PFI

Property for Industry Limited

Annual Report 31 December 2018

THE LANDLORD ISSUE

ROBUST RELATIONSHIPS

+

A YEAR IN REVIEW

INCOME FOR INVESTORS

MANAGEMENT SUCCESSION

PROFESSIONAL INDUSTRIAL LANDLORDS


PFI
GOOD TO DO
BUSINESS WITH

"As professional landlords to the industrial economy, PFI works with tenants to find structured occupancy solutions that work and allow us to maintain the relationships we've built, into the future. For over twenty years, we've partnered with Fletcher Building, ensuring that the many premises they lease from us continue to meet their varied needs."

Ewan Cameron
PFI – Asset and Development Manager

FEATURED:
PFI Asset and Development Manager, Ewan Cameron (right), with Fletcher Building's Head of Property, New Zealand, Vinnie Miles (left).

PFI.CO.NZ

PFI generates income for investors as professional landlords to New Zealand's industrial economy. In this Annual Report, we explore more fully what it means to be a professional landlord and why many of New Zealand's leading companies choose to partner with PFI.

Strong, stable returns from strong, stable relationships.

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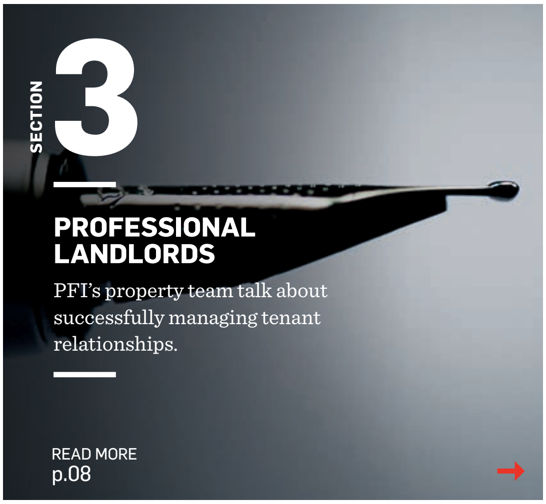


MEET THE PFI TEAM

ANTHONY BEVERLEY
Chairman and Independent Director

DAVID THOMSON
Independent Director

HUMPHRY ROLLESTON
Independent Director

SUSAN PETERSON
Independent Director

GREG REIDY
Executive Director

SIMON WOODHAMS
Chief Executive Officer

CRAIG PEIRCE
Chief Finance and Operating Officer

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

01

A STRONG RETURN TO SHAREHOLDERS AND A MANAGEMENT TRANSITION.

REVIEW 2018

INCOME FOR INVESTORS

2018 ENDS WITH PFI DELIVERING ON ITS PROMISE OF STRONG STABLE INVESTOR RETURNS AND IMPLEMENTING A MANAGEMENT TRANSITION TO ENSURE SUCH PERFORMANCE CONTINUES.

GENERAL MANAGER SIMON WOODHAMS is now Chief Executive Officer, and Chief Financial Officer Craig Peirce is now Chief Finance and Operating Officer. Greg Reidy is transitioning from Managing Director to Non-Executive Director. "Another example of the Board's long term and careful approach to succession planning," says PFI Chairman, Anthony Beverley.

The dividend is 7.55 cents per share, up on last year's dividend of 7.45 cents per share, and the highest level of dividend in the past five years.

Underpinning the financial result is an 8.4% increase in net rental income, the outcome of a busy year of tenancy reviews and new leases. 102,000 sqm of space was leased, for an average term of 6.2 years, for a total rent of in excess of $12.0million. In this annual report we look in-depth at PFI's role as professional landlords to New Zealand's industrial economy and explore how it is that PFI successfully retains existing tenants (73% retention in 2018). The property team remains focused on PFI's Carlaw Park complex: ten years on, a number of leases have expired and some turnover is inevitable. Five new leases have been secured at this property during the year, and two more leases have been agreed since the end of the year.

Income was up, but expenses were largely flat. The savings from the internalisation of management continue, offset somewhat by higher borrowing costs.

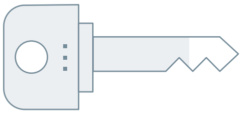
There were two acquisitions during the year: in June, we purchased 306 Neilson Street, Penrose, for $16 million (see the Interim Report for the full story) and, in October, 12 Hautu Drive, Manukau, for $12.3 million, with Kiwi Steel as tenants. Those acquisitions, and a 5.3% uplift in the market valuation of the portfolio, take the portfolio value to in excess of $1.322 billion. As a result, NTA per share is up 8.9% to $1.78. There are now 94 properties in the PFI portfolio (up from 92 a year ago).

In October, PFI allotted a second $100 million of retail bonds, cancelling $100 million of bank facilities. In December, $37.5 million of bank facilities were refinanced. At year-end, the LVR is 30.3% (PY 30.8%).

There were changes to the PFI Board during 2018. In February, David Thomson joined the Board and in May, long-serving Board Member and Chairman, Peter Masfen, retired. Previous Deputy Chair, Anthony Beverley was appointed PFI's Chairman.

KIWI STEEL
12 Hautu Drive
Manukau

For more information on our annual results, please visit : https://www.propertyforindustry.co.nz/investor-centre/results-centre/



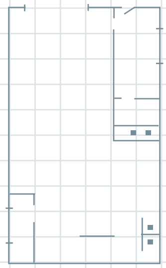
73% RETENTION

Of tenants whose leases were due for renewal

102,000

SQM LEASED

For 6.2 years and a total rent of $12.0 million



7.55

DIVIDENDS

(cents per Share)

2018	**7.55**
2017	7.45
2016	7.35
2015	7.30
2014	7.25

177.7

Net Tangible Assets (cents per share)

2018	**177.7**
2017	163.2
2016	160.7
2015	140.5
2014	130.2

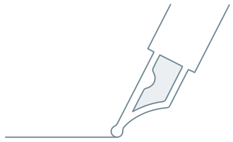
PETER MASFEN

"So, thank you Peter, for your outstanding contribution to PFI, and for never letting us forget that the reason for everything we do is to deliver strong, stable returns to shareholders."

ANTHONY BEVERLEY farewells retiring Chairman, Peter Masfen, at PFI's Annual Meeting in May

"… positive progress of PFI and its positioning as a leader in industrial property investment in New Zealand."

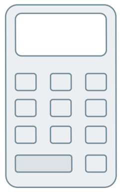
ANTHONY BEVERLEY announces PFI's management changes in December



PURCHASED

306 Neilson Street, Penrose
for $16 million

12 Hautu Drive, Manakau,
for $12 million



$1.322 BILLION

Year-end market value of PFI's portfolio

PROPERTIES IN THE PFI

Portfolio

94

Up from 92 a year ago

02

PFI CONTINUES TO MANAGE CHANGE AND REGENERATION IN A PLANNED AND ORDERLY MANNER, MAINTAINING STABILITY AND STRATEGIC CONTINUITY.

PROGRESS MANAGED

As 2018 drew to a close, PFI announced changes to its management team.

General Manager Simon Woodhams is now Chief Executive Officer, and Chief Financial Officer Craig Peirce is now Chief Finance and Operating Officer. Managing Director, Greg Reidy, will transition to Non-Executive Director by June 2019.

"This is a positive and planned progression," says PFI Chairman, Anthony Beverley, "and follows the internalisation of the management contract in 2017. Greg, Simon and Craig have been integral to PFI's growth and positive progress, and this reallocation of roles and responsibilities provides continuity and regeneration."

Simon joined Direct Property Fund (DPF) in 2005 as a Development Manager and became a General Manager of PFI after the DPF merger in 2013. Craig joined DPF in 2009 and became PFI's CFO and Company Secretary in 2012 when the management of PFI was taken over from AMP.

"It's an exciting time to be taking on this responsibility," says Simon. "Our vision is for PFI to be one of New Zealand's foremost Listed Property Vehicles. We're well on our way already, but we plan to be even more intentional and proactive. I'm looking forward to that."

"It's about building on what we have and being true to who we are," says Craig Peirce. "There's no change of direction. Our purpose remains the same: creating income for investors and prosperity for New Zealand. There's no doubt that the scale PFI now has will enable us to be more influential than ever."

"Simon and Craig are very experienced executives," says Anthony Beverley. "They have a deep knowledge and understanding of our business and the sector in which we operate. This is of great value to PFI as we continue to consistently deliver strong, stable returns to investors." ■

ION

“Very experienced executives with a deep knowledge and understanding of our business.”

ANTHONY BEVERLEY,
PFI Chairman

03

PFI'S PROPERTY TEAM TALK ABOUT SUCCESSFULLY MANAGING TENANT RELATIONSHIPS.

> **"One of the key components to being a landlord is listening to and understanding your tenants and working with them in order that they can get on and do what they do best."**
>
> **JODIE WARMAN,**
> PFI Property Manager

PROFESSIONAL LANDLORDS

“What needs doing gets done,” says PFI Property Manager Jodie Warman, explaining what it means to be a professional landlord. “We’re not sitting in some ivory tower counting the rent, we have good relationships with our tenants, and with our contractors and service providers. If there are any issues, our tenants pick up the phone and talk to us and we sort it.”

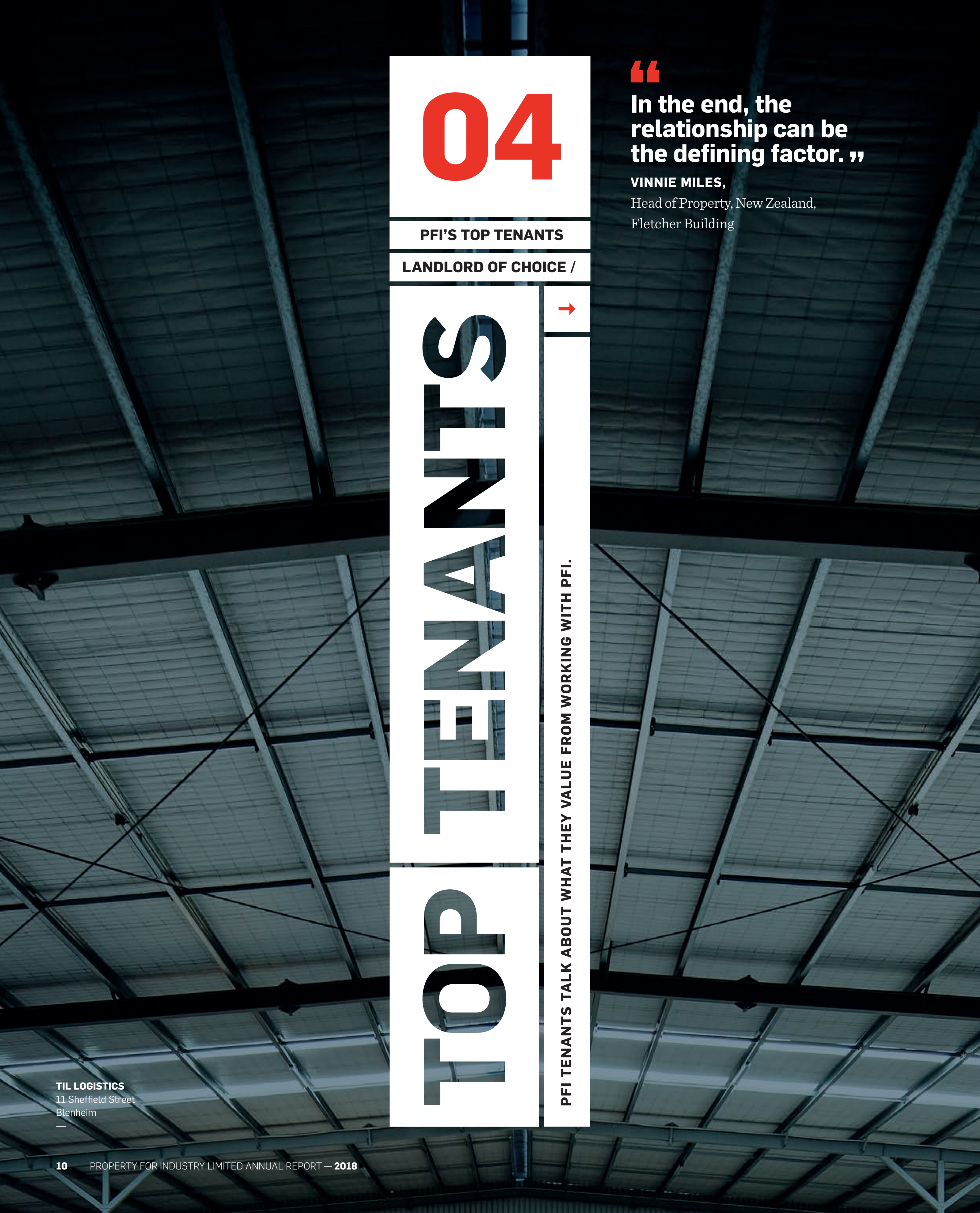
“We’re not in a suit-and-tie sector of the economy,” says Michael Rippon, also a PFI Property Manager. “Our tenants are in manufacturing and logistics, and they expect us to be out there, where the work gets done, aware of what’s going on in their businesses and where they are headed. We’re a small team at PFI — not some multi-layered hierarchy — and that means we’re nimble. Things get done.”

For PFI’s Asset and Development Manager, Ewan Cameron, ‘Firepower’ is key. “The whole point of leasing rather than owning premises is that you take property off your balance sheet and get on with what you’re good at. Property is not a liquid asset and yet a business is constantly evolving. Working with PFI gives our tenants flexibility. As they grow, we can reconfigure spaces, or find them a new location, and we can restructure the lease to suit.”

“Being fair,” says Jodie. “Our focus is on building and maintaining long-term relationships with our tenants: retention is our goal. And so, we’re not going to say, ‘that’s what you signed up for, so that’s what you get.’ We’re going to work with them. Change things. I do think we have a reputation of being good to do business with. People say they prefer to deal with us, because we’re the good guys.”

“It is the PFI culture,” agrees Michael. “To achieve strong, stable returns for our investors, we build strong, stable relationships with our tenants. We make sure we look after the day-to-day management of the property and we look to the long term as well.”

“We are professional landlords to New Zealand’s industrial economy,” says Ewan. “It’s a specialist field that we understand well. In 2018, we retained more than 70% of tenants whose tenancy was up for renewal. I’m proud of that: an excellent outcome for our investors.”



04

PFI'S TOP TENANTS

LANDLORD OF CHOICE /

TOP TENANTS

PFI TENANTS TALK ABOUT WHAT THEY VALUE FROM WORKING WITH PFI.

> **“In the end, the relationship can be the defining factor.”**
>
> **VINNIE MILES,**
> Head of Property, New Zealand,
> Fletcher Building

TIL LOGISTICS
11 Sheffield Street
Blenheim
—

01. Top ten tenants occupy 28 properties across New Zealand

16	They occupy 16 locations in Auckland
8	Are located in 8 centres across New Zealand
7	TIL logistics have 7 locations nationally
6	Fletcher Building tenant 6 properties in Auckland

04. Top tenants by number of properties

Tenant	Properties
Fletcher Building	8
TIL Logistics	7
EBOS	3
DHL	2
Mainfreight	2
Ballance	2
F&P Appliances	1
Jacobs	1
Southern Spars	1
Goodman Fielder	1

05. Biggest and smallest

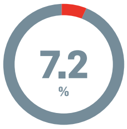
41,000
SQM

Fisher & Paykel are our biggest tenant with 41,000sqm in Springs Road, Auckland (nearly five rugby pitches). Rockgas' fuel holding cell in New Plymouth is our smallest.

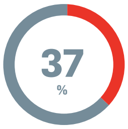
02. Top ten scale

	Number of properties	Annual Rent ($000's)	% of Total
Fisher & Paykel Appliances	1	5,920	7.2
Fletcher Building	8	5,238	6.4
TIL Logistics	7	4,377	5.3
EBOS	3	3,094	3.8
Jacobs	1	2,494	3.0
DHL	2	2,469	3.0
Mainfreight	2	1,921	2.3
Ballance	2	1,897	2.3
Southern Spars	1	1,614	2.0
Goodman Fielder	1	1,392	1.7
TOTAL	**28**	**30,416**	**37**

03. Top ten clients contribution to our portfolio



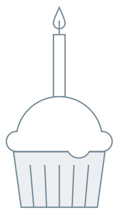
Fisher & Paykel Appliances occupy one location that yields 7.2 % of our total rent revenue



$30.416 M, 37% in annual rent comes from our top ten clients.

Occupy 28 properties, or 29.8%, of a total of 94 properties.

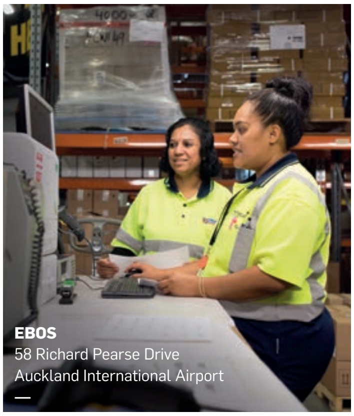
06. Longest tenant relationship



We've been working with Fletcher Building for over twenty years.

EBOS
58 Richard Pearse Drive
Auckland International Airport

MAINFREIGHT
36 Neales Road
East Tamaki



EBOS
58 Richard Pearse Drive
Auckland International Airport

FLETCHER BUILDING PRODUCTS
232 Cavendish Drive
Manakau

There's a new breezeway at 58 Richard Pearse Drive, in the Auckland International Airport industrial precinct. A breezeway is a large canopy extending from the building over the yard, providing shelter from the elements: keeping precious cargo cool and dry during loading and unloading. When you are warehousing and distributing pharmaceutical products, as PFI tenant Healthcare Logistics does, that matters.

As a PFI investor, you might stop one day and take a look. Not to better understand what a breezeway is, necessarily, but to better understand how it is that PFI attracts and retains top tenants like Healthcare Logistics: a subsidiary of the EBOS Group, a $7 billion enterprise employing more than 3,200 employees in 52 locations across Australasia. Three of those locations are owned by PFI; 58 Richard Pearse Drive is a warehouse facility with in excess of 10,500 sqm of space worth over $22 million.

"PFI are responsive to our needs," says Healthcare Logistics Operations Manager, Steve Tolich. "We prefer to lease our premises, rather than own — our focus is using the asset — but for that to work, you need a landlord who understands your business and who's willing to customise the premises to suit you. PFI is very good like that."

Over on the North Shore, at Argus Place, off Sunnybrae Road, Brett Hopwood, General Manager and Director of Pharmapac Ltd, agrees. "Ours is a family owned business and the secret to success has been understanding our customers inside out. PFI knows this too.

BALLANCE
124a Hewletts Road
Mount Maunganui

SOUTHERN SPARS
15 Jomac Place
Avondale

"PFI are responsive to our needs."

STEVE TOLICH,
Operations Manager, Healthcare Logistics

They have modified the building to suit our requirements and service-wise they are really good. There is an ongoing programme to maintain the quality of the asset."

"They understand the operational drivers of our businesses," says Vinnie Miles, Head of Property, New Zealand, for Fletcher Building. Fletcher Building leases eight properties from PFI: in Auckland, Wellington and Christchurch, and have been PFI tenants for longer than any other. "Each of our businesses is unique. PFI understand that and work with us to ensure the premises continue to meet our needs. We might need to upgrade the yard, or put in bigger roller doors, because the current configuration doesn't suit. PFI will help us make it work operationally and make it work financially."

"It starts with the fundamentals," says Vinnie. "We have some non-negotiables like seismic strength and no asbestos, but PFI have those too. Then there's the quality of the asset: is it fit for purpose? But in the end, on a like-for-like basis, the relationship can be the defining factor. Do we know these guys, do we like doing business with them, do we trust them?

"The industrial property market has become a lot more sophisticated. Because vacancy rates are so low, you have to be more proactive than ever and thinking ahead; planning your space requirements. You want to work with people who can respond and will work with you on managing transitions. That's the relationship we have with PFI."

The new breezeway at 58 Richard Pearse Drive is emblematic of PFI's approach to attracting and retaining top tenants. Ewan Cameron, PFI's Asset and Development Manager, puts it like this: "We work with our tenants to find structured occupancy solutions that work and allow us to maintain the relationships we've built, into the future. Tenants' requirements change over time and so this will often require more 'bespoke' solutions, requiring the reconfiguration of space, new development or restructuring lease terms."

05

MANAGING THE BUSINESS TO ENSURE STABILITY.

STABILITY

"WE CONTINUALLY talk about 'strong and stable' returns," says PFI Chief Finance and Operating Officer, Craig Peirce, "and it's appropriate, I think, to explore the distinction between the two, because they are not the same but they are related, and they equally inform our decision-making.

"Investors depend on PFI for income and the expectation is that we will do that, year-in, year-out, almost regardless of the economic cycle. And so we are more conservative than we might be if we were simply pursuing growth.

"Take gearing. At year-end, our Loan to Value Ratio is around 30%. That's well within our self-imposed covenants and people might say 'why don't we take advantage of headroom?' My answer would be that accumulating more properties may well generate more income, but if we buy while prices are high and then they fall, that would stress the business and might compromise our ability to consistently pay acceptable dividends.

"It comes back to purpose. Because PFI's purpose is generating income for investors, stability of those returns is just as important as strength." ■

LOAN TO VALUE RATIO

30.3 %

PROSPERITY

TODAY, THERE ARE around three million New Zealanders in KiwiSaver and every month now the IRD collects around half a billion dollars in KiwiSaver contributions. We've got a silent revolution going on," says PFI Chief Finance and Operating Officer, Craig Peirce.

That 'silent revolution' is part of the explanation for PFI's second $100 million bond issue in 2018. "New Zealanders are getting serious about saving and fund managers need opportunities to put those savings to work. They are keen to invest in New Zealand, they like to have property in the mix, and — for some of their portfolios — they need the security of fixed returns. And so bonds are in demand." Craig says.

PFI has used the money from the bond issue to repay bank funding. "Bonds are giving us diversification," says Craig, "We'll continue to rely on bank debt, because it offers greater flexibility, but it makes sense not to be solely dependent on the banking sector. What's more, bonds typically have a longer maturity profile, which is helpful: in this case seven years as opposed to five for the typical bank facility. And bonds have become easier to issue and are currently price-competitive with bank debt.

"This was our second bond issue. It gives New Zealanders, and their fund managers, another option for investing in PFI and it's extending the role PFI plays in creating prosperity for New Zealand." ■

100
MILLION BOND ISSUE

06

PFI'S PERFORMANCE AND INDUSTRIAL PROPERTY MARKET TRENDS AT A GLANCE.

— PFI Property manager Jodie Warman, focussed on client retention.

NOTE

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

4.4%

INCREASE IN LAND VALUES

01. Auckland industrial land values have increased by 4.4% in the first half of 2018, resuming the strong growth trend observed since June 2015. (CBRE).

2.6%

ECONOMIC GROWTH

02. ANZ Bank estimate the New Zealand economy grew around 2.5% in 2018 and anticipate 2019 will be similar.

23 YEARS

RECORD LOW AUCKLAND INDUSTRIAL VACANCIES

03. The overall Auckland regional industrial vacancy rate reached 1.7% in August 2018, the lowest level in the 23-year history of the survey. (Colliers).

99.3%

PFI OCCUPANCY

04. At reporting date, occupancy of the PFI portfolio continues to sit above 99%.

— We are professional landlords to New Zealand's industrial economy

WORTHY

— Strong and lasting relationships rely on active listening and clear communication.

— We're as much a part of our tenants' business as they are of ours.

5.39 YEARS

WEIGHTED AVERAGE LEASE TERM (WALT)

05. WALT remains at a similar level to last year and the highest it has been since 2013.

$**1.322**B

PORTFOLIO VALUE

06. Acquisitions and revaluations have increased the portfolio value by 5.5% on a year ago and by 38% on five years ago.

9.3%

P.A. ANNUAL RETURN SINCE INCEPTION

07. Over the 24 years since PFI listed in 1994, annual returns to shareholders have averaged 9.3% 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 2018

ALL VALUES IN $000S	NOTE	2018	2017
INCOME			
Rental and management fee income	2.3	89,710	81,952
Licence income	6.8	100	50
Interest income		6	28
Fair value gain on investment properties	2.1	66,370	43,595
Gain on disposal of investment properties		53	1,949
Fair value gain on derivative financial instruments		2,009	–
Material damage insurance income		–	504
Total income		158,248	128,078
EXPENSES			
Property costs	2.4	(12,507)	(10,859)
Interest expense and bank fees		(18,766)	(17,768)
Administrative expenses	6.1	(4,679)	(2,891)
Management fees	6.8	–	(2,919)
Fair value loss on derivative financial instruments		–	(1,230)
Termination of management agreement	5	–	(42,869)
Total expenses		(35,952)	(78,536)
Profit before taxation		122,296	49,542
Income tax (expense) / benefit	6.2	(12,202)	2,142
Profit and total comprehensive income after income tax attributable to the shareholders of the Company	4.1	110,094	51,684
Basic and diluted earnings per share (cents)	4.1	22.08	11.25

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Cents per Share (cents)	No. of Shares (#)	Ordinary Shares ($000s)	Retained Earnings ($000s)	Total Equity ($000s)
Balance as at 1 January 2017	–	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
Total comprehensive income	–	–	–	110,094	110,094
Dividends and reinvestment					
Q4 2017 final dividend – 7/3/2018	2.15	–	–	(10,723)	(10,723)
Q1 2018 interim dividend – 31/5/2018	1.80	–	–	(8,977)	(8,977)
Q2 2018 interim dividend – 31/8/2018	1.80	–	–	(8,977)	(8,977)
Q3 2018 interim dividend – 28/11/2018	1.85	–	–	(9,225)	(9,225)
Balance as at 31 December 2018	–	498,723,330	562,429	352,706	915,135

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

ALL VALUES IN $000S	NOTE	2018	2017
CURRENT ASSETS			
Cash at bank		1,652	605
Accounts receivable, prepayments and other assets	6.3	1,239	1,295
Taxation receivable		–	32
Total current assets		2,891	1,932
NON–CURRENT ASSETS			
Investment properties	2.1	1,318,655	1,210,805
Property, plant and equipment		62	95
Derivative financial instruments	3.2	4,891	272
Goodwill	6.5	29,086	29,086
Total non–current assets		1,352,694	1,240,258
Non–current assets classified as held for sale	2.2	3,313	–
Total assets		1,358,898	1,242,190
CURRENT LIABILITIES			
Derivative financial instruments	3.2	94	372
Accounts payable, accruals and other liabilities	6.4	10,460	8,261
Taxation payable		8,805	–
Total current liabilities		19,359	8,633
NON–CURRENT LIABILITIES			
Borrowings	3.1	398,222	370,635
Derivative financial instruments	3.2	13,982	11,095
Deferred tax liabilities	6.2	12,200	8,884
Total non–current liabilities		424,404	390,614
Total liabilities		443,763	399,247
Net assets	4.2	915,135	842,943
EQUITY			
Share capital		562,429	562,429
Retained earnings		352,706	280,514
Total equity		915,135	842,943

These Group financial statements are signed on behalf of Property for Industry Limited and were authorised for issue on 18 February 2019.

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 YEAR ENDED 31 DECEMBER 2018

ALL VALUES IN $000S	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Property and management fee income received	90,610	81,355
Material damage insurance income	–	504
Licence income	100	50
Net GST received	55	95
Interest received	6	28
Interest and other finance costs paid	(19,170)	(19,244)
Payments to suppliers and employees	(17,806)	(15,303)
Income tax paid	(49)	(2,611)
Termination of management agreement	–	(42,869)
Net cash flows from operating activities	53,746	2,005
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investment properties	85	21,765
Acquisition of investment properties	(28,369)	(84,283)
Acquisition of assets relating to a business combination	–	(106)
Acquisition of property, plant and equipment	(22)	(15)
Expenditure on investment properties	(14,800)	(12,769)
Capitalisation of interest on development properties	(41)	–
Net cash flows from investing activities	(43,147)	(75,408)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayment of) / proceeds from syndicated bank facility	(71,650)	(61,000)
Proceeds from the issue of fixed rate bonds	100,000	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	(37,902)	(32,569)
Net cash flows from financing activities	(9,552)	74,121
Net increase / (decrease) in cash and cash equivalents	1,047	718
Cash and cash equivalents at beginning of year	605	(113)
Cash and cash equivalents at end of year	1,652	605

Cash and cash equivalents at end of year comprises:

ALL VALUES IN $000S	2018	2017
Cash at bank	1,652	605
Cash and cash equivalents at end of year	1,652	605

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

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

FOR THE YEAR ENDED 31 DECEMBER 2018

ALL VALUES IN $000S	**2018**	2017
Profit for the year after income tax	110,094	51,684
Non cash items:		
Fair value gain on investment properties	(66,370)	(43,595)
Gain on disposal of investment properties	(53)	(1,949)
Fair value (gain) / loss on derivative financial instruments	(2,009)	1,230
Deferred taxation	3,316	(2,142)
Depreciation	55	26
Provision for doubtful debts	(18)	67
Movements in working capital items:		
Accounts receivable, prepayments and other assets	(689)	(1,250)
Accounts payable, accruals and other liabilities	583	545
Taxation payable / (receivable)	8,837	(2,611)
Net cash flows from operating activities	53,746	2,005

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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 for 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 2018 and 31 December 2017, 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

At the date of authorisation of these financial statements the following relevant standard was in issue and effective however, it has not been applied in preparing these financial statements since it is effective for accounting periods beginning on or after 1 January 2019.

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 Group will adopt NZ IFRS 16 on its effective date of 1 January 2019.

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.

1.6. Critical judgements, estimates and assumptions

In applying the Group's accounting policies, the Board and Management regularly 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 financial statements are as follows:

2.1.	Investment properties	Page 27
3.2.	Derivative financial instruments	Page 42
5.	Internalisation of Management	Page 44
6.2.	Taxation	Page 45
6.5.	Goodwill	Page 47

1. GENERAL INFORMATION (CONTINUED)

1.7. Accounting policies

No changes to accounting policies have been made during the year, other than following the adoption of new standards outlined in section 1.8, which follows below, 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. 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 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 $8,502,000 and property costs increased by $8,502,000. These have also had a flow on impact to the statement of cash flows where property income received has increased by $8,502,000 and payments to suppliers and employees has also increased by $8,502,000.

1.9. 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 acquisitions and disposals
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.

On 31 October 2018, the Group purchased an investment property located at 12 Hautu Drive, Manukau, for a net purchase price of $12.3 million.

On 13 December 2018, the Group announced the sale of an investment property located at 50 Parkside Road, Wellington, for a net sales price of $3.3 million. Settlement took place on 23 January 2019. The property has been separately classified as a non-current asset classified as held for sale in the 2018 financial statements.

Bond Issue
On 1 October 2018, PFI issued $100 million of fixed rate bonds with a 7 year term expiring 1 October 2025, paying an interest rate of 4.25%. 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 $000S	2018	2017
Opening balance	1,210,805	1,083,300
Capital movements:		
Additions	28,369	84,283
Disposals	(32)	(12,188)
Transfer to non-current assets classified as held for sale	(3,313)	–
Capital expenditure	13,629	10,422
Capitalised interest[a]	41	–
Movement in lease incentives, fees and fixed rental income	2,786	1,393
	41,480	83,910
Unrealised fair value gain	66,370	43,595
As at 31 December	1,318,655	1,210,805

a The effective interest rate applied to capitalised interest was 4.81% (2017: no interest capitalised to investment properties). The 2018 capitalised interest relates to the new development at 212 Cavendish Drive.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

2. PROPERTY (CONTINUED)

2.1. Investment properties (continued)

ALL VALUES IN $000'S UNLESS NOTED	Key tenant	Occupancy (%)		Yield on valuation (%)		Contract rent		Lettable area (sqm)	Valuer	Carrying value	Capital movements	Fair value adjustment	Carrying value
	2018	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	**2018**	2017	**2018**	**2018**	**2018**
Avondale:													
15 Copsey Place	Canterbury	100%	100%	5.6%	5.9%	767	751	6,878	JLL	12,660	15	1,105	13,780
15 Jomac Place	Southern Spars	100%	100%	6.6%	6.7%	1,614	1,614	9,378	JLL	24,000	(53)	553	24,500
61-69 Patiki Road	Bidvest	98%	100%	6.2%	7.0%	1,127	1,174	9,767	Savills	16,750	125	1,375	18,250
320 Rosebank Road	Doyle Sails	100%	100%	5.7%	6.0%	679	679	6,625	CBRE	11,400	(26)	526	11,900
686 Rosebank Road	New Zealand Comfort	100%	98%	6.2%	7.0%	2,489	2,447	21,565	Savills	35,000	123	4,877	40,000
		100%	99%	6.2%	6.7%	6,676	6,665	54,213		99,810	184	8,436	108,430
East Tamaki:													
17 Allens Road	TSB Living	100%	100%	6.1%	6.7%	1,050	1,034	9,926	CBRE	15,500	132	1,668	17,300
43 Cryers Road	Astron Plastics	100%	100%	5.8%	6.1%	721	721	6,068	Savills	11,750	(23)	773	12,500
6-8 Greenmount Drive	Bridon	100%	100%	6.4%	7.7%	644	644	6,590	JLL	8,375	5	1,620	10,000
92-98 Harris Road	GrainCorp	100%	100%	8.9%	8.6%	1,354	1,309	10,687	CBRE	15,250	(103)	103	15,250
36 Neales Road	Mainfreight	100%	100%	5.3%	6.3%	1,147	1,160	12,563	Colliers	18,400	243	3,057	21,700
1 Ron Driver Place	Stewart Scott Cabinetry	100%	100%	5.2%	5.3%	403	403	4,032	JLL	7,600	(37)	237	7,800
78 Springs Road	Fisher & Paykel Appliances	100%	100%	7.1%	6.9%	5,920	5,748	41,536	Colliers	82,800	656	(456)	83,000
10c Stonedon Drive	Chemical Freight Services	100%	100%	6.3%	7.0%	857	824	8,711	JLL	11,700	122	1,778	13,600
11 Turin Place	Thermakraft Industries	100%	100%	5.8%	6.0%	925	925	8,501	Savills	15,500	292	208	16,000
12 Zelanian Drive	Central Joinery	100%	100%	5.2%	5.5%	582	564	6,098	JLL	10,275	–	865	11,140
23 Zelanian Drive	Exclusive Tyre Distributors	100%	100%	6.0%	6.2%	426	416	3,811	Savills	6,750	–	350	7,100
		100%	100%	6.5%	6.7%	14,029	13,748	118,523		203,900	1,287	10,203	215,390
Manukau:													
212 Cavendish Drive[a]	Mainfreight	100%	100%	6.5%	6.1%	1,929	1,368	26,067	JLL	22,400	6,305	945	29,650
232 Cavendish Drive[a]	Fletcher Building Products	100%	100%	5.1%	6.7%	1,100	1,354	16,832	Colliers	20,200	726	824	21,750
47 Dalgety Drive[a]	Peter Hay Kitchens	100%	100%	5.8%	7.3%	885	979	8,860	Savills	13,500	(1,049)	2,789	15,240
59 Dalgety Drive	Goodman Fielder	100%	100%	8.3%	8.1%	1,392	1,345	8,649	Savills	16,700	(187)	187	16,700
1 Mayo Road	Transdiesel	100%	100%	6.1%	6.5%	552	542	6,361	Savills	8,350	76	674	9,100
61 McLaughlins Road	TIL Logistics	100%	100%	5.0%	5.3%	1,150	1,150	13,347	Colliers	21,800	197	803	22,800
9 Nesdale Avenue	Iron Mountain	100%	100%	5.9%	6.1%	633	622	14,163	Colliers	10,200	14	586	10,800
12 Hautu Drive	Kiwi Steel	100%	n/a	5.1%	n/a	646	n/a	6,492	JLL	–	12,355	345	12,700
9 Narek Place	Z Energy	100%	100%	5.2%	5.3%	538	530	5,663	Savills	10,000	(12)	262	10,250
		100%	100%	5.9%	6.4%	8,825	7,890	106,434		123,150	18,425	7,415	148,990

[a] Excludes development land shown separately.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

2. PROPERTY (CONTINUED)

2.1. Investment properties (continued)

ALL VALUES IN $000'S UNLESS NOTED	Key tenant	Occupancy (%)		Yield on valuation (%)		Contract rent		Lettable area (sqm)	Valuer	Carrying value	Capital movements	Fair value adjustment	Carrying value
	2018	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	**2018**	2017	**2018**	**2018**	**2018**
Mt Wellington:													
30-32 Bowden Road	Fletcher Building Products	100%	100%	6.2%	6.6%	1,685	1,672	17,047	JLL	25,350	(4)	1,654	27,000
50 Carbine Road	Fletcher Building Products	100%	100%	4.8%	5.3%	190	202	2,592	CBRE	3,800	108	92	4,000
54 Carbine Road & 6a Donnor Place	EBOS	100%	100%	6.1%	6.5%	1,749	1,723	17,015	CBRE	26,400	(24)	2,224	28,600
76 Carbine Road	Atlas Gentech	100%	100%	5.2%	5.5%	433	433	5,080	JLL	7,850	33	517	8,400
7 Carmont Place	CMI	100%	100%	5.0%	5.6%	621	588	5,336	JLL	10,500	37	1,863	12,400
6 Donnor Place	Wickliffe	100%	100%	6.0%	5.6%	900	840	14,555	CBRE	15,100	25	(25)	15,100
4-6 Mt Richmond Drive	Brambles	100%	100%	5.5%	5.5%	835	805	7,946	Colliers	14,750	58	392	15,200
509 Mt Wellington Highway	Fletcher Building Products	100%	100%	5.8%	6.2%	1,023	985	8,744	Savills	16,000	153	1,347	17,500
511 Mt Wellington Highway	Bremca Industries	100%	100%	5.9%	5.8%	461	443	3,247	JLL	7,600	(40)	190	7,750
515 Mt Wellington Highway	Stryker	100%	100%	5.1%	5.4%	266	259	1,708	CBRE	4,800	12	413	5,225
523 Mt Wellington Highway	BGH Group	100%	100%	5.2%	5.5%	228	220	1,677	Savills	4,000	13	387	4,400
1 Niall Burgess Road	R L Button & Co	100%	100%	5.4%	5.7%	230	230	1,742	JLL	4,060	4	211	4,275
2-6 Niall Burgess Road	McAlpine Hussmann	100%	100%	6.2%	6.2%	920	813	6,874	JLL	13,200	(32)	1,632	14,800
3-5 Niall Burgess Road	Electrolux	100%	100%	5.4%	5.9%	1,072	1,038	9,373	JLL	17,650	125	2,225	20,000
7-9 Niall Burgess Road	DHL Supply Chain	100%	100%	6.7%	6.8%	2,148	2,108	23,565	Savills	31,000	312	688	32,000
10 Niall Burgess Road	Outside Broadcasting	100%	100%	5.2%	6.1%	250	258	1,725	Savills	4,200	49	551	4,800
2 Pacific Rise	Hewlett-Packard	100%	100%	11.0%	10.7%	972	944	2,757	JLL	8,850	16	(16)	8,850
5 Vestey Drive	PPG Industries	100%	100%	5.5%	5.6%	223	223	1,269	Savills	4,000	16	34	4,050
7 Vestey Drive	True North	100%	100%	4.8%	5.3%	516	516	4,598	CBRE	9,650	9	1,141	10,800
9 Vestey Drive	Multispares	100%	100%	5.0%	5.5%	212	212	1,600	Savills	3,850	(38)	388	4,200
11 Vestey Drive	N & Z	100%	100%	5.5%	5.5%	441	431	3,470	Savills	7,800	243	(43)	8,000
15a Vestey Drive	Hills	100%	100%	5.9%	6.2%	562	553	3,261	Savills	8,900	16	534	9,450
36 Vestey Drive	Hose Supplies	100%	100%	5.1%	5.3%	163	159	1,120	JLL	3,000	32	168	3,200
		100%	100%	6.0%	6.2%	16,100	15,655	146,301		252,310	1,123	16,567	270,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

2. PROPERTY (CONTINUED)

2.1. Investment properties (continued)

ALL VALUES IN $000'S UNLESS NOTED	Key tenant	Occupancy (%)		Yield on valuation (%)		Contract rent		Lettable area (sqm)	Valuer	Carrying value	Capital movements	Fair value adjustment	Carrying value
	2018	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	**2018**	2017	**2018**	**2018**	**2018**
North Shore:													
2-4 Argus Place	Pharmapac	100%	100%	5.0%	5.2%	430	419	3,560	JLL	8,100	24	551	8,675
47 Arrenway Drive	Device Technologies	100%	100%	5.3%	5.5%	231	225	1,245	JLL	4,110	4	256	4,370
51 Arrenway Drive	Pacific Hygiene	100%	100%	5.0%	5.1%	384	376	2,680	JLL	7,400	34	211	7,645
229 Dairy Flat Highway	Massey University	100%	100%	6.7%	6.9%	1,874	1,857	6,719	Colliers	27,000	85	915	28,000
15 Omega Street	Wesfarmers	100%	100%	5.1%	6.6%	498	567	3,498	JLL	8,600	17	1,083	9,700
322 Rosedale Road	BSGi NZ Limited	100%	100%	5.8%	6.2%	1,095	1,078	7,936	Savills	17,500	54	1,446	19,000
41 William Pickering Drive	Innopak Global	100%	100%	5.3%	5.7%	437	419	3,027	CBRE	7,400	22	778	8,200
		100%	100%	5.8%	6.2%	4,949	4,941	28,665		80,110	240	5,240	85,590
Penrose:													
4 Autumn Place	Ryco Hydraulics	100%	100%	4.8%	5.5%	152	148	1,210	CBRE	2,710	4	461	3,175
6 Autumn Place	MOTAT	100%	100%	4.9%	6.1%	174	171	1,718	CBRE	2,790	(11)	746	3,525
10 Autumn Place	MOTAT	100%	100%	5.2%	5.7%	666	653	7,646	CBRE	11,500	66	1,134	12,700
122 Captain Springs Road	New Zealand Crane Group	100%	100%	5.7%	5.9%	521	496	7,431	Savills	8,400	(14)	814	9,200
8 Hugo Johnston Drive	Argyle Schoolwear	100%	100%	6.2%	6.0%	683	658	4,359	Colliers	10,900	–	200	11,100
12 Hugo Johnston Drive	W H Worrall	100%	100%	5.8%	5.9%	337	337	2,639	Colliers	5,760	(4)	44	5,800
16 Hugo Johnston Drive	Newflor Industries	100%	100%	5.3%	5.8%	379	373	2,619	JLL	6,400	183	567	7,150
80 Hugo Johnston Drive	Boxkraft	100%	100%	5.5%	6.0%	469	457	3,872	CBRE	7,600	36	914	8,550
102 Mays Road	Go Logistics	100%	100%	5.9%	6.4%	525	513	7,588	CBRE	8,000	118	832	8,950
304 Neilson Street	Fletcher Building Products	100%	100%	5.9%	6.6%	737	720	13,438	Savills	10,950	319	1,131	12,400
306 Neilson Street	Trade Depot	100%	n/a	5.5%	n/a	883	n/a	6,301	Savills	–	16,070	130	16,200
312 Neilson Street	Transport Trailer Services	100%	100%	5.2%	5.6%	346	344	3,862	JLL	6,150	11	439	6,600
314 Neilson Street	Wakefield Metals	100%	100%	5.3%	5.7%	562	551	5,818	Savills	9,660	24	916	10,600
12 Southpark Place	Storepro Solutions	100%	100%	5.0%	5.5%	500	490	5,477	JLL	8,850	(29)	1,124	9,945
		100%	100%	5.5%	5.9%	6,934	5,911	73,978		99,670	16,773	9,452	125,895

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

2. PROPERTY (CONTINUED)

2.1. Investment properties (continued)

ALL VALUES IN $000'S UNLESS NOTED	Key tenant	Occupancy (%)		Yield on valuation (%)		Contract rent		Lettable area (sqm)	Valuer	Carrying value	Capital movements	Fair value adjustment	Carrying value
	2018	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	**2018**	2017	**2018**	**2018**	**2018**
Other Auckland:													
58 Richard Pearse Drive, Mangere	EBOS	100%	100%	5.2%	6.0%	1,174	1,174	12,759	Colliers	19,600	2,410	690	22,700
Carlaw Park Gateway Building, Parnell	Quest	100%	100%	7.0%	7.2%	2,481	2,545	2,369	CBRE	35,500	193	(193)	35,500
Carlaw Park Office Complex, Parnell	Jacobs	95%	100%	7.0%	7.2%	4,462	4,484	11,434	CBRE	62,100	2,821	(1,121)	63,800
170 Swanson Road, Swanson	Transportation Auckland	100%	100%	5.4%	5.3%	1,068	994	37,601	JLL	18,720	80	1,000	19,800
		97%	100%	6.5%	6.8%	9,185	9,197	64,163		135,920	5,504	376	141,800
North Island (outside Auckland):													
124 Hewletts Road, Mt Maunganui	RMD Bulk Storage	100%	100%	6.0%	6.3%	2,853	2,814	29,270	Colliers	45,000	(37)	2,237	47,200
124a Hewletts Road, Mt Maunganui	Ballance Agri-Nutrients	100%	100%	5.8%	7.6%	1,013	1,013	10,497	Colliers	13,380	372	3,648	17,400
124b Hewletts Road, Mt Maunganui	Ballance Agri-Nutrients	100%	100%	6.0%	6.1%	885	875	8,867	Colliers	14,350	–	450	14,800
3 Hocking Street, Mt Maunganui	Drymix	100%	100%	6.4%	7.1%	159	120	1,211	Colliers	1,680	221	599	2,500
558 Te Rapa Road, Hamilton	DEC Manufacturing	100%	100%	6.8%	6.8%	461	461	4,606	Savills	6,750	62	(62)	6,750
39 Edmundson Street, Napier	TIL Logistics	100%	100%	7.6%	7.9%	220	220	8,540	Colliers	2,800	36	64	2,900
20 Constance Street, New Plymouth	Aviagen	100%	100%	11.9%	11.4%	394	388	1,366	Colliers	3,400	–	(100)	3,300
330 Devon Street East, New Plymouth	TIL Logistics	100%	100%	7.0%	7.5%	112	112	482	Colliers	1,500	18	82	1,600
28 Paraite Road, New Plymouth	TIL Logistics	100%	100%	7.6%	7.7%	1,195	1,195	15,636	Colliers	15,600	203	(3)	15,800
2 Smart Road, New Plymouth	New Zealand Post	100%	100%	7.3%	7.4%	320	320	2,359	Colliers	4,300	14	86	4,400
Shed 22, 23 Cable Street, Wellington	Shed 22 Hospo	100%	100%	6.3%	6.2%	851	831	2,809	CBRE	13,300	89	61	13,450
143 Hutt Park Road, Wellington	EBOS	100%	100%	7.1%	7.1%	1,200	1,200	11,372	Colliers	16,800	14	186	17,000
8 McCormack Place, Wellington	Fletcher Building Products	59%	100%	4.8%	11.2%	435	848	6,406	CBRE	7,600	691	709	9,000
50 Parkside Road, Wellington[a]	Waste Management	100%	100%	n/a	9.9%	340	335	7,104	CBRE	3,400	(2,957)	(443)	–
48 Seaview Road, Wellington[a]	Goughs Gough & Hamer	100%	100%	9.2%	9.4%	583	573	8,996	Colliers	6,080	(16)	246	6,310
		97%	100%	6.8%	7.2%	11,021	11,305	119,521		155,940	(1,290)	7,760	162,410

[a] Excludes development land shown separately.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

2. PROPERTY (CONTINUED)

2.1. Investment properties (continued)

ALL VALUES IN $000'S UNLESS NOTED	Key tenant	Occupancy (%)		Yield on valuation (%)		Contract rent		Lettable area (sqm)	Valuer	Carrying value	Capital movements	Fair value adjustment	Carrying value
	2018	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	**2018**	2017	**2018**	**2018**	**2018**
South Island:													
11 Sheffield Street, Blenheim	TIL Logistics	100%	100%	7.5%	7.8%	490	490	10,823	Colliers	6,300	82	118	6,500
15 Artillery Place, Nelson	TIL Logistics	100%	100%	7.0%	7.4%	540	540	18,052	Colliers	7,300	89	311	7,700
8a & 8b Canada Crescent, Christchurch	Polarcold Stores	100%	100%	7.4%	7.6%	1,172	1,129	9,500	CBRE	14,775	–	975	15,750
41 & 55 Foremans Road, Christchurch	TIL Logistics	100%	100%	6.5%	6.7%	670	670	14,710	Colliers	10,000	131	119	10,250
44 Mandeville Street, Christchurch	Fletcher Building Products	100%	100%	8.5%	8.4%	1,124	1,118	11,154	CBRE	13,240	222	(212)	13,250
127 Waterloo Road, Christchurch	DHL Supply Chain	100%	100%	7.3%	7.0%	321	314	4,055	CBRE	4,490	–	(90)	4,400
		100%	100%	7.5%	7.6%	4,317	4,261	68,294		56,105	524	1,221	57,850
Investment properties - subtotal		99%	100%	6.2%	6.6%	82,036	79,573	780,092		1,206,915	42,770	66,670	1,318,655
Development land:													
212 Cavendish Drive, Manukau									JLL	2,200	(2,200)	–	–
232 Cavendish Drive, Manukau									Colliers	750	–	–	750
50 Parkside Road, Wellington									CBRE	320	(350)	30	–
47 Dalgety Drive									Savills	–	1,260	–	1,260
48 Seaview Road, Wellington									Colliers	620	–	(330)	290
Development land – subtotal										3,890	(1,290)	(300)	2,300
Investment properties – total										1,210,805	41,480	66,370	1,318,655

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 investment properties are derecognised when they have been disposed.

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 2018 and 2017 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.

2. PROPERTY (CONTINUED)

2.1. Investment properties (continued)

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

	RANGE OF SIGNIFICANT UNOBSERVABLE INPUTS		MEASUREMENT SENSITIVITY	
	2018	2017	Increase in input	Decrease in input
Market capitalisation rate (%)[1]	4.75 – 10.50	5.13 – 10.50	Decrease	Increase
Market rental ($ per sqm)[2]	28 – 370	26 – 420	Increase	Decrease
Discount rate (%)[3]	6.50 – 12.00	6.75 – 12.00	Decrease	Increase
Rental growth rate (%)[4]	1.71 – 2.94	1.61 – 2.93	Increase	Decrease
Terminal capitalisation rate (%)[5]	5.00 – 12.00	5.25 – 12.00	Decrease	Increase

1 The capitalisation rate applied to the market rental to assess 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.

The estimated sensitivity of the fair value of investment property to changes in the market capitalisation rate (under the Direct Capitalisation valuation approach) and discount rate (under the Discounted Cash Flows valuation approach) is set out in the table below:

ALL VALUES IN $000S	Fair value	Market capitalisation rate		Discount rate	
	2018	+0.25%	–0.25%	+0.25%	–0.25%
Valuation	1,318,655				
Change		(52,000)	56,000	(40,000)	43,000
Change (%)		(4%)	4%	(3%)	3%

ALL VALUES IN $000S	Fair value	Market capitalisation rate		Discount rate	
	2017	+0.25%	–0.25%	+0.25%	–0.25%
Valuation	1,210,805				
Change		(46,000)	49,000	(36,000)	38,000
Change (%)		(3%)	4%	(3%)	3%

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. PROPERTY (CONTINUED)

2.2. Non-current assets classified as held for sale

Key estimates and assumptions: Non-current assets classified as held for sale
Non-current assets classified as held for sale comprises an investment property contracted for sale. The carrying value of the property is the contracted sale price, net of sale costs, being the best indicator of fair value.

ALL VALUES IN $000S	**2018**	2017
50 Parkside Road, Wellington	3,313	–
Total non-current assets classified as held for sale	3,313	–

2.3. Rental and management fee income

ALL VALUES IN $000S	**2018**	2017
Gross rental receipts and service charge income recovered from tenants	87,717	81,200
Fixed rental income adjustments	1,257	603
Capitalised lease incentive adjustments	88	(312)
Management fee income	648	461
Total rental and management fee income	89,710	81,952

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 $000S	**2018**	2017
Within one year	78,477	76,061
After one year but not more than five years	231,606	218,152
More than five years	130,738	129,840
Total	440,821	424,053

2.4. Property costs

ALL VALUES IN $000S	**2018**	2017
Service charge expenses	(9,961)	(8,502)
Bad and doubtful debts recovery	63	79
Other non-recoverable property costs	(2,609)	(2,436)
Total property costs	(12,507)	(10,859)

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

2. PROPERTY (CONTINUED)

2.5. Net rental income

ALL VALUES IN $000S	2018	2017
Gross rental receipts and service charge income recovered from tenants	87,717	81,200
Fixed rental income adjustments	1,257	603
Capitalised lease incentive adjustments	88	(312)
less: Service charge expenses	(9,961)	(8,502)
Net rental income	79,101	72,989

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	2018	2017
Syndicated bank facility drawn down - non-current	201,050	272,700
Fixed rate bonds – non-current	200,000	100,000
Unamortised borrowings establishment costs	(2,828)	(2,065)
Net borrowings	398,222	370,635
Weighted average interest rate for drawn debt (inclusive of current interest rate swaps, margins and line fees)	4.86%	4.96%
Weighted average term to maturity (years)	4.00	3.70

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
The Group has facilities (A,B and C) 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 $275,000,000.

Facility A for $50,000,000, Facility B for $187,500,000 and Facility C for $37,500,000 are provided by ANZ, BNZ, CBA and Westpac. The facilities are all revolving facilities of a long term nature; Facility A expires 4 May 2020, Facility B expires 4 May 2021 and Facility C expires 4 May 2022.

ALL VALUES IN $000S	2018	2017
ANZ	74,525	101,625
BNZ	66,825	91,125
CBA	66,825	91,125
Westpac	66,825	91,125
Total facilities available	275,000	375,000
Syndicated bank facility drawn down - non-current	201,050	272,700
Undrawn facility available	73,950	102,300
Total facilities available	275,000	375,000

3. FUNDING (CONTINUED)

3.1. Borrowings (continued)

(iii) Fixed rate bonds

The following table provides details of the Group's fixed rate bonds:

	Value of Issue				Fair Value, $000S	
NZX code	$000S	Issue Date	Maturity Date	Interest Rate	**2018**	2017
PFI010	100,000	28-Nov-17	28-Nov-24	4.59%	103,127	102,333
PFI020	100,000	1-Oct-18	1-Oct-25	4.25%	101,377	–
Total fixed rate bonds	200,000				204,504	102,333

The fair value of the fixed rate bonds is based on their listed market prices at balance date and is classified as Level 1 in the fair value hierarchy (2017: Level 1). Interest on the PFI010 Bonds is payable quarterly in February, May, August and November in equal instalments, while interest on the PFI020 Bonds is payable quarterly in January, April, July and October; also 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 facility and fixed rate bonds. As at 31 December 2018, investment properties totalling $1,309,968,000 (31 December 2017: $1,175,705,000) were mortgaged as security for the Group's borrowings.

3.2. Derivative financial instruments

(i) Fair values

ALL VALUES IN $000S	**2018**	2017
Non-current assets	4,891	272
Current liabilities	(94)	(372)
Non-current liabilities	(13,982)	(11,095)
Total	(9,185)	(11,195)

(ii) Notional values, maturities and interest rates

	2018	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)	200,000	100,000
Notional value of interest rate swaps – fixed rate payer – forward starting ($000S)	210,000	155,000
Total ($000S)	630,000	475,000
Percentage of borrowings fixed (%)	55%	59%
Fixed rate payer swaps:		
Average period to expiry – start dates commenced (years)	2.10	2.62
Average period to expiry – forward starting (years from commencement)	3.53	3.65
Average (years)	2.80	3.04
Fixed rate payer swaps:		
Average interest rate[2] – start dates commenced (%)	4.16%	4.37%
Average interest rate[2] – forward starting (% during effective period)	3.43%	3.55%
Average (%)	3.80%	4.03%

1 The Group has $200 million fixed rate receiver swaps for the duration of the two $100 million fixed interest bonds, the effect of the fixed rate receiver swaps is to convert the two $100 million bonds to floating interest rates.

2 Excluding margin and fees.

3. FUNDING (CONTINUED)

3.2. Derivative financial instruments (continued)

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 (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 31 December 2018 of between 1.97% for the 90 day BKBM (31 December 2017: 1.88%) and 2.65% 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

	2018	2017
Total comprehensive income for the year attributable to the shareholders of the Company ($000)	110,094	51,684
Weighted average number of ordinary shares (shares)	498,723,330	459,600,237
Basic and diluted earnings per share (cents)	22.08	11.25

4.2. Net tangible assets per share

	2018	2017
Net assets ($000)	915,135	842,943
Less: Goodwill ($000) (note 6.5)	(29,086)	(29,086)
Net tangible assets ($000)	886,049	813,857
Closing shares on issue (shares)	498,723,330	498,723,330
Net tangible assets per share (cents)	178	163

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, at that time, 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 of the financial performance and position of the Group, but is disclosed to comply with New Zealand Equivalents to International Financial Reporting Standards.

6.1. Administrative expenses

ALL VALUES IN $000S	NOTE	2018	2017
Auditors remuneration:			
Audit and review of financial statements		(148)	(141)
Review of management fee calculations		–	(2)
Voting procedures over the annual shareholders' meeting		(3)	(3)
Benchmarking of executive remuneration		(7)	–
Employee and independent contractor benefits expense		(2,626)	(1,310)
Directors' fees	6.8	(597)	(360)
Office expenses		(411)	(253)
Rent		(110)	(55)
Depreciation		(55)	(26)
Other expenses		(722)	(741)
Total administrative expenses		(4,679)	(2,891)

6. OTHER (CONTINUED)

6.2. Taxation

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

ALL VALUES IN $000S	2018	2017
Profit before income tax	122,296	49,542
Prima facie income tax calculated at 28%	(34,243)	(13,872)
Adjusted for:		
Non-tax deductible revenue and expenses	(39)	115
Fair value gain on investment properties	18,584	12,207
Gain on disposal of investment properties	15	546
Depreciation	2,620	2,391
Disposal of depreciable assets	–	(34)
Deductible capital expenditure	1,325	740
Lease incentives, fees and fixed rental income	491	213
Derivative financial instruments	570	(333)
Impairment allowance	18	22
Current tax prior period adjustment	(222)	–
Current year tax losses utilised / (carried forward)	1,995	(1,995)
Current taxation expense	(8,886)	–
Current year tax losses (utilised) / carried forward	(1,995)	1,995
Depreciation	(242)	49
Lease incentives, fees and fixed rental income	(491)	(213)
Derivative financial instruments	(570)	333
Impairment allowance	(18)	(22)
Deferred taxation benefit	(3,316)	2,142
Total taxation reported in Consolidated Statement of Comprehensive Income	(12,202)	2,142

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 tax losses to be carried forward in 2017 which have now been utilised in 2018.

(ii) Deferred tax

	2016	2017	2017	2018	2018
ALL VALUES IN $000S	As at	Recognised in profit	As at	Recognised in profit	As at
Deferred tax assets					
Losses carried forward	–	(1,995)	(1,995)	1,995	–
Derivative financial instruments	(2,809)	(333)	(3,142)	570	(2,572)
Impairment allowance	(64)	22	(42)	18	(24)
Gross deferred tax assets	(2,873)	(2,306)	(5,179)	2,583	(2,596)
Deferred tax liabilities					
Investment properties	13,899	164	14,063	733	14,796
Gross deferred tax liabilities	13,899	164	14,063	733	14,796
Net deferred tax liability	11,026	(2,142)	8,884	3,316	12,200

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 $000S	**2018**	2017
Opening balance	38	2,257
Taxation paid / payable	8,773	6
Imputation credits attached to dividends paid	(6,608)	(2,225)
Closing balance available to shareholders for use in subsequent periods	2,203	38

Due to the prior year tax loss, the Group did not generate imputation credits during the prior 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 $000S	2018	2017
Accounts receivable	952	1,163
Provision for doubtful debts	(49)	(67)
Prepayments and other assets	336	199
Total accounts receivable, prepayments and other assets	1,239	1,295

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. The group applies the simplified approach to providing for expected credit losses prescribed by NZ IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. In the prior year, a provision for doubtful debts was 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 $000S	2018	2017
Accounts payable	1,615	2,038
Accrued interest expense and bank fees	2,589	2,230
Accruals and other liabilities in respect of investment properties	2,996	1,381
Accruals and other liabilities	3,260	2,612
Total accounts payable, accruals and other liabilities	10,460	8,261

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 $000S	2018	2017
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 the Property for Industry Limited CGU for goodwill impairment testing is determined using Level 3 valuation techniques (2017: 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 (14.3%, as determined by a third party, 2017: 15.9%) and deducting costs of disposal.

As at 31 December 2018 the estimated fair value less costs of disposal of the Property for Industry Limited CGU exceeded the carrying value (2017: 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 $000S	2018	2017
Financial Assets		
Financial assets at amortised cost		
Cash at bank	1,652	605
Accounts receivable and other assets	903	1,096
Total – Financial assets at amortised cost	2,555	1,701
Financial assets at fair value through profit or loss		
Derivative financial instruments	4,891	272
Total – Financial assets at fair value through profit or loss	4,891	272
Total Financial Assets	7,446	1,973
Financial Liabilities		
Financial liabilities at amortised cost		
Accounts payable, accruals and other liabilities	10,460	8,261
Borrowings	398,222	370,635
Total – Financial liabilities at amortised cost	408,682	378,896
Financial liabilities at fair value through profit or loss		
Derivative financial instruments	14,076	11,467
Total – Financial liabilities at fair value through profit or loss	14,076	11,467
Total Financial Liabilities	422,758	390,363

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.

	2018		2017	
ALL VALUES IN $000S	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	(1,171)	1,171	692	(692)
Impact on equity	(843)	843	498	(498)

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). The Group considers both historical analysis and forward-looking information in determining any expected credit loss, and infers from this strong credit rating that no loss allowance is deemed necessary.

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 4.0 years (2017: 3.7 years), with all borrowings due later than one year (2017: 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 2018 and 31 December 2017.

	Carrying	Contractual cash flows				
ALL VALUES IN $000S	amount	0– 1 year	1– 2 years	2– 5 years	> 5 years	Total
Financial liabilities						
Accounts payable, accruals and other liabilities	10,460	10,460	–	–	–	10,460
Derivative financial instruments[1]	9,185	2,765	2,429	3,645	506	9,345
Borrowings	398,222	14,150	63,111	174,724	209,550	461,535
Total as at 31 December 2018	417,867	27,375	65,540	178,369	210,056	481,340
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

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%, and this was complied with during the year.

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.

(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 prior year, the Group incurred base management fees totalling $2,919,000 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 prior year, the Group incurred no performance fees from PFIM.

(ii) Key management personnel

ALL VALUES IN $000S	**2018**	2017
Directors' fees – annual fees	357	360
Directors' fees – retirement allowance paid	135	–
Directors' fees – retirement allowance accrued	105	–
Short-term independent contractors benefits	1,518	805
Key management personnel	2,115	1,165

(iii) Other related party transactions
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 prior year, rental income of $39,000 was paid to MRCO and is included within other expenses. The head office was sold to an 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 $100,000 was received from MRCO (2017: $50,000).

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 $3,135,000 (2017: $2,120,000) of interest expense and bank fees and received $657,000 (2017: $48,000) of interest income from CBA. As at 31 December 2018: $246,000 (31 December 2017: $499,000) was owing to CBA and included in accounts payable, accruals and other liabilities and $45,000 (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 $66,825,000 (31 December 2017: $91,125,000) of which $48,855,150 (31 December 2017: $66,266,100) was drawn as at 31 December 2018. As at 31 December 2018, interest rate swaps with the following notional values were held with CBA: $45,000,000 (31 December 2017: $60,000,000) current fixed rate payer swaps, $60,000,000 (31 December 2017: $20,000,000) forward starting fixed rate payer swaps, $50,000,000 (31 December 2017: $50,000,000) current fixed rate receiver swaps.

No related party debts have been written off or forgiven during the year (2017: nil).

6. OTHER (CONTINUED)

6.8. Related party transactions (continued)

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. 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 eligible for a retirement allowance.

As at 31 December 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.

6.9. 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 2018, the Group had capital commitments totalling $2,891,000 (31 December 2017: $7,666,000) relating to work on investment properties.

6.11. Subsequent events

On 18 February 2019, the Directors of the Company approved the payment of a net dividend of $10,473,000 (2.1000 cents per share) to be paid on 13 March 2019. The gross dividend (2.5417 cents per share) carries imputation credits of 0.4417 cents per share. The payment of this dividend will not have any tax consequences for the Group and no liability has been recognised in the Consolidated Statement of Financial Position as at 31 December 2018 in respect of this dividend.

As outlined in section 1.9, on 23 January 2019 the Group disposed of an investment property located at 50 Parkside Road, Wellington, for a net sales price of $3.3 million.

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 2018;
- 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 2018, 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 voting procedures over the annual shareholders' meeting and benchmarking of executive remuneration. The provision of these other services has not impaired our independence as auditor of the Group.

Our audit approach

Overview

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

Overall group materiality: $2,695,000

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above $134,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

We have two key audit matters:

- Valuation of investment properties; and
- Goodwill impairment assessment.

Materiality

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

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

Overall group materiality	$2,695,000
How we determined it	Approximately 5% of profit before tax excluding valuation movements relating to investment properties and interest rate derivatives.
Rationale for the materiality benchmark applied	We applied this benchmark because, in our view, 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 two key audit matters: valuation of investment properties and goodwill impairment assessment. 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 $1,319 million represent the majority of the assets held by the Group as at 31 December 2018. 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 2018. 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 • Assessed management's calculation that the fair value of the Group less cost of disposal was in excess of the Group's net assets as the 31 December 2018. 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 75% before there is an impairment issue.

Information other than the consolidated financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do 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. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 | Auckland
18 February 2019

FIVE-YEAR PERFORMANCE SUMMARY.

YEAR ENDED 31 DECEMBER	2018	2017	2016	2015	2014
ALL VALUES IN $M UNLESS OTHERWISE NOTED					
FINANCIAL PERFORMANCE					
Operating revenue[1]	79.9	73.5	71.1	66.9	63.8
Operating expenses[1]	(26.0)	(25.9)	(28.0)	(30.3)	(26.9)
Total operating earnings	53.9	47.6	43.1	36.6	36.9
Non-operating income and expenses	68.4	1.9	88.9	43.0	29.0
Profit before taxation	122.3	49.5	132.1	79.6	65.9
Total taxation benefit / (expense)	(12.2)	2.1	(8.7)	(6.8)	(6.0)
Total comprehensive income after tax	110.1	51.7	123.4	72.8	59.9
Weighted average number of ordinary shares ('000 shares)	498,723	459,600	450,079	422,275	411,502
IFRS earnings per share (cents per share)	22.08	11.25	27.42	17.25	14.55
DISTRIBUTIONS					
Total comprehensive income after tax	110.1	51.7	123.4	72.8	59.9
Distribution adjustments	(72.9)	(14.6)	(89.3)	(41.5)	(28.9)
Adjusted Funds From Operations (AFFO, '18) / Distributable profit ('14-17)	37.2	37.1	34.1	31.3	31.0
Weighted average number of ordinary shares ('000 shares)	498,723	459,600	450,079	422,275	411,502
AFFO ('18) / Distributable profit ('14-17) per share (cents per share)	7.46	8.08	7.58	7.01	7.41
Gross dividends paid relating to the year reported (cents per share)	9.33	7.45	9.24	9.06	9.04
Net dividends paid relating to the year reported (cents per share)	7.55	7.45	7.35	7.30	7.25
AFFO ('18) / Distributable profit ('14-17) pay-out ratio (%)	101.2%	95.7%	97.2%	106.1%	97.8%
FINANCIAL POSITION					
Investment properties	1,318.7	1,210.8	1,083.3	986.6	876.0
Goodwill	29.1	29.1	29.1	29.1	29.1
Other assets	11.2	2.3	9.4	11.5	1.8
Total assets	1,358.9	1,242.2	1,121.8	1,027.2	906.9
Borrowings	398.2	370.6	332.9	330.9	312.8
Other liabilities	45.5	28.6	32.7	38.3	29.1
Total liabilities	443.8	399.2	365.7	369.2	341.9
Total equity	915.1	842.9	756.1	658.0	565.0
Closing shares on issue ('000 shares)	498,723	498,723	452,459	447,692	411,502
Net tangible (excluding goodwill) assets (cents per share)	177.7	163.2	160.7	140.5	130.2
Gearing (%)	30.3%	30.8%	30.1%	33.3%	35.8%
PROPERTY PORTFOLIO METRICS					
Number of properties (#)	94	92	83	84	79
Number of tenants (#)	148	148	143	141	134
Contract rent	82.0	79.6	72.5	72.3	65.8
Occupancy (%)	99.3%	99.9%	99.6%	99.6%	98.5%
Net lettable area including yard (sqm)	780,092	756,455	667,441	673,112	626,755
Weighted average lease term (years)	5.39	5.33	4.79	5.18	5.26
Capitalisation rate (%)	6.1%	6.4%	6.6%	7.0%	7.2%

[1] Service charge income/expenses excluded from 2018 figures for comparability purposes

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 five Directors, four 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 2018, 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). PFI notes the release of revisions to the NZX Corporate Governance Code that will apply once PFI is subject to the new NZX Listing Rules. This report has been prepared on the basis of the existing NZX Code, and PFI will report against the updated code in its annual report for the year ended 31 December 2019.

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 (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-publicly 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 2018, there were five Directors, four of whom are independent. 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 2018, 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 (NINE MEETINGS HELD)
Anthony Beverley	Board Chairman Nomination and Remuneration Committee Chairman Independent Director	2 July 2001	22 June 2017	N/A	9
David Thomson	Independent Director	12 February 2018	8 May 2018	N/A	7[1]
Humphry Rolleston	Independent Director	5 July 1994	22 June 2017	N/A	8
Susan Peterson	Audit and Risk Committee Chair Independent Director	24 May 2016	15 June 2016	N/A	9
Gregory Reidy	Executive Director	20 January 2012	8 May 2018	N/A	9
Peter Masfen	Former Board Chairman Former Independent Director	17 May 2002	15 June 2016	8 May 2018	2[2]

1 Seven meetings were held following David Thomson's appointment.

2 Three meetings were held prior to Peter Masfen's retirement.

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 2018 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) any 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 2017	4	2	1	0
Year ending 31 December 2018	4	2	1	0

The Board has established a Diversity Policy in accordance with the NZX Code. The PFI Board believes that a diverse and inclusive 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 five members of the team of 12 are female (2017: six out of 10).

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). 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 2018, the members of the Audit and Risk Committee were Susan Peterson (Chair of the Audit and Risk Committee), Anthony Beverley and David Thomson. Susan Peterson and Anthony Beverley were members of the Committee at all times during 2018 and attended the three meetings of the Audit and Risk Committee held during 2018. David Thomson joined the Audit and Risk Committee on 8 May 2018 and attended the two meetings held following his appointment, Peter Masfen was a member of the Audit and Risk Committee from the beginning of the year until his retirement on 8 May 2018. He attended the one meeting held during this time.

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 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 2018, the members of the Nomination and Remuneration Committee were Anthony Beverley (Chairman of the Nomination and Remuneration Committee) and Susan Peterson.

Other Committees
The Board does not consider that any additional Board committees as standing Board committees need to be established at this stage.

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 Finance and Operating Officer 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 the Company's Purpose, Vision and Strategy, and the Company's 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 on pages 69 – 72 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 2018.

DIRECTOR	ROLE	FEES PAID 2018 $000	FEES PAID 2017 $000
Anthony Beverley	Board Chairman	32	–
	Deputy Board Chairman	–	–
	Audit and Risk Committee Chairman	4	10
	Nomination and Remuneration Committee Chairman	–	–
	Independent Director	70	70
	Amount for specific payments	–	20
David Thomson (1)	Independent Director	62	–
Humphry Rolleston	Independent Director	70	70
Susan Peterson	Audit and Risk Committee Chair	6	–
	Independent Director	70	70
Gregory Reidy (2)	Executive Director	–	–
Peter Masfen	Board Chairman	18	50
	Independent Director	25	70
	Retirement allowance (3)	135	–
Total		**492**	**360**

(1) David Thomson was appointed to the Board on 12 February 2018.

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

(3) 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. $105,000 has been accrued in the 2018 financial statements in this regard.

Directors' Relevant Interests

There were no Directors' dealings in the Company's financial products between 1 January 2018 and 31 December 2018.

Details of Directors' relevant interests in the Company's financial products as at 31 December 2018 are as follows:

DIRECTOR	NATURE OF RELEVANT INTEREST	NUMBER OF SHARES
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, and as at 31 December 2018 the Company employed nine staff.

Also following the internalisation, Gregory Reidy, Simon Woodhams and Craig Peirce became Independent Contractors to the Company. 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. A discretionary bonus was also paid to Simon Woodhams and Craig Peirce during the year ended 31 December 2018.

During the years ended 31 December 2018 and 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 for the year ended 31 December 2017 represent a half-year of remuneration, as these arrangements did not exist prior to 30 June 2017):

NAME	POSITION	YEAR	BASE AMOUNT $000	BONUSES $000	TOTAL $000
Gregory Reidy	Managing Director	2017	212	56	268
		2018	425	11	436
Simon Woodhams	General Manager	2017	212	56	268
		2018	425	116	541
Craig Peirce	Chief Financial Officer	2017	212	56	268
		2018	425	116	541
TOTAL		**2017**	**636**	**168**	**804**
		2018	**1,275**	**243**	**1,518**

On 1 January 2019, Simon Woodhams and Craig Peirce ceased to be Independent Contractors. On that date, they were appointed as Chief Executive Officer and Chief Finance and Operating Officer respectively, and they both became full-time employees of the Company.

During the years ended 31 December 2018 and 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 for the year ended 31 December 2017 represent a half-year of remuneration, and that this table excludes the Managing Director, General Manager and Chief Financial Officer):

REMUNERATION RANGE	NUMBER OF EMPLOYEES	
	2018	2017
$250,001 – $260,000	1	–
$150,001 – $160,000	1	–
$110,001 – $120,000	–	1

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 on pages 71 and 72, 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 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 dialog 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 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 2018 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.

Section 140(1) of the Companies Act 1993 requires a director of a company to disclose certain interests. Under subsection (2) a director can make disclosure by giving a general notice in writing to the company of a position held by a director in another named company or entity. The following are details of Directors' general disclosures entered in the Interests Register for the Company as at 31 December 2018, and all entries were added by notices given by the Directors during the year ended 31 December 2018:

DIRECTOR	POSITION	COMPANY
Anthony Beverley	Director; Chair of Audit and Risk Committee	Arvida Group Limited
	Director; Chair of Audit and Risk Committee	Ngai Tahu Property Limited
	Director (ACC appointee)	Harbour Quays A1, D4 and F1F2 Limited
	Chairman	Massey University Property Foundation
	Member	WCC Civic Revitalisation Steering Group
Humphry Rolleston	Director	Asset Management Limited
	Director	Infratil Limited
	Director	Matrix Security Group Limited
	Director	Spaceships Limited
	Director	Stray Limited
	Director	AIS Tourism Limited
	Trustee	JL Hall Children's Trust
Susan Peterson	Director; Chair of Audit and Risk Committee	Vista Group International Limited
	Director	Xero Limited
	Director	ASB Bank Limited
	Director	Trustpower Limited
	Director	Organic Initiative Limited
	Trustee	Global Women
Gregory Reidy	Director	McDougall Reidy & Co Limited
	Director	MRC LP Limited
	Director	Residentiae Group Limited
	Director	Thirty Enfield Limited
	Director	DMD (GP) Limited (as General Partner of DMD Limited Partnership)
	Director	MRC2 Limited
	Director	RWP LP Limited
	Director	Residentiae (Edwin Street) GP Limited (as General Partner of Residentiae (Edwin Street) Limited Partnership)
	Trustee	Grammar Rugby Incorporated

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 2018.

Donations

Neither the Company nor its subsidiary made any donations during the year. The Company became a sponsor of the Keystone New Zealand Property Education Trust during the year ended 31 December 2018, and paid the Trust $10,000 by way of sponsorship during the year.

Substantial Productholders as at 31 December 2018

As at 31 December 2018, 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 2018 are:

SECURITY HOLDER	NO. OF SHARES	% WHEN NOTICE WAS FILED
ANZ New Zealand Investments Limited	36,194,716	7.257%
Accident Compensation Corporation	26,579,257	5.329%
Forsyth Barr Investment Management Limited	25,010,793	5.015%

Details of Dividends Paid

DIVIDENDS	DATE PAID	CENTS PER SHARE	TOTAL PAID 2018 $000	TOTAL PAID 2017 $000
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
Q4 2017 final dividend	7 March 2018	2.15	10,723	–
Q1 2018 interim dividend	31 May 2018	1.80	8,977	–
Q2 2018 interim dividend	31 August 2018	1.80	8,977	–
Q3 2018 interim dividend	28 November 2018	1.85	9,225	–
Total dividends per statement of changes in equity			**37,902**	**34,088**

NZX Waivers

The Company relied on a waiver granted by NZX Regulation on 13 September 2018 in respect of NZX Debt Market Listing Rule 7.11.1, for the Company's offer of bonds with NZX ticker code PFI020. The waiver allowed allotment of the bonds to occur within six business days after the closing date of the offer.

PURPOSE, VISION, STRATEGY.

We first listed in 1994. Now, more than twenty years on, we have over 5,000 shareholders and a portfolio of over 90 properties valued at over $1.3 billion dollars.

Since inception, PFI has always invested in high quality industrial property in sought-after locations, believing that this investment focus has the potential to deliver attractive returns to shareholders with a low level of volatility.

Recognising the changing governance and reporting landscape both here in New Zealand and globally, during 2018 we spent some time considering our Purpose, Vision and Strategy.

Looking forward, we continue working on integrating our Purpose, Vision and Strategy, together with our ESG vision, across all aspects of PFI, including our reporting to our stakeholders.

OUR PURPOSE:

PFI GENERATES INCOME FOR INVESTORS AS PROFESSIONAL LANDLORDS TO THE INDUSTRIAL ECONOMY, GENERATING PROSPERITY FOR NEW ZEALAND.

INCOME FOR INVESTORS

People invest in PFI either directly, or through an institutional investor. Either way, PFI's commitment to consistently delivering strong returns is what matters: investors are relying on PFI for their current or future income.

PROFESSIONAL LANDLORDS

PFI tenants achieve greater productivity because capital that would otherwise be tied up in property ownership is more usefully applied to their core business and because having PFI on the team means their management can focus on core business, not solving property problems.

THE INDUSTRIAL ECONOMY

PFI specialises in industrial property. Our investors like that: they understand our role in the economy and what we bring to their investment portfolio. Our tenants also like it: it means PFI really understands their needs and the specialised market in which we operate.

PROSPERITY FOR NEW ZEALAND

PFI is part of New Zealand Inc. We help make the country better off, by enabling our tenants to achieve greater productivity: helping them achieve a better return on the capital they have invested in their businesses, and by providing income for the thousands of New Zealanders who benefit directly or indirectly from their investment in PFI.

OUR VISION:

PFI WILL BE ONE OF NEW ZEALAND'S FOREMOST LISTED PROPERTY VEHICLES. OUR MEASURES WILL BE PERFORMANCE, QUALITY, SCALE AND REPUTATION.

ONE OF NZ'S FOREMOST

We intend to be – and to be regarded as – a leader. When people talk about New Zealand's top Listed Property Vehicles, PFI will be on that list.

PERFORMANCE

The scale and quality of PFI's portfolio and the robustness of PFI's tenant relationships will ensure PFI continues to consistently deliver strong returns to investors.

QUALITY AND SCALE

PFI's portfolio comprises of high quality industrial properties in sought-after locations in Auckland and elsewhere in New Zealand. Already a significant Listed Property Vehicle, PFI will continue to grow to take advantage of the benefits of relevance and scale.

REPUTATION

PFI will continue to enhance its reputation as a good company to invest in, a good company to do business with and a good company to work for. In every respect, one of New Zealand's foremost.

OUR STRATEGY:

WE WILL BUILD ON WHAT WE HAVE AND BE TRUE TO WHO WE ARE. BUT WE WILL BE MORE INTENTIONAL; MORE PROACTIVE.

BUILD ON WHAT WE HAVE

We are not changing direction, but we will now play a different game. Our scale allows us to operate beyond the reach ofDIY property investors. PFI can and will acquire larger properties or portfolios of properties, on more favourable terms.

BE TRUE TO WHO WE ARE

Our purpose remains the same: creating income for investors. We will only grow our portfolio if doing so enables us to reliably create strong stable returns for more and more investors. We remain committed to industrial property and intend replacing all non-core assets with quality industrial properties in sought-after areas. We focus on brownfield, rather than greenfield, developments.

MORE INTENTIONAL

And so, while we will maintain our rigour – continue to ensure each and every transaction contributes to our purpose – we intend lifting our heads more often and more actively considering our vision: where we are going and how we are getting there. We will become one of New Zealand's foremost Listed Property Vehicles by choice not chance.

MORE PROACTIVE

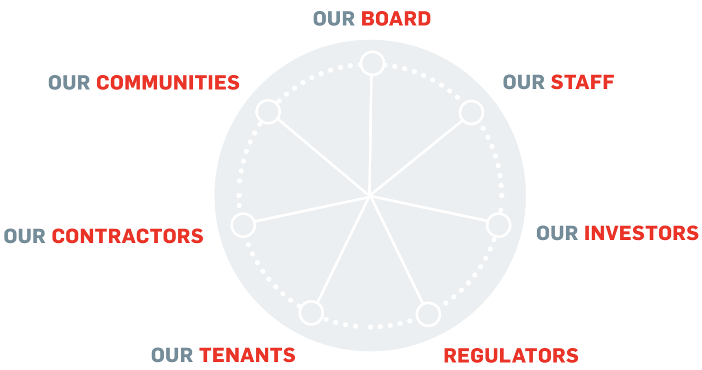
Recognising that bigger is different, we will evolve the way we manage PFI, anticipating and enabling growth; ensuring sustainability. We will broaden the capability of the team and encourage and enable our leaders to operate more strategically.

OUR ESG VISION AND MATERIALITY ASSESSMENT.

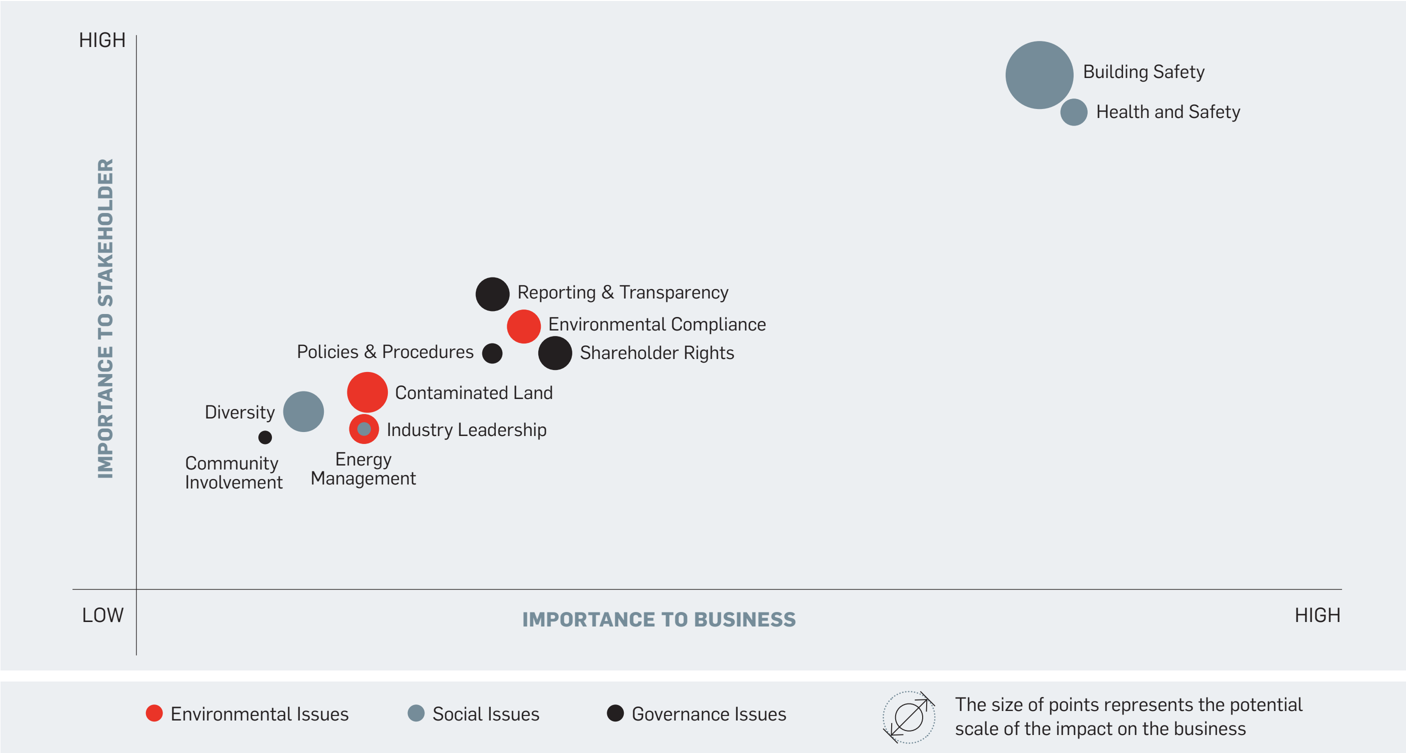
OUR ESG VISION IS FOCUSED ON BEING A RESPONSIBLE AND RESPONSIVE LANDLORD IN ORDER TO CREATE LONG TERM VALUE FOR OUR KEY STAKEHOLDERS.

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

In accordance with accepted ESG reporting practise, looking forward we are planning on reporting on our material issues in detail, including developing performance measures.

SHAREHOLDER STATISTICS.

20 LARGEST REGISTERED SHAREHOLDERS

AS AT 31 JANUARY 2019

	HOLDER	HOLDING	HOLDING %
1	Forsyth Barr Custodians Limited	33,756,040	6.77%
2	Accident Compensation Corporation - NZCSD	29,016,088	5.82%
3	BNP Paribas Nominees (NZ) Limited - NZCSD	25,070,426	5.03%
4	ANZ Wholesale Trans-Tasman Property Securities Fund - NZCSD	21,727,019	4.36%
5	FNZ Custodians Limited	20,953,095	4.20%
6	Citibank Nominees (New Zealand) Limited - NZCSD	14,966,301	3.00%
7	Custodial Services Limited (A/c 3)	14,230,210	2.85%
8	HSBC Nominees (New Zealand) Limited - NZCSD	9,122,819	1.83%
9	Custodial Services Limited (A/c 4)	8,274,556	1.66%
10	ANZ Wholesale Property Securities - NZCSD	7,646,980	1.53%
11	Investment Custodial Services Limited (A/c C)	7,435,805	1.49%
12	MFL Mutual Fund Limited - NZCSD	7,322,392	1.47%
13	Custodial Services Limited (A/c 2)	6,456,644	1.29%
14	Messrs. Wildermoth and Wilson	6,303,638	1.26%
15	Mr. Mckee and Ms. Mckee	5,566,373	1.12%
16	Masfen Securities Limited	4,767,744	0.96%
17	New Zealand Depository Nominee Limited <A/C 1>	4,518,709	0.91%
18	Carlaw Heritage Trust Inc	4,115,481	0.83%
19	TEA Custodians Limited Client Property Trust - NZCSD	4,098,336	0.82%
20	Heatherfield Investments Limited	4,003,286	0.80%
	Shares held by top 20 shareholders	**239,351,942**	**47.99%**
	Balance of shares	259,371,388	52.01%
	Total of issued shares	**498,723,330**	**100.00%**

SHAREHOLDER SPREAD

AS AT 31 JANUARY 2019

ORDINARY SHARES	NUMBER OF HOLDERS	HOLDING	HOLDING %
Up to 4,999	856	2,175,832	0.44%
5,000 - 9,999	1,015	7,347,507	1.47%
10,000 - 49,999	2,382	50,852,588	10.20%
50,000 - 99,999	403	27,102,434	5.43%
100,000 - 499,999	290	56,861,097	11.40%
500,000 and above	103	354,383,872	71.06%
Total	**5,049**	**498,723,330**	**100.00%**

GEOGRAPHICAL SPREAD

AS AT 31 JANUARY 2019

ORDINARY SHARES	HOLDING	HOLDING %
Auckland & Northern Region	279,710,227	56.08%
Hamilton & Surrounding Districts	93,250,351	18.70%
Wellington & Central Districts	59,217,137	11.87%
Dunedin & Southland	49,212,055	9.87%
Nelson, Marlborough & Christchurch	15,458,049	3.10%
Overseas	1,875,511	0.38%
Total	**498,723,330**	**100.00%**

BONDHOLDER STATISTICS.

BONDHOLDER SPREAD

AS AT 31 JANUARY 2019 - PFI010

BONDS	NUMBER OF HOLDERS	HOLDING	HOLDING %
5,000 - 9,999	67	352,000	0.35%
10,000 - 49,999	464	9,254,000	9.25%
50,000 - 99,999	61	3,629,000	3.63%
100,000 - 499,999	35	4,972,000	4.97%
500,000 - 999,999	2	1,178,000	1.18%
1,000,000 and above	11	80,615,000	80.62%
Total	**640**	**100,000,000**	**100.00%**

BONDHOLDER SPREAD

AS AT 31 JANUARY 2019 - PFI020

BONDS	NUMBER OF HOLDERS	HOLDING	HOLDING %
5,000 - 9,999	40	226,000	0.23%
10,000 - 49,999	230	4,762,000	4.76%
50,000 - 99,999	30	1,741,000	1.74%
100,000 - 499,999	32	4,738,000	4.74%
500,000 - 999,999	3	2,050,000	2.05%
1,000,000 and above	10	86,483,000	86.48%
Total	**345**	**100,000,000**	**100.00%**

DIRECTORY

ISSUER OF SHARES AND BONDS
Property for Industry Limited
Shed 24, Prince's Wharf
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propertyforindustry.co.nz
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Humphry Rolleston
Susan Peterson
Gregory Reidy

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

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

SECURITY TRUSTEE
New Zealand Permanent Trustees Limited
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Tel: 0800 371 471

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

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This Annual Report is dated 18 February 2019 and signed on behalf of the board by:

Anthony Beverley
Chairman

Susan Peterson
Chair, Audit and Risk Committee

CALENDAR

2019

FEBRUARY
- 2018 Annual report released

MARCH
- 2018 Final dividend payment

MAY
- 2019 First-quarter announcement
- 2019 First-quarter dividend payment
- Annual meeting

AUGUST
- 2019 Half-year announcement
- 2019 Interim report released

SEPTEMBER
- 2019 Half-year dividend payment

NOVEMBER
- 2019 Third-quarter announcement
- 2019 Third-quarter dividend payment

2020

FEBRUARY
- 2019 Full-year announcement
- 2019 Annual report released

MARCH
- 2019 Final dividend payment

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