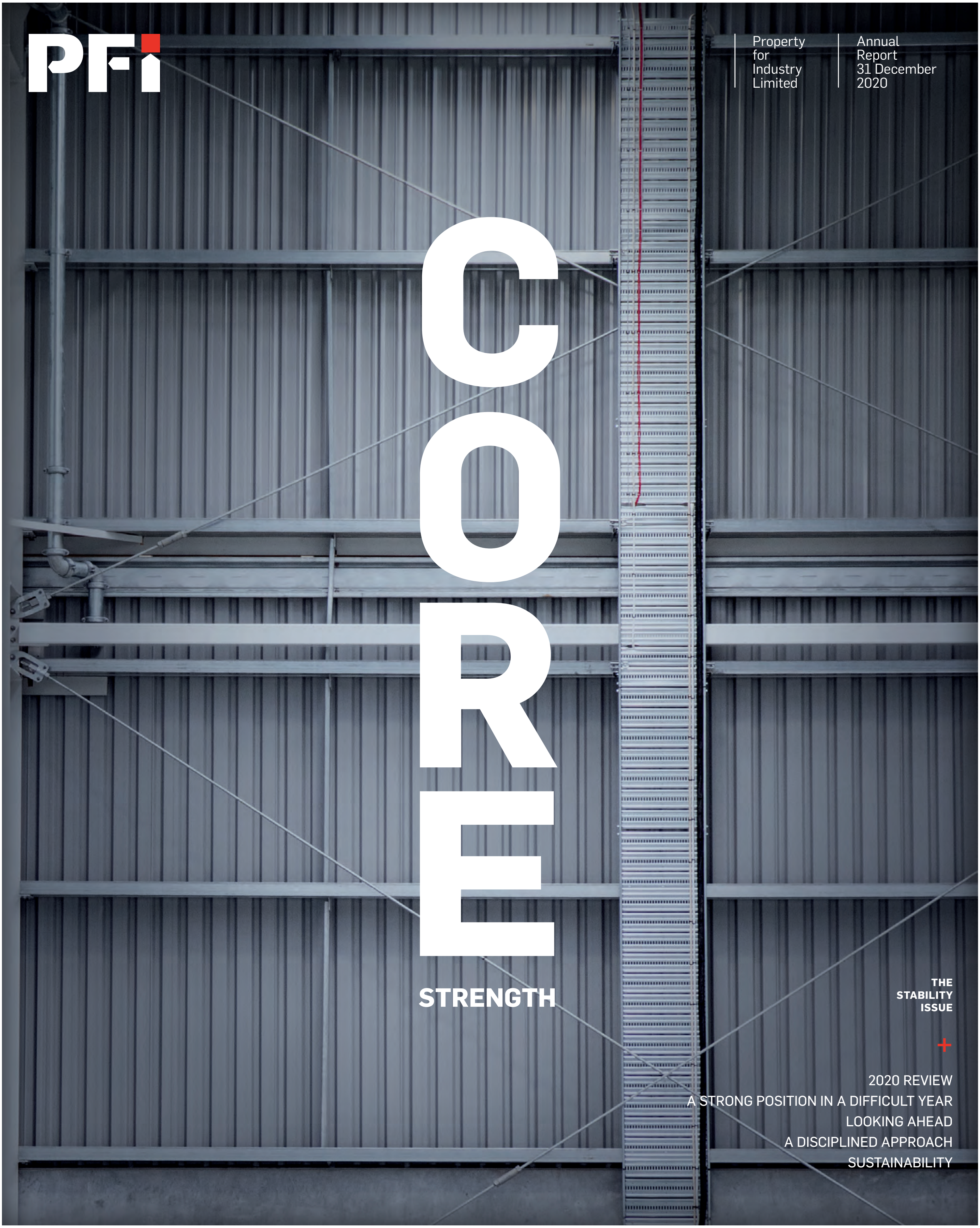

PFi

Property for Industry Limited

Annual Report 31 December 2020

# CORE
## STRENGTH

THE STABILITY ISSUE

+

2020 REVIEW
A STRONG POSITION IN A DIFFICULT YEAR
LOOKING AHEAD
A DISCIPLINED APPROACH
SUSTAINABILITY

Some of New Zealand's most successful companies depend on us to help them connect demand with supply. We are their property partners, working with them as they tackle changing customer expectations and needs in a COVID-19-influenced world.

PFi
They have our undivided attention.
www.propertyforindustry.co.nz

# FROM STRENGTH TO STRENGTH

**STRONG TODAY. DEPENDABLE TOMORROW**

PFI is a professional landlord to the industrial sector. Others may come and go chasing trends, but our track record extends over many years. We look to generate strong, stable returns for our investors by focusing on this growing sector. Our participation in the industrial economy in turn generates prosperity for New Zealand.

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**INDUSTRIAL TO OUR CORE**

2020 review

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**THE EPICENTRE OF CHANGING DEMANDS**

Looking ahead

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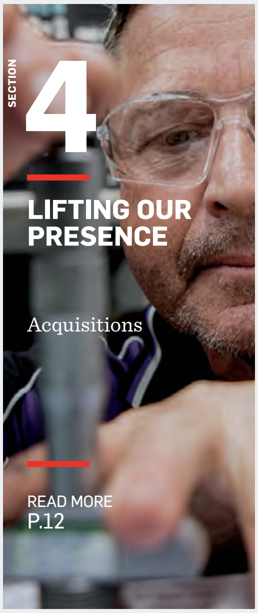
**A DISCIPLINED APPROACH FINDING THE OPPORTUNITIES**



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Acquisitions

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**SEEING THE POTENTIAL FOR NEIGHBOURS**

Acquisitions

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**ANTHONY BEVERLEY**
Chairman and Independent Director

**DAVID THOMSON**
Independent Director

**DEAN BRACEWELL**
Independent Director

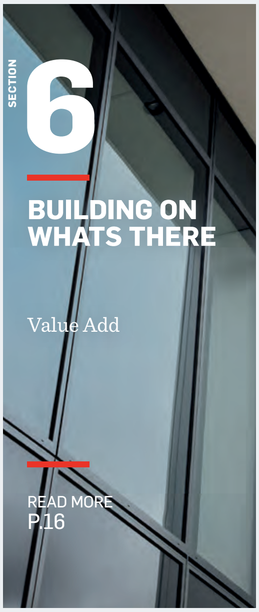
**GREG REIDY**
Non-Executive Director

**SUSAN PETERSON**
Independent 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



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## SUSTAINABILITY

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## STRONG WHERE IT COUNTS

Financial statements and other disclosures

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# 01.

# INDUSTRIAL TO OUR CORE

**THIS YEAR WE** continued with our strategy of building a focused advantage in the industrial property sector. We secured and leased properties that bolstered our overall portfolio because vendors and our customers trust the specialist knowledge we apply to every purchase and lease.

Our four-part strategy held up very well in its second year. "The year's results show that even when the country and the economy as a whole are struck by unexpected events like the COVID-19 pandemic, our patient, long-term approach remains relevant – in fact, it really comes into its own," says Chief Executive Officer, Simon Woodhams. "This year, we took proactive steps to protect our people and core business. At the same time, we held our course on our strategy and retained the confidence of the market."

Investors will be pleased the dividend has increased again this year to 7.70 cents per share (cps), up on last year's dividend of 7.60 cps.

Other key metrics were also healthy: Funds From Operations increased by 6.6% to 9.67 cps, while Adjusted Funds From Operations increased by 3.1% to 8.03 cps. The revaluation of our portfolio resulted in an increase in value of $73 million, meaning our portfolio is now valued at $1.631 billion. 90,500 sqm of space has been leased this year for an average term of 7.5 years and a total rent of $12.4 million.

We developed properties at 59 Dalgety Drive and 314 Neilson Street and acquired further properties on Avondale's Rosebank Road. Divestments were more muted given the state of the market, with the sale of Carlaw Park not secured until after year end. Details of a selection of transactions are included on pages 12 to 19.

"Our focus has been on ensuring that we acquire properties that align with what we are looking for long term. At the same time, while we are committed to refocusing our portfolio towards wholly industrial, it's important our divestments bring us the returns our shareholders expect. To that end, we waited for the right market conditions," says Woodhams.

The PFI team have worked hard this year to support our tenants through a wide range of challenges. "Relationships underpin being a successful landlord to the industrial sector," says Woodhams. "We recognised COVID-19 as an opportunity to clearly show the many companies we work with that our commitment to them is one of partnership."

The number of tenants, occupancy and Weighted Average Lease Term have largely held steady, while contract rent has increased. This contributed to the Company's share price rising to $2.93 at the end of the year, resulting in total shareholders return for the year in excess of 23%, and Net Tangible Assets (NTA) rising 7.5% on last year to 220.9 cents per share.

Gearing has been maintained at low levels, knowing this setting works to our advantage in many different markets. This year, as part of our proactive response to the COVID-19 situation, we secured an initial $50 million of liquidity from one of our key banking partners, the Commonwealth Bank of Australia. Later in the year, this facility was increased to $100 million. "Our portfolio revaluation uplift has made the Company more valuable. At the same time we have shored up our ability to access cashflow to continue to secure quality industrial properties in line with our strategy," says PFI Chief Finance and Operating Officer, Craig Peirce.

This year, we continued to focus on our strategic Environmental, Social and Governance (ESG) framework, delivering tangible progress across an array of initiatives. We established a Health, Safety and Wellbeing framework to formalise accountability for our strong health and safety culture. Greenhouse gas emissions and climate change mitigation and adaptation were also an important focal point for us. We have completed our second carbon footprint, committed $2 million to emissions reductions initiatives over the next three years, submitted to the Carbon Disclosure Project (CDP) for the first time and carried out a risk assessment in line with the Task force on Climate-related Financial Disclosures (TCFD) recommendations. Further information on our sustainability performance can be found on pages 20-29.

"Against a backdrop of testing conditions, the Company performed exceptionally well. Specifically, our conservative gearing and ability to access liquidity worked to our advantage. We took decisions on the basis of a well-defined strategy but retained the flexibility to change course.

"The Board is pleased to have emerged well placed to respond to opportunities as they arise. At the same time, we have grown cash returns for our investors while supporting those tenants most in need," says PFI Chairman, Anthony Beverley. ■

FUNDS
**FROM OPERATIONS**

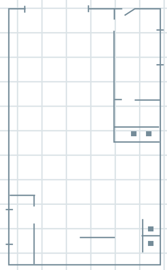
**9.67** CPS

UP 6.6%

LEASING ACTIVITY

**90,500**

SQM LEASED



DIVIDEND

**7.70**

cents per share.

| | | |
|---|---|---|
| 2020 | | 7.70 |
| 2019 | | 7.60 |
| 2018 | | 7.55 |
| 2017 | | 7.45 |
| 2016 | | 7.35 |

$ **73** M

REVALUATION

$ **1.631**
BILLION

PORTFOLIO

ADJUSTED FUNDS
**FROM OPERATIONS**

**8.03** CPS

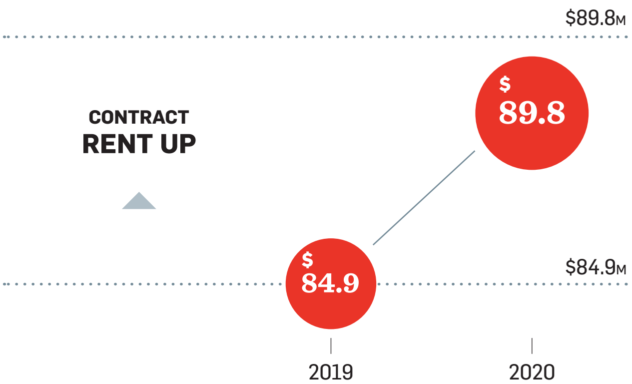
UP 3.1%

REFINANCING

$ **100** M

of additional bank facilities successfully secured

CONTRACT
**RENT UP**




NET TANGIBLE ASSETS

**220.9**

CENTS PER SHARE UP 7.5% ON LAST YEAR

| | | |
|---|---|---|
| 2020 | | 220.9 |
| 2019 | | 205.5 |
| 2018 | | 177.7 |
| 2017 | | 163.2 |
| 2016 | | 160.7 |

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

# 02.

# A STRONG POSITION IN A DIFFICULT YEAR

## 10 THINGS YOU SHOULD KNOW ABOUT PFI:

| PROPERTIES | TENANTS | AVERAGE OCCUPANCY | WEIGHTED AVERAGE LEASE TERM (WALT) | AVERAGE PROPERTY VALUE |
|---|---|---|---|---|
| 94 | 148 | OVER THE LAST 10 YEARS 98.5 % | 5.28 YEARS | $ 17.5 MILLION |
| 2019: | | | | |
| 94 | 144 | 98.5% | 5.38 YEARS | 15.7 MILLION |

_ 314 Neilson Street, Penrose

_ Etel, 550 Rosebank Road, Avondale

| GEARING | NUMBER OF PROPERTIES OCCUPIED BY TOP 10 TENANTS | AVERAGE ANNUALISED TOTAL RETURN SINCE INCEPTION | SHARE PRICE | NUMBER OF STAFF AND DIRECTORS |
|---|---|---|---|---|
| **30.0** % | **30** | **11.59** % | $ **2.93** | **19** PEOPLE |
| **28.2%** | **30** | **11.14%** | **$2.44** | **18 PEOPLE** |

_ Etel, 550 Rosebank Road, Avondale

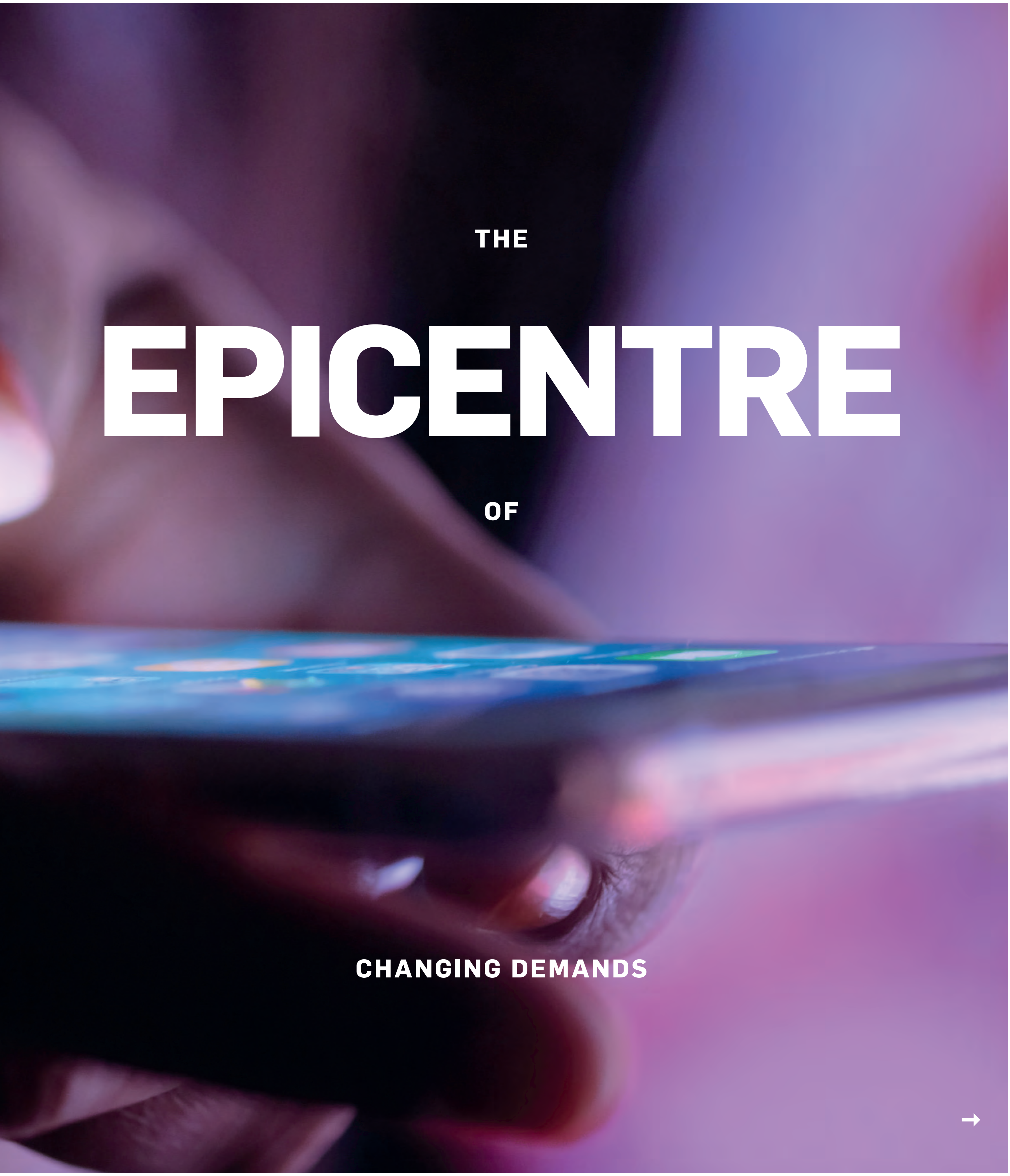
# 03.

> **Generating stable, consistent income for our investors is about more than just acquiring assets."**
>
> **SIMON WOODHAMS,**
> Chief Executive Officer

**BUSINESSES ARE BUILDING** new ways of connecting their inventory to digitally savvy consumers. At the same time, the industrial property sector is securing returns for investors that outperform the lower returns they get from cash. From an investor perspective, this puts PFI at the centre of two thriving sectors.

There is a general consensus that COVID-19 has accentuated and accelerated trends which, under more normal trading conditions, could have been expected to play out over a number of years. Instead, these trends have been contracted to a matter of months.

The increased use of online shopping has positive flow-on effects for industrial property because it creates additional demand for logistics space. With international supply chains stressed, many businesses are also looking to ensure they can better manage inventory locally.



# THE EPICENTRE OF CHANGING DEMANDS

“We need to draw on our experience, expertise and focus to make the right decisions for investors”

**SIMON WOODHAMS,**
Chief Executive Officer

“Not everything we are offered is right for us … and that’s OK.”

**CRAIG PEIRCE,**
Chief Finance and Operating Officer

Industrial land values continue to lift because of this interest as well as low interest rates, a lack of attractive investment alternatives and New Zealand’s relative normality following our success in dealing with the pandemic and preventing waves of disruption. Other factors working to the Company’s advantage include the return of depreciation on building structures, which has directly benefitted our returns, and is an acknowledgement from central Government that infrastructure, like industrial property, is a national priority.

All of this is helping position the industrial sector as the most resilient and attractive property type in the New Zealand market.

## A FAST-MOVING MARKET

**RESEARCH BY COMMERCIAL REAL ESTATE SERVICES FIRM CBRE REVEALS** that while other parts of the commercial property sector are experiencing uncertainty, buyers and sellers in the industrial sector are bidding up logistics prices – a clear indication of how much the market has reoriented. Overall, vacancies are sitting at less than 2% for the Auckland industrial sector, with CBRE forecasting rents for both prime industrial and secondary industrial properties to increase in the years ahead.

“The pressure to rethink just-in-time planning has only increased the positive sentiment towards the sector that we’ve been seeing in recent years,” says Chief Executive Officer, Simon Woodhams. “Capital is flowing into the industrial sector at the same time as market conditions are changing for the better, but these market conditions create their own share of challenges.”

## DISCIPLINED APPROACH

**A KEY INCENTIVE** for many investors is that, as term deposit rates have dropped, property has become one of the closest things many people can find to an investment with bond-like characteristics. This structural shift in both demand and supply has in turn drawn more participants to the sector. “We now find ourselves operating in a very popular market” observes Chief Finance and Operating Officer, Craig Peirce.

The increased attractiveness of the sector has been good for our own assets – values are up around 5% this year – but the new environment has made the search for new properties even more competitive. “Now, more than ever, we need to draw on our experience, expertise and focus to make the right decisions for investors,” says Woodhams. “Generating stable, consistent income for them is about more than just acquiring assets. It’s also about driving value from within our current portfolio. Maximising the portfolio so it works effectively for investors is something we continue to focus on going forward.”

## LOCATION IS STILL CRITICAL

**CBRE FOUND THAT,** in terms of locational preferences, tenants rated the three most important factors for industrial property as being proximity to motorways, labour and ports. They also indicated that growth and supply-chain efficiency improvements were influential factors in

_ 550 Rosebank Road, Etel, Avondale

CURRENT OCCUPANCY

99.4

%

PORTFOLIO YIELD

5.53

%

RENTAL INCOME

$

84.2

MILLION

terms of shaping their current and future real estate strategies. That makes knowing where to invest and identifying companies with the right strategies to benefit from partnering with PFI important factors.

We now operate at a scale where we can access the capital we need to pursue the larger opportunities in the market. "Competitive activity in the market has absolutely picked up," says Woodhams. "There are now a lot more companies and syndicates operating in the industrial space. Fortunately for us, the fact that we have been in the market for so long and the scale of our portfolio means we are getting access to larger opportunities. The two acquisitions on Rosebank Road are examples of larger properties that we were able to pursue because we now have the portfolio and the backing to make it happen."

## NOT EVERY OPPORTUNITY IS RIGHT FOR US

**JUST AS IMPORTANTLY,** our track record works in our favour. People know we make decisions quickly and that we are good to deal with. Sometimes those factors are as important, if not more important, than an actual number. But reputation also matters in the current market because it means we don't have to take every deal we're offered. "Our focus is on long-term value creation," says Peirce. "The business case is much more important to us than activity for its own sake. That's been particularly so this year where we have chosen to walk away from opportunities because the numbers don't stack for us. As a Management Team and Board, we're very disciplined about such decisions. Not everything we're offered is right for us, not every tender is one we will win, and that's OK."

## CHOOSING TENANTS CAREFULLY

**RESILIENCE AND RELATIONSHIPS** have become more important than ever. "We choose our tenants very carefully," says Peirce. "We look for companies that are well established, have a clear strategy and that work in sectors that will endure. Our investors depend on these tenants for the rents that come through to them as income, so it's important we manage who we work with as thoroughly as the buildings we invest in.

"That approach really paid off in a year like the one we've just had. Our tenants faced tremendous uncertainty and real hurdles in terms of looking after their people and keeping things going, but in the end most emerged intact, and continued to meet their payments, because they are well managed and well led."

## ESG IS CHANGING OUR PERSPECTIVE

**ONE OTHER NOTEWORTHY** development this year has been the effect that a stronger environmental, social and governance (ESG) approach is now having on our decision-making. Looking at everything we do through this extra lens has yielded new insights and enabled us to take a more sophisticated and considered approach to factors that in the longer term will almost certainly influence value. We expect to apply this approach more and more in the years ahead.

## WE END THE YEAR IN GOOD SHAPE

**OUR STRATEGY IS ON TRACK:** our returns have increased, our portfolio is in great shape, and our share price and valuations reflect a company in good stead. Overall, while COVID-19 may have slowed us down in places, it's also shown that our long-term approach serves us well. Increasing our dividend – with the amount paid out fully covered by AFFO earnings – is a great reminder of how we have remained focused on meeting the needs of our shareholders and future-proofing the Company to take advantage of what lies ahead.

COVID-19 will continue to affect both our market and our sector for some time to come. We will continue to play to our core strengths, to pursue our strategy and to maintain the momentum achieved this year by actively managing and adding value to our portfolio. Our low gearing and access to capital mean we are well placed to do that. ■

# 04.

FINDING THE OPPORTUNITIES

+ **ACQUISITION**
- VALUE ADDED
- ASSET MANAGEMENT

# LIFTING OUR PRESENCE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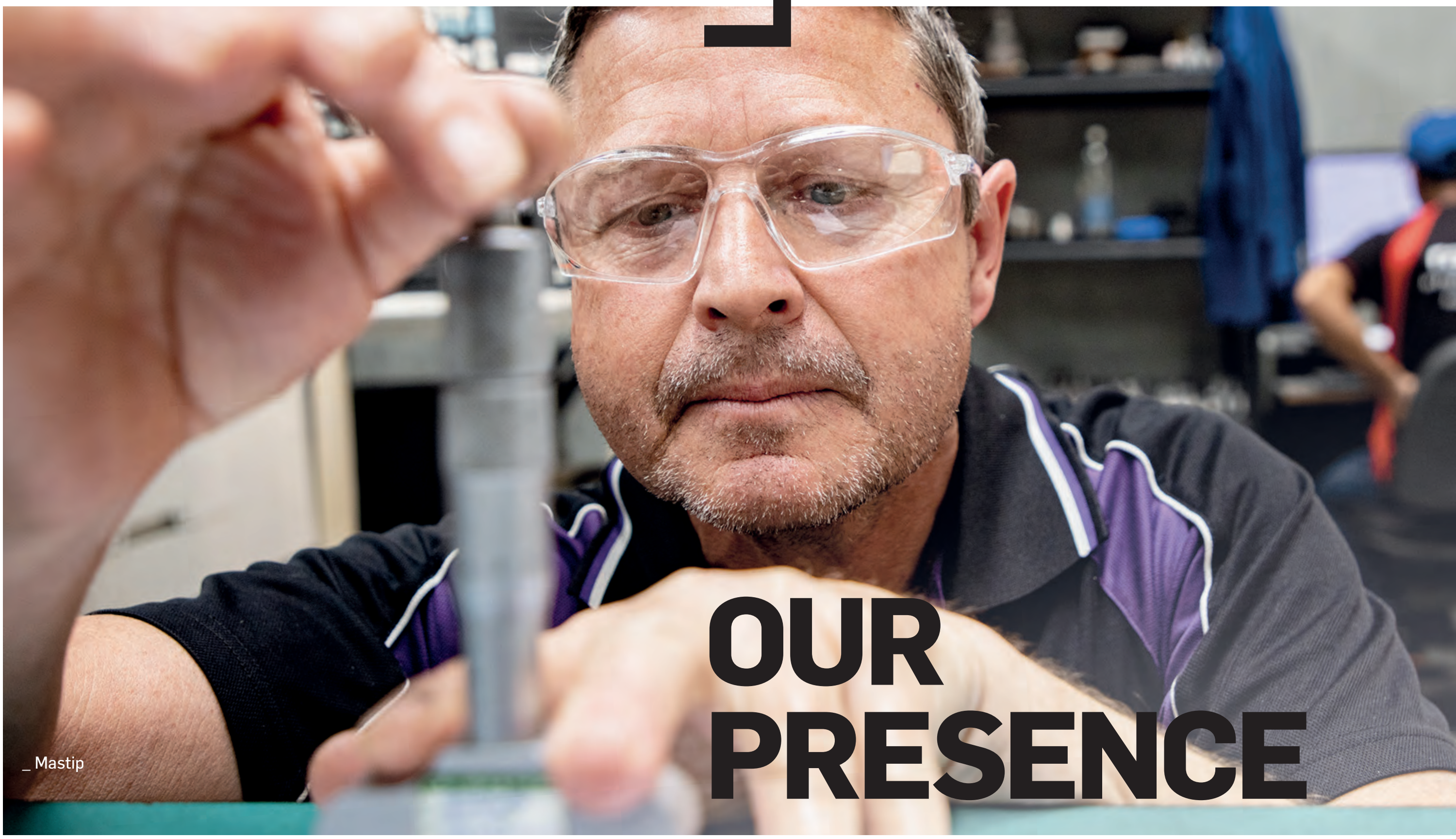
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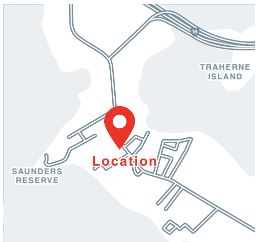
CASE STUDY

## 528 – 558

**ROSEBANK ROAD, AVONDALE**

—

49,841 sqm site with multiple egress points onto Rosebank Road and a secondary egress point onto Saunders Place.




**NET LETTABLE AREA**

Around **26,500 sqm** and **370 carparks** across **8 buildings**

**PURCHASE PRICE**

**$65.55M**

**OUR ROLE**

We purchased this industrial estate in November as an appropriate replacement for the properties we have recently sold and the non-core assets we are looking to sell.


**IN NOVEMBER WE** acquired a 4.98 hectare industrial estate on Rosebank Road. The estate is one of the largest land holdings on Rosebank Road and has eight separate buildings leased to five separate tenants, the largest being Etel Limited, who design and manufacture transformers for electricity distribution companies in New Zealand, Australia and the Pacific Islands.

Etel have been the anchor tenant on the site since 2002 and committed to a further nine years as recently as 2019. On settlement the passing rent for the whole property was $3.41 million and the Weighted Average Lease Term was around six years.

A number of things drew us to the site. It's located just 7km from the Auckland CBD, with good transport links both North and South via the North-Western Motorway. The site is held in two separate freehold titles, and the relatively low site coverage means there is flexibility to extend. Over the medium to long term, for example, we could add further value by reconfiguration, redevelopment or by constructing additional lettable area. Finally, we already had a significant presence in the area with about $130 million invested across five other properties, so this acquisition further consolidates our presence in this area.

**"Our ability to secure Rosebank Road demonstrates the extent to which PFI can now operate at scale"**

**SIMON WOODHAMS,**
Chief Executive Officer

"We first looked at this property a number of years ago, so we've known about the site for some time" says PFI Portfolio Manager Ewan Cameron. "We are delighted to have acquired this quality industry property, close to city, with good tenants. The presence of a long-term core anchor tenant like Etel coupled with ample opportunity for growth by working with the other tenants on site, will allow us to add to the site's overall value."

"At $65.5 million, this is a major acquisition for us, and well above the market average for an industrial property transaction," adds PFI Chief Executive Officer Simon Woodhams. "Our ability to secure Rosebank Road demonstrates the extent to which PFI can now operate at scale, and our ability to transact in a highly competitive environment."

# 05.

## FINDING THE OPPORTUNITIES

+ **ACQUISITION**

VALUE ADDED

ASSET MANAGEMENT

**THE EFFECTS OF** COVID-19 have been many and varied for different sectors. In our case, the agreements for the properties we had hoped to purchase at Tidal Road included sunset dates as part of their market standard conditions. Delays caused by the COVID-19 pandemic and associated New Zealand Government enforced lockdowns saw those dates reached and the agreements cancelled late in 2020. But around the same time, we added to our presence on Rosebank Road, by agreeing to purchase properties adjoining those we already own for $39 million, settling the purchase after year end on 29 January 2021.

Our purchase of the 2.8 hectare site in Avondale includes four buildings leased to two tenants, NZ Comfort Group and Dunlop Flooring. Combined with the adjacent properties we already own on


# SEEING

CASE STUDY

**670-680**
**ROSEBANK ROAD, AVONDALE**
—

2.8 hectare site on Rosebank Road.


**NET LETTABLE AREA**
Around **17,300 sqm** across **4 buildings**

**PURCHASE PRICE**
**$39M**

**OUR ROLE**
Purchase of four industrial buildings on two freehold titles adjacent to other PFI-owned properties.


# THE POTENTIAL FOR NEIGHBOURS

Rosebank Rd and Patiki Rd, the purchase creates an industrial property precinct of 8.6 hectares valued at more than $110 million and just 250 metres from the North-Western motorway.

"The new acquisition aligns with our strategy and presents a unique opportunity to increase returns and value in the long term by integrating the property with our existing holdings," says Chief Executive Simon Woodhams. "In the short to medium term, we look forward to generating stable income from two excellent tenants. At the same time, we recognise that the opportunity to create a substantial industrial estate in a central industrial precinct zoned Heavy Industrial is extremely rare."

The properties are currently fully leased for $1.7 million annual rent, with a weighted average lease term of over four years.

"The acquisition of the properties at 670-680 Rosebank Road in Avondale enables us to increase our footprint in a neighbourhood we believe will deliver increasing returns and value in the long term," says Woodhams. "The location of the site, so close to the North-Western motorway, aligns with emerging needs in logistics and trends in e-commerce. We look forward to exploring how we can maximise the returns for investors over the medium term through redevelopment of some of the site, as well as potentially strategic leasing opportunities." ■

**"The opportunity to create a substantial industrial estate in a central industrial precinct zoned Heavy Industrial is extremely rare."**

**SIMON WOODHAMS,**
Chief Executive Officer

# 06.

FINDING THE OPPORTUNITIES

ACQUISITION

+ VALUE ADDED

ASSET MANAGEMENT

# BUILDING ON WHAT'S THERE

“The right value-add is a win-win for all parties.”

**EWAN CAMERON**
Portfolio Manager

_ 314 Neilson Street, Penrose

CASE STUDIES

## 314
**NEILSON STREET, PENROSE**
—


**CAPITAL INVESTED**
$5.6M
at 314 Neilson Street, Penrose

## 124
**HEWLETTS ROAD, TAURANGA**
—


$3.5M
at 124 Hewletts Road, Tauranga

**OUR ROLE**

We have built a new industrial facility for IAG at 314 Neilson Street, and we are creating a new breezeway canopy for ADM and RMD at 124 Hewletts Road. In doing so, we add value to these properties and make them work more effectively for our tenants.

_ 314
Neilson Street,
Penrose

M**AXIMISING OUR PORTFOLIO** is an important way of adding value for our tenants and our investors, particularly when quality properties are hard to come by. We've already identified opportunities to redevelop around $175 million of our assets over the medium term. Three other examples this year show how we are implementing our value-add strategy.

Dormakaba make access systems. When space near their current premises became available, we offered to add 180sqm to their existing premises by linking the two areas with stairs, services and access doors. The additions enabled Dormakaba to absorb growth in their business and to stay where they are. Equally, we were able to reset a lease that had 12 months to run out to seven years on the enlarged footprint.

At 314 Neilson Street, a fire in 2019 meant the building had to be completely demolished. We have built a new industrial facility for leading insurer IAG, with a 2,000sqm high-stud warehouse and 300sqm of associated offices fronting Neilson Street. This brand new, best-in-class property has enabled us to secure a 10-year lease from completion in Q1 2021.

At our multi-tenanted bulk store warehouse facility in Tauranga, two of our tenants, ADM and RMD Bulk Storage came to us wanting to cover the open yard between their buildings with an enclosed canopy. In addition, by adding the 4,000sqm breezeway canopy we were able to extend our lease agreement with RMD Bulk Storage to 12 years. The new addition improves the environmental performance of the site for our tenants, and improves the property's income stream and valuation. We are exploring repeating the process for other tenants at the estate.

"The right value-add is a win-win for all parties," says PFI Portfolio Manager Ewan Cameron. "Our tenants benefit from premises that better suit their needs, and for the Company and our investors, value-add allows us to review lease terms to improve the quality of the income of our assets." ■

# 07.

FINDING THE OPPORTUNITIES

ACQUISITION

VALUE-ADDED

+ **ASSET MANAGEMENT**

# FIT FOR PURPOSE

**BEING A DISCIPLINED** property owner is about procuring the right properties and then overlaying them with the right tenants and strong relationships. While we pay a great deal of attention to matching site, amenities and tenants, we also look for companies that have good financial health with the capital to back what they are doing.

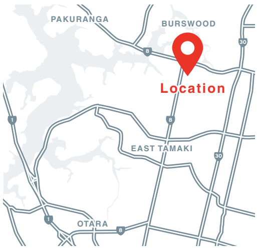
This year, not only did we work closely with a range of tenants to help them negotiate lockdown, we also continued to find ways to extend other tenants' long-term relationships with us, and we attracted new tenants to the portfolio.

Multispares specialises in truck and bus parts and leases two properties from PFI in Wellington and Auckland. Both leases were due to expire next year, though each had automatic rights of renewal – the Auckland site for four years, the Wellington site for six. Recognising that both PFI and Multispares would

CASE STUDY

**1**
**RON DRIVER PLACE**
—

6,896 sqm site on the corner of Ron Driver Place and Nandina Avenue in East Tamaki.

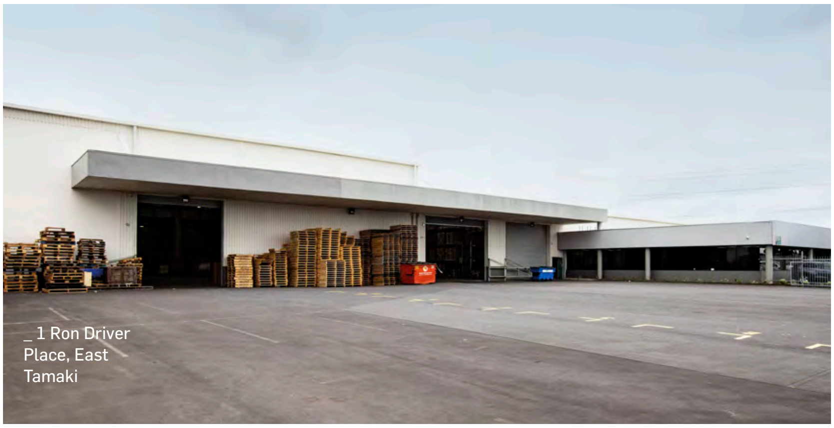



**NET LETTABLE AREA**
4,025 SQM

**VALUATION**
$10.35M

**OUR ROLE**

Securing a six-year lease to Glen Dimplex.



_ 1 Ron Driver Place, East Tamaki

**“The new site means we no longer need to rely on any third-party logistics.”**

**MIKE DAISH**

Managing Director, Glen Dimplex New Zealand Limited

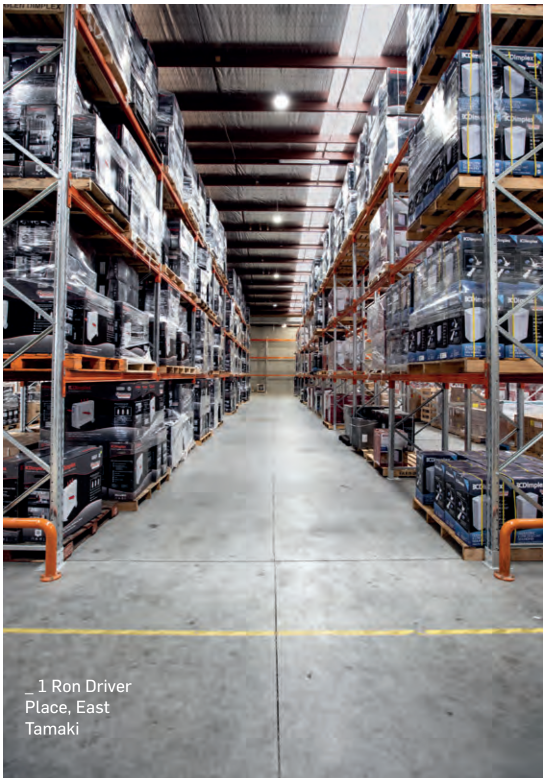
benefit from a longer-term arrangement, we negotiated an eight-year renewal for both sites. The new arrangements provide Multispares with a secure home for the next eight years, and they provide PFI with good quality income that has been re-set to reflect market rents and an improved lease term.

By actively managing our sites and the relationship, we have been able to retain a valued customer.

At 1 Ron Driver Place, we needed to find a new tenant for our office and warehouse site in East Tamaki. We secured a six-year lease with Glen Dimplex, part of the world's largest electrical heating business and the largest wood-fire manufacturer in Australasia.

In this particular case, with the previous tenant departing and uncertain economic conditions due to COVID-19, moving quickly to secure a high-quality tenant on a long lease at an agreeable rent was critical to protecting the income security of the site.

“We were looking for a site that combined quality office and warehousing facilities, was the right size and was positioned close to our factory,” says Glen Dimplex New Zealand Ltd Managing Director Mike Daish. “Our new site gives us an upgraded office and warehouse, a showroom we can bring retail customers to, and increased warehouse capacity. Staff satisfaction has lifted considerably, and the new site means we no longer need to rely on any third-party logistics for our North Island operations because we can do all our warehousing ourselves.” ■



_ 1 Ron Driver Place, East Tamaki

08.

# SUSTAINABILITY: WORKING TOWARDS A BRIGHTER FUTURE

**“2020 has highlighted the importance of having a strong ESG framework for a business to remain agile and resilient”**

**SIMON WOODHAMS,**
Chief Executive Officer

## 2020 SUSTAINABILITY OVERVIEW

2020 has reminded us of the complexity of the world we live in, and the delicate balance of our natural, financial and social systems. We were initially uncertain about the potential impact of the COVID-19 pandemic on our operations and responded proactively. Our staff and wider stakeholders' health, safety and wellbeing was our top priority and we regularly reviewed the health and safety controls across our office and properties. We also monitored the wider risks of the pandemic to our business, reduced discretionary expenditure and worked closely with tenants to come to short-term solutions. As the impacts of the COVID-19 pandemic began to play out, the wider industrial property market recovered strongly and proved itself a preferred investment due to its resilient nature.

2020 has highlighted the importance of having a strong ESG framework for a business to remain agile and resilient. PFI's ESG framework was developed in 2019, and during 2020 we introduced initiatives to start making tangible progress on it. Our focus was on understanding our climate risks and opportunities, developing a comprehensive Health, Safety and Wellbeing framework and strengthening our governance and oversight of ESG topics. We also welcomed Sarah Beale to the team in the newly created Sustainability, Risk and Compliance Manager role, to lead execution of our ESG strategy.

We still have some way to go to reach our ESG ambitions. We expect more challenges to face us in the coming years, some of which will require a collaborative approach with stakeholders. While we don't have all the answers, we are committed to exploring creative

ESG PERFORMANCE

solutions and see this as an opportunity to strengthen our business resilience to deliver value to all of our stakeholders' needs. We will continue to focus on being responsive and transparent in communicating our progress.

The climate crisis continues to be front-of-mind for us. We acknowledge that our operations have an impact on the climate, and that, in turn, climate change will have an impact on us. Globally, there are increasing calls for the real estate and property sector to take accountability for its emissions. According to the Global Alliance for Buildings and Construction 2018 Global Status Report, the built environment is responsible for 40% of the world's emissions. New Zealand's Ministry of Business, Innovation and Employment (MBIE) introduced its Building for Climate Change programme in July 2020, committing to mitigation and adaptation strategies for the building and construction sector's pathway to a low-emissions and a climate-resilient future. We are monitoring its developments and how it will impact us. As a listed company, we will also be subject to the mandatory Task force on Climate-related Financial Disclosures (TCFD) reporting announced by the New Zealand Government this year. TCFD will promote greater transparency and accuracy of pricing signals in the market, incentivise low-emissions investment and create a level-playing field for businesses considering climate change in their long-term risks.

We are responding to these external trends. 2020 is our first year providing climate-related disclosures in line with TCFD recommendations (see pages 89-93). We also submitted to the Carbon Disclosure Project (CDP) for the first time this year to provide greater transparency on our emissions profile. To reduce our emissions, we have committed $2m to phase out an ozone-damaging gas from our HVAC systems. We have also chosen to offset Scope 1, Scope 2, and selected Scope 3 emissions for 2020.

In conjunction with our responses to both the COVID-19 pandemic and the climate crisis, we have continued to focus on making tangible progress across all of our ESG strategic themes: taking care of our team, looking after our tenants, responsible property ownership and delivering for our investors.

## PFI'S ESG STRATEGY

**PURPOSE**

PFI generates income for investors as professional landlords to the industrial economy, generating prosperity for New Zealand

**VISION**

PFI will be one of New Zealand's foremost listed property vehicles. Our measures will be performance, quality, scale and reputation.

**ESG PRIORITIES**

Leadership — Strategy — Transparency — Diversity and Inclusion — Wellbeing — Community — Environment — Climate

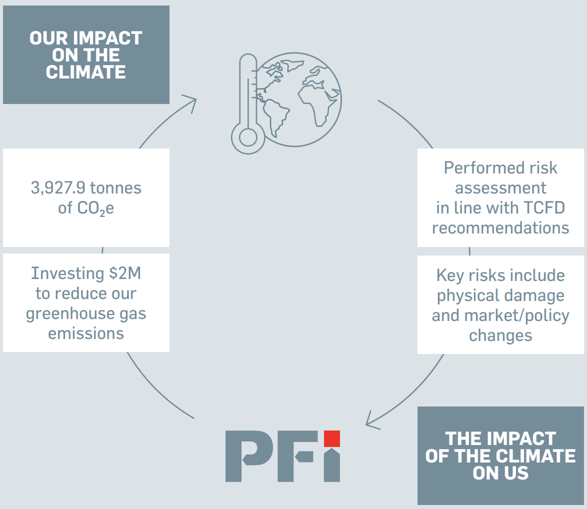
**STRATEGIC PILLARS**

Health, safety and wellbeing — Resource efficiency — Long-term thinking

**STRATEGIC THEMES**

Taking care of our team — Looking after our tenants — Responsible property ownership — Delivering for our investors

## UNDERSTANDING OUR CLIMATE IMPACTS



## TAKING CARE OF OUR TEAM

**A bolder approach to health and safety with our new framework**

The health, safety and wellbeing of our staff, facilities management partners, and specialist contractors is our top priority. Our commitment to managing our health and safety impact extends from our office across our entire portfolio of 94 properties and the respective construction and maintenance activities that take place onsite.

This year, we formalised a comprehensive Health, Safety and Wellbeing framework that sets out our objectives, legal obligations, training, hazard management controls and the roles and responsibilities for a safe workplace across our operations. The framework is approved by our Chief Executive Officer and overseen by our two Health and Safety Committees that are independently responsible for our head office and the wider property portfolio. The framework puts us in an even better position to challenge ourselves on our practices and improve the strength of our monitoring and management of incidents.

The framework strengthens our internal health and safety culture. We have assigned health and safety responsibilities internally to improve engagement and accessibility, reducing our reliance on external consultants. We have also provided our staff with additional health and safety training.

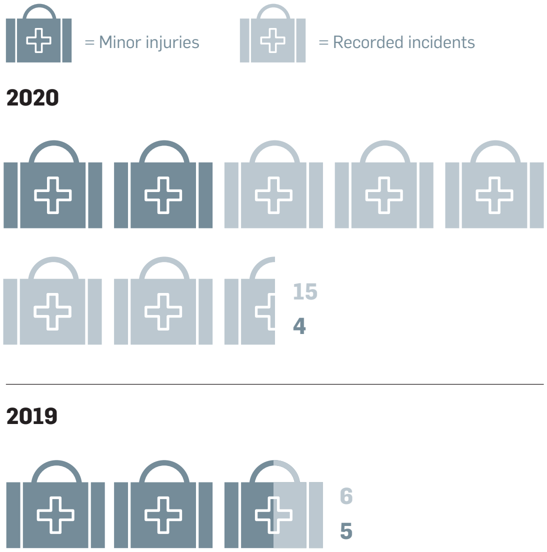
As a direct result of enacting stronger and more stringent management and enquiry processes, we recorded higher incidents this year than previously. This year, we recorded 15 incidents, up from 6 in 2019. We view this as a positive indication of the new framework's effectiveness and success rather than a reflection of material underlying issues in our practices, as many of the incidents recorded were minor and did not result in injury. We ensure the root cause of each incident is understood and addressed so we can be confident these are not an indication of wider problems.

**Supporting our staff's safety and wellbeing during the COVID-19 pandemic**

As with the rest of the world, the COVID-19 pandemic and the resulting lockdowns changed how we worked as a team. Our response was agile and focused on the health and wellbeing of our staff and others. Team members had frequent check-ins during the lockdowns, and we took additional steps to ensure that staff had the right resources for both working from home and visiting our sites when needed. The COVID-19 pandemic also heightened awareness of the importance of mental health, and we have introduced mental health support for our team this year.

> **"We have always prided ourselves on a strong health, safety and wellbeing culture. Our new framework gives us an opportunity to continue to push for the highest standards in health and safety governance and performance."**
>
> **SIMON WOODHAMS,**
> Chief Executive Officer

### HEALTH AND SAFETY INCIDENTS




### OUR TEAM

> “It was really rewarding to be able to take some time away from the office and give back to our community, especially given the increased demand for the Auckland City Mission’s services this year”
>
> **NIRALI SHAH,** Financial Accountant

Members of our staff assembling food parcels for Auckland City Mission

### Contributing to our community

With the Auckland City Mission facing increased demand on its services due to the COVID-19 pandemic, our entire team took part in a Volunteer Day with the Mission to assemble more than 100 food parcels for Auckland-based families in need. We also donated $10,000 to its HomeGround Project that will provide homes for more than 2,000 vulnerable Aucklanders, community detox beds, and health and social services over the next 25 years.

We are also part of Keystone New Zealand Property Education Trust’s sponsor family. The trust provides opportunities to students with financial need or adverse circumstances to pursue tertiary studies in the property sector.

## LOOKING AFTER OUR TENANTS

### Supporting our tenants during the COVID-19 pandemic

We sought to balance the health of our tenants with our obligations to our other stakeholders in response to the COVID-19 pandemic. We offered support to our most vulnerable tenants, for example those in the hospitality industry, who underwent financial hardship. The total support to date covers $0.9 million of abatement and $0.6 million of deferral, a combined total of 1.8% of our annual rental income.

**AUCKLAND CITY MISSION**

**100+**

food parcels

## RESPONSIBLE PROPERTY OWNERSHIP

We own 94 industrial properties throughout New Zealand. In 2020, PFI invested approximately $19 million to develop or upgrade our properties. The environmental impacts of the management and maintenance of our property portfolio largely derive from the materials used in maintenance and construction, and the refrigerants used in cooling systems managed by PFI.

### Reducing our impact on the climate

2020 is our second year of measuring our carbon footprint. Our footprint covers emissions from our head office, vacant sites and property features within our operational control (such as HVAC systems). Measuring our footprint allows us to be transparent with our stakeholders, and to make informed decisions on how to manage our emissions reduction.

For the second year in a row, the fugitive emissions from our HVAC systems are the most significant emissions source from our direct operations. Fugitive emissions are released when refrigerant gases, commonly used in HVAC and refrigeration systems, leak directly into the atmosphere. While the quantity of fugitive gases is small, their global warming potential is potent, meaning refrigerants are our biggest opportunity to make meaningful reductions on our footprint. This year, our fugitive emissions from our HVAC systems were higher due to two major gas replacements at our properties.

We are committing $2m to phase out the use of R22 gas (a standard industry refrigerant gas) in our portfolio from 2021. R22 not only contributes to climate change but damages the ozone layer. We will phase out R22 to a more modern gas, which has a lower climate impact and no impact on the ozone. To phase out R22 effectively, we will need to replace some of our existing HVAC systems. We are conscious we will need to do this in collaboration with our tenants. We may also acquire additional properties that have systems that use the R22 gas so the phaseout of R22 will be an ongoing commitment for PFI.

This year, PFI has chosen to expand the measurement of our supply chain Scope 3 categories, in particular the indirect emissions from our Goods and Services expenditure and Capital Expenditure. We chose to do this for transparency and this has increased our reported overall footprint. The emissions from our suppliers' construction-related activities across our portfolio are indirect, but represent the most material emissions of our business. This is in line with the property industry globally. Reducing these emissions will require industry-wide collaboration and development of new technologies. We are therefore focusing our initial emissions-reduction efforts on our direct emissions as outlined above and working to improve the sustainability of our building design.

For the rest of our footprint, we saw decreases in our business travel from our baseline as a result of travel restrictions, and reduced electricity consumption due to a reduction in vacancies at PFI properties.

Our primary ambition is to reduce our emissions through effective reduction initiatives before we look at offsetting. However, we are aware that despite our efforts to reduce our footprint, our operations will inevitably continue to affect the environment. Therefore we have offset Scope 1, 2 and selected Scope 3 emissions[(3)] that we have a high level of control over for 2020, with certified carbon credits. These certified carbon credits are sourced from projects that grow and protect forests in Aotearoa and the Pacific Islands and help to deliver climate resilience, waterways protection, erosion control, biodiversity conservation and community economic development. These offsets have enabled us to achieve Carbon Friendly Business Operations certification with Ekos for the 2020 financial year. Where we have limited control and influence over our indirect Scope 3 sources of emissions, we will work with our suppliers to adopt new technologies and practices as they become available.

**Our Key Climate Commitments:**

1. $2m investment to reduce emissions from our HVAC systems
2. Net zero scope 1, scope 2 and selected scope 3 emissions[(3)]
3. Transparency for our stakeholders on our climate impacts

**OUR KEY CLIMATE COMMITMENTS**

**1.**

**$2M**

investment to reduce emissions from our HVAC systems

**2.**

**Net Zero**

scope 1, scope 2 and selected scope 3 emissions[(3)]

**3.**

Transparency for our stakeholders on our climate impacts

(3) Including waste and business travel; excluding goods and services, capital expenditure, energy and fuel, and employee commuting.

**ESG PERFORMANCE**

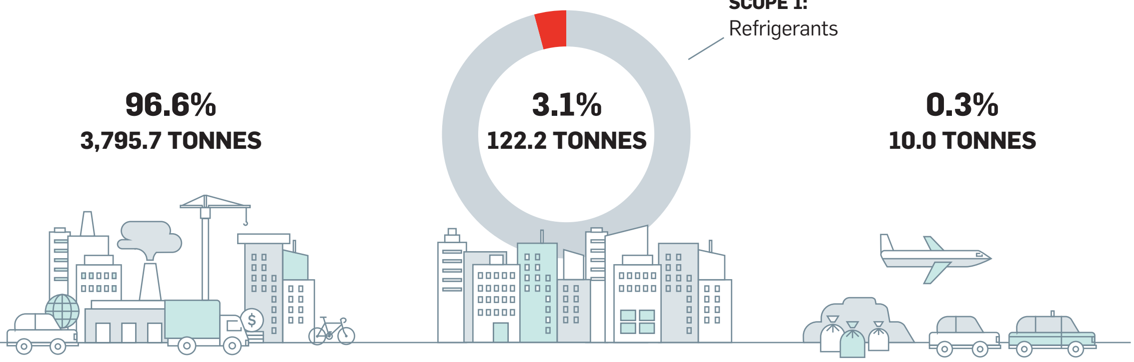
## OUR VALUE CHAIN EMISSIONS

# 3,927.9

Tonnes of $CO_2e$

**SCOPE 2:**
Electricity consumption

**SCOPE 1:**
Refrigerants




| % TOTAL FOOTPRINT: | **96.6%** **3,795.7 TONNES** | **3.1%** **122.2 TONNES** | **0.3%** **10.0 TONNES** |
|---|---|---|---|
| | **UPSTREAM EMISSIONS SCOPE 3** | **CORPORATE EMISSIONS SCOPE 1&2** | **DOWNSTREAM EMISSIONS SCOPE 3** |
| **EMISSIONS SOURCE:** | Goods and services<br>Capital expenditure<br>Electricity transmission and distribution losses<br>Employee commuting | Fugitive emissions from HVAC systems<br>Electricity consumption | Operational waste<br>Business travel |

Offset

## PFI GHG EMISSIONS

| EMISSIONS SOURCE | EMISSIONS 2019 ($tCO_2e$) | EMISSIONS 2020 ($tCO_2e$) |
|---|---|---|
| **SCOPE 1** | | |
| Refrigerants | 94.5 | 116.8 |
| **SCOPE 2** | | |
| Electricity | 15.5 | 5.4 |
| **SCOPE 3** | | |
| Category 1: Goods and services (1) | Not measured in 2019 | 215.2 |
| Category 2: Capital expenditure (1) | Not measured in 2019 | 3,565.0 |
| Category 3: Energy and fuel | Not measured in 2019 | 0.5 |
| Category 5: Waste | 0.7 | 0.5 |
| Category 6: Business travel | 19.8 | 9.4 |
| Category 7: Commuting | Not measured in 2019 | 15.1 |
| **TOTAL EMISSIONS ($tCO_2e$)** | **130.5** (2) | **3,927.9** |

(1) The emissions per $ spend was calculated using an environmentally-extended input output (EEIO) model. An EEIO model estimates emissions based on category spend using data from allocating national GHG emissions to final products based on economic flows between sectors. The EEIO model is accepted by the GHG protocol and is considered comprehensive, but varies in its granularity. Our approach to emissions assessments may evolve over time as we mature.

(2) This year, we have restated our carbon footprint for FY 19 due to an overstatement of Scope 1 emissions found when improving reporting processes for 2020. Total emissions were originally reported as 219.2 $tCO_2e$. Total emissions have been restated at 130.5 $tCO_2e$.

### Addressing our seismic risks

We have a programme of work in place to assess (and where appropriate, improve) the seismic ratings of each property in our portfolio, to reduce the likelihood of damage and harm as a result of earthquakes. This is a substantial programme spanning several years. Seismic risk is also carefully considered when acquiring new properties as part of our due-diligence process. When undertaking seismic upgrade work, we generally aim to lift the seismic rating of the property to A grade. During 2020, we completed seismic upgrades for seven of our buildings; raising the ratings of six buildings to A Grade and one building to B Grade.

### Future-proofing our buildings with sustainable design

Our industry's operational footprint is large. Our responsibility as building owners is to design, develop and operate buildings in our portfolio that have a lower impact across key indicators including waste, emissions and water. As shown through our 314 Neilson Street Case Study below, we incorporate sustainable features into our building design, but recognise there is always more we can do in this space. To strengthen our expertise in this area, we became members of the New Zealand Green Building Council (NZGBC) this year, a network of property and building businesses working towards normalising market-based green practices. We are investigating certification under the NZGBC's Green Star programme for future developments. Green Star is an internationally recognised benchmarking tool that supports the design, construction and operation of more sustainable buildings, fitouts and communities.

MEMBER 2020–2021

## DELIVERING FOR OUR INVESTORS

### Introducing a new management approach

We have strengthened the governance of our ESG framework execution to enable us to proactively monitor and manage our opportunities and risks. We have introduced monthly ESG meetings attended by the Chief Executive Officer and Chief Finance and Operating Officer in order to:

- improve the strategic oversight of, and accountability for, progress on our ESG framework and strategy;
- keep key stakeholders up to date on sustainability trends and legislation; and
- provide a forum to make decisions on ESG initiatives.

The PFI Board are now receiving quarterly updates on ESG and sustainability.

> **314 Neilson Street demonstrates the value of sustainable buildings. Through smart design and construction, we have achieved resource efficiencies and created a space that is healthier and more conducive for productivity for our tenants."**
>
> **EWAN CAMERON,**
> Portfolio Manager

**A healthy and safe place for people:**

- Creating a healthy work environment through natural light and natural ventilation, minimising artificial lighting and ventilation
- Separating vehicles and people through safety zone design
- Designing safe lighting levels in all areas
- Installing safe roof access hatches and fixed ladders to reduce health and safety risks associated with roof maintenance, including safety lines and harness points on the roof
- Ensuring easy, understandable, and safe access to the facility reception for public, pedestrians, and cyclists
- Investing in a sprinkler system

**A sustainable building with optimal resource use:**

- Re-using an existing industrial site and replacing an older, less efficient building
- Including durable planting to reduce landscaping maintenance
- Using durable construction materials and coatings that are flexible and adaptable for future use, to maximise the life of the building
- Building with pre-fabrication techniques for optimal construction efficiency
- Including energy-efficient LED lights and zoning lighting layout switches
- Considering thermal performance of the office building envelope carefully, including insulation, glazing selection, and shading in summer
- Using low VOC paint, carpet, and adhesives in all interior areas
- Providing end-of-trip facilities for people using different travel modes to work
- Incorporating a flexible, adaptable, open-plan-base build warehouse and office, to readily accommodate repurposing and use by future tenants
- Using future-proofed structural design to allow for solar panel installation

## Improving our climate resilience

We take climate change seriously. We face both physical impacts on our portfolio from extreme weather events and disruption from the various societal, legislative and technological changes needed for climate mitigation and adaptation. The transition to a lower-carbon economy, while challenging, is ultimately an opportunity to innovate and explore new solutions.

This year, we completed our first risk assessment in line with TCFD recommendations to ascertain our climate-related risks over our full portfolio, applying a long-term view with a 20-year horizon.

The assessment highlighted that our overall strategy of investing in industrial properties in good locations remains a resilient one and confirmed we don't have to fundamentally change how we function as a business. Our main focus in the short term will be on managing transition risks by executing a strong ESG strategy. This includes reducing emissions, improving building design and setting up appropriate governance infrastructure. We also acknowledge we still have further work to do to understand which of our properties are most vulnerable to the physical impacts of climate change, which we will be working through from 2021.

To ensure we are providing transparency to our stakeholders, we have prepared our first Climate-Related Disclosures report (see pages 89-93). We will build on these disclosures each year as we work through the execution of our climate change response.

## Increasing our transparency

We also submitted to CDP for the first time this year, scoring a 'C'. CDP is a globally recognised disclosure system that provides investors, companies and cities with relevant information on climate impacts. Going forward, annual submissions will hold us accountable for tracking our emissions and provide us with an independent point of view on what we should be considering to manage our carbon and climate-related risks.

CDP
DISCLOSURE INSIGHT ACTION

**"Our TCFD risk assessment sets us up to better inform investors of our climate-related business risks and opportunities and to more effectively evaluate our risks for strategic management."**

**SARAH BEALE,**
Sustainability, Risk & Compliance Manager

ESG PERFORMANCE

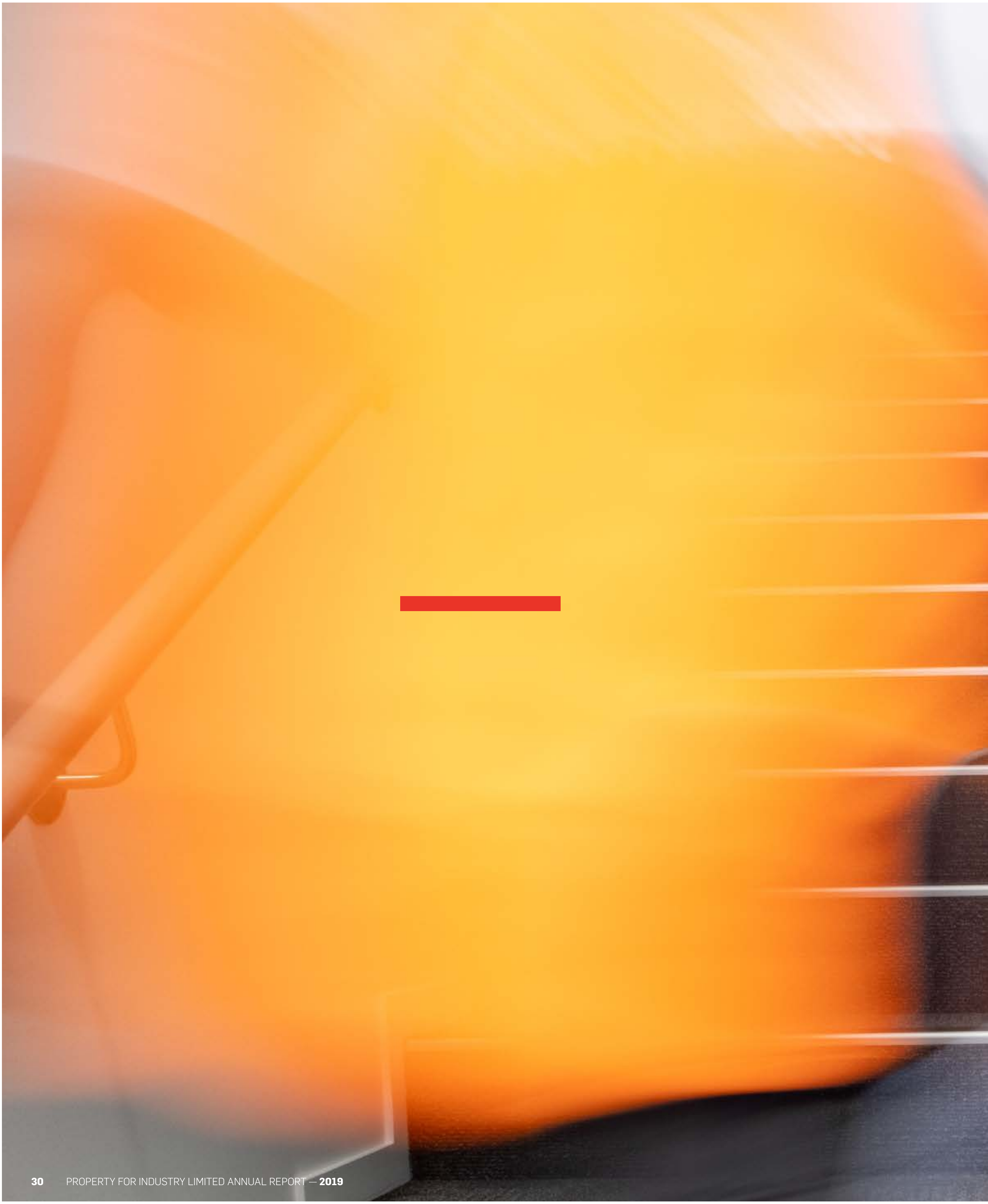
**APPENDIX**

Our 2020 report covers Property for Industry Limited's performance for the annual period 1 January to 31 December 2020. We have prepared this ESG report in accordance with the GRI Standards (core option), globally recognised as a leading reporting framework. Following the Standards allows us to report openly, honestly and responsibly on our most material ESG topics and how we are managing them.

**Material Topics**

Our material topics were established through an independently run materiality and stakeholder engagement process in 2019. Key stakeholders for PFI, including shareholders, staff, tenants, partner suppliers, industry groups and regulators, investors, and financiers were consulted to ascertain the topics that might have a significant impact (economically, socially, or environmentally), or a substantive influence, on PFI stakeholders' decisions and assessments. These topics underpin our strategy framework and inform the content of this report.

**PFI MATERIALITY MATRIX**



# FINANCIAL STATEMENTS

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

| ALL VALUES IN $000S | NOTE | 2020 | 2019 |
|---|---|---|---|
| **INCOME** | | | |
| Rental and management fee income | 2.3 | 97,392 | 96,051 |
| Licence income | 5.8 | – | 50 |
| Interest income | | 3 | 8 |
| Fair value gain on investment properties | 2.1 | 72,546 | 125,193 |
| Gain on disposal of investment properties | | – | 4,126 |
| Fair value gain on derivative financial instruments | | 643 | 2,577 |
| Business interruption insurance income | 2.6 | 227 | 177 |
| Material damage insurance income | 2.6 | 5,242 | 1,125 |
| **Total income** | | 176,053 | 229,307 |
| **EXPENSES** | | | |
| Property costs | 2.4 | (16,262) | (14,850) |
| Interest expense and bank fees | | (18,233) | (19,008) |
| Administrative expenses | 5.1 | (5,851) | (5,072) |
| Loss on disposal of investment properties | | (14) | – |
| **Total expenses** | | (40,360) | (38,930) |
| **Profit before taxation** | | 135,693 | 190,377 |
| Income tax expense | 5.2 | (22,241) | (14,091) |
| **Profit and total comprehensive income after income tax attributable to the shareholders of the Company** | 4.1 | 113,452 | 176,286 |
| Basic earnings per share (cents) | 4.1 | 22.71 | 35.35 |
| Diluted earnings per share (cents) | 4.1 | 22.70 | 35.35 |

The accompanying notes form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

| | NOTE | Cents per Share (cents) | No. of Shares (#) | Ordinary Shares ($000s) | Share-Based Payments Reserve ($000s) | Retained Earnings ($000s) | Total Equity ($000s) |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2019** | | – | 498,723,330 | 562,429 | – | 352,706 | 915,135 |
| Total comprehensive income | | – | – | – | – | 176,286 | 176,286 |
| **Dividends** | | | | | | | |
| Q4 2018 final dividend - 13/3/2019 | | 2.10 | – | – | – | (10,474) | (10,474) |
| Q1 2019 interim dividend - 24/5/2019 | | 1.80 | – | – | – | (8,977) | (8,977) |
| Q2 2019 interim dividend - 4/9/2019 | | 1.80 | – | – | – | (8,977) | (8,977) |
| Q3 2019 interim dividend - 20/11/2019 | | 1.85 | – | – | – | (9,226) | (9,226) |
| **Long-term incentive plan** | 5.9 | | – | – | 270 | – | 270 |
| **Balance as at 31 December 2019** | | – | 498,723,330 | 562,429 | 270 | 491,338 | 1,054,037 |
| Total comprehensive income | | – | – | – | – | 113,452 | 113,452 |
| **Dividends and reinvestment** | | | | | | | |
| Q4 2019 final dividend - 4/3/2020 | | 2.15 | – | – | – | (10,724) | (10,724) |
| Q1 2020 interim dividend - 26/5/2020 | | 1.80 | – | – | – | (8,978) | (8,978) |
| Q1 2020 dividend reinvestment | | | 1,086,032 | 2,555 | – | – | 2,555 |
| Q2 2020 interim dividend - 22/9/2020 | | 1.80 | – | – | – | (8,998) | (8,998) |
| Q2 2020 dividend reinvestment | | | 740,165 | 1,990 | – | – | 1,990 |
| Q3 2020 interim dividend - 18/11/2020 | | 1.85 | – | – | – | (9,261) | (9,261) |
| Q3 2020 dividend reinvestment | | | 708,009 | 2,040 | – | – | 2,040 |
| **Long-term incentive plan** | 5.9 | | 45,352 | 155 | 345 | – | 500 |
| **Balance as at 31 December 2020** | | – | 501,302,888 | 569,169 | 615 | 566,829 | 1,136,613 |

The accompanying notes form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

| ALL VALUES IN $000S | NOTE | 2020 | 2019 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash at bank | | 1,414 | 1,185 |
| Accounts receivable, prepayments and other assets | 5.3 | 5,397 | 2,419 |
| Total current assets | | 6,811 | 3,604 |
| **NON-CURRENT ASSETS** | | | |
| Investment properties | 2.1 | 1,524,785 | 1,469,285 |
| Property, plant and equipment | | 561 | 616 |
| Derivative financial instruments | 3.2 | 19,415 | 13,212 |
| Goodwill | 5.5 | 29,086 | 29,086 |
| Total non-current assets | | 1,573,847 | 1,512,199 |
| Non-current assets classified as held for sale | 2.2 | 106,701 | 6,893 |
| **Total assets** | | 1,687,359 | 1,522,696 |
| **CURRENT LIABILITIES** | | | |
| Derivative financial instruments | 3.2 | 340 | 840 |
| Accounts payable, accruals and other liabilities | 5.4 | 9,152 | 9,597 |
| Taxation payable | | 3,252 | 12,867 |
| Total current liabilities | | 12,744 | 23,304 |
| **NON-CURRENT LIABILITIES** | | | |
| Borrowings | 3.1 | 487,649 | 412,948 |
| Derivative financial instruments | 3.2 | 25,041 | 18,982 |
| Deferred tax liabilities | 5.2 | 25,160 | 13,185 |
| Lease liabilities | 5.10 | 152 | 240 |
| Total non-current liabilities | | 538,002 | 445,355 |
| **Total liabilities** | | 550,746 | 468,659 |
| **Net assets** | 4.2 | 1,136,613 | 1,054,037 |
| **EQUITY** | | | |
| Share capital | | 569,169 | 562,429 |
| Share-based payments reserve | 5.9 | 615 | 270 |
| Retained earnings | | 566,829 | 491,338 |
| **Total equity** | | 1,136,613 | 1,054,037 |

These Group financial statements are signed on behalf of Property for Industry Limited and were authorised for issue on 22 February 2021.

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 2020

| ALL VALUES IN $000S | NOTE | **2020** | 2019 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Property and management fee income received | | 97,502 | 96,287 |
| Business interruption insurance income | 2.6 | 206 | 177 |
| Licence income | 5.8 | – | 50 |
| Net GST received | | (304) | 156 |
| Interest received | | 3 | 8 |
| Interest and other finance costs paid | | (17,971) | (19,007) |
| Payments to suppliers and employees | | (24,591) | (20,256) |
| Income tax paid | | (19,681) | (9,044) |
| Net cash flows from operating activities | | 35,164 | 48,371 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of investment properties | | 6,909 | 35,458 |
| Acquisition of investment properties | 2.1 | (65,148) | (45,734) |
| Acquisition of property, plant and equipment | | (29) | (241) |
| Expenditure on investment properties | | (24,524) | (16,073) |
| Capitalisation of interest on development properties | 2.1 | (199) | (135) |
| Material damage insurance income | 2.6 | 5,242 | 1,125 |
| Net cash flows from investing activities | | (77,749) | (25,600) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Net (repayment of) / proceeds from syndicated bank facility | | (25,699) | 14,526 |
| Net proceeds from bilateral CBA bank facility | | 100,000 | – |
| Principal elements of finance lease payments | | (111) | (110) |
| Dividends paid to shareholders | | (31,376) | (37,654) |
| Net cash flows from financing activities | | 42,814 | (23,238) |
| Net increase / (decrease) in cash and cash equivalents | | 229 | (467) |
| Cash and cash equivalents at beginning of year | | 1,185 | 1,652 |
| Cash and cash equivalents at end of year | | 1,414 | 1,185 |

**Cash and cash equivalents at end of year comprises:**

| ALL VALUES IN $000S | **2020** | 2019 |
|---|---|---|
| Cash at bank | 1,414 | 1,185 |
| Cash and cash equivalents at end of year | 1,414 | 1,185 |

The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

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

| ALL VALUES IN $000S | NOTE | 2020 | 2019 |
|---|---|---|---|
| Profit for the year after income tax | | 113,452 | 176,286 |
| *Non-cash items:* | | | |
| Fair value gain on investment properties | 2.1 | (72,546) | (125,193) |
| Loss / (gain) on disposal of investment properties | | 14 | (4,126) |
| Fair value gain on derivative financial instruments | | (643) | (2,577) |
| Increase in deferred taxation | 5.2 | 12,175 | 985 |
| Depreciation | 5.1 | 173 | 124 |
| Provision for doubtful debts | | 378 | 23 |
| Lease liability interest expense | 5.10 | 24 | 32 |
| Employee benefits expense – share-based payments | | 300 | 270 |
| *Movements in working capital items:* | | | |
| Increase in accounts receivable, prepayments and other assets | | (3,070) | (977) |
| (Decrease) / increase in accounts payable, accruals and other liabilities | | (236) | 587 |
| (Decrease) / increase in taxation payable | | (9,615) | 4,062 |
| *Other:* material damage insurance income (classified as cash flows from investing activities) | 2.6 | (5,242) | (1,125) |
| **Net cash flows from operating activities** | | 35,164 | 48,371 |

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 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 the Financial Reporting Act 2013 and these audited consolidated financial statements have been prepared in accordance with the requirements of the NZX 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). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to for-profit 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 2020 and 31 December 2019, 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. 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 41 |
| 3.2. Derivative financial instruments | Page 55 |
| 5.2. Taxation | Page 57 |
| 5.5. Goodwill | Page 60 |
| 5.9. Share-based payments | Page 64 |

## 1. GENERAL INFORMATION (continued)

### 1.6. Accounting policies

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

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

Other relevant policies are provided as follows:

**Share capital**

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

**Measurement of fair values**

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

The carrying values of all balance sheet financial assets and liabilities approximate their estimated fair values, apart from the fixed rate bonds (refer Note 3.1 (ii) 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.

### 1.7. Significant events and transactions

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

**Investment property acquisitions and disposals**

On 13 March 2020, the Group settled the disposal of a non-current asset classified as held for sale located at 2 Pacific Rise, Mount Wellington, for a net sales price of $6.879 million.

On 7 July 2020, the Group announced the divestment of 127 Waterloo Road, Christchurch for a gross sales price of $4.410 million. Settlement is expected to take place in April 2021, and this property has been classified as a non-current asset classified as held for sale in these financial statements.

On 5 October 2020, the Group purchased an investment property located at 528-558 Rosebank Road, Avondale, for a net purchase price of $65.550 million. This acquisition was settled on 9 October 2020.

On 30 October 2020, Colliers International began to actively market Carlaw Gateway Building and Carlaw Park Office Complex for sale and therefore the Group reclassified these properties as non-current assets classified as held for sale.

On 23 December 2020, the Group announced an agreement to purchase the properties located at 670-680 Rosebank Road, Avondale, for a net purchase price of $39.000 million. Settlement of this acquisition took place on 29 January 2021.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 1. GENERAL INFORMATION (continued)

### 1.7. Significant events and transactions (continued)

**Bilateral bank facility**

On 19 March 2020, the Group entered into a $50 million 18-month bilateral bank facility provided by Commonwealth Bank of Australia (CBA). A bilateral bank facility is a facility agreement between a single lender (a bank) and a single borrower (a corporate customer). On 18 November 2020, this facility was extended out to 19 March 2022 and increased to $100 million.

**The COVID-19 pandemic**

In March 2020, the World Health Organisation designated COVID-19 to be a 'Global Pandemic' (the COVID-19 pandemic), threatening the health and well-being of large numbers of people across multiple countries. The COVID-19 pandemic has caused varying levels of societal uncertainty. New Zealand has been subject to two separate restriction periods associated with the pandemic, returning to Government-directed 'Alert-Level 1' on 7 October, marking a significant step towards pre-pandemic normality.

A proportion of the Group's tenants were impacted by disruptions and uncertainty and the Group has worked with its tenant base, particularly the most vulnerable businesses, to offer appropriate support. This support has largely come in the form of rent deferrals and rent abatement, with $595,000 in rent deferrals and $684,000 in rent abatement recorded during the reporting period.

As part of the Group's immediate response to the COVID-19 pandemic, a review of costs, both capital and operating in nature, was undertaken resulting in cuts to and deferrals of expenditure where appropriate. The Group also put divestments of non-industrial properties on hold during the period, but the process of divesting the Carlaw Gateway Building and Carlaw Park Office Complex properties recommenced on 30 October 2020 (as mentioned above). These properties are treated as non-current assets classified as held for sale at 31 December 2020, with a sale secured and announced on 10 February 2021 (see note 5.13, below).

The COVID-19 pandemic has resulted in impacts to key estimates and judgements used in these audited consolidated financial statements, including:

- Investment property valuations being impacted as at 31 December 2020, as detailed in note 2.1.
- The reintroduction of depreciation allowances for commercial building structures impacting tax expense estimates for future periods, as detailed in note 5.2.

Neither the Company nor its subsidiary have taken any Government wages or salary subsidies available to companies as a result of the COVID-19 pandemic.

Please also refer to the subsequent events note 5.13.

## 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 | **2020** | 2019 |
|---|---|---|
| Opening balance | 1,469,285 | 1,318,655 |
| Capital movements: | | |
| Additions | 65,148 | 45,734 |
| Disposals | – | (28,020) |
| Transfer to non-current assets classified as held for sale | (106,701) | (6,893) |
| Capital expenditure | 18,976 | 14,074 |
| Capitalised interest[a] | 199 | 135 |
| Movement in lease incentives, fees and fixed rental income | 5,332 | 407 |
| | (17,046) | 25,437 |
| Unrealised fair value gain | 72,546 | 125,193 |
| **As at 31 December** | 1,524,785 | 1,469,285 |

[a] The effective interest rate applied to capitalised interest was 4.20% (2019: 4.71%).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 2. PROPERTY (continued)

### 2.1. Investment properties (continued)

| ALL VALUES IN $000S UNLESS NOTED | Key tenant | Occupancy (%) | |
|---|---|---|---|
| | **2020** | **2020** | 2019 |
| **Avondale:** | | | |
| 15 Copsey Place | Canterbury | 100% | 100% |
| 15 Jomac Place | Southern Spars | 100% | 100% |
| 61-69 Patiki Road | Bidvest | 100% | 100% |
| 320 Rosebank Road | Doyle Sails | 100% | 100% |
| 686 Rosebank Road | New Zealand Comfort | 100% | 100% |
| 528-558 Rosebank Road | ETEL | 100% | n/a |
| | | 100% | 100% |
| **East Tamaki:** | | | |
| 17 Allens Road | TSB Living | 100% | 100% |
| 43 Cryers Road | Astron Plastics | 100% | 100% |
| 6-8 Greenmount Drive | Bridon | 100% | 100% |
| 92-98 Harris Road | GrainCorp | 100% | 100% |
| 36 Neales Road | Mainfreight | 100% | 100% |
| 1 Ron Driver Place | Glen Dimplex | 100% | 100% |
| 78 Springs Road | Fisher & Paykel Appliances | 100% | 100% |
| 10c Stonedon Drive | Chemical Freight Services | 100% | 100% |
| 11 Turin Place | Thermakraft Industries | 100% | 100% |
| 12 Zelanian Drive | Central Joinery | 100% | 100% |
| 23 Zelanian Drive | Exclusive Tyre Distributors | 100% | 100% |
| | | 100% | 100% |
| **Manukau:** | | | |
| 212 Cavendish Drive | Mainfreight | 100% | 100% |
| 232 Cavendish Drive[a] | Fletcher Building Products | 100% | 100% |
| 47 Dalgety Drive | Peter Hay Kitchens | 100% | 100% |
| 59 Dalgety Drive | Store Rite Logistics | 100% | 100% |
| 1 Mayo Road | Transdiesel | 100% | 100% |
| 61 McLaughlins Road | TIL Logistics | 100% | 100% |
| 9 Nesdale Avenue | Brambles | 100% | 100% |
| 12 Hautu Drive | Kiwi Steel | 100% | 100% |
| 9 Narek Place | Z Energy | 100% | 100% |
| 25 Langley Road | Grayson Engineering | 100% | 100% |
| | | 100% | 100% |

a Excludes development land shown separately below.

| Yield on valuation (%) | | Contract rent | | Lettable area (sqm) | Valuer | Carrying value | Capital movements | Fair value adjustment | Carrying value |
|---|---|---|---|---|---|---|---|---|---|
| **2020** | 2019 | **2020** | 2019 | **2020** | **2020** | 2019 | **2020** | **2020** | **2020** |
| 5.3% | 5.9% | 934 | 944 | 7,907 | JLL | 15,900 | 209 | 1,391 | 17,500 |
| 6.8% | 6.6% | 1,709 | 1,661 | 9,378 | JLL | 25,100 | 17 | (117) | 25,000 |
| 5.3% | 5.8% | 1,263 | 1,205 | 9,776 | CBRE | 20,700 | 328 | 2,722 | 23,750 |
| 5.0% | 5.1% | 763 | 756 | 6,625 | CBRE | 14,900 | (66) | 416 | 15,250 |
| 5.6% | 5.8% | 2,729 | 2,583 | 21,565 | CBRE | 44,450 | 21 | 4,579 | 49,050 |
| 4.5% | n/a | 2,973 | n/a | 26,902 | Savills | – | 65,148 | 602 | 65,750 |
| 5.3% | 5.9% | 10,371 | 7,149 | 82,153 | | 121,050 | 65,657 | 9,593 | 196,300 |
| 5.4% | 5.9% | 1,124 | 1,105 | 11,459 | CBRE | 18,600 | (5) | 2,055 | 20,650 |
| 5.2% | 5.1% | 811 | 721 | 6,068 | CBRE | 14,100 | 236 | 1,314 | 15,650 |
| 5.3% | 5.6% | 704 | 686 | 6,590 | JLL | 12,150 | 34 | 1,216 | 13,400 |
| 7.2% | 8.5% | 1,354 | 1,401 | 10,687 | Savills | 16,500 | (9) | 2,259 | 18,750 |
| 5.1% | 5.1% | 1,507 | 1,470 | 12,563 | Colliers | 28,700 | 63 | 637 | 29,400 |
| 5.1% | 5.6% | 527 | 473 | 5,393 | JLL | 8,500 | 477 | 1,373 | 10,350 |
| 6.6% | 6.4% | 6,289 | 6,106 | 41,536 | Colliers | 95,000 | 99 | (99) | 95,000 |
| 5.5% | 6.0% | 857 | 857 | 8,711 | JLL | 14,300 | 52 | 1,348 | 15,700 |
| 4.9% | 5.4% | 978 | 978 | 9,981 | Colliers | 18,000 | 105 | 1,695 | 19,800 |
| 5.3% | 4.9% | 701 | 582 | 6,098 | JLL | 11,950 | 17 | 1,283 | 13,250 |
| 5.4% | 5.2% | 469 | 438 | 3,811 | CBRE | 8,350 | 1 | 349 | 8,700 |
| 5.9% | 6.0% | 15,321 | 14,817 | 122,897 | | 246,150 | 1,070 | 13,430 | 260,650 |
| 5.0% | 5.4% | 2,030 | 1,941 | 25,896 | JLL | 35,900 | 443 | 4,157 | 40,500 |
| 4.5% | 4.5% | 1,132 | 1,100 | 16,832 | Colliers | 24,400 | (451) | 1,451 | 25,400 |
| 5.3% | 5.5% | 941 | 885 | 10,155 | Colliers | 16,000 | 3,289 | (1,589) | 17,700 |
| 5.3% | 9.5% | 1,220 | 1,441 | 11,844 | Colliers | 15,200 | 4,806 | 2,894 | 22,900 |
| 5.1% | 5.7% | 559 | 559 | 6,361 | CBRE | 9,825 | (36) | 1,161 | 10,950 |
| 4.8% | 5.1% | 1,202 | 1,202 | 13,347 | Savills | 23,750 | 134 | 1,116 | 25,000 |
| 4.9% | 5.0% | 814 | 790 | 14,163 | Colliers | 15,700 | 56 | 744 | 16,500 |
| 4.9% | 5.0% | 726 | 665 | 6,492 | JLL | 13,250 | 56 | 1,444 | 14,750 |
| 5.0% | 4.8% | 558 | 547 | 5,767 | CBRE | 11,400 | (13) | (287) | 11,100 |
| 5.0% | 5.2% | 1,648 | 1,608 | 21,248 | CBRE | 30,950 | 110 | 2,090 | 33,150 |
| 5.0% | 5.5% | 10,830 | 10,738 | 132,105 | | 196,375 | 8,394 | 13,181 | 217,950 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 2. PROPERTY (continued)

### 2.1. Investment properties (continued)

| ALL VALUES IN $000S UNLESS NOTED | Key tenant | Occupancy (%) | |
|---|---|---|---|
| | **2020** | **2020** | 2019 |
| **Mt Wellington:** | | | |
| 30-32 Bowden Road | Altus | 100% | 100% |
| 50 Carbine Road | Fletcher Building Products | 100% | 100% |
| 54 Carbine Road & 6a Donnor Place | Hancocks | 100% | 100% |
| 76 Carbine Road | Atlas Gentech | 100% | 100% |
| 7 Carmont Place | CMI | 100% | 100% |
| 6 Donnor Place | Coca–Cola | 100% | 100% |
| 4-6 Mt Richmond Drive | Iron Mountain | 100% | 100% |
| 509 Mt Wellington Highway | Fletcher Building Products | 100% | 100% |
| 511 Mt Wellington Highway | Stryker | 100% | 100% |
| 515 Mt Wellington Highway | Vacant | 0% | 100% |
| 523 Mt Wellington Highway | BGH Group | 100% | 100% |
| 1 Niall Burgess Road | Bremca Industries | 100% | 100% |
| 2-6 Niall Burgess Road | McAlpine Hussmann | 100% | 100% |
| 3-5 Niall Burgess Road | Electrolux | 100% | 100% |
| 7-9 Niall Burgess Road | DHL Supply Chain | 100% | 100% |
| 10 Niall Burgess Road | Outside Broadcasting | 100% | 100% |
| 5 Vestey Drive | PPG Industries | 100% | 100% |
| 7 Vestey Drive | True North | 100% | 100% |
| 9 Vestey Drive | Multispares | 100% | 100% |
| 11 Vestey Drive | N & Z | 100% | 100% |
| 15a Vestey Drive | Hills | 100% | 100% |
| 36 Vestey Drive | Hose Supplies | 100% | 100% |
| | | 98% | 100% |
| **North Shore:** | | | |
| 2-4 Argus Place | Pharmapac | 100% | 100% |
| 47 Arrenway Drive | Device Technologies | 100% | 100% |
| 51 Arrenway Drive | Pacific Hygiene | 100% | 100% |
| 15 Omega Street | Wesfarmers | 100% | 100% |
| 322 Rosedale Road | BSGi NZ Limited | 95% | 100% |
| 41 William Pickering Drive | Innopak Global | 100% | 100% |
| | | 98% | 100% |

| Yield on valuation (%) | | Contract rent | | Lettable area (sqm) | Valuer | Carrying value | Capital movements | Fair value adjustment | Carrying value |
|---|---|---|---|---|---|---|---|---|---|
| **2020** | 2019 | **2020** | 2019 | **2020** | **2020** | 2019 | **2020** | **2020** | **2020** |
| 6.1% | 6.3% | 1,761 | 1,761 | 17,047 | JLL | 27,750 | (71) | 1,321 | 29,000 |
| 4.3% | 4.5% | 190 | 190 | 2,592 | CBRE | 4,225 | (2) | 152 | 4,375 |
| 5.6% | 6.1% | 2,062 | 2,008 | 17,015 | Savills | 33,000 | 26 | 3,474 | 36,500 |
| 5.1% | 5.1% | 514 | 461 | 5,080 | JLL | 9,000 | 19 | 981 | 10,000 |
| 4.6% | 4.8% | 625 | 625 | 6,086 | JLL | 13,000 | 23 | 527 | 13,550 |
| 5.4% | 5.8% | 1,501 | 1,446 | 15,534 | CBRE | 24,800 | 2,056 | 1,144 | 28,000 |
| 4.1% | 4.5% | 835 | 835 | 7,946 | Colliers | 18,600 | (19) | 1,919 | 20,500 |
| 5.4% | 5.5% | 1,046 | 1,036 | 8,744 | Colliers | 18,700 | 112 | 588 | 19,400 |
| 5.1% | 5.2% | 485 | 461 | 3,054 | Savills | 8,800 | 638 | 62 | 9,500 |
| 5.5% | 4.8% | 311 | 266 | 1,681 | Savills | 5,600 | 607 | (507) | 5,700 |
| 4.7% | 5.0% | 263 | 228 | 1,677 | Colliers | 4,600 | 168 | 832 | 5,600 |
| 4.6% | 5.1% | 253 | 253 | 1,742 | JLL | 5,000 | 73 | 377 | 5,450 |
| 6.0% | 5.9% | 1,060 | 928 | 6,874 | JLL | 15,700 | (52) | 2,152 | 17,800 |
| 5.3% | 5.1% | 1,115 | 1,072 | 9,373 | JLL | 21,000 | (43) | 43 | 21,000 |
| 5.1% | 5.0% | 2,416 | 2,180 | 23,565 | Colliers | 43,500 | 1,247 | 2,653 | 47,400 |
| 4.8% | 4.9% | 264 | 257 | 1,725 | Savills | 5,200 | 4 | 296 | 5,500 |
| 4.9% | 5.5% | 236 | 236 | 1,269 | Colliers | 4,300 | 7 | 493 | 4,800 |
| 5.2% | 4.1% | 663 | 516 | 4,598 | CBRE | 12,650 | 39 | 61 | 12,750 |
| 4.6% | 4.9% | 220 | 220 | 1,600 | Colliers | 4,500 | (14) | 264 | 4,750 |
| 4.7% | 4.8% | 464 | 452 | 3,470 | Colliers | 9,400 | (33) | 433 | 9,800 |
| 6.0% | 5.7% | 591 | 581 | 3,261 | Colliers | 10,250 | (54) | (396) | 9,800 |
| 4.6% | 4.8% | 172 | 168 | 1,120 | JLL | 3,500 | 3 | 197 | 3,700 |
| 5.2% | 5.7% | 17,047 | 16,180 | 145,053 | | 303,075 | 4,734 | 17,066 | 324,875 |
| | | | | | | | | | |
| 4.8% | 4.9% | 451 | 440 | 3,560 | JLL | 9,000 | (9) | 409 | 9,400 |
| 5.1% | 5.3% | 251 | 245 | 1,245 | JLL | 4,600 | 32 | 268 | 4,900 |
| 5.0% | 5.1% | 398 | 391 | 2,680 | JLL | 7,650 | (15) | 365 | 8,000 |
| 5.0% | 5.0% | 513 | 498 | 3,498 | JLL | 10,000 | 26 | 324 | 10,350 |
| 5.5% | 5.6% | 1,144 | 1,122 | 7,936 | Colliers | 20,100 | 685 | (85) | 20,700 |
| 5.1% | 4.9% | 479 | 450 | 3,027 | CBRE | 9,250 | (4) | 154 | 9,400 |
| 5.2% | 5.2% | 3,236 | 3,146 | 21,946 | | 60,600 | 715 | 1,435 | 62,750 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 2. PROPERTY (continued)

### 2.1. Investment properties (continued)

| ALL VALUES IN $000S UNLESS NOTED | Key tenant | Occupancy (%) | |
|---|---|---|---|
| | **2020** | **2020** | 2019 |
| **Penrose:** | | | |
| 4 Autumn Place | Ryco Hydraulics | 100% | 100% |
| 6 Autumn Place | MOTAT | 100% | 100% |
| 10 Autumn Place | MOTAT | 100% | 100% |
| 122 Captain Springs Road | New Zealand Crane Group | 100% | 100% |
| 8 Hugo Johnston Drive | Argyle Schoolwear | 100% | 100% |
| 12 Hugo Johnston Drive | W H Worrall | 100% | 100% |
| 16 Hugo Johnston Drive | Newflor Industries | 100% | 100% |
| 80 Hugo Johnston Drive | Boxkraft | 100% | 100% |
| 102 Mays Road | Go Logistics | 100% | 100% |
| 304 Neilson Street | Fletcher Building Products | 100% | 100% |
| 306 Neilson Street | Trade Depot | 100% | 100% |
| 312 Neilson Street | Transport Trailer Services | 100% | 100% |
| 314 Neilson Street | IAG | 100% | 100% |
| 12 Southpark Place | Storepro Solutions | 100% | 100% |
| | | 100% | 100% |
| **Other Auckland:** | | | |
| 58 Richard Pearse Drive, Mangere | EBOS | 100% | 100% |
| Carlaw Park Gateway Building, Parnell | Quest | 100% | 85% |
| Carlaw Park Office Complex, Parnell | Jacobs | 96% | 95% |
| 170 Swanson Road, Swanson | Transportation Auckland | 100% | 100% |
| 51-61 Spartan Road, Takanini | MaxiTRANS | 100% | 100% |
| | | 98% | 94% |

| Yield on valuation (%) | | Contract rent | | Lettable area (sqm) | Valuer | Carrying value | Capital movements | Fair value adjustment | Carrying value |
|---|---|---|---|---|---|---|---|---|---|
| **2020** | 2019 | **2020** | 2019 | **2020** | **2020** | 2019 | **2020** | **2020** | **2020** |
| 4.5% | 4.7% | 161 | 157 | 1,210 | Savills | 3,325 | (1) | 276 | 3,600 |
| 4.6% | 4.6% | 178 | 174 | 1,718 | Savills | 3,800 | – | 100 | 3,900 |
| 4.8% | 5.0% | 693 | 679 | 7,646 | Savills | 13,650 | (13) | 763 | 14,400 |
| 4.8% | 5.1% | 521 | 521 | 7,431 | CBRE | 10,200 | (7) | 707 | 10,900 |
| 6.3% | 6.0% | 738 | 733 | 4,359 | Colliers | 12,300 | 55 | (655) | 11,700 |
| 5.4% | 5.6% | 382 | 372 | 2,639 | Colliers | 6,700 | 50 | 350 | 7,100 |
| 5.0% | 5.1% | 404 | 385 | 2,619 | JLL | 7,500 | 171 | 429 | 8,100 |
| 5.2% | 5.1% | 493 | 481 | 3,872 | CBRE | 9,450 | (26) | 101 | 9,525 |
| 5.5% | 5.5% | 538 | 538 | 7,588 | Savills | 9,775 | (82) | 107 | 9,800 |
| 5.6% | 5.7% | 755 | 738 | 13,438 | Savills | 13,000 | 2 | 498 | 13,500 |
| 5.4% | 5.5% | 919 | 900 | 6,301 | Savills | 16,250 | 55 | 695 | 17,000 |
| 5.4% | 5.1% | 407 | 362 | 3,862 | JLL | 7,050 | 42 | 458 | 7,550 |
| 4.6% | 5.5% | 817 | 383 | 6,603 | Savills | 6,995 | 8,722 | 2,033 | 17,750 |
| 4.6% | 4.8% | 520 | 510 | 5,477 | JLL | 10,600 | (35) | 635 | 11,200 |
| 5.2% | 5.3% | 7,526 | 6,933 | 74,763 | | 130,595 | 8,933 | 6,497 | 146,025 |
| | | | | | | | | | |
| 4.6% | 4.7% | 1,215 | 1,215 | 12,708 | Colliers | 25,700 | (47) | 1,047 | 26,700 |
| 7.5% | 6.9% | 2,245 | 2,425 | 2,369 | CBRE | 35,400 | (28,317) | (7,083) | – |
| 6.5% | 6.4% | 4,677 | 4,586 | 11,126 | CBRE | 72,000 | (71,343) | (657) | – |
| 4.9% | 5.1% | 1,068 | 1,068 | 37,601 | JLL | 20,750 | (19) | 1,169 | 21,900 |
| 4.8% | 5.0% | 945 | 920 | 13,519 | JLL | 18,350 | 149 | 1,301 | 19,800 |
| 5.9% | 5.9% | 10,150 | 10,214 | 77,323 | | 172,200 | (99,577) | (4,223) | 68,400 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 2. PROPERTY (continued)

### 2.1. Investment properties (continued)

| ALL VALUES IN $000S UNLESS NOTED | Key tenant | Occupancy (%) | |
|---|---|---|---|
| | **2020** | **2020** | 2019 |
| **North Island (outside Auckland):** | | | |
| 124 Hewletts Road, Mt Maunganui | RMD Bulk Storage | 100% | 100% |
| 124a Hewletts Road, Mt Maunganui | Ballance Agri–Nutrients | 100% | 100% |
| 124b Hewletts Road, Mt Maunganui | Ballance Agri–Nutrients | 100% | 100% |
| 3 Hocking Street, Mt Maunganui | BR & SL Porter | 100% | 100% |
| 558 Te Rapa Road, Hamilton | DEC Manufacturing | 100% | 100% |
| 39 Edmundson Street, Napier | TIL Logistics | 100% | 100% |
| 20 Constance Street, New Plymouth | Aviagen | 100% | 100% |
| 330 Devon Street East, New Plymouth | TIL Logistics | 100% | 100% |
| 28 Paraite Road, New Plymouth | TIL Logistics | 100% | 100% |
| 2 Smart Road, New Plymouth | New Zealand Post | 100% | 100% |
| Shed 22, 23 Cable Street, Wellington[b] | Shed 22 Hospo | 100% | 100% |
| 143 Hutt Park Road, Wellington | EBOS | 100% | 100% |
| 8 McCormack Place, Wellington | Fletcher Building Products | 100% | 100% |
| 48 Seaview Road, Wellington | Bridgestone | 100% | 100% |
| | | 100% | 100% |
| **South Island:** | | | |
| 11 Sheffield Street, Blenheim | TIL Logistics | 100% | 100% |
| 15 Artillery Place, Nelson | TIL Logistics | 100% | 100% |
| 8a & 8b Canada Crescent, Christchurch | Polarcold Stores | 100% | 100% |
| 41 & 55 Foremans Road, Christchurch | TIL Logistics | 100% | 100% |
| 44 Mandeville Street, Christchurch | Fletcher Building Products | 100% | 83% |
| 127 Waterloo Road, Christchurch | DHL Supply Chain | 100% | 100% |
| | | 100% | 95% |
| Investment properties - subtotal | | 99% | 99% |
| **Development land:** | | | |
| 232 Cavendish Drive, Manukau | | | |
| 47 Dalgety Drive, Manukau | | | |
| 48 Seaview Road, Wellington | | | |
| 314 Neilson Street, Penrose | | | |
| Development land - subtotal | | | |
| Investment properties - total | | | |

[b] Included in the 2020 balance is a right-of-use asset of $4.0 million (2019: $3.75 million) primarily in relation to a ground lease, representing the value of the land, with an associated immaterial lease liability.

| Yield on valuation (%) | | Contract rent | | Lettable area (sqm) | Valuer | Carrying value | Capital movements | Fair value adjustment | Carrying value |
|---|---|---|---|---|---|---|---|---|---|
| **2020** | 2019 | **2020** | 2019 | **2020** | **2020** | 2019 | **2020** | **2020** | **2020** |
| 5.2% | 5.8% | 2,986 | 2,926 | 29,169 | Colliers | 50,500 | 179 | 6,321 | 57,000 |
| 4.9% | 5.4% | 1,059 | 1,059 | 10,497 | Colliers | 19,700 | 70 | 1,630 | 21,400 |
| 5.0% | 5.4% | 921 | 898 | 8,867 | Colliers | 16,700 | – | 1,600 | 18,300 |
| 5.9% | 5.6% | 165 | 162 | 1,250 | Colliers | 2,900 | 20 | (120) | 2,800 |
| 6.8% | 6.8% | 480 | 461 | 4,606 | Colliers | 6,800 | 13 | 287 | 7,100 |
| 6.6% | 6.6% | 230 | 230 | 8,540 | Savills | 3,500 | 32 | (32) | 3,500 |
| 13.4% | 12.2% | 409 | 401 | 1,366 | Savills | 3,300 | – | (240) | 3,060 |
| 7.0% | 7.0% | 117 | 117 | 482 | Savills | 1,675 | 15 | (15) | 1,675 |
| 7.6% | 7.6% | 1,249 | 1,249 | 15,636 | Savills | 16,500 | 145 | (145) | 16,500 |
| 7.4% | 7.1% | 334 | 320 | 2,359 | Savills | 4,500 | – | – | 4,500 |
| 7.1% | 7.3% | 894 | 873 | 2,809 | CBRE | 11,950 | 427 | 173 | 12,550 |
| 5.6% | 6.7% | 1,256 | 1,200 | 11,372 | CBRE | 18,000 | 11 | 4,439 | 22,450 |
| 5.7% | 6.2% | 733 | 725 | 6,686 | CBRE | 11,750 | (61) | 1,111 | 12,800 |
| 6.8% | 11.5% | 537 | 587 | 8,996 | CBRE | 5,100 | 2,064 | 761 | 7,925 |
| 5.9% | 6.5% | 11,370 | 11,208 | 112,635 | | 172,875 | 2,915 | 15,770 | 191,560 |
| 7.4% | 7.6% | 512 | 512 | 10,823 | Savills | 6,700 | 90 | 110 | 6,900 |
| 6.8% | 6.8% | 565 | 565 | 18,052 | Savills | 8,300 | 69 | (69) | 8,300 |
| 7.4% | 7.2% | 1,206 | 1,172 | 9,500 | Savills | 16,250 | 10 | (10) | 16,250 |
| 6.3% | 6.8% | 767 | 767 | 14,710 | Savills | 11,250 | 96 | 904 | 12,250 |
| 9.0% | 8.7% | 1,060 | 1,086 | 12,388 | CBRE | 12,550 | 373 | (1,098) | 11,825 |
| 8.2% | 7.5% | 352 | 328 | 4,055 | CBRE | 4,350 | (4,310) | (40) | – |
| 7.5% | 7.5% | 4,462 | 4,430 | 69,528 | | 59,400 | (3,672) | (203) | 55,525 |
| 5.5% | 5.9% | 90,313 | 84,815 | 838,403 | | 1,462,320 | (10,831) | 72,546 | 1,524,035 |
| | | | | | Colliers | – | 750 | – | 750 |
| | | | | | Colliers | 1,400 | (1,400) | – | – |
| | | | | | CBRE | 1,960 | (1,960) | – | – |
| | | | | | Savills | 3,605 | (3,605) | – | – |
| | | | | | | 6,965 | (6,215) | – | 750 |
| | | | | | | 1,469,285 | (17,046) | 72,546 | 1,524,785 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 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 on the settlement date 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 value 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 building structure. Deferred tax is recognised to the extent that tax depreciation recovery gain or loss on disposal is calculated on the fit-out and building structure components separately. See section 5.2 for more details.

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 and the impact of the COVID-19 pandemic***

The fair value of investment properties are determined from valuations prepared by independent valuers.

All investment properties were valued as at 31 December 2020 (with the exception of 528-558 Rosebank Road, which was independently valued as at 23 October 2020 as part of the acquisition. This valuation remains the best estimate of fair value as at 31 December 2020) and 2019 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 valuers.

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.

Below are the significant inputs used in the valuations, together with the impact on the fair value of a change in the inputs:

| | RANGE OF SIGNIFICANT UNOBSERVABLE INPUTS | | MEASUREMENT SENSITIVITY | |
|---|---|---|---|---|
| | **2020** | 2019 | Increase in input | Decrease in input |
| Market capitalisation rate (%)[1] | 4.50 – 8.00 | 4.75 – 7.75 | Decrease | Increase |
| Market rental ($ per sqm)[2] | 28 – 407 | 28 – 408 | Increase | Decrease |
| Discount rate (%)[3] | 5.50 – 9.50 | 6.50 – 9.50 | Decrease | Increase |
| Rental growth rate (%)[4] | 1.66 – 2.42 | 1.78 – 3.13 | Increase | Decrease |
| Terminal capitalisation rate (%)[5] | 4.75 – 8.25 | 5.00 – 8.25 | 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 valuer's assessment of the net market income which a property is expected to achieve under a new arm's length leasing transaction. Includes both leased and vacant areas.
3. The rate applied to future cash flows reflecting transactional evidence from similar properties.
4. The rate applied to the market rental over the future cash flow projection.
5. The rate used to assess the terminal value of the property.

## 2. PROPERTY (continued)

### 2.1. Investment properties (continued)

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:

| | Fair value | Market capitalisation rate | | Discount rate | |
|---|---|---|---|---|---|
| ALL VALUES IN $000S | **2020** | + 0.25% | - 0.25% | + 0.25% | - 0.25% |
| Valuation | 1,524,785 | | | | |
| Change | | (67,000) | 73,000 | (53,000) | 56,000 |
| Change (%) | | (5%) | 6% | (4%) | 4% |

| | Fair value | Market capitalisation rate | | Discount rate | |
|---|---|---|---|---|---|
| ALL VALUES IN $000S | 2019 | + 0.25% | - 0.25% | + 0.25% | - 0.25% |
| Valuation | 1,469,285 | | | | |
| Change | | (55,000) | 60,000 | (43,000) | 46,000 |
| Change (%) | | (4%) | 5% | (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.

**The impact of the COVID-19 pandemic**

As at 30 June 2020, the real estate markets to which the Group's investment properties belong were still being impacted by the effects of the significant market uncertainty caused by the COVID-19 pandemic.

When completing the valuations, the independent registered valuers included a 'material valuation uncertainty' clause in their 30 June 2020 valuation reports, indicating that less weight could be attached to previous market evidence for comparison purposes, to inform value at 30 June 2020, and that less certainty and a higher degree of caution should be attached to the valuations than would normally be the case.

As at 31 December 2020, while the valuers have highlighted that there is still heightened uncertainty due to the COVID-19 pandemic, the 'material valuation uncertainty' for fair market value assessments of investment property no longer applies and the independent valuations are no longer reported on this basis (aside from in the valuation report of Carlaw Park Gateway). The valuers also note the uncertainty due to the COVID-19 pandemic is lower in the industrial property sector than other property sectors.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 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 investment properties actively marketed for sale. The carrying value of the property is either the contracted sale price, net of sale costs, being the lower of carrying value and fair value less costs of disposal, or the most recent valuation if the investment property is not contracted for sale.

| ALL VALUES IN $000S | **2020** | 2019 |
|---|---|---|
| 2 Pacific Rise, Mt Wellington | – | 6,893 |
| 127 Waterloo Road, Christchurch | 4,301 | – |
| Carlaw Park Office Complex | 72,300 | – |
| Carlaw Park Gateway Building | 30,100 | – |
| **Total non-current assets classified as held for sale** | 106,701 | 6,893 |

On 18 February 2019, the Group announced its strategy of replacing its non-industrial assets with quality industrial properties in sought-after areas, either via acquisitions or by value-add strategies within the existing portfolio. As at 31 December 2020, however, the non-industrial property within investment properties – Shed 22, 23 Cable Street – cannot be classified as a non-current asset classified as held for sale as it does not meet the defined requirements. These requirements are that the asset is available for immediate sale in its present condition, the appropriate level of management are committed to a plan to sell the asset, an active programme to locate a buyer has been initiated, the asset must be actively marketed for sale at a reasonable price, and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

### 2.3. Rental and management fee income

| ALL VALUES IN $000S | **2020** | 2019 |
|---|---|---|
| Gross rental receipts | 80,029 | 81,288 |
| Service charge income recovered from tenants | 12,587 | 12,050 |
| Fixed rental income adjustments | 1,882 | 1,701 |
| Capitalised lease incentive adjustments | 970 | 350 |
| Impact of rental income deferred and abated due to the COVID-10 pandemic | 1,279 | – |
| Management fee income | 645 | 662 |
| **Total rental and management fee income** | 97,392 | 96,051 |

***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. Fixed rental income adjustments are accounted for to achieve straight-line income recognition. 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.

Rental abatements may at times be offered by a landlord as an incentive for tenants to sign longer lease terms. However in this period rental abatements have also been offered to assist tenants struggling due to the impact of the COVID-19 pandemic. Rental abatements are accounted for as a lease modification under NZ IFRS 16 'Leases' and the expense is spread over the remaining life of the lease, effectively accounted for as a lease incentive.

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

Income generated from service charges recovered from tenants are included in the gross rental income with the service charge expenses to tenants shown in Property costs. Such revenue is recognised in the accounting period the underlying expenses are incurred in accordance with the contractual terms.

## 2. PROPERTY (continued)

### 2.3. Rental and management fee income (continued)

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

| ALL VALUES IN $000S | **2020** | 2019 |
|---|---|---|
| Within one year | 80,605 | 78,309 |
| After one year but not more than five years | 222,486 | 242,781 |
| More than five years | 117,881 | 127,114 |
| **Total** | 420,972 | 448,204 |

### 2.4. Property costs

| ALL VALUES IN $000S | **2020** | 2019 |
|---|---|---|
| Service charge expenses | (12,587) | (12,050) |
| Bad and doubtful debts expense[1] | (378) | (14) |
| Other non-recoverable property costs | (3,297) | (2,786) |
| **Total property costs** | (16,262) | (14,850) |

1. Included in the 2020 balance is $90,000 specifically relating to COVID-19 rent deferrals provided and a further $288,000 relating to tenants adversely affected by the COVID-19 pandemic.

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

### 2.5. Net rental income

| ALL VALUES IN $000S | **2020** | 2019 |
|---|---|---|
| Gross rental receipts | 80,029 | 81,288 |
| Service charge income recovered from tenants | 12,587 | 12,050 |
| Fixed rental income adjustments | 1,882 | 1,701 |
| Capitalised lease incentive adjustments | 970 | 350 |
| Impact of rental income deferred and abated due to the COVID-19 pandemic | 1,279 | – |
| less: Service charge expenses | (12,587) | (12,050) |
| **Net rental income** | 84,160 | 83,339 |

### 2.6. Insurance income

On 21 April 2019, 314 Neilson Street, Penrose sustained fire damage. The fire has resulted in a business interruption (loss of rents) claim and a material damage claim. The insurance income relating to business interruption and to material damage is presented in the Consolidated Statement of Comprehensive Income. Further insurance proceeds are expected to be received and recognised in subsequent periods.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

### 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 | **2020** | 2019 |
|---|---|---|
| Bilateral CBA bank facility drawn down - non-current | 100,000 | – |
| Syndicated bank facility drawn down - non-current | 189,877 | 215,576 |
| Fixed rate bonds - non-current | 200,000 | 200,000 |
| Unamortised borrowings establishment costs | (2,228) | (2,628) |
| **Net borrowings** | 487,649 | 412,948 |
| Weighted average interest rate for drawn debt (inclusive of current interest rate swaps, margins and line fees) | 3.75% | 4.63% |
| Weighted average term to maturity (years) | 2.82 | 4.14 |

***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 and costs 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) Composition of borrowings

| ALL VALUES IN $000S<br>**As at 31 December 2020** | Issue Date | Maturity Date | Interest Rate | Facility drawn / amount | Undrawn facility | Fair Value |
|---|---|---|---|---|---|---|
| Bilateral CBA Bank Facility | – | 19-Mar-22 | Floating | 100,000 | – | 100,000 |
| Syndicated Bank Facility A | – | 4-Nov-22 | Floating | 150,000 | – | 150,000 |
| Syndicated Bank Facility B | – | 4-Nov-23 | Floating | 39,877 | 110,123 | 39,877 |
| PFI010 | 28-Nov-17 | 28-Nov-24 | 4.59% | 100,000 | – | 111,015 |
| PFI020 | 1-Oct-18 | 1-Oct-25 | 4.25% | 100,000 | – | 110,486 |
| Total borrowings | | | | 489,877 | 110,123 | 511,378 |

| ALL VALUES IN $000S<br>As at 31 December 2019 | Issue Date | Maturity Date | Interest Rate | Facility drawn / amount | Undrawn facility | Fair Value |
|---|---|---|---|---|---|---|
| Syndicated Bank Facility A | – | 4-Nov-22 | Floating | 150,000 | – | 150,000 |
| Syndicated Bank Facility B | – | 4-Nov-23 | Floating | 65,576 | 84,424 | 65,576 |
| PFI010 | 28-Nov-17 | 28-Nov-24 | 4.59% | 100,000 | – | 107,924 |
| PFI020 | 1-Oct-18 | 1-Oct-25 | 4.25% | 100,000 | – | 106,392 |
| Total borrowings | | | | 415,576 | 84,424 | 429,892 |

The Group has long-term revolving facilities (A and B) with a banking syndicate comprising ANZ Bank New Zealand Limited (ANZ), Bank of New Zealand (BNZ), Commonwealth Bank of Australia (CBA) and Westpac New Zealand Limited (Westpac) (each providing $75,000,000), for $300,000,000. In addition, a bilateral facility with CBA for $100,000,000 was established during the year. The carrying values of the bank facilities approximate the fair value of the facilities because the loans have floating rates of interest that reset every 30-90 days.

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 (2019: 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. Both bonds are listed on the NZDX.

## 3. FUNDING (continued)

### 3.1. Borrowings (continued)

**(iii) Security**

The bank facilities 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 $1,200,000,000 (31 December 2019: $1,000,000,000). In addition to this, the bank facility agreements 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 2020, investment properties totalling $1,617,936,000 (31 December 2019: $1,463,178,000) were mortgaged as security for the Group's borrowings.

### 3.2. Derivative financial instruments

**(i) Fair values**

| ALL VALUES IN $000S | **2020** | 2019 |
|---|---|---|
| Non-current assets | 19,415 | 13,212 |
| Current liabilities | (340) | (840) |
| Non-current liabilities | (25,041) | (18,982) |
| **Total** | (5,966) | (6,610) |

**(ii) Notional values, maturities and interest rates**

| | **2020** | 2019 |
|---|---|---|
| Notional value of interest rate swaps - fixed rate payer - start dates commenced ($000S) | 295,000 | 245,000 |
| Notional value of interest rate swaps - fixed rate receiver[1] - start dates commenced ($000S) | 200,000 | 200,000 |
| Notional value of interest rate swaps - fixed rate payer - forward starting ($000S) | 110,000 | 190,000 |
| **Total ($000S)** | 605,000 | 635,000 |
| **Percentage of borrowings fixed (%)** | 60% | 59% |
| Fixed rate payer swaps: | | |
| Average period to expiry - start dates commenced (years) | 3.06 | 2.40 |
| Average period to expiry - forward starting (years from commencement) | 3.73 | 3.48 |
| **Average (years)** | 3.24 | 2.87 |
| Fixed rate payer swaps: | | |
| Average interest rate[2] - start dates commenced (%) | 3.07% | 3.75% |
| Average interest rate[2] - forward starting (% during effective period) | 3.09% | 3.32% |
| **Average (%)** | 3.07% | 3.55% |

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

***Recognition and Measurement***

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

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

# NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 3. FUNDING (continued)

### 3.2. Derivative financial instruments (continued)

***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 (2019: 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 2020 of between 0.27% for the 90 day BKBM (31 December 2019: 1.29%) and 0.99% for the 10 year swap rate (31 December 2019: 1.79%). 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

**(i) Basic earnings per share**

| | **2020** | 2019 |
|---|---|---|
| Total comprehensive income for the year attributable to the shareholders of the Company ($000s) | 113,452 | 176,286 |
| Weighted average number of ordinary shares (shares) | 499,649,574 | 498,723,330 |
| **Basic earnings per share (cents)** | 22.71 | 35.35 |

**(ii) Diluted earnings per share**

The calculation of diluted earnings per share has been based on the profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. Weighted average number of shares for the purpose of diluted earnings per share has been adjusted for 38,957 (2019: 651) rights issued under the Group's LTI Plan as at 31 December 2020. This adjustment has been calculated using the treasury share method. Refer to note 5.9 "Share-based payments" for further details.

| | **2020** | 2019 |
|---|---|---|
| Total comprehensive income for the year attributable to the shareholders of the Company ($000s) | 113,452 | 176,286 |
| Weighted average number of shares for purpose of diluted earnings per share (shares) | 499,688,531 | 498,723,981 |
| **Diluted earnings per share (cents)** | 22.70 | 35.35 |

### 4.2. Net tangible assets per share

| | **2020** | 2019 |
|---|---|---|
| Net assets ($000s) | 1,136,613 | 1,054,037 |
| Less: Goodwill ($000s) (note 5.5) | (29,086) | (29,086) |
| Net tangible assets ($000s) | 1,107,527 | 1,024,951 |
| Closing shares on issue (shares) | 501,302,888 | 498,723,330 |
| **Net tangible assets per share (cents)** | 221 | 206 |

## 5. OTHER

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

### 5.1. Administrative expenses

| ALL VALUES IN $000S | NOTE | 2020 | 2019 |
|---|---|---|---|
| Auditors remuneration: | | | |
| Audit and review of financial statements | | (156) | (148) |
| Benchmarking of executive remuneration | | – | (2) |
| Employee and independent contractor benefits expense | | (3,511) | (3,032) |
| Directors' fees | 5.8 | (548) | (337) |
| Office expenses | | (671) | (523) |
| Depreciation | | (173) | (124) |
| Other expenses | | (792) | (906) |
| **Total administrative expenses** | | (5,851) | (5,072) |

### 5.2. Taxation

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

| ALL VALUES IN $000S | 2020 | 2019 |
|---|---|---|
| **Profit before income tax** | 135,693 | 190,377 |
| Prima facie income tax calculated at 28% | (37,994) | (53,306) |
| *Adjusted for:* | | |
| Non-tax deductible revenue and expenses | 1,229 | (30) |
| Fair value gain on investment properties | 20,313 | 35,054 |
| (Loss) / gain on disposal of investment properties | (4) | 1,155 |
| Depreciation[1] | 4,439 | 2,598 |
| Disposal of depreciable assets | – | (729) |
| Deductible capital expenditure | 889 | 991 |
| Lease incentives, fees and fixed rental income | 879 | 547 |
| Derivative financial instruments | 180 | 721 |
| Impairment (allowance) / gains | (106) | 4 |
| Current tax prior period adjustment | 9 | (57) |
| Other | 100 | (54) |
| **Current taxation expense** | (10,066) | (13,106) |
| Depreciation | (11,019) | 224 |
| Lease incentives, fees and fixed rental income | (879) | (547) |
| Derivative financial instruments | (180) | (721) |
| Impairment allowance | 106 | (4) |
| Other | (203) | 63 |
| **Deferred taxation expense** | (12,175) | (985) |
| **Total taxation reported in Consolidated Statement of Comprehensive Income** | (22,241) | (14,091) |

1. As part of the assistance package offered by the Government on 25 March 2020 due to the impact of the COVID-19 pandemic, depreciation allowances were re-introduced for commercial building structure effective from 1 April 2020, backdated to 1 January 2020, and this has been reflected in the table above.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 5. OTHER (continued)

### 5.2. Taxation (continued)

**(ii) Deferred tax**

| | 2018 | 2019 | 2019 | **2020** | **2020** |
|---|---|---|---|---|---|
| ALL VALUES IN $000S | As at | Recognised in profit | As at | Recognised in profit | As at |
| **Deferred tax assets** | | | | | |
| Derivative financial instruments | (2,572) | 721 | (1,851) | 180 | (1,671) |
| Impairment allowance | (24) | 4 | (20) | (106) | (126) |
| Other | – | (63) | (63) | 3 | (60) |
| **Gross deferred tax assets** | (2,596) | 662 | (1,934) | 77 | (1,857) |
| **Deferred tax liabilities** | | | | | |
| Investment properties | 14,796 | 323 | 15,119 | 11,898 | 27,017 |
| **Gross deferred tax liabilities** | 14,796 | 323 | 15,119 | 11,898 | 27,017 |
| **Share-based payment reserve** | – | – | – | 200 | – |
| **Net deferred tax liability** | 12,200 | 985 | 13,185 | 12,175 | 25,160 |

**(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 | **2020** | 2019 |
|---|---|---|
| Opening balance | 3,997 | 2,203 |
| Taxation paid / payable | 9,971 | 12,943 |
| Imputation credits attached to dividends paid | (11,391) | (11,149) |
| **Closing balance available to shareholders for use in subsequent periods** | 2,577 | 3,997 |

## 5. OTHER (continued)

### 5.2. Taxation (continued)

#### (ii) Deferred tax (continued)

***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***

Given changes to purchase price allocations rules, which will apply to agreements for the disposal and acquisition of property entered into on or after 1 April 2021, and following the reintroduction of depreciation allowances for commercial building structures, the Group completed a review of its deferred tax methodology. As a result of that review, deferred tax has now been provided on the accumulated depreciation claimed on both the structure and fit-out components of investment properties (2019: deferred tax was provided on the accumulated depreciation claimed only on the structure component). This has resulted in an increase in the deferred tax liability of $9.6 million. 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 in the valuation provided by the valuers. The building value is then split between fit-out and structure based on the proportion of the tax book values of each.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 5. OTHER (continued)

### 5.3. Accounts receivable, prepayments and other assets

| ALL VALUES IN $000S | 2020 | 2019 |
|---|---|---|
| Accounts receivable | 2,311 | 1,479 |
| Provision for doubtful debts | (450) | (72) |
| Prepayments and other assets | 1,536 | 1,012 |
| Deposit paid for acquisition of 670-680 Rosebank Road | 2,000 | – |
| **Total accounts receivable, prepayments and other assets** | 5,397 | 2,419 |

***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 'Financial Instruments', which permits the use of lifetime expected loss provision for all trade receivables.

### 5.4. Accounts payable, accruals and other liabilities

| ALL VALUES IN $000S | 2020 | 2019 |
|---|---|---|
| Accounts payable | 1,008 | 1,708 |
| Accrued interest expense and bank fees | 2,196 | 2,358 |
| Accruals and other liabilities in respect of investment properties | 1,247 | 1,464 |
| Accruals and other liabilities | 4,701 | 4,067 |
| **Total accounts payable, accruals and other liabilities** | 9,152 | 9,597 |

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

### 5.5. Goodwill

| ALL VALUES IN $000S | 2020 | 2019 |
|---|---|---|
| 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 (2019: Level 3). Fair value less costs of disposal is measured by calculating the fair value of the Property for Industry Limited CGU using a 1 day volume-weighted average share price at the reporting date, applying a control premium (15.8%, as determined by a third party, 2019: 14.3%) and deducting costs of disposal.

As at 31 December 2020 the estimated fair value less costs of disposal of the Property for Industry Limited CGU exceeded the carrying value (2019: nil impairment).

## 5. OTHER (continued)

### 5.6. Financial instruments

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

| ALL VALUES IN $000S | 2020 | 2019 |
|---|---|---|
| **Financial Assets** | | |
| *Financial assets at amortised cost:* | | |
| Cash at bank | 1,414 | 1,185 |
| Accounts receivable and other assets | 1,861 | 1,407 |
| **Total - Financial assets at amortised cost** | 3,275 | 2,592 |
| *Financial assets at fair value through profit or loss:* | | |
| Derivative financial instruments | 19,415 | 13,212 |
| **Total - Financial assets at fair value through profit or loss** | 19,415 | 13,212 |
| **Total Financial Assets** | 22,690 | 15,804 |
| **Financial Liabilities** | | |
| *Financial liabilities at amortised cost:* | | |
| Accounts payable, accruals and other liabilities | 8,986 | 9,455 |
| Lease liabilities | 245 | 325 |
| Borrowings | 487,649 | 412,948 |
| **Total - Financial liabilities at amortised cost** | 496,880 | 422,728 |
| *Financial liabilities at fair value through profit or loss:* | | |
| Derivative financial instruments | 25,381 | 19,822 |
| **Total - Financial liabilities at fair value through profit or loss** | 25,381 | 19,822 |
| **Total Financial Liabilities** | 522,261 | 442,550 |

### 5.7. Financial risk management

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

**(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, however this risk is partially mitigated by the Group's holding of fixed rate receiver interest rate swaps. The fair value of derivative financial instruments is disclosed in the Consolidated Statement of Financial Position (refer to 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.

| | 2020 | | 2019 | |
|---|---|---|---|---|
| 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 | 420 | (1,139) | (158) | 158 |
| Impact on equity | 302 | (820) | (114) | 114 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 5. OTHER (continued)

### 5.7. Financial risk management (continued)

**(b) Credit risk**

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

With respect to the credit risk arising from cash and cash equivalents, there is limited credit risk as cash is deposited with ANZ Bank New Zealand Limited, a registered bank in New Zealand with a credit rating of AA– (Standard & Poor's). 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. As the Group has a wide spread of tenants over many industry sectors, it is not exposed to any significant concentration of credit risk. Credit risk does not arise on property sale proceeds to be settled as title will not transfer until settlement.

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

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

**(c) Liquidity risk**

Liquidity risk is the risk that the Group will experience difficulty in either realising assets or otherwise raising sufficient funds to meet its obligations arising from its 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 2.8 years (2019: 4.1 years), with all borrowings due later than one year (2019: 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.

The table below analyses the contractual undiscounted cash flows of the Group's financial liabilities (principal and interest) by the relevant maturity groupings based on the remaining period as at 31 December 2020 and 31 December 2019.

| | 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 | 8,986 | 8,986 | – | – | – | 8,986 |
| Lease liabilities | 245 | 93 | 100 | 52 | – | 245 |
| Derivative financial instruments[1] | 5,966 | 2,987 | 2,512 | 966 | 636 | 7,101 |
| Borrowings | 487,649 | 9,593 | 257,907 | 250,084 | – | 517,584 |
| **Total as at 31 December 2020** | 502,846 | 21,659 | 260,519 | 251,102 | 636 | 533,916 |
| Accounts payable, accruals and other liabilities | 9,455 | 9,455 | – | – | – | 9,455 |
| Lease liabilities | 325 | 85 | 91 | 149 | – | 325 |
| Derivative financial instruments[1] | 6,610 | 2,833 | 2,156 | 2,181 | 419 | 7,589 |
| Borrowings | 412,948 | 12,089 | 12,089 | 340,152 | 102,078 | 466,408 |
| **Total as at 31 December 2019** | 429,338 | 24,462 | 14,336 | 342,482 | 102,497 | 483,777 |

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

## 5. OTHER (continued)

### 5.7. Financial risk management (continued)

**(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 to optimise the cost of capital. 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. Having been non-operational during the year ended 31 December 2019, the DRS was used for the Q1 2020 dividend and remained operational for the rest of the year ended 31 December 2020.

### 5.8. Related party transactions

**(i) Key management personnel**

| ALL VALUES IN $000S | **2020** | 2019 |
|---|---|---|
| Directors' fees - annual fees | 548 | 441 |
| Directors' fees - retirement allowance reversed[1] | – | (105) |
| Short-term independent contractors benefits | – | 213 |
| Leadership Team remuneration[2] | 2,032 | 1,365 |
| **Key management personnel** | 2,580 | 1,914 |

1 In 2019, former Director Humphry Rolleston elected to waive his retirement allowance. This retirement allowance had been accrued in 2018.

2 In 2020, Leadership Team remuneration comprises remuneration for the Senior Leadership Team of the Company. If this definition had been used in 2019, Leadership Team remuneration would have totalled $1,844,000.

**(ii) Other related party transactions**

The Group also has related party relationships with the following parties:

| Related party | Abbreviation | Nature of relationship(s) |
|---|---|---|
| McDougall Reidy & Co Ltd | MRCO | Gregory Reidy, a senior executive who became an independent contractor with the Company on 30 June 2017 and then a non-executive director of the Company on 30 June 2019, is also a Director of MRCO.<br>The Group had 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. This agreement was terminated on 30 June 2019. |
| Commonwealth Bank of Australia | CBA | Susan Peterson, a member of the Board of Directors, was also a Director of ASB Bank Limited (ASB), a 100% subsidiary of CBA, however she resigned from this position effective 30 June 2020. |
| The Board of Directors | Directors | The Board of Directors. |

The following transactions with related parties took place:

| ALL VALUES IN $000S | Related party | **2020** | 2019 |
|---|---|---|---|
| Licence income received | MRCO | – | 50 |
| Related party debts written off or forgiven | – | – | – |
| Interest expense and bank fees incurred[3] | CBA | (1,082) | (2,173) |
| Interest income received[3] | CBA | 482 | 796 |

3. All transactions and positions held with CBA are as at 30 June 2020 as that was the date that CBA ceased to be a related party of the Group.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 5. OTHER (continued)

### 5.8. Related party transactions (continued)

**(ii) Other related party transactions** (continued)

The following positions were held with related parties:

| ALL VALUES IN $000S UNLESS STATED OTHERWISE | Related party | 30 June 2020 | 31 Dec 2019 |
|---|---|---|---|
| Amounts owing[3] | CBA | (274) | (246) |
| Amounts owed[3] | CBA | 116 | 79 |
| Bank facility provided[3] | CBA | 125,000 | 75,000 |
| Bank facility drawn[3] | CBA | 93,070 | 53,894 |
| Notional value of interest rate swaps: | | | |
| Current fixed rate payer swaps[3] | CBA | 60,000 | 50,000 |
| Forward starting fixed rate payer swaps[3] | CBA | 50,000 | 50,000 |
| Current fixed rate receiver swaps[3] | CBA | 50,000 | 50,000 |

3. All transactions and positions held with CBA are as at 30 June 2020 as that was the date that CBA ceased to be a related party of the Group.

| ALL VALUES IN $000S UNLESS STATED OTHERWISE | Related party | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|---|
| Shares held beneficially in the company | Directors | 309,361 | 191,371 |
| Shares held non-beneficially in the company | Directors | – | 110,825 |

### 5.9. Share-based payments

**Long-term incentive plan (Equity settled)**

The long-term incentive plan (LTI Plan) was introduced for selected senior executives in the Group on 2 December 2019 ("2019 Grant"). Under this plan, Performance Share Rights (PSRs) were issued to these senior executives which give them the right to receive ordinary shares in the Group after a 1-3 year period, subject to achieving the performance hurdles outlined below. These are at-risk payments designed to align the reward of these senior executives with the enhancement of shareholder value over a multi-year period. On 17 February 2020, a second grant of PSRs were issued to these senior executives ("2020 Grant") under equivalent conditions to the 2019 Grant.

The key terms and conditions related to the PSRs under the LTI Plan are as follows:

- The PSRs are granted for nil consideration and have a nil exercise price.
- The participant must remain an employee of the Group as at the relevant vesting date for each tranche of PSRs.
- Each grant under the LTI Plan has three tranches with two separate performance hurdles applying to each tranche. The three tranches enable a third of the PSRs to vest after one year, two years and three years from the service commencement dates of 1 January 2019 and 1 January 2020. For each tranche:
  - 50% of the PSRs are subject to a performance hurdle of the Company's rolling three year Funds From Operations (FFO) growth equalling or exceeding the three year CPI growth to September immediately prior to the vesting date ("Part A"); and
  - 50% of the PSRs are subject to a performance hurdle of the Company's Total Shareholder Returns (TSR) outperforming the TSR of a property peer group (comprising other listed property issuers) over the period from the commencement date to the vesting date for the relevant tranche ("Part B").
- At vesting, subject to meeting performance hurdles, each PSR is converted to one ordinary share. The LTI Plan is a dividend protected LTI Plan and the senior executives will receive additional shares representing the value of dividends paid over the vesting period. The senior executives are liable for tax on the shares received at this point.

165,279 PSRs (2020 Grant) were granted in the current period (2019: 196,023 in the 2019 Grant) out of which 55,093 have vested at 31 December 2020 (31 December 2019: 65,341). A further 65,341 PSRs relating to the 2019 Grant vested during the year ended 31 December 2020. 175,527 PSRs were outstanding as at 31 December 2020; 65,341 relating to the 2019 Grant and 110,186 relating to the 2020 Grant (31 December 2019: 130,682 PSRs, all relating to the 2019 Grant).

The PSRs outstanding at 31 December 2020 had a weighted - average contractual life of 1.31 years (31 December 2019: 1.50 years).

The LTI Plan has resulted in a share-based payment reserve totalling $615,000 as at 31 December 2020 (2019: $270,000).

## 5. OTHER (continued)

### 5.9. Share-based payments (continued)

**Fair value measurement of LTI Plan**

The fair value of the PSRs have been measured using a Monte Carlo simulation model. Service and non-market performance conditions were not taken into account in measuring fair value. The TSR performance metric is a market condition and has been factored into the fair value of the PSRs at grant date. However, the FFO performance metric is a non-market condition and is not factored into the fair value of the PSRs.

The inputs used in the measurement of the fair values at grant date were as follows.

| | Performance Share Rights | | | |
|---|---|---|---|---|
| | **2020 Grant** | | 2019 Grant | |
| | Part A | Part B | Part A | Part B |
| Weighted average fair value at grant date | $2.49 | $1.18 | $2.35 | $2.04 |
| Share price at grant date | $2.49 | $2.49 | $2.35 | $2.35 |
| Expected volatility (weighted-average) | 10.3% | 10.3% | 10.0% | 10.0% |
| Expected life (weighted-average) | 22 months | 22 months | 13 months | 13 months |
| Risk-free interest rate | 1.22% | 1.22% | 1.00% | 1.00% |

The expected volatility and correlation measures are based on the standard deviation and correlation of weekly returns of the property peer group, over a two year period.

The risk-free rate was based on government bond yields over a period of 1 to 2 years.

***Recognition and Measurement***

The PSRs are measured at fair value at grant date and expensed over the period during which the participant becomes unconditionally entitled to the shares, based on an estimate of shares that will eventually vest. The corresponding entry of the expense is equity. The fair value of the PSRs which are vested - and the corresponding shares which are issued - are transferred from the share-based payment reserve to share capital on issue of the shares.

***Key estimates and assumptions: Long-term incentive plan***

It has been assumed that the selected senior executives will remain employed with the Company on each of the vesting dates and that the non-market performance conditions will be met.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

## 5. OTHER (continued)

### 5.10. Leases

#### (i) Amounts recognised in the Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position shows the following amounts relating to leases:

| ALL VALUES IN $000S | 2020 | 2019 |
|---|---|---|
| **Right-of-use assets**[1] | | |
| Properties | 229 | 314 |
| **Total right-of-use assets** | 229 | 314 |

1. Included in the line item 'Property, plant and equipment' in the Consolidated Statement of Financial Position.

Additions to the right-of-use assets during the 2020 financial year were $6,000 (2019: $314,000).

| ALL VALUES IN $000S | 2020 | 2019 |
|---|---|---|
| **Lease liabilities** | | |
| Current[2] | 93 | 85 |
| Non-current[3] | 152 | 240 |
| **Total lease liabilities** | 245 | 325 |

2 Included in the line item 'Accounts payable, accruals and other liabilities' in the Consolidated Statement of Financial Position.

3. Included in the line item 'Lease liabilities' in the Consolidated Statement of Financial Position.

#### (ii) Amounts recognised in the Consolidated Statement of Comprehensive Income

The Consolidated Statement of Comprehensive Income shows the following amounts relating to leases:

| ALL VALUES IN $000S | 2020 | 2019 |
|---|---|---|
| **Depreciation charge of right-of-use assets**[4] | | |
| Properties | (91) | (90) |
| **Total depreciation charge of right-of-use assets** | (91) | (90) |

4. Included in the line item 'Administrative expenses' in the Consolidated Statement of Comprehensive Income.

| ALL VALUES IN $000S | 2020 | 2019 |
|---|---|---|
| **Interest cost**[5] | (24) | (32) |

5. Included in the line item 'Interest expense and bank fees' in the Consolidated Statement of Comprehensive Income.

The total cash outflow for leases in 2020 was $111,000.

## 5. OTHER (continued)

### 5.11. Operating segments

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

### 5.12. Capital commitments

As at 31 December 2020, the Group had capital commitments totalling $58,754,000 (31 December 2019: $81,490,000) as follows:

| ALL VALUES IN $000S | | 2020 | 2019 |
|---|---|---|---|
| **Address** | **Project** | | |
| 314 Neilson Street | Design and build | 334 | 4,677 |
| 47 Dalgety Drive | Design and build | 6,311 | 8,123 |
| 59 Dalgety Drive | Refurbishment | 1,993 | 6,592 |
| 25 Langley Road | Acquisition of warehouse on completion of construction | 7,532 | 7,532 |
| 6 Donnor Place | Refurbishment | – | 1,412 |
| 124 Hewletts Road | Refurbishment | 3,318 | – |
| Shed 22, 23 Cable Street | Seismic works | 2,266 | – |
| 670-680 Rosebank Road | Acquisition (net of deposit paid) | 37,000 | – |
| Lot 1, 88 Tidal Road[6] | Acquisition | – | 18,984 |
| Lot 11, 88 Tidal Road[6] | Acquisition | – | 34,170 |
| **Total capital commitments** | | 58,754 | 81,490 |

6. On 14 August 2019 and 17 December 2019 the Group announced agreements to purchase industrial properties to be developed at Tidal Road in Mangere, Auckland, for a total of $54.400 million. The agreements to acquire these properties were subject to market standard conditions, including sunset dates. Following delays caused by the COVID-19 pandemic and associated New Zealand Government enforced lockdowns, these sunset dates have now been reached and the agreements have been cancelled.

### 5.13. Subsequent events

Following the Group's announcement on 23 December 2020 of an agreement to purchase the properties located at 670-680 Rosebank Road, Avondale, for a net purchase price of $39.0 million, settlement of this acquisition took place on 29 January 2021.

On 10 February 2021, the Group announced the sale of Carlaw Gateway Building and Carlaw Park Office Complex, for a gross sales price of $110.0 million. Settlement is scheduled to take place in Q4 2021. The properties have been separately classified as non-current assets classified as held for sale in the 2020 financial statements.

On 14 February, all regions in New Zealand, except for the Auckland region, moved to Government-directed Alert Level 2 (Auckland region: Alert Level 3) in response to several cases of community transmission of COVID-19, following an extended period with no cases. On 17 February 2021 all regions in New Zealand moved to Level 1 (Auckland region Alert Level 2). These alert levels remain at the date of signing the financial statements and these events are not expected to have a significant impact on the business.

On 22 February 2021, the Directors of the Company approved the payment of a net dividend of $10,493,000 (2.250000 cents per share) to be paid on 10 March 2021. The gross dividend (2.764061 cents per share) carries imputation credits of 0.514061 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 2020 in respect of this dividend.

pwc

# Independent auditor's report

To the shareholders of Property for Industry Limited

## Our opinion

In our opinion, the accompanying financial statements of Property for Industry Limited (the Company), including its subsidiary (the Group), present fairly, in all material respects, the financial position of the Group as at 31 December 2020, 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).

### What we have audited

The Group's financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

## 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 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.

### Independence

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

Other than in our capacity as auditor we have no relationship with, or interests in, the Group.

## Key audit matters

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

| Description of the key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of investment properties**<br>Refer to note 2.1 of the financial statements.<br>At $1,525 million, the Group's investment properties represent the majority of assets held as at 31 December 2020.<br>The valuation of the Group's property portfolio is inherently subjective and is given specific audit focus and attention due to the existence of significant estimation uncertainty. A small percentage difference in a single or multiple input assumption could result in material misstatement of the valuation.<br>The valuations were carried out by independent third-party valuers who performed their work in accordance with the International Valuation Standards and the Australia and New Zealand Property Institute Valuation and Property Standards. The valuers are rotated across the portfolio on a three-yearly cycle. The Group has adopted the assessed values determined by the valuers. | Given the subjectivity involved in determining valuations for individual properties, including alternative assumptions and valuation methods, there is a range of values that could be considered reasonable. In assessing the valuation of the investment properties, we performed the following procedures:<br>**External valuations**<br>We held discussions with management to understand:<br>• movements in the Group's investment property portfolio,<br>• changes in the condition of each property,<br>• the controls in place over the valuation process.<br>For all properties, the carrying value was agreed to the external valuation reports and we held discussions with the valuers. Applying a risk-based approach, we read and evaluated the valuations of specific properties. |

## Key audit matters–continued

| Description of the key audit matter | How our audit addressed the key audit matter |
|---|---|
| In determining a property's valuation, two approaches are generally used to determine the fair value of an investment property: the income capitalisation approach and the discounted cash flow approach, to arrive at a range of valuation outcomes from which the valuers derive a point estimate.<br>The valuers take into account property specific information such as the contracted tenancy agreements and rental income earned by the asset. They apply assumptions in relation to capitalisation rates, discount rates and market rent and the anticipated growth, based on market data and transactions where available.<br>As at 31 December 2020, the valuers have drawn attention to the fact that heightened uncertainty due to the COVID-19 environment remains, however the 'material valuation uncertainty' that was present in the interim valuations no longer applies, and all of the independent valuations, except Carlaw Park Gateway, are no longer reported on that basis.<br>Management verifies all major inputs to the valuations, assesses property valuation movements since prior year, holds discussions with the independent valuers to assess the reasonableness of the valuations, and communicates the results of the process with the Directors. | The valuers 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 2020.<br>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.<br>We also considered whether or not there was bias in determining individual valuations and found no evidence of bias.<br>We carried out procedures, on a sample basis, to test whether the 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.<br>**Assumptions**<br>Our work over the assumptions used in the valuations focused on those properties where the assumptions used and/or year-on-year fair value movement suggested a possible outlier versus market data. We engaged our own in-house valuation specialist to assess the methodologies and critique and challenge the key market assumptions used by the valuers to market evidence and current market conditions.<br>We concluded that the assumptions used in the valuations, including adjustments made for the impact of COVID-19, were supportable in light of available and comparable market evidence.<br>From the procedures performed, we have no matters to report. |

## Our audit approach

### Overview


Overall group materiality: $3,125,000, which represents approximately 5% of profit before tax excluding valuation movements relating to investment properties and interest rate derivatives.

We chose this benchmark because, in our view, it is most reflective of the metric against which the performance of the Group is most commonly measured by users.

Following our assessment of the risk of material misstatement, a full scope audit was performed over the consolidated Group balances.

As reported above, we have one key audit matter, being:

- Valuation of investment properties.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. 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.

# INDEPENDENT AUDITOR'S REPORT (continued)

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They 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 the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the 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 financial statements as a whole.

### How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the 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.

## Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 financial statements

Our objectives are to obtain reasonable assurance about whether the 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

https://www.xrb.govt.nz/assurance-standards/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 Indumin Senaratne (Indy Sena).

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
22 February 2021

Auckland

# FIVE-YEAR PERFORMANCE SUMMARY

| YEAR ENDED 31 DECEMBER | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| ALL VALUES IN $M UNLESS OTHERWISE NOTED | | | | | |
| **FINANCIAL PERFORMANCE** | | | | | |
| Income | 176.1 | 229.3 | 158.3 | 128.1 | 167.8 |
| Expenses | (40.4) | (38.9) | (36.0) | (78.5) | (35.7) |
| Profit before taxation | 135.7 | 190.4 | 122.3 | 49.6 | 132.1 |
| Total taxation (expense) / benefit | (22.2) | (14.1) | (12.2) | 2.1 | (8.7) |
| Total comprehensive income after tax | 113.5 | 176.3 | 110.1 | 51.7 | 123.4 |
| Weighted average number of ordinary shares ('000 shares) | 499,650 | 498,723 | 498,723 | 459,600 | 450,079 |
| IFRS basic earnings per share (cents per share) | 22.71 | 35.35 | 22.08 | 11.25 | 27.42 |
| **DISTRIBUTIONS** | | | | | |
| Total comprehensive income after tax | 113.5 | 176.3 | 110.1 | 51.7 | 123.4 |
| Distribution adjustments | (73.4) | (137.5) | (72.9) | (17.3) | (92.1) |
| Adjusted Funds From Operations (AFFO) | 40.1 | 38.8 | 37.2 | 34.4 | 31.3 |
| Weighted average number of ordinary shares ('000 shares) | 499,650 | 498,723 | 498,723 | 459,600 | 450,079 |
| AFFO per share (cents per share) | 8.03 | 7.79 | 7.46 | 7.49 | 6.95 |
| Gross dividends paid relating to the year reported (cents per share) | 9.73 | 10.20 | 9.33 | 7.45 | 9.24 |
| Net dividends paid relating to the year reported (cents per share) | 7.70 | 7.60 | 7.55 | 7.45 | 7.35 |
| AFFO pay-out ratio (%) | 95.9% | 97.6% | 101.2% | 99.5% | 105.8% |
| **FINANCIAL POSITION** | | | | | |
| Investment properties | 1,524.8 | 1,469.3 | 1,318.7 | 1,210.8 | 1,083.3 |
| Goodwill | 29.1 | 29.1 | 29.1 | 29.1 | 29.1 |
| Other assets | 133.5 | 24.3 | 11.2 | 2.2 | 9.4 |
| Total assets | 1,687.4 | 1,522.7 | 1,358.9 | 1,242.1 | 1,121.8 |
| Borrowings | 487.6 | 412.9 | 398.2 | 370.6 | 332.9 |
| Other liabilities | 63.2 | 55.8 | 45.5 | 28.6 | 32.7 |
| Total liabilities | 550.8 | 468.7 | 443.8 | 399.2 | 365.7 |
| Total equity | 1,136.6 | 1,054.0 | 915.1 | 842.9 | 756.1 |
| Closing shares on issue ('000 shares) | 501,303 | 498,723 | 498,723 | 498,723 | 452,459 |
| Net tangible (excluding goodwill) assets (cents per share) | 220.9 | 205.5 | 177.7 | 163.2 | 160.7 |
| Gearing (%) | 30.0% | 28.2% | 30.3% | 30.8% | 30.1% |
| **PROPERTY PORTFOLIO METRICS** | | | | | |
| Number of properties (#) | 94 | 94 | 94 | 92 | 83 |
| Number of tenants (#) | 148 | 144 | 148 | 148 | 143 |
| Contract rent | 89.8 | 84.9 | 82.0 | 79.6 | 72.5 |
| Occupancy (%) | 99.4% | 99.0% | 99.3% | 99.9% | 99.6% |
| Net lettable area including yard (sqm) | 838,403 | 809,183 | 780,092 | 756,455 | 667,441 |
| Weighted average lease term (years) | 5.28 | 5.38 | 5.39 | 5.33 | 4.79 |
| Portfolio capitalisation rate (%) | 5.5% | 5.7% | 6.1% | 6.4% | 6.6% |

# OTHER DISCLOSURES

# 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 2020, 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. It incorporates the NZX Listing Rules relating to corporate governance and the recommendations of the NZX Corporate Governance Code (the NZX Code), and was last updated in September 2020.

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 Product 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 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 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 Product Trading Policy

PFI is committed to transparency and fairness in financial product dealing. The rules for dealing in PFI's listed securities are contained in its Financial Product Trading Policy. The policy's main purpose is to ensure no Director, 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 Product Trading Policy applies to Directors, 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 at any time;
- 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 the day following the 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;
- Ensures remuneration of Directors, employees and contractors is fair and responsible; 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 the Management Team.

**Board Composition, Appointments, Independence & Operation**

The Company's constitution requires the Company to comply with the minimum board composition requirements under the NZX Listing Rules (being at least three directors). As at 31 December 2020, there were five Directors: four of whom are independent. The NZX Listing Rules requires at least two Independent Directors, and 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 2020, 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 (TWELVE MEETINGS HELD) |
|---|---|---|---|---|---|
| Anthony Beverley | Independent Director<br>Board Chair<br>Nomination and Remuneration Committee Chair[1] | 2 July 2001 | 3 June 2020 | N/A | 12 |
| David Thomson | Independent Director | 12 February 2018 | 8 May 2018 | N/A | 12 |
| Dean Bracewell | Independent Director<br>Nomination and Remuneration Committee Chair[2] | 29 November 2019 | 3 June 2020 | N/A | 12 |
| Gregory Reidy | Non-Executive Director | 20 January 2012 | 8 May 2018 | N/A | 12 |
| Humphry Rolleston | Independent Director | 5 July 1994 | 22 June 2017 | 3 June 2020 | 7[3] |
| Susan Peterson | Independent Director<br>Audit and Risk Committee Chair | 24 May 2016 | 8 May 2019 | N/A | 12 |

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

Director independence is determined in accordance with the requirements of the NZX Listing Rules. The Board has determined that, as at 31 December 2020, the following Directors of the Company were independent: Anthony Beverley, David Thomson, Dean Bracewell and Susan Peterson. This assessment is based on the fact that these Directors all share the following characteristics:

- They are all Non-Executive Directors.
- They are not currently, or within the last three years have not been, employed in an executive role by the Company, or any of its subsidiaries, and / or there has been a period of at least three years between ceasing such employment and serving on the Board.
- They are not currently holding, or within the last 12 months they have not held, a senior role in a provider of material professional services to the Company or any of its subsidiaries.
- They do not currently have, or within the last three years they have not had, a material business relationship (e.g. as a supplier or customer) with the Company or any of its subsidiaries.
- They are not a substantial product holder of the Company, or a senior manager of, or a person otherwise associated with, a substantial product holder of the Company.
- They do not currently have, or within the last three years they have not had a material contractual relationship with the Company or any of its subsidiaries, other than as a director.
- They do not currently have close family ties with anyone in the categories listed above.
- No director has been a Director with the Company for a length of time that may compromise independence.

The Board acknowledges Anthony Beverley's length of tenure on the Board and notes that any change in Board composition needs to be balanced with ensuring that necessary skills are retained on the Board.

1. Anthony Beverley was the Nomination and Remuneration Committee Chairman until 1 March 2020.
2. Dean Bracewell was the Nomination and Remuneration Committee Chairman from 1 March 2020.
3. Seven meetings were held prior to Humphry Rolleston's retirement.

The Board has concluded that Anthony Beverley's length of tenure on the Board did not, and does not, influence the capacity for Anthony Beverley to bring an independent view to decisions in relation to the Company, act in the best interests of the Company, and represent the interests of the Company's financial product holders generally, having regard to the factors described in the NZX Code that may impact Director independence.

The Board noted Gregory Reidy is not considered to be independent by virtue of his role as Managing Director within the last three years.

Details of Directors' relevant interests in the Company's Financial Products as at 31 December 2020 can be found in the section entitled Principle 4 "Reporting and Disclosure".

In compliance with Listing Rule 2.7.1, each Director must not hold office without re-election past the third annual meeting following the Director's appointment or three years, whichever is longer. Any Director appointed by the Board must not hold office (without re-election) past the next annual meeting following the Director's appointment.

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 Board reviews its performance as a whole as well as the performance of individual members and each committee.

Under the Board Charter (described in further detail above) any Chief Executive Officer (if also a Director) of PFI is not eligible to be appointed as the Chair of the Board.

**Diversity and Inclusion**
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 2019 | 5 | 2 | 1 | 0 |
| Year ending 31 December 2020 | 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 work environment 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.

The Board has evaluated the performance of the Company against the Company's Diversity Policy. The Board considers that it, in conjunction with the Management Team, has fostered a work environment where diversity and inclusion, together with different skills, abilities and experiences, is recognised and valued, and employees are treated equitably and fairly in order that talented people who will contribute to the achievement of our strategic objectives are attracted to work for PFI and are able to be retained.

PFI is a small team, but it is noted that seven members of the team of 14 are female (2019: five out of 12).

## Principle Three: 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 Board has approved 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" 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 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 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 2020, the members of the Audit and Risk Committee were Susan Peterson (Chair of the Audit and Risk Committee), Anthony Beverley and David Thomson. All were members of the committee at all times during 2020 and attended the five meetings of the committee held during 2020.

**Nomination and Remuneration Committee**

The Board has also established a Nomination and Remuneration Committee in accordance with the NZX Code. The committee's 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"). The Board has approved a written charter to assist the committee to 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 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 an 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 2020, the members of the Nomination and Remuneration Committee were Dean Bracewell (Chairman of the Nomination and Remuneration Committee), Anthony Beverley and Susan Peterson. All three members attended three meetings after 1 March 2020.

Prior to 1 March 2020, Anthony Beverley chaired the Nomination and Remuneration Committee, and Susan Peterson was a member. There was one meeting held prior to 1 March 2020, which both members attended.

**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 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 and disclosure. You can find out more information on PFI's approach to the disclosure of environmental, social and governance matters on pages 20-29. You can find out more information about PFI's approach to risk management in the section entitled Principle Six: Risk Management.

**Directors' Relevant Interests**

Details of Directors' dealings in the Company's financial products in the year ended 31 December 2020 are as follows:

| DIRECTOR | NO. OF SHARES (ACQUIRED) | CONSIDERATION PER SHARE | DATE |
|---|---|---|---|
| Dean Bracewell (via Ara Street Investments Limited) | 20,000 | $2.3196 | 10 March 2020 |
| Susan Peterson[4] | 136 | $2.3543 | 26 May 2020 |
| Susan Peterson[5] | 120 | $2.6886 | 22 September 2020 |
| Susan Peterson[6] | 116 | $2.8777 | 18 November 2020 |

Details of Directors' relevant interests in the Company's financial products as at 31 December 2020 are as follows:

| DIRECTOR | NATURE OF RELEVANT INTEREST | NUMBER OF SHARES |
|---|---|---|
| Susan Peterson | Beneficial holder | 18,160 |
| Gregory Reidy | Beneficial holder | 155,708 |
| Dean Bracewell | Beneficial holder | 20,000 |

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

4. As a result of participation in PFI's Dividend Reinvestment Scheme
5. As a result of participation in PFI's Dividend Reinvestment Scheme
6. As a result of participation in PFI's Dividend Reinvestment Scheme

## Principle Five: Remuneration

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

**Directors**

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 table below sets out the remuneration that was approved by shareholders at the 2019 PFI annual meeting.

| ROLE | $ PLUS GST (IF ANY) |
|---|---|
| Board Chair | 160,000 |
| Independent Director | 82,500 |
| Non-Executive Director | 82,500 |
| Audit and Risk Committee Chair | 15,000 |
| Nomination and Remuneration Committee Chairman | 10,000 |
| Hourly rates for abnormal and particularly time intensive projects or transactions outside the scope of typical Board work | 350 per hour |

Other than as 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 2020 and the prior year comparative. Due to rounding, the fee of '$82,500' above is shown as '$83' in the table below.

| DIRECTOR | ROLE | FEES PAID 2020 $000 | FEES PAID 2019 $000 |
|---|---|---|---|
| Anthony Beverley | Board Chairman | 77 | 68 |
| | Nomination and Remuneration Committee Chairman | – | – |
| | Independent Director | 83 | 78 |
| David Thomson | Independent Director | 83 | 78 |
| Dean Bracewell[7] | Nomination and Remuneration Committee Chairman | 7 | – |
| | Independent Director | 83 | 7 |
| Gregory Reidy[8] | Non-Executive Director | 83 | 41 |
| Humphry Rolleston[9] | Independent Director | 35 | 78 |
| Susan Peterson | Audit and Risk Committee Chair | 15 | 13 |
| | Independent Director | 83 | 78 |
| **Total** | | **548** | **441** |

7. Dean Bracewell was appointed to the Board on 29 November 2019.
8. On 30 June 2017, the management of the Company and its subsidiary was internalised. Following the internalisation, Gregory Reidy became an Independent Contractor to the Company and during the year ended 31 December 2019, remuneration for his role as an Independent Contractor was $212,500. This was payable for the period from 1 January to 30 June 2019. On 1 July 2019, he ceased to be an Independent Contractor and, on that date, he was appointed as a Non-Executive Director. Fees payable for this role are set out in the table above.
9. Humphry Rolleston ceased to be a Director on 3 June 2020.

## Executives

**Remuneration Strategy**
The Board supports a remuneration strategy that is aligned to our investors' interests and encourages the achievement of our strategic objectives. The remuneration of the Chief Executive Officer and other employees is designed to attract and retain the most talented, experienced and effective individuals. Packages include a base salary, together with short-term and (potentially) a long-term incentive (LTI) component.

**Chief Executive Officer Remuneration**
Simon Woodhams' remuneration as Chief Executive Officer is set out below:

| | | | | PAY FOR PERFORMANCE | | | |
|---|---|---|---|---|---|---|---|
| YEAR ENDING | SALARY $ | BENEFITS[10] $ | SUBTOTAL $ | STI $ | LTI[11] $ | SUBTOTAL $ | TOTAL REMUNERATION $ |
| 31 December 2019 | $450,000 | $31,711 | **$481,711** | $200,000 | $39,148 | **$239,148** | **$720,859** |
| 31 December 2020 | $500,000 | $30,824 | **$530,824** | $225,000 | $52,376 | **$277,376** | **$808,200** |

Simon Woodhams' participation in PFI's LTI plan is as follows:

| YEAR ENDING | SHARE RIGHTS GRANTED (SHARES) | SHARE RIGHTS VESTED DURING THE YEAR (SHARES)[12] | SHARE RIGHTS LAPSED DURING THE YEAR (SHARES) | SHARE RIGHTS OUTSTANDING AT THE END OF THE YEAR (SHARES) |
|---|---|---|---|---|
| 31 December 2019 | 85,227 | 28,409 | – | **56,818** |
| 31 December 2020 | 73,224 | 52,817 | – | **77,225** |

**Employee Remuneration**
During the years ended 31 December 2020 and 31 December 2019, the number of employees who received remuneration with a combined total value exceeding $100,000[13] is set out below:

| | NUMBER OF EMPLOYEES | |
|---|---|---|
| REMUNERATION RANGE | 2020 | 2019 |
| $800,001 – $810,000 | 1 | – |
| $720,001 – $730,000 | – | 1 |
| $680,001 – $690,000 | 1 | – |
| $640,001 – $650,000 | – | 1 |
| $330,001 – $340,000 | 1 | – |
| $300,001 – $310,000 | – | 1 |
| $190,001 – $200,000 | 1 | – |
| $180,001 – $190,000 | – | 1 |
| $150,001 – $160,000 | – | 1 |
| $130,001 – $140,000 | 3 | – |
| $110,001 – $120,000 | 2 | 1 |

10. Benefits include KiwiSaver and health insurance.
11. The LTI is based on the fair value of the vested awards recognised in the financial statements.
12. The share rights vested does not include shares vesting as a result of dividend protection.
13. Includes LTI vested during the year based on the fair value of the vested awards recognised in the financial statements

**Long Term Incentive Plan**
Long-term incentives (LTIs) are at-risk payments designed to align the reward of certain executives with the enhancement of shareholder value over a multi-year period.

The new LTI plan commencing in the year ended 31 December 2019 is a dividend protected share rights plan. Under the plan, invited executives are granted a number of share rights determined by dividing the face value of the grant by the value of one PFI share at the date of the grant. At vesting, subject to meeting performance hurdles, each share right is converted to one ordinary share. The executive may also receive additional shares representing the value of dividends paid over the vesting period. The executive is liable for tax on the shares received at this point.

Each grant under the LTI Plan has three tranches with two separate performance hurdles applying to each tranche. The three tranches enable a third of the share rights to vest after one year, two years and three years from the commencement date. For each tranche:

- 50% of the share rights are subject to a performance hurdle of the Company's rolling three year Funds From Operations growth equalling or exceeding the three year CPI growth to the September immediately prior to the vesting date; and
- 50% of the share rights are subject to a performance hurdle of the Company's Total Shareholder Returns (TSR) outperforming the TSR of a property peer group (comprising other listed property issuers) over the period from the commencement date to the vesting date for the relevant tranche.

Grants are intended to continue to be made annually with performance measured over a three-year period.

The total share rights granted, vested, and lapsed during 2020 and 2019, and the share rights outstanding at the end of 31 December 2020 and 31 December 2019 are as follows:

| | SHARE RIGHTS GRANTED (SHARES) | SHARE RIGHTS VESTED DURING THE YEAR (SHARES)[14] | SHARE RIGHTS LAPSED DURING THE YEAR (SHARES) | SHARE RIGHTS OUTSTANDING AT THE END OF THE YEAR (SHARES) |
|---|---|---|---|---|
| 31 December 2019 | 196,023 | 65,341 | – | **130,682** |
| 31 December 2020 | 165,279 | 120,434 | – | **175,527** |

## 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.*

**Risk Governance**
PFI has established a Risk Management Framework to ensure that risks are managed within PFI's Board-approved risk appetite. The Risk Management Framework was last reviewed and approved by PFI's Board in September 2020. The Risk Management Framework establishes the following framework for risk governance:

| ROLE | RESPONSIBILITY |
|---|---|
| Board | The Board sets the risk appetite, risk tolerances and desired risk culture. It oversees the assessment, management and reporting of key business risks. |
| Audit and Risk Committee (A&RC) | The A&RC supports the Board by providing a specific focus on risk and compliance matters. The A&RC is also responsible for PFI's external audit arrangements. |
| Senior Leadership Team | The Senior Leadership Team are responsible for promoting good risk practices within their team. |
| Staff | All staff at PFI have responsibility for identifying and managing risk. Business parameters are set through policies, procedures, systems, processes and controls. |
| Assurance | The Board and management obtain periodic feedback on how well the business is managing risk and meeting its regulatory obligations. |

14. The share rights vested does not include shares vesting as a result of dividend protection.

**Key Risks**

PFI has a robust risk assessment process. Risk assessments are carried out by the management team at least annually in accordance with PFI's Risk Management Framework. A risk assessment includes: identification of material risks; assessment of the consequences and likelihood of the risk; and development of controls to achieve a level of residual risk that is within PFI's Board-approved risk appetite.

The risks associated with the COVID-19 pandemic were identified, recorded and closely monitored throughout the year. Management regularly reviewed these risks and adapted their response to the latest developments. This will continue to be a focus during 2021.

During 2020, PFI hired a dedicated risk manager, and completed a refresh of its risk register. The table below outlines some of our key business risks, how we manage those risks, and a commentary on these risks for 2020:

| RISK DESCRIPTION | HOW WE MANAGE THE RISK | 2020 COMMENTARY |
|---|---|---|
| **Economy / market risk:**<br>The risk of adverse changes in the NZ economic environment, political environment or the broader investment market, impacting property values and income. | We monitor both wider economic conditions and the industrial property market through research and relationships with market participants. Quarterly reporting on market conditions is provided to the Board. | PFI has carefully monitored the impacts of the COVID-19 pandemic during 2020, responded early to address the changing market conditions, and achieved resilient results. |
| **Strategic risk:**<br>The risk of failing to execute or adapt PFI's strategy (for example, tailoring the strategy to ensure portfolio optimisation and minimise concentration risk). | PFI's strategy is reviewed regularly by the Board and management team. Quarterly reporting on strategy implementation is provided to the Board. | Good progress has been made during 2020 on the implementation of PFI's strategy. In particular PFI has:<br>▪ divested the non-core property at 2 Pacific Rise, Mt Wellington;<br>▪ acquired a quality industrial estate located at 528-558 Rosebank Road in Avondale, Auckland;<br>▪ secured a second quality industrial estate located at 670-680 Rosebank Road in Avondale, Auckland, which settled on 29 January 2021; and<br>▪ marketed the non-core Carlaw Park property for sale, which was sold in February 2021. |
| **Health and safety risk:**<br>The risk of a health and safety incident at a PFI property. | Health and safety is actively managed by PFI's health and safety committee. A wide variety of risk mitigants are in place, including monitoring visits and proactive responses to the identification of potential hazards. | Continuous improvement of PFI's Health & Safety Framework has been a key focus during 2020. PFI continues to experience a low level of incidents. Further information on health and safety can be found in the Sustainability section of this annual report. |
| **Financial performance risk:**<br>The risk of financial performance not being managed to expectations. | PFI has a wide suite of controls for this risk, including a delegations policy, analytical reviews, forecasting, budgeting, and proactive management. | PFI took several steps to ensure that this risk continued to be well-managed in response to the COVID-19 pandemic. This included securing additional funding and making cuts or deferrals of expenditure where appropriate. |
| **Technology and cybersecurity risk:**<br>The risk of PFI's systems or data becoming compromised, for example due to a cyberattack or an outage. | PFI's systems are managed by a competent third party, and protected by a range of cybersecurity controls. | During 2020, PFI worked with suppliers to increase the level of cybersecurity for its systems, and engaged an independent specialist to review its cybersecurity. |

PFI also completed its first climate change risk assessment during 2020. The risks identified through this assessment are embedded in a range of risks on our risk register, including economy / market risks, emerging regulation risk and physical damage risk. Further information on PFI's climate-related risks can be found in the Climate-Related Disclosures section of this annual report (pages 89 – 93).

## Principle Seven: Auditors

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

Together with the Audit and Risk Committee (see Principle 3), the Board is responsible for establishing the Company's audit framework and ensuring 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 assess PFI's internal controls and systems that 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.

PFI does not have an internal audit function. The process it employs for evaluating and continually improving the effectiveness of its risk management and internal processes can be found in the section entitled Principle Six: Risk Management.

## Principle Eight: Shareholder Rights & Relations

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

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

In respect of voting rights, PFI shareholders have one vote per share they hold in PFI, and will have the right to vote on major decisions which may change the nature of PFI in accordance with the NZX 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 20 working 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 2020 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 disposal 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 during the 12 months ending 31 December 2020. Any entry added by notices given by the Directors during the year ended 31 December 2020 is denoted with a *. Any entry removed by notices given by the Directors during the year ended 31 December 2020 is denoted with a ~.

| 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 ~ |
| Dean Bracewell | Director | Tainui Group Holdings Limited |
| | Executive Board Member | Halberg Foundation |
| | Director | Ara Street Investments Limited |
| | Director | Air New Zealand Limited * |
| 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) |
| | Director | H&R MRC Limited |
| | Director | Resident Properties Limited |
| | Director | Area Management Limited |
| | Trustee | Grammar Rugby Incorporated |
| | Director | Reidy & Co Limited * |
| | Director | MSR GP Limited (as General Partner of MSR Limited Partnership) * |
| Susan Peterson | Director; Chair of Nomination and Remuneration Committee ~ | Vista Group International Limited |
| | Director, Chair of Remuneration Committee | Xero Limited |
| | Director | ASB Bank Limited ~ |
| | Director, Chair of Nominations and Governance Committee, Chair of People and Remuneration Committee * | Trustpower Limited |
| | Director, Co-Chair of the Board | Organic Initiative Limited |
| | Board Member | Global Women |
| | Member | NZX Markets Disciplinary Tribunal |
| | Director | Arvida Group Limited * |

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 2020.

## Donations

The Company made a $10,000 donation to the Auckland City Mission's HomeGround project, which will provide a purpose-built, safe space to stand against homelessness, hunger and poor health. The Company is a sponsor of the Keystone New Zealand Property Education Trust and paid the Trust $10,000 by way of sponsorship during the year. The subsidiary did not make any donations during the year.

## Substantial Productholders as at 31 December 2020

As at 31 December 2020, the total number of ordinary shares on issue was 501,302,888. 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 2020 are:

| SECURITY HOLDER | NO. OF SHARES WHEN NOTICE WAS FILED | % WHEN NOTICE WAS FILED |
|---|---|---|
| ANZ New Zealand Investments Limited | 36,194,716 | 7.257% |
| Accident Compensation Corporation | 26,579,257 | 5.329% |

## Details of Dividends Paid

The following dividends have been paid by the Company in the past two financial years:

| DIVIDENDS | DATE PAID | CENTS PER SHARE | TOTAL PAID 2020 $000 | TOTAL PAID 2019 $000 |
|---|---|---|---|---|
| Q4 2018 final dividend | 13 March 2019 | 2.10 | | 10,474 |
| Q1 2019 interim dividend | 24 May 2019 | 1.80 | | 8,977 |
| Q2 2019 interim dividend | 4 September 2019 | 1.80 | | 8,977 |
| Q3 2019 interim dividend | 20 November 2019 | 1.85 | | 9,225 |
| Q4 2019 final dividend | 4 March 2020 | 2.15 | 10,723 | |
| Q1 2020 interim dividend | 26 May 2020 | 1.80 | 8,978 | |
| Q2 2020 interim dividend | 22 September 2020 | 1.80 | 8,997 | |
| Q3 2020 interim dividend | 18 November 2020 | 1.85 | 9,261 | |
| **Total dividends per statement of changes in equity** | | | **37,959** | **37,653** |

## NZX Waivers

The Company released its results for the six months ended 30 June 2020 to the NZX on 4 September 2020. In doing so, PFI relied on the class waiver from Rule 3.5.1 granted by NZX on 3 April 2020.

# SHAREHOLDER STATISTICS

### SHAREHOLDER SPREAD AS AT 31 JANUARY 2021

| ORDINARY SHARES | NUMBER OF HOLDERS | HOLDING | HOLDING % |
|---|---|---|---|
| Up to 4,999 | 1,245 | 3,096,397 | 0.62% |
| 5,000 - 9,999 | 1,105 | 7,942,111 | 1.58% |
| 10,000 - 49,999 | 2,362 | 50,496,802 | 10.07% |
| 50,000 - 99,999 | 362 | 24,345,618 | 4.86% |
| 100,000 - 499,999 | 277 | 54,516,082 | 10.87% |
| 500,000 and above | 89 | 360,905,878 | 72.00% |
| | **5,440** | **501,302,888** | **100.00%** |

### GEOGRAPHICAL SPREAD AS AT 31 JANUARY 2021

| ORDINARY SHARES | HOLDING | HOLDING % |
|---|---|---|
| Auckland & Northern Region | 262,338,859 | 52.34% |
| Hamilton & Surrounding Districts | 105,930,351 | 21.13% |
| Wellington & Central Districts | 71,078,803 | 14.18% |
| Dunedin & Southland | 44,884,534 | 8.95% |
| Nelson, Marlborough & Christchurch | 14,646,661 | 2.92% |
| Overseas | 2,423,680 | 0.48% |
| **Total** | **501,302,888** | **100.00%** |

## SHAREHOLDER STATISTICS (continued)

### 20 LARGEST REGISTERED SHAREHOLDERS

AS AT 31 JANUARY 2021

| | HOLDER | HOLDING | HOLDING % |
|---|---|---|---|
| 1 | Accident Compensation Corporation - NZCSD | 30,001,036 | 5.98% |
| 2 | Forsyth Barr Custodians Limited | 29,936,460 | 5.97% |
| 3 | ANZ Wholesale Trans-Tasman Property Securities Fund - NZCSD | 22,366,236 | 4.46% |
| 4 | FNZ Custodians Limited | 20,195,852 | 4.03% |
| 5 | BNP Paribas Nominees (NZ) Limited - NZCSD | 18,550,351 | 3.70% |
| 6 | Custodial Services Limited (A/C 4) | 16,534,242 | 3.30% |
| 7 | Citibank Nominees (New Zealand) Limited - NZCSD | 15,424,476 | 3.08% |
| 8 | Custodial Services Limited (A/C 3) | 14,493,063 | 2.89% |
| 9 | New Zealand Depository Nominee Limited (A/C 1) | 14,482,856 | 2.89% |
| 10 | Custodial Services Limited (A/C 2) | 9,421,169 | 1.88% |
| 11 | ANZ Wholesale Property Securities - NZCSD | 8,606,803 | 1.72% |
| 12 | HSBC Nominees (New Zealand) Limited - NZCSD | 8,170,122 | 1.63% |
| 13 | Messrs. Wildermoth, Wilson and Young and Ms Wildermoth | 7,331,480 | 1.46% |
| 14 | Investment Custodial Services Limited (A/C C) | 6,987,177 | 1.39% |
| 15 | MFL Mutual Fund Limited - NZCSD | 6,840,398 | 1.36% |
| 16 | JBWere (NZ) Nominees Limited | 5,568,849 | 1.11% |
| 17 | Mr. Mckee and Ms. Mckee | 5,566,373 | 1.11% |
| 18 | Custodial Services Limited (A/C 18) | 5,173,394 | 1.03% |
| 19 | FNZ Custodians Limited | 4,820,515 | 0.96% |
| 20 | Custodial Services Limited (A/C 1) | 4,774,338 | 0.95% |
| | **Shares held by top 20 shareholders** | **255,245,190** | **50.92%** |
| | Balance of shares | 246,057,698 | 49.08% |
| | **Total of issued shares** | **501,302,888** | **100.00%** |

## BONDHOLDER STATISTICS

### BONDHOLDER SPREAD: PFI010 AS AT 31 JANUARY 2021

| BONDS | NUMBER OF HOLDERS | HOLDING | HOLDING % |
|---|---|---|---|
| 5,000 - 9,999 | 65 | 343,000 | 0.34% |
| 10,000 - 49,999 | 418 | 8,122,000 | 8.12% |
| 50,000 - 99,999 | 51 | 3,133,000 | 3.13% |
| 100,000 - 499,999 | 39 | 5,623,000 | 5.62% |
| 500,000 - 999,999 | 1 | 920,000 | 0.92% |
| 1,000,000 and above | 13 | 81,859,000 | 81.87% |
| **Total** | **587** | **100,000,000** | **100.00%** |

### BONDHOLDER SPREAD: PFI020 AS AT 31 JANUARY 2021

| BONDS | NUMBER OF HOLDERS | HOLDING | HOLDING % |
|---|---|---|---|
| 5,000 - 9,999 | 40 | 230,000 | 0.23% |
| 10,000 - 49,999 | 216 | 4,432,000 | 4.43% |
| 50,000 - 99,999 | 29 | 1,663,000 | 1.66% |
| 100,000 - 499,999 | 30 | 4,684,000 | 4.68% |
| 500,000 - 999,999 | 5 | 3,453,000 | 3.45% |
| 1,000,000 and above | 10 | 85,538,000 | 85.55% |
| **Total** | **330** | **100,000,000** | **100.00%** |

## BONDHOLDER STATISTICS (continued)

### 20 LARGEST REGISTERED BONDHOLDERS

AS AT 31 JANUARY 2021

| HOLDER | PFI 010 HOLDING | PFI010 % HOLDING | PFI 020 HOLDING | PFI020 % HOLDING |
|---|---|---|---|---|
| Forsyth Barr Custodians Limited | 23,705,000 | 23.71% | 19,424,000 | 19.42% |
| FNZ Custodians Limited | 10,054,000 | 10.05% | 11,252,000 | 11.25% |
| Citibank Nominees (New Zealand) Limited - NZCSD | – | 0.00% | 10,037,000 | 10.04% |
| Custodial Services Limited (A/C 4) | 6,849,000 | 6.85% | 10,028,000 | 10.03% |
| National Nominees Limited | 8,557,000 | 8.56% | – | 0.00% |
| Custodial Services Limited (A/C 3) | 4,781,000 | 4.78% | 6,933,000 | 6.93% |
| Custodial Services Limited (A/C 2) | 4,335,000 | 4.34% | 5,633,000 | 5.63% |
| NZPT Custodians (Grosvenor) Limited | 4,300,000 | 4.30% | 1,300,000 | 1.30% |
| HSBC Nominees (New Zealand) Limited - NZCSD | 4,075,000 | 4.08% | 3,900,000 | 3.90% |
| Generate Kiwisaver Public Trust Nominees Limited | 1,589,000 | 1.59% | 4,013,000 | 4.01% |
| Tea Custodians Limited Client Property Trust Account | 3,392,000 | 3.39% | 3,260,000 | 3.26% |
| Custodial Services Limited (A/C 1) | 1,910,000 | 1.91% | 2,961,000 | 2.96% |
| Custodial Services Limited (A/C 18) | 1,983,000 | 1.98% | 2,947,000 | 2.95% |
| Investment Custodial Services Limited (A/C C) | 2,571,000 | 2.57% | 2,020,000 | 2.02% |
| Hobson Wealth Custodians Limited (Resident Cash Account) | 2,024,000 | 2.02% | 935,000 | 0.94% |
| BNP Paribas Nominees (NZ) Limited - NZCSD | – | 0.00% | 1,935,000 | 1.94% |
| JBWere (NZ) Nominees Limited | 1,904,000 | 1.90% | – | 0.00% |
| Custodial Services Limited (A/C 16) | 1,049,000 | 1.05% | 1,403,000 | 1.40% |
| JML Capital Limited | – | 0.00% | 600,000 | 0.60% |
| Sterling Holdings Limited | – | 0.00% | 500,000 | 0.50% |
| Investment Custodial Services Limited (990042052) | 350,000 | 0.35% | – | 0.00% |
| Custodial Services Limited (A/C 15) | 206,000 | 0.21% | 325,000 | 0.33% |
| Custodial Services Limited (A/C 23) | – | 0.00% | 323,000 | 0.32% |
| Custodial Services Limited (A/C 28) | – | 0.00% | 312,000 | 0.31% |
| Dunedin Diocesan Tourist Board | – | 0.00% | 250,000 | 0.25% |
| Hobson Wealth Custodians Limited (AIL Cash Account) | 233,000 | 0.23% | – | 0.00% |
| John Collingwood King and Pravir Atindra Tesiram (King Family A/C) | 200,000 | 0.20% | – | 0.00% |
| **Bonds held by top 20 Bondholders** | **84,067,000** | **84.07%** | **90,291,000** | **90.29%** |
| Total Remaining Holders Balance | 15,933,000 | 15.93% | 9,709,000 | 9.71% |
| **Total of issued Bonds** | **100,000,000** | **100.00%** | **100,000,000** | **100.00%** |

## CLIMATE-RELATED DISCLOSURES

2020 has been a challenging year globally, and provided an insight to the scale of effort that will be required to respond to climate change.

PFI recognises that we need to proactively manage the risks and opportunities that arise from climate change, just like we manage all other risks and opportunities facing our business.

This report provides information about the actions that we are taking to identify and manage climate change risks and opportunities. The following disclosures have been prepared in accordance with the recommendations of the Task force on Climate-related Financial Disclosures (TCFD) which provides a framework for climate-related financial disclosures across four core elements: governance, strategy, risk management and metrics and targets.

This is PFI's first report in line with the TCFD recommended disclosures. We are pleased with the progress that we have made during 2020 to strengthen our understanding of, and response to, our climate-related risks and opportunities. However, we acknowledge that we have further work to do, in particular:

- understanding the resilience of individual assets in PFI's portfolio to climate change in different climate change transition pathways; and
- introducing additional metrics and targets to provide a more complete measure of our performance.

We are also cognisant that we are still in the early stages of understanding how these risks will develop over time. We intend to evolve and expand on our TCFD disclosures as our depth of understanding and management of these risks matures.

We are committed to continue progressing our response to climate change during 2021 and beyond, and to report our progress to our stakeholders each year.

### GOVERNANCE

**Describe the Board's oversight of climate-related risks and opportunities.**

PFI's Board has responsibility for our strategic direction along with oversight of our operations and risk management. PFI's Board receives quarterly reporting on sustainability and risk management, which includes PFI's response to climate change risks and opportunities. During 2021, we intend to strengthen this reporting with the use of metrics and targets.

The PFI Board's Audit and Risk Committee assists the Board in discharging its responsibilities with respect to risk management. Management's first assessment of PFI's climate-related risks and opportunities in line with TCFD guidance was presented to the Board's Audit and Risk Committee in a dedicated session during August 2020 (attended by all directors). We plan to update this assessment and present it to the Board's Audit and Risk Committee at least annually.

**Describe management's role in assessing and managing climate-related risks and opportunities.**

Under PFI's Risk Management Framework, the Chief Executive Officer and Chief Finance and Operating Officer are responsible for management of climate risk, along with all other risks. PFI has a dedicated Sustainability, Risk & Compliance Manager who leads the assessment of climate-related risks and opportunities, and coordinates our response as part of PFI's wider ESG programme.

A monthly ESG management meeting has been established that monitors sustainability market trends and regulatory change and makes decisions on our responses to climate-related risks. This is attended by the Chief Executive Officer and Chief Finance and Operating Officer. During 2020, the Chief Executive Officer and Chief Finance and Operating Officer oversaw PFI's first risk assessment in line with the TCFD recommendations through this forum.

## STRATEGY

**Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.**

A climate-related risk and opportunity assessment exercise was undertaken during 2020 with reference to PFI's Risk Management Framework and the time horizons below:

| HORIZON | PERIOD | DESCRIPTION |
|---|---|---|
| Short term | 1-5 years | Within our weighted average lease term |
| Medium term | 6-20 years | The period within which most buildings will require major capital works |
| Long term | Greater than 20 years | The life of a building |

This produced a list of 18 possible risks and opportunities across all of the TCFD categories. Most of the risks are expected to materialise in the medium to long term. However, as our real estate assets are typically long term investments we are taking steps now to ensure that our organisation is resilient to these future challenges.

A summary of the top five risks is provided below, along with a summary of how PFI is responding to them, and the related opportunities:

| RISKS | EXPECTED TIME HORIZON | RISK RESPONSE | RELATED OPPORTUNITIES |
|---|---|---|---|
| **Transition - Policy (regulatory) risk:** The introduction of new regulations, for example on building materials and design, disclosure and governance, land use, and electricity or water use could lead to increased compliance risk, and a potential reduction in profitability. | This is a risk in the short term for PFI and is expected to remain a risk into the medium term. | PFI is closely monitoring climate-related regulatory change, and is working with industry bodies to provide feedback on proposed regulations where appropriate.<br>We are also working to ensure that we are ready to respond to incoming legislative changes when they arise.<br>Our Board receives quarterly reporting on how we are responding to upcoming regulatory change. | There may be an opportunity for us to work with tenants and create value, for example on renewable energy or water efficiency initiatives. |
| **Transition - Market (property) risk:** With increasing scrutiny of organisations' impact on the climate, we may experience increased tenant or purchaser demand for sustainable buildings. In the long term, this could result in difficulty re-letting buildings, devaluation of properties, or increased expenditure to bring properties up to higher sustainability standards. | This is a medium to long term risk for PFI, but we are taking steps in the short term to prepare for it. | Green buildings have not traditionally been a focus for industrial properties. However, as outlined in the Sustainability section (pages 20-29), PFI incorporates sustainable design features in new developments, and has joined the New Zealand Green Building Council during 2020 to build on our sustainable building capability. | While this is a longer term risk, shifting tenant demand may present us with near term opportunities to:<br>▪ work with our tenants to help them meet their climate or environmental commitments; or<br>▪ create value by developing green-certified buildings.<br>We will be further investigating these opportunities during 2021. |

| RISKS | EXPECTED TIME HORIZON | RISK RESPONSE | RELATED OPPORTUNITIES |
|---|---|---|---|
| **Transition - Market (capital availability) risk:**<br>We could experience difficulty in obtaining capital from:<br>- Shareholders due to increasing preference to invest in demonstrably sustainable companies; or<br>- Funders due to increased scrutiny over climate risks and their management. | This is expected to materialise in the short term and remain a risk through all time horizons. | PFI sees execution of its ESG programme as being critical to managing this risk. PFI has used the climate-related risk assessment exercise to ensure that its ESG programme is set up to address our material risks and opportunities. This includes:<br>- reducing our greenhouse gas emissions;<br>- improving the sustainable design of our buildings; and<br>- investigating the resilience of individual assets in our portfolio to climate-related events.<br><br>Transparency will also be important, so our progress will be disclosed through PFI's annual report, and through CDP (Carbon Disclosure Project). | Strong ESG performance could present an opportunity for PFI to increase our capital availability (for example, through green financing) and promote our reputation. |
| **Physical – Acute (damage) risk:**<br>We may experience damage or loss of access to PFI properties from climate-related events, such as storms or flooding. | These risks are expected to become heightened in the medium and long term. | We will be undertaking an exercise during 2021 to investigate which of PFI's properties may be most vulnerable to physical impacts from climate change. This will help us to develop a resilience strategy. Due to the time that it will take to prepare resilience plans for these physical climate risks, we will need to start planning and taking action in the short term, although our response may stretch beyond the first five years.<br><br>During 2020, PFI started completing climate risk assessments as part of our due diligence checks for new property purchases. We will continue to expand on this during 2021.<br><br>To ensure that we are well-placed to respond to a major climate event, we will continue to retain a strong balance sheet.<br><br>We will also closely manage our insurance programme which provides cover in the event of damage from weather events. | A robust resilience strategy is not only a risk mitigation approach, but may deliver longer-term efficiencies by enabling us to appropriately plan and deliver changes at the most effective times.<br><br>We also have an opportunity to embed resilience to climate impacts (rain, wind, heat) into the design of new buildings. |

| RISKS | EXPECTED TIME HORIZON | RISK RESPONSE | RELATED OPPORTUNITIES |
|---|---|---|---|
| **Physical – Acute (insurance) risk:** Due to increasing climate-related claims, insurance for climate events may become more difficult to obtain or increasingly expensive. | This is considered a medium to long term risk. | As PFI relies on insurance to remediate damage to its properties, changes in insurer preferences will be carefully monitored. PFI reviews its insurance strategy annually, and is working to increase its sophistication in insurance management to ensure that we are best placed to address this risk should it arise. | – |

**Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.**

Recognising the challenges and opportunities presented by sustainability and climate change, PFI created a new Sustainability, Risk & Compliance Manager role in 2020. In a team of only 14 people, this new position plays an important role in ensuring that sustainability and risk management are embodied in the strategic direction of our business.

During 2020, we have worked to ensure that our ESG programme is set up to address our most critical climate risks. Going forward, our ESG programme will include completing a climate change resilience assessment of individual assets in our portfolio, which will inform a resilience strategy. This may in turn impact capital expenditure and portfolio decisions made in future years. In addition, in order to reduce our greenhouse gas emissions, PFI has already committed $2m to reducing the emissions from its refrigerants over the next three years.

**Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.**

Through our initial qualitative assessment, we have determined that PFI's high level strategy of investing in quality industrial property remains robust in either a warming scenario of lower than 2°C, or a more extreme warming scenario. PFI has a diversified portfolio, with a good spread of geographical locations and tenants in various industries. This reduces the impact of a single event, and the concentration risk from exposure to a particularly impacted industry. We also already maintain a strong balance sheet which, as demonstrated through the COVID-19 pandemic, helps us to remain resilient in difficult times. However, it is critical that we remain responsive to climate risks as they evolve (how we will do this is outlined in the Risk Management section below).

We also need to gain a more in-depth understanding of the potential physical impacts of climate change to individual assets in our portfolio in different climate-related scenarios, which will commence in 2021. While we don't expect our high level strategy to change, the findings of this exercise this could, for example, lead to a shift in our appetite for concentration in certain locations, divestment of selected properties or capital expenditure to improve building resilience.

## RISK MANAGEMENT

**Describe the organisation's processes for identifying and assessing climate-related risks.**

Identification and assessment of climate-related risks has been led by PFI's Sustainability, Risk & Compliance Manager, with contribution from senior management. Key risks were assessed and prioritised against a risk matrix of consequence and likelihood in line with PFI's Risk Management Framework.

In line with TCFD guidance, PFI considered both the risks associated with the transition to a lower carbon economy (such as changes in regulation) and the risks associated with the physical impacts of climate change (such as damage to buildings). For the 2020 risk assessment, the physical risk to the portfolio as a whole has been assessed (rather than asset-level assessments), however we plan to refine this during 2021.

**Describe the organisation's processes for managing climate-related risks.**

As described in the Governance section, a monthly ESG management meeting attended by the Chief Executive Officer and Chief Finance and Operating Officer has been established. This structure gives us flexibility to review and adapt our response to climate-related risks over time as there are new developments and the climate change trajectory becomes clearer.

PFI's most material risks have been identified based on the likely consequences of those risks materialising, and are set out in the Strategy section above. Actions being taken to respond to the most material climate-related risks include:

- completing a study of properties that are most vulnerable to climate impacts;
- increasing our capabilities in sustainable building design;
- disclosure to stakeholders on our ESG progress;
- annual reviews of our insurance strategy; and
- maintaining a strong balance sheet.

Many of these activities form part of PFI's ESG framework, which is overseen by the monthly ESG meetings. Quarterly reporting on sustainability and risk management is provided to the Board.

**Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.**

Due to its complexity, PFI completed a standalone climate risk assessment during 2020, adopting methodology from our Risk Management Framework. The findings were incorporated into PFI's risk register to provide a single view of risk for PFI. In most cases, climate risks are an extension of our existing risks (for example, physical damage to buildings), but we are updating our controls for those risks (such as acquisition due diligence and our insurance programme monitoring) to account for climate impacts. Assessment and management of climate risk is managed in the same way as our other risks, with oversight by senior management and the Board.

## METRICS AND TARGETS

**Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.**

PFI assesses its impact on the climate by measuring its Scope 1, 2 and 3 greenhouse gas emissions. PFI has expanded the range of Scope 3 emissions categories assessed during 2020.

We also use our CDP (Carbon Disclosure Project) score to understand how our climate performance compares to other corporations globally. PFI submitted to CDP for the first time during 2020 and achieved a score of C which is in the Awareness band. This is in line with the Oceania regional average of C.

During 2021, further metrics will be developed in order to monitor our progress on strategic climate-related initiatives such as replacing our refrigerant gases and assessing the climate resilience of our portfolio.

**Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.**

Please refer to pages 23-25 of our Sustainability report for details of PFI's 2020 GHG emissions. We recognise the importance of reducing our emissions and have committed $2m to emissions reduction initiatives over the next three years. While PFI has a relatively small carbon footprint, we are conscious that there are reputational and market risks associated with our GHG emissions if we do not take meaningful steps to decrease them.

**Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.**

PFI is targeting an improvement in our CDP score from C to B by 2023. We are also targeting replacement of all HVAC systems currently in our portfolio and within our operational control that use R22 refrigerant gas by 2023.

# GRI INDEX

## GENERAL DISCLOSURES

| DISCLOSURE TITLE | GRI | LOCATION OR REFERENCE |
|---|---|---|
| Name of the organisation | 102 - 1 | Property for Industry Limited |
| Activities, brands, products and services | 102 - 2 | https://www.propertyforindustry.co.nz/about-pfi/ |
| Location of headquarters | 102 - 3 | https://www.propertyforindustry.co.nz/contact-us-investors/ |
| Location of operations | 102 - 4 | https://www.propertyforindustry.co.nz/investor-centre/portfolio-summary/ |
| Ownership and legal form | 102 - 5 | https://www.propertyforindustry.co.nz/about-pfi/ |
| Markets served | 102 - 6 | New Zealand |
| Scale of the organisation | 102 - 7 | https://www.propertyforindustry.co.nz/about-pfi/ |
| Information on employees and other workers | 102 - 8 | We have a team of 14 permanent staff based in Auckland (7 male and 7 female). We also have one female temporary fixed term employee. Staff movements in 2020 included three new hires and two resignations.<br><br>PFI also relies on third-party providers for a number of its activities, most notably facilities management and development activities. There are no seasonal variances in these numbers. |
| Supply chain | 102 - 9 | We have a number of partners and suppliers, most notably our facilities manager and construction partners. |
| Significant changes to the organisation and its supply chain | 102 - 10 | None |
| Precautionary principle approach | 102 - 11 | PFI applies the precautionary approach through its day-to-day decision-making. |
| External initiatives | 102 - 12 | CDP; TCFD |
| Membership of associations | 102 - 13 | Property Council New Zealand, New Zealand Green Building Council |
| Statements from senior decision-maker | 102 - 14 | Page 4 and page 20 |
| Values, principles, standards, and norms of behaviour | 102 - 16 | https://www.propertyforindustry.co.nz/about-pfi/governance/ |
| Governance and structure | 102 - 18 | https://www.propertyforindustry.co.nz/about-pfi/governance/ |
| List of stakeholder groups | 102 - 40 | Appendix 'Material topics', page 29 |
| Collective bargaining agreements | 102 - 41 | None |
| Identifying and selecting stakeholders | 102 - 42 | Appendix 'Material topics', page 29 |
| Approach to stakeholder engagement | 102 - 43 | Appendix 'Material topics', page 29 |
| Key topics and concerns raised | 102 - 44 | Appendix 'Material topics', page 29 |
| Entities included in the consolidated financial statements | 102 - 45 | Page 38 |
| Defining content and topic boundaries | 102 - 46 | Appendix 'Material topics', page 29 |
| List of material topics | 102 - 47 | Appendix 'Material topics', page 29 |

| DISCLOSURE TITLE | GRI | LOCATION OR REFERENCE |
|---|---|---|
| Restatements of information | 102 - 48 | PFI has restated its carbon footprint for FY19 due to an overstatement of Scope 1 emissions found when improving reporting processes for 2020. Total emissions were originally reported as 219.2 tCO2e. Total emissions have been restated at 130.5 $tCO_2e$. |
| Changes in reporting | 102 - 49 | None |
| Reporting period | 102 - 50 | January 1, 2020 – December 31, 2020 |
| Date of most recent report | 102 - 51 | February 2020 (2019 Annual Report) |
| Reporting cycle | 102 - 52 | Annual |
| Contact point for questions regarding the report | 102 - 53 | info@pfi.co.nz |
| Claims of reporting in accordance with the GRI standards | 102 - 54 | Appendix, page 29 |
| GRI content index | 102 - 55 | Pages 94-96 |
| External assurance | 102 - 56 | Our sustainability related reporting has not been externally assured for 2020, however we did receive external certification of our carbon footprint from Ekos. See page 24 for more detail. |

## TOPIC SPECIFIC DISCLOSURES

| DISCLOSURE TITLE | GRI | LOCATION OR REFERENCE |
|---|---|---|
| **Emissions** | | |
| Topic boundaries | 103-1 | Reducing our impact on the climate, pages 23-25 |
| Management approach | 103-2 | Reducing our impact on the climate, pages 23-25; Improving our climate resilience, page 28; Climate-Related Disclosures, pages 89-93 |
| Evaluation of management approach | 103-3 | Reducing our impact on the climate, pages 23-25; Improving our climate resilience, page 28; Climate-Related Disclosures, pages 89-93 |
| GHG emissions scope 1 | 305-1 | Reducing our impact on the climate, pages 23-25 |
| GHG emissions scope 2 | 305-2 | Reducing our impact on the climate, pages 23-25 |
| GHG emissions scope 3 | 305-3 | Reducing our impact on the climate, pages 23-25 |
| **Employment** | | |
| Topic boundaries | 103-1 | Supporting our staff's safety and wellbeing during the COVID-19 pandemic, page 22 |
| Management approach | 103-2 | Supporting our staff's safety and wellbeing during the COVID-19 pandemic, page 22 |
| Evaluation of management approach | 103-3 | Supporting our staff's safety and wellbeing during the COVID-19 pandemic, page 22 |
| New employee hires and employee turnover | 401-1 | Three new hires; two resignations |

| DISCLOSURE TITLE | GRI | LOCATION OR REFERENCE |
|---|---|---|
| **Occupational health & safety** | | |
| Topic boundaries | 103-1 | A bolder approach to health and safety with our new framework, page 22 |
| Management approach | 103-2 | A bolder approach to health and safety with our new framework, page 22 |
| Evaluation of management approach | 103-3 | A bolder approach to health and safety with our new framework, page 22 |
| Types of injury and rates of injury | 403-2 | A bolder approach to health and safety with our new framework, page 22 |
| **Diversity and equal opportunity** | | |
| Topic boundaries | 103-1 | PFI Diversity Policy |
| Management approach | 103-2 | PFI Diversity Policy |
| Evaluation of management approach | 103-3 | PFI Diversity Policy |
| Diversity of governance bodies and employees | 405-1 | Diversity and Inclusion page 77; GRI Index 102-8 Information on employees and other workers, page 94 |
| **Sustainable design** | | |
| Topic boundaries | 103-1 | Future-proofing our buildings with sustainable design, pages 26-27 |
| Management approach | 103-2 | Addressing our seismic risks, page 26; Future-proofing our buildings with sustainable design, pages 26-27 |
| Evaluation of management approach | 103-3 | Addressing our seismic risks, page 26; Future-proofing our buildings with sustainable design, pages 26-27 |

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**This Annual Report, including the Corporate Governance statement, is dated 22 February 2021 and signed on behalf of the board by:**

**Anthony Beverley**
Chairman

**Susan Peterson**
Chair, Audit and Risk Committee

## CALENDAR

### 2021

**FEBRUARY**
- 2020 Full-year announcement
- 2020 Annual report released

**MARCH**
- 2020 Final dividend payment

**MAY**
- 2021 First-quarter announcement
- Annual meeting
- 2021 First-quarter dividend payment

**AUGUST**
- 2021 Half-year announcement
- 2021 Interim financial statements released

**SEPTEMBER**
- 2021 Half-year dividend payment

**NOVEMBER**
- 2021 Third-quarter announcement
- 2021 Third-quarter dividend payment

### 2022

**FEBRUARY**
- 2021 Full-year announcement
- 2021 Annual report released

**MARCH**
- 2021 Final dividend payment

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