PFi

Property for Industry Limited

Interim Report 30 June 2018

THE TEAM ISSUE

INDUST—RIOUS

+ PETER MASFEN

STRENGTH IN CHANGE MANAGEMENT

NEILSON STREET ACQUISITION CREATES A VISIBLE FOOTPRINT

CHANGE MANAGEMENT

PETER MASFEN

ANTHONY BEVERLEY

Peter Masfen, PFI's Board Chair for the past sixteen years, recently retired. In 2002, when Peter joined PFI, it had a portfolio of 46 properties, valued at $209 million. Today it owns 93 properties, valued at over $1.2 billion. "Perhaps the highlight," says Peter, "was the merger with Direct Property Fund in 2013. It was a really tough negotiation – one of the more challenging I've been involved in – but the outcome was fair to the shareholders of both companies. Over my time, it's been very satisfying to oversee the expansion in the size of PFI and the considerable enhancement of shareholder value."

"Peter's legacy," says new Chair, Anthony Beverley, "is PFI's unwavering focus on shareholder returns. Maintaining the independence of the Board was also very important to Peter. He would point out other companies where he felt that the interests of the management had become higher than the shareholders' interests. 'Strong, stable returns' is an expression we use a lot and that comes from Peter.

"Even though Peter's retirement marks the end of a significant period in PFI's history, there will be no change in that philosophy. New people are coming in, certainly: David Thomson as an Independent Director, for example, and new staff appointments. And Susan Peterson came onto the Board a couple of years ago. There's been careful succession planning and that steadfast commitment to purpose has not changed."

There have been three recent internal appointments: Nathan Williams succeeded the previous Financial Controller, Nick Moloney joined in a new role as Senior Analyst and Michael Rippon also joined in a new role as Property Manager.

NEW TO THE TEAM

01 . NATHAN WILLIAMS
Financial Controller

02 . NICK MOLONEY
Senior Analyst

03 . MICHAEL RIPPON
Property Manager

04 . DAVID THOMSON
New Independent Director

05 . HUMPHRY ROLLESTON
Independent Director

06 . SUSAN PETERSON
Independent Director

07 . GREGORY REIDY
Managing Director

08 . SIMON WOODHAMS
General Manager

09 . CRAIG PEIRCE
CFO and Company Secretary

> **“We’ve been through market ups and downs – the economic cycle – but, by keeping our feet on the ground, we’ve continued to grow and continued to deliver for shareholders.”**
>
> PETER MASFEN

Their profiles can be found on the PFI website.

“The internal management team is second-to-none in the field in which they operate,” says Peter Masfen. “We’ve been through market ups and downs – the economic cycle – but, by keeping our feet on the ground, we’ve continued to grow and continued to deliver for shareholders. It has been a privilege to be involved in PFI’s emergence as a major listed property vehicle.”

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

GOOD TO GO

Trade Depot: the sole tenant at the 306 Neilson Street acquisition

READ MORE p.4

Peter Masfen's retirement and the acquisition of 306 Neilson Street, Penrose, are the headline news at the mid-point of 2018.

After 16 years as PFI's Board Chair, Peter retired at the Annual Meeting in May. Anthony Beverley, who had been Deputy Chair, took over as Chair. Buddle Findlay partner, David Thomson, joined the Board as an Independent Director in February and was re-elected at the Annual Meeting.

306 Nielson Street in Penrose is an industrial building on just under one hectare of land adjacent to three properties already owned by PFI. The $16 million acquisition via a sale and lease-back is earnings and Weighted Average Lease Term (WALT) accretive, and means PFI now has a 4.49-hectare holding in four titles in Auckland's industrial engine room.

Otherwise, it has been business as usual. Kiwi Steel's lease of the new development at 212 Cavendish Drive will commence in April 2019. There have been 11 new leases and lease extensions, with companies like Mainfreight extending their lease at 36 Neales Road by five years, and Peter Hay Kitchens extending their lease at 47 Dalgety Drive by six years. Nestlé were also secured on a reduced footprint for a further eight years at Carlaw Park, and the key focus for the second half will be leasing at this property.

The increase in rental income from acquisitions and portfolio activity, and the ongoing reduction in expenses from 2017's internalisation means Adjusted Funds from Operations (AFFO) have, as expected, increased. ■

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

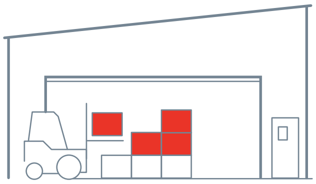
2018

OUR STAND-OUT EVENTS FOR THE HALF.

ACHIEVED

4.49 ha

industrial estate in four titles in Auckland's industrial engine room.



$ **16.0** million

ACQUIRED

306 Neilson Street Penrose.

"Governance is oversight: making sure that what the company is doing is consistent with its purpose, which is to create shareholder returns and value."

DAVID THOMSON,
INDEPENDENT DIRECTOR, 2018

APPOINTED

Independent

DAVID THOMSON appointed as Independent Director

DELIVERED

9.4% increase in FFO earnings per share and 2.5% increase in AFFO earnings per share to 3.52 cents per share.

RETIRED

"Over my time, it's been very satisfying to oversee the expansion in the size of PFI and the considerable enhancement of shareholder value."

PETER MASFEN,
PFI CHAIR, 2002–2018

16

YEARS

PETER MASFEN retired after 16 years as Chair of PFI.

BOX SET

"He will win who knows when to fight and when not to fight," advises Sun Tzu in his management best-seller, 'The Art of War'.

For reasons to be explained in a moment, PFI knew the property at 306 Nielson Street, Penrose, well. They also knew that the owners were considering selling and banking the growth in the property's value since they had bought it some years earlier.

Given such circumstances – more often than not – PFI's tactic of choice would be an off-market transaction. A quiet chat, no-deadline due diligence, an independent valuation, a bit of an arm-wrestle; deal done. Not to fight, in other words.

But sometimes, the market is your friend. For a vendor, a

STATUS::

BUY

CATEGORY::

WAREHOUSE

OUR ROLE ::

We already own the three neighbouring properties. Buying this property results in PFI owning a 4.49ha industrial estate in four titles.

valuation can only ever be a professional opinion, but offers on the table are facts. Sometimes, there's no better way to establish what a property is worth than to let the market decide. And so, when the vendor decided to take the property to market, PFI chose to fight.

The property at 306 Neilson Street is just under a hectare of land, with a well-configured warehouse, in Penrose, Auckland. As industrial as it comes. Dating from the early 2000s, the building is well-maintained and in good condition; rated 100% NBS. The warehouse has good stud height and access via multiple roller doors. Neilson Street is the main route through the Penrose/Onehunga industrial zone, with motorway access at the Penrose interchange.

Furthermore, this was a sale and lease-back proposal. Trade Depot describe themselves as 'New Zealand's leading online home improvement store'. A sale and lease-back would free up their balance sheet for future plans and they were offering an initial ten-year term. From PFI's point of view, all very tidy.

But what made it even more attractive was this: the three neighbouring properties are already in the PFI portfolio. Buying this property would complete the box set: PFI would own a 4.49ha industrial estate in four titles.

As PFI General Manager, Simon Woodhams explains, "We were the natural buyers: the only ones able to develop the property further, but in order to get our hands on the property, we had to go to market. Multiple parties presented offers. Ours was cash unconditional. We successfully concluded the deal at $16 million. The initial lease is for ten years, with a commencement rental of $870,000 p.a. The transaction is both earnings- and WALT-accretive from point of settlement. Over the medium to long term, the property can be integrated with the adjacent properties, providing further egress points and yard areas if required".

There was not a lot of industrial property for sale in China two and a half thousand years ago, but somehow Sun Tzu's advice about being flexible and nimble – choosing the best tactics to achieve your goal – are as relevant today as they were then. ■

DAVID THOMSON

“Keeping the focus on shareholder returns and value.”

DAVID THOMSON
NEW INDEPENDENT DIRECTOR

AN INDEPENDENT VIEW

“I think the key to the role is in that one word, ‘independent’. As an Independent Director, you bring to the table your particular expertise, certainly, but more your accumulated experience; a different perspective, a wider view,” says David Thomson, who joined the Board in February 2018.

David is a partner and board member of the law firm Buddle Findlay; one of those who took on law and commerce at university. “I’ve been a corporate and commercial lawyer for 25 years, in New Zealand and in London, involved in a wide range of commercial transactions across many sectors including infrastructure and property. My clients at Buddle Findlay include Panuku Development Auckland (Auckland Council’s property arm) and the University of Auckland (who have a property portfolio of about $1.5 billion).”

“Governance is oversight: making sure that what the company is doing is consistent with its purpose, which is to create shareholder returns and value. You’re listening to management’s proposals, and then asking questions: testing; ensuring that decisions are being made carefully and well.

“The challenge I see now for PFI is continuing to manage growth carefully and well. The Board’s very clear that we’re not interested in growth for growth’s sake, but growth that improves shareholder value.” ■

RUN THE NUMBERS

KEY PERFORMANCE INDICATORS

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

1.5%

VACANCY FORECAST

01. CBRE predict 1.5% vacancy of prime industrial property in 2018, dropping to 1.3% in 2019.

2.6%

INCREASE IN LAND VALUES

02. Overall growth in industrial land values in the three months to March 2018.

5.39 YEARS

PFI'S WEIGHTED AVERAGE LEASE TERM

06. Up from 5.33 years six months ago.

225,000 sqm

INDUSTRIAL SPACE UNDER CONSTRUCTION

03. Across 49 developments in Auckland. Over the past five years average annual new supply has been ~183,000 sqm.

2.5%

ECONOMIC GROWTH

04. ANZ Bank is predicting a slightly softer outlook for GDP than six months ago.

98.1%

PFI'S OCCUPANCY

05. Occupancy of PFI's portfolio. Down from 99.9% six months ago.

$1.24bn

PFI'S PORTFOLIO VALUE

07. Up from $1.21bn six months ago.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

ALL VALUES IN $000S	NOTE	UNAUDITED 6 months ended 30 June 2018	UNAUDITED 6 months ended 30 June 2017
INCOME			
Rental and management fee income	2.2	44,686	40,156
Licence income		50	–
Interest income		2	3
Fair value gain on investment properties	2.1	7,948	5,970
Gain on disposal of investment properties		53	1,897
Fair value gain on derivative financial instruments		647	–
Material damage insurance income		–	505
Total income		53,386	48,531
EXPENSES			
Property costs	2.3	(6,341)	(5,906)
Interest expense and bank fees		(9,159)	(8,388)
Administrative expenses	6.1	(2,378)	(690)
Management fees	6.3	–	(2,919)
Fair value loss on derivative financial instruments		–	(582)
Termination of management agreement	5	–	(42,869)
Total expenses		(17,878)	(61,354)
Profit / (loss) before taxation		35,508	(12,823)
Income tax (expense) / benefit	6.2	(5,938)	7,186
Profit / (loss) and total comprehensive income after income tax attributable to the shareholders of the Company		29,570	(5,637)
Basic and diluted earnings per share (cents)	4.1	5.93	(1.25)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Cents per share (cents)	No. of shares (#)	Ordinary shares ($000)	Retained earnings ($000)	Total equity ($000)
Balance as at 1 January 2017 (audited)	–	452,458,592	493,220	262,918	756,138
Total comprehensive income	–	–	–	(5,637)	(5,637)
Dividends					
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)
Balance as at 30 June 2017 (unaudited)	–	452,458,592	493,220	240,088	733,308
Balance as at 1 January 2018 (audited)	–	498,723,330	562,429	280,514	842,943
Total comprehensive income	–	–	–	29,570	29,570
Dividends					
Q4 2017 final dividend – 7/3/2018	2.15	–	–	(10,723)	(10,723)
Q1 2018 interim dividend – 31/5/2018	1.80	–	–	(8,976)	(8,976)
Balance as at 30 June 2018 (unaudited)	–	498,723,330	562,429	290,385	852,814

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

		UNAUDITED	AUDITED
ALL VALUES IN $000S	NOTE	30 June 2018	31 December 2017
CURRENT ASSETS			
Cash at bank		688	605
Accounts receivable, prepayments and other assets		2,664	1,295
Taxation receivable		–	32
Total current assets		3,352	1,932
NON-CURRENT ASSETS			
Investment properties	2.1	1,239,524	1,210,805
Property, plant and equipment		82	95
Derivative financial instruments	3.2	1,304	272
Goodwill		29,086	29,086
Total non-current assets		1,269,996	1,240,258
Total assets		1,273,348	1,242,190
CURRENT LIABILITIES			
Derivative financial instruments	3.2	671	372
Accounts payable, accruals and other liabilities		6,806	8,261
Taxation payable		3,187	–
Total current liabilities		10,664	8,633
NON-CURRENT LIABILITIES			
Borrowings	3.1	387,112	370,635
Derivative financial instruments	3.2	11,183	11,095
Deferred tax liabilities	6.2	11,575	8,884
Total non-current liabilities		409,870	390,614
Total liabilities		420,534	399,247
Net assets	**4.2**	852,814	842,943
EQUITY			
Share capital		562,429	562,429
Retained earnings		290,385	280,514
Total equity		852,814	842,943

These Group financial statements are signed on behalf of Property for Industry Limited and were authorised for issue on 8 August 2018.

Anthony Beverley
Chairman

Susan Peterson
Chair, Audit and Risk Committee

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

ALL VALUES IN $000S	UNAUDITED 6 months ended 30 June 2018	UNAUDITED 6 months ended 30 June 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Property income received	44,654	40,236
Licence income	50	–
Net GST paid	(500)	(886)
Interest received	2	3
Interest and other finance costs paid	(8,983)	(8,600)
Payments to suppliers and employees	(10,736)	(9,684)
Income tax paid	(28)	(2,630)
Termination of management agreement	–	(42,869)
Net cash flows from operating activities	24,459	(24,430)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investment properties	85	21,648
Acquisition of investment properties	(16,030)	(14,262)
Acquisition of assets relating to a business combination	–	(106)
Acquisition of property, plant and equipment	13	–
Expenditure on investment properties	(5,012)	(5,095)
Capitalisation of interest on development properties	(7)	–
Net cash flows from investing activities	(20,951)	2,185
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from syndicated bank facility	16,274	39,900
Dividends paid to shareholders	(19,699)	(17,193)
Net cash flows from financing activities	(3,425)	22,707
Net increase in cash and cash equivalents	83	462
Cash and cash equivalents at beginning of period	605	(113)
Cash and cash equivalents at end of period	688	349

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. GENERAL INFORMATION

IN THIS SECTION
This section sets out the basis upon which the Group's Interim Financial Statements are prepared.

1.1. Reporting entity

These unaudited interim 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 unaudited consolidated interim 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

These unaudited interim 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 NZ IAS 34 'Interim Financial Reporting' and IAS 34 'Interim Financial Reporting'. The unaudited interim financial statements also comply with International Financial Reporting Standards (IFRS).

The unaudited interim 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.

These unaudited interim financial statements should be read in conjunction with the Annual Report for the year ended 31 December 2017 which may be downloaded from the Company's website (www.propertyforindustry.co.nz/investor-centre/reports-and-presentations).

1.3. New standards, amendments and interpretations

At the date of authorisation of these unaudited interim financial statements, the following relevant standard was in issue but not yet effective and has not been applied in preparing these unaudited interim financial statements.

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 and the Group intends to adopt NZ IFRS 16 on its effective date.

The Group has assessed the impact of adopting NZ IFRS 16. As a lessor, there are no changes to the Group's current accounting treatment and disclosure of leases. As a lessee, the Group will apply NZ IFRS 16 using the simplified retrospective approach. Under this approach, the Group will recognise a right of use asset and lease liability of approximately $403,000 as at 1 January 2019, representing the present value of the remaining lease cash flows.

1.4. Critical judgements, estimates and assumptions

In applying the Group's accounting policies, the Board and Management continually evaluate judgements, estimates and assumptions that may have an impact on the Group. The significant judgements, estimates and assumptions made in the preparation of these unaudited interim financial statements were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2017.

1.5. Accounting policies

The accounting policies adopted are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2017, other than following the adoption of new standards outlined in section 1.6, which follows on the next page.

1. GENERAL INFORMATION (CONTINUED)

1.6. Adoption of new standards

The Group has adopted both NZ IFRS 9 'Financial Instruments' and NZ IFRS 15 'Revenue from contracts with customers', as required. There have been no changes required to these unaudited interim financial statements by NZ IFRS 9.

Implementation of NZ IFRS 15 has required a change in the presentation of service charges in the consolidated statement of comprehensive income. Previously the Group showed the income generated from service charges as an offset to service charge expenses within non-recoverable property costs. With the implementation of NZ IFRS 15, it has been necessary to separate these components between income and expense. As a result, the 2017 comparatives have been restated as follows: Rental and management fee income increased by $4,445,000 and property costs increased by $4,445,000. These have also had a flow on impact to the statement of cash flows where property income received has increased by $4,445,000 and payments to suppliers and employees has also increased by $4,445,000.

1.7. Significant events and transactions

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

Investment property acquisition
On 31 May 2018, the Group purchased an investment property located at 306 Neilson Street, Penrose, for a net purchase price of $16.0 million.

2. PROPERTY

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

2.1. Investment properties

	UNAUDITED	AUDITED
ALL VALUES IN $000S	6 months ended 30 June 2018	12 months ended 31 December 2017
Opening balance	1,210,805	1,083,300
Capital movements:		
Additions	16,030	84,283
Disposals	(32)	(12,188)
Capital expenditure	4,224	10,422
Capitalised interest	7	–
Movement in lease incentives, fees and fixed rental income	542	1,393
	20,771	83,910
Unrealised fair value gain (i)	7,948	43,595
Closing balance	1,239,524	1,210,805

2. PROPERTY (CONTINUED)

2.1. Investment properties (continued)

(i) Valuation

All investment properties were valued by independent valuers as at 31 December 2017. The Board determined that a desktop review of the property portfolio should be undertaken by CB Richard Ellis (CBRE), Colliers International (Colliers), Jones Lang LaSalle (JLL) or Savills as at 30 June 2018 to ensure that investment properties continue to be held at fair value. In addition to this desktop review, the following ten investment properties were subject to independent valuations due to significant capital expenditure or leasing activity undertaken during the period:

ALL VALUES IN $000S	Valuer	Valuation
Carlaw Park Gateway Building, Parnell	CBRE	35,500
Carlaw Park Office Complex, Parnell	CBRE	61,600
50 Carbine Road, Mt Wellington	CBRE	4,000
212 Cavendish Drive, Manukau	Colliers	25,500
47 Dalgety Drive, Manukau	Savills	16,500
229 Dairy Flat Highway, North Shore	Colliers	28,000
8 McCormack Place, Wellington	Colliers	9,380
509 Mt Wellington Highway, Mt Wellington	Savills	16,750
36 Neales Road, East Tamaki	Colliers	20,900
10 Niall Burgess Road, Mt Wellington	Savills	4,800
Total		222,930

As a result of the independent valuations, the unrealised net increase in the value of investment properties for the six months ended 30 June 2018 was $7,948,000 (six months ended 30 June 2017: $5,970,000). The portfolio will next be revalued by independent valuers as at 31 December 2018.

2.2. Rental and management fee income

	UNAUDITED	UNAUDITED
ALL VALUES IN $000S	6 months ended 30 June 2018	6 months ended 30 June 2017
Gross rental receipts and service charge income recovered from tenants	43,658	39,607
Fixed rental income adjustments	566	209
Capitalised lease incentive adjustments	226	170
Management fee income	236	170
Total rental and management fee income	44,686	40,156

2.3. Property costs

	UNAUDITED	UNAUDITED
ALL VALUES IN $000S	6 months ended 30 June 2018	6 months ended 30 June 2017
Service charge expenses	(5,184)	(4,445)
Bad and doubtful debts recovery / (expense)	39	(38)
Other non-recoverable property costs	(1,196)	(1,423)
Total property costs	(6,341)	(5,906)

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

2. PROPERTY (CONTINUED)

2.4. Net rental income

ALL VALUES IN $000S	UNAUDITED 6 months ended 30 June 2018	UNAUDITED 6 months ended 30 June 2017
Gross rental receipts and service charge income recovered from tenants	43,658	39,607
Fixed rental income adjustments	566	209
Capitalised lease incentive adjustments	226	170
less: Service charge expenses	(5,184)	(4,445)
Net rental income	39,266	35,541

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 $000S	UNAUDITED 30 June 2018	AUDITED 31 December 2017
Syndicated bank facility drawn down – non-current	288,974	272,700
Fixed rate bonds – non-current	100,000	100,000
Unamortised borrowings establishment costs	(1,862)	(2,065)
Net borrowings	387,112	370,635
Weighted average interest rate for drawn debt (inclusive of current interest rate swaps, margins and line fees)	4.90%	4.96%
Weighted average term to maturity (years)	3.20	3.70

(ii) Syndicated bank facility
The Group has 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 $000S	UNAUDITED 30 June 2018	AUDITED 31 December 2017
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	288,974	272,700
Undrawn facility available	86,026	102,300
Total facilities available	375,000	375,000

3. FUNDING (CONTINUED)

3.1. Borrowings (continued)

(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.

(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 2017: $950,000,000). 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 syndicated bank facility and the fixed rate bonds.

3.2. Derivative financial instruments

(i) Fair values

	UNAUDITED	AUDITED
ALL VALUES IN $000S	30 June 2018	31 December 2017
Non-current assets	1,304	272
Current liabilities	(671)	(372)
Non-current liabilities	(11,183)	(11,095)
Total	(10,550)	(11,195)

(ii) Notional values, maturities and interest rates

	UNAUDITED	AUDITED
	30 June 2018	31 December 2017
Notional value of interest rate swaps – fixed rate payer – start dates commenced ($000S)	220,000	220,000
Notional value of interest rate swaps – fixed rate receiver[1] – start dates commenced ($000S)	100,000	100,000
Notional value of interest rate swaps – fixed rate payer – forward starting ($000S)	175,000	155,000
Total ($000S)	495,000	475,000
Percentage of borrowings fixed (%)	57%	59%
Fixed rate payer swaps:		
Average period to expiry – start dates commenced (years)	2.13	2.62
Average period to expiry – forward starting (years from commencement)	3.69	3.65
Average (years)	2.82	3.04
Fixed rate payer swaps:		
Average interest rate[2] – start dates commenced (%)	4.37%	4.37%
Average interest rate[2] – forward starting (% during effective period)	3.51%	3.55%
Average (%)	3.99%	4.03%

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

2 Excluding margin and fees.

Key estimates and assumptions: Derivative financial instruments

The fair value of derivative financial instruments are determined from valuations prepared by independent treasury advisers using Level 2 valuation techniques (31 December 2017: 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 30 June 2018 of between 2.00% for the 90 day BKBM (31 December 2017: 1.88%) and 3.02% for the 10 year swap rate (31 December 2017: 3.14%). There were no changes to these valuation techniques during the reporting period.

4. INVESTOR RETURNS AND INVESTMENT METRICS

IN THIS SECTION
This section summarises the earnings per share and net tangible assets per share, which are common investment metrics.

4.1. Earnings per share

	UNAUDITED	UNAUDITED
	6 months ended 30 June 2018	6 months ended 30 June 2017
Total comprehensive income for the period attributable to the shareholders of the Company ($000)	29,570	(5,637)
Weighted average number of ordinary shares (shares)	498,723,330	452,458,592
Basic and diluted earnings per share (cents)	5.93	(1.25)

4.2. Net tangible assets per share

	UNAUDITED	AUDITED	UNAUDITED
	30 June 2018	31 December 2017	30 June 2017
Net assets ($000)	852,814	842,943	733,308
Less: Goodwill ($000)	(29,086)	(29,086)	(29,086)
Net tangible assets ($000)	823,728	813,857	704,222
Closing shares on issue (shares)	498,723,330	498,723,330	452,458,592
Net tangible assets per share (cents)	165	163	156

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.

For further information on the internalisation of management, please refer to the consolidated financial statements as at and for the year ended 31 December 2017.

6. OTHER

IN THIS SECTION
This section includes additional information that is considered less significant in understanding the financial performance and position of the Group, but is disclosed to comply with NZ IAS 34 'Interim Financial Reporting' and IAS 34 'Interim Financial Reporting'.

6.1. Administrative expenses

	UNAUDITED	UNAUDITED
ALL VALUES IN $000S	6 months ended 30 June 2018	6 months ended 30 June 2017
Audit fees and other fees paid to auditors	88	67
Employee and independent contractor benefits expense	1,242	–
Directors' fees	322	190
Office expenses	238	–
Rent	55	–
Depreciation	27	–
Other expenses	406	433
Total administrative expenses	2,378	690

6.2. Taxation

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

	UNAUDITED	UNAUDITED
ALL VALUES IN $000S	6 months ended 30 June 2018	6 months ended 30 June 2017
Profit / (loss) before income tax	35,508	(12,823)
Prima facie income tax calculated at 28%	(9,942)	3,590
Adjusted for:		
Non-tax deductible revenue and expenses	(4)	(7)
Fair value gain on investment properties	2,225	1,672
Gain on disposal of investment properties	15	531
Depreciation	1,278	1,134
Disposal of depreciable assets	–	(77)
Deductible capital expenditure	1,042	420
Lease incentives, fees and fixed rental income	166	182
Derivative financial instruments	187	(157)
Impairment allowance	11	(10)
Current year tax losses utilised / (carried forward)	1,995	(7,278)
Current tax prior period adjustment	(220)	–
Current taxation expense	(3,247)	–
Current year tax losses (utilised) / carried forward	(1,995)	7,278
Depreciation	(310)	(77)
Lease incentives, fees and fixed rental income	(188)	(182)
Derivative financial instruments	(187)	157
Impairment allowance	(11)	10
Deferred taxation benefit	(2,691)	7,186
Total taxation reported in Consolidated Statement of Comprehensive Income	(5,938)	7,186

6. OTHER (CONTINUED)

6.2. Taxation (continued)

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 resulted in current year tax losses to be carried forward which have now been utilised.

(ii) Deferred tax

ALL VALUES IN $000S	AUDITED 31 December 2017 As at	UNAUDITED 6 months ended 30 June 2018 Recognised in profit	UNAUDITED 30 June 2018 As at
Deferred tax assets			
Losses carried forward	(1,995)	1,995	–
Derivative financial instruments	(3,142)	187	(2,955)
Impairment allowance	(42)	11	(31)
Gross deferred tax assets	(5,179)	2,193	(2,986)
Deferred tax liabilities			
Investment properties	14,063	498	14,561
Gross deferred tax liabilities	14,063	498	14,561
Net deferred tax liability	8,884	2,691	11,575

6.3. 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.

(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 is calculated as one twelfth of:

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

During the six months ended 30 June 2017, the Group incurred base management fees totalling $2,919,000 from PFIM, for the provision of management and administrative services.

(b) Performance fees
A 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 exceed 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 for the next seven quarters.

During the six months ended 30 June 2017, the Group incurred no performance fees from PFIM.

6. OTHER (CONTINUED)

6.3. Related party transactions (continued)

(ii) Key management personnel

ALL VALUES IN $000S	UNAUDITED 6 months ended 30 June 2018	UNAUDITED 6 months ended 30 June 2017
Directors' fees	322	190
Short-term independent contractors benefits	671	–
Key management personnel	993	190

(iii) Other related party transactions

On 30 June 2017, the Group entered into a lease agreement with 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. 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 six months ended 30 June 2018, 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 six months ended 30 June 2018, the Group incurred $1,759,000 of interest expense and bank fees and received $253,000 of interest income from CBA. As at 30 June 2018: $489,000 (31 December 2017: $499,000) was owing to CBA and included in accounts payable, accruals and other liabilities and $44,000 (31 December 2017: $48,000) was owing from CBA and included in accounts receivable. As per note 3.1(ii), CBA provided the Group with a facility of $91,125,000 of which $70,220,734 was drawn as at 30 June 2018. As at June 30 2018, interest rate swaps with the following notional values were held with CBA: $60,000,000 current fixed rate payer swaps, $30,000,000 forward starting fixed rate payer swaps, $50,000,000 current fixed rate receiver swaps.

No related party debts have been written off or forgiven during the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

During the six months ended 30 June 2018, fees paid to Directors of the Group were $187,000 (six months ended 30 June 2017: $190,000).

On 8 May 2018, Peter Masfen retired from the Board of Directors of the Company as Chairman and Independent Director. Mr Masfen was first elected as a Director of the Company on 17 May 2002, and had held office as a Director of the Company since that date. At the 23 May 2008 Annual Meeting, the Company confirmed that retirement payments (being the total remuneration of the retiring Director, in any three years chosen by the Company) to eligible Directors (which includes Mr Masfen) will be calculated in respect of that Director's remuneration prior to the increase approved at the 23 May 2008 meeting. The rationale for this was that the fees paid to Directors at that time did not reflect market rates, as they had remained unchanged since the incorporation of the Company over 14 years prior to that meeting. As such, a retirement allowance of $135,000 was payable to Mr Masfen and was paid on his retirement.

At the 23 May 2008 meeting, it was also noted that no retirement remuneration will be paid to Directors who are appointed after 1 May 2004. It is noted that Humphry Rolleston is the only other current Director who was appointed prior to 1 May 2004 and is entitled to this form of payment.

As at 30 June 2018, Directors of the Company held 1,041,371 (31 December 2017: 5,809,115) shares beneficially in the Company and 110,825 (31 December 2017: 408,741) shares non-beneficially in the Company.

6.4. 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.

6.5. Capital commitments

As at 30 June 2018 the Group had capital commitments totalling $8,954,000 (31 December 2017: $7,666,000) relating to work on investment properties.

6.6. Subsequent events

On 8 August 2018, the Directors of the Company approved the payment of a net dividend of $8,977,000 (1.8000 cents per share) to be paid on 31 August 2018. The gross dividend (2.2538 cents per share) carries imputation credits of 0.4538 cents per share. The payment of this dividend will not have any tax consequences for the Group and no liability has been recognised in the Consolidated Statement of Financial Position as at 30 June 2018 in respect of this dividend.

INDEPENDENT REVIEW REPORT

To the shareholders of Property for Industry Limited

Report on the interim financial statements

We have reviewed the accompanying interim financial statements of Property for Industry Limited (the "Company") and its controlled entity (the "Group") on pages 12 to 25, which comprise the consolidated statement of financial position as at 30 June 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period ended on that date, and selected explanatory notes.

Directors' responsibility for the interim financial statements

The Directors are responsible on behalf of the Company for the preparation and presentation of these interim financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion on the accompanying interim financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34. As the auditors of the Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these interim financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the area of other related assurance services comprising of voting procedures over the annual shareholders' meeting. The provision of this other service has not impaired our independence as auditor of the Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements of the Group are not prepared, in all material respects, in accordance with NZ IAS 34.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in our review 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 review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants | Auckland

8 August 2018

DIRECTORY

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Jones Lang LaSalle Limited
Savills (NZ) Limited

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CALENDAR

2018

AUGUST

- 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 Interim Report is dated 8 August 2018 and signed on behalf of the Board by:

Anthony Beverley
Chairman

Susan Peterson
Chair, Audit and Risk Committee

306 Neilson Street, Penrose
Trade Depot: the sole tenant at this new acquisition

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