers

The Company has relied on the NZX class waiver and ruling on NZX Debt Market Listing Rules 3.2.1(d) and 3.2.1(e), issued on 7 April 2017, in relation to the trust deed for the fixed rate bonds. The class waiver permits the trust deed to provide for (1) a meeting of bondholders to be called on a requisition in writing by holders of not less than 10% of the amount of the bonds for the time being outstanding (or such other number of holders as required by section 120(1)(b) of the Financial Markets Conduct Act 2013), and (2) the necessary majority to pass an extraordinary resolution to be not less than 75% of the votes cast on a poll.

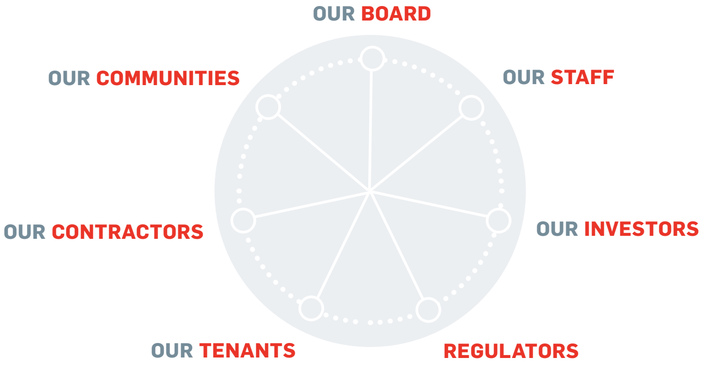
GROWING SUSTAINABLY

We have recognised the changing reporting landscape in New Zealand. We are looking forward to continuing our journey in formalising and disclosing some of the things we do to combat our environmental, social and governance (ESG) impacts. We spent some time this year to initiate the process by defining our ESG vision and completing our materiality assessment to determine the most important issues for us to consider. Through doing so, we realised that we are already addressing ESG issues in various ways and are now transitioning to a more transparent and formalised framework to be able to quantify, highlight and continually improve our ESG practises.

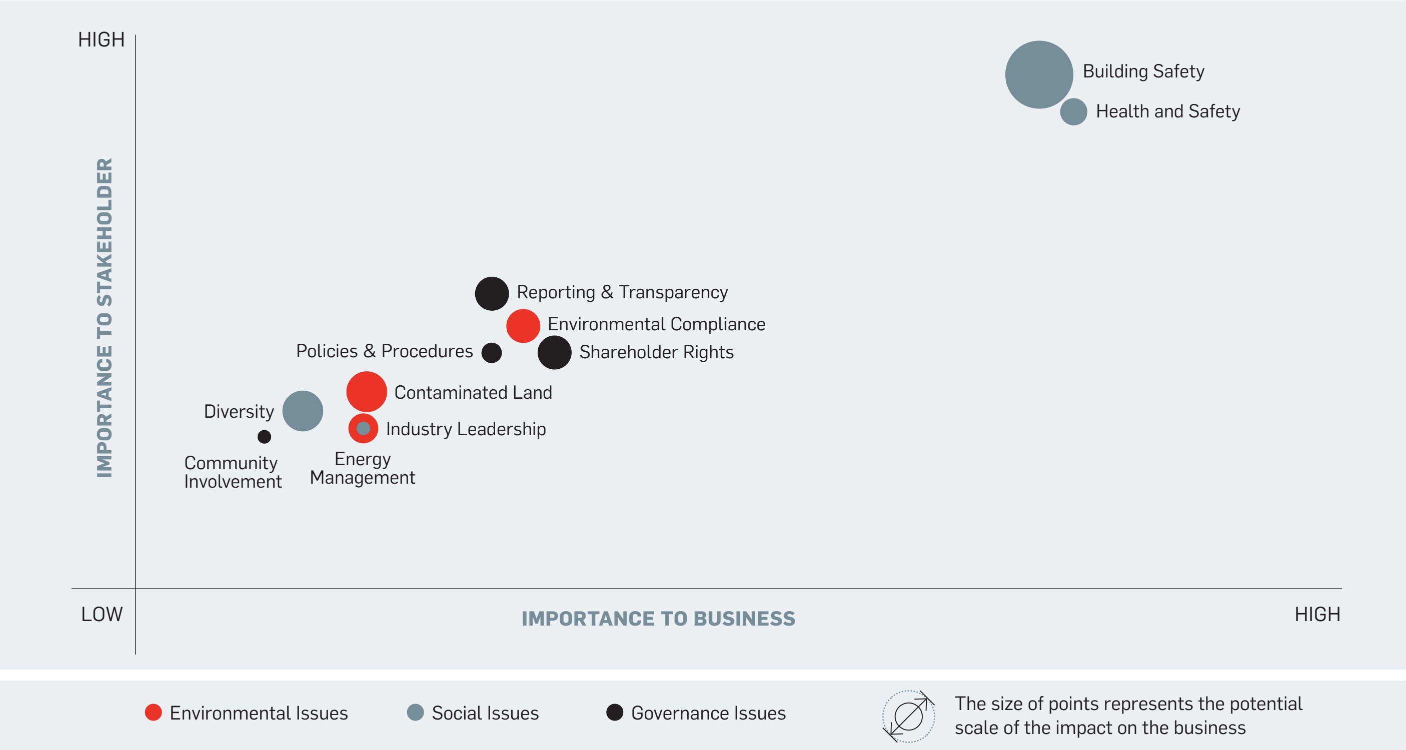
OUR ESG VISION IS FOCUSED ON BEING A RESPONSIBLE AND RESPONSIVE LANDLORD IN ORDER TO CREATE LONG TERM VALUE FOR OUR KEY STAKEHOLDERS.

How we know what's most important to our business

In accordance with accepted ESG assessment practise, we have considered both our internal and external stakeholders' ESG risks and opportunities. We determined our stakeholder groups as the following:



We have followed a staged process to complete our materiality process. After identifying our stakeholders, individual interviews with various representatives of our stakeholder groups helped us identify the material issues which are most important to them. Materiality will help us ensure that we are reporting on matters that are relevant going forward. These material issues can be seen below.



	ASSET SELECTION	FINANCING / STRUCTURING	PORTFOLIO MANAGEMENT / LETTING	REDEVELOPING	ASSET DIVESTMENT	GOVERNANCE / MANAGEMENT
Contaminated land	■			■	■	
Environmental compliance	■		■			
Energy management			■			
Building safety	■		■	■		
Health & safety	■	■	■	■	■	■
Industry leadership						■
Diversity						■
Community involvement				■		■
Policies & procedures	■	■	■	■	■	■
Stakeholder rights	■	■	■	■	■	■
Reporting & transparency		■				■

Addressing our material issues

After identifying our material issues we prioritised them to focus on the issues currently of greatest importance to PFI. Four of the eleven material issues identified surfaced as the highest priorities for our business.

- **Building Safety**
- **Health & Safety**
- **Policies and Procedures**
- **Stakeholder Rights**

These were prioritised on the basis of combined highest importance (top right quadrant of the matrix) and also breadth of impact across our value chain (as can be seen in the chart above).

Looking forward

As this is the first time PFI has used ESG as a reporting framework, we will look to refine our approach in subsequent years. We wanted to share our progress on this journey so far in building some solid foundations by setting out our ESG strategy and conducting the materiality assessment.

SHAREHOLDER STATISTICS

20 LARGEST REGISTERED SHAREHOLDERS

AS AT 31 JANUARY 2018

	HOLDER	HOLDING	HOLDING %
1	Forsyth Barr Custodians Limited	30,465,155	6.11%
2	Accident Compensation Corporation - NZCSD	27,396,074	5.49%
3	BNP Paribas Nominees (NZ) Limited - NZCSD	26,938,392	5.40%
4	FNZ Custodians Limited	25,426,804	5.10%
5	Custodial Services Limited (A/c 3)	14,205,415	2.85%
6	Citibank Nominees (New Zealand) Limited - NZCSD	13,827,925	2.77%
7	ANZ Wholesale Trans-Tasman Property Securities Fund - NZCSD	13,351,997	2.68%
8	HSBC Nominees (New Zealand) Limited - NZCSD	8,802,998	1.77%
9	MFL Mutual Fund Limited - NZCSD	8,350,217	1.67%
10	Messrs. Wildermoth, Wilson, Young and Spence	7,253,638	1.45%
11	Investment Custodial Services Limited (A/c C)	7,252,074	1.45%
12	ANZ Wholesale Property Securities - NZCSD	6,557,289	1.31%
13	Custodial Services Limited (A/c 2)	5,841,115	1.17%
14	Mr. Mckee, Ms. Mckee and NWM Trustees 120 Limited	5,566,373	1.12%
15	TEA Custodians Limited Client Property Trust - NZCSD	5,545,573	1.11%
16	Custodial Services Limited (A/c 4)	5,520,579	1.11%
17	Masfen Securities Limited	4,767,744	0.96%
18	Carlaw Heritage Trust Inc	4,115,481	0.83%
19	Heatherfield Investments Limited	4,003,286	0.80%
20	PT (Booster Investments) Nominees Limited	3,411,914	0.68%
	Shares held by top 20 shareholders	**228,600,043**	**45.83%**
	Balance of shares	270,123,287	54.17%
	Total of issued shares	**498,723,330**	**100.00%**

SHAREHOLDER SPREAD

AS AT 31 JANUARY 2018

ORDINARY SHARES	NUMBER OF HOLDERS	HOLDING	HOLDING %
Up to 4,999	825	2,110,249	0.42%
5,000 - 9,999	993	7,190,570	1.44%
10,000 - 49,999	2,411	52,052,175	10.44%
50,000 - 99,999	397	27,043,395	5.42%
100,000 - 499,999	303	59,074,382	11.85%
500,000 and above	113	351,252,559	70.43%
Total	**5,042**	**498,723,330**	**100.00%**

GEOGRAPHICAL SPREAD

AS AT 31 JANUARY 2018

ORDINARY SHARES	HOLDING	HOLDING %
Auckland & Northern Region	282,500,521	56.64%
Hamilton & Surrounding Districts	91,671,257	18.38%
Wellington & Central Districts	62,526,150	12.54%
Dunedin & Southland	43,679,934	8.76%
Nelson, Marlborough & Christchurch	16,404,102	3.29%
Overseas	1,941,366	0.39%
Total	**498,723,330**	**100.00%**

BONDHOLDER STATISTICS

BONDHOLDER SPREAD

AS AT 31 JANUARY 2018

BONDS	NUMBER OF HOLDERS	HOLDING	HOLDING %
5,000 - 9,999	69	361,000	0.36%
10,000 - 49,999	442	8,705,000	8.71%
50,000 - 99,999	60	3,511,000	3.51%
100,000 - 499,999	33	4,074,000	4.07%
500,000 - 999,999	1	560,000	0.56%
1,000,000 and above	11	82,789,000	82.79%
Total	**616**	**100,000,000**	**100.00%**

DIRECTORY

ISSUER OF SHARES AND BONDS
Property for Industry Limited
Shed 24, Prince's Wharf
147 Quay Street
PO Box 1147
Auckland 1140
Tel: +64 9 303 9450
Fax: +64 9 303 9657
propertyforindustry.co.nz
info@propertyforindustry.co.nz

DIRECTORS
Peter Masfen (Chairman)
Anthony Beverley (Deputy Chairman)
David Thomson (appointed 12 February 2018)
Humphry Rolleston
Susan Peterson
Gregory Reidy

GENERAL MANAGER
Simon Woodhams
Tel: +64 9 303 9652
woodhams@propertyforindustry.co.nz

CHIEF FINANCIAL OFFICER / COMPANY SECRETARY
Craig Peirce
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AUDITOR
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CORPORATE LEGAL ADVISOR
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PO Box 2206
Auckland 1140
Tel: +64 9 357 9000
Fax: +64 9 357 9099

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

SECURITY TRUSTEE
New Zealand Permanent Trustees Limited
34 Shortland Street
PO Box 1598
Auckland 1140
Tel: 0800 371 471

BOND SUPERVISOR
Public Trust
34 Shortland Street
PO Box 1598
Auckland 1140
Tel: 64 9 985 5300

REGISTRAR
Computershare Investor Services
159 Hurstmere Road
Private Bag 92119
Auckland 1142
Tel: +64 9 488 8777
Fax: +64 9 488 8787
investorcentre.com/nz

CALENDAR

2018

FEBRUARY
- 2017 Annual report released

MARCH
- 2017 Final dividend payment

MAY
- 2018 First-quarter announcement
- 2018 First-quarter dividend payment
- Annual meeting

AUGUST
- 2018 Half-year announcement
- 2018 Interim report released
- 2018 Half-year dividend payment

NOVEMBER
- 2018 Third-quarter announcement
- 2018 Third-quarter dividend payment

2019

FEBRUARY
- 2018 Full-year announcement
- 2018 Annual report released

MARCH
- 2018 Final dividend payment

This Annual Report is dated 21 February 2018 and signed on behalf of the board by:

Peter Masfen
Chairman

Anthony Beverley
Director

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