PFI

THE HANDPICKED ISSUE

Annual Report 31 December

20
21

PROPERTY FOR INDUSTRY LIMITED

GROUND RULES

Wider opportunities.
Strict criteria.

YOUR INDUSTRIAL PROPERTY EXPERTS

As a professional landlord to the industrial sector, we accommodate the needs of a full range of companies across diverse industries. As COVID-19 continued to challenge some parts of the economy, our role as a property partner became even more important for those looking to keep supplies flowing, both locally and globally. Seizing opportunities paid off for us.

Nevertheless, stability remains a core discipline for PFI and a hallmark of how we do business. We crossed a critical boundary this year – breaking the $2 billion milestone for the first time. Increased scale has brought with it new relationships and exciting opportunities to pick and choose our investments, but always within strict boundaries.

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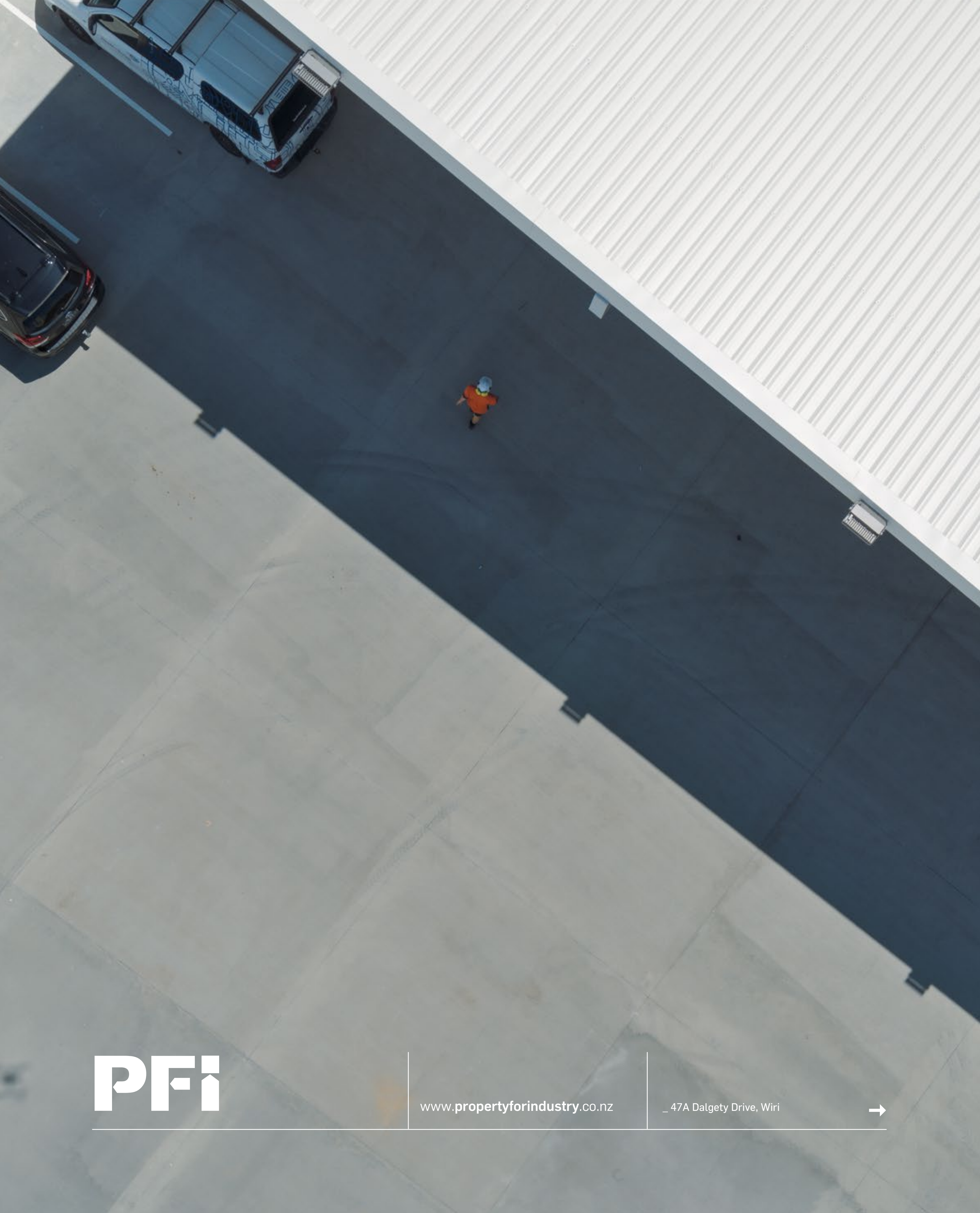

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LEADING

ANTHONY BEVERLEY
Board Chair and Independent Director

DAVID THOMSON
Independent Director

DEAN BRACEWELL
Independent Director

GREG REIDY
Non-Executive Director

SUSAN PETERSON
Independent Director

SIMON WOODHAMS
Chief Executive Officer

CRAIG PEIRCE
Chief Finance and Operating Officer

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

01.

EVOLVING OUR STRATEGY

IN ONE OF our busiest years so far, the Company made excellent progress against a backdrop that contrasted favourable market conditions with the ongoing restrictions of working from home.

The whole team has done amazingly well to grow the business and assist our tenants in these trying circumstances. Important acquisitions, large and small, strengthened different aspects of our portfolio. We also benefited from a significant growth in valuations, and we concluded the sale of Carlaw Park towards the end of the year, which provided a reduction in borrowings as well as nearly a year's extra income from that property.

In March 2021, a refreshed strategy was agreed for the next three to five years, with a focus on growing returns to shareholders, continuous portfolio improvement and first-class management. "Discussions focused on staying true to our commitment to industrial property, making the most of current market conditions and taking a more intentional and proactive approach to opportunities where appropriate," says Chief Executive Officer Simon Woodhams. "We agreed growing earnings and dividends remained of primary importance, but in order to do so, we will need to continue to grow the portfolio."

A change in the dividend policy itself saw the emphasis shift to a three-yearly framework, in line with the strategic horizon. The policy is intended to allow the Company to steadily increase dividends whilst at the same time engaging in activities with potentially less immediate earnings accretion. Dividends increased again this year to 7.90 cents per share, an increase of 2.6%, representing a dividend pay-out ratio of around 85% of Adjusted Funds from Operations (AFFO) for the year, and 92% of AFFO on a rolling three-year basis. We are forecasting a dividend of 8.05 to 8.10 cents per share in 2022, a further increase of up to 2.5%.

Performance across the business was healthy. Funds from Operations (FFO) increased by 14.4% to 11.07 cents per share, while AFFO increased by 15.7% to 9.29 cents per share. Big gains in revaluations across our portfolio resulted in an increase of value of $392.5 million, meaning our portfolio is now valued at $2.17 billion, a new highpoint.

Total shareholder returns for the year were 4.4%, but Net Tangible Assets (NTA) rose significantly to 303 cents per share.

It was a busy year for transactions, with close to $253 million in acquisitions and value-add opportunities and the divestment of Carlaw Park in December, capping off a year of $368 million in capital transactions. Among our notable acquisitions: 670–680 Rosebank Road in Avondale; 44 Noel Burnside Road in Wiri; and 22 Whakatu Road in Hastings. Two other smaller purchases – 32 Honan Place and 520 Rosebank Road – connected to PFI properties in the area and thus added to our collective presence. More details for some of these transactions follow on pages 16 and 17.

"In keeping with our strategy, we have pursued acquisitions that build out our ability to deliver sustainable dividends, including looking further afield where it makes sense to do so. Take, for example, the property we acquired in Hastings. It's a specialised asset that comes with strong rental commitment, a blue-chip tenant in a resilient sector and the higher yield available in the regions," says Simon Woodhams.

We serve a tenant base of 136 different businesses. Occupancy and Weighted Average Lease Term (WALT) have both increased. In fact, we close the year with all our space occupied. We leased 149,227 sqm of space this year for an average term of 6.7 years and total rent of $14.5 million.

We also completed 114 rent reviews on $66.5 million of contract rent, resulting in an average annual uplift of 3.5%. Despite lockdown pressures, the strength of our tenant base meant that there was a low level of deferrals and abatement through the year.

Gearing remains comfortably below 30% at 27.7%, giving us both the ability to capitalise on opportunities and a robust buffer should we need it.

We refinanced all our bank facilities during the year, including refinancing the short-term Commonwealth Bank of Australia facility to a $125 million seven-year facility, refinancing our $300 million syndicate and establishing a $100 million shorter-term facility with the Bank of New Zealand. We also secured the interest rates on our larger purchases to help lock in the financial outcomes from those properties while interest rates were low.

"These additional facilities, backed up by our significant portfolio revaluation and coupled with the proceeds from the Carlaw settlement, provided us with significant acquisition capital. We've drawn on these resources to secure quality industrial properties such as those in Wiri and Hastings," says Chief Finance and Operating Officer Craig Peirce. "At the same time, we've been able to push out our weighted average term of expiry to 3.9 years for our bonds and bank facilities which has given us additional certainty as we grow."

We continue to press forward with our Environmental, Social and Governance (ESG) framework. We have released our second Task Force on Climate-Related Financial Disclosures (TCFD) report in this Annual Report, undertaken a climate risk analysis to identify which properties are most vulnerable to the physical risks of climate change, continued to phase out R22 refrigerant gas from our portfolio, and begun planning our first Green Star development at Bowden Road. See pages 22 to 39 for further details.

"The Company's continued focus on industrial property has coincided with ongoing investor interest and tenant demand that has enabled us to grow significantly," observes PFI Chair, Anthony Beverley. "We are pleased to have capitalised on these market conditions while keeping gearing low. Our refreshed strategy and the changes in our dividend policy will give us that extra degree of flexibility to enhance and expand our portfolio in order to continue growing cash returns for investors." ■

FUNDS
FROM OPERATIONS

11.07 CPS

UP 14.4%

LEASING ACTIVITY

149,227

SQM LEASED

DIVIDEND

7.90

cents per share.

2021	7.90
2020	7.70
2019	7.60
2018	7.55
2017	7.45

$ 392.5 M

REVALUATION

$ 2.169 BILLION

PORTFOLIO

ADJUSTED FUNDS
FROM OPERATIONS

9.29 CPS

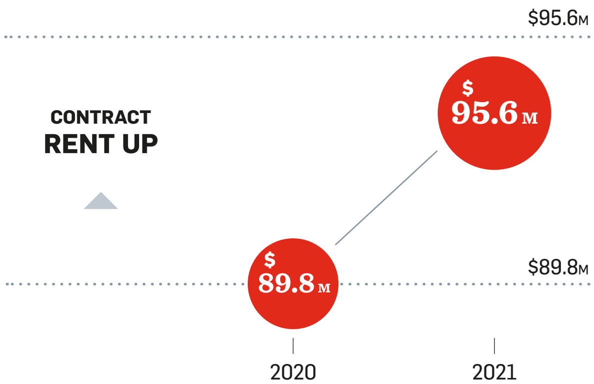
UP 15.7%

REFINANCING

$ 125 M

of additional bank facilities successfully secured

CONTRACT
RENT UP



NET TANGIBLE ASSETS

303.4

CENTS PER SHARE UP 37.3% ON LAST YEAR

2021	303.4
2020	220.9
2019	205.5
2018	177.7
2017	163.2

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

02.

10 THINGS YOU SHOULD KNOW ABOUT PFI

We judge our performance and the ongoing effectiveness of our strategy against these 10 metrics.

PROPERTIES

97

2020 : 94

TENANTS

136

2020 : 148

AVERAGE OCCUPANCY OVER THE LAST 10 YEARS

99.0%

2020 : 98.5%

WEIGHTED AVERAGE LEASE TERM

5.40 YEARS

2020 : 5.28

AVERAGE PROPERTY VALUE

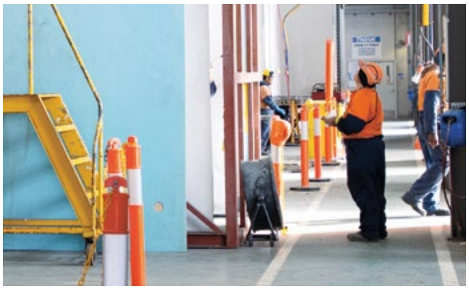
$22.4 MILLION

2020 : $17.5 MILLION

GEARING

27.7 %

2020 : 30.0%



NUMBER OF PROPERTIES OCCUPIED BY TOP 10 TENANTS

29

2020 : 30

AVERAGE ANNUALISED TOTAL RETURN SINCE INCEPTION

11.32 %

2020 : 11.59%

SHARE PRICE

2.98 $

2020 : $2.93

NUMBER OF STAFF AND DIRECTORS

21

2020 : 19

KEY DEALS THIS YEAR

This year we completed $368 million of capital transactions, comprising $116 million of divestments, $27 million of value-add opportunities and $226 million of acquisitions.

DIVESTMENTS

127 WATERLOO ROAD

Christchurch. Settled in April for a gross sales price of $4.3 million. Classified as a non-current asset held for sale as at December 2020.

CARLAW PARK

Parnell. Settled in December 2021 for a gross sales price of $108.0 million (value $102.4 million as at December 2020). Classified as a non-current asset held for sale as at December 2020.

VALUE-ADD OPPORTUNITIES

314 NEILSON STREET

Penrose/Onehunga. $5.8 million development of a new industrial facility following a fire, completed in February 2021. Leased to IAG for 10 years starting May 2021.

59 DALGETY DRIVE

Wiri. $8.4 million refurbishment of an industrial facility, leased to Store Rite Logistics for 12 years starting June 2021.

ACQUISITIONS

670–680 ROSEBANK ROAD

Avondale. Acquired in January 2021 for $39.0 million. Fully occupied by NZ Comfort Group and Dunlop Flooring.

25 LANGLEY ROAD

Wiri. Additional paint shop acquired in February 2021 for $7.5 million.

22 WHAKATU ROAD

Hastings. Acquired in November 2021 for $79.55 million. Leased to T&G Global for 15 years.

520 ROSEBANK ROAD

Avondale. Acquired in December 2021 for $5.2 million. Leased to Kenderdine Electrical for a term of six years.

48 SEAVIEW ROAD

Wellington. Unconditionally sold in December 2021 for a gross sales price of $10.0 million (value $8.9 million as at June 2021). Settlement of the divestment is scheduled to take place in March 2022.

124 HEWLETTS ROAD

Mount Maunganui. $3.5 million construction of breezeway canopies for various tenants, leading to increased rents and lease terms.

47A DALGETY DRIVE

Wiri. $9.0 million development of a new industrial facility on surplus land, leased to Shaw for five years from April 2022.

44 NOEL BURNSIDE ROAD

Wiri. Acquired in May 2021 for $91.7 million. Leased to ABC Tissue Products for an initial two-year period, then re-leased for 10 years to Cottonsoft.

32 HONAN PLACE

Avondale. Acquired in November 2021 for $3.1 million with a short-term lease in place.

03.

CRYSTAL CLEAR

ABOUT OUR

FOCUS

Industrial property has been buoyant for a while now. While property trends come and go, the PFI team remains confident there is still growth potential within the sector.

ALL THE INDICATIONS are that the impacts of the COVID-19 pandemic will continue to be an influence, meaning many of the macro factors that have driven up values and returns in the sector are likely to remain in play. Supply chain shortages and delays mean businesses will want to have more of their inventory onshore, quality logistics space will be sought after, e-commerce demand will remain strong even as retail reopens and, although inflation is now back on the table, the returns that investors can get from the industrial property sector will remain competitive.

These factors help explain why industrial is still seen as a safe haven. They also rationalise why brands are committing to longer leases for their industrial and logistics assets.

"Our refreshed strategy takes account of these drivers and builds on our previous momentum," says Chief Executive Officer Simon Woodhams. "Within our strategy, there are small but significant changes to notice. Our core assets underpin our portfolio and will continue to do so, but specialist assets and those where we can purchase property and add value are important opportunities to build new relationships, improve the portfolio and drive returns. These investments can have slightly longer timeframes in terms of realising their potential, which is why we have adjusted our dividend policy to a three-year window."

_ 22 Whakatu Road, Hastings

A STRONG MARKET HERE IS A REFLECTION OF GLOBAL TRENDS

A REVIEW OF industrial property by commercial real estate services firm CBRE confirms that many of the upward pressures for the industrial sector are global. CBRE's review found that reliable inventory levels are now a priority for businesses everywhere alongside concerns over labour shortages and disruptions to supply chains.

Consumer expectations for timely delivery remain high, fuelling a diversification in the scale of distribution facilities. Investor interest is also expected to grow. CBRE's study found that industrial real estate fundamentals were largely unscathed by the pandemic-led global recession, and this resilience has continued. Globally, e-commerce growth, inventory control, economic recovery and supply chain diversification will continue to drive industrial fundamentals, with low vacancy rates, strong demand and rental growth forecast.

Within the Asia-Pacific region, there is evidence of strong leasing activity on the back of solid economic growth and a recovery in global trade. There is also a rise in demand for specialised facilities. CBRE's view is that strong leasing demand will underpin further rental-rate increases but that there will be intense competition for properties in emerging locations.

CURRENT OCCUPANCY

100 %

PORTFOLIO YIELD

4.41 %

CONTRACT RENT

$ **95.6** MILLION

PFI's experiences this year align with many of these findings. E-commerce has continued to grow - even accelerate – and companies are looking to cater to these changes in consumer demand. A shift away from "just in time" to "always here" is not only changing how warehouses operate but also keeping occupation levels very high and new demand strong.

INITIATIVE IS STILL THE KEY TO SUCCESS

"NEW ZEALAND COMPANIES are fast learners," says Simon Woodhams. "In the last 12–18 months, companies have made time to adapt their business models. They are still worried about availability of labour, but many are in good health. They have shored up their cash reserves and invested in business models. And of course, if they are based in Auckland but they trade nationally, they have been able to do business with the rest of the country, which has been much less affected by lockdowns."

In light of all this, why then did the PFI team choose to refresh the strategy?

"Our record results this year should be seen in context," says Simon Woodhams. "We have acquired a lot of property, partly because the transactions happened to fall that way and because our low gearing and renewed bank facilities enabled us to take advantage of the opportunities. We also benefited from the settlement of Carlaw Park.

"Growing our dividends isn't simply a case of rinse and repeat. The industrial property sector is still the most resilient and attractive property type in our view, but initiative remains key to sustained success alongside discipline."

PORTFOLIO MAXIMISATION WILL HELP BOLSTER RETURNS

PFI'S TEAM HAS drawn a distinction between portfolio growth and dividend growth. "Growth of the portfolio is only pursued in order to continue to secure stable, consistently rising returns for our investors," explains Chief Finance and Operating Officer Craig Peirce. "We're not here to land grab. Everything we acquire and the assets we choose to divest reports to building a purer industrial portfolio that collectively works effectively for our investors."

One of the tensions that the team has sought to resolve through the new dividend policy is that, in an increasingly competitive industrial property sector, earnings could be changeable, slipping in one year and

"Growing our dividends isn't simply a case of rinse and repeat."

SIMON WOODHAMS
Chief Executive Officer

_ 44
Noel Burnside Road, Wiri

"Incorporating a longer-term view will help us to drive up total shareholder returns."

CRAIG PEIRCE
Chief Finance and Operating Officer

rising in another. The policy seeks to balance returns with what's best for the business long term with year-on-year dividend growth by targeting dividends at 90 – 100% AFFO on a rolling three-year basis, coupled with annual dividend increases.

"The industrial sector is no longer just for passive investors looking for passive income. Incorporating a longer-term view will help us to drive up total shareholder returns," says Craig Peirce. "Annual earnings as measured by AFFO may move around, but our aims are for increasing dividends and earnings that move up over a timeframe beyond any single year."

In terms of maximising the portfolio, there are four aspects. The first is to connect parcels of land, where it makes sense to do so, to turn individual holdings into estates. The second is to look through the current environment to cater for the medium to longer-term needs for logistics in demand areas. The third is to identify core and specialist asset opportunities in regional New Zealand, where the leases, terms and clients can be attractive. The final aspect is to leverage the Company's balance sheet capacity to acquire accretive properties that make sense.

SCALE BRINGS NEW OPPORTUNITIES

"WE ARE VERY pleased to have finalised new funding arrangements this year. Industrial land supply is quickly being absorbed by high levels of demand for more space and new warehousing," says Simon Woodhams. "Only a certain number of players can operate with scale to accommodate that demand. With our $2 billion plus portfolio, PFI has the ability to meet the market."

THE INFLUENCE OF ESG

WHILE THE FOCUS on long-term value creation continues to influence the opportunities that PFI pursues and tenant choice is as careful as ever, ESG is playing an increasingly vital role in our decision making. "It's another lens for everything we do," says Simon Woodhams, "to the point where we also now evaluate tenants in terms of their carbon footprint, their environmental track record and their dependence on fossil fuels.

"Our key climate commitments include $2 million to reduce emissions from our HVAC systems, pursuing Net Zero Scope 1, Scope 2 and selected Scope 3 emissions and transparency for our stakeholders on our climate impacts."

LOOKING FORWARD TO WHAT'S AHEAD

A LOT OF hard work has gone in to making this year such a success. It's an exciting time – prospering in an asset class that is now very much recognised – with a great portfolio, a strong and experienced team, full occupancy, increasing rents and long, secure tenancies. The refreshed strategy and new dividend policy give new clarity around priorities and enable the Company to continue pursuing exciting opportunities to meet both investor and occupier demands. ■

PURPOSE

We generate income for investors as professional landlords to the industrial economy, generating prosperity for New Zealand.

VISION

We will be one of New Zealand's foremost Listed Property Vehicles.
Our measures will be performance, quality, scale and reputation.

STRATEGY

We will build on what we have and we're true to who we are. But we will be more intentional; more proactive.

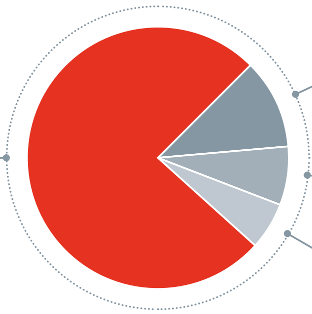
FIRST CLASS MANAGEMENT

CONTINUOUS PORTFOLIO IMPROVEMENT

GROWING RETURNS TO SHAREHOLDERS

WE ARE TARGETING A FOUR-PART PORTFOLIO COMPRISING THE FOLLOWING:

CORE GENERIC HOLDINGS
73–84%
CURRENT : 79%

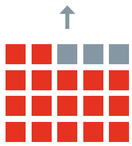


BROWNFIELD OPPORTUNITIES
10–15%
CURRENT : 10%

ASSETS HELD FOR SALE
1–2%
CURRENT : 1%

SPECIALISED ASSETS
5–10%
CURRENT : 10%

AUCKLAND
75–85%
CURRENT : 82%

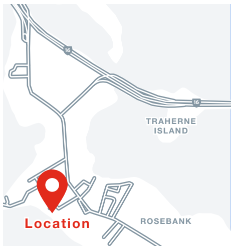


OUT OF AUCKLAND
15–25%
CURRENT : 18%

04.

RECOGNISING THE POTENTIAL

CASE STUDIES

32 **HONAN PLACE, AVONDALE** —		**PURCHASE PRICE** $3.1 million	1,436 sqm site adjoining 15 Jomac Place. **Net lettable area:** Two connecting buildings, a 537 sqm clear-span medium-stud warehouse building and a two-level office and amenity block of ~208 sqm.	**OUR ROLE** Purchased "as is" with an intention to integrate the property in time with 15 Jomac Place.
520 **ROSEBANK ROAD, AVONDALE** —		**PURCHASE PRICE** $5.2 million	3,069 sqm site situated down a shared driveway off Rosebank Road. **Net lettable area:** 792 sqm warehouse, 193 sqm of office along with associated canopy, yard and parking areas.	**OUR ROLE** Purchased off-market via a sale and leaseback transaction with the current tenant Kenderdine Electrical.

_ 32 Honan Place, Avondale

TWO OF THE smaller acquisitions this year have enabled PFI to achieve important "marriage value" gains. Both deals underline the importance of managing the portfolio holistically to unlock value.

The property at 32 Honan Place, Avondale, comprises two small buildings: a medium-stud warehouse and an office and amenity block. Its significance, however, lies in the fact that it adjoins PFI's much larger property at 15 Jomac Place to the north.

15 Jomac Place works operationally for the current tenant but has very limited yard relative to the size of the warehouse. In effect, the yard is too small to allow heavy vehicles to manoeuvre easily. Acquiring the Honan Place site means that,

“We have acquired properties that provide ongoing income, with opportunities to unlock future added value.”

SIMON WOODHAMS
Chief Executive Officer

_ 32 Honan Place, Avondale

in time, the Company can resolve those constraints by demolishing the older buildings at 32 Honan Place, creating an access road and adding further car parks.

520 Rosebank Road, also in Avondale, is located directly adjacent to the ETEL site at 528–550 Rosebank Road. The two properties share, via easements, a main egress point onto Rosebank Road and a secondary egress point to Saunders Place.

The Company acquired the property through an off-market sale and leaseback transaction with Kenderdine Electrical, which on settlement, entered into a six-year lease term. The property itself comprises a 792 sqm warehouse, 193 sqm of office along with associated canopy, yard and parking areas. Acquiring this property offers future development opportunities over the combined site in the medium to long term.

Merging the two properties at 520 and 528–550 Rosebank Road again enables PFI to form an enlarged single estate holding, with greater future potential.

“Both these acquisitions align with our strategy to invest in well-located industrial property and, through doing that, to create highly generic and scalable industrial estates in the sought-after industrial precinct of Avondale. In both cases, we have acquired properties that provide ongoing income, with opportunities to unlock future added value,” says Chief Executive Officer Simon Woodhams.

_ 520 Rosebank Road, Avondale

05.

ON A ROLL

CASE STUDIES

44 NOEL BURNSIDE ROAD, WIRI

—

PURCHASE PRICE
$91.7 million

36,257 sqm site close to the Southern Motorway.
Net lettable area: 20,517 sqm.

OUR ROLE

Originally purchased and let to ABC Tissue. Subsequently leased to Cottonsoft for 10 years after ABC Tissue decided to exit its New Zealand operations.

44 NOEL BURNSIDE Road is on the corner of Noel Burnside Road and Cavendish Drive in Wiri. The 3.64 hectare site boasts good transport links north and south via State Highway 20, which is less than 200 metres away. There is a single large warehouse on the site of around 17,500 sqm along with a small office, canopies and heavy-duty yard areas.

PFI acquired the property in May 2021 via a sale and leaseback transaction with ABC Tissue on an initial two-year term. The strategy was to allow the lease to run its course and then secure a longer-term lease at some point in the future.

However, just a few months later, ABC Tissue decided to wind up its New Zealand operations and to sell its assets to Cottonsoft. As part of the agreement, Cottonsoft signed a new 10-year lease for the site.

Originally, PFI envisaged that the expiry of the ABC Tissue lease and securing a new lease would be staggered with potential larger lease expiries within the Company's portfolio in around three years' time. Instead, through the deal with Cottonsoft, the Company was able to secure a new tenant years ahead of schedule, with a lower level of downtime. The 10 year term also added around half a year to the Company's weighted average lease term.

_ 44
Noel Burnside Road,
Wiri

"44 Noel Burnside Road is a quality property, but it came with the risk of a short initial lease," says Chief Finance and Operating Officer Craig Peirce. "However, subsequent developments saw it become a core asset with a large, international tenant prepared to commit to a much longer timeframe." ■

_ 44
Noel Burnside Road,
Wiri

44 Noel Burnside Road [has] become a core asset with a large, international tenant prepared to commit to a much longer timeframe."

CRAIG PEIRCE

Chief Finance and Operating Officer

06.

OPPORTUNITIES BEAR FRUIT

CASE STUDIES

22 WHAKATU ROAD HASTINGS
—

PURCHASE PRICE
$79.5 million

9.56 hectare site close to State Highways 51 and 2.
Net lettable area: 36,580 sqm of building area plus yard areas.

OUR ROLE
We purchased the site from ENZIL and then leased it back to them on a 15-year triple-net lease term.

_ 22
Whakatu Road,
Hastings

PFI'S PURCHASE OF the Whakatu West site at 22 Whakatu Road, Hastings, has been a win/win for New Zealand's biggest pipfruit producer and the Company.

ENZIL, a wholly owned subsidiary of T&G Global Limited, was looking to divest its Hawke's Bay fresh produce processing facility to support its growth strategy while continuing to operate onsite operations via a 15-year triple-net leaseback arrangement with rights of renewal for a further 20 years. For ENZIL, entering into this agreement allowed them to unlock funds to reinvest back into the core business, continue building out key global markets and invest in innovative technology and physical assets.

The site itself is substantial, occupying around 9.56 hectares in one of New Zealand's major produce-growing regions, close to State Highways 51 and 2. It's home to more than 36,000 sqm of post-harvest operations in Hawke's Bay, including a packhouse, two coolstores, warehousing and 3.7 hectares of storage yard. The four buildings could be returned to generic warehousing if need be, while the yard areas are currently used for crate storage and offer potential future redevelopment opportunities.

For PFI, the site offers a range of advantages that align directly with the Company's strategy.

"Acquiring this key site in Hawke's Bay gives us a strong presence in New Zealand's high-value primary sector."

SIMON WOODHAMS
Chief Executive Officer

Firstly, the PFI team recognised that the property would deliver a competitive return that was comfortably above PFI's current weighted average cost of funds.

Secondly, the site aligned with the portfolio target of 5–10% specialised assets. Prior to this purchase, PFI's portfolio comprised 6% specialised assets. The acquisition of the property lifted this to 10%.

Finally, the purchase fell within the portfolio target of 15–25% assets located outside of Auckland. Before PFI bought Whakatu West, the portfolio was weighted 14% to out of Auckland. The acquisition of the property saw that proportion to 18%, again within the range targeted by the strategic direction.

"Acquiring this key site in Hawke's Bay gives us a strong presence in New Zealand's high-value primary sector," explains Chief Executive Officer, Simon Woodhams, "as well as securing us a specialised asset occupied long term by a tenant operating an essential service. The arrangement gives ENZIL certainty around site and growth funds and secures us a property that is strongly accretive and directly increases our weighted average lease term by around half a year." ■

07.

THE EVOLVING SUSTAINABILITY LANDSCAPE

2021 has been another challenging year for our community, our people and our business. The ongoing challenges of the COVID-19 pandemic, and the increasing awareness of the scale of transformation required for communities to operate more sustainably, can invite a temptation to adopt a reactive position – to wait for certainty and clarity before plotting a course. "At PFI, we recognise this is not the right approach for us," says PFI Chief Executive Officer Simon Woodhams. "Instead, we have taken a proactive position by embedding sustainability in our culture so that we are pre-empting risks, acting on opportunities and taking responsibility for our impacts. This means being astute to changes and trends in the ever-evolving sustainability landscape and responding strategically."

"Tackling operational and embodied emissions is complex and challenging."

LUKE GLEN
Senior Property Manager

The drive to reduce emissions

During 2021, we observed the New Zealand Government's publication of its first draft emissions reduction plan, which sets out sector-based policies and strategies to reduce greenhouse gas emissions. Most relevant for PFI is the Government's ambition to reduce both the operational and embodied carbon emissions of buildings, which MBIE will lead through its Building for Climate Change programme. Operational emissions stem from the everyday use of a building, while embodied emissions largely relate to materials and products that form the building itself. PFI seeks to address both operational and embodied emissions. During 2021, PFI began work to replace its heating, ventilation and air-conditioning (HVAC) systems that use R22 refrigerant gas (which depletes the ozone layer and has a high global warming potential) in order to reduce operational emissions. This is complemented by a focus on embodied emissions through creation of a new framework for completing building refurbishments in a more sustainable way and preparations to seek Green Star certification for major new developments.

"Tackling operational and embodied emissions is complex and challenging," says Luke Glen, Senior Property Manager at PFI. "We may not see an immediate drop in our emissions, but over the long run, doing this well will significantly reduce our environmental impact and directly support the ability of our tenants to reduce theirs. It's worth the investment."

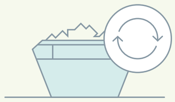
With sustainability being front of mind for many tenants, PFI has an opportunity to work with tenants to add value in a sustainable way. Notably, sustainable practices played a key role in PFI securing a lease renewal to Electrolux at 3-5 Niall Burgess Road during 2021.

CASE STUDY

ELECTROLUX AT 3-5 NIALL BURGESS ROAD
—

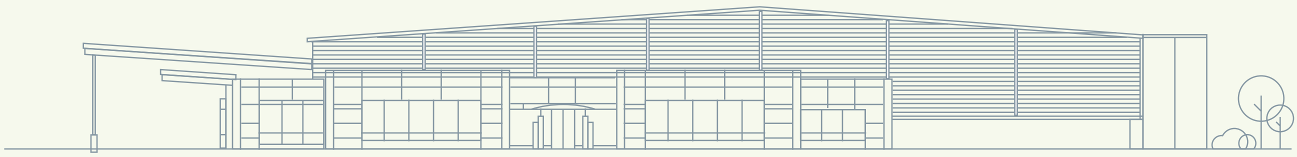
When Electrolux's lease at 3-5 Niall Burgess Road was due for renewal, sustainability was front of mind for them when considering their future requirements. PFI was able to offer a proposal to retain Electrolux as a tenant, by completing a refurbishment that enhances the operational efficiency of the existing building, while ensuring that we carefully manage the impacts of the refurbishment works. This includes:

Recycling or reuse of construction and demolition waste

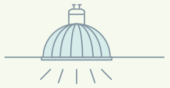


Replacement of ozone-depleting R22 air-conditioning units

Landscaping that employs sustainable design, planting and maintenance practices



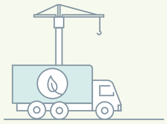
> **"This refurbishment is an important step in Electrolux's journey to reduce 80% of our carbon emissions from operations by 2025."**
>
> **DAVID MAIR**
> Head of Logistics ANZ, Electrolux Home Products Pty Ltd



New energy-efficient LED lighting throughout the building

Water-efficient fittings

Low-VOC materials and finishes



Use of sustainable building materials

Importantly, rejuvenating this existing building has a significantly lower environmental impact compared to developing a new building, as the majority of the steel and concrete is already in place. Refurbishing allows us to modernise the property, enhance functionality and create a more sustainable space for our tenants to enjoy for many years to come.

The impetus to respond to climate change

As anticipated, publicly listed companies in New Zealand will soon be required to report their approach to climate-related risks under the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill. The External Reporting Board (XRB) will provide reporting standards that align with the disclosures recommended by the Taskforce on Climate-related Financial Disclosures (TCFD). Before this legislation was introduced, PFI had already begun work to analyse, respond to, and report its climate-related risks and opportunities. Our second report in line with the TCFD recommendations can be found on pages 33–39. These disclosures enable our lenders, investors and other stakeholders to understand how the potential effects of climate change could impact our business, and how we are addressing those risks.

"For PFI, TCFD isn't just a compliance exercise," says Sarah Beale, Head of Sustainability and Operations at PFI. "It's an opportunity for us to understand the impacts of climate change on our business and ensure that we are setting ourselves up to continue to build on PFI's strong legacy of performance. We know that changes are coming so we are preparing for that, while also continuing to stay true to the things that make PFI such a strong and stable company."

The growth of sustainable investment

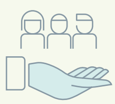
ESG-aligned investing has markedly increased. From a global perspective, the assets managed by the 3,826 signatories to the Principles for Responsible Investment (PRI) rose by 17% from US$103 trillion to US$121 trillion in the 12 months to 31 March 2021.[1] The PRI is a United Nations-backed network of international investors working to implement rigorous ESG-based principles into their investment decisions. Domestically, the market for responsible investment rose to $142 billion of assets under management in 2020 – a jump of 28% on 2019 levels.[2] A natural consequence of the growing demand for responsible investment opportunities is the need for high quality ESG information. At PFI, we report on sustainability in accordance with the disclosures required under the GRI Standards – the most widely used sustainability reporting standards globally. We have also standardised our carbon emissions disclosures through the Carbon Disclosure Project and align our reporting of climate-related risks with the recommendations of the TCFD. According to Craig Peirce, Chief Finance and Operating Officer at PFI, the consistency and comparability of non-financial information over time is essential for investors considering ESG performance. Peirce notes that PFI's work to date on disclosures ensures that the Company is well positioned to support this.

Within this landscape, we also cannot ignore the growing social pressures that seek to hold decision makers to account, both at the political level and for private enterprise. We recognise our obligation to address our impacts and prepare PFI for current and future sustainability challenges. Through robust strategic decision making, collaboration and preparation, we are confident that PFI will effectively navigate the evolving sustainability landscape and continue delivering for our investors and other stakeholders. ■

1. PRI, 2021. Annual Report 2021, Enhance our global footprint. Retrieved from https://www.unpri.org/annual-report-2021/how-we-work/building-our-effectiveness/enhance-our-global-footprint, Nov 2021.
2. Responsible Investment Association Australasia, 2021. Responsible Investment Benchmark Report 2021, New Zealand. Retrieved from https://responsibleinvestment.org/resources/benchmark-report/, Nov 2021.

STEPS TOWARDS A SUSTAINABLE HORIZON

STRATEGIC THEMES



Taking care of our team

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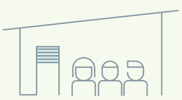


Looking after our tenants

—

Responsible property ownership

—

Delivering for our investors

—

The purpose of this report is to transparently communicate the positive and negative impacts we have on people and planet, to explain how we are addressing such impacts, and to provide insight into our sustainability-related risks and opportunities.

OVERVIEW

In 2019, we ventured out to create an approach to sustainability that aligns with PFI's purpose: to generate income for investors and long-term prosperity for New Zealand. Notably, this included measuring our greenhouse gas (GHG) emissions for the first time and setting a baseline year from which to evaluate progress. 2020 saw us enhance our health and safety systems, expand the scope of our GHG emissions measurement, formally assess our exposure to climate-related risks and opportunities, and support our most vulnerable tenants affected by the COVID-19 pandemic. We also committed $2 million to phase out especially harmful refrigerant gases from our heating, ventilation and air-conditioning (HVAC) systems. Our primary focus in 2021 has been to:

- begin replacing the environmentally harmful refrigerant gases with a more modern gas that has a much lower impact on the environment;
- take positive steps to address our indirect carbon emissions associated with our supply chain;
- support our tenants, our team and our communities with the ongoing challenges of the COVID-19 pandemic; and
- further build our capability to evaluate and respond to climate-related risks.

In terms of our impact on people and planet, we remain clear that meeting our ambitions will require long-term commitment, long-term thinking and no shortage of hard work. We are confident that our approach will enable PFI to mitigate risks and capitalise on opportunities for long-term value creation. 2021 marks a positive series of steps towards a sustainable horizon.

TAKING CARE OF OUR TEAM

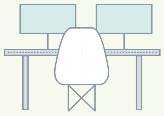
We know that taking care of our team and wider community is an essential part of our sustainability approach, and by doing so, we are able to ensure that we attract and retain a talented and effective workforce.

Team health, safety and wellbeing

The risks to health, safety and wellbeing for our head office team include those associated with the office environment (such as psychological stress and ergonomics) and those associated with site visits. Risk management initiatives for our head office team include:

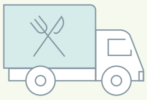
- staff induction and ongoing training;
- provision of ergonomically designed workstations;
- a staff wellbeing programme that includes funding for periodic health checks and access to a clinical psychologist;
- team engagement with the communities in which we operate;
- safety protocols for site visits; and
- governance and incident management through our Office Health & Safety Committee.

TEAM WELLBEING SUPPORT



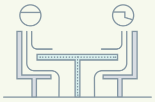
To support wellbeing during the COVID-19 lockdown, we set our team up with home office equipment, provided mental health support, and provided an additional day of annual leave.

AUCKLAND CITY MISSION



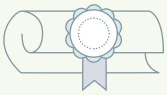
We donated $5,000 to the Auckland City Mission for food parcels to support vulnerable communities during the 2021 COVID-19 lockdown. We also decided to gift over 300 boxes of cookies to the Mission that we would normally send out as Christmas gifts due to unprecedented demand from people in need at Christmas.

STAFF SURVEY



PFI has a growing team. We sought to understand our strengths and development areas using a staff survey to ensure we can continue to attract and retain a talented team. We achieved a 100% participation rate and staff engagement score of 83%.

KEYSTONE NEW ZEALAND PROPERTY EDUCATION TRUST



PFI provided $10,000 in sponsorship funding during 2021 as part of our continued support for the Keystone New Zealand Property Education Trust. The Trust provides opportunities to students with financial need or adverse circumstances to pursue tertiary studies in the property sector.

COVID-19 support

The COVID-19 pandemic has continued to present an array of challenges for businesses during 2021. This year, as in 2020, we sought to balance support for our tenants with our obligations to our other stakeholders. As the economic impacts of COVID-19 are not felt in equal measure across all businesses and industries, we provided rent abatement and deferrals to our tenants that experienced the most hardship.

	2021	2020
Abatements	\$0.7m	\$0.9m
Rent deferrals	\$0.2m	\$0.6m
% of annual rental income	0.9%	1.8%

Health, safety and wellbeing framework

PFI has implemented a formal health, safety and wellbeing framework that provides a practical and enduring system to ensure that our approach to health, safety and wellbeing goes beyond adherence to the Health and Safety at Work Act 2015. The framework sets out our objectives, policies, risk management controls and responsibilities across our team. The framework is reviewed annually, approved by our Chief Executive Officer and overseen by our Health & Safety Committees.

The health and safety incidents in the table below reflect incidents that were reported to us across our operations during 2021:

H&S INCIDENTS	2021	2020
Incidents that did not result in injury	8	11
Injuries	8	4
Total recorded incidents	16	15

Property risk management

The development, maintenance and ongoing management of our properties present a range of risks to our tenants and visitors to those properties, such as those arising from electrical hazards, roof access, contaminants and fire risks. Risk management initiatives for our properties include:

- prequalification requirements and induction for contractors;
- periodic and independent property risk assessments;
- asbestos management protocols;
- requirements for safety plans and site inspections for development projects; and
- governance and incident management through our Property Health & Safety Committee.

Hazard management

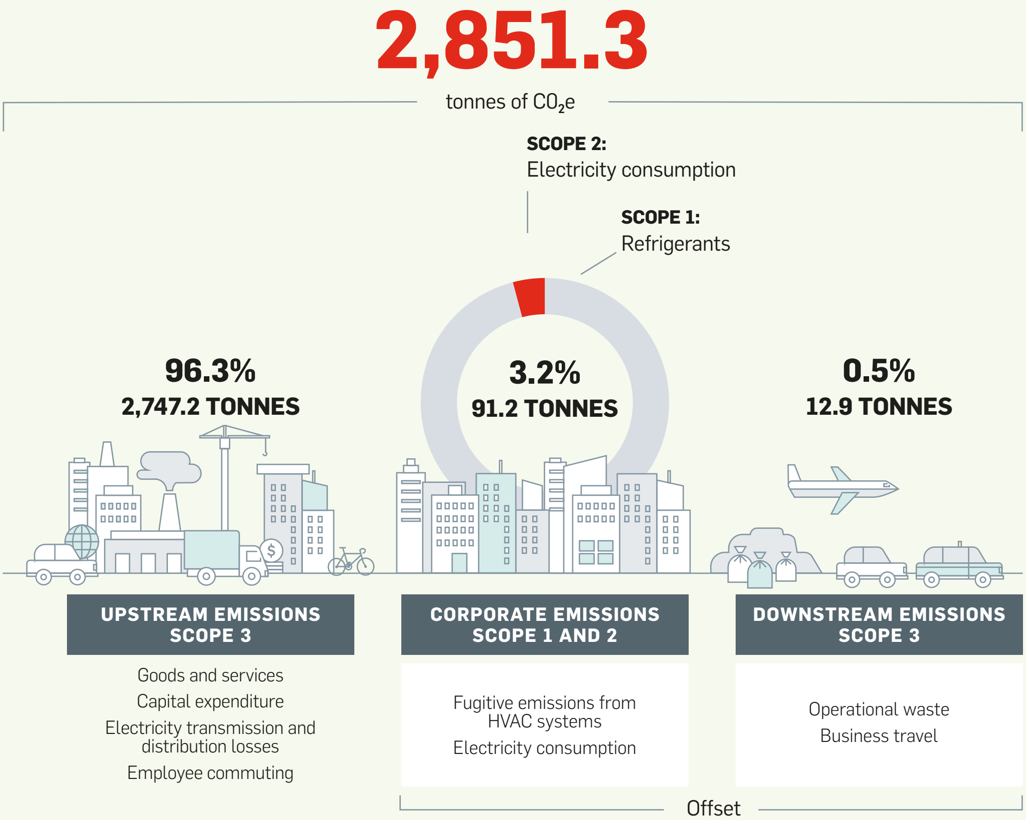
Hazards are identified through physical inspections, qualitative assessments, and analysis of accidents and near misses. Identification exercises are required following major changes, and hazards must be evaluated and recorded in a hazard register. Competency for hazard management and incident response is ensured through induction and routine training. Procedures for hazard management, such as corrective action, hierarchies of control and reporting, are monitored for improvement by our Health & Safety Committees and align with WorkSafe New Zealand standards.

At the end of 2020, our hazard register identified 125 high-risk landlord hazards that predominantly concerned electrical hazards and hazards from working at heights. High-risk hazards may cause extensive injuries or long-term serious illness and have a moderate to high chance of occurring. Collaboration with our facilities management partners in 2021 ensured that 90% of these hazards are now eliminated or, where not practicably possible, controlled, with work continuing on the remaining 10% which require tailored solutions, and new hazards identified through the year.

OUR VALUE CHAIN EMISSIONS

% TOTAL FOOTPRINT

EMISSIONS SOURCE



SCOPE	CATEGORY	FY19 (tCO_2e)	FY20 (tCO_2e)	FY21 (tCO_2e)
SCOPE 1				
Direct Emissions	Fugitive emissions (refrigerants)	94.5	116.8	76.8
	Vehicle fuel	Covered under Category 6	Covered under Category 6	0.2
SCOPE 2				
Indirect Emissions	Electricity consumption (location based)	15.5	5.4	14.2
Scope 1 and 2	**Total Scope 1 and Scope 2 Emissions**	**110.0**	**122.2**	**91.2**
SCOPE 3				
Other Indirect Emissions	Category 1: Purchased goods and services[1]	Not measured in 2019	111.3	117.4
	Category 2: Capital goods[1]	Not measured in 2019	2,564.7	2,615.0
	Category 3: Energy and fuel	Not measured in 2019	0.5	1.2
	Category 5: Waste generated in operations	0.7	0.5	0.2
	Category 6: Business travel	19.8	9.4	12.7
	Category 7: Employee commuting	Not measured in 2019	15.1	13.6
	Total Scope 3 Emissions	**20.5**	**2,701.5**	**2,760.1**
TOTAL Scope 1, 2 and 3 Emissions		**130.5**	**2,823.7**[2]	**2,851.3**

Overall, our emissions profile has not materially changed on 2020 levels.

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

(2) This year, we have restated our carbon footprint for FY20 due to an overstatement of Scope 3 emissions found when preparing this report. Category 1 emissions were originally reported as 215.2 tCO_2e; they are restated here as 111.3 tCO_2e. Category 2 emissions were originally reported as 3,565 tCO_2e. They are restated here as 2,564.7 tCO_2e. Total emissions reported in 2020 have therefore been restated as 2,823.7 tCO_2e. The restatement stems from a calculation error that was identified while completing the FY21 carbon footprint calculations.

The environmental impacts of developing and maintaining PFI's buildings largely derive from the materials used in construction and maintenance, and the refrigerants used in HVAC systems managed by PFI. Our stakeholders expect PFI to deliver strong environmental compliance and performance.

Sustainability Policy

PFI's Sustainability Policy embeds sustainable thinking into our decision making through delegated roles and responsibilities covering everyone in our business. The policy includes triggers for engagement, such as when engaging with contractors or entering into lease agreements.

Tackling fugitive emissions

Fugitive emissions from our HVAC systems remain the most significant emissions source from our direct operations. These emissions are released when the refrigerant gases used in our HVAC systems (including R22) leak directly into the atmosphere. Our use of R22 gas, a standard industry refrigerant, not only contributes to climate change but also damages the ozone layer. While the amount of R22 gas released into the atmosphere is small, its global warming potential is almost 2,000 times the potency of carbon dioxide, meaning refrigerants are our biggest opportunity to make meaningful reductions on our direct footprint.

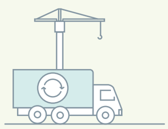
We are committed to removing ozone-depleting R22 refrigerants from our portfolio that are within our operational control and replacing them with gases with a lower global warming potential. In 2020, we committed $2 million to phase out the use of R22 gas from our portfolio over three years. During 2021, we invested $688,000 on HVAC upgrades, fully removing systems that use R22 gas from 12 properties. This contributed to a reduction in our Scope 1 emissions during 2021. Our Scope 1 emissions decreased by 34% on 2020 levels, although we note that some of this change will be attributable to usual year-on-year fluctuations. This programme will run until the end of 2023, after which we commit to continuing to phase out R22 associated with new acquisitions.

Tackling indirect emissions through sustainable design

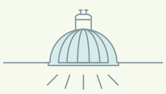
Scope 3 emissions from goods and services expenditure and capital expenditure continue to represent our most material sources of indirect emissions. These emissions, in particular those that arise from our suppliers' construction-related activities, are considered a consequence of our operations. Avoiding and reducing indirect emissions in our supply chain is a complex and ongoing challenge. Reducing these emissions will require industry-wide collaboration and development of new technologies over time. That being said, one of the most impactful things we can do to reduce emissions is to extend the life of existing buildings because that greatly reduces the need to produce high-emitting materials like steel and cement – see our case study on page 23.

This year, we developed a sustainable refurbishment framework that prioritises low-impact materials and resource-efficient design features. The framework recognises that each refurbishment is unique and ensures we have a range of sustainable design options to consider for each refurbishment. We are seeing increased interest from existing and prospective tenants on sustainability. The intention of this framework is to prepare for, and capitalise on, such opportunities as they arise to incrementally reduce negative impacts across our portfolio.

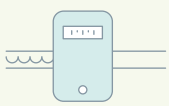
A SUSTAINABLE REFURBISHMENT MIGHT INCLUDE:



Reuse of existing building materials



LED lighting

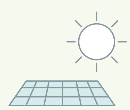


Efficient water flow fittings

Reducing volatile organic compounds

Replacing HVAC systems that use R22 gas

Rainwater harvesting



Solar

Sustainable landscaping

This year, we have begun engaging with our suppliers and contractors to create a pathway for seeking Green Star certification for future developments. The Green Star system evaluates a building across a range of categories, such as materials, emissions, and innovation, and has started to inform our future development and refurbishment decisions. For example, we have registered a development at 30-32 Bowden Road for Green Star certification, which will commence in 2023. Green Star ratings are administered by the New Zealand Green Building Council (NZGBC), a network of property and building businesses aiming to normalise market-based green practices. PFI is a member of the NZGBC.

Offsetting our residual impacts

Our primary ambition is to reduce our emissions through effective reduction initiatives before we look at offsetting. However, we are aware that despite our efforts to reduce our footprint, our operations will inevitably continue to affect the environment.

We therefore remain committed to measuring and offsetting our Scope 1, 2 and selected Scope 3 emissions through high-quality offsets and ensuring transparency for our stakeholders on our climate impacts.

We have offset our 2021 Scope 1, 2 and selected Scope 3 emissions[1] with certified carbon credits. These credits are sourced from projects that reafforest, grow and protect forests in Aotearoa and the Pacific Islands and help to deliver climate resilience, waterways protection, erosion control, biodiversity conservation and community economic development[2]. These carbon credits have enabled us to achieve Net Zero Carbon Business Operations certification with Ekos for the 2021 financial year.

Solar opportunities

This year, we investigated solar panel installation at selected PFI properties. While solar is a less-developed area of our ESG strategy, electricity price signals, emerging regulation and tenant demand suggest solar panel installation is a meaningful commercial opportunity aligned with our ESG strategy. We hope to pilot a solar panel project in 2022 and, going forward, we will ensure that the structural design of new developments allows for solar installation.

Addressing seismic risk

We have a programme of work in place to assess (and where appropriate, improve) the seismic ratings of each property in our portfolio to reduce the likelihood of damage and harm as a result of earthquakes. This is a substantial programme spanning several years that addresses all earthquake-prone buildings and lifts them to B or A grade status. Seismic risk is also carefully considered when acquiring new properties as part of our due diligence process. When undertaking seismic upgrade work, we generally aim to lift the seismic rating of the property to A grade. During 2021, we completed several seismic upgrades and improved the ratings of six of our buildings to A grade.

1. Including waste, business travel, energy and fuel, and employee commuting; excluding goods and services and capital expenditure.
2. Carbon credits are retired on either the NZETS registry for New Zealand projects and the Markit registry for the pacific project.

Our ESG strategy

Since the adoption of our ESG strategy in 2019, we have made promising headway across our strategic themes, especially in terms of climate-related impacts and health and safety. However, we acknowledge the job is far from complete.

To date, our ESG strategy has helped to construct a useful platform, positioning PFI to adapt to change and build resilience. Since that strategy was created, there has been growing sustainability momentum in the external environment and sustainability has become a more embedded part of what we do at PFI. In 2022, we anticipate a refresh of our current ESG strategy, with an intention to simplify the framework, tighten our focus, reflect the interaction with our business strategy and understand how our stakeholders' expectations have changed over the last three turbulent years. The role that PFI will play in the collective movement of the global community to net zero by 2050 is a key sustainability consideration for PFI, and will form part of our thinking for this refresh. This may include the development of more comprehensive measurement and feedback systems, as well as an assessment of the technological levers accessible to support PFI's ambitions.. For the purposes of evaluating our impact on people and planet in 2021, PFI's current materiality matrix remains relevant:

PFI ESG STRATEGY

PURPOSE

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

VISION

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

ESG PRIORITIES

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

STRATEGIC PILLARS

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

STRATEGIC THEMES

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

PFI MATERIALITY MATRIX

Material topics

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

Improving our climate resilience

Both the physical and transition risks posed to people and planet by climate change are staggering. In 2020, we began to understand the exposure of PFI to climate-related risks and opportunities through our first TCFD-aligned assessment. To augment our second round of TCFD in 2021, we engaged S&P Global to help sharpen our understanding of the physical climate-related risks associated with individual properties. S&P Global's analysis indicated that, overall, PFI is exposed to low to moderate physical climate-related risks. Four properties have been assessed as having a heightened exposure to a particular climate-related hazard. This knowledge puts PFI in a good position to consider these hazards as part of asset management decisions such as future capital expenditure. The outcome of this assessment is pleasing because it validates conclusions drawn from 2020 that PFI's strategy remains robust to the impacts of climate change, provided we remain responsive to climate risks as they evolve.

A detailed account of how PFI manages physical and transitions risks can be found in our TCFD disclosures on pages 33–39.

Enhancing sustainability due diligence for new acquisitions

PFI has always taken a thorough approach to due diligence for new acquisitions, considering things like seismic risk and tenant covenant and activity. Our work to understand PFI's climate-related risks and opportunities has further enhanced our approach and influenced PFI's decision making on new acquisitions. Climate change is now an additional lens for us to consider for the occupation and future upgrade requirements of a potential acquisition. The exposure of a property itself to climate-related physical hazards is also a significant consideration that has influenced PFI's decisions regarding acquisition activity during 2021.

Maintaining our transparency

The Carbon Disclosure Project (CDP) is a globally recognised disclosure system that provides investors and other stakeholders with relevant information on climate impacts. Our second annual response to the CDP questionnaire achieved B-. This was an improvement on our 2020 submission, which scored a C. This indicates an improvement in how we measure, understand, and manage our greenhouse gas emissions over time.

CLIMATE-RELATED DISCLOSURES

(TCFD REPORT)

PFI recognises that we need to proactively manage the risks and opportunities that arise from climate change, just as we manage all other risks and opportunities facing our business. We are pleased with the progress that we have made during 2021 to further strengthen our understanding of, and response to, our climate-related risks and opportunities. In particular, PFI has undertaken an exercise to understand the resilience of individual assets in PFI's portfolio to climate change in different climate change transition pathways. We were pleased to find that PFI's portfolio overall has a low to moderate physical risk exposure. We have also taken steps during the year to strengthen how we integrate climate considerations into our due diligence processes for the acquisition of new properties.

This report provides information about the actions that we are taking to identify and manage climate-related risks and opportunities. The following disclosures have been prepared in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which provides a framework for climate-related financial disclosures across four core elements: governance, strategy, risk management and metrics and targets. This is PFI's second report in line with the TCFD recommended disclosures. We note that PFI will be required to provide mandatory disclosures in line with the TCFD recommendations from 2023. These voluntary disclosures position us well to comply with that mandate once it is in place.

Climate change is an evolving crisis with high levels of uncertainty. This report sets out PFI's current understanding of, and response to, climate-related issues. However, we acknowledge that this will evolve over time. We are committed to continue progressing our response to climate change over time and to report our progress to our stakeholders each year.

GOVERNANCE

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

PFI's Board has responsibility for our strategic direction along with oversight of our operations and risk management. PFI's Board receives quarterly reporting from Management on sustainability and risk management, which includes PFI's response to climate-related risks and opportunities. This reporting includes progress against agreed climate-related initiatives within PFI's ESG programme (which are set with oversight from the Board). The Board also receives information on climate-related issues from Management as part of PFI's due diligence process for new acquisitions.

The PFI Board's Audit and Risk Committee assists the Board in discharging its responsibilities with respect to risk management. Management's assessment of PFI's climate-related risks and opportunities are presented to the Board's Audit and Risk Committee annually.

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

Under PFI's Risk Management Framework, the Chief Executive Officer and Chief Finance and Operating Officer are responsible for management of climate risk, along with all other risks. These roles are also responsible for the execution of PFI's strategy, including any climate-related opportunities. PFI has a dedicated Head of Sustainability and Operations who leads the assessment of climate-related risks and opportunities, and coordinates our response as part of PFI's wider ESG programme.

A monthly ESG management meeting was established in 2020 that monitors sustainability market trends and regulatory change and makes decisions on PFI's responses to climate-related issues. This meeting is attended by the Chief Executive Officer and Chief Finance and Operating Officer. During 2020 and 2021, the Chief Executive Officer and Chief Finance and Operating Officer oversaw PFI's climate-related risk and opportunity assessments through this forum.

STRATEGY

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

PFI's climate-related risk and opportunity assessments are undertaken with reference to PFI's Risk Management Framework and the time horizons below:

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

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

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

RISKS	EXPECTED TIME HORIZON	RISK RESPONSE	RELATED OPPORTUNITIES
Transition – Policy (regulatory) risk: The introduction of new regulations, for example on building materials and design, disclosure and governance, land use, and electricity or water use, could lead to increased compliance risk, and a potential reduction in profitability.	■ Short term ■ Medium term ☐ Long term	PFI is closely monitoring climate-related regulatory change and is working with industry bodies to provide feedback on proposed regulations where appropriate. We are also working to ensure that we are ready to respond to incoming legislative changes when they arise. Our Board receives quarterly reporting on how we are responding to upcoming regulatory change.	During 2021, PFI has begun to explore opportunities to create value by working with tenants on renewable energy and water efficiency initiatives.

RISKS	EXPECTED TIME HORIZON	RISK RESPONSE	RELATED OPPORTUNITIES
Transition – Market (property) risk: With increasing scrutiny of organisations' impact on the climate, we may experience increased tenant or purchaser demand for sustainable buildings. In the long term, this could result in difficulty re-letting buildings, devaluation of properties, or increased expenditure to bring properties up to higher sustainability standards.	☐ Short term ■ Medium term ■ Long term	Green buildings have not traditionally been a focus for industrial properties. However, as outlined on pages 29–30, PFI has: ■ joined the New Zealand Green Building Council to build on our sustainable building capability; ■ registered our next major development at 30-32 Bowden Road for Green Star certification; and ■ created a sustainable refurbishment framework.	While this is a longer-term risk, shifting tenant demand has presented us with near-term opportunities to: ■ work with our tenants to help them meet their climate or environmental commitments; and ■ create value by developing Green Star certified buildings. We will continue to progress these initiatives during 2022.
Transition - Reputation and Market (capital) risk: Failure to meet stakeholder expectations regarding ESG performance could in turn lead to difficulty in obtaining capital from: ■ shareholders due to increasing preference to invest in demonstrably sustainable companies; or ■ funders due to increased scrutiny over climate risks and their management.	■ Short term ■ Medium term ■ Long term	PFI sees successful execution of its ESG programme as being critical to managing this risk. PFI's climate-related risk and opportunity assessments have been considered in the design of PFI's ESG programme. This includes: ■ reducing our greenhouse gas emissions; ■ improving the sustainable design of our buildings; and ■ investigating the resilience of individual assets in our portfolio to physical risk, which was completed during 2021. Transparency is also important, so our progress will continue to be disclosed through PFI's annual report, and through CDP.	Strong ESG performance could present an opportunity for PFI to increase our capital availability (for example, through green financing) and promote our reputation.

RISKS	EXPECTED TIME HORIZON	RISK RESPONSE	RELATED OPPORTUNITIES
Physical – Acute (damage) risk: We may experience damage or loss of access to PFI properties from climate-related events, such as storms or flooding.	☐ Short term ■ Medium term ■ Long term	In response to this risk, PFI has completed an exercise with the assistance of S&P Global to investigate which of PFI's properties may be most vulnerable to physical impacts from climate change. This has helped us to better understand what actions we can take to mitigate these risks through our asset and portfolio planning activities. We plan to repeat this exercise periodically as climate science and the global response evolve. PFI completes physical climate risk assessments as part of our due diligence checks for all new property purchases. To ensure that we are well placed to respond to a major climate event, we continue to retain a strong balance sheet. We also closely manage our insurance programme which provides cover in the event of damage from weather events.	The work that we have done to understand and plan for the physical impacts of climate change is not only a risk mitigation approach. It gives us the opportunity to deliver longer-term efficiencies by enabling us to appropriately plan and deliver changes at the most effective times. We also have an opportunity to embed resilience to climate impacts (rain, wind, heat) into the design of new buildings.
Physical – Acute (insurance) risk: Due to increasing climate-related claims, insurance for climate events may become more difficult to obtain or increasingly expensive.	☐ Short term ■ Medium term ■ Long term	As PFI relies on insurance to remediate damage to its properties, changes in insurer preferences will be carefully monitored. PFI reviews its insurance strategy annually and is working to increase its sophistication in insurance management to ensure that we are best placed to address this risk should it arise.	Due to PFI's size, PFI is in a position to be able to put in place tailored insurance structures.

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

Our understanding of PFI's climate-related issues has influenced the following aspects of our business, strategy and financial planning:

- PFI has undertaken additional analysis of climate-related exposures for individual assets within our portfolio. This has in turn fed into our asset planning and portfolio management decisions.
- PFI has enhanced its due diligence processes to consider climate change-related risks. This includes the physical risks that a property may be exposed to. Depending on the materiality and nature of the tenant, we may also seek to understand the impact of climate change on its business.
- PFI has committed circa $2 million to reducing the greenhouse gas emissions from PFI's refrigerants between 2021 and 2023.
- PFI has sought to address its indirect emissions from its property maintenance and construction activities by investigating options for Green Star developments and sustainable refurbishments.

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

PFI has undertaken both qualitative and quantitative assessments of the impact of different climate-related scenarios on PFI's strategy, including a 2°C or lower scenario. The analysis has considered three Representative Concentration Pathways (RCPs): RCP 2.6 (low climate change scenario), RCP 4.5 (moderate scenario) and RCP 8.5 (high scenario).

We have determined that PFI's high level strategy of investing in quality industrial property remains robust in either a warming scenario of lower than 2°C, or a more extreme warming scenario. PFI has a diversified portfolio, with a good spread of geographical locations and tenants in various industries. This reduces the impact of a single event, and the concentration risk from exposure to a particularly impacted industry.

We have also engaged S&P Global to help us review the vulnerability of PFI's properties to a range of climate-related hazards across different time horizons and climate-related scenarios. S&P Global determined that PFI's portfolio has a low to moderate risk overall. Four properties were assessed as having a heightened exposure to a particular climate-related hazard. This knowledge puts PFI in a good position to consider these hazards as part of asset management decisions such as future capital expenditure.

Critically, climate-related physical risks are one of a number of strategic factors that PFI considers when considering acquisitions and divestments. The exercise that PFI undertook during 2021 to understand the resilience of individual assets in our portfolio to climate change has given us a greater understanding of the types of climate hazards that are most relevant for PFI, and how these risks can be managed.

We maintain a strong balance sheet that, as demonstrated through the COVID-19 pandemic, helps us to remain resilient in difficult times. However, it is critical that we remain responsive to climate risks as they evolve. How we do this is outlined in the Risk Management section below.

RISK MANAGEMENT

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

Identification and assessment of PFI's climate-related risks is led by PFI's Head of Sustainability and Operations, with contribution from senior management. This assessment is completed annually.

Key risks are assessed and prioritised against a risk matrix of consequence and likelihood in line with PFI's Risk Management Framework. The time horizons considered are set out in the strategy section of this report. The assessment considers PFI's direct operations, as well as upstream and downstream impacts.

In 2021, this assessment was also informed by the analysis completed by S&P Global on the physical climate risk exposure of each PFI property. We intend to periodically refresh the analysis of physical climate risks for individual PFI properties, but this will not be required on an annual basis.

In line with TCFD guidance, PFI considers both the risks associated with the transition to a lower carbon economy (such as changes in regulation) and the risks associated with the physical impacts of climate change (such as damage to buildings).

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

As described in the Governance section, PFI has a monthly ESG management meeting attended by the Chief Executive Officer and Chief Finance and Operating Officer. This management meeting oversees PFI's climate-related risk and opportunity assessments. The Chief Executive Officer and Chief Finance and Operating Officer are responsible for making decisions on whether to mitigate, transfer, accept, or control climate-related risks.

This structure gives us flexibility to review and adapt our response to climate-related issues over time as the external environment evolves.

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

- incorporating climate change considerations into our due diligence process for new acquisitions;
- growing our capabilities in sustainable building design for refurbishments and new developments;
- disclosure to stakeholders on our ESG progress;
- annual reviews of our insurance strategy;
- periodically assessing the vulnerability of individual PFI properties to climate impacts; and
- maintaining a strong balance sheet.

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

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

PFI's climate-related risks are incorporated into PFI's company-wide risk register to provide a single view of risk for PFI. In most cases, climate risks are an extension of our existing risks (for example, physical damage to buildings or strategic risk). Our controls for those risks (such as acquisition due diligence and our insurance programme monitoring) have been enhanced to include consideration of climate change impacts. We have also introduced a new control whereby we will periodically review the PFI portfolio's physical climate risk.

Assessment and management of climate risk is managed in the same way as our other risks, with oversight by senior management and the Board.

METRICS AND TARGETS

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

PFI uses the following metrics to assess climate-related risks and opportunities in line with its strategy and risk management process:

METRIC	PURPOSE	2021 RESULT	2020 RESULT
Scope 1 emissions	To measure PFI's impact on the climate.	77.0 tCO_2e	116.8 tCO_2e
Scope 2 emissions	To measure PFI's impact on the climate.	14.2 tCO_2e	5.4 tCO_2e
Scope 3 emissions	To measure PFI's indirect impact on the climate.	2,760.1 tCO_2e	2,701.5 tCO_2e
CDP score	To understand how our climate performance compares to other corporations globally.	B-	C
Capital investment deployed towards removal of R22 gas	To measure progress on our commitment to phasing out R22 within PFI's operational control.	$688k	$0
2050 composite physical risk score (based on a moderate climate change scenario)*	To measure the physical climate risk associated with PFI's property portfolio.	33 (Low to Moderate risk)	Not available

*This score was provided by S&P Global following analysis of PFI's portfolio. We note that we do not intend to update this score annually.

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

Please refer to the table above for details of PFI's 2021 GHG emissions. We recognise the importance of reducing greenhouse gas emissions and understand that there are reputational and market risks if we do not take meaningful steps to decrease them. During 2021, PFI has:

- commenced work to replace all HVAC systems in our portfolio and within our operational control that use R22 refrigerant gas by the end of 2023; and
- taken positive steps to address our indirect carbon emissions associated with our supply chain, as outlined in our sustainability report on pages 29–30.

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

PFI is targeting replacement of all HVAC systems currently in our portfolio and within our operational control that use R22 refrigerant gas by 2023. We are also targeting an improvement in our CDP score from C (in 2020) to B by 2023.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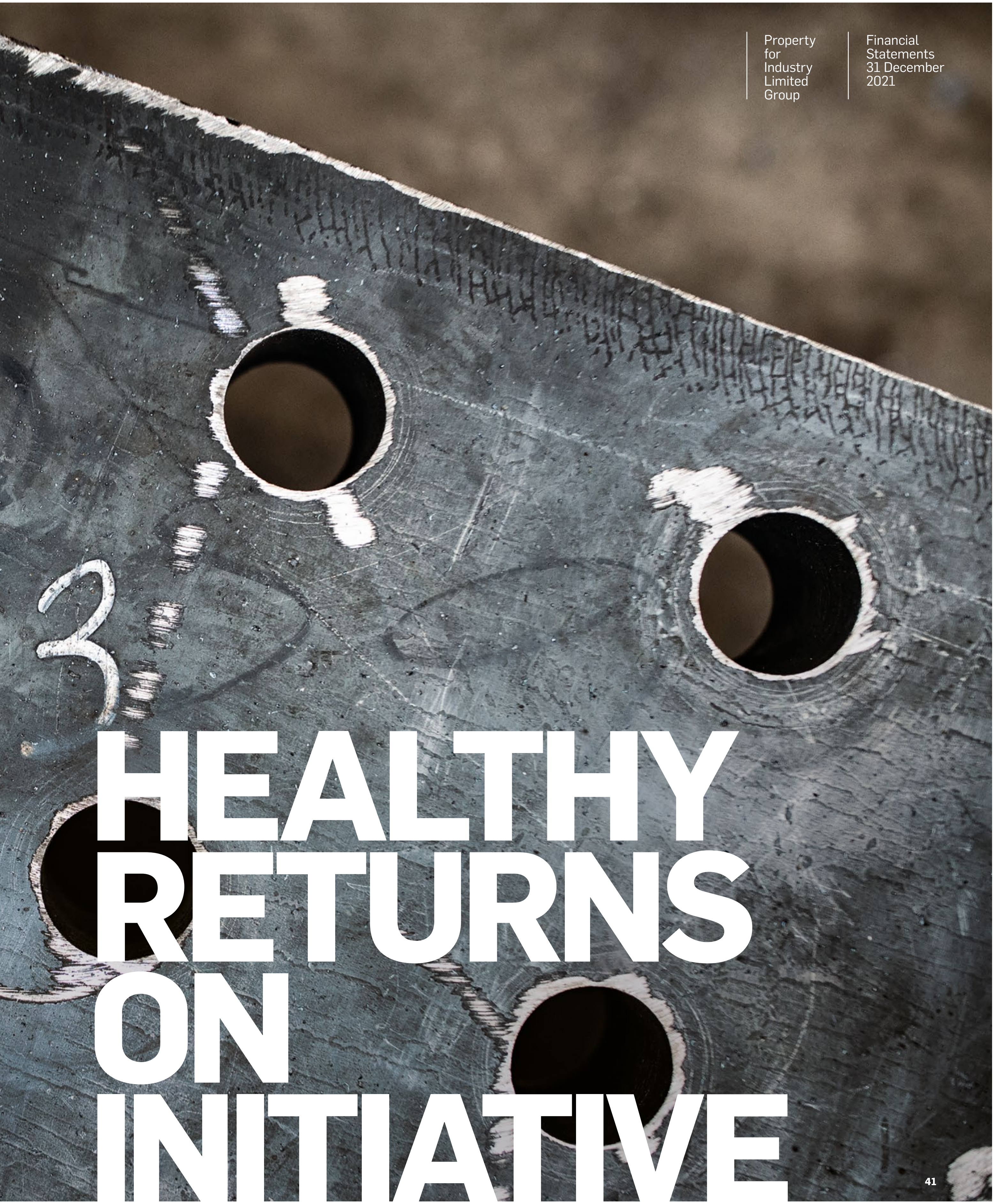


HEALTHY RETURNS ON INITIATIVE

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

ALL VALUES IN $000S	NOTE	2021	2020
INCOME			
Rental and management fee income	2.3	108,653	97,392
Interest income		2	3
Fair value gain on investment properties and non-current assets classified as held for sale	2.1, 2.2	392,519	72,546
Gain on disposal of investment properties and non-current assets classified as held for sale		2,636	–
Fair value gain on derivative financial instruments	3.2	12,271	643
Business interruption insurance income	2.6	170	227
Material damage insurance income	2.6	900	5,242
Total income		517,151	176,053
EXPENSES			
Property costs	2.4	(16,753)	(16,262)
Interest expense and bank fees		(20,106)	(18,233)
Administrative expenses	5.1	(7,465)	(5,851)
Loss on disposal of investment properties and non-current assets classified as held for sale		–	(14)
Total expenses		(44,324)	(40,360)
Profit before taxation		472,827	135,693
Income tax expense	5.2	(20,017)	(22,241)
Profit and total comprehensive income after income tax attributable to the shareholders of the Company	4.1	452,810	113,452
Basic earnings per share (cents)	4.1	89.97	22.71
Diluted earnings per share (cents)	4.1	89.96	22.70

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	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 2020		–	498,723,330	562,429	270	491,338	1,054,037
Total comprehensive income		–	–	–	–	113,452	113,452
Dividends and reinvestment							
Q4 2019 final dividend – 4/3/2020		2.15	–	–	–	(10,724)	(10,724)
Q1 2020 interim dividend – 26/5/2020		1.80	–	–	–	(8,978)	(8,978)
Q1 2020 dividend reinvestment			1,086,032	2,555	–	–	2,555
Q2 2020 interim dividend – 22/9/2020		1.80	–	–	–	(8,998)	(8,998)
Q2 2020 dividend reinvestment			740,165	1,990	–	–	1,990
Q3 2020 interim dividend – 18/11/2020		1.85	–	–	–	(9,261)	(9,261)
Q3 2020 dividend reinvestment			708,009	2,040	–	–	2,040
Long-term incentive plan	5.9		45,352	155	345	–	500
Balance as at 31 December 2020		–	501,302,888	569,169	615	566,829	1,136,613
Total comprehensive income		–	–	–	–	452,810	452,810
Dividends and reinvestment							
Q4 2020 final dividend – 10/3/2021		2.25	–	–	–	(11,281)	(11,281)
Q4 2020 dividend reinvestment			1,105,073	3,087	–	–	3,087
Q1 2021 interim dividend – 24/5/2021		1.80	–	–	–	(9,044)	(9,044)
Q1 2021 dividend reinvestment			986,161	2,737	–	–	2,737
Q2 2021 interim dividend – 7/9/2021		1.80	–	–	–	(9,064)	(9,064)
Q2 2021 dividend reinvestment			976,285	2,895	–	–	2,895
Q3 2021 interim dividend – 23/11/2021		1.85	–	–	–	(9,334)	(9,334)
Q3 2021 dividend reinvestment			1,038,576	2,930	–	–	2,930
Long-term incentive plan	5.9		84,685	177	136	–	313
Balance as at 31 December 2021		–	505,493,668	580,995	751	980,916	1,562,662

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2021

ALL VALUES IN $000S	NOTE	2021	2020
CURRENT ASSETS			
Cash at bank		1,103	1,414
Accounts receivable, prepayments and other assets	5.3	5,842	5,397
Total current assets		6,945	6,811
NON-CURRENT ASSETS			
Investment properties	2.1	2,158,940	1,524,785
Property, plant and equipment		412	561
Derivative financial instruments	3.2	11,623	19,415
Goodwill	5.5	29,086	29,086
Total non-current assets		2,200,061	1,573,847
Non-current assets classified as held for sale	2.2	10,000	106,701
Total assets		2,217,006	1,687,359
CURRENT LIABILITIES			
Derivative financial instruments	3.2	710	340
Accounts payable, accruals and other liabilities	5.4	12,344	9,152
Taxation payable		3,557	3,252
Total current liabilities		16,611	12,744
NON-CURRENT LIABILITIES			
Borrowings	3.1	598,653	487,649
Derivative financial instruments	3.2	4,608	25,041
Deferred tax liabilities	5.2	34,419	25,160
Lease liabilities	5.10	53	152
Total non-current liabilities		637,733	538,002
Total liabilities		654,344	550,746
Net assets	4.2	1,562,662	1,136,613
EQUITY			
Share capital		580,995	569,169
Share-based payments reserve	5.9	751	615
Retained earnings		980,916	566,829
Total equity		1,562,662	1,136,613

These Group financial statements are signed on behalf of Property for Industry Limited and were authorised for issue on 21 February 2022.

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 2021

ALL VALUES IN $000S	NOTE	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Property and management fee income received		105,440	97,502
Business interruption insurance income	2.6	191	206
Net goods and services tax paid		(157)	(304)
Interest received		2	3
Interest and other finance costs paid		(19,812)	(17,971)
Payments to suppliers and employees		(19,239)	(24,591)
Income tax paid		(10,300)	(19,681)
Net cash flows from operating activities		56,125	35,164
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment properties and non-current assets classified as held for sale		108,762	6,909
Acquisition of investment properties	2.1	(226,279)	(65,148)
Acquisition of property, plant and equipment		(23)	(29)
Expenditure on investment properties		(23,766)	(24,524)
Capitalisation of interest on development properties	2.1	(204)	(199)
Material damage insurance income	2.6	900	5,242
Net cash flows from investing activities		(140,610)	(77,749)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from / (repayment of) syndicated bank facility		86,360	(25,699)
Net proceeds from bilateral CBA bank facility		25,000	100,000
Principal elements of finance lease payments		(113)	(111)
Dividends paid to shareholders net of reinvestments		(27,073)	(31,376)
Net cash flows from financing activities		84,174	42,814
Net (decrease) / increase in cash and cash equivalents		(311)	229
Cash and cash equivalents at beginning of year		1,414	1,185
Cash and cash equivalents at end of period		1,103	1,414

Cash and cash equivalents at end of year comprises:

ALL VALUES IN $000S	2021	2020
Cash at bank	1,103	1,414
Cash and cash equivalents at end of year	1,103	1,414

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

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

ALL VALUES IN $000S	NOTE	2021	2020
Profit for the year after income tax		452,810	113,452
Non-cash items:			
Fair value gain on investment properties	2.1, 2.2	(392,519)	(72,546)
(Gain) / loss on disposal of investment properties and non-current assets classified as held for sale		(2,636)	14
Fair value gain on derivative financial instruments		(12,271)	(643)
Increase in deferred taxation	5.2	9,412	12,175
Depreciation	5.1	181	173
(Release of Provision) / Provision for doubtful debts		(450)	378
Lease liability interest expense	5.10	19	24
Employee benefits expense – share-based payments		335	300
Movements in working capital items:			
Increase in accounts receivable, prepayments and other assets		(351)	(3,070)
Increase / (decrease) in accounts payable, accruals and other liabilities		2,190	(236)
Increase / (decrease) in taxation payable		305	(9,615)
Other: material damage insurance income (classified as cash flows from investing activities)	2.6	(900)	(5,242)
Net cash flows from operating activities		56,125	35,164

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

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

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

1.2. Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to for-profit entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

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

1.3. Group companies

As at 31 December 2021 and 31 December 2020, 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 51
3.2. Derivative financial instruments Page 65
5.2. Taxation Page 67
5.5. Goodwill Page 70
5.9. Share-based payments Page 74

1. GENERAL INFORMATION (continued)

1.6. Accounting policies

Aside from accounting for the implementation costs of the Software-as-a-Service (SaaS) arrangement mentioned below, no changes to accounting policies have been made during the year, and policies have been consistently applied to all years presented.

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

Other relevant policies are provided as follows:

Accounting for SaaS arrangements
Following developments in how to account for Software-as-a-Service (SaaS) arrangements during the year, the implementation costs of $712,000 relating to a new property management and accounting software have been expensed through 'Administrative expenses' in the Consolidated Statement of Comprehensive Income in their entirety in the current period. As at 31 December 2020, the implementation costs incurred up to that date were held in 'Accounts receivable, prepayments and other assets' on the Consolidated Statement of Financial Position in anticipation of being capitalised to 'Property, plant and equipment' on completion of the project.

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 assess the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of NZ IFRS, including the level of the fair value hierarchy in which such valuations should be classified.

Goods and services tax
These financial statements have been prepared on a goods and services tax (GST) exclusive basis except for the accounts receivable balance, accounts payable balance and other items where GST incurred is not recoverable. These balances are stated inclusive of GST.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

1. GENERAL INFORMATION (continued)

1.7. Significant events and transactions

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

Investment property acquisitions and disposals

On 29 January 2021, the Group settled the acquisition of the properties located at 670-680 Rosebank Road, Avondale, for a net purchase price of $39.00 million.

On 10 February 2021, the Group announced the divestment of Carlaw Gateway Building and Carlaw Park Office Complex, Parnell for a contracted gross sales price of $110.00 million. Settlement of this divestment, for gross sales proceeds of $108 million, took place on 30 November 2021.

On 30 April 2021, the Group settled the disposal of a non-current asset classified as held for sale located at 127 Waterloo Road, Christchurch for a gross sales price of $4.41 million.

On 6 May 2021, the Group announced an agreement to purchase the property located at 44 Noel Burnside Road, Wiri, for a net purchase price of $91.68 million. Settlement of this acquisition took place on 27 May 2021.

On 19 October 2021, the Group announced an agreement to purchase the property located at 32 Honan Place, Avondale, for a net purchase price of $3.10 million. Settlement of this acquisition took place on 10 November 2021.

On 1 November 2021, the Group announced an agreement to purchase the property located at 22 Whakatu Road, Hastings, for a net purchase price of $79.55 million. Settlement of this acquisition took place on 15 November 2021.

On 1 December 2021, the Group settled the acquisition of the property located at 520 Rosebank Road, Avondale, for a net purchase price of $5.20 million.

On 3 December 2021, the Group announced the purchase of the property located at 318 Neilson Street, Penrose, for a net purchase price of $6.83 million. Settlement of the acquisition is expected in March 2022.

On 9 December 2021, the Group announced the divestment of the property located at 48 Seaview Road, Wellington for a contracted gross sales price of $10.00 million. This property is classified as a non-current asset classified as held for sale in these financial statements. Settlement of the divestment is expected to take place on 22 February 2022.

Bank facilities

On 16 April 2021, the Group extended the expiry date of its bilateral bank facility provided by Commonwealth Bank of Australia (CBA) out to 16 April 2028 and increased it to $125 million. A bilateral bank facility is a facility agreement between a single lender (a bank) and a single borrower (a corporate customer).

On 2 July 2021, the Group extended the expiry dates of its $300 million syndicated bank facility by approximately two years and eight months, from 4 November 2022 and 2023, to 2 July 2025 and 2026. The syndicated bank facility is provided by ANZ Bank New Zealand Limited (ANZ), Bank of New Zealand (BNZ), CBA and Westpac New Zealand Limited (Westpac), each providing $75 million. In addition, BNZ has provided the Group with a further $100 million facility with an expiry date of 2 July 2023.

The COVID-19 pandemic

During the year ended 31 December 2021, New Zealand has been subject to various restriction periods associated with the COVID-19 pandemic, with Auckland being subject to greater restrictions than the balance of the country.

A proportion of the Group's tenants were impacted by disruptions and uncertainty and the Group has worked with its tenant base, particularly the most vulnerable businesses, to offer appropriate support. This support has largely come in the form of rent deferrals and rent abatement, with $36,000 in rent deferrals (2020: $595,000) and $331,000 (2020: $684,000) in rent abatement recorded during the reporting period.

In response to the economic impacts of the COVID-19 pandemic on certain business sectors, the Government has enacted new lease legislation. The COVID-19 Response (Management Measures) Legislation Act 2021 (Act), an amendment to the Property Law Act 2007, received Royal Assent on 2 November 2021 and is now in force. This Act requires all commercial landlords to abate “a fair proportion” of rent and outgoings for any customer adversely impacted by these restrictions, while building access is limited. This legislation has not had a material impact on financial performance in the reporting period.

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

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	**2021**	2020
Opening balance	1,524,785	1,469,285
Capital movements:		
Additions	226,279	65,148
Disposals	–	–
Transfer to non-current assets classified as held for sale	(8,715)	(106,701)
Capital expenditure	20,114	18,976
Capitalised interest[a]	204	199
Movement in lease incentives, fees and fixed rental income	4,731	5,332
	242,613	(17,046)
Unrealised fair value gain	391,542	72,546
As at 31 December	2,158,940	1,524,785

a The effective interest rate applied to capitalised interest was 3.75% (2020: 4.20%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. PROPERTY(continued)

2.1. Investment properties (continued)

ALL VALUES IN $000S UNLESS NOTED	Key tenant	Occupancy (%)	
	2021	**2021**	2020
Avondale:			
15 Copsey Place	Canterbury	100%	100%
32 Honan Place	Fenglin Logistics	100%	n/a
15 Jomac Place	Southern Spars	100%	100%
61-69 Patiki Road	Bidvest	100%	100%
320 Rosebank Road	Doyle Sails	100%	100%
520 Rosebank Road	Kenderdine Electrical	100%	n/a
528-558 Rosebank Road	ETEL	100%	100%
670-680 Rosebank Road	New Zealand Comfort	100%	n/a
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	Glen Dimplex	100%	100%
78 Springs Road	Fisher & Paykel Appliances	100%	100%
10c Stonedon Drive	Chemical Freight Services	100%	100%
11 Turin Place	Thermakraft Industries	100%	100%
12 Zelanian Drive	Central Joinery	100%	100%
23 Zelanian Drive	Exclusive Tyre Distributors	100%	100%
		100%	100%
Manukau:			
212 Cavendish Drive	Mainfreight	100%	100%
232 Cavendish Drive[a]	Fletcher Building Products	100%	100%
47 Dalgety Drive	Peter Hay Kitchens	100%	100%
47a Dalgety Drive, Manukau	Shaw	100%	n/a
59 Dalgety Drive	Store Rite Logistics	100%	100%
12 Hautu Drive	Kiwi Steel	100%	100%
25 Langley Road	Grayson Engineering	100%	100%
1 Mayo Road	Transdiesel	100%	100%
61 McLaughlins Road	MOVe Logistics	100%	100%
9 Narek Place	Z Energy	100%	100%
9 Nesdale Avenue	Brambles	100%	100%
44 Noel Burnside Road	Cottonsoft	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
2021	2020	**2021**	2020	**2021**	**2021**	2020	**2021**	**2021**	**2021**
4.6%	5.3%	948	934	7,907	CBRE	17,500	9	3,091	20,600
3.3%	n/a	103	n/a	795	JLL	–	3,134	(34)	3,100
6.6%	6.8%	1,759	1,709	9,378	JLL	25,000	1	1,599	26,600
4.4%	5.3%	1,279	1,263	9,776	CBRE	23,750	100	5,200	29,050
3.8%	5.0%	782	763	6,625	JLL	15,250	65	5,085	20,400
3.5%	n/a	182	n/a	1,995	Savills	–	5,232	(7)	5,225
4.5%	4.5%	3,066	2,973	26,902	Savills	65,750	760	990	67,500
4.3%	n/a	1,764	n/a	17,295	CBRE	–	39,083	2,267	41,350
4.6%	5.6%	2,766	2,729	21,565	CBRE	49,050	(52)	11,302	60,300
4.6%	5.3%	12,649	10,371	102,238		196,300	48,332	29,493	274,125
4.2%	5.4%	1,160	1,124	11,490	JLL	20,650	(100)	6,950	27,500
4.4%	5.2%	833	811	6,068	CBRE	15,650	262	2,938	18,850
3.9%	5.3%	721	704	6,590	Colliers	13,400	844	4,256	18,500
5.8%	7.2%	1,388	1,354	10,687	Savills	18,750	60	4,940	23,750
4.0%	5.1%	1,545	1,507	12,563	JLL	29,400	97	9,253	38,750
4.3%	5.1%	527	527	5,393	CBRE	10,350	(106)	1,906	12,150
6.3%	6.6%	6,478	6,289	41,530	JLL	95,000	65	7,435	102,500
4.8%	5.5%	978	857	8,711	CBRE	15,700	146	4,404	20,250
3.9%	4.9%	1,023	978	9,981	Colliers	19,800	17	6,283	26,100
4.0%	5.3%	701	701	6,098	Colliers	13,250	15	4,335	17,600
4.3%	5.4%	478	469	3,811	CBRE	8,700	323	2,027	11,050
5.0%	5.9%	15,832	15,321	122,922		260,650	1,623	54,727	317,000
4.0%	5.0%	2,115	2,030	25,896	JLL	40,500	32	12,468	53,000
3.4%	4.5%	1,232	1,132	16,832	JLL	25,400	89	11,011	36,500
4.6%	5.3%	952	941	10,155	Colliers	17,700	(2,215)	5,015	20,500
4.2%	n/a	530	n/a	4,550	Colliers	–	7,486	5,014	12,500
4.1%	5.3%	1,237	1,220	11,844	Colliers	22,900	4,799	2,301	30,000
3.9%	4.9%	746	726	6,492	CBRE	14,750	33	4,567	19,350
4.0%	5.0%	2,136	1,648	21,248	CBRE	33,150	7,649	12,701	53,500
4.3%	5.1%	659	559	6,361	CBRE	10,950	7	4,193	15,150
3.9%	4.8%	1,257	1,202	13,347	Savills	25,000	132	7,368	32,500
4.3%	5.0%	616	558	3,577	CBRE	11,100	2	3,098	14,200
3.8%	4.9%	838	814	14,163	JLL	16,500	74	5,676	22,250
3.5%	n/a	3,320	n/a	32,807	Bayleys	–	93,593	907	94,500
3.9%	5.0%	15,638	10,830	167,272		217,950	111,681	74,319	403,950

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. PROPERTY (continued)

2.1. Investment properties (continued)

ALL VALUES IN $000S UNLESS NOTED	Key tenant	Occupancy (%)	
	2021	**2021**	2020
Mt Wellington:			
30-32 Bowden Road	Altus	100%	100%
50 Carbine Road	Fletcher Building Products	100%	100%
54 Carbine Road & 6a Donnor Place	Hancocks	100%	100%
76 Carbine Road	Atlas Gentech	100%	100%
7 Carmont Place	CMI	100%	100%
6 Donnor Place	Coca-Cola	100%	100%
4-6 Mt Richmond Drive	Iron Mountain	100%	100%
509 Mt Wellington Highway	Fletcher Building Products	100%	100%
511 Mt Wellington Highway	Stryker	100%	100%
515 Mt Wellington Highway	Kiwi Management Services	100%	0%
523 Mt Wellington Highway	BGH Group	100%	100%
1 Niall Burgess Road	Bremca Industries	100%	100%
2-6 Niall Burgess Road	McAlpine Hussmann	100%	100%
3-5 Niall Burgess Road	Electrolux	100%	100%
7-9 Niall Burgess Road	DHL Supply Chain	100%	100%
10 Niall Burgess Road	Outside Broadcasting	100%	100%
5 Vestey Drive	PPG Industries	100%	100%
7 Vestey Drive	True North	100%	100%
9 Vestey Drive	Multispares	100%	100%
11 Vestey Drive	N & Z	100%	100%
15a Vestey Drive	NZ Management Academies	100%	100%
36 Vestey Drive	Hose Supplies	100%	100%
		100%	98%
North Shore:			
2-4 Argus Place	Pharmapac	100%	100%
47 Arrenway Drive	Device Technologies	100%	100%
51 Arrenway Drive	Pacific Hygiene	100%	100%
15 Omega Street	Wesfarmers	100%	100%
322 Rosedale Road	BSGi	100%	95%
41 William Pickering Drive	Innopak Global	100%	100%
		100%	98%

Yield on valuation (%)		Contract rent		Lettable area (sqm)	Valuer	Carrying value	Capital movements	Fair value adjustment	Carrying value
2021	2020	**2021**	2020	**2021**	**2021**	2020	**2021**	**2021**	**2021**
5.7%	6.1%	1,867	1,761	19,639	Savills	29,000	(67)	3,567	32,500
3.4%	4.3%	190	190	2,592	Savills	4,375	(4)	1,229	5,600
4.8%	5.6%	2,107	2,062	17,015	Savills	36,500	4	6,996	43,500
4.2%	5.1%	514	514	5,080	CBRE	10,000	(6)	2,306	12,300
4.2%	4.6%	665	625	6,086	CBRE	13,550	590	1,810	15,950
4.7%	5.4%	1,546	1,501	16,686	Savills	28,000	(46)	5,046	33,000
3.4%	4.1%	918	835	7,946	JLL	20,500	(5)	6,755	27,250
4.1%	5.4%	1,056	1,046	8,744	Colliers	19,400	169	6,031	25,600
3.7%	5.1%	498	485	3,054	Colliers	9,500	109	3,991	13,600
3.2%	5.5%	252	311	2,324	Savills	5,700	249	2,051	8,000
3.6%	4.7%	263	263	1,677	Colliers	5,600	(82)	1,882	7,400
3.6%	4.6%	259	253	1,742	Colliers	5,450	(16)	1,766	7,200
5.0%	6.0%	1,071	1,060	6,874	CBRE	17,800	(48)	3,798	21,550
3.7%	5.3%	1,115	1,115	9,373	Colliers	21,000	25	9,175	30,200
3.9%	5.1%	2,493	2,416	23,565	Colliers	47,400	133	16,467	64,000
4.2%	4.8%	275	264	1,725	JLL	5,500	2	1,048	6,550
3.9%	4.9%	236	236	1,269	Colliers	4,800	42	1,258	6,100
4.0%	5.2%	663	663	4,598	JLL	12,750	25	3,975	16,750
3.5%	4.6%	208	220	1,600	Colliers	4,750	31	1,219	6,000
4.2%	4.7%	515	464	3,470	Colliers	9,800	(14)	2,614	12,400
4.6%	6.0%	594	591	3,261	Colliers	9,800	504	2,496	12,800
3.6%	4.6%	177	172	1,120	CBRE	3,700	(1)	1,201	4,900
4.2%	5.2%	17,482	17,047	149,440		324,875	1,594	86,681	413,150
4.0%	4.8%	463	451	3,560	Colliers	9,400	4	2,196	11,600
4.1%	5.1%	257	251	1,245	Colliers	4,900	(1)	1,301	6,200
4.2%	5.0%	410	398	2,680	CBRE	8,000	6	1,644	9,650
4.1%	5.0%	513	513	3,498	Colliers	10,350	16	2,034	12,400
4.1%	5.5%	1,169	1,144	7,936	Colliers	20,700	281	7,519	28,500
4.2%	5.1%	491	479	3,027	JLL	9,400	15	2,335	11,750
4.1%	5.2%	3,303	3,236	21,946		62,750	321	17,029	80,100

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

2. PROPERTY (continued)
2.1. Investment properties (continued)

ALL VALUES IN $000S UNLESS NOTED	Key tenant	Occupancy (%)	
	2021	**2021**	2020
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	2 Cheap Cars	100%	100%
304 Neilson Street	Fletcher Building Products	100%	100%
306 Neilson Street	Trade Depot	100%	100%
312 Neilson Street	Transport Trailer Services	100%	100%
314 Neilson Street	IAG	100%	100%
12 Southpark Place	QCD	100%	100%
		100%	100%
Other Auckland:			
Carlaw Park Gateway Building, Parnell	Quest	n/a	100%
Carlaw Park Office Complex, Parnell	Jacobs	n/a	96%
58 Richard Pearse Drive, Mangere	EBOS	100%	100%
51-61 Spartan Road, Takanini	MaxiTRANS	100%	100%
170 Swanson Road, Swanson	Transportation Auckland	100%	100%
		100%	98%

Yield on valuation (%)		Contract rent		Lettable area (sqm)	Valuer	Carrying value	Capital movements	Fair value adjustment	Carrying value
2021	2020	**2021**	2020	**2021**	**2021**	2020	**2021**	**2021**	**2021**
4.0%	4.5%	165	161	1,210	Savills	3,600	(3)	503	4,100
3.6%	4.6%	188	178	1,718	Savills	3,900	4	1,296	5,200
3.7%	4.8%	707	693	7,646	Savills	14,400	(4)	4,504	18,900
4.4%	4.8%	577	521	7,431	CBRE	10,900	(14)	2,164	13,050
5.4%	6.3%	740	738	4,359	CBRE	11,700	78	1,822	13,600
4.4%	5.4%	384	382	2,639	CBRE	7,100	(8)	1,708	8,800
4.4%	5.0%	414	404	2,619	CBRE	8,100	32	1,293	9,425
3.9%	5.2%	505	493	3,872	Savills	9,525	42	3,283	12,850
4.3%	5.5%	659	538	7,588	Savills	9,800	35	5,465	15,300
4.0%	5.6%	773	755	13,438	JLL	13,500	(37)	6,037	19,500
4.6%	5.4%	944	919	6,301	JLL	17,000	78	3,422	20,500
4.2%	5.4%	421	407	3,862	JLL	7,550	71	2,379	10,000
3.7%	4.6%	835	817	6,635	JLL	17,750	700	4,050	22,500
3.4%	4.6%	531	520	5,477	Colliers	11,200	119	4,481	15,800
4.1%	5.2%	7,843	7,526	74,795		146,025	1,093	42,407	189,525
–	7.5%	–	2,245	–	–	–	–	–	–
–	6.5%	–	4,677	–	–	–	–	–	–
3.5%	4.6%	1,255	1,215	12,708	JLL	26,700	1	9,549	36,250
3.7%	4.8%	971	945	13,519	JLL	19,800	118	6,582	26,500
3.4%	4.9%	1,148	1,068	37,601	Savills	21,900	4	11,596	33,500
3.5%	5.9%	3,374	10,150	63,828		68,400	123	27,727	96,250

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. PROPERTY (continued)

2.1. Investment properties (continued)

ALL VALUES IN $000S UNLESS NOTED	Key tenant	Occupancy (%)	
	2021	**2021**	2020
North Island (outside Auckland):			
39 Edmundson Street, Napier	MOVe Logistics	100%	100%
20 Constance Street, New Plymouth	Aviagen	100%	100%
330 Devon Street East, New Plymouth	MOVe Logistics	100%	100%
124 Hewletts Road, Mt Maunganui	RMD Bulk Storage	100%	100%
124a Hewletts Road, Mt Maunganui	Ballance Agri-Nutrients	100%	100%
124b Hewletts Road, Mt Maunganui	Ballance Agri-Nutrients	100%	100%
3 Hocking Street, Mt Maunganui	BR & SL Porter	100%	100%
143 Hutt Park Road, Wellington	EBOS	100%	100%
8 McCormack Place, Wellington	Fletcher Building Products	100%	100%
28 Paraite Road, New Plymouth	MOVe Logistics	100%	100%
48 Seaview Road, Wellington	Bridgestone	100%	100%
Shed 22, 23 Cable Street, Wellington[b]	Shed 22 Hospo	100%	100%
2 Smart Road, New Plymouth	New Zealand Post	100%	100%
558 Te Rapa Road, Hamilton	DEC Manufacturing	100%	100%
22 Whakatu Road, Hastings	Enzafruit New Zealand	100%	n/a
		100%	100%
South Island:			
15 Artillery Place, Nelson	MOVe Logistics	100%	100%
8a & 8b Canada Crescent, Christchurch	Polarcold Stores	100%	100%
41 & 55 Foremans Road, Christchurch	MOVe Logistics	100%	100%
44 Mandeville Street, Christchurch	Fletcher Building Products	100%	100%
11 Sheffield Street, Blenheim	MOVe Logistics	100%	100%
127 Waterloo Road, Christchurch	DHL Supply Chain	n/a	100%
		100%	100%
Investment properties - subtotal		100%	99%
Development land:			
232 Cavendish Drive, Manukau			
Development land - subtotal			
Investment properties - total			

b Included in the 2021 balance is a right-of-use asset of $4.13 million (2020: $4.0 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
2021	2020	**2021**	2020	**2021**	**2021**	2020	**2021**	**2021**	**2021**
5.3%	6.6%	247	230	8,540	Savills	3,500	135	1,005	4,640
13.5%	13.4%	415	409	1,366	Savills	3,060	–	15	3,075
5.2%	7.0%	122	117	482	Savills	1,675	13	637	2,325
4.1%	5.2%	3,418	2,986	36,940	JLL	57,000	3,242	23,258	83,500
3.7%	4.9%	1,107	1,059	10,497	JLL	21,400	54	8,296	29,750
3.9%	5.0%	935	921	8,867	JLL	18,300	–	5,800	24,100
4.2%	5.9%	165	165	1,250	JLL	2,800	34	1,116	3,950
5.0%	5.6%	1,256	1,256	11,372	CBRE	22,450	24	2,626	25,100
5.5%	5.7%	786	733	6,686	JLL	12,800	(41)	1,441	14,200
7.7%	7.6%	1,306	1,249	15,636	Savills	16,500	145	255	16,900
3.9%	6.8%	386	537	8,996	CBRE	7,925	(8,803)	878	–
6.7%	7.1%	917	894	2,809	JLL	12,550	2,378	(1,278)	13,650
6.2%	7.4%	334	334	2,359	Savills	4,500	–	900	5,400
4.3%	6.8%	480	480	5,026	Colliers	7,100	100	3,900	11,100
4.4%	n/a	3,500	n/a	52,718	Bayleys	–	79,670	(120)	79,550
4.7%	5.9%	15,374	11,370	173,544		191,560	76,951	48,729	317,240
5.8%	6.8%	590	565	18,052	Savills	6,900	1,459	1,891	10,250
6.1%	7.4%	1,206	1,206	9,500	Savills	8,300	8,323	3,127	19,750
5.1%	6.3%	802	767	14,710	Savills	16,250	(3,919)	3,419	15,750
7.5%	9.0%	959	1,060	11,134	JLL	12,250	(165)	715	12,800
6.5%	7.4%	536	512	10,823	Savills	11,825	(4,801)	1,276	8,300
–	8.2%	–	352	–	–	–	–	–	–
6.1%	7.5%	4,093	4,462	64,219		55,525	897	10,428	66,850
4.4%	5.5%	95,588	90,313	940,204		1,524,035	242,615	391,540	2,158,190
					JLL	750	–	–	750
						750	–	–	750
						1,524,785	242,615	391,540	2,158,940

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. PROPERTY (continued)

2.1. Investment properties (continued)

Recognition and Measurement

Investment properties are held to earn rental income and for long-term capital appreciation. After initial recognition on the settlement date at cost, including directly attributable acquisition costs, investment properties are measured at fair value, on the basis of valuations made by independent valuers on at least an annual basis. Gains or losses arising from changes in the fair value of investment properties are included in the Consolidated Statement of Comprehensive Income in the year in which they arise.

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

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

No depreciation or amortisation is provided for on investment properties. However, for tax purposes, depreciation is claimed on building fit-out and building structure. Deferred tax is recognised to the extent that tax depreciation recovery gain or loss on disposal is calculated on the fit-out and building structure components separately. See section 5.2 for more details.

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

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

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

Key estimates and assumptions: Investment properties and the impact of the COVID-19 pandemic

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

All investment properties were valued as at 31 December 2021 (with the exception of 32 Honan Place, Avondale which was independently valued as at 22 October 2021 by Jones Lang LaSalle (JLL), 520 Rosebank Road, Avondale which was independently valued as at 26 October 2021 by Savills and 22 Whakatu Road, Hastings which was independently valued as at 28 October 2021 by Bayleys Valuation Limited (Bayleys), as part of the acquisitions. These valuations remain the best estimate of fair value as at 31 December 2021) and 2020 by Bayleys, CB Richard Ellis (CBRE), Colliers International (Colliers), JLL or Savills. Bayleys, CBRE, Colliers, JLL and Savills are independent valuers and members of the New Zealand Institute of Valuers.

PFI's investment property valuation policy notes that: *PFI will not use the same independent valuer for a property for more than three consecutive year end valuations*, however in 2021 the Group made an exemption to this policy for seven properties. This exemption was made for two reasons: first, in order for certain properties adjacent to each other, for example, the Company's Neilson Street properties, to be valued by the same valuer, and second, to allocate the Company's portfolio more evenly across the valuers.

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

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

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

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

	RANGE OF SIGNIFICANT UNOBSERVABLE INPUTS		MEASUREMENT SENSITIVITY	
	2021	2020	Increase in input	Decrease in input
Market capitalisation rate (%)[1]	3.48 – 7.50	4.50 – 8.00	Decrease	Increase
Market rental ($ per sqm)[2]	28 – 286	28 – 407	Increase	Decrease
Discount rate (%)[3]	5.50 – 9.00	5.50 – 9.50	Decrease	Increase
Rental growth rate (%)[4]	1.62 – 2.99	1.66 – 2.42	Increase	Decrease
Terminal capitalisation rate (%)[5]	3.62 – 7.75	4.75 – 8.25	Decrease	Increase

1. The capitalisation rate applied to the market rental to assess a property's value, determined through analysis of similar transactions taking into account location, weighted average lease term, tenant covenant, size and quality of the property.
2. The 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	**2021**	+ 0.25%	- 0.25%	+ 0.25%	- 0.25%
Valuation	2,158,940				
Change		(115,000)	129,000	(85,000)	92,000
Change (%)		(5%)	6%	(4%)	4%

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

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

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

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

The impact of the COVID-19 pandemic

As at 31 December 2020, the valuers highlighted that there was heightened uncertainty due to the COVID-19 pandemic, however they also noted that the uncertainty due to the COVID-19 pandemic was lower in the industrial property sector than other property sectors.

As at 31 December 2021, the valuers have noted that, at this point, there is no evidence of a shift in market sentiment to suggest any material change in commercial property values resulting from the changes in Government-directed Alert Levels and Traffic Light Settings in and around this date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. PROPERTY (continued)

2.2. Non-current assets classified as held for sale

Key estimates and assumptions: Non-current assets classified as held for sale
Non-current assets classified as held for sale comprises investment properties actively marketed for sale. The carrying value of the property is the contracted sale price or the most recent valuation if the investment property is not contracted for sale.

ALL VALUES IN $000S	**2021**	2020
127 Waterloo Road, Christchurch	–	4,301
Carlaw Park Office Complex	–	72,300
Carlaw Park Gateway Building	–	30,100
48 Seaview Road, Wellington[1]	10,000	–
Total non-current assets classified as held for sale	10,000	106,701

1. A revaluation gain of $977,000 was recorded when revaluing 48 Seaview Road based on the actual contracted sales price of $10,000,000 (2020: a revaluation loss of $40,000 recorded on transferring 127 Waterloo Road to non-current assets classified as held for sale).

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 2021, however, the non-industrial property within investment properties - Shed 22, 23 Cable Street - cannot be classified as a non-current asset classified as held for sale as it does not meet the defined requirements. These requirements are that the asset is available for immediate sale in its present condition, the appropriate level of management are committed to a plan to sell the asset, an active programme to locate a buyer has been initiated, the asset must be actively marketed for sale at a reasonable price, and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

2.3. Rental and management fee income

ALL VALUES IN $000S	**2021**	2020
Gross rental receipts	92,271	80,029
Service charge income recovered from tenants	13,647	12,587
Fixed rental income adjustments	1,417	1,862
Capitalised lease incentive adjustments	240	970
Impact of rental income deferred and abated due to the COVID-19 pandemic	366	1,279
Management fee income	712	645
Total rental and management fee income	108,653	97,392

Recognition and Measurement
Rental income from investment properties is recognised in the Consolidated Statement of Comprehensive Income on a straight line basis over the term of the lease. Fixed rental income adjustments are accounted for to achieve straight-line income recognition. Lease incentives are capitalised to investment properties in the Consolidated Statement of Financial Position and amortised on a straight line basis in the Consolidated Statement of Comprehensive Income over the length of the lease to which they relate, as a reduction to rental income.

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

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

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

2. PROPERTY (continued)

2.3. Rental and management fee income (continued)

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

ALL VALUES IN $000S	**2021**	2020
Within one year	84,987	80,605
After one year but not more than five years	223,829	222,486
More than five years	138,830	117,881
Total	447,646	420,972

2.4. Property costs

ALL VALUES IN $000S	**2021**	2020
Service charge expenses	(13,898)	(12,587)
Bad and doubtful debts recovery / (expense)[2]	155	(378)
Other non-recoverable property costs	(3,010)	(3,297)
Total property costs	(16,753)	(16,262)

2. Included in the 2021 balance is $(90,000) (2020: $90,000) specifically relating to COVID-19 rent deferrals provided and NIL (2020: $288,000) relating to tenants adversely affected by the COVID-19 pandemic.

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

2.5. Net rental income

ALL VALUES IN $000S	**2021**	2020
Gross rental receipts	92,271	80,029
Service charge income recovered from tenants[3]	13,647	12,587
Fixed rental income adjustments	1,417	1,882
Capitalised lease incentive adjustments	240	970
Impact of rental income deferred and abated due to the COVID-19 pandemic	366	1,279
less: Service charge expenses[3]	(13,898)	(12,587)
Net rental income	94,043	84,160

3. In 2021, following the migration onto a new property management and accounting software during the period, the Group adopted a revised process for accounting for service charge income recovered from tenants and service charge expenses, and as a result these balances no longer net off to zero.

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. All insurance proceeds have now been received as at 31 December 2021.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

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	**2021**	2020
Bilateral CBA bank facility drawn down - non-current	125,000	100,000
Syndicated bank facility drawn down - non-current	276,237	189,877
Fixed rate bonds - non-current	200,000	200,000
Unamortised borrowings establishment costs	(2,584)	(2,228)
Net borrowings	598,653	487,649
Weighted average interest rate for drawn debt (inclusive of current interest rate swaps, margins and line fees)	3.81%	3.75%
Weighted average term to maturity (years)	3.87	2.82

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 2021**	Issue Date	Maturity Date	Interest Rate	Facility drawn / amount	Undrawn facility	Fair Value
Syndicated Bank Facility C	–	2-Jul-23	Floating	100,000		100,000
PFI010	28-Nov-17	28-Nov-24	4.59%	100,000	–	103,803
Syndicated Bank Facility A	–	2-Jul-25	Floating	150,000	–	150,000
PFI020	1-Oct-18	1-Oct-25	4.25%	100,000	–	103,159
Syndicated Bank Facility B	–	2-Jul-26	Floating	26,237	123,763	26,237
Bilateral CBA Bank Facility	–	16-Apr-28	Floating	125,000	–	125,000
Total borrowings				601,237	123,763	608,199

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

The Group has long-term revolving facilities (A and B) with a banking syndicate comprising ANZ Bank New Zealand Limited (ANZ), Bank of New Zealand (BNZ), Commonwealth Bank of Australia (CBA) and Westpac New Zealand Limited (Westpac) (each providing $75,000,000), for $300,000,000. In addition, during the year BNZ provided the Group with a further $100 million facility (C). Finally, the long-term bilateral facility with CBA was increased to $125,000,000 during the period. 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.

3. FUNDING (continued)

3.1. Borrowings (continued)

(ii) Composition of borrowings (continued)

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 (2020: 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 bank facilities and fixed rate bonds are secured by way of a security trust deed and registered mortgage security which is required to be provided over Group properties with current valuations of at least $1,450,000,000 (31 December 2020: $1,200,000,000). In addition to this, the bank facility agreements and the fixed rate bond terms also contain a negative pledge. The Company and PFI No. 1 are guarantors to the facility and fixed rate bonds. As at 31 December 2021, investment properties totalling $2,168,615,000 (31 December 2020: $1,617,936,000) were mortgaged as security for the Group's borrowings.

3.2. Derivative financial instruments

(i) Fair values

ALL VALUES IN $000S	2021	2020
Non-current assets	11,623	19,415
Current liabilities	(710)	(340)
Non-current liabilities	(4,608)	(25,041)
Total	6,305	(5,966)

(ii) Notional values, maturities and interest rates

	2021	2020
Notional value of interest rate swaps – fixed rate payer – start dates commenced ($000S)	400,000	295,000
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)	120,000	110,000
Total ($000S)	720,000	605,000
Percentage of borrowings fixed (%)	67%	60%
Fixed rate payer swaps:		
Average period to expiry – start dates commenced (years)	3.66	3.06
Average period to expiry – forward starting (years from commencement)	4.09	3.73
Average (years)	3.76	3.24
Fixed rate payer swaps:		
Average interest rate[2] – start dates commenced (%)	2.58%	3.07%
Average interest rate[2] – forward starting (% during effective period)	2.69%	3.09%
Average (%)	2.61%	3.07%

1. The Group has $200 million 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.

(iii) Movement in fair value of derivative financial instruments

ALL VALUES IN $000S	2021	2020
Interest rate swaps	12,271	643
Total movement in fair value of derivative financial instruments	12,271	643

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

3. FUNDING (continued)

3.2. Derivative financial instruments (continued)

Recognition and Measurement

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

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

Key estimates and assumptions: Derivative financial instruments

The fair value of derivative financial instruments are determined from valuations prepared by independent treasury advisers using Level 2 valuation techniques (2020: 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 2021 of between 0.97% for the 90 day BKBM (31 December 2020: 0.27%) and 2.65% for the 10 year swap rate (31 December 2020: 0.99%). 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

	2021	2020
Total comprehensive income for the year attributable to the shareholders of the Company ($000s)	452,810	113,452
Weighted average number of ordinary shares (shares)	503,301,662	499,649,574
Basic earnings per share (cents)	89.97	22.71

(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 44,503 (2020: 38,957) rights issued under the Group's LTI Plan as at 31 December 2021. This adjustment has been calculated using the treasury share method. Refer to note 5.9 "Share-based payments" for further details.

	2021	2020
Total comprehensive income for the year attributable to the shareholders of the Company ($000s)	452,810	113,452
Weighted average number of shares for purpose of diluted earnings per share (shares)	503,346,165	499,688,531
Diluted earnings per share (cents)	89.96	22.70

4.2. Net tangible assets per share

	2021	2020
Net assets ($000s)	1,562,662	1,136,613
Less: Goodwill ($000s) (note 5.5)	(29,086)	(29,086)
Net tangible assets ($000s)	1,533,576	1,107,527
Closing shares on issue (shares)	505,493,668	501,302,888
Net tangible assets per share (cents)	303	221

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	2021	2020
Auditors remuneration[1]			
Audit and review of financial statements		(200)	(156)
Benchmarking of executive remuneration		(1)	–
Employee benefits		(4,065)	(3,511)
Directors' fees	5.8	(547)	(548)
Office expenses		(730)	(671)
IT – licence fees and support		(8)	(11)
IT – implementation costs		(712)	–
Depreciation		(181)	(173)
Other expenses		(1,021)	(781)
Total administrative expenses		(7,465)	(5,851)

1. In December 2021, PwC were engaged to provide benchmarking of remuneration services for a fee of $8,000. This engagement was delivered in the FY2022 financial year.

5.2. Taxation

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

ALL VALUES IN $000S	2021	2020
Profit before income tax	472,827	135,693
Prima facie income tax calculated at 28%	(132,392)	(37,994)
Adjusted for:		
Non-tax deductible revenue and expenses	228	1,229
Fair value gain on investment properties	109,905	20,313
Gain / (loss) on disposal of investment properties	738	(4)
Depreciation[2]	4,917	4,439
Disposal of depreciable assets	645	–
Deductible capital expenditure	1,106	889
Lease incentives, fees and fixed rental income	185	879
Derivative financial instruments	3,436	180
Impairment gains / (allowance)	126	(106)
Current tax prior period adjustment	157	9
Other	(344)	100
Current taxation expense	(10,605)	(10,066)
Depreciation	(5,715)	(11,019)
Lease incentives, fees and fixed rental income	(185)	(879)
Derivative financial instruments	(3,436)	(180)
Impairment (allowance) / gains	(126)	106
Other	50	(203)
Deferred taxation expense	(9,412)	(12,175)
Total taxation reported in Consolidated Statement of Comprehensive Income	(20,017)	(22,241)

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

5. OTHER (continued)

5.2. Taxation (continued)

(ii) Deferred tax

ALL VALUES IN $000S	2019 As at	2020 Recognised in profit	2020 As at	**2021** Recognised in profit	**2021** As at
Deferred tax assets					
Impairment allowance	(20)	(106)	(126)	126	–
Other	(63)	3	(60)	(203)	(263)
Gross deferred tax assets	(83)	(103)	(186)	(77)	(263)
Deferred tax liabilities					
Investment properties	15,119	11,898	27,017	5,900	32,917
Derivative financial instruments	(1,851)	180	(1,671)	3,436	1,765
Gross deferred tax liabilities	13,268	12,078	25,346	9,336	34,682
Share-based payment reserve	–	200	–	153	–
Net deferred tax liability	13,185	12,175	25,160	9,412	34,419

(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	**2021**	2020
Opening balance	2,577	3,997
Taxation paid / payable	10,343	9,971
Imputation credits attached to dividends paid	(11,656)	(11,391)
Closing balance available to shareholders for use in subsequent periods	1,264	2,577

5. OTHER (continued)

5.2. Taxation (continued)

(iii) Imputation credit account (continued)

Recognition and Measurement

The Company and Group are a listed Portfolio Investment Entity (PIE) for the purposes of the Income Tax Act 2007. Tax is accounted for on a consolidated Group basis and the Group is required to pay tax to the Inland Revenue as required by the Income Tax Act 2007. Income tax expense comprises current and deferred tax and is recognised in the Consolidated Statement of Comprehensive Income for the year.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is recognised on all temporary differences, including:

- The tax liability arising from accumulated depreciation claimed on investment properties, where applicable;
- The tax asset arising from the allowance for impairment;
- The tax liability arising from certain prepayments and other assets; and
- The tax asset / liability arising from the unrealised gains / losses on the revaluation of interest rate swaps.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different entities, but they intend to settle current tax assets and liabilities on a net basis.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income tax arising from distribution of dividends is recognised at the same time as the liability to pay the dividend is recognised.

Key estimates and assumptions: Deferred tax

Given changes to purchase price allocations rules, which applied to agreements for the disposal and acquisition of property entered into on or after 1 April 2021, and following the reintroduction of depreciation allowances for commercial building structures, the Group completed a review of its deferred tax methodology in the prior year. As a result of that review, deferred tax was provided on the accumulated depreciation claimed on both the structure and fit-out components of investment properties (in 2019 deferred tax was provided on the accumulated depreciation claimed only on the structure component). In 2020, this resulted in an increase in the deferred tax liability of $9.6 million. Investment properties are valued each year by independent valuers (as outlined in note 2.1). These values include an allocation of the valuation between the land and building components. The calculation of deferred tax on depreciation recovered places reliance on the land and building split in the valuation provided by the valuers. The building value is then split between fit-out and structure based on the proportion of the tax book values of each.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

5. OTHER (continued)

5.3. Accounts receivable, prepayments and other assets

ALL VALUES IN $000S	2021	2020
Accounts receivable	1,834	2,311
Provision for doubtful debts	–	(450)
Prepayments and other assets	3,325	1,536
Deposit paid for the acquisition of 670-680 Rosebank Road	–	2,000
Deposit paid for the acquisition of 318 Neilson Street	683	–
Total accounts receivable, prepayments and other assets	5,842	5,397

Recognition and Measurement

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

5.4. Accounts payable, accruals and other liabilities

ALL VALUES IN $000S	2021	2020
Accounts payable	1,570	1,008
Accrued interest expense and bank fees	2,827	2,196
Accruals and other liabilities in respect of investment properties	2,242	1,247
Accruals and other liabilities	5,705	4,701
Total accounts payable, accruals and other liabilities	12,344	9,152

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	2021	2020
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 (2020: Level 3). Fair value less costs of disposal is measured by calculating the fair value of the Property for Industry Limited CGU using a 1 day volume-weighted average share price at the reporting date, applying a control premium (15.8%, as determined by a third party in July 2020, which is considered to remain sufficiently consistent as at 31 December 2021, 2020: 15.8%) and deducting costs of disposal.

As at 31 December 2021 the estimated fair value less costs of disposal of the Property for Industry Limited CGU exceeded the carrying value (2020: 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	2021	2020
Financial Assets		
Financial assets at amortised cost:		
Cash at bank	1,103	1,414
Accounts receivable and other assets	1,834	1,861
Total - Financial assets at amortised cost	2,937	3,275
Financial assets at fair value through profit or loss:		
Derivative financial instruments	11,623	19,415
Total - Financial assets at fair value through profit or loss	11,623	19,415
Total Financial Assets	14,560	22,690
Financial Liabilities		
Financial liabilities at amortised cost:		
Accounts payable, accruals and other liabilities	12,072	8,986
Lease liabilities	53	245
Borrowings	598,653	487,649
Total - Financial liabilities at amortised cost	610,778	496,880
Financial liabilities at fair value through profit or loss:		
Derivative financial instruments	5,318	25,381
Total - Financial liabilities at fair value through profit or loss	5,318	25,381
Total Financial Liabilities	616,096	522,261

5.7. Financial risk management

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

(a) Interest rate risk
The Group's exposure to the risk of changes in interest rates relates primarily to the Group's borrowings with a floating interest rate. The Group has an interest rate hedging policy which has been reviewed by an external firm with expertise in this area. The policy calls for a band of the Group's borrowings to be at fixed interest rates, with a greater proportion of the near term to be fixed and a lesser percentage of the far dated to be fixed.

The Group uses derivative financial instruments, principally fixed rate payer interest rate swaps, to exchange its floating short-term interest rate exposure for fixed long-term interest rate exposure in accordance with its policy bands. As the Group holds derivative financial instruments, there is a risk that their fair value will fluctuate because of underlying changes in market interest rates. This is accepted as a by-product of the Group's interest rate hedging policy, however this risk is partially mitigated by the Group's holding of fixed rate receiver interest rate swaps. The fair value of derivative financial instruments is disclosed in the Consolidated Statement of Financial Position (refer to note 3.2).

The following sensitivity analysis shows the effect on profit before tax and equity if interest rates at balance date had been 50 basis points (0.50%) higher or lower with all other variables held constant.

	2021		2020	
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	3,374	(3,670)	420	(1,139)
Impact on equity	2,429	(2,642)	302	(820)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

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 3.9 years (2020: 2.8 years), with all borrowings due later than one year (2020: 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 2021 and 31 December 2020.

	Carrying	Contractual cash flows				
ALL VALUES IN $000S	amount	0 - 1 year	1 - 2 years	2 - 5 years	> 5 years	Total
Financial liabilities						
Accounts payable, accruals and other liabilities	12,072	12,072	–	–	–	12,072
Lease liabilities	53	101	53	–	–	154
Derivative financial instruments[1]	(6,305)	1,521	(1,149)	(5,488)	(1,635)	(6,751)
Borrowings	598,653	15,161	113,810	393,941	128,855	651,767
Total as at 31 December 2021	604,473	28,855	112,714	388,453	127,220	657,242
Accounts payable, accruals and other liabilities	8,986	8,986	–	–	–	8,986
Lease liabilities	245	93	100	52	–	245
Derivative financial instruments[1]	5,966	2,987	2,512	966	636	7,101
Borrowings	487,649	9,593	257,907	250,084	–	517,584
Total as at 31 December 2020	502,846	21,659	260,519	251,102	636	533,916

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

5. OTHER (continued)

5.7. Financial risk management (continued)

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern whilst maximising the return to shareholders through maintaining an optimal balance of debt and equity to optimise the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's capital structure includes borrowings and shareholders' equity. The Group monitors capital on the basis of the loan to value ratio and borrowing covenant compliance. The loan to value ratio is calculated as borrowings divided by investment properties. The Group's strategy is to maintain a loan to value ratio of no more than 40%. The covenants on all borrowings require a loan to value ratio of no more than 50%, and this was complied with during the year.

The Group operates a Dividend Reinvestment Scheme (DRS) which allows eligible shareholders to reinvest dividends in shares. The Board, at its sole discretion, may suspend the DRS at any time and/or apply a discount to which shares are issued under the DRS.

5.8. Related party transactions

(i) Key management personnel

ALL VALUES IN $000S	2021	2020
Directors' fees – annual fees	547	548
Leadership Team remuneration[1]	2,452	2,032
Key management personnel	2,999	2,580

1. In 2021, there were changes to the composition of the Leadership Team, with the appointment of a Head of Sustainability and Operations. If the composition of the Leadership Team in 2021 was the same in 2020, Leadership Team remuneration would have totalled $2,168,000.

(ii) Other related party transactions

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

Related party	Abbreviation	Nature of relationship(s)
Commonwealth Bank of Australia	CBA	Susan Peterson, a member of the Board of Directors, was also a Director of ASB Bank Limited (ASB), a 100% subsidiary of CBA, however she resigned from this position effective 30 June 2020.
The Board of Directors	Directors	The Board of Directors

The following transactions with related parties took place:

ALL VALUES IN $000S	Related party	2021	2020
Interest expense and bank fees incurred[2]	CBA	N/A	(1,082)
Interest income received[2]	CBA	N/A	482

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

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 2021	30 Jun 2020
Amounts owing[1]	CBA	N/A	(274)
Amounts owed[1]	CBA	N/A	116
Bank facility provided[1]	CBA	N/A	125,000
Bank facility drawn[1]	CBA	N/A	93,070
Notional value of interest rate swaps:			
Current fixed rate payer swaps[1]	CBA	N/A	60,000
Forward starting fixed rate payer swaps[1]	CBA	N/A	50,000
Current fixed rate receiver swaps[1]	CBA	N/A	50,000

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

NUMBER	Related party	31 Dec 2021	31 Dec 2020
Shares held beneficially in the company	Directors	194,367	193,868
Shares held non-beneficially in the company	Directors	–	–

No related party debts have been written off or forgiven during the year (2020: NIL).

5.9. Share-based payments

Long-term incentive plan (Equity settled)

The long-term incentive plan (LTI Plan) was introduced for selected senior executives in the Group on 2 December 2019 ("2019 Grant"). Under this plan, Performance Share Rights (PSRs) were issued to these senior executives which give them the right to receive ordinary shares in the Group after a 1-3 year period, subject to achieving the performance hurdles outlined below. These are at-risk payments designed to align the reward of these senior executives with the enhancement of shareholder value over a multi-year period. On 17 February 2020, a second grant of PSRs ("2020 Grant") and on 22 February 2021 a third grant of PSRs ("2021 Grant") were issued to these senior executives under equivalent conditions to the 2019 Grant.

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

- The PSRs are granted for nil consideration and have a nil exercise price.
- The participant must remain an employee of the Group as at the relevant vesting date for each tranche of PSRs.
- Each grant under the LTI Plan has three tranches with two separate performance hurdles applying to each tranche. The three tranches enable a third of the PSRs to vest after one year, two years and three years from the service commencement dates of 1 January 2019, 1 January 2020 and 1 January 2021. For each tranche:
  - 50% of the PSRs are subject to a performance hurdle of the Company's rolling three year Funds From Operations (FFO) growth equalling or exceeding the three year CPI growth to September immediately prior to the vesting date ("Part A"); and
  - 50% of the PSRs are subject to a performance hurdle of the Company's Total Shareholder Returns (TSR) outperforming the TSR of a property peer group (comprising other listed property issuers) over the period from the commencement date to the vesting date for the relevant tranche ("Part B").
- At vesting, subject to meeting performance hurdles, each PSR is converted to one ordinary share. The LTI Plan is a dividend protected LTI Plan and the senior executives will receive additional shares representing the value of dividends paid over the vesting period. The senior executives are liable for tax on the shares received at this point.

5. OTHER (continued)

5.9. Share-based payments (continued)

The following table reconciles the opening PSR balance as at 1 January 2021 to the closing PSR balance as at 31 December 2021.

GRANT YEAR	2020 Opening (PSRs)	2020 Granted (PSRs)	2020 Vested (PSRs)	**2020 Closing / 2021 Opening (PSRs)**	2021 Granted (PSRs)	2021 Vested (PSRs)	**2021 Closing (PSRs)**
2021	–	–		–	155,174	(51,725)	103,449
2020	–	165,279	(55,093)	110,186	–	(55,093)	55,093
2019	130,682	–	(65,341)	65,341	–	(65,341)	–
Total	130,682	165,279	(120,434)	175,527	155,174	(172,159)	158,542

The PSRs outstanding at 31 December 2021 had a weighted – average contractual life of 1.33 years (31 December 2020: 1.31 years).

The LTI Plan has resulted in a share-based payment reserve totalling $751,000 as at 31 December 2021 (2020: $615,000)

Fair value measurement of LTI Plan

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

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

	Performance Share Rights					
	2021 Grant		2020 Grant		2019 Grant	
	Part A	Part B	Part A	Part B	Part A	Part B
Weighted average fair value at grant date	$2.88	$1.49	$2.49	$1.18	$2.35	$2.04
Share price at grant date	$2.88	$2.88	$2.49	$2.49	$2.35	$2.35
Expected volatility (weighted-average)	21.9%	21.9%	10.3%	10.3%	10.0%	10.0%
Expected life (weighted-average)	22 months	22 months	22 months	22 months	13 months	13 months
Risk-free interest rate	0.3%	0.30%	1.22%	1.22%	1.00%	1.00%

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

The risk-free rate was based on government bond yields over a period of 1, 2 and 5 years.

Recognition and Measurement

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

Key estimates and assumptions: Long-term incentive plan

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

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	2021	2020
Right-of-use assets[1]		
Properties	140	229
Total right-of-use assets	140	229

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

Additions to the right-of-use assets during the 2021 financial year were $3,000 (2020: $6,000).

ALL VALUES IN $000S	2021	2020
Lease liabilities		
Current[2]	101	93
Non-current[3]	53	152
Total lease liabilities	154	245

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

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

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

ALL VALUES IN $000S	2021	2020
Depreciation charge of right-of-use assets[4]		
Properties	(97)	(91)
Total depreciation charge of right-of-use assets	(97)	(91)

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

ALL VALUES IN $000S	2021	2020
Interest cost[5]	(19)	(24)

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 2021 was $112,000 (2020: $111,000).

5. OTHER (continued)

5.11. Operating segments

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

5.12. Capital commitments

As at 31 December 2021, the Group had capital commitments totalling $4,875,000 (31 December 2020: $58,754,000) as follows:

ALL VALUES IN $000S		**2021**	2020
Address	**Project**		
314 Neilson Street	Design and build	–	334
47 Dalgety Drive	Design and build	–	6,311
59 Dalgety Drive	Refurbishment	–	1,993
25 Langley Road	Acquisition of warehouse on completion of construction	–	7,532
124 Hewletts Road	Refurbishment	–	3,318
670-680 Rosebank Road	Acquisition (net of deposit paid)	–	37,000
Shed 22, 23 Cable Street	Seismic works	413	2,266
47A Dalgety Drive	Design and build	1,558	–
3-5 Niall Burgess Road	Refurbishment	2,904	–
Total capital commitments		4,875	58,754

In addition, during the period the Group entered into an agreement to lease new office premises for an annual rent of $330,000 plus GST for a period of eight years from commencement date. Commencement date is expected to be in Q3, 2022.

5.13. Subsequent events

On 23 January 2022, all regions in New Zealand moved to Government-directed ‘Red’ Traffic Light setting in response to several cases of community transmission of the Omicron variant of COVID-19. This setting remains at the date of signing the financial statements and these events are not expected to have a significant impact on the business.

On 21 February 2022, the Board of Directors of the Company approved the payment of a net dividend of 2.250000 cents per share to be paid on 9 March 2022. The gross dividend (2.700119 cents per share) carries imputation credits of 0.136620 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 2021 in respect of this dividend.

pwc

Independent auditor's review report

To the shareholders of Property for Industry Limited

Our opinion

In our opinion, the accompanying financial statements of Property for Industry Limited (the Company), including its subsidiary (the Group), present fairly, in all material respects, the financial position of the Group as at 31 December 2021, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Group›s financial statements comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Our firm carries out other services for the Group in the areas of benchmarking of remuneration and the provision of an executive remuneration benchmarking report. The provision of these other services has not impaired our independence as auditor of the Group.

Key audit matters

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

Description of the key audit matter	How our audit addressed the key audit matter
Valuation of investment properties As disclosed in note 2.1 of the financial statements, the Group's investment properties were valued at $2,159 million as at 31 December 2021. The valuation of the Group's property portfolio is inherently subjective and is given specific audit focus and attention due to the existence of significant estimation uncertainty. A small percentage difference in a single or multiple input assumption could result in material misstatement of the valuation.	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. We have considered the adequacy of disclosures made in note 2.1 to the consolidated financial statements, Investment properties, which sets out the key judgements and estimates. This note describes the impact of the COVID-19 pandemic on the valuation of investment properties.

Key audit matters–continued

Description of the key audit matter

The valuations were carried out by independent third-party valuers who performed their work in accordance with the International Valuation Standards and the Australia and New Zealand Property Institute Valuation and Property Standards. The valuers are rotated across the portfolio on a three-yearly cycle, with the exception of certain properties as disclosed in note 2.1. The Group has adopted the assessed values determined by the valuers.

In determining a property's valuation, two approaches are generally used to determine the fair value of an investment property: the income capitalisation approach and the discounted cash flow approach, to arrive at a range of valuation outcomes from which the valuers derive a point estimate.

The valuers take into account property specific information such as the contracted tenancy agreements and rental income earned by the asset. They apply assumptions in relation to capitalisation rates, discount rates and market rent and the anticipated growth, based on market data and transactions where available.

Management verifies all major inputs to the valuations, assesses property valuation movements since prior year, holds discussions with the independent valuers to assess the reasonableness of the valuations, and communicates the results of the process with the Directors.

How our audit addressed the key audit matter

In assessing the valuation of the investment properties, we performed the following procedures:

External valuations

We held discussions with management to understand:

- movements in the Group's investment property portfolio,
- changes in the condition of each property, and
- the controls in place over the valuation process.

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 and valuation standards, and suitable for use in determining the carrying value of Investment Properties at 31 December 2021.

We assessed the valuers' qualifications, expertise and their objectivity and we found no evidence to suggest that the objectivity of any valuer was compromised in their performance of the valuations.

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 the property-specific information supplied to the valuers by the Group reflected the underlying property records held by the Group. For the items tested, the information was consistent.

Assumptions

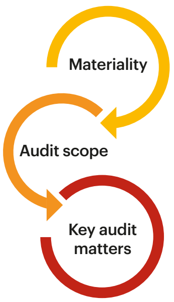
Our work over the assumptions used in the valuations focused on those properties where the assumptions used and/or year-on-year fair value movement was most significant. We engaged our own in-house valuation specialist to assess the methodologies and critique and challenge, against market evidence and current market conditions, the key assumptions used by the valuers.

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.

Our audit approach

Overview



Overall group materiality: $3,400,000, which represents approximately 5% of profit before tax excluding valuation movements relating to investment properties and interest rate derivatives.

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

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

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

- Valuation of investment properties

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

INDEPENDENT AUDITOR'S REPORT (continued)

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

How we tailored our group audit scope

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

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
21 February 2022

Auckland

FIVE-YEAR PERFORMANCE SUMMARY

YEAR ENDED 31 DECEMBER	2021	2020	2019	2018	2017
ALL VALUES IN $M UNLESS OTHERWISE NOTED					
FINANCIAL PERFORMANCE					
Income	517.1	176.1	229.3	158.3	128.1
Expenses	(44.3)	(40.4)	(38.9)	(36.0)	(78.5)
Profit before taxation	472.8	135.7	190.4	122.3	49.6
Total taxation (expense) / benefit	(20.0)	(22.2)	(14.1)	(12.2)	2.1
Total comprehensive income after tax	452.8	113.5	176.3	110.1	51.7
Weighted average number of ordinary shares ('000 shares)	503,302	499,650	498,723	498,723	459,600
IFRS basic earnings per share (cents per share)	89.97	22.71	35.35	22.08	11.25
DISTRIBUTIONS					
Total comprehensive income after tax	452.8	113.5	176.3	110.1	51.7
Distribution adjustments	(406.1)	(73.4)	(137.5)	(72.9)	(17.3)
Adjusted Funds From Operations (AFFO)	46.7	40.1	38.8	37.2	34.4
Weighted average number of ordinary shares ('000 shares)	503,302	499,650	498,723	498,723	459,600
AFFO per share (cents per share)	9.29	8.03	7.79	7.46	7.49
Gross dividends paid relating to the year reported (cents per share)	9.99	9.73	10.20	9.33	7.45
Net dividends paid relating to the year reported (cents per share)	7.90	7.70	7.60	7.55	7.45
AFFO pay-out ratio (%)	85.1%	95.9%	97.6%	101.2%	99.5%
FINANCIAL POSITION					
Investment properties	2,158.9	1,524.8	1,469.3	1,318.7	1,210.8
Goodwill	29.1	29.1	29.1	29.1	29.1
Other assets	29.0	133.5	24.3	11.2	2.2
Total assets	2,217.0	1,687.4	1,522.7	1,358.9	1,242.1
Borrowings	598.7	487.6	412.9	398.2	370.6
Other liabilities	55.6	63.2	55.8	45.5	28.6
Total liabilities	654.3	550.8	468.7	443.8	399.2
Total equity	1,562.7	1,136.6	1,054.0	915.1	842.9
Closing shares on issue ('000 shares)	505,494	501,303	498,723	498,723	498,723
Net tangible (excluding goodwill) assets (cents per share)	303.4	220.9	205.5	177.7	163.2
Gearing (%)	27.7%	30.0%	28.2%	30.3%	30.8%
PROPERTY PORTFOLIO METRICS					
Number of properties (#)	97	94	94	94	92
Number of tenants (#)	136	148	144	148	148
Contract rent	95.6	89.8	84.9	82.0	79.6
Occupancy (%)	100.0%	99.4%	99.0%	99.3%	99.9%
Net lettable area including yard (sqm)	940,204	838,403	809,183	780,092	756,455
Weighted average lease term (years)	5.40	5.28	5.38	5.39	5.33
Portfolio capitalisation rate (%)	4.4%	5.5%	5.7%	6.1%	6.4%

OTHER DISCLOSU-RES

COMPANY STRUCTURE AND STATUTORY INFORMATION

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

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

PRINCIPAL ACTIVITY

PFI is a listed industrial property investment company. PFI and its subsidiary P.F.I. Property No. 1 Limited (together, the Group) invest solely in New Zealand. There has not been any change in the nature of the Company's or Group's business in the year ended 31 December 2021, nor in the classes of business in which the Company has an interest.

GOVERNANCE

The Board of PFI is committed to the highest standards of business behaviour and accountability. The Board regularly reviews and assesses the Group's governance structures and processes to ensure they are consistent with best practice standards.

As part of the Board's ongoing monitoring and review of the Group's governance framework, the Board has developed a Corporate Governance Manual (the manual) that forms the Group's corporate governance framework. It incorporates the NZX Listing Rules relating to corporate governance and the recommendations of the NZX Corporate Governance Code (the NZX Code) and was last updated in September 2020. The Board plans to review the manual following the update to the NZX Code in 2022.

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

1. Code of Ethics;
2. Board Charter;
3. Audit and Risk Committee Charter;
4. Nomination and Remuneration Committee Charter;
5. Remuneration Policy;
6. Financial Product Trading Policy;
7. Continuous Disclosure Policy; and
8. Diversity Policy.

COMPLIANCE WITH NZX REQUIREMENTS

PFI considers that it complies with the NZX Code.

NZX CODE: KEY PRINCIPLES

This section sets out PFI's corporate governance policies, practices and processes by reference to the NZX Code's eight key principles and supporting recommendations.

Principle One: Code of Ethical Behaviour

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.

Code of Ethics
The Board has developed a Code of Ethics that forms part of the manual. The Code of Ethics provides a framework for PFI's Directors and employees by which they are expected to conduct their duties by facilitating behaviour that is consistent with PFI's business standards.

PFI monitors compliance with the Code of Ethics through its management processes as well as through the whistleblowing procedures set out in the Code of Ethics itself. All Directors and employees are informed of the content of the Code of Ethics prior to commencing such roles, and will be informed of any future change to the Code of Ethics.

Financial Product Trading Policy
PFI is committed to transparency and fairness in financial product dealing. The rules for dealing in PFI's listed securities are contained in its Financial Product Trading Policy. The policy's main purpose is to ensure no Director, employee or contractor uses their position or knowledge of PFI or its business to engage in financial product dealing for personal benefit, or to provide a benefit to any third party.

The Financial Product Trading Policy applies to Directors, employees and contractors of PFI and its subsidiary, and trusts and companies controlled by those persons (Restricted Persons).

The key points of the policy are:

- A prohibition on "insider trading", meaning persons who hold non-publicly available price-sensitive information must not pass on that information, nor acquire or dispose of PFI's listed securities at any time;
- Restricted Persons must obtain consent to trade PFI listed securities at any time; and
- No trading is permitted by Restricted Persons during "blackout periods" from the balance date and the half-year balance date until the day following the release of the relevant results to NZX.

Principle Two: Board Composition & Performance

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

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

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

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

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

Board Composition

The Company's constitution requires the Company to comply with the minimum board composition requirements under the NZX Listing Rules (being at least three directors). As at 31 December 2021, there were five Directors: four of whom are independent. The NZX Listing Rules require at least two Independent Directors, and it is the Company's policy that there should always be a majority of Independent Directors.

The Directors of the Company who held the office during the 12 months to 31 December 2021, 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 (ELEVEN MEETINGS HELD)
Anthony Beverley	Independent Director Board Chair	2 July 2001	3 June 2020	N/A	11
David Thomson	Independent Director	12 February 2018	19 May 2021	N/A	11
Dean Bracewell	Independent Director Nomination and Remuneration Committee Chair	29 November 2019	3 June 2020	N/A	11
Gregory Reidy	Non-Executive Director	20 January 2012	19 May 2021	N/A	11
Susan Peterson	Independent Director Audit and Risk Committee Chair	24 May 2016	8 May 2019	N/A	11

All current Directors are also Directors of the Company's subsidiary, P.F.I. Property No. 1 Limited.

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

Director Skills and Experience

A profile of each Director outlining their experience and length of service can be found on the PFI website. The Board strives to ensure that PFI has the right mix of skills and experience for PFI to achieve its strategic goals. The skills and experience represented on the Board are summarised in the diagram below:

Property	■■□□□
Financial	■■■□□
Governance	■■■■■
Executive Leadership	■■■□□
Health and Safety	■■■□□
Sustainability	■■■□□
Digital and Technology	■□

Key:
■ Strong skills or experience
□ Some skills or experience

Directors are encouraged to undertake continuing education to develop and maintain their skills and knowledge.

Director Independence

Director independence is determined in accordance with the requirements of the NZX Listing Rules. The Board has determined that, as at 31 December 2021, the following Directors of the Company were independent: Anthony Beverley, David Thomson, Dean Bracewell and Susan Peterson. This assessment is based on the fact that these Directors all share the following characteristics:

- They are all Non-Executive Directors.
- They are not currently, or within the last three years have not been, employed in an executive role by the Company, or any of its subsidiaries, and / or there has been a period of at least three years between ceasing such employment and serving on the Board.

- They are not currently holding, or within the last 12 months they have not held, a senior role in a provider of material professional services to the Company or any of its subsidiaries.
- They do not currently have, or within the last three years they have not had, a material business relationship (e.g. as a supplier or customer) with the Company or any of its subsidiaries.
- They are not a substantial product holder of the Company, or a senior manager of, or a person otherwise associated with, a substantial product holder of the Company.
- They do not currently have, or within the last three years they have not had a material contractual relationship with the Company or any of its subsidiaries, other than as a director.
- They do not currently have close family ties with anyone in the categories listed above.
- No director has been a Director with the Company for a length of time that may compromise independence.

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

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

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

Details of Directors' relevant interests in the Company's financial products as at 31 December 2021 can be found in the section entitled Principle Four: Reporting and Disclosure.

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

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

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 Three below for further information). PFI enters into a formal written agreement with all new Directors, which establishes the terms of their appointment.

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 2020	4	3	1	0
Year ending 31 December 2021	4	3	1	0

The Board believes that a diverse and inclusive work environment is critical to the sustainability of PFI. At PFI, diversity means recognising and valuing the many ways that we are different. It includes differences that relate to gender, age, culture, ethnicity, disability, religion, and sexual orientation, as well as differences in background, skills, perspective and experiences.

The Board has adopted a Diversity Policy to support an inclusive work environment where everyone is treated equitably and fairly and is supported to be successful in their roles. The Board monitors PFI's performance against the Diversity Policy through regular employee engagement surveys to ensure that our overall work culture remains inclusive. The Board also sets Diversity and Inclusion targets annually, which are monitored quarterly.

The Board is committed to taking steps that will see the diversity in the composition of both the Board and leadership team move progressively over time. It is important to note that PFI is a small team comprising 16 permanent and dedicated team members and that seven of these team members are female (2020: seven out of 14).

Principle Three: Board Committees

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

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

The Audit and Risk Committee's functions include:

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

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

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

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

At 31 December 2021, 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 2021 and attended the four meetings of the committee held during 2021.

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

When nominating candidates, the committee takes into account a range of factors as well as perceived needs of the Board at the time. Some of these factors include qualifications, experience, requirements of the NZX Listing Rules and the ability to exercise an independent perspective and informed judgement 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 2021, the members of the Nomination and Remuneration Committee were Dean Bracewell (Chair of the Nomination and Remuneration Committee), Anthony Beverley and Susan Peterson. All were members of the committee at all times during 2021 and attended the six meetings of the committee held during 2021.

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

Principle Four: Reporting & Disclosure

The Board should demand integrity in non-financial reporting, and in the timeliness and balance of corporate disclosures.

Continuous Disclosure Policy

PFI is committed to its obligation to inform shareholders and market participants of all material information that might affect the price of its listed securities in accordance with the NZX Listing Rules and the Financial Markets Conduct Act 2013. Accordingly, the Board has adopted a Continuous Disclosure Policy which applies to PFI, its subsidiary (the Group) and their respective Directors, and all relevant employees of PFI. The Board has also appointed the Chief Finance and Operating Officer to act as the Group Disclosure Officer. The Group Disclosure Officer is responsible for ensuring policy compliance and for investigating any alleged breaches.

Corporate Governance Documents

PFI's Board and committee charters, annual and interim reports, company announcements, the policies recommended in the NZX Code and other investor-related material are available on PFI's website.

Financial / Non-Financial Disclosure

PFI is committed to appropriate financial and non-financial reporting. Oversight of the Company's financial reporting is applied through the Audit and Risk Committee.

PFI is also committed to non-financial reporting and disclosure. You can find out more information on PFI's approach to the disclosure of environmental, social and governance matters on pages 22–39. You can find out more information about PFI's approach to risk management in the section entitled Principle Six: Risk Management.

Directors' Relevant Interests

Details of Directors' dealings in the Company's financial products in the year ended 31 December 2021 are as follows:

DIRECTOR	NO. OF SHARES (ACQUIRED)	CONSIDERATION PER SHARE	DATE
Susan Peterson	146	$2.7937	10 March 2021
Susan Peterson	119	$2.7755	24 May 2021
Susan Peterson	112	$2.9652	7 September 2021
Susan Peterson	122	$2.8215	23 November 2021

All of the above dealings were as a result of participation in PFI's Dividend Reinvestment Scheme.

Details of Directors' relevant interests in the Company's financial products as at 31 December 2021 are as follows:

DIRECTOR	NATURE OF RELEVANT INTEREST	NUMBER OF SHARES
Susan Peterson	Beneficial holder	18,659
Gregory Reidy	Beneficial holder	155,708
Dean Bracewell	Beneficial holder	20,000

No Director had a relevant interest in the Company's bonds.

Principle Five: Remuneration

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

Director Remuneration
As noted under Principle Three, the Board, in setting the Directors' remuneration, is to be guided by the Remuneration Policy that forms part of the manual. The table below sets out the remuneration that was approved by shareholders at the 2021 PFI annual meeting:

ROLE	$ PLUS GST (IF ANY)
Board Chair	170,000
Independent Director / Non-Executive Director	90,000
Audit and Risk Committee Chair	15,000
Audit and Risk Committee Member	7,500
Nomination and Remuneration Committee Chair	10,000
Nomination and Remuneration Committee Member	5,000
Hourly rates for abnormal and particularly time intensive projects or transactions outside the scope of typical Board work	350 per hour

Other than as noted in this report, neither the Company nor its subsidiary have provided any other benefits to a Director for services as a Director or in any other capacity.

Neither the Company nor its subsidiary have made loans to a Director.

Neither the Company nor its subsidiary have guaranteed any debts incurred by a Director.

The table below sets out the total remuneration received by the Company's Directors during the year to 31 December 2021 and the prior year comparative:

DIRECTOR	ROLE	FEES PAID 2021 $000	FEES PAID 2020 $000
Anthony Beverley	Board Chair	79	77
	Independent Director	87	83
	Audit and Risk Committee Member	–	–
	Nomination and Remuneration Committee Member	–	–
David Thomson	Independent Director	87	83
	Audit and Risk Committee Member	5	–
Dean Bracewell[1]	Nomination and Remuneration Committee Chair	10	7
	Independent Director	87	83
Gregory Reidy	Non-Executive Director	87	83
Humphry Rolleston[2]	Independent Director	–	35
Susan Peterson	Audit and Risk Committee Chair	15	15
	Independent Director	87	83
	Nomination and Remuneration Committee Member	3	–
Total		**547**	**548**

1. Dean Bracewell was the Nomination and Remuneration Committee Chair from 1 March 2020.
2. Humphry Rolleston ceased to be a Director on 3 June 2020.

Employee 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 a short-term and (in some cases) a long-term incentive (LTI) component.

Chief Executive Officer Remuneration
The Chief Executive Officer's remuneration is comprised of a base salary and benefits, a short-term incentive (STI) and participation in PFI's LTI plan.

The CEO's STI is paid on achievement of annual targets that are aligned to the delivery of PFI's key operational objectives, including strategic execution targets, portfolio metrics, earnings, capital and liquidity measures, and leadership metrics. STI payments are endorsed by the Nomination and Remuneration Committee and approved by the Board, based on achievement of the objectives and targets.

Further details on the LTI plan can be found below.

Simon Woodhams' remuneration as Chief Executive Officer over the past two reporting periods is set out below:

				PAY FOR PERFORMANCE			
YEAR ENDING	SALARY $	BENEFITS[3] $	SUBTOTAL $	STI $	LTI[4] $	SUBTOTAL $	TOTAL REMUNERATION $
31 December 2020	$500,000	$30,824	**$530,824**	$225,000	$52,376	**$277,376**	**$808,200**
31 December 2021	$550,000	$40,199	**$590,199**	$250,000	$68,107	**$318,107**	**$908,306**

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

YEAR ENDING	SHARE RIGHTS GRANTED (SHARES)	SHARE RIGHTS VESTED DURING THE YEAR[5] (SHARES)	SHARE RIGHTS LAPSED DURING THE YEAR (SHARES)	SHARE RIGHTS OUTSTANDING AT THE END OF THE YEAR (SHARES)
31 December 2020	73,224	52,817	–	**77,225**
31 December 2021	67,242	75,231	–	**69,236**

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

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

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

3. Benefits include KiwiSaver and insurance.
4. The LTI is based on the fair value of the vested awards recognised in the financial statements.
5. The share rights vested does not include shares vesting as a result of dividend protection.

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 2021 and 2020, and the share rights outstanding at the end of 31 December 2021 and 31 December 2020 are as follows:

YEAR ENDING	SHARE RIGHTS GRANTED (SHARES)	SHARE RIGHTS VESTED DURING THE YEAR (SHARES)[6]	SHARE RIGHTS LAPSED DURING THE YEAR (SHARES)	SHARE RIGHTS OUTSTANDING AT THE END OF THE YEAR (SHARES)
31 December 2020	165,279	120,434	–	**175,527**
31 December 2021	155,174	172,159	–	**158,542**

Employee Remuneration

During the years ended 31 December 2021 and 31 December 2020, the number of employees who received remuneration with a combined total value exceeding $100,000[7] is set out below:

	NUMBER OF EMPLOYEES	
REMUNERATION RANGE	2021	2020
$900,001 – $910,000	1	–
$800,001 – $810,000	–	1
$750,001 – $760,000	1	–
$680,001 – $690,000	–	1
$370,001 – $380,000	1	–
$330,001 – $340,000	–	1
$210,001 – $220,000	1	–
$190,001 – $200,000	1	1
$170,001 – $180,000	1	–
$160,001 – $170,000	1	–
$150,001 – $160,000	1	–
$130,001 – $140,000	1	3
$110,001 – $120,000	1	2
$100,001 – $110,000	3	–

6. The share rights vested does not include shares vesting as a result of dividend protection.
7. Includes LTI vested during the year based on the fair value of the vested awards recognised in the financial statements.

Principle Six: Risk Management

Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.

Risk Governance

The Board has established a Risk Management Framework to ensure that risks are managed within PFI's Board-approved risk appetite. The Risk Management Framework was last reviewed and approved by PFI's Board in November 2021. The Risk Management Framework establishes the following framework for risk governance:

ROLE	RESPONSIBILITY
Board	The Board sets the risk appetite, risk tolerances and desired risk culture. It oversees the assessment, management and reporting of key business risks.
Audit and Risk Committee (A&RC)	The A&RC supports the Board by providing a specific focus on risk and compliance matters. The A&RC is also responsible for PFI's external audit arrangements.
Senior Leadership Team	The Senior Leadership Team is responsible for ensuring compliance with the Risk Management Framework and promoting good risk practices within their teams.
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 seeks regular assurance on compliance with the Risk Management Framework, on the promotion of good risk practices and that the business is operating within PFI's Board-approved risk appetite.

Key Risks

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

The risks associated with the COVID-19 pandemic continued to be identified, recorded and closely monitored throughout 2021. Management regularly reviewed these risks and adapted their response to the latest developments.

The table below outlines some of PFI's key business risks following the latest refresh of its risk register, how these risks are managed, and a commentary on these risks for 2021.

RISK DESCRIPTION	HOW PFI MANAGES THE RISK	2021 COMMENTARY
Economic and market risk: The risk of adverse changes in the New Zealand economic environment, political environment or the broader investment market, impacting property values and income.	We monitor both wider economic conditions and the industrial property market through research and relationships with market participants. Quarterly reporting on market conditions is provided to the Board.	PFI has continued to carefully monitor the impacts of the COVID-19 pandemic, supply chain constraints, and other market challenges during 2021. PFI has responded early to address changing market conditions and has achieved strong results during FY21.
Strategic risk: The risk of failing to appropriately set, execute or adapt PFI's strategy (for example, failing to ensure portfolio optimisation or adapt to changing market preferences).	PFI's strategy is set by the Board. The Management Team provides quarterly reporting on strategy implementation to the Board.	PFI refreshed its strategy during 2021 as outlined on pages 10–15. Good progress has been made during 2021 on the implementation of PFI's strategy. In particular, PFI has: ▪ acquired quality industrial properties in Avondale, Wiri and Hastings; and ▪ divested the non-core property at Carlaw Park, Parnell.
Health, safety and wellbeing risk: The risk of failing to manage health, safety and wellbeing hazards at a PFI property.	PFI's formalised health, safety and wellbeing framework sets out a system of controls to ensure that health, safety and wellbeing risks are actively managed through a variety of risk mitigants such as monitoring visits. This is managed through PFI's health and safety committees with quarterly reporting to the Board.	Continuous improvement of PFI's health, safety and wellbeing management has been a key focus during 2021. PFI continues to experience a low level of incidents. Further information on health, safety and wellbeing can be found in the Sustainability section of this Annual Report.
Financial performance risk: The risk of financial performance not being managed to expectations.	PFI has a wide suite of controls for this risk, including a delegations policy, analytical reviews, forecasting, budgeting, and proactive management.	PFI continues to carefully manage its financial performance risk. Despite the ongoing direct and indirect impacts of the COVID-19 pandemic, PFI has achieved record financial results during FY21.
Technology and cybersecurity risk: The risk of PFI's systems or data becoming compromised, for example due to a cyberattack or an outage.	PFI's systems are managed by competent third parties and protected by a range of cybersecurity controls.	During 2021, PFI has continued to work with suppliers to ensure that robust cybersecurity controls are in place for its systems.

PFI also completes annual climate change risk assessments. The risks identified through this assessment are embedded in a range of risks on PFI's risk register, including economic and market risk, emerging regulation risk and physical damage risk. Further information on PFI's climate-related risks can be found in the Climate-Related Disclosures section of this Annual Report (pages 33–39).

Principle Seven: Auditors

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

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

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

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

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

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

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

Principle Eight: Shareholder Rights & Relations

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

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

In respect of voting rights, PFI shareholders have one vote per share they hold in PFI, and will have the right to vote on major decisions that 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. In 2021, a hybrid annual meeting was held (providing for both virtual and in-person attendance), allowing wider participation by shareholders.

OTHER MATTERS

Directors' Interests Register

During the year, the Board authorised the renewal of the Directors' and Officers' insurance cover as at 30 June 2021 for a period of 12 months and has certified, in terms of section 162 of the Companies Act 1993, that this cover is fair to the Company.

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

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

No Director has sought authorisation to use Company information.

Section 140(1) of the Companies Act 1993 requires a director of a company to disclose certain interests. Under subsection (2) a director can make disclosure by giving a general notice in writing to the company of a position held by a director in another named company or entity. The following are details of Directors' general disclosures entered in the Interests Register for the Company during the 12 months ending 31 December 2021. Any entry added by notices given by the Directors during the year ended 31 December 2021 is denoted with *. Any entry removed by notices given by the Directors during the year ended 31 December 2021 is denoted with ~.

DIRECTOR	POSITION	COMPANY
Anthony Beverley	Director; Chair of Audit and Risk Committee ~; Chair of Board *	Arvida Group Limited
Dean Bracewell	Director	Tainui Group Holdings Limited
	Executive Board Member	Halberg Foundation
	Director	Ara Street Investments Limited
	Director	Air New Zealand Limited
	Director	Port of Tauranga Limited *
Gregory Reidy	Director	McDougall Reidy & Co Limited ~
	Director	MRC LP Limited ~
	Director	Residentiae Group Limited ~
	Director	Thirty Enfield Limited ~
	Director	DMD (GP) Limited (as General Partner of DMD Limited Partnership) ~
	Director	MRC2 Limited
	Director	RWP LP Limited ~
	Director	Residentiae (Edwin Street) GP Limited (as General Partner of Residentiae (Edwin Street) Limited Partnership)
	Director	H&R MRC Limited
	Director	Resident Properties Limited
	Director	Area Management Limited
	Trustee	Grammar Rugby Incorporated
	Director	Reidy & Co Limited
	Director	MSR GP Limited (as General Partner of MSR Limited Partnership)
Susan Peterson	Director; Chair of Nomination and Remuneration Committee ~; Chair of Board *	Vista Group International Limited
	Director; Chair of Remuneration Committee	Xero Limited
	Director; Chair of Nominations and Governance Committee; Chair of People and Remuneration Committee	Trustpower Limited ~
	Director; Co-Chair of Board	Organic Initiative Limited ~
	Board Member	Global Women
	Member	NZX Markets Disciplinary Tribunal ~
	Director	Arvida Group Limited
	Director; Chair of Remuneration Committee	Craigs Investment Partners Limited *

Other than noted in this report, there were no other interests register entries recorded for the Company or its subsidiary for the year ended 31 December 2021.

Donations

The Company made the following donations during 2021:

- $5,000 to the Auckland City Mission to help with emergency food parcels for families and individuals in need during the COVID-19 lockdown.
- $5,000 to Motor Neurone Disease New Zealand to fund research and provide support for sufferers of motor neurone disease in New Zealand.

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 Product Holders as at 31 December 2021

As at 31 December 2021, the total number of ordinary shares on issue was 505,493,668. 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 product holders as at 31 December 2021 are:

SECURITY HOLDER	NO. OF SHARES WHEN NOTICE WAS FILED	% WHEN NOTICE WAS FILED
ANZ New Zealand Investments Limited, ANZ Bank New Zealand Limited and ANZ Custodial Services New Zealand Limited	41,932,219	8.328%
Accident Compensation Corporation (ACC)	32,238,516	6.403%

Details of Dividends Paid

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

DIVIDENDS	DATE PAID	CENTS PER SHARE	TOTAL PAID 2021 $000	TOTAL PAID 2020 $000
Q4 2019 final dividend	4 March 2020	2.15		10,723
Q1 2020 interim dividend	26 May 2020	1.80		8,978
Q2 2020 interim dividend	22 September 2020	1.80		8,997
Q3 2020 interim dividend	18 November 2020	1.85		9,261
Q4 2020 final dividend	10 March 2021	2.25	11,279	
Q1 2021 interim dividend	24 May 2021	1.80	9,045	
Q2 2021 interim dividend	7 September 2021	1.80	9,063	
Q3 2021 interim dividend	23 November 2021	1.85	9,332	
Total dividends per statement of changes in equity			**38,719**	**37,959**

NZX Waivers

The Company did not rely on any NZX waivers during 2021.

20 LARGEST REGISTERED SHAREHOLDERS AS AT 31 JANUARY 2022

HOLDER	HOLDING	% HOLDING
Custodial Services Limited	58,477,569	11.57%
Accident Compensation Corporation - NZCSD	33,685,470	6.66%
ANZ Wholesale Trans-Tasman Property Securities Fund - NZCSD	25,752,347	5.09%
FNZ Custodians Limited	25,128,082	4.97%
Forsyth Barr Custodians Limited	22,987,549	4.55%
BNP Paribas Nominees (NZ) Limited - NZCSD	16,240,206	3.21%
Citibank Nominees (New Zealand) Limited - NZCSD	15,618,883	3.09%
New Zealand Depository Nominee Limited	14,895,794	2.95%
HSBC Nominees (New Zealand) Limited - NZCSD	12,374,680	2.45%
ANZ Wholesale Property Securities - NZCSD	8,534,445	1.69%
Tea Custodians Limited, Client Property Trust Account - NZCSD	8,073,922	1.60%
MFL Mutual Fund Limited - NZCSD	7,351,171	1.45%
Messrs. Wildermoth, Wilson and Young and Ms Wildermoth	7,331,480	1.45%
Investment Custodial Services Limited	6,947,725	1.37%
JBWere (NZ) Nominees Limted	5,780,061	1.14%
Mr. Mckee and Ms. Mckee	5,566,373	1.10%
PT (Booster Investments) Nominees Limited	4,927,634	0.97%
Masfen Securities Limited	4,767,744	0.94%
Heatherfield Investments Limited	4,199,149	0.83%
Simplicity Nominees Limited - NZCSD	3,513,483	0.70%
Shares held by top 20 shareholders	**292,153,767**	**57.80%**
Balance of shares	213,339,901	42.20%
Total of issued shares	**505,493,668**	**100.00%**

SHAREHOLDER STATISTICS

SHAREHOLDER SPREAD AS AT 31 JANUARY 2022

ORDINARY SHARES	NUMBER OF HOLDERS	HOLDING	% HOLDING
Up to 4,999	1,324	3,274,948	0.64%
5,000 - 9,999	1,117	7,937,010	1.57%
10,000 - 49,999	2,247	47,683,992	9.43%
50,000 - 99,999	346	23,245,853	4.60%
100,000 - 499,999	266	51,890,189	10.27%
500,000 and above	91	371,461,676	73.49%
	5,391	**505,493,668**	**100.00%**

GEOGRAPHICAL SPREAD AS AT 31 JANUARY 2022

ORDINARY SHARES	HOLDING	% HOLDING
Auckland & Northern Region	192,572,031	38.11%
Hamilton & Surrounding Districts	107,579,228	21.28%
Wellington & Central Districts	137,148,884	27.13%
Dunedin & Southland	36,419,472	7.20%
Nelson, Marlborough & Christchurch	13,761,135	2.72%
Overseas	18,012,918	3.56%
Total	**505,493,668**	**100.00%**

20 LARGEST REGISTERED BONDHOLDERS AS AT 31 JANUARY 2022

HOLDER	PFI 010 HOLDING	PFI010 % HOLDING	PFI 020 HOLDING	PFI020 % HOLDING
Custodial Services Limited	22,477,000	22.48%	32,402,000	32.40%
Forsyth Barr Custodians Limited	21,690,000	21.69%	17,934,000	17.93%
FNZ Custodians Limited	10,173,000	10.17%	11,435,000	11.44%
Citibank Nominees (New Zealand) Limited - NZCSD	–	0.00%	10,037,000	10.04%
National Nominees Limited - NZCSD	8,557,000	8.56%	–	0.00%
Generate Kiwisaver Public Trust Nominees Limited - NZCSD	1,589,000	1.59%	5,813,000	5.81%
NZPT Custodians (Grosvenor) Limited - NZCSD	4,300,000	4.30%	780,000	0.78%
HSBC Nominees (New Zealand) Limited - NZCSD	4,075,000	4.08%	3,900,000	3.90%
Tea Custodians Limited Client Property Trust Account - NZCSD	3,392,000	3.39%	3,260,000	3.26%
Investment Custodial Services Limited	1,950,000	1.95%	729,000	0.73%
Hobson Wealth Custodian Limited	1,895,000	1.90%	1,177,000	1.18%
Forsyth Barr Custodians Limited	1,202,000	1.20%	891,000	0.89%
FNZ Custodians Limited	1,115,000	1.12%	667,000	0.67%
JBWere (NZ) Nominees Limited	1,039,000	1.04%	–	0.00%
JML Capital Limited	–	0.00%	600,000	0.60%
Sterling Holdings Limited	–	0.00%	500,000	0.50%
Investment Custodial Services Limited	350,000	0.35%	–	0.00%
FNZ Custodians Limited	340,000	0.34%	153,000	0.15%
Forsyth Barr Custodians Limited	322,000	0.32%	290,000	0.29%
Kiwigold.co.nz Limited	–	0.00%	300,000	0.30%
Forsyth Barr Custodians Limited	295,000	0.30%	–	0.00%
Hobson Wealth Custodian Limited	283,000	0.28%	–	0.00%
Custodial Services Limited	280,000	0.28%	198,000	0.20%
Dunedin Diocesan Trust Board	–	0.00%	250,000	0.25%
Hobson Wealth Custodian Limited	233,000	0.23%	–	0.00%
Custodial Services Limited	–	0.00%	223,000	0.22%
Bonds held by top 20 Bondholders	**85,557,000**	**85.56%**	**91,539,000**	**91.54%**
Total Remaining Holders Balance	14,443,000	14.44%	8,461,000	8.46%
Total of issued Bonds	**100,000,000**	**100.00%**	**100,000,000**	**100.00%**

BONDHOLDER STATISTICS

BONDHOLDER SPREAD: PFI010 AS AT 31 JANUARY 2022

BONDS	NUMBER OF HOLDERS	HOLDING	% HOLDING
5,000 - 9,999	65	347,000	0.35%
10,000 - 49,999	410	7,825,000	7.83%
50,000 - 99,999	45	2,655,000	2.66%
100,000 - 499,999	38	5,719,000	5.72%
500,000 - 999,999	–	–	0.00%
1,000,000 and above	13	83,454,000	83.44%
Total	**571**	**100,000,000**	**100.00%**

BONDHOLDER SPREAD: PFI020 AS AT 31 JANUARY 2022

BONDS	NUMBER OF HOLDERS	HOLDING	% HOLDING
5,000 - 9,999	40	229,000	0.23%
10,000 - 49,999	204	4,169,000	4.17%
50,000 - 99,999	29	1,601,000	1.60%
100,000 - 499,999	27	3,876,000	3.88%
500,000 - 999,999	6	4,167,000	4.17%
1,000,000 and above	8	85,958,000	85.95%
Total	**314**	**100,000,000**	**100.00%**

GRI INDEX

GENERAL DISCLOSURES

DISCLOSURE TITLE	GRI	LOCATION OR REFERENCE
Organisational Profile		
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/
Location of operations	102 - 4	https://www.propertyforindustry.co.nz/investor-centre/portfolio-summary/
Ownership and legal form	102 - 5	https://www.propertyforindustry.co.nz/about-pfi/
Markets served	102 - 6	https://www.propertyforindustry.co.nz/investor-centre/portfolio-summary/
Scale of the organisation	102 - 7	i. https://www.propertyforindustry.co.nz/about-pfi/our-people/ ii. PFI is a single operation iii. Statement of comprehensive income, page 42 iv. Statement of financial position, page 44 v. https://www.propertyforindustry.co.nz/investor-centre/portfolio-summary/
Information on employees and other workers	102 - 8	As of 31 December 2021, we have a team of 16 permanent staff (nine male and seven female) based in Auckland, and two contractors. This information is acquired during the recruitment process and maintained in personnel records. PFI also relies on third-party providers for a number of its activities, most notably facilities management and development activities. There are no seasonal variances in these numbers.
Supply chain	102 - 9	PFI's supply chain primarily comprises local facilities managers and construction partners.
Significant changes to the organisation and its supply chain	102 - 10	None
Precautionary Principle or approach	102 - 11	PFI applies the Precautionary Principle when conducting day to day activities, acquiring and selling properties, and completing refurbishments and property development.
External initiatives	102 - 12	N/A
Membership of associations	102 - 13	Property Council of New Zealand, New Zealand Green Building Council
Strategy		
Statement from senior decision-maker	102 - 14	The Evolving Sustainability Landscape, page 22
Ethics and Integrity		
Values, principles, standards, and norms of behaviour	102 - 16	https://www.propertyforindustry.co.nz/about-pfi/governance/

DISCLOSURE TITLE	GRI	LOCATION OR REFERENCE
Governance		
Governance structure	102 - 18	https://www.propertyforindustry.co.nz/about-pfi/governance/
Stakeholder Engagement		
List of stakeholder groups	102 - 40	Delivering for our Investors, page 31
Collective bargaining agreements	102 - 41	None
Identifying and selecting stakeholders	102 - 42	Stakeholders are identified as people or organisations that have a key interest in PFI, or who could be materially affected by its activities.
Approach to stakeholder engagement	102 - 43	Delivering for our Investors, page 31
Key topics and concerns raised	102 - 44	Delivering for our Investors, page 31. PFI's response to key topics and concerns is provided throughout its sustainability reporting, pages 22–39
Reporting Practices		
Entities included in the consolidated financial statements	102 - 45	Page 48
Defining report content and topic boundaries	102 - 46	Delivering for our Investors, page 31
List of material topics	102 - 47	Delivering for our Investors, page 31
Restatements of information	102 - 48	PFI has restated its carbon footprint for FY20 due to an overstatement pertaining to Scope 3, Category 1 and Category 2 emissions. Total emissions in FY20 were originally reported as 3,927.9 tCO_2e; they have been restated as 2,823.7 tCO_2e.
Changes in reporting	102 - 49	None
Reporting period	102 - 50	1 January 2021 – 31 December 2021
Date of most recent report	102 - 51	February 2021 (2020 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	This report has been prepared in accordance with the GRI Standards: Core option.
GRI content index	102 - 55	Pages 100–102 of this report.
External assurance	102 - 56	Our sustainability-related reporting has not been externally assured for 2021. We did, however, receive an external review of our carbon footprint from Ekos.

GRI INDEX

TOPIC SPECIFIC DISCLOSURES

DISCLOSURE TITLE	GRI	LOCATION OR REFERENCE
Emissions		
Topic boundaries	103 - 1	Our Value Chain Emissions, page 28; Responsible Property Ownership, pages 29–30
Management approach	103 - 2	Our Value Chain Emissions, page 28; Responsible Property Ownership, pages 29–30
Evaluation of management approach	103 - 3	Responsible Property Ownership, pages 29–30; Delivering for Our Investors, pages 31–32
GHG emissions Scope 1	305 - 1	Our Value Chain Emissions, page 28
GHG emissions Scope 2	305 - 2	Our Value Chain Emissions, page 28
GHG emissions Scope 3	305 - 3	Our Value Chain Emissions, page 28
Occupational health and safety		
Topic boundaries	103 - 1	Taking Care of Our Team, page 26; Looking After Our Tenants, page 27
Management approach	103 - 2	Taking Care of Our Team, page 26; Looking After Our Tenants, page 27
Evaluation of management approach	103 - 3	Taking Care of Our Team, page 26; Looking After Our Tenants, page 27
Hazard identification, risk assessment, and incident investigation	403 - 2	Taking Care of Our Team, page 26; Looking After Our Tenants, page 27
Work-related injuries	403 - 9	H&S incidents, page 27
Diversity and equal opportunity		
Topic boundaries	103 - 1	PFI Diversity Policy, https://www.propertyforindustry.co.nz/about-pfi/governance/
Management approach	103 - 2	PFI Diversity Policy, https://www.propertyforindustry.co.nz/about-pfi/governance/
Evaluation of management approach	103 - 3	PFI Diversity Policy, https://www.propertyforindustry.co.nz/about-pfi/governance/
Diversity of governance bodies and employees	405 - 1	Diversity and Inclusion, page 87; GRI Index 102-8 Information on employees and other workers, page 100
Sustainable design		
Topic boundaries	103 - 1	Responsible Property Ownership, pages 29–30
Management approach	103 - 2	Responsible Property Ownership, pages 29–30
Evaluation of management approach	103 - 3	Responsible Property Ownership, pages 29–30
Economic performance		
Topic boundaries	103 - 1	Page 1; Our ESG Strategy, page 31
Management approach	103 - 2	Crystal clear about our focus, pages 10–15
Evaluation of management approach	103 - 3	Crystal clear about our focus, pages 10–15
Financial implications and other risks and opportunities due to climate change	201 - 2	Climate-Related Disclosures, pages 33–39

DIRECTORY

ISSUER OF SHARES AND BONDS
Property for Industry Limited
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propertyforindustry.co.nz
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Dean Bracewell
Gregory Reidy
Susan Peterson

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CORPORATE LEGAL ADVISOR
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VALUATION PANEL
Bayleys Valuation Limited
CBRE Limited
Colliers International New Zealand Limited
Jones Lang LaSalle Limited
Savills (NZ) Limited

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

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

BOND SUPERVISOR
Public Trust
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REGISTRAR
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159 Hurstmere Road
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Tel: +64 9 488 8777
investorcentre.com/nz

This Annual Report, including the Corporate Governance statement, is dated 21 February 2022 and signed on behalf of the Board by:

Anthony Beverley
Chair

Susan Peterson
Chair, Audit and Risk Committee

CALENDAR

2022

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

MARCH
- 2021 Final dividend payment

MAY
- 2022 First-quarter announcement
- Annual meeting
- 2022 First-quarter dividend payment

AUGUST
- 2022 Half-year announcement
- 2022 Interim financial statements released

SEPTEMBER
- 2022 Half-year dividend payment

NOVEMBER
- 2022 Third-quarter announcement
- 2022 Third-quarter dividend payment

2023

FEBRUARY
- 2022 Full-year announcement
- 2022 Annual report released

MARCH
- 2022 Final dividend payment

YOUR
INDUSTRIAL
PROPERTY
EXPERTS

www.propertyforindustry.co.nz