Property for Industry Limited

Annual Report 31 December 2019

CONSTANT / PROGRESS

THE FUTURE ISSUE

+

THE YEAR IN REVIEW
WHERE WE ARE TODAY
THE FUTURE VISION
OUR FOUR WAYS FORWARD
BUILDING A SUSTAINABLE BUSINESS

As professional landlords in the industrial sector, our solutions go far beyond providing warehouse space. We are resourcing the strategies of some of New Zealand's most successful companies – helping them meet the needs of their customers now

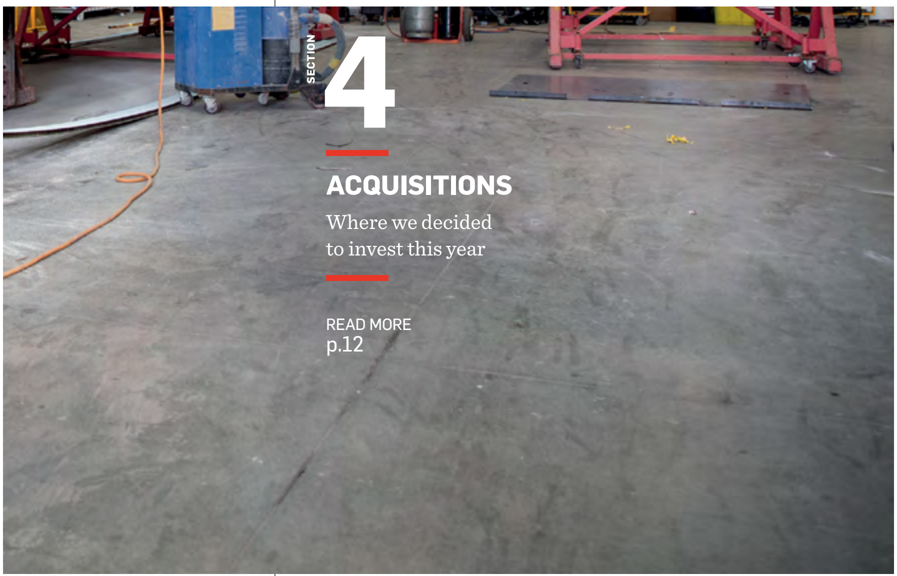

PFi
BUILDING
A FUTURE
TOGETHER
and tomorrow.

DRIVING TOWARDS THE FUTURE

PFI generates income for investors by clearly focusing on New Zealand's industrial economy. We look to generate strong, stable returns for our investors, which in turn generates prosperity for New Zealand.

HERE & NOW

OUR FOUR WAYS FORWARD



SECTION

6

VALUE-ADD

The benefits of
enhancing experiences

READ MORE
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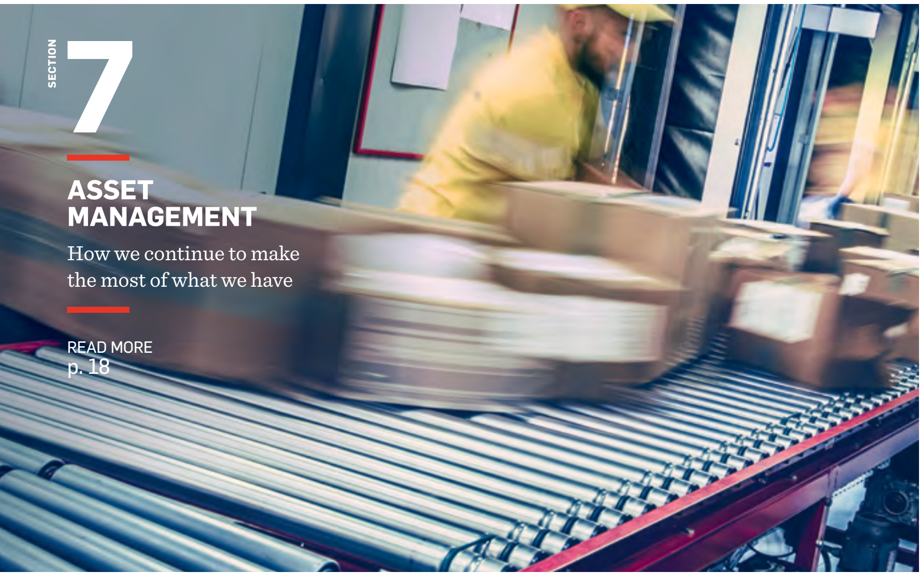

SECTION

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ASSET MANAGEMENT

How we continue to make
the most of what we have

READ MORE
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GETTING IT DONE

SECTION

8

BUILDING A SUSTAINABLE BUSINESS

How we think about
the future

READ MORE
p.20

LEADING

ANTHONY BEVERLEY
Chairman and Independent Director

DAVID THOMSON
Independent Director

DEAN BRACEWELL
Independent Director

GREG REIDY
Non-Executive Director

HUMPHRY ROLLESTON
Independent 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

01.

STRONG RETURNS

THIS YEAR WE CONTINUED TO DELIVER STRONG, STABLE INVESTOR RETURNS AT THE SAME TIME AS WE FOCUSED OUR PORTFOLIO ON OUR CORE STRENGTHS.

THIS WAS THE FIRST YEAR in which we pursued our refreshed four-part strategy. “The Company has pursued a deliberate and effective growth plan,” says Chief Executive Officer, Simon Woodhams.

The dividend increased again this year to 7.60 cents per share (cps), up on last year’s dividend of 7.55 cps.

Net profit after tax increased by 60% to $176.3 million, with both our key growth metrics showing positive progress: Funds From Operations increased by 2.6% to 9.07 cps, while Adjusted Funds From Operations were up by 4.4% to 7.79 cps. The revaluation of our portfolio resulted in an increase in value of $125 million, and our portfolio is now valued at $1.476 billion. At a tenancy level, 99,000 sqm of space has been leased this year for an average term of 6.7 years and a total rent of $14.8 million.

In this report we look at how we have made progress on all four aspects of our strategy. We continued to manage our assets to good effect, retaining a key tenant, DHL, at 7–9 Niall Place Burgess Road in Mount Wellington. We disposed of 229 Dairy Flat Highway in Albany as part of a realignment of our portfolio towards purely industrial. By adding value at 6 Donnor Place in Mount Wellington, we attracted Coca-Cola Amatil as a tenant. And we acquired the property at 51 – 61 Spartan Road, Takanini, in a sale and lease-back with ASX-listed company MaxiTRANS. Details of these transactions, and others, are included as case studies later on in this report.

This positive activity has contributed to a lift in share price to $2.44, a total return for the year of around 40%, and Net Tangible Assets (NTA) are up 15.6% on last year to $2.06 per share.

In October, we successfully refinanced $300 million of bank facilities. This increased our weighted average term to expiry for our bonds and bank facilities to 4.1 years, giving us a good balance of certainty around tenor and attractive pricing. “We are appropriately funded to deliver on our strategy of replacing the Company’s non-industrial assets with quality industrial properties in sought-after areas,” says PFI Chief Finance and Operating Officer, Craig Peirce.

There was a new addition to the PFI Board during 2019 with the appointment of Dean Bracewell. “We continue to review and refresh the core skills needed within the Board, and how we apply our collective knowledge as a team, to make the most of the opportunities the market presents us with,” says PFI Chairman, Anthony Beverley.

This year, we decided to place environmental, social, and governance topics in the spotlight in response to the challenges of our changing world. We chose to adopt internationally recognised best-practice reporting processes and sought professional sustainability consultants to advise us. We’re proud to present our first sustainability report, which provides a benchmark from which to gauge the size of the challenges we face; a way to measure our future successes; and encouragement to play our part in creating a more sustainable future.

Further details about the Company’s Environmental, Social and Governance (ESG) framework, strategy, and performance can be found on pages 20 to 25.

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

NET PROFIT

$176.3M

UP 60.1%

LEASING ACTIVITY

99,000

SQM LEASED

For an average of 6.7 years and a total rent of $14.8 million

DIVIDEND

7.60

cents per share, up 0.7% on last years dividend of 7.55 cents per share.

2019	**7.60**
2018	7.55
2017	7.45
2016	7.35
2015	7.30

$125M

REVALUATION

$1.476 BILLION

Portfolio

ADJUSTED FUNDS FROM OPERATIONS

7.79 CPS

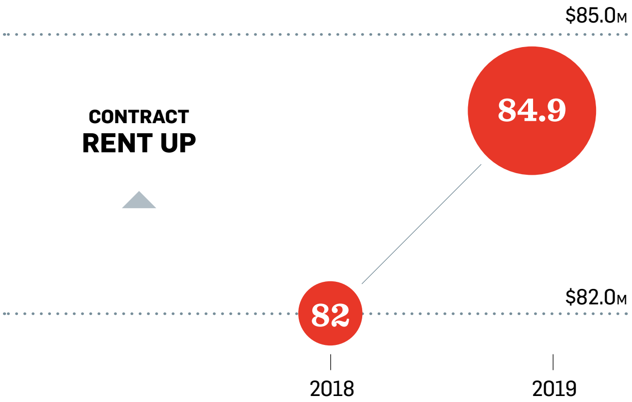
UP 4.4%

REFINANCING

$300M

bank facilities successfully refinanced

CONTRACT RENT UP



NET TANGIBLE ASSETS

2.06

CENTS PER SHARE UP 15.6% ON LAST YEAR

2019	**206.0**
2018	177.7
2017	163.2
2016	160.7
2015	140.5

02.

RELIABILITY TAKES DISCIPLINE

10 THINGS YOU SHOULD KNOW ABOUT PFI:

PROPERTIES	TENANTS	AVERAGE OCCUPANCY	WEIGHTED AVERAGE LEASE TERM (WALT)	AVERAGE PROPERTY VALUE
		OVER THE LAST 10 YEARS		$
94	144	98.5	5.38	15.7
		%	YEARS	MILLION

_ 51 – 61 Spartan Road is now part of the PFI portfolio.

_ 6 Donnor Place in Mount Wellington is now home to Coca-Cola Amatil.

GEARING	NUMBER OF PROPERTIES OCCUPIED BY TOP 10 TENANTS	AVERAGE ANNUALISED TOTAL RETURN SINCE INCEPTION	NUMBER OF STAFF	BOARD OF DIRECTORS
28.2 %	30	11.14 %	12 PEOPLE	6 DIRECTORS

_ 229 Dairy Flat Highway in Albany has been successfully sold.

03.

INDUSTRIOUS

BY

OUR PURPOSE AT PFI has always been to deliver strong and stable income for our investors and to generate prosperity for New Zealand. Right now, the industrial property sector is buoyant, with some pundits saying it's the best it's been in a long time. Extremely low levels of vacancy coupled with high levels of demand for existing and new properties bear this out. Research we've seen from CBRE shows that while there has been 2.5% rental growth over the past year, the average change in rents in the Auckland industrial sector has been 26.9% over the last five years.

Contrast that growth with an economic environment typified by low interest rates and it's clear there's now a large weight of capital looking for a home. Industrial property is a market leader at the moment because, among other things, it's tangible, and has long lease terms, often with fixed growth in income.

Fuelling this, say CBRE, is omnichannel retailing, which requires stable, long term homes for their businesses to fulfil orders from. In today's click-and-collect world, the trends in the industrial sector and physical retail couldn't be starker. Storage footprints are on the rise as retail footprints continue to decline.

But the appeals of industrial property stocks for investors extend beyond the physics of supply and demand. Industrial properties have offered healthy capital growth and good returns, but they also require relatively low capex because, as unlike office and retail property, ownership doesn't require continually refreshing spaces. With yields compressing, this is also a good time to be investing in the right sorts of property.

PFI has had another good year. Our portfolio includes great assets, we have great customers, a strong balance sheet with low levels of gearing, and a motivated team that has continued to deliver earnings growth and valuation gains for our investors.

"As an investment, we appeal to investors with 'patient capital'"

SIMON WOODHAMS,
Chief Executive Officer

NATURE

→

99.0 %
CURRENT OCCUPANCY

5.75 %
PORTFOLIO YIELD

“Our role in the economy is to help businesses grow by providing them with a home,” says Simon Woodhams. “As an investment, we appeal to those with “patient capital” – people with a long-term view – not wanting to take on higher levels of risk and intent on building and preserving their retirement savings. We’re really pleased with our performance and the dividend we have delivered this year.”

FOUR WAYS FORWARD

WHILE THE MARKET is positive at the moment, PFI has a responsibility to actively manage its assets in order to deliver stability and consistency. “We recognise that no one aspect of our strategy is sufficient for us to rely on. Instead, we need to weigh a range of initiatives that together enable us to build on what we do best while preparing for the future,” says Simon Woodhams.

“By taking a long-term view across all four aspects of our strategy, we can move towards securing our vision while taking advantage of tactical opportunities as they present themselves. The strategy gives us a clear framework for managing our portfolio holistically and lifting value overall.”

Each part of our strategy has a specific purpose.

Through careful asset management, we are looking to maintain and extend the value of our current assets so that they represent clear value for tenants at the same time as they deliver longer-term to benefit investors.

We have a number of legacy properties that have helped boost the portfolio historically but are now out of sync with our determination to see PFI become an industrial property specialist. Through our disposals strategy, we are now taking these to market.

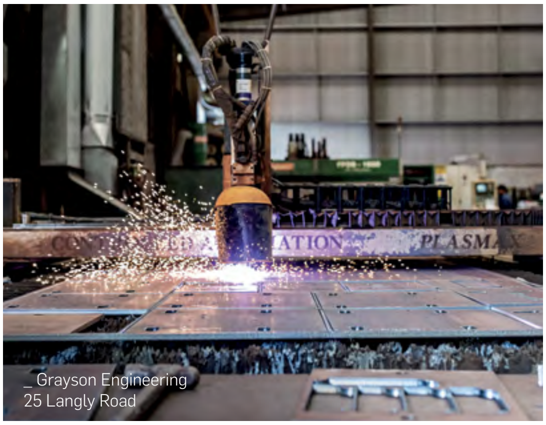
Our value-add strategy recognises there is an undersupply of available, zoned industrial land that is ready to go and therefore we should, where we can, reconfigure current space through partial redevelopment to appeal to corporates such as Coca Cola Amatil who were looking for new premises.

Finally, our acquisition strategy is about thinking about not just where we invest, but how, in order to add properties to the portfolio that will strengthen our future positions.

We provide examples of all four of these strategies at work in this report.

“We have a responsibility to deliver constant progress.”

SIMON WOODHAMS,
Chief Executive Officer



_ Grayson Engineering
25 Langly Road

THE ROLE WE LOOK TO PLAY

WE ARE PROFESSIONAL landlords to the industrial economy. Our vision is to be one of New Zealand’s foremost listed property vehicles; a leader that others respect and admire. Our measures for success are: **performance**, as in the returns we deliver based on the scale and quality of our portfolio and the robustness of our relationships; **quality** and **scale**, in the form of our portfolio of high-quality industrial properties in sought-after locations; and our **reputation** as a good company to invest in, do business with and work for.

If there is a single thought that drives us in our bid to achieve constant progress, it is this: we will do what we said we will do. This year we’ve continued to build on what we have. We’ve made good progress in strengthening and focusing our portfolio, and our ability to procure off-market deals has given us access to larger properties and opportunities on terms that make sense.

IF THERE IS A SINGLE THOUGHT THAT DRIVES US, IT IS THAT WE WILL DO WHAT WE SAID WE WILL DO. OUR STRATEGY LAYS OUT A CLEAR PLAN FOR HOW WE INTEND TO DELIVER.

We've also used positive market conditions to position ourselves, to get out of non-industrial assets.

We've stayed true to who we are, by growing the portfolio and paying dividends that truly reflect the returns of our properties. Our payout ratio is based on 95 – 100% of Adjusted Funds From Operations (AFFO), meaning we are paying out only what we have left after we properly maintain our portfolio. And we continue to be intentional and proactive in how we evaluate transactions and evolve the company. Our low gearing gives us headroom and an ability to take opportunities as they arise, at the same time as our increased earnings show that we are using this time in the cycle to our investors' advantage.

We plan to make the most of our presence in the industrial property sector, and that means looking for new opportunities and being even more proactive around creating new "product" for ourselves.

We also believe we have a role to play in encouraging participation in the industrial property sector through investment channels like Kiwisaver. "Investors need places to put their money in order for it to grow," says PFI Chief Finance and Operating Officer, Craig Peirce. "We try to attract investment from the likes of Kiwisaver funds and then generate attractive returns for their investors. At the same time, those funds will help fund the wider investment needed to lift productivity across the economy."

REFRESHING THE BOARD

THE BOARD IS COMMITTED to refreshing its core skills. "In order to provide the best guidance around the strategy, it's important we future-proof our governance," says Anthony Beverley. "That requires continuing to review our collective skills to ensure the PFI management team are receiving timely and value-adding advice that advances our purpose and our commitment to investors, enhances our relationships with tenants and keeps the Company performing to capacity in current market conditions."

The arrival of Dean Bracewell, with his experience in logistics and freight, is another example of bringing new outlooks to the Board. Dean's experience is highly relevant, of course, because that sector represents a significant part of our current and future customer base. Understanding what drives them, so we can tailor our solutions to better meet their needs, is all part of sharpening our customer focus and positioning ourselves as a true partner.

"We are using this time in the cycle to our investors' advantage."

CRAIG PIERCE,
Chief Finance and Operating Officer

LOOKING AHEAD

WE BELIEVE the year ahead is likely to exhibit similar volatile characteristics to the last 12 months, and while all sectors are cyclical, we anticipate no immediate or significant change to current market conditions. Our goal as always will be to protect the interests of those who depend on us.

"At a time when investors want steady returns and customer tenants want reliable occupancy arrangements that give their businesses a long-term home, we have a responsibility to deliver constant progress," says Simon Woodhams. "Our commitment to our investors is about delivering the strong and stable returns we always talk about. For our customers, our tenants, we recognise their needs are constantly evolving and we must adapt our offering accordingly to meet these changing needs."

$83.3 MILLION NET RENTAL INCOME

_51-61 Spartan Road, Takanini

04.

FOUR WAYS FORWARD

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

GAINING GROUND

OUR LOW gearing gives PFI the opportunity to acquire new properties and opportunities that align with the Company's objective to focus on industrial property. This year, we added a number of properties to our portfolio that align with our overall vision and add attractive long-term revenue streams to our portfolio.

Despite widespread interest in the industrial

1.

_ 51-61 Spartan Road, Takanini

CASE STUDY

51–61

SPARTAN ROAD TAKANINI

—

Adding this property to our portfolio has freed up cash for MaxiTRANS and enabled them to focus on their strategic priorities.

LETTABLE AREA::
19,350 SQM

PURCHASE PRICE::
$17.2M

OUR ROLE::
In an increasingly competitive industrial property market, we continue to use our reputation and relationships to acquire high quality properties, off-market.

INCREASE IN VALUE SINCE ACQUIRING THIS PROPERTY::
$967,000

property market, there are opportunities available for those prepared to search for them. As a portfolio owner, we continue to look for new acquisitions. We apply stringent criteria around what we buy based on pricing and property and tenancy fundamentals. Acquisitions balance our disposals and give us new properties through which to build relationships, and earnings. As such, they add to our ability to grow PFI in the measured way our investors expect.

In March, we announced the purchase of the property at 51 – 61 Spartan Road for $17.2 million. The property, which has around 2,700 sqm of warehouse, 1,100 sqm of canopy, office spaces totalling 550 sqm and 15,000 sqm of yards, was purchased off-market in a sale-and-lease-back transaction.

The tenant, MaxiTRANS, is an ASX listed company that supplies truck and trailer parts to the road transport industry in Australia and is the largest supplier of locally manufactured road transport trailer solutions in Australia and New Zealand. The lease is for 12 years and includes fixed rental growth of 2.75% annually. The 2.4-hectare site also includes opportunities for further development.

"As part of our capital allocation review, we contacted a number of parties looking to sell and lease back the land and buildings in order to free up capital for us while retaining operating security over the site," says Peter Loimaranta, General Manager MaxiPARTS and New Zealand, MaxiTRANS. "We chose PFI because of the speed of their response, their flexibility around development and their commercial approach. I was impressed with their ability to react quickly within an aggressive timeframe and to deliver what they said they would."

"Many of our important acquisitions are now taking place off-market," says Simon Woodhams, "and that reflects the trust we build with vendors and their belief that we will do right by them."

Other important acquisitions this year have included properties in Wiri and Mangere.

25 Langley Road, Wiri was built by Grayson Engineering in 2005. It has now been successfully acquired by us for $36 million and leased back to the company on a 12-year lease, including fixed annual reviews. The site itself includes almost 11,000 sqm of warehouse, and a further 3,200 sqm is under development and due to be completed in May next year. "This acquisition offered us the opportunity to add a property to our portfolio that included a large yard and extra land, with low site coverage ," says Simon Woodhams.

In Tidal Road, Mangere, we finalised an agreement with Aintree Group to develop 10,400 sqm of warehousing, 2,640 sqm of breezeway canopies and 740 sqm of offices for Auckland logistics provider Supply Chain Solutions. The property was purchased off-market for $34.2 million and is estimated to deliver PFI a 5.35% return. "Our involvement in this project will deliver a newly built, high-stud, true logistics warehouse when it is completed, with a 12-year lease," observes Simon Woodhams.

We are also working with the same developer on another lot in the same area to deliver a 7,100 sqm warehouse, 600 sqm office and 1,200 sqm of canopies at a total project cost of $20.2 million. We will buy this property empty and plan to have it leased by the time the project is built in 18 months time.

"Each acquisition is allowing us to add new buildings that improve our overall portfolio. Three of the four acquisitions are secured with 12-year leases, stable tenancies, and fixed rental increases. Together, these acquisitions help future-proof our earnings and enable us to gain quality properties in areas with great prospects."

> **Many of our important acquisitions are now taking place off-market."**
>
> **SIMON WOODHAMS,**
> Chief Executive Officer

— Grayson Engineering
25 Langley Road

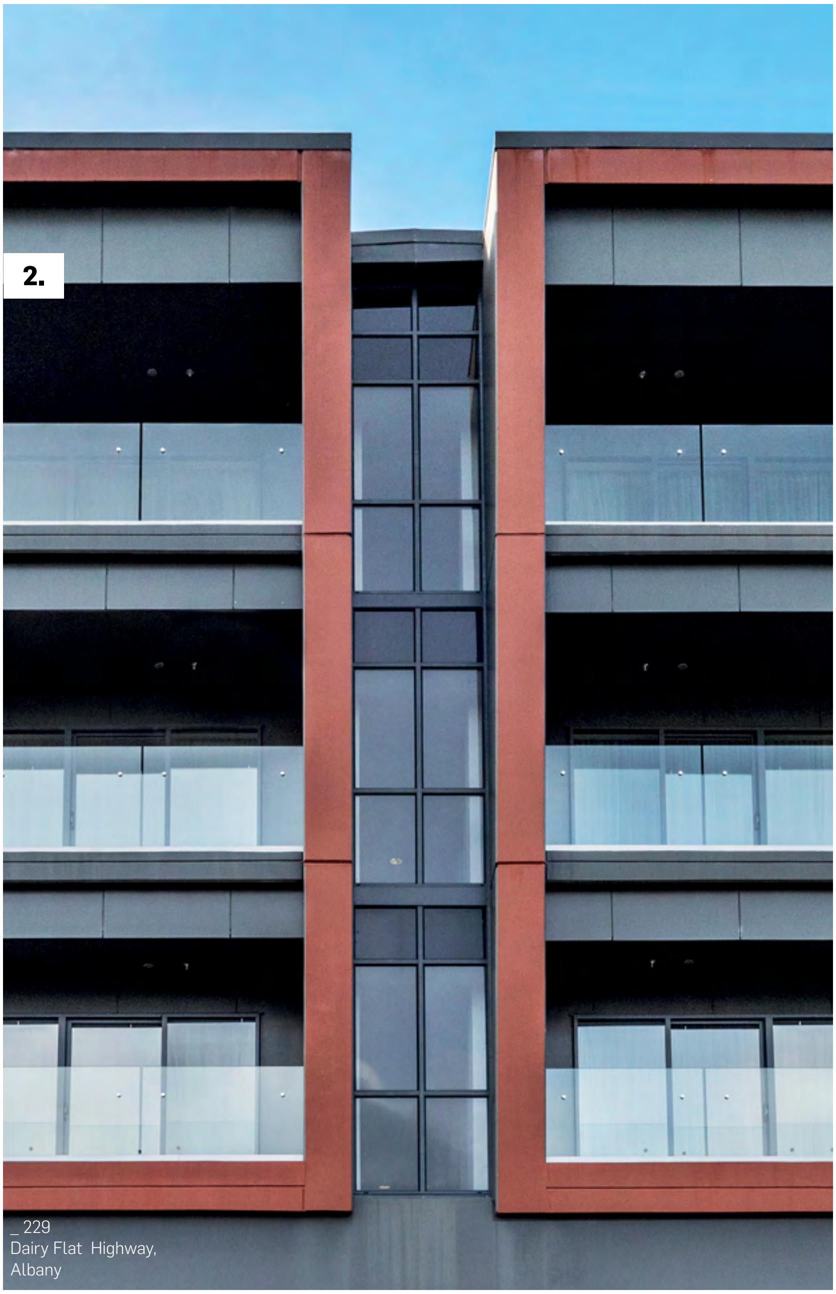
05.

FOUR WAYS FORWARD

“PFI’s investors will be pleased we achieved a $33 million sale price”

JODIE WARMAN,
Asset Manager

2.



_ 229
Dairy Flat Highway,
Albany

LETT

WHEN WE refreshed our strategy, we resolved to carefully dispose of those assets that fell outside the category of being purely industrial. This year, we looked for opportunities to get maximum value for some of those assets by making them available to the market.

Disposing of these assets ensures we focus on the area we consider to be our core strength. In choosing to take a property to market, we look at its current valuation, the market’s interest in similar assets, timing and the potential for recycling the capital we are freeing up.

CASE STUDY

229 DAIRY FLAT HIGHWAY ALBANY

—

We sold 229 Dairy Flat Highway to an experienced investor after a competitive sales process for a price that exceeded book value by $5 million.

LETTABLE AREA::
6,718 SQM

SALE PRICE::
$33.0M

OUR ROLE::
Disposing of this property enables PFI to continue to sell down its non-core assets as it moves towards a 100% focus on industrial property.

% OF ASSETS THAT ARE NOT INDUSTRIAL::
10%
down 2.7% from the prior year.

TING

These properties don't have a long-term future in our portfolio. By choosing to sell them, we increase our capacity to pursue better long-term returns in the industrial property sector.

"The most significant asset we sold this year was 229 Dairy Flat Highway in Albany, which settled on 6 December. Using an open-market campaign, including national press, online listings and email marketing to a targeted group of investors, we were able to attract multiple offers for this high-quality, well-managed property," says PFI Asset Manager Jodie Warman. "In total we received six offers that we considered, all of which were above the book value and half were on or around our final price.

"The interest demonstrates the strong demand such assets command. PFI's investors will be pleased we achieved a $33 million sale price for a property with a book value of $28 million."

A 10-year WALT from established, quality tenants, including Massey University, Auckland Council and Quest, attracted investors looking for a property in Auckland's North Shore.

"We've had a very good relationship with PFI over the years," says Rod Grove, Campus Operations Manager, Massey University, Auckland Campus, "and the fact that we had a long-term lease with them and that we extended it recently is proof of that. Massey University itself has grown significantly, and today the site is home to our Engineering and Psychology departments. We've always found the PFI team to be very responsive and we look forward to building an equally positive relationship with the new owners."

"Institutional investors want to be able to invest in a specific asset class," says Jodie Warman. "With that in mind, the PFI team are agreed on a strategy where we are looking to dispose of the 10% of our assets that are not purely industrial over a medium-term timeframe."

These legacy assets have served their purpose for our investors, but the timing is now right for us to look at passing them to others who have a more natural place for them in their portfolios.

"In order to ensure we continue to pay a consistent level of dividends, we cannot simply sell these all at once on the open market. Instead we are managing these disposals through a staggered release to the market. 229 Dairy Flat Highway is an important asset to have sold but the biggest of our sales will likely take place during 2020. At this point, we have banked $40 million for investors on our way to being a pure-play industrial property company. The funds from this sale and those that follow will be reinvested into acquiring quality industrial properties in a range of sought-after areas and to pursuing value-add strategies within our current portfolio."

At year end, following an off-market approach, we also contracted to divest the property at 2 Pacific Rise, Mount Wellington, for a gross sale price of $7 million, in line with the recent valuation. "An upcoming lease expiry prompted us to consider the sale of this obsolete data centre that we acquired via our merger with Direct Property Fund in 2013. This sale too frees up funds to be reinvested into other projects."

_ 229 Dairy Flat Highway, Albany

GO

06.

FOUR WAYS FORWARD

ACQUISITION

DISPOSAL

+ **VALUE ADD**

ASSET MANAGEMENT

3.

ENHANCING

_ 6
Donner Place
Mount Wellington

“

An effective way to add value to PFI as a whole”

LUKE GLEN

Property Manager

COMPLEMENTING our approach to asset management, our value-add strategy focuses on enhancing the experience for our tenants by reconfiguring and upgrading some of our older assets. At the same time, we are adding value to properties within the portfolio that still have significant future potential.

CASE STUDY

6
DONNOR PLACE MOUNT WELLINGTON

—

Upgrading this older industrial warehouse to meet the needs of a major New Zealand corporate has significantly lifted its value and attractiveness.

LETTABLE AREA::
11,500 SQM

VALUATION::
$24.8 M

OUR ROLE::
By investing in the future of this asset, we are transforming it into a modern open-plan warehouse that meets the expectations of larger companies.

INCREASE IN VALUE DURING 2019::
$4.8 M

This strategy is about getting more from assets that we consider currently below their potential. In each case, we assess how the current state of the property could be evolved and what that would enable us to deliver for a client. We look at how and where we can make improvements that will deliver us a more valuable building.

Adding value to assets in this way lifts the overall value of our portfolio and our earnings, and has a positive impact on our ability to deliver consistent and stable returns.

_ 6
Donner Place
Mount Wellington

XPERIENCES

"As industrial buildings age, decisions must be made as to how to upgrade," says PFI Property Manager Luke Glen. "Upgrading an asset is about keeping the current bones and then improving the overall appeal through refurbishment."

At 6 Donnor Place in Mount Wellington, the refurbishment work we are undertaking includes the installation of a new canopy, seismic strengthening and the removal of asbestos. These works have enabled us to reposition the asset for use by Coca-Cola Amatil, one of the largest bottlers of non-alcoholic beverages in the Asia-Pacific region and one of the largest Coca-Cola bottlers in the world, as a place to store products for distribution.

The property itself sits on 2.5 hectares close to Sylvia Park Shopping Centre and to Coca-Cola Amatil's main Auckland headquarters on Carbine Road. Our warehouse at Donner Place offered around 9,000 sqm of warehouse, extensive offices and amenities, large concrete yards, carparking and a small amount of surplus land.

"This is a sizeable property in the very heart of Mount Wellington with a significant frontage to the south-eastern highway. Its location in one of the more centralised and established industrial precincts in Auckland makes it a site with a healthy future," says Luke Glen.

"Our assessment was that this property met all our criteria for our value-add strategy. While the asset itself had been altered and extended over the years and included features we now considered obsolete, such as a lot of partitioning and a suspended ceiling, it nevertheless had significant potential to attract a longer-term commitment.

"That's why we are making a significant investment," says Luke Glen. "In December 2018, the property was valued at $15.1 million. By the time we complete this upgrade in March 2020, our expectation is the property will have a valuation in excess of $25 million. We will have spent between $5 million and $6 million to undertake these changes, but investors will see a close to $10 million increase in value, and a significant improvement in the rents being paid for the site.

"Once complete, the refurbishment works will add a generic open-plan warehouse that is significantly more useable and valuable. By addressing the essential maintenance issues, we will have a large site that will meet the standard requirements for many large industrial prospects. Beyond the value that adds to the site itself, this strategy is an effective way to add value to PFI as a whole. Having such an asset in our portfolio lifts our attractiveness and credibility as a landlord of choice to the significant industrial companies we want to forge relationships with." ■

07.

FOUR WAYS FORWARD

ACQUISITION

DISPOSAL

VALUE-ADDED

+ **ASSET MANAGEMENT**

4.

MAKING THE MOST OF

PFI'S ASSET management strategy focuses on managing relationships with tenants so they have the facilities and arrangements they need to plan with confidence. It's also about maintaining and lifting the value of our portfolio by paying close attention to these assets, including ensuring they remain fully occupied. In each case, we weigh what we are earning from the property, whether our customers are happy, and whether there is further potential for earnings.

These properties represent a significant part of our portfolio value. As such, they underpin our ability to deliver consistent long-term value.

"This year the team have done a great job of leveraging our existing

CASE STUDY

7-9

NIALL BURGESS ROAD MOUNT WELLINGTON

—

DHL restructured their lease with us to give them more certainty around this property that has been their home for some time.

LETTABLE AREA::

19,715 SQM

VALUATION::

$43.5 M

OUR ROLE::

We structured a deal that incentivised DHL to take a longer-term lease, a year early, with a significant increase in rent structured in a way that worked for both parties. We also took the opportunity to reinvest in the asset by making a contribution to a new fit-out that upgraded the office.

INCREASE IN VALUE DURING 2019::

$11.7 M

"Actively managing our assets improves our relationships and stabilises our earnings."

EWAN CAMERON
Portfolio Manager

WHAT WE HAVE

relationships to extend leases and prolong relationships with tenants," says PFI's Portfolio Manager Ewan Cameron. "Our approach has enabled us to take good advantage of market rental growth, improved our WALT or Weighted Average Lease Term, and allowed us to future-proof some of our older properties in the process."

At 7–9 Niall Place Burgess Road in Mount Wellington, DHL's lease still had a year to run, with a right to renew for another five years. Rent at the property had been linked to the CPI. With a market review due at the time of renewal, we knew this was now a significantly under-rented asset.

To encourage this valued client to stay, we structured a deal that incentivised DHL to take a longer-term lease of seven years, a year early, meaning in effect an eight-year term. We also structured the increase in rent in a way that worked for both parties, and took the opportunity to reinvest in the asset by making a contribution to a new fit-out that upgraded the office.

"Our revised arrangement with DHL works for everyone," says Ewan Cameron, "From our perspective, taking a constructive approach to managing this asset has extended our lease, lifted earnings and value, and ensured we retain a valued and loyal client relationship."

As demand for industrial property has increased, the market has also rentalised more aspects of each property, meaning there are good opportunities to redefine the value of a range of assets. For example, at 15 Copsey Place in Avondale, the sitting tenant left because the property had become too small for them. This 2,300 sqm first-generation warehouse was attracting a reasonable rent, but when we signed an eight-year lease for the property we were able to increase what we receive by rentalising the yard and carparking.

"Asset management is about getting WALT up and adding to book value. In this case, we went from a rent with eight months left to run to a new arrangement of eight years, with a market-adjusted rent, a new tenant, fixed annual growth and a market review at the end of four years," says Ewan Cameron. "Actively managing our assets improves our relationships and stabilises our earnings. For our investors, it's a highly effective way of continuing to make the most of existing assets." ■

08.

BUILDING A SUSTAINABLE BUSINESS

THE WORLD FACES unprecedented change that already threatens the stability of our environment, societies, and economy. In response, in 2019, we chose to put fresh focus on the ESG topics likely to affect PFI into the future, in every aspect of our business, including our people. We're proud to present our first sustainability report that details our 2019 position on ESG topics that matter to PFI.

"We significantly strengthened our approach to identifying, managing, and reporting on environmental, social and governance issues in 2019 by developing a comprehensive ESG strategy and framework. This includes looking hard at how these issues affect our licence to operate and ability to create value over the long term," says Simon Woodhams.

"Our ESG approach links directly to our purpose of generating income for investors and long-term prosperity for New Zealand. Our reporting is in accordance with the internationally-recognised GRI Standards and, as such, is focused on the most relevant and important issues for PFI." (see page 22)

"We take a long-term view on the investment of capital and the factors that affect our ability to create value over time. That's why it makes sense for us to measure and report on ESG factors as they can impact our ability to create value. Having robust and accessible information about these factors enables us to make evidence-based decisions about how to manage ESG factors and, at the same time, meet the expectations and information needs of our investors and stakeholders."

"Our ESG approach links directly to our purpose of generating income for investors and long-term prosperity for New Zealand."

SIMON WOODHAMS,
Chief Executive Officer

ESG PERFORMANCE

AN ESG FRAMEWORK AND STRATEGY FOR PFI

In 2019, we engaged an independent consultant to help us develop an ESG framework and strategy for PFI. This process included canvassing opinions on critical ESG issues for PFI through workshops with the PFI team, and interviews with external stakeholders. The Board adopted the ESG framework and strategy in August 2019.

"Our ESG framework and strategy demonstrates our thinking and distils our environmental, social and governance priorities. For each priority we are now able to clearly articulate where we want to be and how we're going to get there," says Craig Peirce.

To achieve PFI's purpose, the ESG framework is built around three pillars reflecting PFI's approach to sustainability:

- A focus on the health, safety, and wellbeing of people
- Efficient resource use
- Long-term thinking

The framework helps the PFI management team determine and communicate a management approach to material ESG topics.

The ESG strategy sets out four themes aligned with PFI's core value drivers – our team, our tenants, our properties, and our future. PFI uses these themes to organise how it manages ESG priorities, including establishing targets and developing business plans to address ESG topics.

PFI'S ESG FRAMEWORK

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 effciency — Long-term thinking

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

ABOUT THIS ESG REPORT

We have prepared this ESG report in accordance with the GRI Standards (core option). The GRI Standards are the world's most widely used and internationally recognised ESG reporting framework.

In following the GRI Standards, we established which topics to report based on GRI's Materiality Principle. This method ensures our report covers the topics that may have a significant impact (economically, socially, or environmentally), or a substantive influence, on PFI stakeholders' decisions and assessments – see our matrix of material topics on this page.

Key stakeholders for PFI include shareholders, staff, tenants, partner suppliers, industry groups and regulators, investors, and financiers. To establish the materiality of topics, PFI engaged an independent consultant to interview key stakeholders, carry out expert analysis, and prepare a materiality review report. The materiality review report informed which ESG topics to include in this annual report as well as the management approach to topics in PFI's ESG strategy. The ESG topics material to PFI are:

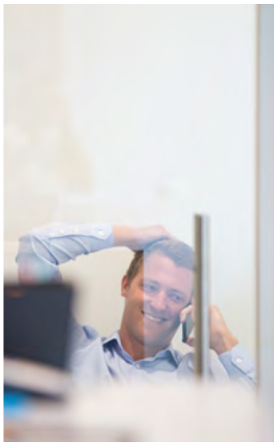
- Health, safety and wellbeing
- Environmental compliance and footprint
- Transparency, reporting and responding to stakeholder concerns
- Sustainability strategy, policy and processes
- Energy management and GHG emissions
- Industry leadership
- Diversity and Inclusion
- Community involvement

A description of PFI's management approach to these topics and current performance follows.

TAKING CARE OF OUR TEAM

Health, safety and wellbeing of the PFI team is an important priority for PFI. The PFI team includes staff, facilities management partners, and specialist contractors. All team members play an important role in achieving wellbeing and ensuring a safe and healthy workplace.

PFI MATERIALITY MATRIX



HEALTH AND SAFETY:

PFI has established controls for managing health and safety risks and outcomes. These include a Health and Safety Policy, tenant and team induction processes, independent health and safety audits, and governance and management systems for health and safety.

PFI owns, leases, and maintains industrial property. To support health and safety for everyone at PFI properties, we work closely with tenants, facilities management partners, and contractors to make sure health and safety processes are in place and followed effectively. We don't conduct or control our tenants' day-to-day industrial activities at PFI properties. Accountability and responsibility for health and safety is clearly defined at all levels within PFI's supply chain and within our own business.

In 2019, PFI commissioned 104 independent health and safety audits across 80 of its properties. In response to those audit findings, PFI has actively identified, addressed and closed-out health and safety issues.

The total number of reported health and safety incidents in 2019 was 6, down from 8 in 2018. Of those incidents, five resulted minor injuries, and the other did not result in injury. PFI actively pursues our ultimate health and safety goal of zero harm and zero incidents, whilst at the same time encouraging a culture of open and honest health and safety reporting.

HEALTH AND SAFETY INCIDENTS

TEAM WELLBEING

"Our team of 12 is relatively small in relation to the scale of the business, which reflects the lean, open, and agile way PFI operates," says Craig Peirce. "To be effective at scale we've focused on creating an open and inclusive culture that promotes feedback and enhances productivity."

As part of PFI's commitment to health and wellbeing, staff are entitled to regular health checks, health insurance and a healthy workstation assessment.

As part of the office refurbishment in 2019, we actively involved the staff in the design of an inclusive, healthy, and productive workplace. PFI staff can take advantage of flexible working arrangements and all staff completed an on-site first aid training course in 2019.

OUR TEAM

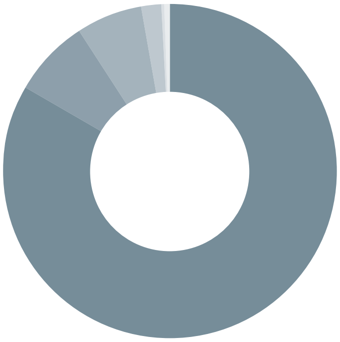
OUR WELLBEING INITIATIVES

OUR ENVIRONMENT

PFI owns 94 existing industrial properties throughout New Zealand. In 2019, PFI invested approximately $14 million to develop new properties — about 1% of the total value of PFI's portfolio.

The environmental impacts of PFI's management and maintenance of its property portfolio derive from management office activities, the types of materials used in maintenance, and the refrigerants used in cooling systems owned and operated by PFI.

"We take a long-term view of our property assets to ensure they are safe and fit for purpose for our tenants. Using resources efficiently and eliminating waste is key to maintaining the status and value-creating potential of those assets," says Luke Glen.



Refrigerants	84%
Electricity	7%
Air Travel	6%
Car Travel	2%
Accommodation	<1%
Waste	<1%

OUR GREENHOUSE GAS (GHG) EMISSIONS

PFI's energy consumption and GHG emissions figures exclude consumption and emissions generated by tenants' activities. In 2019, PFI engaged an independent consultant to establish a GHG emissions inventory baseline using the internationally-recognised GHG Corporate Protocal. The total measured emissions were 219 tonnes of carbon dioxide equivalents (CO_2e) emitted as a result of operational activities over the year. Refrigerants used in cooling systems at PFI properties account for 84% of operational GHG emissions. Electricity use and waste from PFI's offices account for 7% of emissions and the remaining 9% are associated with air and vehicle travel. Emission sources and quantities are presented on this page, following GHG reporting conventions for scopes 1, 2 and 3[1].

PFI GHG EMISSIONS 2019

GHG EMISSION SOURCE	TONNES CO_2e
SCOPE 1 EMISSIONS	
Refrigerants	183.2
SCOPE 2 EMISSIONS	
Electricity	15.5
SCOPE 3 EMISSIONS	
Air travel	14.5
Car travel	4.5
Accommodation	0.8
Waste	0.7
TOTAL	**219.2**

THINKING LONG-TERM

PFI adopted a formal ESG Framework and Strategy in 2019. The framework sets out how ESG issues are linked to PFI's purpose, and the strategy specifies PFI's ESG aspirations and how we will achieve them (see page 21).

"As part of our vision to be one of New Zealand's foremost listed property vehicles, we have established a robust ESG framework and strategy," says Simon Woodhams.

"This is our first report on our ESG performance against that strategy. We will continue to focus on being responsive and transparent, while addressing our material ESG issues, which will maintain our ability to create value over the short, medium, and long term."

1 GHG Protocol Corporate Accounting and Reporting

"When developing 212 Cavendish Drive we incorporated sustainable design features to future-proof the property so it was safe, fit for purpose, and could create value over the long-term"

EWAN CAMERON,
Portfolio Manager

Safety and sustainability were key to PFI's design for developing a new facility at 212 Cavendish Drive. With this in mind, a number of specific focus areas were incorporated in the design.

A healthy and safe place for people:

- Separating vehicles and people through safety zone design
- Constructing fencing and exclusion barriers for potentially dangerous areas
- Designing safe lighting levels in all areas
- Creating safe maintenance and construction buffers around the building
- 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 for public, pedestrians, and cyclists to the facility reception

A green building with optimal resource use:

- Creating a healthy work environment through natural light and natural ventilation, minimising artificial lighting and ventilation
- Including outdoor breakout areas and visually appealing planted landscaping buffers
- Using durable construction materials and coatings, 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
- Installing advanced storm water filtration before discharge to network
- Incorporating a flexible, adaptable, open-plan-base build warehouse and office, to readily accommodate re-purposing and use by future tenants.

FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

ALL VALUES IN $000S	NOTE	2019	2018
INCOME			
Rental and management fee income	2.3	96,051	89,710
Licence income	5.8	50	100
Interest income		8	6
Fair value gain on investment properties	2.1	125,193	66,370
Gain on disposal of investment properties		4,126	53
Fair value gain on derivative financial instruments		2,577	2,009
Business interruption insurance income	2.6	177	–
Material damage insurance income	2.6	1,125	–
Total income		229,307	158,248
EXPENSES			
Property costs	2.4	(14,850)	(12,507)
Interest expense and bank fees		(19,008)	(18,766)
Administrative expenses	5.1	(5,072)	(4,679)
Total expenses		(38,930)	(35,952)
Profit before taxation		190,377	122,296
Income tax (expense) / benefit	5.2	(14,091)	(12,202)
Profit and total comprehensive income after income tax attributable to the shareholders of the Company	4.1	176,286	110,094
Basic earnings per share (cents)	4.1	35.35	22.08
Diluted earnings per share (cents)	4.1	35.35	22.08

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	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 2018		–	498,723,330	562,429	–	280,514	842,943
Total comprehensive income		–	–	–	–	110,094	110,094
Dividends							
Q4 2017 final dividend - 7/3/2018		2.15	–	–	–	(10,723)	(10,723)
Q1 2018 interim dividend - 31/5/2018		1.80	–	–	–	(8,977)	(8,977)
Q2 2018 interim dividend - 31/8/2018		1.80	–	–	–	(8,977)	(8,977)
Q3 2018 interim dividend - 28/11/2018		1.85	–	–	–	(9,225)	(9,225)
Long-term incentive plan	5.9		–	–	–	–	–
Balance as at 31 December 2018		–	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

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

ALL VALUES IN $000S	NOTE	2019	2018
CURRENT ASSETS			
Cash at bank		1,185	1,652
Accounts receivable, prepayments and other assets	5.3	2,419	1,239
Total current assets		3,604	2,891
NON-CURRENT ASSETS			
Investment properties	2.1	1,469,285	1,318,655
Property, plant and equipment	5.10	616	62
Derivative financial instruments	3.2	13,212	4,891
Goodwill	5.5	29,086	29,086
Total non-current assets		1,512,199	1,352,694
Non-current assets classified as held for sale	2.2	6,893	3,313
Total assets		1,522,696	1,358,898
CURRENT LIABILITIES			
Derivative financial instruments	3.2	840	94
Accounts payable, accruals and other liabilities	5.4	9,597	10,460
Taxation payable		12,867	8,805
Total current liabilities		23,304	19,359
NON-CURRENT LIABILITIES			
Borrowings	3.1	412,948	398,222
Derivative financial instruments	3.2	18,982	13,982
Deferred tax liabilities	5.2	13,185	12,200
Lease liabilities	5.10	240	–
Total non-current liabilities		445,355	424,404
Total liabilities		468,659	443,763
Net assets	4.2	1,054,037	915,135
EQUITY			
Share capital		562,429	562,429
Share-based payments reserve	5.9	270	–
Retained earnings		491,338	352,706
Total equity		1,054,037	915,135

These Group financial statements are signed on behalf of Property for Industry Limited and were authorised for issue on 17 February 2020.

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 2019

ALL VALUES IN $000S	NOTE	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Property and management fee income received		96,287	90,610
Business interruption insurance income	2.6	177	–
Licence income	5.8	50	100
Net GST received		156	55
Interest received		8	6
Interest and other finance costs paid		(19,007)	(19,170)
Payments to suppliers and employees		(20,256)	(17,806)
Income tax paid		(9,044)	(49)
Net cash flows from operating activities		48,371	53,746
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment properties		35,458	85
Acquisition of investment properties	2.1	(45,734)	(28,369)
Acquisition of property, plant and equipment		(241)	(22)
Expenditure on investment properties		(16,073)	(14,800)
Capitalisation of interest on development properties	2.1	(135)	(41)
Material damage insurance income	2.6	1,125	–
Net cash flows from investing activities		(25,600)	(43,147)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from / (repayment of) from syndicated bank facility		14,526	(71,650)
Proceeds from the issue of fixed rate bonds		–	100,000
Principal elements of finance lease payments		(110)	–
Dividends paid to shareholders		(37,654)	(37,902)
Net cash flows from financing activities		(23,238)	(9,552)
Net (decrease) / increasein cash and cash equivalents		(467)	1,047
Cash and cash equivalents at beginning of year		1,652	605
Cash and cash equivalents at end of year		1,185	1,652

Cash and cash equivalents at end of year comprises:

ALL VALUES IN $000S	2019	2018
Cash at bank	1,185	1,652
Cash and cash equivalents at end of year	1,185	1,652

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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

ALL VALUES IN $000S	NOTE	**2019**	2018
Profit for the year after income tax		176,286	110,094
Non-cash items:			
Fair value gain on investment properties	2.1	(125,193)	(66,370)
Gain on disposal of investment properties		(4,126)	(53)
Fair value gain on derivative financial instruments		(2,577)	(2,009)
Movement in deferred taxation	5.2	985	3,316
Depreciation	5.1	124	55
Provision for doubtful debts		23	(18)
Lease Liability interest expense	5.10	32	–
Employee benefits expense – share-based payments	5.09	270	–
Movements in working capital items:			
Accounts receivable, prepayments and other assets		(977)	(689)
Accounts payable, accruals and other liabilities		587	583
Taxation payable		4,062	8,837
Other: material damage insurance income (classified as cash flows from financing activities)	2.6	(1,125)	–
Net cash flows from operating activities		48,371	53,746

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL INFORMATION

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

1.1. Reporting entity

These financial statements are for Property for Industry Limited (the Company) and its subsidiary P.F.I. Property No. 1 Limited (PFI No. 1) (together, the Group). The Company is a limited liability company incorporated in New Zealand and is registered under the New Zealand Companies Act 1993. The Company is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013 and these audited consolidated financial statements have been prepared in accordance with the requirements of the NZX Listing Rules and the Financial Markets Conduct Act 2013. 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) and the Financial Reporting Act 2013. 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 2019 and 31 December 2018, 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 35
3.2. Derivative financial instruments	Page 48
5.2. Taxation	Page 51
5.5. Goodwill	Page 54
5.9. Share-based payments	Page 59

1.6. Accounting policies

No changes to accounting policies have been made during the year, other than following the adoption of new standards outlined in section 1.7, which follows below.

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.

1. GENERAL INFORMATION (continued)

1.6. Accounting policies (continued)

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. Adoption of new standards

The Group has adopted NZ IFRS 16 'Leases' on its effective date of 1 January 2019, as required, which has replaced the previous guidance in NZ IAS 17. NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

The Group has identified the lease of its head office as the only right-of-use asset and lease liability recognised due to NZ IFRS 16, and the impact of adopting the standard is not material to the Group. The simplified retrospective transition method allows the Group to calculate the lease liability and the right-of-use asset based on the remaining cash flows discounted at transition date "incremental borrowing rate", being the property yield for the office lease of 7.86%. It does not require a restatement of prior period presented and there is no impact requiring an adjustment to equity. Additionally, included in the 2019 investment property balance is a right-of-use asset of $3.75 million primarily in relation to a ground lease, representing the value of the land, with an associated immaterial lease liability.

1.8. Significant events and transactions

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

Investment property acquisitions and disposals
On 23 January 2019, the Group settled the disposal of a non-current asset classified as held for sale located at 50 Parkside Road, Wellington, for a net sales price of $3.4 million.

On 29 March 2019, the Group purchased an investment property located at 51-61 Spartan Road, Takanini, for a net purchase price of $17.2 million.

On 6 December 2019, the Group disposed of an investment property located at 229 Dairy Flat Highway, Albany, for a net sales price of $33 million.

On 17 December 2019 the Group announced the divestment of 2 Pacific Rise, Mount Wellington for a gross sales price of $7 million. Settlement is expected to take place in March 2020, and this property has been classified as a non-current asset classified as held for sale in these financial statements.

On 19 December 2019 the Group made an initial payment of $28.5 million towards the purchase of an investment property located at 25 Langley Road, Wiri. A final payment of $7.5 million towards the property will be made in Q2, 2020 – see note 5.12 "Capital Commitments".

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	**2019**	2018
Opening balance	1,318,655	1,210,805
Capital movements:		
Additions	45,734	28,369
Disposals	(28,020)	(32)
Transfer to non-current assets classified as held for sale	(6,893)	(3,313)
Capital expenditure	14,074	13,629
Capitalised interest[a]	135	41
Movement in lease incentives, fees and fixed rental income	407	2,786
	25,437	41,480
Unrealised fair value gain	125,193	66,370
As at 31 December	1,469,285	1,318,655

a The effective interest rate applied to capitalised interest was 4.71% (2018: 4.81%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. PROPERTY (continued)

2.1. Investment properties (continued)

ALL VALUES IN $000S UNLESS NOTED	Key tenant	Occupancy (%)	
	2019	**2019**	2018
Avondale:			
15 Copsey Place	Canterbury	100%	100%
15 Jomac Place	Southern Spars	100%	100%
61-69 Patiki Road	Bidvest	100%	98%
320 Rosebank Road	Doyle Sails	100%	100%
686 Rosebank Road	New Zealand Comfort	100%	100%
		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	Stewart Scott Cabinetry	100%	100%
78 Springs Road	Fisher & Paykel Appliances	100%	100%
10c Stonedon Drive	Chemical Freight Services	100%	100%
11 Turin Place	Thermakraft Industries	100%	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[a]	Peter Hay Kitchens	100%	100%
59 Dalgety Drive	Goodman Fielder	100%	100%
1 Mayo Road	Transdiesel	100%	100%
61 McLaughlins Road	TIL Logistics	100%	100%
9 Nesdale Avenue	Iron Mountain	100%	100%
12 Hautu Drive	Kiwi Steel	100%	100%
9 Narek Place	Z Energy	100%	100%
25 Langley Road	Grayson Engineering	100%	n/a
		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
2019	2018	**2019**	2018	**2019**	**2019**	2018	**2019**	**2019**	**2019**
5.9%	5.6%	944	767	7,907	JLL	13,780	(44)	2,164	15,900
6.6%	6.6%	1,661	1,614	9,378	JLL	24,500	77	523	25,100
5.8%	6.2%	1,205	1,127	9,767	CBRE	18,250	158	2,292	20,700
5.1%	5.7%	756	679	7,198	CBRE	11,900	232	2,768	14,900
5.8%	6.2%	2,583	2,489	21,565	CBRE	40,000	505	3,945	44,450
5.9%	6.2%	7,149	6,676	55,815		108,430	928	11,692	121,050
5.9%	6.1%	1,105	1,050	9,926	CBRE	17,300	15	1,285	18,600
5.1%	5.8%	721	721	6,068	CBRE	12,500	(19)	1,619	14,100
5.6%	6.4%	686	644	6,590	JLL	10,000	46	2,104	12,150
8.5%	8.9%	1,401	1,354	10,687	Savills	15,250	(150)	1,400	16,500
5.1%	5.3%	1,470	1,147	12,563	Colliers	21,700	89	6,911	28,700
5.6%	5.2%	473	403	4,032	JLL	7,800	(27)	727	8,500
6.4%	7.1%	6,106	5,920	41,536	Colliers	83,000	315	11,685	95,000
6.0%	6.3%	857	857	8,711	JLL	13,600	22	678	14,300
5.4%	5.8%	978	925	9,981	Savills	16,000	126	1,874	18,000
4.9%	5.2%	582	582	6,098	JLL	11,140	10	800	11,950
5.2%	6.0%	438	426	3,811	CBRE	7,100	1	1,249	8,350
6.0%	6.5%	14,817	14,029	120,003		215,390	428	30,332	246,150
5.4%	6.5%	1,941	1,929	26,067	JLL	29,650	2,653	3,597	35,900
4.5%	5.1%	1,100	1,100	16,832	Colliers	21,750	1,071	1,579	24,400
5.5%	5.8%	885	885	8,860	Colliers	15,240	522	238	16,000
9.5%	8.3%	1,441	1,392	8,649	Colliers	16,700	(128)	(1,372)	15,200
5.7%	6.1%	559	552	6,361	CBRE	9,100	(36)	761	9,825
5.1%	5.0%	1,202	1,150	13,347	Savills	22,800	187	763	23,750
5.0%	5.9%	790	633	14,163	Colliers	10,800	16	4,884	15,700
5.0%	5.1%	665	646	6,492	JLL	12,700	215	335	13,250
4.8%	5.2%	547	538	5,663	CBRE	10,250	(10)	1,160	11,400
5.2%	0.0%	1,608	–	21,248	CBRE	–	28,503	2,447	30,950
5.5%	5.9%	10,738	8,825	127,682		148,990	32,993	14,392	196,375

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. PROPERTY (continued)

2.1. Investment properties (continued)

ALL VALUES IN $000S UNLESS NOTED	Key tenant	Occupancy (%)	
	2019	**2019**	2018
Mt Wellington:			
30-32 Bowden Road	Fletcher Building Products	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	Brambles	100%	100%
509 Mt Wellington Highway	Fletcher Building Products	100%	100%
511 Mt Wellington Highway	Bremca Industries	100%	100%
515 Mt Wellington Highway	Stryker	100%	100%
523 Mt Wellington Highway	BGH Group	100%	100%
1 Niall Burgess Road	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%
2 Pacific Rise	Hewlett-Packard	100%	100%
5 Vestey Drive	PPG Industries	100%	100%
7 Vestey Drive	True North	100%	100%
9 Vestey Drive	Multispares	100%	100%
11 Vestey Drive	N & Z	100%	100%
15a Vestey Drive	Hills	100%	100%
36 Vestey Drive	Hose Supplies	100%	100%
		100%	100%
North Shore:			
2-4 Argus Place	Pharmapac	100%	100%
47 Arrenway Drive	Device Technologies	100%	100%
51 Arrenway Drive	Pacific Hygiene	100%	100%
229 Dairy Flat Highway	Massey University	100%	100%
15 Omega Street	Wesfarmers	100%	100%
322 Rosedale Road	BSGi NZ Limited	100%	100%
41 William Pickering Drive	Innopak Global	100%	100%
		100%	100%

Yield on valuation (%)		Contract rent		Lettable area (sqm)	Valuer	Carrying value	Capital movements	Fair value adjustment	Carrying value
2019	2018	**2019**	2018	**2019**	**2019**	2018	**2019**	**2019**	**2019**
6.3%	6.2%	1,761	1,685	17,047	JLL	27,000	(47)	797	27,750
4.5%	4.8%	190	190	2,592	CBRE	4,000	(10)	235	4,225
6.1%	6.1%	2,008	1,749	17,015	Savills	28,600	(43)	4,443	33,000
5.1%	5.2%	461	433	5,080	JLL	8,400	12	588	9,000
4.8%	5.0%	625	621	5,336	JLL	12,400	16	584	13,000
5.8%	6.0%	1,446	900	15,534	CBRE	15,100	4,882	4,818	24,800
4.5%	5.5%	835	835	7,946	Colliers	15,200	17	3,383	18,600
5.5%	5.8%	1,036	1,023	8,744	Colliers	17,500	(7)	1,207	18,700
5.2%	5.9%	461	461	3,247	Savills	7,750	101	949	8,800
4.8%	5.1%	266	266	1,708	Savills	5,225	88	287	5,600
5.0%	5.2%	228	228	1,677	Colliers	4,400	8	192	4,600
5.1%	5.4%	253	230	1,742	JLL	4,275	150	575	5,000
5.9%	6.2%	928	920	6,874	JLL	14,800	(36)	936	15,700
5.1%	5.4%	1,072	1,072	9,373	JLL	20,000	(12)	1,012	21,000
5.0%	6.7%	2,180	2,148	23,565	Savills	32,000	(176)	11,676	43,500
4.9%	5.2%	257	250	1,725	Savills	4,800	42	358	5,200
n/a	11.0%	972	972	2,757	JLL	8,850	(6,895)	(1,955)	–
5.5%	5.5%	236	223	1,269	Colliers	4,050	(2)	252	4,300
4.1%	4.8%	516	516	4,598	CBRE	10,800	5	1,845	12,650
4.9%	5.0%	220	212	1,600	Colliers	4,200	(5)	305	4,500
4.8%	5.5%	452	441	3,470	Colliers	8,000	12	1,388	9,400
5.7%	5.9%	581	562	3,261	Savills	9,450	(32)	832	10,250
4.8%	5.1%	168	163	1,120	JLL	3,200	7	293	3,500
5.7%	6.0%	17,152	16,100	147,280		270,000	(1,925)	35,000	303,075
4.9%	5.0%	440	430	3,560	JLL	8,675	29	296	9,000
5.3%	5.3%	245	231	1,245	JLL	4,370	7	223	4,600
5.1%	5.0%	391	384	2,680	JLL	7,645	(11)	16	7,650
n/a	6.7%	–	1,874	6,719	–	28,000	(28,000)	–	–
5.0%	5.1%	498	498	3,498	JLL	9,700	4	296	10,000
5.6%	5.8%	1,122	1,095	7,936	Colliers	19,000	56	1,044	20,100
4.9%	5.3%	450	437	3,027	CBRE	8,200	(6)	1,056	9,250
5.2%	5.8%	3,146	4,949	28,665		85,590	(27,921)	2,931	60,600

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. PROPERTY (continued)

2.1. Investment properties (continued)

ALL VALUES IN $000S UNLESS NOTED	Key tenant	Occupancy (%)	
	2019	**2019**	2018
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[a]	Wakefield Metals	100%	100%
12 Southpark Place	Storepro Solutions	100%	100%
		100%	100%
Other Auckland:			
58 Richard Pearse Drive, Mangere	EBOS	100%	100%
Carlaw Park Gateway Building, Parnell	Quest	85%	100%
Carlaw Park Office Complex, Parnell	Jacobs	95%	95%
170 Swanson Road, Swanson	Transportation Auckland	100%	100%
51-61 Spartan Road, Takanini	MaxiTRANS	100%	n/a
		94%	97%

[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
2019	2018	**2019**	2018	**2019**	**2019**	2018	**2019**	**2019**	**2019**
4.7%	4.8%	157	152	1,210	CBRE	3,175	(5)	155	3,325
4.6%	4.9%	174	174	1,718	CBRE	3,525	8	267	3,800
5.0%	5.2%	679	666	7,646	CBRE	12,700	72	878	13,650
5.1%	5.7%	521	521	7,431	CBRE	9,200	(14)	1,014	10,200
6.0%	6.2%	733	683	4,359	Colliers	11,100	4	1,196	12,300
5.6%	5.8%	372	337	2,639	Colliers	5,800	(22)	922	6,700
5.1%	5.3%	385	379	2,619	JLL	7,150	3	347	7,500
5.1%	5.5%	481	469	3,872	CBRE	8,550	(3)	903	9,450
5.5%	5.9%	538	525	7,588	CBRE	8,950	(63)	888	9,775
5.7%	5.9%	738	737	13,438	Savills	12,400	(5)	605	13,000
5.5%	5.5%	900	883	6,301	Savills	16,200	67	(17)	16,250
5.1%	5.2%	362	346	3,862	JLL	6,600	1	449	7,050
5.5%	5.3%	383	562	3,438	Savills	10,600	(1,857)	(1,748)	6,995
4.8%	5.0%	510	500	5,477	JLL	9,945	(29)	684	10,600
5.3%	5.5%	6,933	6,934	71,598		125,895	(1,843)	6,543	130,595
4.7%	5.2%	1,215	1,174	12,708	Colliers	22,700	(90)	3,090	25,700
6.9%	7.0%	2,425	2,481	2,369	CBRE	35,500	88	(188)	35,400
6.4%	7.0%	4,586	4,462	11,149	CBRE	63,800	224	7,976	72,000
5.1%	5.4%	1,068	1,068	37,601	JLL	19,800	(13)	963	20,750
5.0%	n/a	920	n/a	13,423	JLL	–	17,383	967	18,350
5.9%	6.5%	10,214	9,185	77,250		141,800	17,592	12,808	172,200

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. PROPERTY (continued)

2.1. Investment properties (continued)

ALL VALUES IN $000S UNLESS NOTED	Key tenant	Occupancy (%)	
	2019	**2019**	2018
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	Drymix	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%	59%
48 Seaview Road, Wellington[a]	Goughs Gough & Hamer	100%	100%
		100%	97%
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	83%	100%
127 Waterloo Road, Christchurch	DHL Supply Chain	100%	100%
		95%	100%
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			

[a] Excludes development land shown separately.

[b] Included in the 2019 balance is a right-of-use asset of $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
2019	2018	**2019**	2018	**2019**	**2019**	2018	**2019**	**2019**	**2019**
5.8%	6.0%	2,926	2,853	29,169	Colliers	47,200	(156)	3,456	50,500
5.4%	5.8%	1,059	1,013	10,497	Colliers	17,400	331	1,969	19,700
5.4%	6.0%	898	885	8,867	Colliers	14,800	169	1,731	16,700
5.6%	6.4%	162	159	1,211	Colliers	2,500	(81)	481	2,900
6.8%	6.8%	461	461	4,606	Savills	6,750	1	49	6,800
6.6%	7.6%	230	220	8,540	Savills	2,900	47	553	3,500
12.2%	11.9%	401	394	1,366	Savills	3,300	3	(3)	3,300
7.0%	7.0%	117	112	482	Savills	1,600	17	58	1,675
7.6%	7.6%	1,249	1,195	15,636	Savills	15,800	207	493	16,500
7.1%	7.3%	320	320	2,359	Savills	4,400	22	78	4,500
7.3%	6.3%	873	851	2,809	CBRE	13,450	76	(1,576)	11,950
6.7%	7.1%	1,200	1,200	11,372	Colliers	17,000	6	994	18,000
6.2%	4.8%	725	435	6,686	CBRE	9,000	169	2,581	11,750
11.5%	9.2%	587	583	8,996	Colliers	6,310	10	(1,220)	5,100
6.5%	6.8%	11,208	10,681	112,596		162,410	821	9,644	172,875
7.6%	7.5%	512	490	10,823	Savills	6,500	84	116	6,700
6.8%	7.0%	565	540	18,052	Savills	7,700	93	507	8,300
7.2%	7.4%	1,172	1,172	9,500	Savills	15,750	–	500	16,250
6.8%	6.5%	767	670	14,710	Savills	10,250	1,025	(25)	11,250
8.7%	8.5%	1,086	1,124	11,154	CBRE	13,250	113	(813)	12,550
7.5%	7.3%	328	321	4,055	CBRE	4,400	54	(104)	4,350
7.5%	7.5%	4,430	4,317	68,294		57,850	1,369	181	59,400
5.9%	6.2%	85,787	81,696	809,183		1,316,355	22,442	123,523	1,462,320
					Colliers	750	(750)	–	–
					Colliers	1,260	140	–	1,400
					Colliers	290	–	1,670	1,960
					Savills	–	3,605	–	3,605
						2,300	2,995	1,670	6,965
						1,318,655	25,437	125,193	1,469,285

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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 values of investment properties are included in the Consolidated Statement of Comprehensive Income in the year in which they arise.

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

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

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

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

Gains or losses on the disposal of investment properties are recognised in the Consolidated Statement of Comprehensive Income in the period in which the investment properties are derecognised when they have been disposed.

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

Key estimates and assumptions: Investment properties

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

All investment properties were valued as at 31 December 2019 and 2018 by CB Richard Ellis (CBRE), Colliers International (Colliers), Jones Lang LaSalle (JLL) or Savills. CBRE, Colliers, JLL and Savills are independent valuers and members of the New Zealand Institute of Valuers.

As part of the valuation process, the Group's management verifies all major inputs to the independent valuation reports, assesses movements in individual property values and holds discussions with the independent valuer.

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

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

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

	RANGE OF SIGNIFICANT UNOBSERVABLE INPUTS		MEASUREMENT SENSITIVITY	
	2019	2018	Increase in input	Decrease in input
Market capitalisation rate (%)[1]	4.75 – 7.75	4.75 – 10.50	Decrease	Increase
Market rental ($ per sqm)[2]	28 – 408	28 – 370	Increase	Decrease
Discount rate (%)[3]	6.50 – 9.50	6.50 – 12.00	Decrease	Increase
Rental growth rate (%)[4]	1.78 – 3.13	1.71 – 2.94	Increase	Decrease
Terminal capitalisation rate (%)[5]	5.00 – 8.25	5.00 – 12.00	Decrease	Increase

1 The capitalisation rate applied to the market rental to assess a property's value, determined through analysis of similar transactions taking into account location, weighted average lease term, tenant covenant, size and quality of the property.

2 The valuers assessment of the net market income which a property is expected to achieve under a new arm's length leasing transaction. Includes both leased and vacant areas.

3 The rate applied to future cash flows reflecting transactional evidence from similar properties.

4 The rate applied to the market rental over the future cash flow projection.

5 The rate used to assess the terminal value of the property.

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	**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%

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

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

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

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

2.2. Non-current assets classified as held for sale

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

ALL VALUES IN $000S	**2019**	2018
50 Parkside Road, Wellington	–	3,313
2 Pacific Rise, Mt Wellington	6,893	–
Total non-current assets classified as held for sale	6,893	3,313

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 2019, however, the non-industrial properties within the portfolio – Carlaw Park Gateway Building, Carlaw Park Office Complex and Shed 22, 23 Cable Street - cannot be classified as non-current assets classified as held for sale as they do not meet the definition under IFRS.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. PROPERTY (continued)

2.3. Rental and management fee income

ALL VALUES IN $000S	2019	2018
Gross rental receipts and service charge income recovered from tenants	93,338	87,717
Fixed rental income adjustments	1,701	1,257
Capitalised lease incentive adjustments	350	88
Management fee income	662	648
Total rental and management fee income	96,051	89,710

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.

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 is 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.

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

ALL VALUES IN $000S	2019	2018
Within one year	78,309	78,477
After one year but not more than five years	242,781	231,606
More than five years	127,114	130,738
Total	448,204	440,821

2.4. Property costs

ALL VALUES IN $000S	2019	2018
Service charge expenses	(12,050)	(9,961)
Bad and doubtful debts recovery	(14)	63
Other non-recoverable property costs	(2,786)	(2,609)
Total property costs	(14,850)	(12,507)

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	2019	2018
Gross rental receipts and service charge income recovered from tenants	93,338	87,717
Fixed rental income adjustments	1,701	1,257
Capitalised lease incentive adjustments	350	88
less: Service charge expenses	(12,050)	(9,961)
Net rental income	83,339	79,101

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.

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	2019	2018
Syndicated bank facility drawn down - non-current	215,576	201,050
Fixed rate bonds - non-current	200,000	200,000
Unamortised borrowings establishment costs	(2,628)	(2,828)
Net borrowings	412,948	398,222
Weighted average interest rate for drawn debt (inclusive of current interest rate swaps, margins and line fees)	4.63%	4.86%
Weighted average term to maturity (years)	4.14	4.00

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 **As at 31 December 2019**	Issue Date	Maturity Date	Interest Rate	Facility drawn / amount	Undrawn facility	Fair Value
Bank Facility A	–	4–Nov–22	Floating	150,000	–	150,000
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

ALL VALUES IN $000S As at 31 December 2018	Issue Date	Maturity Date	Interest Rate	Facility drawn / amount	Undrawn facility	Fair Value
Bank Facility A	–	4–May–20	Floating	50,000	–	50,000
Bank Facility B	–	4–May–21	Floating	151,050	36,450	151,050
Bank Facility C	–	4–May–22	Floating	–	37,500	–
PFI010	28–Nov–17	28–Nov–24	4.59%	100,000	–	103,127
PFI020	1–Oct–18	1–Oct–25	4.25%	100,000	–	101,377
Total borrowings				401,050	73,950	405,554

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. 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 (2018: 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.

(iii) Security
The syndicated bank facility and fixed rate bonds are secured by way of a security trust deed and registered mortgage security which is required to be provided over Group properties with current valuations of at least $1,000,000,000 (31 December 2018: $950,000,000). In addition to this, the syndicated bank facility agreement and the fixed rate bond terms also contain a negative pledge. The Company and PFI No. 1 are guarantors to the facility and fixed rate bonds. As at 31 December 2019, investment properties totalling $1,463,178,000 (31 December 2018: $1,309,968,000) were mortgaged as security for the Group's borrowings.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FUNDING (continued)

3.2. Derivative financial instruments

(i) Fair values

ALL VALUES IN $000S	2019	2018
Non-current assets	13,212	4,891
Current liabilities	(840)	(94)
Non-current liabilities	(18,982)	(13,982)
Total	(6,610)	(9,185)

(ii) Notional values, maturities and interest rates

	2019	2018
Notional value of interest rate swaps - fixed rate payer - start dates commenced ($000S)	245,000	220,000
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)	190,000	210,000
Total ($000S)	635,000	630,000
Percentage of borrowings fixed (%)	59%	55%
Fixed rate payer swaps:		
Average period to expiry - start dates commenced (years)	2.40	2.10
Average period to expiry - forward starting (years from commencement)	3.48	3.53
Average (years)	2.87	2.80
Fixed rate payer swaps:		
Average interest rate[2] - start dates commenced (%)	3.75%	4.16%
Average interest rate[2] - forward starting (% during effective period)	3.32%	3.43%
Average (%)	3.55%	3.80%

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.

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 (2018: 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 2019 of between 1.29% for the 90 day BKBM (31 December 2018: 1.97%) and 1.79% for the 10 year swap rate (31 December 2018: 2.65%). 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

	2019	2018
Total comprehensive income for the year attributable to the shareholders of the Company ($000)	176,286	110,094
Weighted average number of ordinary shares (shares)	498,723,330	498,723,330
Basic earnings per share (cents)	35.35	22.08

(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 651 (2018: nil) rights issued under the Group's LTI Plan as at 31 December 2019. This adjustment has been calculated using the treasury share method. Refer to note 5.9 "Share-based payments" for further details.

	2019	2018
Total comprehensive income for the year attributable to the shareholders of the Company ($000)	176,286	110,094
Weighted average number of shares for purpose of diluted earnings per share (shares)	498,723,981	498,723,330
DIluted earnings per share (cents)	35.35	22.08

4.2. Net tangible assets per share

	2019	2018
Net assets ($000)	1,054,037	915,135
Less: Goodwill ($000) (note 5.5)	(29,086)	(29,086)
Net tangible assets ($000)	1,024,951	886,049
Closing shares on issue (shares)	498,723,330	498,723,330
Net tangible assets per share (cents)	206	178

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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	**2019**	2018
Auditors remuneration:			
Audit and review of financial statements		(145)	(155)
Voting procedures over the annual shareholders' meeting		(3)	(3)
Benchmarking of executive remuneration		(2)	(7)
Employee and independent contractor benefits expense		(3,032)	(2,626)
Directors' fees	5.8	(337)	(597)
Office expenses		(523)	(411)
Rent[1]		–	(110)
Depreciation		(124)	(55)
Other expenses		(906)	(715)
Total administrative expenses		(5,072)	(4,679)

1 Following the adoption of NZ IFRS 16 on 1 January 2019, rent expense has been replaced by depreciation expense on the right-of-use asset and interest expense on the lease liability.

5. OTHER (continued)

5.2. Taxation

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

ALL VALUES IN $000S	2019	2018
Profit before income tax	190,377	122,296
Prima facie income tax calculated at 28%	(53,306)	(34,243)
Adjusted for:		
Non-tax deductible revenue and expenses	(30)	(39)
Fair value gain on investment properties	35,054	18,584
Gain on disposal of investment properties	1,155	15
Depreciation	2,598	2,620
Disposal of depreciable assets	(729)	–
Deductible capital expenditure	991	1,325
Lease incentives, fees and fixed rental income	547	491
Derivative financial instruments	721	570
Impairment allowance	4	18
Current tax prior period adjustment	(57)	(222)
Current year tax losses utilised	–	1,995
Other	(54)	–
Current taxation expense	(13,106)	(8,886)
Current year tax losses utilised	–	(1,995)
Depreciation	224	(242)
Lease incentives, fees and fixed rental income	(547)	(491)
Derivative financial instruments	(721)	(570)
Impairment allowance	(4)	(18)
Other	63	–
Deferred taxation expense	(985)	(3,316)
Total taxation reported in Consolidated Statement of Comprehensive Income	(14,091)	(12,202)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

5. OTHER (continued)

5.2. Taxation (continued)

(ii) Deferred tax

ALL VALUES IN $000S	2017 As at	2018 Recognised in profit	2018 As at	**2019** Recognised in profit	**2019** As at
Deferred tax assets					
Losses carried forward	(1,995)	1,995	–	–	–
Derivative financial instruments	(3,142)	570	(2,572)	721	(1,851)
Impairment allowance	(42)	18	(24)	4	(20)
Other	–	–	–	(63)	(63)
Gross deferred tax assets	(5,179)	2,583	(2,596)	662	(1,934)
Deferred tax liabilities					
Investment properties	14,063	733	14,796	323	15,119
Gross deferred tax liabilities	14,063	733	14,796	323	15,119
Net deferred tax liability	8,884	3,316	12,200	985	13,185

(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	**2019**	2018
Opening balance	2,203	38
Taxation paid / payable	12,943	8,773
Imputation credits attached to dividends paid	(11,149)	(6,608)
Closing balance available to shareholders for use in subsequent periods	3,997	2,203

5. OTHER (continued)

5.2. Taxation (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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

5. OTHER (continued)

5.3. Accounts receivable, prepayments and other assets

ALL VALUES IN $000S	2019	2018
Accounts receivable	1,479	952
Provision for doubtful debts	(72)	(49)
Prepayments and other assets	1,012	336
Total accounts receivable, prepayments and other assets	2,419	1,239

Recognition and Measurement
Accounts receivable are recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. Receivables are assessed on an ongoing basis for impairment. The group applies the simplified approach to providing for expected credit losses prescribed by NZ IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables.

5.4. Accounts payable, accruals and other liabilities

ALL VALUES IN $000S	2019	2018
Accounts payable	1,708	1,615
Accrued interest expense and bank fees	2,358	2,589
Accruals and other liabilities in respect of investment properties	1,464	2,996
Accruals and other liabilities	4,067	3,260
Total accounts payable, accruals and other liabilities	9,597	10,460

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	2019	2018
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 (2018: Level 3). Fair value less costs of disposal is measured by calculating the fair value of the Property for Industry Limited CGU using a 1 day volume-weighted average share price at the reporting date, applying a control premium (14.3%, as determined by a third party, 2018: 14.3%) and deducting costs of disposal. As at 31 December 2019 the estimated fair value less costs of disposal of the Property for Industry Limited CGU exceeded the carrying value (2018: 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	2019	2018
Financial Assets		
Financial assets at amortised cost:		
Cash at bank	1,185	1,652
Accounts receivable and other assets	1,407	903
Total - Financial assets at amortised cost	2,592	2,555
Financial assets at fair value through profit or loss:		
Derivative financial instruments	13,212	4,891
Total - Financial assets at fair value through profit or loss	13,212	4,891
Total Financial Assets	15,804	7,446
Financial Liabilities		
Financial liabilities at amortised cost:		
Accounts payable, accruals and other liabilities	9,455	10,460
Lease liabilities	325	–
Borrowings	412,948	398,222
Total - Financial liabilities at amortised cost	422,728	408,682
Financial liabilities at fair value through profit or loss:		
Derivative financial instruments	19,822	14,076
Total - Financial liabilities at fair value through profit or loss	19,822	14,076
Total Financial Liabilities	442,550	422,758

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 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.

	2019		2018	
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	(158)	158	(1,171)	1,171
Impact on equity	(114)	114	(843)	843

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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 4.1 years (2018: 4.0 years), with all borrowings due later than one year (2018: 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 2019 and 31 December 2018.

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

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

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern whilst maximising the return to shareholders through maintaining an optimal balance of debt and equity 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.

5. OTHER (continued)

5.8. Related party transactions

(i) Key management personnel

ALL VALUES IN $000S	2019	2018
Directors' fees - annual fees	441	357
Directors' fees - retirement allowance paid	–	135
Directors' fees - retirement allowance (reversed) / accrued	(105)	105
Short-term independent contractors benefits	213	1,518
Leadership Team remuneration	1,365	–
Key management personnel	1,914	2,115

On 8 May 2018, Peter Masfen retired from the Board of Directors of the Company as Chairman and Independent Director. Mr Masfen was first elected as a Director of the Company on 17 May 2002, and had held office as a Director of the Company since that date. At the 23 May 2008 Annual Meeting, the Company confirmed that retirement payments (being the total remuneration of the retiring Director, in any three years chosen by the Company) to eligible Directors (which includes Mr Masfen) will be calculated in respect of that Director's remuneration prior to the increase approved at the 23 May 2008 meeting. As such, a retirement allowance of $135,000 was payable to Mr Masfen and was paid on his retirement.

At the 23 May 2008 annual meeting, it was also noted that no retirement remuneration will be paid to Directors who are appointed after 1 May 2004. It is noted that Humphry Rolleston is the only other current Director who was appointed prior to 1 May 2004, however Mr Rolleston has elected to waive this retirement allowance in the current year.

On 1 January 2019, Simon Woodhams and Craig Peirce ceased to be independent Contractors. On that date, they were appointed as Chief Executive Officer and Chief Finance and Operating Officer respectively, and they both became full-time employees of the Company. Accordingly their remuneration was disclosed as short-term independent contractors benefits in 2018 and as leadership team remuneration in 2019.

(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. 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, is also a Director of ASB Bank Limited (ASB), a 100% subsidiary of CBA; a lender to PFI.
The Board of Directors	Directors	The Board of Directors.

The following transactions with related parties took place:

ALL VALUES IN $000S	Related party	2019	2018
Licence income received	MRCO	50	100
Related party debts written off or forgiven	–	–	–
Interest expense and bank fees incurred	CBA	(2,173)	(3,135)
Interest income received	CBA	796	657

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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	**31 Dec 2019**	31 Dec 2018
Amounts owing	CBA	(246)	(246)
Amounts owed	CBA	79	45
Bank facility provided	CBA	75,000	66,825
Bank facility drawn	CBA	53,894	48,855
Notional value of interest rate swaps:			
Current fixed rate payer swaps	CBA	50,000	45,000
Forward starting fixed rate payer swaps	CBA	50,000	60,000
Current fixed rate receiver swaps	CBA	50,000	50,000
Shares held beneficially in the company (number)	Directors	191,371	1,041,371
Shares held non-beneficially in the company (number)	Directors	110,825	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. Under this plan, Performance Share Rights (PSRs) were issued to the senior executives which give them the right to receive ordinary shares in the Group after a 1-3 year period. These are at-risk payments designed to align the reward of certain senior executives with the enhancement of shareholder value over a multi-year period.

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 date of 1 January 2019. 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 equaling 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.

196,023 PSRs were granted in the current period out of which 65,341 have vested at 31 December 2019. 130,682 PSRs were outstanding as at 31 December 2019.

There were no LTI Plans in 2018. The PSRs outstanding at 31 December had a weighted - average contractual life of 1.5 years.

Introduction of the LTI Plan has resulted in the creation of a share-based payment reserve totalling $270,000 as at 31 December 2019 (2018: nil).

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 the 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	
	Part A	Part B
Weighted average fair value at grant date	$2.35	$2.04
Share price at grant date	$2.35	$2.35
Expected volatility (weighted-average)	10%	10%
Expected life (weighted-average)	13 months	13 months
Risk-free interest rate	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 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 2019

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	2019	2018
Right-of-use assets[1]		
Properties	314	–
Total right-of-use assets	314	–

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

The Property, plant and equipment balance of $616,000 includes $314,000 relating to the right-of-use asset.

ALL VALUES IN $000S	2019	2018
Lease liabilities		
Current[2]	85	–
Non-current[3]	240	–
Total lease liabilities	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.

Additions to the right-of-use assets during the 2019 financial year were $314,000, on adoption of NZ IFRS 16.

(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	2019	2018
Depreciation charge of right-of-use assets[4]		
Properties	(90)	–
Total depreciation charge of right-of-use assets	(90)	–

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

ALL VALUES IN $000S	2019	2018
Interest cost[5]	(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 2019 was $110,000.

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 2019, the Group had capital commitments totalling $81,490,000 (31 December 2018: $2,891,000) as follows:

ALL VALUES IN $000S		**2019**	2018
Address	**Project**		
314 Neilson Street	Design and build	4,677	–
47 Dalgety Drive	Design and build	8,123	–
59 Dalgety Drive	Refurbishment	6,592	–
25 Langley Road	Acquisition of warehouse on completion of construction	7,532	–
6 Donnor Place	Refurbishment	1,412	–
Lot 1, 88 Tidal Road	Acquisition	18,984	–
Lot 11, 88 Tidal Road	Acquisition	34,170	–
212 Cavendish Drive	Design and build	–	2,891
Total capital commitments		81,490	2,891

5.13. Subsequent events

On 17 February 2020, the Directors of the Company approved the payment of a net dividend of $10,723,000 (2.1500 cents per share) to be paid on 4 March 2020. The gross dividend (2.9515 cents per share) carries imputation credits of 0.8015 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 2019 in respect of this dividend.

Independent auditor's report

To the shareholders of Property for Industry Limited

We have audited the financial statements which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- 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.

Our opinion

In our opinion, the accompanying financial statements of Property for Industry Limited (the Company), including its subsidiary (together the Group), present fairly, in all material respects, the financial position of the Group as at 31 December 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

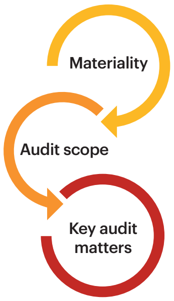
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Our firm carries out other services for the Group in the areas of procedures over the voting at the annual shareholders' meeting and benchmarking of executive remuneration. The provision of these other services has not impaired our independence as auditor of the Group.

Our audit approach

Overview



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

Overall Group materiality: $3,130,000, which represents 5% of profit before tax excluding valuation movements relating to investment properties and interest rate derivatives.

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

We have determined that there is one key audit matter:

- Valuations of investment properties.

Materiality

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

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the 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.

Audit scope

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties Refer to note 2.1 of the financial statements. At $1,469 million the Group's investment properties represent the majority of the assets held as at 31 December 2019. The valuation of the Group's property portfolio is inherently subjective due to, amongst other factors, the individual nature of each property, location and the expected future cash flows. This area is given specific audit focus and attention due to the existence of significant estimation uncertainty, and only a small percentage difference in individual property valuation assumptions, when aggregated, could result in material misstatement. The valuations were carried out by independent third party valuers. The valuers were engaged by the Group, and 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. In determining a property's valuation, the valuers take into account property specific information such as the current tenancy agreements and rental income earned by the asset. They apply assumptions in relation to capitalisation rates and current market rent and anticipated growth, based on available market data and transactions, to arrive at a range of valuation outcomes, from which they derive a point estimate. 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: **External valuations** 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. 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 2019. We assessed the valuers' qualifications, expertise and their objectivity and we found no evidence to suggest that the objectivity of any valuer in their performance of the valuations was compromised. We also considered whether or not there was bias in determining individual valuations and found no evidence of bias. We carried out procedures, on a sample basis, to test whether property-specific information supplied to the valuers by the Group reflected the underlying property records held by the Group. For the items tested, the information was consistent. **Assumptions** Our work over the assumptions focused on the largest properties in the portfolio and those properties where the assumptions used and/or year-on-year fair value movement suggested a possible outlier versus market data. We engaged our own in-house valuation specialist to assess the methodologies and critique and challenge the key assumptions used by the valuers to market evidence and current market conditions. We concluded that the assumptions used in the valuations were supportable in light of available and comparable market evidence. From the procedures performed, we have no matters to report.

INDEPENDENT AUDITOR'S REPORT (continued)

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the 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/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

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

The engagement partner on the audit resulting in this independent auditor's report is Indumin Senaratne (Indy Sena).

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
17 February 2020

Auckland

FIVE-YEAR PERFORMANCE SUMMARY

YEAR ENDED 31 DECEMBER	2019	2018	2017	2016	2015*
ALL VALUES IN $M UNLESS OTHERWISE NOTED					
FINANCIAL PERFORMANCE					
Income	229.3	158.3	128.1	167.8	121.3
Expenses	(38.9)	(36.0)	(78.5)	(35.7)	(41.7)
Profit before taxation	190.4	122.3	49.6	132.1	79.6
Total taxation benefit / (expense)	(14.1)	(12.2)	2.1	(8.7)	(6.8)
Total comprehensive income after tax	176.3	110.1	51.7	123.4	72.8
Weighted average number of ordinary shares ('000 shares)	498,723	498,723	459,600	450,079	422,275
IFRS earnings per share (cents per share)	35.35	22.08	11.25	27.42	17.25
DISTRIBUTIONS					
Total comprehensive income after tax	176.3	110.1	51.7	123.4	72.8
Distribution adjustments	(137.5)	(72.9)	(17.3)	(92.1)	(41.5)
Adjusted Funds From Operations (AFFO)	38.8	37.2	34.4	31.3	31.3
Weighted average number of ordinary shares ('000 shares)	498,723	498,723	459,600	450,079	422,275
AFFO per share (cents per share)	7.79	7.46	7.49	6.95	7.01
Gross dividends paid relating to the year reported (cents per share)	10.20	9.33	7.45	9.24	9.06
Net dividends paid relating to the year reported (cents per share)	7.60	7.55	7.45	7.35	7.30
AFFO pay-out ratio (%)	97.6%	101.2%	99.5%	105.8%	106.1%
* AFFO not disclosed for this period, therefore Distributable Profit is disclosed					
FINANCIAL POSITION					
Investment properties	1,469.3	1,318.7	1,210.8	1,083.3	986.6
Goodwill	29.1	29.1	29.1	29.1	29.1
Other assets	24.3	11.2	2.2	9.4	11.5
Total assets	1,522.7	1,358.9	1,242.1	1,121.8	1,027.2
Borrowings	412.9	398.2	370.6	332.9	330.9
Other liabilities	55.8	45.5	28.6	32.7	38.3
Total liabilities	468.7	443.8	399.2	365.7	369.2
Total equity	1,054.0	915.1	842.9	756.1	658.0
Closing shares on issue ('000 shares)	498,723	498,723	498,723	452,459	447,692
Net tangible (excluding goodwill) assets (cents per share)	205.5	177.7	163.2	160.7	140.5
Gearing (%)	28.2%	30.3%	30.8%	30.1%	33.3%
PROPERTY PORTFOLIO METRICS					
Number of properties (#)	94	94	92	83	84
Number of tenants (#)	144	148	148	143	141
Contract rent	84.9	82.0	79.6	72.5	72.3
Occupancy (%)	99.0%	99.3%	99.9%	99.6%	99.6%
Net lettable area including yard (sqm)	809,183	780,092	756,455	667,441	673,112
Weighted average lease term (years)	5.38	5.39	5.33	4.79	5.18
Portfolio capitalisation rate (%)	5.7%	6.1%	6.4%	6.6%	7.0%

COMPANY STRUCTURE & STATUTORY INFORMATION.

COMPANY STRUCTURE AND STATUTORY INFORMATION

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

More information on the PFI Board and Management Team is available on the PFI website at https://www.propertyforindustry.co.nz/about-pfi/our-people-investors/.

PRINCIPAL ACTIVITY

PFI is a listed industrial property investment company. PFI and its subsidiary, P.F.I. Property No. 1 Limited (together, the Group), invest solely in New Zealand. There has not been any change in the nature of the Company's or Group's business in the year ended 31 December 2019, 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 on 1 May 2019 when PFI transitioned to the updated NZX Listing Rules.

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

1. Code of Ethics;
2. Board Charter;
3. Audit and Risk Committee Charter;
4. Nomination and Remuneration Committee Charter;
5. Remuneration Policy;
6. Financial Products Trading Policy[1];
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.

1 An amendment was also made to the Financial Products Trading Policy on 12 December 2019.

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 Products 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 Products 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 Products Dealing 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;
- Restricted Persons must obtain consent to trade PFI listed securities at any time; and
- No trading is permitted by Restricted Persons during "blackout periods" from the balance date and the half-year balance date until release of the relevant results to NZX.

Principle Two: Board Composition & Performance

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

Board Charter

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

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

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

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

Board Composition, Appointments, Independence & Operation

The constitution allows for between three and eight Directors. As at 31 December 2019, there were six Directors: five of whom are independent. It is the Company's policy that there should always be a majority of Independent Directors.

The Directors of the Company who held the office during the 12 months to 31 December 2019, 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 (EIGHT MEETINGS HELD)
Anthony Beverley	Board Chairman Nomination and Remuneration Committee Chairman Independent Director	2 July 2001	22 June 2017	N/A	8
David Thomson	Independent Director	12 February 2018	8 May 2018	N/A	8
Dean Bracewell	Independent Director	29 November 2019	N/A	N/A	1[2]
Gregory Reidy	Non-Executive Director	20 January 2012	8 May 2018	N/A	7
Humphry Rolleston	Independent Director	5 July 1994	22 June 2017	N/A	8
Susan Peterson	Audit and Risk Chair Independent Director	24 May 2016	8 May 2019	N/A	8

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 2019, the following Directors of the Company were independent: Anthony Beverley, David Thomson, Dean Bracewell, Humphry Rolleston and Susan Peterson. This assessment is based on the fact that these Directors all share the following characteristics:

- They are all are 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 noted Anthony Beverley and Humphry Rolleston's length of tenure on the Board. The Board concluded that Anthony Beverley and Humphry Rolleston's length of tenure on the Board did not and does not influence the capacity for each of those Directors 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 was not considered to be independent by virtue of his role as Managing Director within the last three years and his material business relationship (shareholder and director of the company that owned the management rights to the Company prior to internalisation) within the last three years.

2 One meeting was held following Dean Bracewell's appointment.

Details of Directors' relevant interests in the Company's Financial Products as at 31 December 2019 can be found below.

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 3 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 Chairperson meets annually with Directors of the Company to discuss individual performance of Directors. The Board reviews its performance as a whole on an annual basis.

Under the Board Charter (described in further detail above) any 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 2018	4	2	1	0
Year ending 31 December 2019	5	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 the Company has complied with the policy and that the Board – 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 five members of the team of 12 are female (2018: five out of 12).

Principle 3: Board Committees

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

Audit and Risk Committee
The Board has established an Audit and Risk Committee in accordance with the NZX Code. The Audit and Risk Committee has developed a written charter that outlines the committee's authority, duties, responsibilities, relationship with the Board and a policy on audit independence. The committee develops and monitors procedures to ensure the Board is properly and regularly informed and updated on corporate financial matters. The Board is required to regularly review the performance of the Audit and Risk Committee.

The Audit and Risk Committee's functions include:

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

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

The Audit and Risk Committee meets at least twice a year (or more frequently if required) with the Group's auditor to review the outcome of the interim review (30 June) and annual audit (31 December). Employees will only attend Audit and Risk Committee meetings at the invitation of the committee.

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

At 31 December 2019, 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 2019 and attended the five meetings of the committee held during 2019.

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

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

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

At 31 December 2019, the members of the Nomination and Remuneration Committee were Anthony Beverley (Chairman of the Nomination and Remuneration Committee) and Susan Peterson. Both were members of the committee at all times during 2019 and the committee met informally on a number of occasions during 2019.

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 responsible 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 – 25, and you can find out more information about PFI's approach to risk management on pages 80 – 81.

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 at the 2019 PFI annual meeting.

ROLE	$
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 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 2019 and the prior year comparative.

DIRECTOR	ROLE	FEES PAID 2019 $000	FEES PAID 2018 $000
Anthony Beverley	Board Chairman	81	32
	Deputy Board Chairman	–	–
	Audit and Risk Committee Chairman	–	4
	Nomination and Remuneration Committee Chairman	–	–
	Independent Director	65	70
David Thomson (1)	Independent Director	78	62
Dean Bracewell (2)	Independent Director	7	–
Gregory Reidy	Non-Executive Director (3)	41	–
Humphry Rolleston	Independent Director	78	70
Susan Peterson	Audit and Risk Committee Chair	13	6
	Independent Director	78	70
Peter Masfen	Board Chairman	–	18
	Independent Director	–	25
	Retirement allowance (4)	–	135
Total		**441**	**492**

1. David Thomson was appointed to the Board on 12 of February 2018.
2. Dean Bracewell was appointed to the Board on 29 November 2019.
3. Fees were payable to Gregory Reidy in his role as Non-Executive Director from 1 July 2019.
4. On 8 May 2018, Peter Masfen retired from the Board of Directors of the Company as Chairman and Independent Director. Mr Masfen was first elected as a Director of the Company on 17 May 2002, and had held office as a Director of the Company since that date. At the 23 May 2008 Annual Meeting, the Company confirmed that retirement payments (being the total remuneration of the retiring Director, in any three years chosen by the Company) to eligible Directors (which includes Mr Masfen) will be calculated in respect of that Director's remuneration prior to the increase approved at the 23 May 2008 meeting. The rationale for this was that the fees paid to Directors at that time did not reflect market rates, as they had remained unchanged since the incorporation of the Company over 14 years prior to that meeting. As such, a retirement allowance of $135,000 was payable to Mr Masfen and was paid on his retirement. At the 23 May 2008 meeting, it was also noted that no retirement remuneration will be paid to Directors who are appointed after 1 May 2004. It is noted that Humphry Rolleston is the only other current Director who was appointed prior to 1 May 2004 and is entitled to this form of payment.

Directors' Relevant Interests

Details of Directors' dealings in the Company's financial products since 1 January 2019 are as follows:

DIRECTOR	NO. OF SHARES (DISPOSED)	CONSIDERATION PER SHARE	DATE
Gregory Reidy (beneficial holder)	850,000	$2.30	19 August 2019

Details of Directors' relevant interests in the Company's financial products as at 31 December 2019 are as follows:

DIRECTOR	NATURE OF RELEVANT INTEREST	NUMBER OF SHARES
Humphry Rolleston	Beneficial holder	17,875
	Legal, but not-beneficial, holder	110,825
Susan Peterson	Beneficial holder	17,788
Gregory Reidy	Beneficial holder	155,708

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

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 and effective individuals. Packages include a base salary, together with short-term and (potentially) a long-term incentive (LTI) component.

Chief Executive Officer Remuneration

On 1 January 2019, Simon Woodhams ceased to be an Independent Contractor. On that date, he was appointed as Chief Executive Officer and became a full-time employee of the Company. His remuneration as Chief Executive Officer since that appointment is set out below:

				PAY FOR PERFORMANCE			
YEAR ENDING	SALARY $	BENEFITS[3] $	SUBTOTAL $	STI $	LTI[4] $	SUBTOTAL $	TOTAL REMUNERATION $
31 December 2019	$450,000	$31,711	**$481,711**	$200,000	$39,148	**$239,148**	**$720,859**

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

YEAR ENDING	SHARE RIGHTS GRANTED (SHARES)	SHARE RIGHTS VESTED DURING THE YEAR (SHARES)	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**

Employee Remuneration

During the years ended 31 December 2019 and 31 December 2018, the number of employees who received remuneration with a combined total value exceeding $100,000[5] is set out below (please note that this table excludes the Independent Contractor remuneration detailed elsewhere in this report):

	NUMBER OF EMPLOYEES	
REMUNERATION RANGE	2019	2018
$720,000 – $730,000	1	–
$640,001 – $650,000	1	–
$300,001 – $310,000	1	–
$250,001 – $260,000	–	1
$180,001 – $190,000	1	–
$150,001 – $160,000	1	1
$100,001 – $110,000	1	–

3 Benefits include KiwiSaver and insurance.
4 The LTI is based on the fair value of the awards recognised in the financial statements.
5 Includes LTI vested during the year based on the fair value of the 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 of 1 January 2019. For each tranche:

- 50% of the share rights are subject to a performance hurdle of the Company's rolling three year Funds From Operation 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 2019, and the share rights outstanding at the end of 31 December 2019 are as follows:

	SHARE RIGHTS GRANTED (SHARES)	SHARE RIGHTS VESTED DURING THE YEAR (SHARES)	SHARE RIGHTS LAPSED DURING THE YEAR (SHARES)	SHARE RIGHTS OUTSTANDING AT THE END OF THE YEAR (SHARES)
FY2019	196,023	65,341	–	**130,682**

Independent Contractor Remuneration
On 30 June 2017, the management of the Company and its subsidiary was internalised. Following the internalisation, Gregory Reidy, Simon Woodhams and Craig Peirce became Independent Contractors to the Company. Their remuneration is set out in accordance with the terms of those contracts, which the Board and Nomination and Remuneration Committee oversaw. Their remuneration package comprised of a base amount as well as a performance bonus, which was measured quarterly and based on shareholder return. A discretionary bonus was also paid to Simon Woodhams and Craig Peirce during the year ended 31 December 2018.

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

On 1 July 2019, Gregory Reidy ceased to be an Independent Contractor. On that date, he was appointed as a Non-Executive Director and his remuneration for this role is set out earlier in this report.

During the years ended 31 December 2018 and 31 December 2019, Independent Contractor remuneration was as follows:

NAME	POSITION	YEAR	BASE AMOUNT $000	BONUSES $000	TOTAL $000
Gregory Reidy	Managing Director	2018	425	11	436
		2019	213	–	213
Simon Woodhams	Chief Executive Officer	2018	425	116	541
		2019	–	–	–
Craig Peirce	Chief Finance and Operating Officer	2018	425	116	541
		2019	–	–	–
TOTAL		**2018**	**1,275**	**243**	**1,518**
		2019	**213**	**–**	**213**

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.

You can find more information on PFI's approach to risk management on pages 80 – 81 of this annual report.

Principle Seven: Auditors

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

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

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

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

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

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

Principle Eight: Shareholder Rights & Relations

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

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

In respect of voting rights, PFI shareholders have one vote per share they hold in PFI, and will have the right to vote on major decisions which may change the nature of PFI in accordance with the NZX 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 2019 for a period of 12 months and has certified, in terms of section 162 of the Companies Act 1993, that this cover is fair to the Company.

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

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

No Director has sought authorisation to use Company information.

Section 140(1) of the Companies Act 1993 requires a director of a company to disclose certain interests. Under subsection (2) a director can make disclosure by giving a general notice in writing to the company of a position held by a director in another named company or entity. The following are details of Directors' general disclosures entered in the Interests Register for the Company as at 31 December 2019. Any entry added by notices given by the Directors during the year ended 31 December 2019 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 *
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
Humphry Rolleston	Director	Asset Management Limited
	Director	Matrix Security Group Limited
	Director	Spaceships Limited
	Director	Stray Limited
	Director	AIS Tourism Limited
	Trustee	JL Hall Children's Trust
Susan Peterson	Director; Chair of 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	Trustpower Limited *
	Director, Co-Chair of the Board	Organic Initiative Limited
	Board Member	Global Women
	Member	NZX Markets Disciplinary Tribunal *

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 2019.

Donations

The Company made a $30,000 donation to The Christchurch Foundation to support the families and community impacted by the tragic events of the 15 March 2019 Christchurch terror attacks.

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 2019

As at 31 December 2019, the total number of ordinary shares on issue was 498,723,330. The Company has only ordinary shares on issue.

The persons, who, for the purposes of section 293 of the Financial Markets Conduct Act 2013, were substantial productholders as at 31 December 2019 are:

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

Details of Dividends Paid

DIVIDENDS	DATE PAID	CENTS PER SHARE	TOTAL PAID 2019 $000	TOTAL PAID 2018 $000
Q4 2017 final dividend	7 March 2018	2.15	–	10,723
Q1 2018 interim dividend	31 May 2018	1.80	–	8,977
Q2 2018 interim dividend	31 August 2018	1.80	–	8,977
Q3 2018 interim dividend	28 November 2018	1.85	–	9,225
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	–
Total dividends per statement of changes in equity			**37,653**	**37,902**

NZX Waivers

The Company transitioned to the new NZX Listing Rules dated 1 January 2019 on 1 May 2019 and relied on the class waivers and rulings granted by NZX Regulation on 19 November 2018 in relation to the transition.

MANAGING RISK

During 2019, PFI instigated a project to review and strengthen its Risk Management Framework. The purpose of this project was to ensure PFI continued to mature its approach to risk management in line with the expectations of stakeholders. “Strengthening our approach to risk management helps us to deliver on our promises to our tenants, our team, and our investors” says Susan Peterson, Chair of PFI’s Audit and Risk Committee.

RISK GOVERNANCE

PFI’s 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 Management Team	The Senior Management Team implements the risk management framework and operates within the boundaries set through the risk appetite statement, ensuring the risk management framework is operating effectively and reflects current business practice.
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.

RISK MANAGEMENT FRAMEWORK

The diagram below illustrates the key components of PFI’s risk management framework:

KEY BUSINESS RISKS

The table below outlines some of our key business risks, how we manage those risks, and a commentary on the current state of those risks to our business.

RISK CATEGORY	RISK DESCRIPTION	HOW WE MANAGE THE RISK	COMMENTARY ON THE RISK
STRATEGIC 	**Economy/market:** Risk arises from adverse changes in the New Zealand economic environment, regulatory environment and the broader investment market. Changes may result in an impact on property values and the amount of income generated from them.	We monitor both wider economic conditions and the industrial property market through research and relationships with market participants.	Both prime and secondary industrial yields have continued to compress (values increase), and rents continue to increase. While the trend is positive, the rate of industrial rental growth has moderated compared to the growth rates in recent years. Economic indicators are mixed. Anecdotal evidence suggests a cooling in some key areas of the economy, yet other indicators (for instance, the latest CPI result) point to an improvement on previous quarters.
STRATEGIC 	**Failure to implement strategy:** Failure to implement our strategy and achieve the desired outcomes, leads to the destruction of shareholder value.	Strategy is reviewed regularly by the Board and management team. Key shareholder metrics, such as PFI's share price and NTA are monitored in order to determine whether the implementation of strategy is being well received by the investment market.	Significant progress has been made during 2019 on the implementation of PFI's strategy. PFI's share price continues to perform well compared to our peers (3rd for the 2019 year) and PFI's share price is in excess of NTA.
FINANCIAL 	**"Balance Sheet" risk:** An increase in gearing levels outside suitable industry standards results in a risk of breaching financing covenants and a potential increase in borrowing costs.	PFI's gearing – both actual and projected – is reported to the Board regularly and these calculations are stress-tested.	PFI's metrics have improved during the year and are in line with the Listed Property Vehicle sector. The RBNZ reform of bank capital requirements provides additional risk.
HEALTH & SAFETY 	**Health and safety risks:** 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.	PFI has experienced a low level of incidents. The Company has also carried out extensive proactive monitoring visits (more than 100 visits during 2019). Further information on health and safety can be found in the ESG section of this annual report.

SHAREHOLDER STATISTICS

20 LARGEST REGISTERED SHAREHOLDERS

AS AT 31 JANUARY 2020

	HOLDER	HOLDING	HOLDING %
1	Forsyth Barr Custodians Limited	29,449,540	5.90%
2	Accident Compensation Corporation - NZCSD	25,512,597	5.12%
3	BNP Paribas Nominees (NZ) Limited - NZCSD	24,707,631	4.95%
4	ANZ Wholesale Trans-Tasman Property Securities Fund - NZCSD	22,661,554	4.54%
5	FNZ Custodians Limited	19,912,496	3.99%
6	Citibank Nominees (New Zealand) Limited - NZCSD	15,900,942	3.19%
7	Custodial Services Limited (A/c 3)	14,597,581	2.93%
8	Custodial Services Limited (A/c 4)	13,055,764	2.62%
9	HSBC Nominees (New Zealand) Limited - NZCSD	8,986,078	1.80%
10	ANZ Wholesale Property Securities - NZCSD	8,387,586	1.68%
11	Custodial Services Limited (A/c 2)	7,905,856	1.59%
12	Investment Custodial Services Limited (A/c C)	7,713,728	1.55%
13	Messrs. Wildermoth, Wilson and Young and Ms Wildermoth	7,331,480	1.47%
14	MFL Mutual Fund Limited - NZCSD	6,790,448	1.36%
15	New Zealand Depository Nominee Limited <A/C 1>	5,908,067	1.18%
16	Mr. Mckee and Ms. Mckee	5,566,373	1.12%
17	FNZ Custodians Limited	4,937,088	0.99%
18	Masfen Securities Limited	4,767,744	0.96%
19	JBWere (NZ) Nominees Limted	4,545,473	0.91%
20	Custodial Services Limited (A/c 18)	4,454,338	0.89%
	Shares held by top 20 shareholders	**243,092,364**	**48.74%**
	Balance of shares	255,630,966	51.26%
	Total of issued shares	**498,723,330**	**100.00%**

SHAREHOLDER SPREAD

AS AT 31 JANUARY 2020

ORDINARY SHARES	NUMBER OF HOLDERS	HOLDING	HOLDING %
Up to 4,999	1,015	2,590,303	0.52%
5,000 - 9,999	1,064	7,682,092	1.54%
10,000 - 49,999	2,387	51,325,339	10.29%
50,000 - 99,999	384	25,880,507	5.19%
100,000 - 499,999	292	57,834,077	11.60%
500,000 and above	92	353,411,012	70.86%
	5,234	**498,723,330**	**100.00%**

GEOGRAPHICAL SPREAD

AS AT 31 JANUARY 2020

ORDINARY SHARES	HOLDING	HOLDING %
Auckland & Northern Region	274,158,141	54.97%
Hamilton & Surrounding Districts	100,141,026	20.08%
Wellington & Central Districts	63,245,971	12.68%
Dunedin & Southland	43,871,495	8.80%
Nelson, Marlborough & Christchurch	15,322,472	3.07%
Overseas	1,984,225	0.40%
Total	**498,723,330**	**100.00%**

BONDHOLDER STATISTICS

BONDHOLDER SPREAD: PFI010

AS AT 31 JANUARY 2020

BONDS	NUMBER OF HOLDERS	HOLDING	HOLDING %
5,000 - 9,999	66	348,000	0.35%
10,000 - 49,999	447	8,850,000	8.85%
50,000 - 99,999	63	3,789,000	3.79%
100,000 - 499,999	40	5,506,000	5.51%
500,000 - 999,999	2	1,434,000	1.43%
1,000,000 and above	11	80,073,000	80.07%
Total	**629**	**100,000,000**	**100.00%**

BONDHOLDER SPREAD: PFI020

AS AT 31 JANUARY 2020

BONDS	NUMBER OF HOLDERS	HOLDING	HOLDING %
5,000 - 9,999	41	235,000	0.24%
10,000 - 49,999	225	4,715,000	4.72%
50,000 - 99,999	30	1,709,000	1.71%
100,000 - 499,999	35	5,386,000	5.39%
500,000 - 999,999	3	1,897,000	1.90%
1,000,000 and above	10	86,058,000	86.04%
Total	**344**	**100,000,000**	**100.00%**

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/about-pfi/property-portfolio/
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	Pages 22-23
Supply chain	102 - 9	https://www.propertyforindustry.co.nz/about-pfi/
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	None
Membership of associations	102 - 13	Property Council New Zealand
Statements from senior decision-maker	102 - 14	Page 4 and pages 20-21
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	Page 22
Collective bargaining agreements	102 - 41	None
Identifying and selecting stakeholders	102 - 42	Page 22
Approach to stakeholder engagement	102 - 43	Pages 21-22
Key topics and concerns raised	102 - 44	Pages 21-22
Entities included in the consolidated financial statements	102 - 45	Page 34
Defining content and topic Boundaries	102 - 46	Page 22
List of material topics	102 - 47	Page 22
Restatements of information	102 - 48	None
Changes in reporting	102 - 49	None
Reporting period	102 - 50	January 1, 2019 – December 31, 2019
Date of most recent report	102 - 51	February 2019 (2018 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	Page 22
GRI content index	102 - 55	Pages 84-85
External assurance	102 - 56	None

TOPIC SPECIFIC DISCLOSURES

DISCLOSURE TITLE	GRI	LOCATION
Emissions		
Disclosure on management approach	103	Page 24
GHG emissions scope 1	305-1	Page 24
GHG emissions scope 2	305-2	Page 24
GHG emissions scope 3	305-3	Page 24
Employment		
Disclosure on management approach	103	Pages 22-23
New employee hires and employee turnover	401-1	1 new hire. 0 turnover
Occupational health & safety		
Disclosure on management approach	103	Pages 22-23
Types of injury and rates of injury	403-2	Page 23
Diversity and equal opportunity		
Disclosure on management approach	103	Page 71
Diversity of governance bodies and employees	405-1	Pages 23 and 71
Sustainable design		
Disclosure on management approach	103	Page 25

DIRECTORY

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info@propertyforindustry.co.nz

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

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

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

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

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This Annual Report is dated 17 February 2020 and signed on behalf of the board by:

Anthony Beverley
Chairman

Susan Peterson
Chair, Audit and Risk Committee

CALENDAR

2020

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

MARCH
- 2019 Final dividend payment

MAY
- 2020 First-quarter announcement
- Annual meeting

JUNE
- 2020 First-quarter dividend payment

AUGUST
- 2020 Half-year announcement
- 2020 Interim report released

SEPTEMBER
- 2020 Half-year dividend payment

NOVEMBER
- 2020 Third-quarter announcement
- 2020 Third-quarter dividend payment

2021

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

MARCH
- 2020 Final dividend payment

PFI generates income for investors by clearly focusing on New Zealand's industrial economy. We look to generate strong, stable returns for our investors, which in turn generates prosperity for New Zealand.

www.propertyforindustry.co.nz