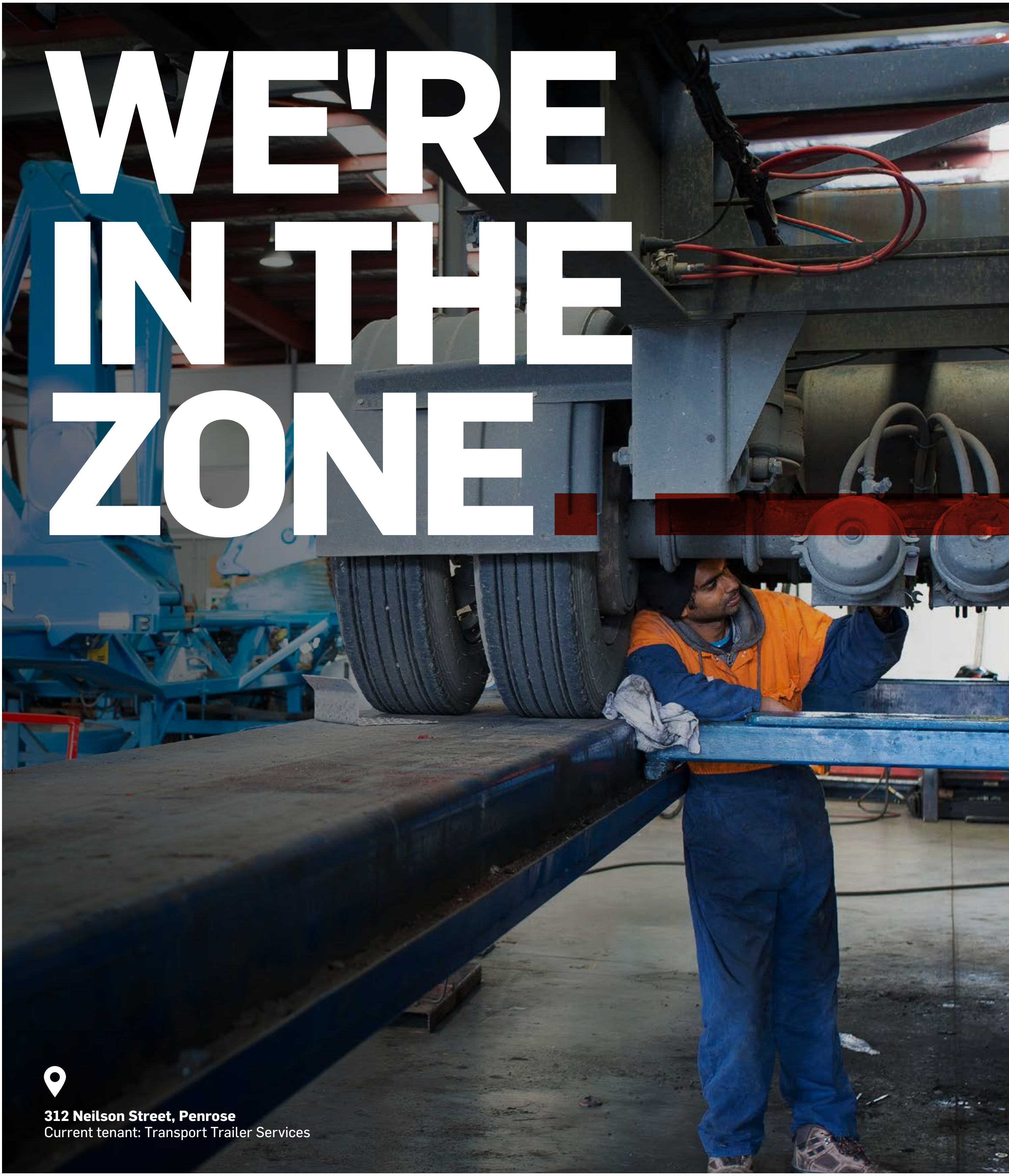

PFI
Property for Industry Limited
Interim Report 30 June 2016
THE ENGINE ROOM

WE'RE IN THE ZONE.



312 Neilson Street, Penrose
Current tenant: Transport Trailer Services

> **"Penrose is in the engine room of New Zealand's industrial and manufacturing economy"**

20,000
people work in Penrose

14
PFI properties

9%
of PFI's portfolio

01

Auckland's industrial heart.
PFI has 14 properties here.

Penrose is prime Auckland real estate... and yet virtually no one lives here: there are fewer people living in Penrose than on Great Barrier Island. That is because Penrose is Auckland's industrial heartland: this is where the work gets done. Every day, nearly **20,000 people** arrive for work in Penrose.

Fletchers (who are now one of PFI's largest tenants, occupying five properties and paying $3.3 million of rent annually) moved to Penrose in the **1940s**. It was still mostly farmland then and Jim Fletcher used to walk across the paddocks to work. But the railway was here, and so was the Great South Road. The Government was encouraging industry and Penrose was designated an industrial zone.

Today, Penrose is in the **engine room** of New Zealand's **industrial** and **manufacturing economy**. In its *Integrated Business Precinct Plan*, Auckland Council says "the concentration of industrial activities within the IBPP area enables businesses to be close to customers and suppliers creating efficiencies in the supply and manufacture of goods. The ability for businesses to access export markets due to their proximity to Auckland International Airport, two inland ports and road and rail providing links to markets and suppliers to the south and north of Auckland are key advantages that help to sustain the attractiveness of the locations to business."

With the population of Auckland expected to grow by over a million people over the next thirty years and nearly **300,000 new jobs** needed, the Council's plan is for Auckland's industrial locations to be "protected, allowing for renewal and improvement of existing industrial activity." The Government has fast-tracked the East-West link[1], saying, "enhancing access to and from the industrial hub has been identified as a national economic priority."

As you would expect, PFI is in Penrose, with **14 properties**, leased to 21 tenants, valued at almost **$90 million**. ■

[1] For more information go to http://www.nzta.govt.nz/projects/east-west-link

Visit our website for more
propertyforindustry.co.nz/about-pfi-tenant/property-portfolio/

STRONG DEMAND.

304 Neilson Street, Penrose
Current tenant: Fletcher Building Products

02

Taking a long-term approach in a buoyant market.

"**Strong numbers**," **says** PFI Chairman, **Peter Masfen**, commenting on the six months to June 2016. "**Operating revenue is up**, **profits are good**. As Simon will discuss, the market conditions are in our favour currently, so we can reasonably expect a full year distributable profit that is ahead of last year's. It's business as usual at PFI: consistent, long-term performance and strong, stable returns."

"We're in a very **positive period** right now," says PFI General Manager, Simon Woodhams. "**Economic growth** is **strong**, and forecast to remain so, and that's continuing to drive demand for industrial premises, especially in Auckland, where we have most of our portfolio. Overall, we're at **99.5% occupancy**.

"The other dynamic is that demand is outpacing supply. From an income perspective, that's good for us, because market rents are rising and that puts us in a stronger negotiating position with new tenants or existing tenants at rent review.

"From an investment perspective, however, it's a bit different. Just as in the housing market, there's **strong demand** but constraints on supply—there is a shortage of available industrial property, especially in **Auckland**, but also in **Tauranga**—so that's pushing up prices, and therefore values. Because values are increasing at a faster rate than rental income, yields are dropping.

"Nevertheless, with values going up, and with low interest rates, it's not surprising that Colliers International are reporting record demand from investors.

"But we're being cautious. We're much more focussed on achieving consistent returns over the long-term."

According to Peter Masfen, "Making the right decisions in the good times is just as important as making the right decisions when times are tough. We all know that economic activity is cyclical and since PFI listed in 1994 there have been plenty of ups and downs. If the right opportunity presents itself, of course we are going to consider it. But you can also be assured that PFI will continue with its long-term approach."

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

$22.5m

Profit after tax for the 6 months, representing 5.01 cents per share.

3.77cps

Distributable profit for the 6 months.

3.50cps

Total cash dividends for the half year.

33.4%

Loan to value ratio.

CONTROL PANEL

PORTFOLIO

99.5%
Occupancy

4.87yrs
Weighted Average Lease Term

$1,010.1m
Valuation

$72.6m
Contract Rent

01

At 30 June 2016, the portfolio remains effectively fully leased: a ~7% increase in lettable area since June 2015 notwithstanding. Only 1.4% of contract rent is due to expire in the remainder of the year.

02

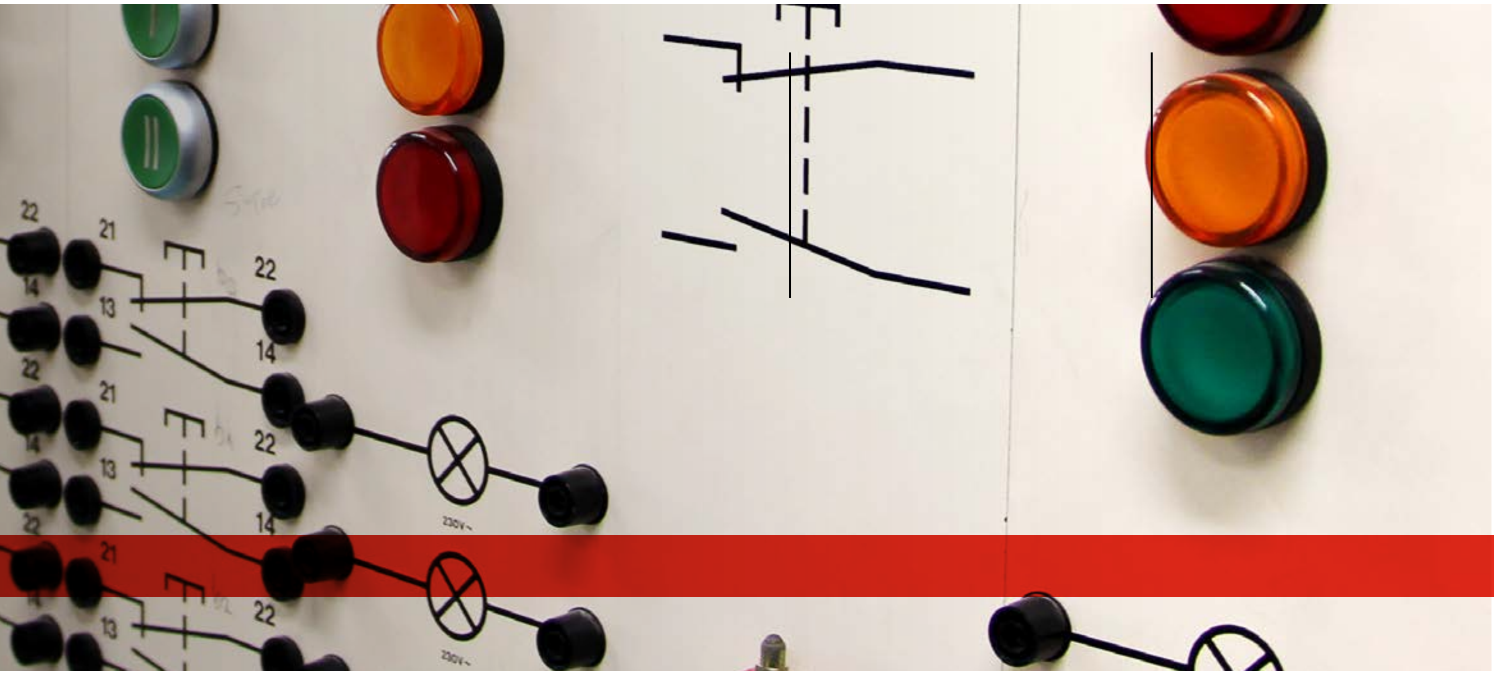
The low vacancies within our own portfolio and in the wider market are helping us negotiate long term leases.

03

Acquisitions, developments and rising property values across New Zealand mean the value of PFI's portfolio now exceeds $1B, up 8.6% since June 2015.

04

During the first six months of 2016, we completed 41 rent reviews and achieved an annual uplift of around 1.0%.



MARKET

3.0%

Economic Growth

05

The ANZ Bank are forecasting economic growth averaging close to 3% per year over the next three years.

1.9%

Auckland's Vacancy Rates

06

According to CBRE, the Auckland industrial vacancy rate is 1.9% overall, and 1% for Grade A property.

32%

Investor Confidence Level

07

Colliers International report that by March 2016, confidence levels among commercial property investors have reached a new high, with optimists outnumbering pessimists by 32% (and 65% in Auckland). This investor confidence is driving up commercial property demand and values.

65 Hugo Johnston Drive, Penrose
Current tenant: Sistema Plastics

STACKS UP.

CASE STUDY

03

Strategy in action: the Sistema portfolio.

"Buy land," said Mark Twain. "They're not making it any more." In this case, we acquired not only land—**2.9 hectares in Penrose:** Auckland's tightly-held economic engine room—but also high-quality industrial buildings. We are now **securing tenants**.

As described in our 2015 Interim Report, this was another example of **preparation meeting opportunity:** this was an off-market opportunity, working directly with Sistema's owner to put a deal together. What was agreed was that we would buy the portfolio—the property is in five titles—and Sistema would stay on as our tenant until relocating. We completed the transaction in August 2015.

The properties are on **Hugo Johnston Drive**, and neighbouring **Autumn Place**, close to SH1, the CBD and the airport via SH20. Transport links will be even better once the recently prioritised East-West link[2] is complete. The zoning is Business 6, which allows for heavy industrial activities. The buildings are modern, of good quality and have all been maintained to a high standard.

"There is intense demand for prime industrial right now," says **Andrew Hooper of Colliers International**, our leasing agent on this transaction, "and so these properties are a rare opportunity for logistics, freight, or manufacturing companies. It's an impressive complex, with CBD-quality office space, modern, high-stud warehousing and drive-through capabilities. The neighbouring tenants are high quality too: companies like Sharp, Carter Holt Harvey and BJ Ball."

PFI General Manager Simon Woodhams says, "The beauty of this portfolio is that—rather like Sistema's products—the different components work together or separately. Short term and long term, we expect that to be a benefit."

2 For more information go to http://www.nzta.govt.nz/projects/east-west-link

Visit our website for more
https://goo.gl/LJf92J

“The paradox is that consistency is achieved by successfully managing change.”

Susan Peterson
Independent Director

04

Introducing our new independent director, Susan Peterson.

Keeping it steady

“**Consistency**, it seems to me, can often be under-rated. But delivering consistent results is actually incredibly hard,” says Susan Peterson, PFI’s newly-appointed independent director, when asked for her first impressions of the company she’s just joined. “One of this business’ strategic priorities is to deliver strong and stable returns. And that is what it **delivers: 9.53% per annum** total shareholder returns since listing in 1994. That is a remarkable achievement: it amounts to doubling your money every seven or eight years. **Consistently**, for **22 years!** That is something that can justifiably be celebrated by the team at PFI.

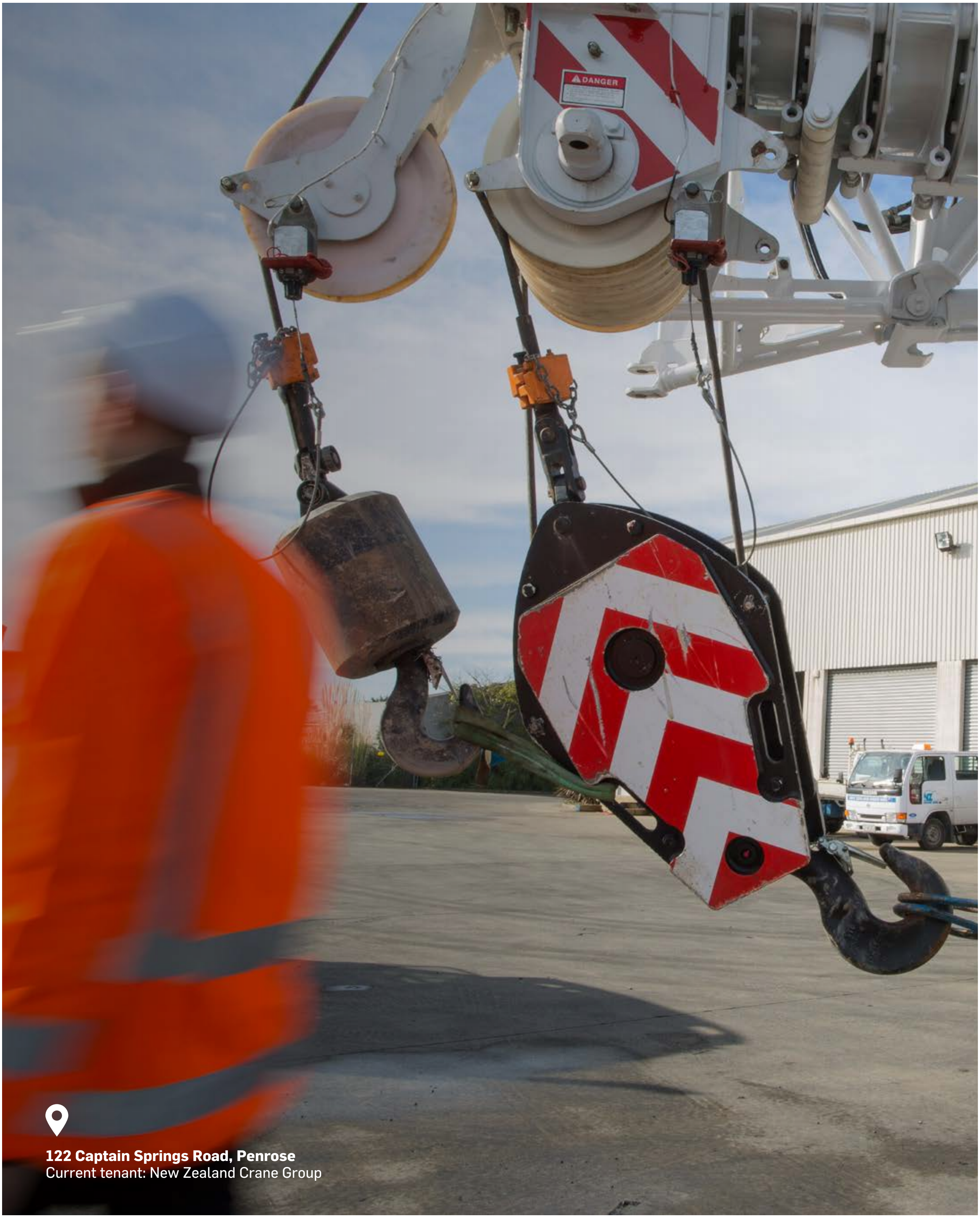
“The paradox is that consistency is achieved by successfully managing change. Maybe think of a ship, delivering cargo around the world, through all sorts of weather, and yet arriving on time, every time, regardless. The sailors make it look easy, but it in fact requires great skill, and commitment from everyone involved.

“It’s clear, from my conversations with the other directors, that this is part of the reason that I have been appointed. It is partly about **succession planning**—bringing in a younger person and **giving them time** to become **familiar with the business**—and partly about ensuring there’s diversity of thought around the boardroom table. In other words, it’s about the Board understanding that the world continues to change. They believe I can bring a different perspective on that—from my background and from my other roles—so that I have the ability to help PFI continue to successfully deliver **consistent performance** in an ever changing environment.”

Susan Peterson was for many years general counsel and company secretary at ANZ and is now a professional director. She is also on the boards of Trustpower, Vista, The NZ Merino Company and Compac Sorting Solutions.

She is also a tribunal member of the New Zealand Markets Disciplinary Tribunal and is a chartered member of the Institute of Directors.

Visit Susan’s LinkedIn for more
nz.linkedin.com/in/susan-peterson-88b30615



122 Captain Springs Road, Penrose
Current tenant: New Zealand Crane Group

FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2016

		UNAUDITED	UNAUDITED
ALL VALUES IN $000S	NOTE	6 months ended 30 June 2016	6 months ended 30 June 2015
OPERATING REVENUE			
Rental and management fee income		35,219	32,117
Interest income		9	5
Total operating revenue		35,228	32,122
OPERATING EXPENSES			
Non-recoverable property costs	2.2	(894)	(989)
Interest expense and bank fees		(8,913)	(9,642)
Audit fees and other fees paid to auditors		(67)	(78)
Management fees	5.2	(3,623)	(4,109)
Directors' fees		(149)	(140)
Other expenses		(406)	(360)
Total operating expenses		(14,052)	(15,318)
Total operating earnings		21,176	16,804
NON-OPERATING INCOME AND EXPENSES			
Fair value gain on investment properties	2.1	10,623	25,577
Loss on disposal of investment properties		(6)	–
Material damage insurance income		–	17
Fair value loss on derivative financial instruments		(7,131)	(3,508)
Total non-operating income and expenses		3,486	22,086
Profit before taxation		24,662	38,890
INCOME TAX (EXPENSE) / BENEFIT			
Current taxation	5.1	(3,892)	(3,160)
Deferred taxation	5.1	1,721	687
Total income tax expense		(2,171)	(2,473)
Profit and total comprehensive income after income tax attributable to the shareholders of the Company	4.1	22,491	36,417
Basic and diluted earnings per share (cents)	4.2	5.01	8.85

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Cents per share (cents)	No. of shares (#)	Ordinary shares ($000s)	Retained earnings ($000s)	Total equity ($000s)
Balance as at 1 January 2015 (audited)	–	411,502,391	434,986	129,984	564,970
Total comprehensive income	–	–	–	36,417	36,417
Dividends and reinvestment					
Q4 2014 final dividend - 12/3/2015	1.95	–	–	(8,025)	(8,025)
Q1 2015 interim dividend - 27/5/2015	1.75	–	–	(7,201)	(7,201)
Q1 2015 dividend reinvestment	–	841,562	1,282	–	1,282
Balance as at 30 June 2015 (unaudited)	–	412,343,953	436,268	151,175	587,443
Balance as at 1 January 2016 (audited)	–	447,692,460	485,688	172,326	658,014
Total comprehensive income	–	–	–	22,491	22,491
Dividends and reinvestment					
Q4 2015 final dividend - 9/3/2016	2.00	–	–	(8,954)	(8,954)
Q4 2015 dividend reinvestment	–	1,471,253	2,309	–	2,309
Q1 2016 interim dividend - 23/5/2016	1.75	–	–	(7,860)	(7,860)
Q1 2016 dividend reinvestment	–	1,230,441	2,002	–	2,002
Balance as at 30 June 2016 (unaudited)	–	450,394,154	489,999	178,003	668,002

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

ALL VALUES IN $000S	NOTE	UNAUDITED 30 June 2016	AUDITED 31 December 2015
CURRENT ASSETS			
Cash and cash equivalents		423	542
Accounts receivable, prepayments and other assets		2,199	10,934
Total current assets		2,622	11,476
NON-CURRENT ASSETS			
Investment properties	2.1	1,010,087	986,565
Derivative financial instruments	3.2	–	117
Goodwill		29,086	29,086
Total non-current assets		1,039,173	1,015,768
Total assets		1,041,795	1,027,244
CURRENT LIABILITIES			
Derivative financial instruments	3.2	456	299
Accounts payable, accruals and other liabilities		9,912	14,740
Taxation payable		861	2,164
Total current liabilities		11,229	17,203
NON-CURRENT LIABILITIES			
Borrowings	3.1	336,321	330,920
Derivative financial instruments	3.2	17,074	10,217
Deferred tax liabilities	5.1	9,169	10,890
Total non-current liabilities		362,564	352,027
Total liabilities		373,793	369,230
Net assets	4.3	668,002	658,014
EQUITY			
Share capital		489,999	485,688
Retained earnings		178,003	172,326
Total equity		668,002	658,014

The Board of Property For Industry Limited authorised these financial statements for issue on 9 August 2016.

Peter Masfen
Chairman

Anthony Beverley
Chairman, Audit and Risk Committee

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

ALL VALUES IN $000S	UNAUDITED 6 months ended 30 June 2016	UNAUDITED 6 months ended 30 June 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Property income received	35,139	30,518
Material damage insurance income	–	17
Net GST paid	(505)	(868)
Interest received	9	5
Interest and other finance costs paid	(9,304)	(10,675)
Payments to suppliers	(6,010)	(3,850)
Income tax paid	(5,195)	(4,363)
Net cash flows from operating activities	14,134	10,784
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investment properties	9,250	–
Acquisition of investment properties	–	(18,425)
Expenditure on investment properties	(16,324)	(7,497)
Capitalisation of interest on development properties	(176)	(69)
Net cash flows from investing activities	(7,250)	(25,991)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from borrowings	5,500	28,760
Dividends paid to shareholders	(12,503)	(13,943)
Net cash flows from financing activities	(7,003)	14,817
Net decrease in cash and cash equivalents	(119)	(390)
Cash and cash equivalents at beginning of year	542	596
Cash and cash equivalents at end of year	423	206

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

1. GENERAL INFORMATION

IN THIS SECTION
This section sets out the basis upon which the Group's interim financial statements are prepared.

1.1. Reporting entity

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

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

1.2. Basis of preparation

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

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

These unaudited consolidated interim financial statements should be read in conjunction with the Annual Report for the year ended 31 December 2015 which may be downloaded from the Company's website (https://www.propertyforindustry.co.nz/investor-centre/reports-and-presentations).

1.3. New standards, amendments and interpretations

New standards, amendments and interpretations have been published that are not yet effective and have not been early adopted by the Group. Those which may be relevant to the Group are explained below:

- NZ IFRS 9 'Financial Instruments'. This standard will eventually replace NZ IAS 39 Financial Instruments - Recognition and Measurement. It is required to be adopted by the Group in the financial statements for the year ending 31 December 2018, the Group has not yet assessed the impact of this standard.
- NZ IFRS 15 'Revenue from Contracts with Customers'. This standard addresses the recognition of revenue from contracts with customers. It specifies the revenue recognition criteria governing the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It is required to be adopted by the Group in the financial statements for the year ending 31 December 2018, the Group has not yet assessed the impact of this standard.
- NZ IFRS 16 'Leases'. This standard will replace the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

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

  The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with NZ IFRS 15, 'Revenue from Contracts with Customers. The group intends to adopt NZ IFRS 16 on its effective date and has yet to assess its full impact.

1.4. Critical judgements, estimates and assumptions

In applying the Group's accounting policies, the Board and Management continually evaluates judgements, estimates and assumptions that may have an impact on the Group. The significant judgements, estimates and assumptions made in the preparation of these financial statements were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2015.

1.5. Accounting policies

The accounting policies adopted are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2015.

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	UNAUDITED 6 months ended 30 June 2016	AUDITED 12 months ended 31 December 2015
Opening balance	986,565	876,005
Capital movements:		
Additions (i)	–	48,203
Disposals (ii)	–	(8,973)
Capital expenditure	13,129	23,025
Capitalised interest	176	135
Movement in lease incentives, fees and fixed rental income	(406)	1,699
	12,899	64,089
Unrealised fair value gain (iii)	10,623	46,471
Closing balance	1,010,087	986,565

(i) Additions
There were no investment property additions for the six months ended 30 June 2016. During the year ended 31 December 2015 the following properties were acquired:

ALL VALUES IN $000S	TOTAL
232 Cavendish Drive, Manukau	18,425
65 Hugo Johnston Drive, Penrose	11,557
80 Hugo Johnston Drive, Penrose	5,650
4 Autumn Place, Penrose	2,035
6 Autumn Place, Penrose	2,290
10 Autumn Place, Penrose	8,246
Total to 31 December 2015	48,203

(ii) Disposals
There were no investment property disposals for the six months ended 30 June 2016. During the year ended 31 December 2015 the following property was disposed of:

ALL VALUES IN $000S	TOTAL
85 Cavendish Drive, Manukau	(8,973)
Total to 31 December 2015	(8,973)

(iii) Valuation

All investment properties were valued by independent valuers as at 31 December 2015. The Board determined that a desktop review of the property portfolio should be undertaken by CB Richard Ellis (CBRE), Colliers International (Colliers) or Jones Lang LaSalle (JLL) as at 30 June 2016 to ensure that investment properties continue to be held at fair value. In addition to this desktop review, the following eight investment properties were subject to independent valuations due to significant capital expenditure or leasing activity undertaken during the period:

ALL VALUES IN $000S	Valuer	Valuation
124 Hewletts Road, Mt Maunganui	JLL	41,300
304 Neilson Street, Onehunga	Colliers	9,550
9 Narek Place, Manukau	Colliers	9,100
2-6 Niall Burgess Road, Mt Wellington	CBRE	12,250
509 Mt Wellington Highway, Mt Wellington	CBRE	15,000
47 Arrenway Drive, Rosedale	CBRE	3,690
41 William Pickering Drive, Rosedale	JLL	7,000
36 Neales Road, East Tamaki	JLL	17,000
Total		114,890

As a result of the independent valuations, the unrealised net increase in the value of investment properties for the six months ended 30 June 2016 was $10,623,000 (six months ended 30 June 2015: $25,577,000). The portfolio will next be revalued by independent valuers as at 31 December 2016.

2.2. Non-recoverable property costs

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

	UNAUDITED	UNAUDITED
ALL VALUES IN $000S	6 months ended 30 June 2016	6 months ended 30 June 2015
Service charge expenses	(3,955)	(4,257)
Service charge income recovered from tenants	3,955	4,257
Bad and doubtful debts	(37)	(24)
Other non-recoverable property costs	(857)	(965)
Total non-recoverable property costs	(894)	(989)

3. FUNDING

IN THIS SECTION
This section outlines how the Group manages its capital structure, financing costs and exposure to interest rate risk.

3.1. Borrowings

(i) Net borrowings

	UNAUDITED	AUDITED
ALL VALUES IN $000S	30 June 2016	31 December 2015
Facility drawn down – non-current	337,200	331,700
Prepaid loan fees	(879)	(780)
Net borrowings	336,321	330,920

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

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

	UNAUDITED	AUDITED
ALL VALUES IN $000S	30 June 2016	31 December 2015
ANZ	101,625	101,625
BNZ	91,125	91,125
CBA	91,125	91,125
Westpac	91,125	91,125
Total facilities available	375,000	375,000
Facility drawn down – non-current	337,200	331,700
Undrawn facility available	37,800	43,300
Total facilities available	375,000	375,000
Weighted average term to maturity (years)	4.35	3.84

After taking into account the impact of current interest rate swaps, the blended interest rate as at 30 June 2016 for the drawn down borrowings was 5.36% (31 December 2015: 5.71%).

(iii) Security
The facility is 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 $750,000,000. In addition to this, the facility agreement contains a negative pledge. The Company and PFI No. 1 are guarantors to the facility. The Group has complied with all covenants during the current and prior periods.

3.2. Derivative financial instruments

(i) Fair values

	UNAUDITED	AUDITED
ALL VALUES IN $000S	30 June 2016	31 December 2015
Non-current assets	–	117
Current liabilities	(456)	(299)
Non-current liabilities	(17,074)	(10,217)
Total	(17,530)	(10,399)

(ii) Notional values, maturities and interest rates

	UNAUDITED	AUDITED
	30 June 2016	31 December 2015
Notional value of interest rate swaps – start dates commenced ($000s)	243,000	253,000
Notional value of interest rate swaps – forward starting ($000s)	70,000	55,000
Total ($000s)	313,000	308,000
Average period to expiry – start dates commenced (years)	3.40	3.57
Average period to expiry – forward starting (years from commencement)	2.79	2.91
Average (years)	3.26	3.45
Average interest rate[1] – start dates commenced (%)	4.64%	4.66%
Average interest rate[1] – forward starting (% during effective period)	3.69%	3.92%
Average (%)	4.43%	4.52%

1. Excluding margin and fees.

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 (31 December 2015: Level 2). These are based on the present value of estimated future cash flows accounting for the terms and maturity of each contract and the current market interest rates at reporting date. Fair values also reflect the current creditworthiness of the derivative counterparty. These values are verified against valuations prepared by the respective counterparties. The valuations were based on market rates at 30 June 2016 of between 2.42% (31 December 2015: 2.75%) for the 90 day BKBM and 2.66% (31 December 2015: 3.75%) for the 10 year swap rate. There were no changes to these valuation techniques during the reporting period.

4. INVESTOR RETURNS AND INVESTMENT METRICS

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

4.1. Relationship of total comprehensive income to dividends paid

The Group's dividend policy is to distribute between 95% to 100% of its annual distributable profit, subject to the approval of the Board of Directors. This can be increased to above 100% should management performance fees be earned in any given period.

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

In prior reporting periods, the definition of distributable profit included an additional adjustment for management performance fees net of tax. Applying the previous definition the pay-out ratio for the six months ended 30 June 2016 is 90% (six months ended 30 June 2015: 96%).

	UNAUDITED	UNAUDITED
ALL VALUES IN $000S UNLESS NOTED	6 months ended 30 June 2016	6 months ended 30 June 2015
Total comprehensive income for the period attributable to the shareholders of the Company	22,491	36,417
Adjusted for:		
Fair value gains on investment properties	(10,623)	(25,577)
Material damage insurance income	–	(17)
Loss on disposal of investment properties	6	–
Tax on depreciation claw-back on disposals of investment properties	38	–
Fair value loss on derivative financial instruments	7,131	3,508
Deferred taxation	(1,721)	(687)
Movement in fixed rent reviews	(377)	199
Other[1]	(6)	(6)
Distributable profit	16,939	13,837
Weighted average number of ordinary shares (shares)	448,877,680	411,665,124
Distributable profit per share (cents)	3.77	3.36
Dividends paid relating to the period reported[2]	15,742	14,417
Pay-out ratio (%)	93%	104%

1. Other comprises the current tax impact of an adjustment to one of the Group's derivative financial instruments.
2. Includes the $7,860,000 dividend paid for the first quarter of 2016 as per the Consolidated Statement of Changes in Equity, plus the second quarter dividend for 2016 due to be paid on 1 September 2016 of $7,882,000.

4.2. Earnings per share

	UNAUDITED	UNAUDITED
	6 months ended 30 June 2016	6 months ended 30 June 2015
Total comprehensive income for the year attributable to the shareholders of the Company ($000)	22,491	36,417
Weighted average number of ordinary shares (shares)	448,877,680	411,665,124
Basic and diluted earnings per share (cents)	5.01	8.85

4.3. Net tangible assets per share

	UNAUDITED	AUDITED
	30 June 2016	31 December 2015
Net assets ($000)	668,002	658,014
Less: Goodwill ($000)	(29,086)	(29,086)
Net tangible assets ($000)	638,916	628,928
Closing shares on issue (shares)	450,394,154	447,692,460
Net tangible assets per share (cents)	142	140

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 NZ IAS 34 and IAS 34 Interim Financial Reporting.

5.1. Taxation

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

ALL VALUES IN $000S	UNAUDITED 6 months ended 30 June 2016	UNAUDITED 6 months ended 30 June 2015
Profit before income tax	24,662	38,890
Prima facie income tax calculated at 28%	(6,905)	(10,889)
Adjusted for:		
Non-tax deductible revenue and expenses	(5)	4
Fair value gain on investment properties	2,974	7,162
Loss on disposal of investment properties	(2)	–
Depreciation	1,232	1,203
Disposal of depreciable assets	(43)	–
Deductible capital expenditure	554	346
Lease incentives, fees and fixed rental income	55	(92)
Derivative financial instruments	(1,991)	(976)
Impairment allowance	239	(7)
Current tax prior period adjustment	–	89
Current taxation expense	(3,892)	(3,160)
Depreciation	24	(353)
Lease incentives, fees and fixed rental income	(55)	92
Derivative financial instruments	1,991	976
Impairment allowance	(239)	(28)
Deferred taxation benefit	1,721	687
Total taxation reported in Consolidated Statement of Comprehensive Income	(2,171)	(2,473)

(ii) Deferred tax

ALL VALUES IN $000S	AUDITED 31 December 2015 As at	UNAUDITED 6 months ended 30 June 2016 Recognised in profit	UNAUDITED 30 June 2016 As at
Deferred tax assets			
Derivative financial instruments	(2,942)	(1,991)	(4,933)
Impairment allowance	(362)	239	(123)
Gross deferred tax assets	(3,304)	(1,752)	(5,056)
Deferred tax liabilities			
Investment properties	14,194	31	14,225
Gross deferred tax liabilities	14,194	31	14,225
Net deferred tax liability	10,890	(1,721)	9,169

5.2. Related party transactions

(i) Management fees
The Manager, PFIM Limited (PFIM) is entitled to be paid base management and performance fees for the provision of management and administrative services, pursuant to a management and administrative services contract. During the year, Gregory Reidy was a Director of both PFIM and the Company.

(a) Base management fees
The base management fee is payable monthly and is calculated as one twelfth of:

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

During the six months ended 30 June 2016, the Group incurred base management fees totalling $2,731,000 (six months ended 30 June 2015: $2,525,000) from PFIM, for the provision of management and administrative services. As at 30 June 2016 $454,000 (31 December 2015: $446,000) was owing and included in accounts payable, accruals and other liabilities.

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

During the six months ended 30 June 2016, the Group incurred performance fees totalling $892,000 (six months ended 30 June 2015: $1,584,000) from PFIM. As at 30 June 2016, a deficit amount of $1,247,000 (31 December 2015: surplus $1,988,000) has been carried forward to be included in the calculation to determine whether a performance fee is payable in subsequent periods. As at 30 June 2016 no amount (31 December 2015: $830,000) was owing and included in accounts payable, accruals and other liabilities.

(ii) Other related party transactions
During the six months ended 30 June 2016, the Group incurred $11,915,000 (six months ended 30 June 2015: $8,424,000) for construction and maintenance works from Haydn & Rollett Limited. During the year, John Waller was a Director of both Haydn & Rollett Limited and the Company. As at 30 June 2016 $724,000 (31 December 2015: $1,558,000) was owing and included in accounts payable, accruals and other liabilities.

John Waller was a Director of both Bank of New Zealand and the Company until his retirement from the Bank of New Zealand on 31 July 2015. In the six month period ended 30 June 2015 the Group incurred interest expense and bank fees of $2,006,000 from the Bank of New Zealand.

No related party debts have been written off or forgiven during the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

During the six months ended 30 June 2016, fees paid to Directors of the Group were $149,000 (six months ended 30 June 2015: $140,000).

As at 30 June 2016, Directors of the Company held 8,928,462 (31 December 2015: 9,153,462) shares beneficially in the Company and 371,583 (31 December 2015: 371,583) shares non-beneficially in the Company. Included in the shares beneficially owned are 3,657,121 (31 December 2015: 3,657,121) shares held in the name of PFIM.

5.3. Operating segments

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

5.4. Capital commitments

As at 30 June 2016 the Group had no capital commitments (31 December 2015: $12,416,000) relating to work on investment properties.

5.5. Subsequent events

On 9 August 2016, the Directors of the Company approved the payment of a net dividend of $7,882,000 (1.75 cents per share) to be paid on 1 September 2016. The gross dividend (2.20 cents per share) carries imputation credits of 0.45 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 30 June 2016 in respect of this dividend.

INDEPENDENT REVIEW REPORT

TO THE SHAREHOLDERS OF PROPERTY FOR INDUSTRY LIMITED

Report on the Interim Financial Statements

We have reviewed the accompanying financial statements of Property for Industry Limited (the “Company”) on pages 12 to 25, which comprise the consolidated statement of financial position as at 30 June 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period ended on that date, and a summary of significant accounting policies and selected explanatory notes.

Directors’ Responsibility for the Interim Financial Statements

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

Our Responsibility

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

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

We are independent of the Group. Our firm carries out other services for the Group in the areas of other related assurance and advisory services. The provision of these other services has not impaired our independence.

Conclusion

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

Restriction on Distribution or Use

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants — Auckland

9 August 2016

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Jones Lang LaSalle Limited

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This Interim Report is dated 23 August 2016 and signed on behalf of the Board by:

Peter Masfen
Chairman

Anthony Beverley
Director

CALENDAR

2016

SEPTEMBER

- 2016 Half-year dividend payment

NOVEMBER

- 2016 Third-quarter announcement
- 2016 Third-quarter dividend payment

2017

FEBRUARY

- 2016 Full-year announcement

MARCH

- 2016 Final dividend payment
- 2016 Annual Report released

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Current tenant: Transport Trailer Services

www.propertyforindustry.co.nz