PFI

Property for Industry Limited

Interim Report 30 June 2017

WHERE THE WORK GETS DONE.

01

An overview of the first half of 2017

DONE DEAL.

Two items headline our review of PFI's first half of 2017: the decision at the Annual Meeting of shareholders in June to internalise management and transitioning the portfolio of five Penrose properties purchased in 2015.

Internalising management is an evolutionary progression. In 1994, when PFI was first listed, the convention was for listed property vehicles to have external management, but today the industry preference is to internalise management. The reasons for this include continuity of strategy and team, improved alignment of shareholder and management interests, and significant management cost reduction. As PFI Chairman Peter Masfen explains in his report, the move is intended to create significant ongoing value for PFI shareholders.

General Manager Simon Woodham's update on the Penrose portfolio showcases PFI's management team in action. The portfolio of five properties was purchased from Sistema in 2015 in an off-market transaction. Deals completed since then are estimated to have created around $13 million in shareholder value.

The financial statements reflect PFI's commitment to delivering strong, stable shareholder returns: distributable profit and distributable profit per share are up on a year ago, and gearing remains at prudent levels.

Visit our website for more detail on our interim results
propertyforindustry.co.nz/investor-centre/results-centre

Management internalised

Sistema portfolio transitioned

Distributable profit up

Ewan Cameron (L) and Jodie Warman (R) at 80 Hugo Johnston Drive, Penrose

02

Decisions for long term shareholder benefit

SECURING THE FUTURE.

$35.7m

of operating revenues, an increase of $0.5m or 1.4%

$33-48m

of post-tax net present value to PFI added by the internalisation

7.45 cents per share

full year cash dividends guidance for 2017, up 0.10 cents per share on the prior year

9.55%

annual return since inception[1]

[1] Cash dividends plus change in share price, assuming dividends are reinvested. Source: DataStream.

"In the past five years," says PFI chairman, Peter Masfen, "not only has New Zealand experienced robust economic growth, delivering benefits in the short term, but also some significant investment in infrastructure, which will enable future growth. I see a parallel between the New Zealand economy and what's happening at PFI.

"Certainly, PFI is enjoying the benefits of a strong economy. Continuing demand for quality industrial property, especially in Auckland, is keeping occupancy high. The growing economy is enabling rent increases, which is lifting property values and improving operating revenues. Expenses are down and operating earnings continue to grow. Later in this report, our General Manager, Simon Woodhams, will give an insight into how we manage our investment property portfolio. We're sticking to our plan and delivering strong, stable returns to shareholders.

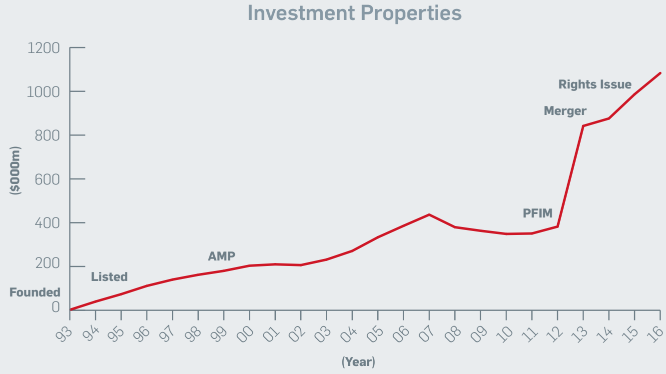
"At the same time, we're continuing to invest for the future. At the Annual Meeting in June, shareholders approved the internalisation of PFI's management. The immediate, one off cost of this is recognised in the interim financial statements, but the benefits will accrue in the years to follow. Independent appraiser Northington Partners expects the internalisation to add between $33 million and $48 million of value on a post-tax net present value basis to PFI. More specifically, they estimate it will provide earnings accretion, so enhancing distributable profits for PFI and enabling higher dividends, which were confirmed in our August results announcement.

"Those who have taken an interest in PFI over the years will appreciate the logic of the internalisation. Our ability to consistently deliver strong, stable shareholder returns depends entirely on the skill with which we acquire, lease and sell industrial property. With over a billion dollars of assets under management, it was prudent, and became possible, for us to protect our ownership of that expertise.

"Decisions for long-term benefit can only be made when you're standing on a strong foundation. At the mid-point of 2017, with a very long history of providing strong and stable returns, we continue to attend to performing for our shareholders."

Visit our website for more detail on our interim results
propertyforindustry.co.nz/investor-centre/results-centre

> **"With over a billion dollars of assets under management, it was prudent for us to protect our ownership of the expertise that consistently delivers our strong, stable returns."**



MEET THE PFI TEAM.

CONTROL PANEL

PORTFOLIO

99.5%
Occupancy

01

The strong demand for industrial premises continues, helping us maintain high levels of occupancy with low churn.

—

4.78yrs
Weighted Average Lease Term

02

New leases on the former Sistema properties have helped us maintain the portfolio WALT.

—

$1,096.0m ↑
Book value

03

The value of the portfolio is up 8.5% on a year ago. There are 83 properties and 144 tenants.

—

$73.2m ↑
Contract rent

04

Contract rent is up slightly on a year ago. Yield, including vacancies, is 6.72%.

—

MARKET

30 Basis points

3.0% ↑

Economic growth

05

The ANZ Bank says the economic cycle has reached a mature stage, but they nevertheless expect annual GDP growth to hover around 3% over 2017.

—

1.7% ↓

Auckland's vacancy rates

06

According to CBRE, the Auckland industrial vacancy rate is 1.7% overall, and 1.0% for prime stock.

—

30 basis points ↓

Industrial property yields

07

CBRE reports that Auckland industrial property yields fell an estimated 30 basis points in the first half of 2017.

—

60% ↑

Investor confidence level

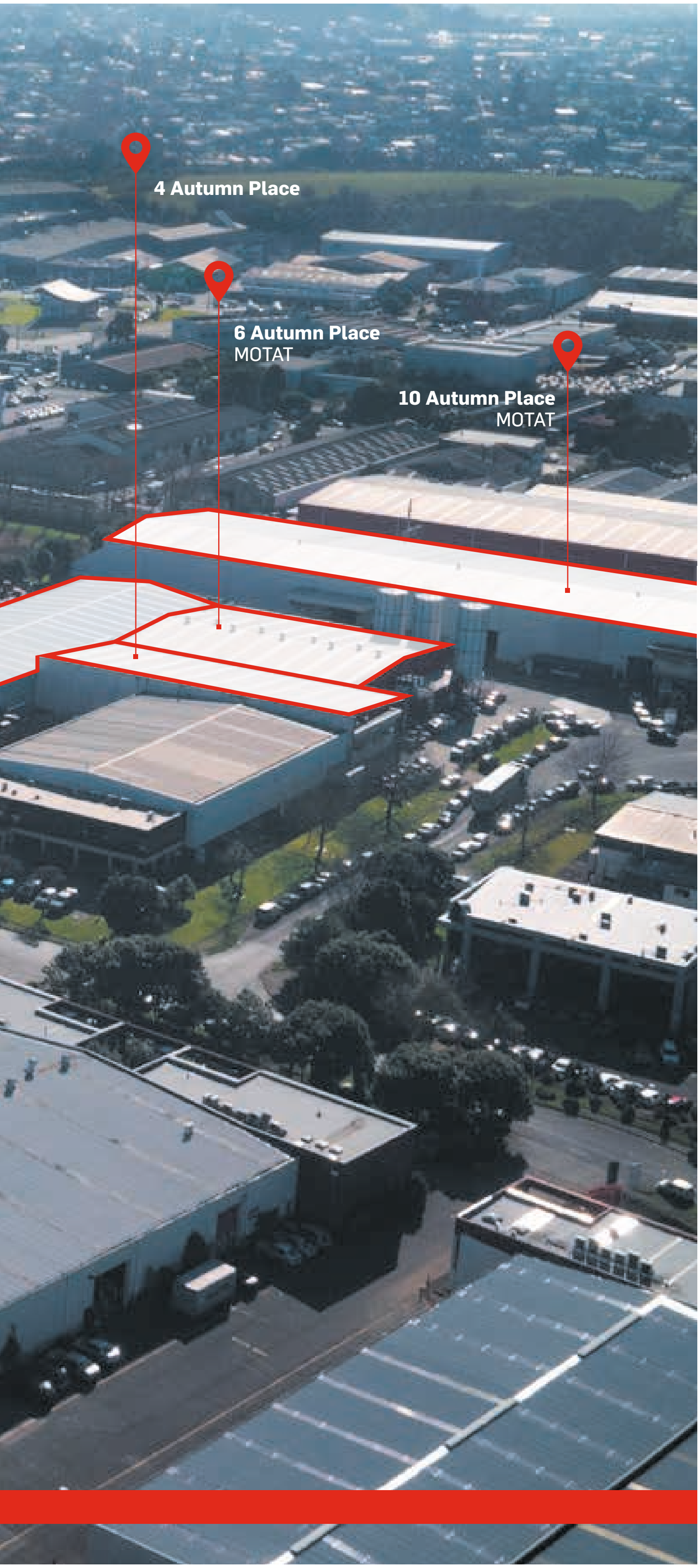
08

Colliers International reports that net confidence levels of Auckland industrial investors has risen slightly to 60%.

—

CASE STUDY

HUGO JOHNSTON DRIVE.



03

Strategy in action:
the Penrose portfolio

Realising value

In August of 2015, PFI purchased a portfolio of five Penrose properties for $28.5 million. Two years on, PFI General Manager, Simon Woodhams, talks about the creation of $13 million of shareholder value from that transaction.

Buy well

"We bought well. That's been fundamental to the success of the whole deal: buying a suite of quality buildings, in a prime location, at a good price. Which leads to the more interesting question, 'How come? What was it that enabled us to do that?' Part of it is about who you know: we'd had a good relationship with Brendan Lindsay, the Sistema founder, for many years. He was a shareholder in Direct Property Fund[1] and he's always taken an interest in industrial property and what we're doing. And so, in some ways, it was natural that when he needed a buyer for these properties, he would call us."

Be good to do business with

"But there is more to it than that. The way I see it, a good deal is when both parties are happy with the outcome and that's how it was with Brendan.

"Key to this transaction was that we were able to work together to facilitate his exit from the properties into Sistema's new building when it was ready. It's about reciprocity: being good to do business with."

Focus

"Couple that with focus. PFI is the only listed property vehicle in New Zealand with a sole focus on industrial property. The benefit of that focus is the depth of your market knowledge and the sharpness of your instincts. We already knew Brendan, we knew the properties, we knew the location—we already owned properties in Hugo Johnston Drive. When you have that degree of focus you can make decisions more quickly and with much greater confidence."

Scale

"Obviously, scale is a factor, too. We could only contemplate a deal of this magnitude now that we're a billion-dollar fund. A few years ago we wouldn't have been able to, but now we can. It's well within our risk tolerance: we're not betting the farm."

1 PFI merged with Direct Property Fund in 2013

Reputation

"There's a perception, I think, that PFI is a hardware business... by that I mean people assume it's all about the asset; having the right property in the right location. And there's truth in that, but it's also about the software: the point I was making about being good to do business with. When it came to leasing these buildings, whether it was the initial lease back to Sistema, or the subsequent leases, one of the ways we created shareholder value was by understanding industrial tenants. A property is almost never exactly right for the prospective tenant, so we'll work with them to configure it for what they need...and structure the deal accordingly. High-quality industrial tenants prefer dealing with professional landlords and are prepared to pay a premium for that because they know there's not going to be a problem every time there is a dollar to be spent."

A conservative approach

"Another point to make, I think, is that PFI is by nature conservative. The relevance of that to this project is that the assumptions we made — for example, about how long each property might take to let once Sistema moved on — were ones we were comfortable with: realistic, not wishful thinking. Giving ourselves headroom. What's happened is that we've outperformed those expectations and so delivered even more value than we predicted. That's a nice place to be."

Outcome focus

"Perhaps the most important point is that we never lose sight of why we're here: to create shareholder value. It's very easy, in business, to become consumed by the 'what', by the day-to-day activity. Which is understandable, because it can be exhilarating. The approach by Crown Equipment to buy 65 Hugo Johnston Drive is a good example of what I'm talking about, because we hadn't intended to sell, we were looking for tenants. But when they presented their offer it became apparent that we should accept. It would allow us to crystallise the value gain and release a sizeable chunk of capital that we could send back out to work somewhere else. I think the way we keep the operational and the strategic working in such alignment is a key component of PFI's success."

MOTAT are PFI's tenant at 10 and 6 Autumn Place, Penrose

TIMELINE OF THE TRANSACTIONS

AUGUST 2015

Acquired five properties in Hugo Johnston Drive and Autumn Place, Penrose, from Sistema for $28.5 million

Gross lettable area: 21,575 m²

Agreement with Sistema that they would lease back the five properties, individually, for an initial 15-month term, with a six-month notice period

$2.28 million per annum rental income (versus our estimate of market rent of $2.25 million)

JULY 2016

Sistema confirmed they would depart in January 2017

OCTOBER 2016

Boxkraft signed an eight-year lease on 80 Hugo Johnston Drive effective March 2017

Initial rent of $457k per annum (versus market rent of $435k per annum)

FEBRUARY 2017

MOTAT leases 10 and 6 Autumn Place for seven and two years effective April 2017

Combined starting rent of $813k per annum (versus market rent of $805k per annum)

MAY 2017

65 Hugo Johnston Drive sold to Crown Equipment effective June 2017

Sale price of $14.3 million (versus a purchase price of $11.0 million)

Boxkraft are PFI's tenant at 80 Hugo Johnston Drive, Penrose.

FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

ALL VALUES IN $000S	NOTE	UNAUDITED 6 months ended 30 June 2017	UNAUDITED 6 months ended 30 June 2016
OPERATING REVENUE			
Rental and management fee income		35,711	35,219
Interest income		3	9
Total operating revenue		35,714	35,228
OPERATING EXPENSES			
Non-recoverable property costs	2.2	(1,461)	(894)
Interest expense and bank fees		(8,388)	(8,913)
Audit fees and other fees paid to auditors		(67)	(67)
Management fees	6.2	(2,919)	(3,623)
Directors' fees		(190)	(149)
Other expenses		(433)	(406)
Total operating expenses		(13,458)	(14,052)
Total operating earnings		22,256	21,176
NON-OPERATING INCOME AND EXPENSES			
Fair value gain on investment properties	2.1	5,970	10,623
Gain / (loss) on disposal of investment properties		1,897	(6)
Material damage insurance income		505	-
Fair value loss on derivative financial instruments		(582)	(7,131)
Termination of management agreement	5	(42,869)	-
Total non-operating income and expenses		(35,079)	3,486
(Loss) / profit before taxation		(12,823)	24,662
INCOME TAX BENEFIT / (EXPENSE)			
Current taxation	6.1	-	(3,892)
Deferred taxation	6.1	7,186	1,721
Total income tax benefit / (expense)		7,186	(2,171)
(Loss) / profit and total comprehensive income after income tax attributable to the shareholders of the Company	4.1	(5,637)	22,491
Basic and diluted earnings per share (cents)	4.2	(1.25)	5.01

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Cents per share (cents)	No. of shares (#)	Ordinary shares ($000S)	Retained earnings ($000S)	Total equity ($000S)
Balance as at 1 January 2016 (audited)	–	447,692,460	485,688	172,326	658,014
Total comprehensive income	–	–	–	22,491	22,491
Dividends and reinvestment					
Q4 2015 final dividend – 9/3/2016	2.00	–	–	(8,954)	(8,954)
Q4 2015 dividend reinvestment	–	1,471,253	2,309	–	2,309
Q1 2016 interim dividend – 23/5/2016	1.75	–	–	(7,860)	(7,860)
Q1 2016 dividend reinvestment	–	1,230,441	2,002	–	2,002
Balance as at 30 June 2016 (unaudited)	–	450,394,154	489,999	178,003	668,002
Balance as at 1 January 2017 (audited)	–	452,458,592	493,220	262,918	756,138
Total comprehensive income	–	–	–	(5,637)	(5,637)
Dividends					
Q4 2016 final dividend – 8/3/2017	2.05	–	–	(9,275)	(9,275)
Q1 2017 interim dividend – 29/5/2017	1.75	–	–	(7,918)	(7,918)
Balance as at 30 June 2017 (unaudited)	–	452,458,592	493,220	240,088	733,308

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

		UNAUDITED	AUDITED
ALL VALUES IN $000S	NOTE	30 June 2017	31 December 2016
CURRENT ASSETS			
Cash at bank		349	–
Accounts receivable, prepayments and other assets		8,708	9,029
Taxation receivable		51	–
Total current assets		9,108	9,029
NON–CURRENT ASSETS			
Investment properties	2.1	1,095,989	1,083,300
Property, plant and equipment	5	106	–
Derivative financial instruments	3.2	236	384
Goodwill		29,086	29,086
Total non–current assets		1,125,417	1,112,770
Total assets		1,134,525	1,121,799
CURRENT LIABILITIES			
Bank overdraft		–	113
Derivative financial instruments	3.2	52	242
Accounts payable, accruals and other liabilities		13,680	8,669
Taxation payable		–	2,579
Total current liabilities		13,732	11,603
NON–CURRENT LIABILITIES			
Borrowings	3.1	372,913	332,924
Derivative financial instruments	3.2	10,732	10,108
Deferred tax liabilities	6.1	3,840	11,026
Total non–current liabilities		387,485	354,058
Total liabilities		401,217	365,661
Net assets	4.3	733,308	756,138
EQUITY			
Share capital		493,220	493,220
Retained earnings		240,088	262,918
Total equity		733,308	756,138

These Group financial statements are signed on behalf of Property for Industry Limited and were authorised for issue on 9 August 2017.

Peter Masfen
Chairman

Anthony Beverley
Deputy Chairman, Audit and Risk Committee Chairman

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

ALL VALUES IN $000S		UNAUDITED 6 months ended 30 June 2017	UNAUDITED 6 months ended 30 June 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Property income received		35,791	35,139
Net GST paid		(886)	(505)
Interest received		3	9
Interest and other finance costs paid		(8,600)	(9,304)
Payments to suppliers		(5,239)	(6,010)
Income tax paid		(2,630)	(5,195)
Termination of management agreement	5	(42,869)	–
Net cash flows from operating activities		(24,430)	14,134
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment properties		21,648	9,250
Acquisition of investment properties		(14,262)	–
Acquisition of assets relating to a business combination	5	(106)	–
Expenditure on investment properties		(5,095)	(16,324)
Capitalisation of interest on development properties		–	(176)
Net cash flows from investing activities		2,185	(7,250)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from borrowings		39,900	5,500
Dividends paid to shareholders		(17,193)	(12,503)
Net cash flows from financing activities		22,707	(7,003)
Net increase / (decrease) in cash and cash equivalents		462	(119)
Cash and cash equivalents at beginning of year		(113)	542
Cash and cash equivalents at end of period		349	423

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. GENERAL INFORMATION

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

1.1. Reporting entity

These unaudited interim financial statements are for Property for Industry Limited (the Company) and its subsidiary P.F.I. Property No. 1 Limited (PFI No. 1) (together, the Group). The Company is a limited liability company incorporated in New Zealand and is registered under the New Zealand Companies Act 1993. The Company is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013 and these unaudited consolidated interim financial statements have been prepared in accordance with the requirements of the NZX Main Board Listing Rules. The Company is registered on the New Zealand Stock Exchange (NZSX: PFI).

The Group's principal activity is property investment and management in New Zealand.

1.2. Basis of preparation

These unaudited interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013. They comply with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting. The unaudited interim financial statements also comply with International Financial Reporting Standards (IFRS).

The unaudited interim financial statements have been prepared on the historical cost basis except where otherwise identified. All financial information is presented in New Zealand dollars and has been rounded to the nearest thousand.

These unaudited interim financial statements should be read in conjunction with the Annual Report for the year ended 31 December 2016 which may be downloaded from the Company's website (www.propertyforindustry.co.nz/investor-centre/reports-and-presentations).

1.3. New standards, amendments and interpretations

At the date of authorisation of these interim financial statements the following relevant standards and interpretations were in issue but not yet effective and have not been applied in preparing these interim financial statements. The Group is currently assessing the impact of these changes in accounting standards and will disclose the outcome in the financial statements as at and for the year ending 31 December 2017. The Group intends to adopt each of these standards on their respective effective dates:

- NZ IFRS 9 'Financial Instruments'. This standard will eventually replace NZ IAS 39 Financial Instruments – Recognition and Measurement. It is required to be adopted by the Group in the financial statements for the year ending 31 December 2018.
- NZ IFRS 15 'Revenue from Contracts with Customers'. This standard addresses the recognition of revenue from contracts with customers. It specifies the revenue recognition criteria governing the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It is required to be adopted by the Group in the financial statements for the year ending 31 December 2018.
- NZ IFRS 16 'Leases'. This standard will replace the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

  For lessors, the accounting for leases under NZ IFRS 16 is almost the same. However, as the guidance on the definition of a lease has been updated (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.

  The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with NZ IFRS 15, 'Revenue from Contracts with Customers'. The Group intends to adopt NZ IFRS 16 for the year ending 31 December 2019.

1.4. Critical judgements, estimates and assumptions

In applying the Group's accounting policies, the Board and Management continually evaluates judgements, estimates and assumptions that may have an impact on the Group. The significant judgements, estimates and assumptions made in the preparation of these financial statements were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2016.

1.5. Accounting policies

The accounting policies adopted are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2016.

1. GENERAL INFORMATION (CONTINUED)

1.6. Significant events and transactions

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

Internalisation

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

Investment property acquisition and disposal

On 2 February 2017, the Group purchased an investment property located at 11 Turin Place, East Tamaki for a net purchase price of $14.2 million.

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

2. PROPERTY

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

2.1. Investment properties

	UNAUDITED	AUDITED
ALL VALUES IN $000S	6 months ended 30 June 2017	12 months ended 31 December 2016
Opening balance	1,083,300	986,565
Capital movements:		
Additions	14,262	–
Disposals	(12,123)	(7,993)
Capital expenditure	3,954	17,058
Capitalised interest	–	190
Movement in lease incentives, fees and fixed rental income	626	(734)
	6,719	8,521
Unrealised fair value gain (i)	5,970	88,214
Closing balance	1,095,989	1,083,300

(i) Valuation

All investment properties were valued by independent valuers as at 31 December 2016. The Board determined that a desktop review of the property portfolio should be undertaken by CB Richard Ellis (CBRE), Colliers International (Colliers), Jones Lang LaSalle (JLL) or Savills as at 30 June 2017 to ensure that investment properties continue to be held at fair value. In addition to this desktop review, the following seven investment properties were subject to independent valuations due to significant capital expenditure or leasing activity undertaken during the period.

ALL VALUES IN $000S	Valuer	Valuation
10 Autumn Place, Penrose	JLL	11,500,000
Shed 22, 23 Cable Street, Wellington	Colliers	13,100,000
312 Neilson Street, Penrose	CBRE	5,870,000
314 Neilson Street, Penrose	CBRE	9,660,000
2 Pacific Rise, Mt Wellington	CBRE	9,275,000
7 Vestey Drive, Mt Wellington	Colliers	9,650,000
15a Vestey Drive, Mt Wellington	Savills	8,600,000
Total		67,655,000

As a result of the independent valuations, the unrealised net increase in the value of investment properties for the six months ended 30 June 2017 was $5,970,000 (six months ended 30 June 2016: $10,623,000). The portfolio will next be revalued by independent valuers as at 31 December 2017.

2. PROPERTY (CONTINUED)

2.2. Non-recoverable property costs

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

	UNAUDITED	UNAUDITED
ALL VALUES IN $000S	6 months ended 30 June 2017	6 months ended 30 June 2016
Service charge expenses	(4,445)	(3,955)
Service charge income recovered from tenants	4,445	3,955
Bad and doubtful debts	(38)	(37)
Other non-recoverable property costs	(1,423)	(857)
Total non-recoverable property costs	(1,461)	(894)

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

	UNAUDITED	AUDITED
All VALUES IN $000s	30 June 2017	31 December 2016
Facilities drawn down – non-current	373,600	333,700
Prepaid loan fees	(687)	(776)
Net borrowings	372,913	332,924

(ii) Facilities

On 3 February 2016, the Group entered into revised facilities (A and B) with a banking syndicate comprising ANZ Bank New Zealand Limited (ANZ), Bank of New Zealand (BNZ), Commonwealth Bank of Australia (CBA) and Westpac New Zealand Limited (Westpac) for $375,000,000.

Facility A for $187,500,000 and Facility B for $187,500,000 are provided by ANZ, BNZ, CBA and Westpac. Facility A is a revolving facility of a long term nature and expires 4 May 2020. Facility B is a revolving facility of a long term nature and expires 4 May 2021.

On 31 March 2017, the Group entered into a revolving facility with ANZ Bank New Zealand Limited (ANZ) for $40,000,000 which expires 31 July 2018.

	UNAUDITED	AUDITED
ALL VALUES IN $000S	30 June 2017	31 December 2016
ANZ	141,625	101,625
BNZ	91,125	91,125
CBA	91,125	91,125
Westpac	91,125	91,125
Total facilities available	415,000	375,000
Facilities drawn down – non-current	373,600	333,700
Undrawn facilities available	41,400	41,300
Total facilities available	415,000	375,000
Weighted average term to maturity (years)	3.13	3.84

After taking into account the impact of current interest rate swaps, the blended interest rate as at 30 June 2017 for the drawn down borrowings was 4.78% (31 December 2016: 5.24%).

3. FUNDING (CONTINUED)

3.1. Borrowings (continued)

(iii) Security
The facilities 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 $830,000,000. In addition to this, the facilities agreement contains a negative pledge. The Company and PFI No. 1 are guarantors to the facilities. The Group has complied with all covenants during the current and prior periods.

3.2. Derivative financial instruments

(i) Fair values

	UNAUDITED	AUDITED
ALL VALUES IN $000S	30 June 2017	31 December 2016
Non-current assets	236	384
Current liabilities	(52)	(242)
Non-current liabilities	(10,732)	(10,108)
Total	(10,548)	(9,966)

(ii) Notional values, maturities and interest rates

	UNAUDITED	AUDITED
	30 June 2017	31 December 2016
Notional value of interest rate swaps – start dates commenced ($000s)	220,000	243,000
Notional value of interest rate swaps – forward starting ($000s)	130,000	70,000
Total ($000s)	350,000	313,000
Average period to expiry – start dates commenced (years)	2.81	3.00
Average period to expiry – forward starting (years from commencement)	3.31	2.86
Average (years)	2.99	2.97
Average interest rate[1] – start dates commenced (%)	4.46%	4.53%
Average interest rate[1] – forward starting (% during effective period)	3.59%	3.54%
Average (%)	4.13%	4.31%

1 Excluding margin and fees.

Key estimates and assumptions: Derivative financial instruments
The fair value of derivative financial instruments is determined from valuations prepared by independent treasury advisers using Level 2 valuation techniques (31 December 2016: Level 2). These are based on the present value of estimated future cash flows accounting for the terms and maturity of each contract and the current market interest rates at reporting date. Fair values also reflect the current creditworthiness of the derivative counterparty. These values are verified against valuations prepared by the respective counterparties. The valuations were based on market rates at 30 June 2017 of between 1.98% (31 December 2016: 2.00%) for the 90-day BKBM and 3.35% (31 December 2016: 3.49%) for the 10 year swap rate. There were no changes to these valuation techniques during the reporting period.

4. INVESTOR RETURNS AND INVESTMENT METRICS

IN THIS SECTION
This section shows the relationship between the Group's accounting profit and dividends paid. It also summarises the earnings per share and net tangible assets per share which are common investment metrics.

4.1. Relationship of total comprehensive income to dividends paid

The Group's dividend policy is to distribute between 95% and 100% of its annual distributable profit, subject to the approval of the Board of Directors. Prior to the internalisation of management (for further details refer to Note 5) this could have been increased to above 100% should management performance fees be earned in any given period.

Distributable profit is a non-GAAP measure determined as total comprehensive income for the period (as determined in accordance with NZ IFRS for the period) adjusted for fair value gains or losses on investment properties, material damage insurance income, gains or losses on disposal of investment properties (net of tax on depreciation clawback), fair value gains or losses on derivative financial instruments, deferred tax, additional revenue booked as a result of fixed rental review accounting entries, termination of management agreement cost and associated tax benefit and other one-off items.

	UNAUDITED	UNAUDITED
ALL VALUES IN $000S UNLESS NOTED	6 months ended 30 June 2017	6 months ended 30 June 2016
Total comprehensive income for the period attributable to the shareholders of the Company	(5,637)	22,491
Adjusted for:		
Fair value gains on investment properties	(5,970)	(10,623)
Material damage insurance income	(505)	–
(Gain) / loss on disposal of investment properties	(1,897)	6
Tax on depreciation clawback on disposals of investment properties	67	38
Fair value loss on derivative financial instruments	582	7,131
Deferred taxation	(7,186)	(1,721)
Movement in fixed rent reviews	(138)	(377)
Termination of management agreement	42,869	–
Current taxation without deductibility of termination of management agreement	(4,725)	–
Other[1]	(6)	(6)
Distributable profit	17,454	16,939
Weighted average number of ordinary shares (shares)	452,458,592	448,877,680
Distributable profit per share (cents)	3.86	3.77
Dividends paid relating to the period reported[2]	15,836	15,742
Pay-out ratio (%)	91%	93%

1 Other comprises the current tax impact of an adjustment to one of the Group's derivative financial instruments.

2 Includes the $7,918,000 dividend paid for the first quarter of 2017 as per the Consolidated Statement of Changes in Equity, plus the second quarter dividend for 2017 due to be paid on 1 September 2017 of $7,918,000.

4. INVESTOR RETURNS AND INVESTMENT METRICS (CONTINUED)

4.2. Earnings per share

	UNAUDITED 6 months ended 30 June 2017	UNAUDITED 6 months ended 30 June 2016
Total comprehensive income for the period attributable to the shareholders of the Company ($000)	(5,637)	22,491
Weighted average number of ordinary shares (shares)	452,458,592	448,877,680
Basic and diluted earnings per share (cents)	(1.25)	5.01

4.3. Net tangible assets per share

	UNAUDITED 30 June 2017	AUDITED 31 December 2016
Net assets ($000)	733,308	756,138
Less: Goodwill ($000)	(29,086)	(29,086)
Net tangible assets ($000)	704,222	727,052
Closing shares on issue (shares)	452,458,592	452,458,592
Net tangible assets per share (cents)	156	161

5. INTERNALISATION OF MANAGEMENT

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

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

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

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

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

ALL VALUES IN $000S UNLESS NOTED	UNAUDITED 6 months ended 30 June 2017
Property, plant and equipment	106
Total assets acquired	106

No goodwill arose as a result of this transaction.

6. OTHER

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

6.1. Taxation

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

ALL VALUES IN $000S	UNAUDITED 6 months ended 30 June 2017	UNAUDITED 6 months ended 30 June 2016
(Loss) / Profit before income tax	(12,823)	24,662
Prima facie income tax calculated at 28%	3,590	(6,905)
Adjusted for:		
Non-tax deductible revenue and expenses	(7)	(5)
Fair value gain on investment properties	1,672	2,974
Loss / (gain) on disposal of investment properties	531	(2)
Depreciation	1,134	1,232
Disposal of depreciable assets	(77)	(43)
Deductible capital expenditure	420	554
Lease incentives, fees and fixed rental income	182	55
Derivative financial instruments	(157)	(1,991)
Impairment allowance	(10)	239
Current year tax losses carried forward	(7,278)	–
Current taxation expense	–	(3,892)
Current year tax losses carried forward	7,278	–
Depreciation	(77)	24
Lease incentives, fees and fixed rental income	(182)	(55)
Derivative financial instruments	157	1,991
Impairment allowance	10	(239)
Deferred taxation benefit	7,186	1,721
Total taxation reported in Consolidated Statement of Comprehensive Income	7,186	(2,171)

Prior to the internalisation of management on 30 June 2017, the Group received a binding tax ruling from Inland Revenue on 22 May 2017 which confirmed that the payment for the termination of the management agreement is deductible for tax purposes.

6. OTHER (CONTINUED)

6.1. Taxation (continued)

(ii) Deferred tax

	AUDITED	UNAUDITED	UNAUDITED
ALL VALUES IN $000S	31 December 2016 As at	6 months ended 30 June 2017 Recognised in profit	30 June 2017 As at
Deferred tax assets			
Losses carried forward	–	(7,278)	(7,278)
Derivative financial instruments	(2,809)	(157)	(2,966)
Impairment allowance	(64)	(10)	(74)
Gross deferred tax assets	(2,873)	(7,445)	(10,318)
Deferred tax liabilities			
Investment properties	13,899	259	14,158
Gross deferred tax liabilities	13,899	259	14,158
Net deferred tax liability	11,026	(7,186)	3,840

6.2. Related party transactions

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

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

As at 30 June 2017 $6,300,000 in relation to GST payable on the termination of management agreement expense was owing to PFIM and included in accounts payable, accruals and other liabilities. As at 31 December 2016 $458,000 in relation to management fees was owing to PFIM and included in accounts payable, accruals and other liabilities.

(i) Management fees

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

Prior to the internalisation, PFIM was entitled to be paid base management and performance fees for the provision of management and administrative services, pursuant to a management and administrative services contract.

(a) Base management fees

The base management fee was payable monthly and is calculated as one twelfth of:

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

During the six months ended 30 June 2017, the Group incurred base management fees totalling $2,919,000 (six months ended 30 June 2016: $2,731,000) from PFIM, for the provision of management and administrative services.

(b) Performance fees

A performance fee was calculated and payable on a quarterly basis. The performance fee was calculated as 10% of the change in shareholder returns above 10% per annum (2.5% per quarter) and under 15% per annum (3.75% per quarter). Where shareholder returns exceeded 3.75% in a quarter, no payment was due for the actual amount of the increase above 3.75%, but the amount of the increase above 3.75% was carried forward and added to the calculation of shareholder returns in the next seven quarters. However, if shareholder returns were less than 2.5% in a quarter, the deficit was carried forward and subtracted from the calculation of shareholder returns in the next seven quarters.

During the six months ended 30 June 2017, the Group incurred no performance fees (six months ended 30 June 2016: $892,000) from PFIM.

6. OTHER (CONTINUED)

6.2. Related party transactions (continued)

(ii) Other related party transactions
During the six months ended 30 June 2016, the Group incurred $11,915,000 for construction and maintenance works from Haydn & Rollett Limited. John Waller was a Director of both Haydn & Rollett Limited and the Company until he passed away on 21 September 2016.

No related party debts have been written off or forgiven during the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

During the six months ended 30 June 2017, fees paid to Directors of the Group were $190,000 (six months ended 30 June 2016: $149,000).

As at 30 June 2017, Directors of the Company held 8,023,684 (31 December 2016: 8,007,684) shares beneficially in the Company and 371,583 (31 December 2016: 371,583) shares non-beneficially in the Company.

6.3. Operating segments

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

6.4. Capital commitments

As at 30 June 2017, the Group had capital commitments totalling $4,536,000 (31 December 2016: $3,638,000) relating to work on investment properties.

6.5. Subsequent events

On 9 August 2017, the Directors of the Company approved the payment of a net dividend of $7,918,000 (1.75 cents per share) to be paid on 1 September 2017. The gross dividend (2.20 cents per share) carries no imputation credits. The payment of this dividend will not have any tax consequences for the Group and no liability has been recognised in the Consolidated Statement of Financial Position as at 30 June 2017 in respect of this dividend.

INDEPENDENT REVIEW REPORT

To the shareholders of Property for Industry Limited

Report on the interim financial statements

We have reviewed the accompanying interim financial statements of Property for Industry Limited (the "Company") on pages 12 to 25, which comprise the consolidated statement of financial position as at 30 June 2017, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period ended on that date and selected explanatory notes.

Directors' responsibility for the interim financial statements

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

Our responsibility

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

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

We are independent of the Group. Other than in our capacity as auditors and providers of other services we have no relationship with, or interests in, the Group.

Conclusion

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

Who we report to

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants — Auckland

9 August 2017

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Savills (NZ) Limited

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CALENDAR

2017

SEPTEMBER
- 2017 Half-year dividend payment

NOVEMBER
- 2017 Third-quarter announcement
- 2017 Third-quarter dividend payment

2018

FEBRUARY
- 2017 Full-year announcement

MARCH
- 2017 Final dividend payment
- 2017 Annual report released

DIVIDEND REINVESTMENT SCHEME

The dividend reinvestment scheme (DRS) will operate for the second quarter dividend with a discount of 2%. The last date for receipt of an election notice for participation in the DRS for the second quarter dividend is the record date, 23 August 2017. Further details on PFI's DRS can be found on PFI's website: https://www.propertyforindustry.co.nz/investor-centre/dividend-information/dividend-reinvestment/.

This Interim Report is dated 17 August 2017 and signed on behalf of the Board by:

Peter Masfen
Chairman

Anthony Beverley
Deputy Chairman
Audit and Risk Committee Chairman

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