PFi

THE ACUMEN ISSUE

PROPERTY FOR INDUSTRY LIMITED

Annual Report 31 December 2022

WELL PLACED

YOUR
INDUSTRIAL
PROPERTY
EXPERTS

QUIETLY STRONGER

As a professional landlord to the industrial sector, we made the most of less frenetic market conditions to recycle cash from the divestment of a range of properties into two important brownfield opportunities.

_ 30-32 Bowden Road, Mount Wellington

We also reset our potential through share repurchasing, starting the process to bring facilities management in-house and building our team's capability. Performance was steady, with full occupancy and contracted rents up by a healthy margin, even though the number of properties and tenants decreased slightly.

Stability remains a defining discipline for PFI. But this year we also significantly advanced our sustainability programme, placing this priority alongside consistency as hallmarks of how we do business. A busy year has seen us planning well ahead, strengthening our resources, our team and our resolve to prudently take advantage of the opportunities as they arise.

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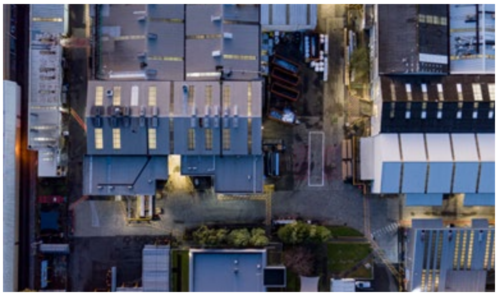
Brownfield opportunities

CASTING AHEAD



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

LEADING

SIMON WOODHAMS
Chief Executive Officer

CRAIG PEIRCE
Chief Finance and Operating Officer

ANTHONY BEVERLEY
Board Chair and Independent Director

CAROLYN STEELE
Independent Director

DAVID THOMSON
Independent Director

DEAN BRACEWELL
Independent Director

GREG REIDY
Independent Director

01.

WELL PLACED FOR FUTURE GROWTH

A MUCH QUIETER year from a transactional point of view belies how much we achieved behind the scenes.

While high-quality, well-located industrial properties remain in demand, it was harder to find new properties with the right long-term returns profile. Focus shifted accordingly to maximising the value of existing assets, and divesting assets where it made sense to recycle cash. Good returns on sales outside Auckland enabled the Company to pay down debt and prepare for two major brownfield redevelopments scheduled to begin in 2023.

A change in market sentiment, as the cycle shifted to late stage, enabled us to pre-emptively execute a share buy-back, starting the process to bring facilities management in-house and, at year end, move to new premises in preparation for our next era of growth.

"The time was right for us to realign our portfolio by selling down some assets and earmarking the proceeds for brownfield redevelopments at Bowden and Springs roads, as well as buying back shares that we judged were trading below their fair value," says Chief Executive Officer Simon Woodhams. "All of these decisions are consistent with our strategic commitments to focusing on the industrial property sector, reading prevailing market conditions for opportunities and being intentional in our management style.

"Demand for industrial property remains high: there are limited vacancies, rentals continue to increase and there is widespread investment and construction to meet demand."

Overall, dividends continued to trend upward. Assessed over a three-yearly framework, the 2022 dividend looks past the higher earnings in 2021, which were a result of record low interest rates and holding the Carlaw Park properties until the end of that year. Dividends rose to 8.10 cents per share (cps), an increase of 2.5% on last year's dividend of 7.90 cps, representing a dividend pay-out ratio of around

FUNDS
FROM OPERATIONS

10.21 CPS

DOWN 7.8%

LEASING ACTIVITY

104,433

SQM LEASED

DIVIDEND

8.10

cents per share.

UP 2.5%

2022	**8.10**
2021	7.90
2020	7.70
2019	7.60
2018	7.55

$56.7M

REVALUATION

$2.12 BILLION

PORTFOLIO

ADJUSTED FUNDS
FROM OPERATIONS

8.83 CPS

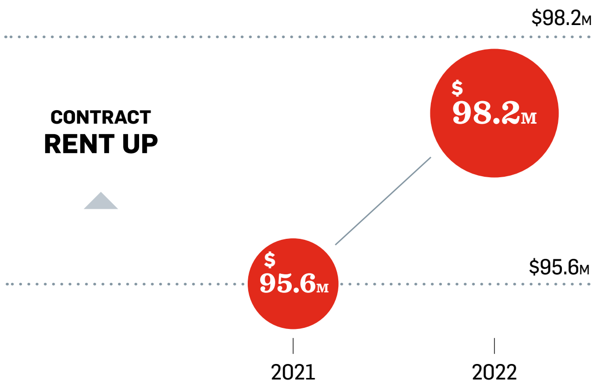
DOWN 5.0%

COMPLETED

>102

rent reviews, resulting in
average annual uplift of **4%**

CONTRACT
RENT UP



NET TANGIBLE ASSETS

298.8

CENTS PER SHARE

2022	**298.8**
2021	303.4
2020	220.9
2019	205.5
2018	177.7

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

91.7% of Adjusted Funds From Operations (AFFO) for the year, and 90.7% of AFFO on a rolling three-year basis. The projection for next year is a dividend of 8.10 to 8.30 cps, a further increase of up to 2.5%.

Valuations across PFI's portfolio decreased by just $56.7 million, or 2.6%, resulting in a portfolio value of $2.117 billion, down from the high point last year of $2.169 billion. Following a reduction in the share price during the year from $2.98 to $2.30, average annualised total shareholder returns since inception now stand at just under 10%.

As expected, earnings were lower than last year's record result. Funds From Operations (FFO) were down 7.8% to 10.21 cps, while AFFO reduced by a smaller percentage to 8.83 cps. Again, though, in the context of FY20 and FY19, this year's result reflects consistent upward movement over the medium term. By contrast, net rental income was up a further $1.2 million, or 1.3%, at $95.3 million as compared to $94.0 million in the previous period.

Non-recoverable property costs of $2.7 million were down 5.0%, in keeping with full occupancy and low levels of expiry. Interest expenses and bank fees were up 23% to $24.6 million due to higher levels of borrowings and increased underlying interest rates. Administrative expenses increased also, up 14% to $8.5 million, as we continued to invest in our team, our premises and the systems supporting us.

An active year for divestments saw four properties – 39 Edmundson Street in Napier, 330 Devon Street East and 20 Constance Street in New Plymouth, and 8A & B Canada Crescent in Christchurch – transacted at a combined gross sales price of $33.4 million. On average, these properties realised 8% above their most recent book value.

Occupancy remained at 100% but the Weighted Average Lease Term decreased slightly from 5.40 years to 5.08 years. We leased 104,433 sqm of space this year for an average term of 5.0 years and total rent of $14.8 million, with new leases being agreed at an average of around 12% above the previous contract rent. We also completed over 100 rent reviews on $62.8 million of contract rent, resulting in an average annual uplift of 4%.

The only changes to our borrowings were a one-year extension of the short-term facility with the Bank of New Zealand, and the establishment of a US$250 million 'shelf facility' for long-term borrowings with Pricoa, part of a large US insurance company. Gearing remains at comfortable levels at 28.5%, up slightly from 27.7% last year.

"We now have borrowing facilities totalling $725 million with maturities through to 2028," explains Chief Finance and Operating Officer Craig Peirce. "Low gearing, a solid balance sheet and good capital management, combined with a focus on people and systems, means we are well placed to take PFI forward into our next phase."

Tangible progress was made in the Company's sustainability programme. This included: refreshing our sustainability strategy; completing the R22 refrigerant gas replacement project; filing our third voluntary Task Force on Climate-Related Financial Disclosures (TCFD) report in this Annual Report; targeting 5 Green Star design for the Bowden Road and Springs Road developments; creating a strategy for rolling solar across the portfolio; and undertaking sustainable refurbishments.

"Our decision to target 5 Green Star ratings in our upcoming Bowden Road and Springs Road redevelopments puts us at the leading edge of the industrial sector in New Zealand," says Craig. "There are only a handful of buildings in New Zealand currently at this level, and it's exciting to be embarking on these projects with sustainability firmly at their core." You can learn more about these projects on pages 18 to 21.

"PFI's long-term strategy and continued focus on industrial property have advanced this year, and the Board is happy with progress," says PFI Chair Anthony Beverley. "We continue to deliver stable cash returns for investors, and the team have made good use of the drivers available to them through the strategy to divest sensibly, while positioning the Company to continue to grow in the years ahead."

_ PFI is aiming to install solar systems on five buildings by 2025.

02.

10 THINGS YOU SHOULD KNOW ABOUT PFI

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

PROPERTIES

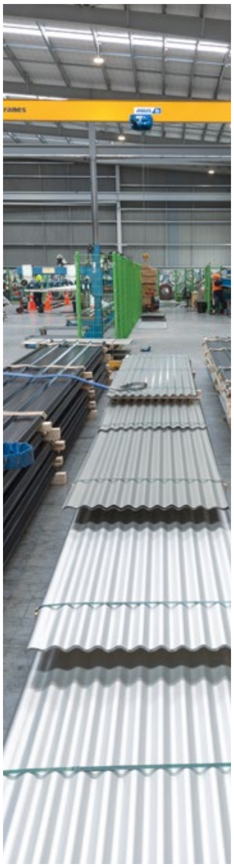
94

2021: 97

TENANTS

132

2021: 136

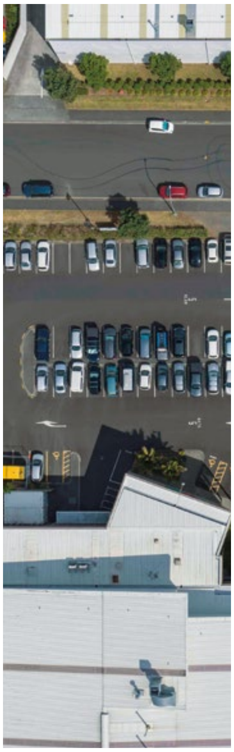


AVERAGE OCCUPANCY
OVER THE LAST 10 YEARS

99.2

%

2021: 99.0%

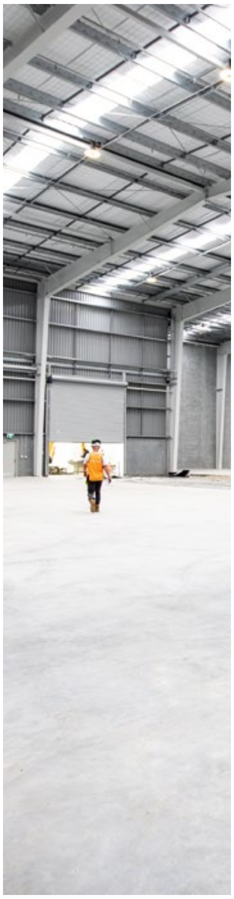


WEIGHTED AVERAGE LEASE TERM

5.08

YEARS

2021: 5.40



AVERAGE PROPERTY VALUE

$

22.5

MILLION

2021: $22.4 MILLION

GEARING

28.5

%

2021: 27.7%

NUMBER OF PROPERTIES OCCUPIED BY TOP 10 TENANTS

29

2021 : 29

AVERAGE ANNUALISED TOTAL RETURN SINCE INCEPTION

9.99

%

2021: 11.32%

SHARE PRICE

2.30

$

2021: $2.98

NUMBER OF STAFF AND DIRECTORS

24

2021: 21

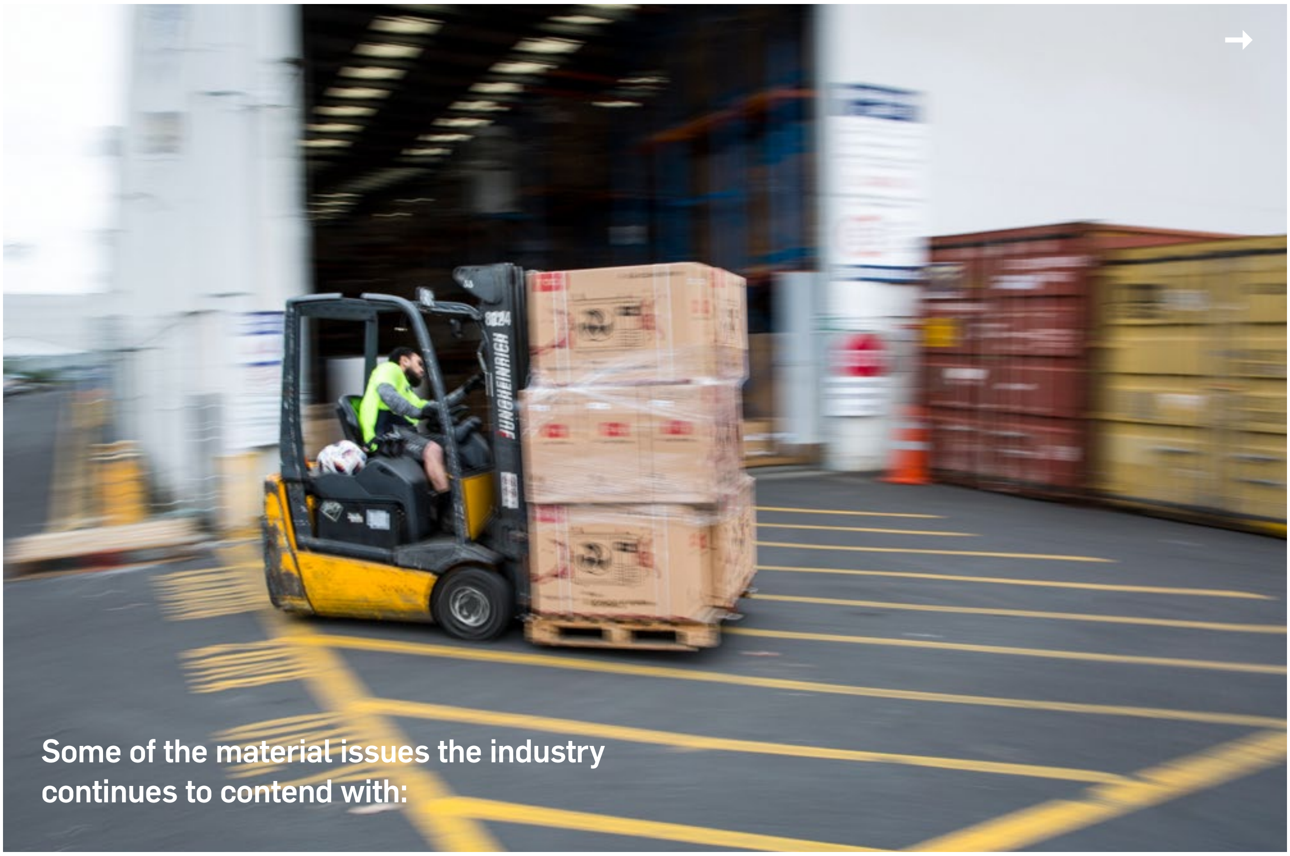
03.

A CLIMATE OF CHANGE

ADDITIONAL SPACE

200 MILLION SQM

Sustained interest in e-commerce as well as the maintenance of higher inventories as a hedge against supply chain disruptions continue to fuel demand for industrial and logistics buildings. According to CBRE, up to 200 million sqm of additional e-commerce-dedicated logistics space will be required internationally by 2026.

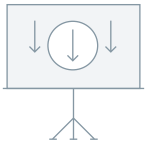


Some of the material issues the industry continues to contend with:

INFLATION

OCR

In New Zealand, the Reserve Bank is expected to continue raising the official cash rate to bring down inflation.



BUSINESS CONFIDENCE

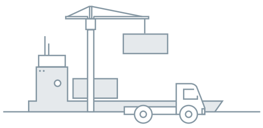
MUTED

Plunging national business confidence, alongside rising interest rate costs, contributed to transactional activity in the property market remaining muted in 2022. The industrial sector remains a favourably viewed asset class from a property investment perspective.

VACANCY RATES

LOW

Despite significant building activity in the industrial sector, currently vacancy rates are expected to stay low.



TRANSPORT COSTS

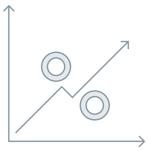
45 - 70%

Transport costs account for 45 to 70% of total logistics spend. To help contain costs, businesses are increasingly siting their operations closer to ports of entry, including Auckland and Tauranga's ports, and inland ports.

RENT INCREASES

CBRE

Rents have increased markedly over recent years according to CBRE but are expected to level off in the period ahead. We remain confident of further growth in PFI's own rental income because of historical under-renting.



INTEREST RATES

GROWTH

According to commentators, rising interest rates could affect earnings growth and asset pricing. Balance sheets are generally in good shape with low listed property sector gearing overall, but debt costs remain a headwind for many.

04.

ACTING FOR THE FUTURE

Some of the macro factors that have influenced values and returns in the sector still exist, but they have been tempered by rising interest rates. Supply chain issues may have begun to show signs of resolving themselves, and consumer sentiment is cooling in the face of rising costs of living, yet the demand for quality logistics space, particularly in Auckland, remains high. Significant increases in market rental rates this year reflect that.

_ Thinking ahead for our tenants is a hallmark of our strong relationships.

ACTING FOR THE FUTURE

THE PREVIOUS YEAR was exceptional: the transaction environment enabled the Company to fill the earnings hole left by the divestment of Carlaw Park. Of course, retaining that property until the end of the 2021 financial year was also a bonus, effectively providing almost 12 months of additional revenue. The sale did something else as well: it realised our goal of being a pure industrial property player.

This year is quite different. "We find ourselves in a dynamic sector," says Chief Executive Officer Simon Woodhams. "Our strategy continues to focus on making deliberate decisions in industrial property that balance short-term earnings and long-term value generation. We're looking for investments that benefit our investors, tenants, industry, people and the planet. We have divested properties this year to help advance that agenda."

FOCUS SHIFTS TO VALUE MAXIMISATION

LEVERAGING PFI'S CURRENT scale is about opening up opportunities and taking the time to get them right. A great deal will happen behind the scenes over the next while, but with higher interest rates, the focus has turned to maximising the value of the current portfolio.

As the Company becomes larger, our ability to maintain our performance record steepens. "Our ability to grow in value and deliver strong, stable returns to our shareholders revolves around our portfolio mix, which we continue to refine, as well as our enduring and collaborative relationships and partners, and our great team and culture," says Simon.

Continuing on a growth trajectory will be executed in a range of ways, including growing market share, improving asset quality, and diversifying the income mix. While the market may be shifting to a different part of the cycle, Simon says PFI has a duty to remain true to our strategy and a quieter transactional environment has enabled important changes that will benefit the Company for years to come.

"In terms of our portfolio, we continue to grow our base through proactive and deliberate investments at the same time as we divest assets that are non-core. We've always enjoyed strong tenant relationships, but we've begun to strengthen those this year by starting to bring facilities management in-house, and by thinking ahead for our tenants. We've paid a lot of attention to developing capable and agile teams within a distinctive and healthy culture. And, alongside others in the sector, we are increasing our climate commitments. Our objective, in the case of the latter, is really to be at the forefront for the application of sustainability in the industrial property sector. Our upcoming Bowden Road and Springs Road redevelopments are a case in point."

INDUSTRIAL PROPERTY DEMAND REMAINS STRONG

THE GOOD NEWS is that, unlike other parts of the property sector, industrial and logistics remain stable and attractive. According to CBRE's "Auckland Property Market Outlook" and "Auckland Rent & Yield Update", released in December 2022 and January 2023 respectively, demand for industrial property remains strong. Prime-grade vacancy sits at just 0.1%, while secondary-grade vacancy is low also at 0.7%. Even as demand responds to a weaker economy, based on pre-commitment levels and enquiry volumes, indications are for vacancy rates to stay at only 1.2% for prime-grade property and 2.0% for secondary-grade property.

Rental trends will continue to reflect current momentum based on increasing development costs and entrenched strong supply-demand fundamentals. Rental growth has indeed remained high in 2022, as CBRE forecast, although the rate of growth is expected to start to reflect longer-term trends in 2023 and beyond. Under-renting in PFI's portfolio of around 11% provides a platform for further rental growth in the face of weaker economic conditions.

BUILDING OUR DEVELOPMENT CAPABILITY

MANAGED CAREFULLY, BROWNFIELD projects are a potential game-changer. "In a market where large assets are simply not available at what we deem to be realistic prices, and might not be for some time, properties like Bowden and Springs roads offer us a wealth of opportunity," says Simon Woodhams. "Redesigning those sites from the ground up represents not only our best use of capital, it also enables us to advance our ambitions to gear up for the next stage of our journey by redeveloping properties as an engine for maximising shareholder value."

Changes to the dividend policy announced last year align directly with these shifts. "Both projects will take time to plan and implement," says Chief Finance and Operating Officer Craig Peirce. "The timeframe for delivery of Bowden Road is mid-2024, while Springs Road is a multi-year project. 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.

"Our three-year horizon for earnings and dividends recognises that, as we grow, returns and development may not always flow immediately. By taking a longer-term view, we can look through any one year of ups or downs, enabling us to evolve as a company while staying true to our defining ethos of stable returns."

"We continue to grow our base through proactive and deliberate investments at the same time as we divest assets that are non-core."

SIMON WOODHAMS
Chief Executive Officer

CURRENT OCCUPANCY

100 %

PORTFOLIO YIELD

4.62 %

CONTRACT RENT

$ **98.2** MILLION


_ Sustainability, Getting to grips with impacts. Read more on page 24.

“By taking a longer-term view, we can look through any one year of ups or downs.”

CRAIG PEIRCE
Chief Finance and Operating Officer

A COMPREHENSIVE APPROACH TO SUSTAINABILITY

PFI'S COMMITMENT TO sustainability continues to move forward. Our new sustainability strategy focuses efforts on six key areas: the Company will create a future-proofed and resilient portfolio; maximise the useful lifespan of buildings; become a trusted partner for tenants in terms of sustainability and reducing greenhouse gas emissions; collaborate with supply-chain partners to minimise waste and promote positive social impacts; commit to strong employee engagement and health and safety performance; and maintain high standards of financial and governance performance. “These commitments reflect and fortify our strategic intentions,” says Simon Woodhams. “Going forward, there can be no separation of our commercial and sustainability goals.”

BOARD CHANGES

THE COMPANY HAS welcomed Carolyn Steele to the Board this year. “We would like to take this opportunity to thank retiring director Susan Peterson for her guidance and expertise. The Company has benefitted significantly from her presence at our Board table,” says PFI Chair Anthony Beverley. You can find an interview with incoming Director Carolyn Steele on pages 22 to 23.

RESILIENT RESULTS AHEAD

FY22 CLOSES WITH the Company well placed for the coming years. With substantial demand evident, and a clear path for development, PFI is confident that it can maintain momentum while meeting investor expectations. “We may not see the record results of 2021 in the short to medium term, yet we are confident of delivering resilient results,” says Simon. “There will be challenges, but we'll walk towards them, intent on meeting investor and occupier demands and delivering the strong, stable returns that our investors look for.”

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.

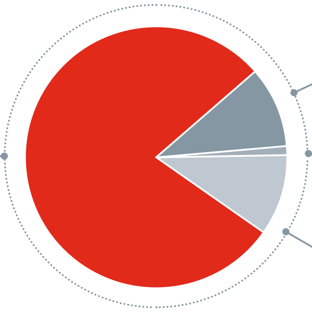
FIRST-CLASS MANAGEMENT

CONTINUOUS PORTFOLIO IMPROVEMENT

GROWING RETURNS TO SHAREHOLDERS

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

CORE GENERIC HOLDINGS
73 - 84%
CURRENT: 80%

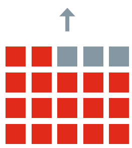


BROWNFIELD OPPORTUNITIES
10 - 15%
CURRENT: 10%

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

SPECIALISED ASSETS
5 - 10%
CURRENT: 9%

AUCKLAND
75 - 85%
CURRENT: 83%



OUT OF AUCKLAND
15 - 25%
CURRENT: 17%

05.

CASTING AHEAD

CASE STUDIES

30-32 BOWDEN ROAD

—

PURCHASE PRICE
$15 million

Net lettable area:
~4ha on an irregular-shaped site

OUR ROLE
A two-stage development targeting a 5 Green Star rating

Extensive redevelopment of 30-32 Bowden Road over the next two years will replace the current manufacturing, storage and office buildings with best-in-class storage and distribution warehouses targeting 5 Green Star ratings.

_ 30-32
Bowden Road

PURCHASED AS A strategic acquisition in 2013, the Bowden Road site is a large landholding in a prime industrial location. The original buildings were built five decades ago, with subsequent bespoke additions constructed in the 1990s for the previous tenant.

With current leases due to expire in March 2023, we have been preparing to realise the site's potential as a future brownfield redevelopment capable of becoming a core, sustainable asset. That process is now well in hand, with a long-term lease secured for the first stage with Tokyo Food, the country's longest-standing Japanese foods importer, distributor and retailer.

This first stage will comprise a 7,050 sqm warehouse facility, for which Tokyo Food will take a 12-year lease. The forecast completion date is mid-2024. The second stage of the development is an 11,200 sqm high-stud warehouse, 790 sqm of office and amenities, along with a 2,900 sqm breezeway and car parks. Both stages will target 5 Green Star ratings.

The entire redevelopment is very much in keeping with the Company's strategy of investing in well-located industrial property. Once fully leased, the project is expected to be accretive to both earnings and net tangible assets on a per-share basis. Equally importantly, completion of this significant redevelopment will endorse our ability to undertake large-scale highest-quality development.

> **The redevelopment of Bowden Road in many ways marks the start of a new era of development for PFI."**
>
> **SIMON WOODHAMS**
> Chief Executive Officer

The projects 5 Green Star ratings will be realised with solar arrays, water retention, energy efficiency measures and use of building materials with a lower environmental impact.

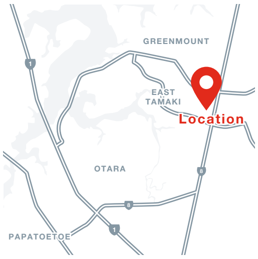
"The redevelopment of Bowden Road in many ways marks the start of a new era of development for PFI," says Chief Executive Officer Simon Woodhams. "This two-stage development will target our first fully Green Star-rated industrial estate, underpinning the next era of both scale and sustainability in our evolution as a company. Securing Tokyo Foods as a first major long-term tenant for the site is a clear signal to investors that organisations looking for substantial industrial sites have confidence in our vision." ■

AN AMBITIOUS DEVELOPMENT

SPRINGS TO LIFE

CASE STUDIES

78
SPRINGS ROAD, EAST TAMAKI
—



PURCHASE PRICE
$53 million

Net lettable area:
~10.4ha.

OUR ROLE
A multi-stage development targeting a 5 Green Star rating on all new buildings

Direct Property Fund, which merged with PFI in 2013, purchased 78 Springs Road as a strategic acquisition in 2009, attracted by the prospect of long-dated income from a blue-chip tenant, Fisher & Paykel Appliances (FPA), a large landholding in a prime industrial location, and low site coverage that would allow for future redevelopment.

ORIGINALLY THE SITE was designed to manufacture home appliances. Today, some of these warehouses no longer meet best-in-class storage and distribution needs, which typically feature higher-stud buildings, little or no internal columns, small offices, and the ability to incorporate cross-docking which enables goods to be moved inwards and outwards at scale. Modern large-scale logistics operations require heavier truck volumes also. The existing buildings had large external grounds or 'campus'-style sites as well, this translates into very low site coverage and an inefficient layout.

PFI recognised an opportunity to reposition Springs Road as a core industrial asset holding for the long term. By developing new and refurbishing some of the existing buildings, the Company could incorporate best practice through better design and deliver a more sustainable, future-proofed, industrial estate. A new-build warehouse for FPA would be the start of an ambitious regenerative process, leading to the gradual redevelopment of the entire site.

That work is now underway. The multi-stage project will first replace one of FPA's existing warehouses with a new 25,800 sqm storage and distribution warehouse targeting a 5 Green Star rating. An extension option will enable FPA to increase the warehouse up to 30,050 sqm should they wish to do so. Completion of the initial warehouse is forecast for late 2024.

Sustainability features planned for the site include rainwater harvesting, the use of sustainable construction materials, electric vehicle (EV) charging stations, greenhouse gas emissions performance standards, and diversion of construction and demolition waste from landfill.

> **"The redevelopment of this East Tamaki property presents an opportunity to target best-in-class 5 Green Star new buildings."**
>
> **SIMON WOODHAMS**
> Chief Executive Officer

"The first stage of this development will result in a substantial warehouse, together with offices and amenities, canopies, breezeways and supporting yards and car parks," says Simon. "The redevelopment of this East Tamaki property presents an opportunity to target best-in-class 5 Green Star new buildings, and over time infuse further sustainable initiatives into this industrial estate. Securing a 15-year lease to FPA ensures that the project delivers accretion to both earnings and net tangible assets on a per-share basis. Alongside the development at Bowden Road, the works at this site represent a significant advancement of our commercial and sustainability ambitions." ■

_ 78 Springs Road, East Tamaki

06.

STRENGTH IN NUMBERS

> "My assessment is that you can't replicate the assets that PFI holds now."
>
> **CAROLYN STEELE**
> Independent Director

CAROLYN STEELE JOINS the PFI Board with an extensive governance track record and a background in corporate finance, mergers and acquisitions, and direct investments. She was drawn to the Company, she says, because of the quality of the people and the assets, and because of PFI's market position.

"The Company has a strong portfolio of assets in a trading environment characterised by constraint on supply and low vacancy rates. My assessment is that you can't replicate the assets that PFI holds now, and the current balance sheet leaves plenty of room for expansion."

As a director, Carolyn says she enjoys working with businesses with large assets. Previous experience with a retirement village is useful in terms of understanding brownfield opportunities. "An emerging tension for the sector is balancing the expectation of investors for good returns with the ability of tenants to meet rent and inflation changes in a supply constrained market," she observes. "Neither can achieve their potential without understanding the situation of the other."

Governance, she believes, revolves around prudence: doing right by people, environment and community. "Expectations of stakeholders have changed considerably and quickly. On top of that, we have increasing regulation and scrutiny around sustainability outcomes. Directors today must oversee the development of more complex strategies while still enabling and empowering management to perform, not just comply."

In terms of sustainability, she says she's pleased to see PFI taking a market-leading approach, with the early adoption of TCFD reporting, elimination of R22 refrigerant gases, targeting 5 Green Star ratings for new buildings and more. "Investors are driving many changes in this space for market participants. It's good to see PFI actively planning to get out in front of that expectation wave."

A well-balanced Board, she says, is one that not only welcomes but also respects all contributions, that is well chaired, has access to good advisors and where the directors challenge themselves to keep getting better. "We have a moral and legal duty to act in the best interests of our shareholders, but we must act in ways that reflect our wider obligations as well. I'm a great believer in avoiding distractions, retaining good people and giving them the mandate and the support to do what they are great at.

"This is an exciting time to be joining PFI," she concludes. "Brownfield developments offer significant potential to create more value through new buildings, continuous improvement of current stock and smart recycling of capital. I'm looking forward to being part of that journey."

_ Carolyn Steele

_ PFI is implementing landscaping that employs sustainable design, planting and maintenance practices.

07.

GETTING TO GRIPS WITH IMPACTS

2022 SUSTAINABILITY REPORT

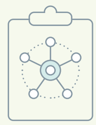
The purpose of this report is to transparently communicate the positive and negative impacts we have on people and planet, to explain how we are addressing such impacts, and to provide insight into our sustainability-related risks and opportunities.

CONTENTS

2022 HIGHLIGHTS

2022 has been an exciting year for sustainability at PFI. We have continued to make progress on the framework and plans that we set in 2019, whilst also turning our attention to the next phase of our sustainability journey with the development of a refreshed sustainability strategy. Highlights from 2022 include:

STRATEGY



23 — 30

We completed a new materiality assessment and refreshed our strategy out to 2030.

GREEN STAR TARGET

We committed to a 5 Green Star target for three new buildings.

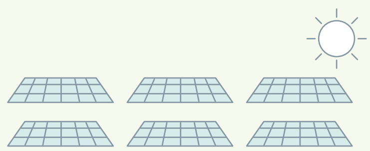
NEW OFFICE

We moved to a new office targeting 5 Green Star certification.

SUSTAINABLE REFURBISHMENTS

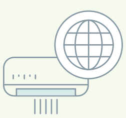
We worked with contractors to apply our sustainable refurbishment framework for four capital projects.

SOLAR



We engaged with six tenants on solar enquiries and committed to four solar installations.

R22 PHASEOUT



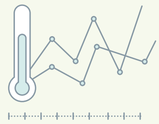
x 18

We completed our replacements of HVAC systems that use ozone-depleting R22 refrigerant gas within PFI's operational control. During 2022, we replaced HVAC systems at 18 properties at a cost of $1.78m in capital expenditure, which helped to reduce our Scope 1 fugitive emissions by 35% on 2019 levels.

SEISMIC UPGRADES

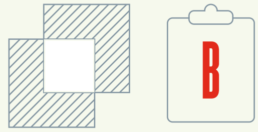
We improved the seismic ratings of two buildings to A Grade.

TCFD



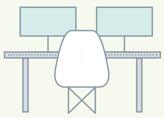
We continued to monitor and respond to our climate-related risks and opportunities. See our third voluntary Climate-Related Disclosures (TCFD) report on pages 36-43 for details.

CDP



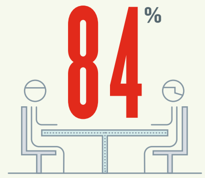
We achieved a Carbon Disclosure Project (CDP) score of B.

FLEXIBLE WORKING



We introduced a flexible working policy for our team.

STAFF ENGAGEMENT



We achieved an 84% staff engagement score and a 100% participation rate in our annual staff engagement survey.

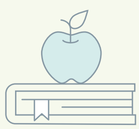
STAFF RETENTION

We achieved low employee turnover of 11.4%.

VOLUNTEERING

We participated in two volunteering days at Motuihe Island and Auckland City Mission.

SPONSORSHIP



We continued our sponsorship of Keystone New Zealand Property Education Trust.

DONATIONS

$15,000

We provided support through donations of $10,000 to the Auckland City Mission and $5,000 to KidsCan.

2030 STRATEGY

At PFI, we understand that sustainability requires us to be responsive to our changing external environment, constantly challenge ourselves, and be open to trying new approaches. We have significantly grown our internal sustainability expertise and capability over the past several years, while carefully monitoring the changing expectations of financial markets, regulators, and our business partners. This positioned us well to refresh our strategy for the future.

OUR REFRESHED STRATEGY

During 2022, we worked with a range of stakeholders including employees, suppliers, investors and funders to seek their views on our organisation's impacts and direction going forward. With the help of sustainability specialists, Proxima, we conducted an impact assessment[1] to review PFI's actual and potential impacts on people and planet along the company's value chain. Through engagement with stakeholders and internal workshops, we have established the following material topics:

- Greenhouse gas emissions
- Resources and waste
- Disaster and climate resilience
- People and wellbeing
- Economic value

These material topics are a complete refresh from prior years[2] and underpin the strategic themes for our new strategy.

Our implementation of the strategy will be dynamic. We will continuously review and adapt our response as we learn and as our external environment changes. We have committed to a range of projects and targets through to 2025 to operationalise this strategy, which are described in the sections that follow.

[1] Impacts were given a numerical ranking based on their relative significance, which considers severity and likelihood. Impacts falling in the bottom 30% were deemed immaterial for reporting purposes.

[2] Most of PFI's previous material topics have been incorporated into the new material topics, in particular People and Wellbeing, Greenhouse Gas Emissions and Resources and Waste. *Transparency, reporting and responding to stakeholder concerns* and *Sustainability strategy, policy and process* are no longer considered to be material topics under the new GRI 2021 approach to materiality.

OUR SUSTAINABILITY STRATEGY 2023 — 2030

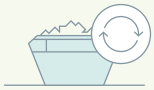
CORE PRINCIPLES

Create a future-proofed and resilient portfolio through sustainable refurbishments, developments, acquisitions and divestments.
Maximise the useful lifespan of buildings to minimise waste by transforming our core portfolio.
Become a trusted partner for tenants when it comes to sustainability and reducing greenhouse gas emissions.
Collaborate with supply chain partners to minimise waste, use lower-impact materials and promote positive social impacts.
Maintain strong employee engagement and health and safety performance.
Maintain high standards of financial and governance performance.

MATERIAL FOCUS AREAS

GREENHOUSE GAS EMISSIONS

Aspiration
The embodied and operational greenhouse gas emissions associated with PFI's buildings are minimised.

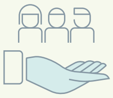


RESOURCES AND WASTE

Aspiration
The impacts from the materials that PFI uses and the waste PFI produces during developments and refurbishments are minimised.

DISASTER AND CLIMATE RESILIENCE

Aspiration
PFI's buildings are resilient and we are well placed to respond to disasters.



PEOPLE AND WELLBEING

Aspiration
Our people are safe and engaged, and we promote positive social impacts through our operations.

ECONOMIC VALUE

Aspiration
The value of PFI grows to create economic value for investors, tenants, our people and others that we work with.

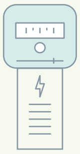
IMMEDIATE TARGETS

We have committed to a range of projects and targets through to 2025 to operationalise this strategy, which are described in the sections that follow. Key targets include:

GREEN STAR

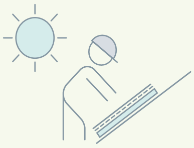
Significant new buildings to target minimum 5 Green Star certification.

METERING



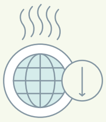
Implement power metering and monitoring for 50% of properties by the end of 2025.

SOLAR SYSTEMS



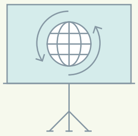
Install solar systems at five buildings by the end of 2025.

EMISSIONS



Minimise and offset residual Scope 1 + 2 greenhouse gas emissions.

DYNAMIC IMPLEMENTATION



Our implementation of the strategy will be dynamic.
We will continuously review and adapt our response as we learn and as our external environment changes.

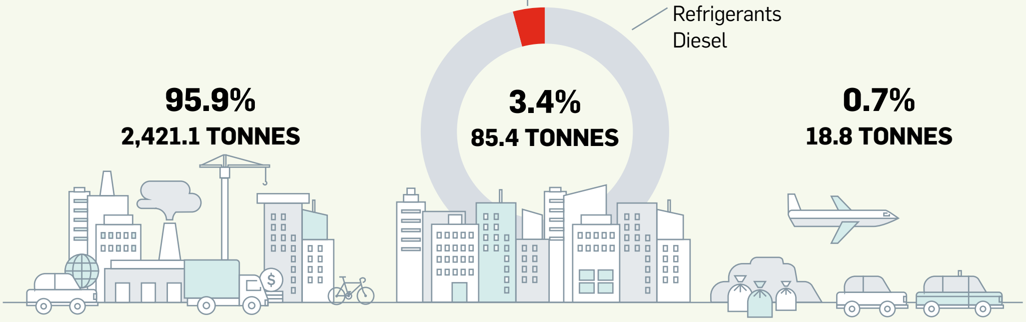
GREENHOUSE GAS EMISSIONS

Our carbon footprint **2,525.4**

tonnes of CO_2e

OUR VALUE CHAIN EMISSIONS

% TOTAL FOOTPRINT



EMISSIONS SOURCE

UPSTREAM EMISSIONS SCOPE 3	CORPORATE EMISSIONS SCOPE 1 AND 2	DOWNSTREAM EMISSIONS SCOPE 3
Goods and services Capital expenditure Electricity transmission and distribution losses Employee commuting	Fugitive emissions from HVAC systems Electricity consumption Diesel emissions from sprinkler systems	Operational waste Business travel

Offset

SCOPE	CATEGORY	FY19 (tCO_2e)	FY20 (tCO_2e)	FY21 (tCO_2e)	FY22 (tCO_2e)
SCOPE 1					
Direct Emissions	Fugitive emissions (refrigerants)	94.5	116.8	76.8	61.3
	Fuel	Covered under Category 6	Covered under Category 6	0.2	4.5
SCOPE 2					
Indirect Emissions	Electricity consumption (location based)	15.5	5.4	14.2	19.6
Scope 1 and 2	**Total Scope 1 and Scope 2 Emissions**	**110.0**	**122.2**	**91.2**	**85.4**
SCOPE 3					
Other Indirect Emissions	Category 1: Purchased goods and services[1]	Not measured in 2019	111.3	117.4	284.3
	Category 2: Capital goods[1]	Not measured in 2019	2,564.7	2,615.0	2,122.4
	Category 3: Energy and fuel	Not measured in 2019	0.5	1.2	1.8
	Category 5: Waste generated in operations	0.7	0.5	0.2	0.4
	Category 6: Business travel	19.8	9.4	12.7	18.4
	Category 7: Employee commuting	Not measured in 2019	15.1	13.6	12.6
	Total Scope 3 Emissions	**20.5**	**2,701.5**	**2,760.3**	**2,439.9**
TOTAL Scope 1, 2 and 3 Emissions		**130.5**	**2,823.7**	**2,851.3**	**2,525.4**

While our overall emissions reduced by more than 10%, most of the reduction is a result of comparatively less expenditure on capital goods; which can fluctuate depending on development and refurbishment activity.

(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. We intend to improve our approach to emissions assessments over time as we mature.

The role that PFI will play in the collective global movement to net zero by 2050 is a key sustainability consideration for PFI and underpinned our thinking for our strategy refresh.

Over the past three years, we have grown our understanding of the wider context of our organisation from an emissions perspective and we can see that our most material emissions impacts are:

- emissions relating to developments and refurbishments (known as 'embodied carbon'); and
- emissions relating to the operational performance of our buildings (for example, energy performance). At present, we are largely removed from operational performance due to our outsourced facilities management model, and the fact that industrial leases are typically 'arm's length' with energy arrangements organised directly by tenants.

Notwithstanding these challenges, PFI's ambition is to minimise both the operational and embodied carbon emissions of buildings. We have therefore committed to:

- building and refurbishing in a way that reduces both embodied and operational greenhouse gas emissions; and
- measuring and over time improving the operational performance of our buildings.

New buildings and brownfields redevelopments

When we develop significant new buildings we will ensure that they are built to the latest sustainability standards by targeting a 5 Green Star rating. The Green Star tool is holistic and ensures that the building performs to a range of sustainability standards. In particular, Green Star seeks to:

- minimise the impact of building materials and practices on the environment, including but not limited to greenhouse gas emissions; and
- ensure that the building is designed efficiently to minimise greenhouse gas emissions arising from the operation of the building (for example, energy usage).

PFI is targeting 5 Green Star certification for our upcoming developments at 30-32 Bowden Road and 78 Springs Road. See our case studies on Bowden Road and Springs Road on pages 18-21. 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.

The commitment to Green Star is also enabling PFI to grow our in-house sustainable development capabilities, which will position us well to continuously regenerate the PFI portfolio into the future.

Sustainable refurbishments

In some cases, we are able to extend the useful life of a dated building by undertaking a refurbishment. This avoids the generation of embodied carbon and waste by re-using materials (such as walls and foundations) that were already in place in an original building, while presenting an opportunity to upgrade or add sustainable features (such as LED lighting). During 2021, we created an internal sustainable refurbishment framework which provides a way for us to minimise our environmental impacts when we undertake refurbishment projects through a preference for lower-carbon materials and resource efficient design features. In 2022, we began applying this framework for all significant refurbishments.

As each refurbishment is unique, this framework ensures that we have a range of sustainable design options to consider for each refurbishment. A sustainable refurbishment might include improving energy efficiency and water consumption, reducing waste, using lower-impact building materials, and moving to renewable energy sources.

Measuring and improving operational performance

Greenhouse gas emissions arise from the operations of a building, for example through energy use. Due to the typical structure of industrial leases, we do not currently have data on the energy use of our buildings as this is outside of our operational control, although due to the scale of our portfolio it would be reasonable to assume that this is sizeable.

PFI has traditionally outsourced its facilities management function to a third party. This model has worked well for many years. However it does mean that PFI is quite distanced from the day to day operation of the properties. We can see that bringing this function in-house will set PFI up for the net zero transition, and have begun the process of doing so this year.

The initial benefit of this change will be the ability to work more closely with engaged tenants to measure the operating efficiency of the buildings they occupy. This will be challenging as, even with in-sourced facilities management, industrial property leases typically put the building operations in the control of the tenant. However, we will work with our tenants on this over time and have set an ambitious target of implementing power metering and monitoring for 50% of PFI's properties by 2025. We are also progressively introducing lease clauses enabling us to request data from tenants.

In time, as we build up data, we will be able to identify opportunities to improve the efficiency of lower-performing buildings. This should create value for our tenants and ensure that our buildings retain their value in the long term. The power use of buildings forms part of a tenant's 'carbon footprint' so we are in a position to help them with their own emissions reduction plans. Buildings with better operational performance also typically cost the tenant less in power and water.

Finally, the collection of data is the first step toward being able to explore options for operational performance certification for our existing properties.

Solar

New Zealand has a higher supply of renewable energy than many other countries. However, electrification of activities that we currently rely on fossil fuels for (such as driving) is key for decarbonising many aspects of our economy, meaning there will be higher demands for electricity in future. Installing solar at our properties makes renewable energy available for our tenants to use, reducing their energy demands on New Zealand's electricity grid. Tenants may also be able to feed any energy they don't use from the solar panels back to the national grid, increasing the supply of renewable energy for others to use.

This year, we have made progress towards PFI's first solar installation at 3-5 Niall Burgess Road as part of a wider sustainable refurbishment project. We have also investigated solar panel installation at selected PFI properties with interested tenants, and going forward, we will ensure the structural design of new developments allows for solar installation. We are aiming to install solar systems at five buildings by 2025.

Scope 1 and 2 emissions

PFI's scope 1 and 2 emissions are very small, in particular when compared to the scale of emissions from developments and building energy use (i.e. our indirect Scope 3 emissions). However, we acknowledge that we need to be mindful of our direct footprint, and we have successfully taken steps to reduce it. Over the last two years we upgraded a significant number of HVAC systems across our portfolio that required R22 refrigerant gas. The R22 systems were prone to leaking, which released harmful, ozone-depleting gas. By upgrading these systems we have reduced our scope 1 fugitive emissions by 35% (or 33tCO_2e) against a 2019 base. The upgraded systems use R32 gas, which has a far lower global warming potential if any gas escapes, and does not harm the ozone layer.

We will continue to work on initiatives to further reduce our gross Scope 1 and 2 emissions going forward, particularly as new technologies become available that enable us to make further advances. In the meantime, we are offsetting our residual Scope 1 and 2 emissions through high-quality offsets.

We have offset Scope 1, 2 and selected Scope 3 emissions[1] with certified carbon credits. These certified carbon credits are sourced from projects that grow and protect forests in Aotearoa and the Pacific Islands and help to deliver climate resilience, waterways protection, erosion control, biodiversity conservation and community economic development[2]. These credits have enabled us to achieve Carbon Friendly certification with Ekos for the 2022 financial year.

RESOURCES AND WASTE

When PFI undertakes property developments and refurbishments, building materials such as steel and concrete are procured by the contractors that PFI engages. Extracting, producing, and shipping these materials have upstream impacts such as greenhouse gas emissions and potential impacts on local communities or biodiversity if not produced responsibly. There is also waste generated by PFI's contractors, for example from demolition and packaging of materials that are delivered to the site. PFI aspires that the impacts from the materials that PFI uses and the waste that PFI produces during developments and refurbishments are minimised.

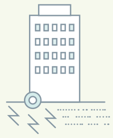
At present, PFI does not consistently measure waste from developments and refurbishments. However, we are collaborating with suppliers to improve waste measurement and reduction, and use of lower-impact materials.

Our commitment to 5 Green Star design not only reduces the carbon impact of our developments, but also encourages us to use lower-impact materials and reduce the waste impacts from our developments. For example, our upcoming developments at 30-32 Bowden Road and 78 Springs Road will target at least 70% of the waste generated during construction and demolition diverted from landfill.

We have also considered the resources and waste impacts of our refurbishments as part of our sustainable refurbishment framework. When PFI refurbishes buildings instead of building new ones, we can reduce the impacts caused by building materials by reusing what is already in place where possible. The framework also encourages us to use lower-impact materials and reduce the waste produced as part of these refurbishments. We have set waste measurement requirements and diversion targets for two major refurbishment projects.

(1) Including waste, business travel, employee commuting, and energy and fuel; but 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.



DISASTER AND CLIMATE RESILIENCE

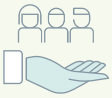
PFI has a strong history of ensuring its buildings are resilient and we are well placed to respond to disasters. This is an important part of our ongoing ESG commitments.

Addressing seismic risk

For many years, PFI has been working through a programme 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. 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.

Monitoring and responding to climate risk

We recognise that we also need to ensure that our business is resilient to climate change. PFI regularly assesses, monitors and responds to the risks PFI faces from climate change. You can read about our approach to climate-related risks and opportunities in our third voluntary TCFD report on pages 36-43.



PEOPLE AND WELLBEING

PFI strives to ensure that our people are safe and engaged, and we aim to promote positive social impacts through our operations. PFI has strong staff engagement, which enables us to deliver on our business and sustainability objectives. PFI also interacts with a wide range of stakeholders for whom we want to contribute to a safe and positive working environment.

Health, safety and wellbeing

The health, safety and wellbeing of our team and others that we deal with remains a critical focus for PFI. We provide a wide variety of offerings for our team including:

- A flexible working policy
- Staff induction and ongoing training
- Provision of ergonomically-designed workstations
- A staff wellbeing programme that includes funding for periodic health checks, staff insurances and access to a clinical psychologist
- Safety protocols for site visits
- Governance and incident management through our health and safety committee

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. The framework sets out our objectives, policies, risk management controls and responsibilities across our team.

The development, maintenance and ongoing management of our properties presents a range of risks to our tenants, contractors and other visitors to those properties, such as those arising from electrical hazards, roof access 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
- Governance and incident review through our Health and Safety Committee

The health and safety incidents in the table below reflect incidents that were reported to us across our operations. The increase in incidents in 2022 may be attributable to increased activity levels following the COVID-19 pandemic.

HEALTH AND SAFETY INCIDENTS	2021	2022
Incidents that did not result in injury	8	9
Injuries	8	13
Total recorded incidents	**16**	**22**

Modern slavery

PFI's operations are located entirely in New Zealand, albeit some of our supply chains extend overseas. While we consider that we have a relatively low risk of exposure to modern slavery, we do intend to formalise a modern slavery policy to clearly communicate that modern slavery will not be tolerated by PFI, and are already working with suppliers to communicate our expectations.

Facilities management in-house

Bringing facilities management in-house will enable PFI to work more closely with service contractors on environmental and social performance. For example, it will provide the ability to establish service contracts directly with suppliers that include modern slavery, waste management and materials requirements.

ECONOMIC VALUE

PFI is proud to generate direct economic value for our investors and other capital providers, and to help our tenants to generate economic value through the provision of fit-for-purpose properties from which they can operate their businesses.

We also financially support our team, suppliers and many other organisations that we work with. We see our refreshed sustainability strategy (along with our proven business model, prudent capital management, strategy, and team) as critical to continuing to deliver strong economic performance as our context continues to evolve with regulatory change, changing market demands and increasing expectations from our business partners and investors.

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 the last three years to strengthen our understanding of, and response to, our climate-related risks and opportunities. During that time, PFI has built a solid understanding of the climate-related risks and opportunities faced by the business and updated its processes, business plans and sustainability strategy to reflect these.

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 third report in line with the TCFD recommended disclosures. We note that PFI will be required to provide mandatory climate-related disclosures aligning with the Aotearoa New Zealand Climate Standards from 2023. These voluntary disclosures position us well to comply with that mandate once it is in place.

Climate change is an evolving challenge, 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 remain 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 Charter specifies that the Board is responsible for oversight of PFI's sustainability framework and performance, including climate-related issues. PFI's Board receives quarterly reporting from Management on strategy, sustainability, operations 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 sustainability strategy (which are set with oversight from the Board). The Board also receives information on climate-related matters 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 is 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-related 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 ensures that the Company's sustainability strategy is designed to respond to these risks and opportunities.

During 2022, a monthly ESG management meeting was held that monitored sustainability market trends and regulatory change, and made decisions on PFI's responses to climate-related risks and opportunities. This meeting was attended by the Chief Executive Officer and Chief Finance and Operating Officer. The Chief Executive Officer and Chief Finance and Operating Officer approved PFI's latest climate-related risk and opportunity assessment 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. For example, from 2023 PFI will start working with tenants to implement utility monitoring in anticipation of future regulation relating to the energy use of buildings. Our Board receives quarterly reporting on how we are responding to upcoming regulatory change.	The sustainability knowledge and capability that PFI has built over the past several years positions us well to drive value for PFI (for example, through creation of best-in-class sustainable assets) and our tenants (for example, through energy savings). During 2022, PFI continued to explore opportunities to create value by working with tenants on renewable energy and water efficiency initiatives. This included reaching an agreement for our first solar installation at 3-5 Niall Burgess Road.
Transition – Market risk: With increasing scrutiny of organisations' impact on the climate, we expect 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	PFI has been developing its internal capabilities to develop and manage sustainable buildings. This includes: ■ targeting 5 Green Star certification for significant future developments; ■ creating and implementing a sustainable refurbishment framework; and ■ planning to create an in-house facilities management function to drive stronger operational sustainability performance of existing buildings.	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; ■ create value by developing Green Star certified buildings; and ■ consider opportunities to improve building performance (for example, by installing LED lighting) when undertaking planned capital expenditure projects.

RISKS	EXPECTED TIME HORIZON	RISK RESPONSE	RELATED OPPORTUNITIES
Transition - Reputation 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 sustainability strategy as being critical to managing this risk. PFI has refreshed its strategy during 2022 to include initiatives such as a Green Star certification target for significant new buildings, and initiatives to improve the performance of existing buildings in our portfolio. See pages 28-29. for further information on our refreshed strategy. PFI has also completed the replacement of HVAC systems using R22 refrigerant gas within its operational control, reducing our Scope 1 greenhouse gas emissions. Transparency is also important, so our progress will continue to be disclosed annually.	Strong ESG performance could present an opportunity for PFI to increase our capital availability (for example, through green financing) and promote our reputation.
Physical – Acute (damage) risk: 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 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 will 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, and to inform the design of new buildings. 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.

RISKS	EXPECTED TIME HORIZON	RISK RESPONSE	RELATED OPPORTUNITIES
Physical – Acute (insurance) risk: Due to increasing climate-related claims, insurance for climate events may become more difficult to obtain or increasingly expensive.	☐ Short term ☑ Medium term ☑ Long term	As PFI relies on insurance to remediate damage to its properties, changes in insurer preferences are being 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 scale, 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 risks and opportunities has influenced the following aspects of our business, strategy and financial planning:

- PFI has refreshed its sustainability strategy with consideration for how PFI's portfolio will transform over the coming decades as the global community transitions to net zero. You can read more about this refresh on pages 28-29.
- PFI has commenced work to internalise its facilities management function. This will allow us to play a more active role in the operational performance of our buildings. At present, PFI has an outsourced facilities management model. This means that our team is removed from some of the day-to-day operation of our buildings. This change will position us to play a more active role in the energy and water efficiency of buildings, work with tenants that want to improve the sustainability of the properties that they occupy, and ensure that sustainable practices are embedded in our facilities management services.
- PFI has undertaken analysis of climate-related exposures for individual assets within our portfolio. This has in turn fed into our asset planning and portfolio management decisions. One affected property was divested during 2022.
- PFI has enhanced its due diligence processes to consider climate-related risks for new acquisitions. 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 their business.
- PFI has spent $2.5m to reduce the greenhouse gas emissions from refrigerants within PFI's operational control. This project was completed during 2022.

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): RCP2.6 (low climate change scenario), RCP4.5 (moderate scenario) and RCP8.5 (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.

In 2021, PFI engaged a third party to undertake a review of the vulnerability of PFI's properties to a range of climate-related hazards across differing time horizons and climate-related scenarios, which determined that PFI's portfolio has a low to moderate risk overall (on a relative basis). Four properties were assessed as having a heightened exposure to a particular climate-related hazard. One of these properties was divested during 2022, leaving three properties in the portfolio with a combined value of $43.8m or less than 2% of the total portfolio value. 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 takes into account when considering acquisitions and divestments.

PFI also considered the transition risks associated with its existing stock of buildings when completing its sustainability strategy refresh during 2022. This influenced the following key strategic choices which will position PFI to manage impacts of climate change on its strategy over time:

- standing up an in-house facilities management function, bringing the management team closer to the operational performance of the buildings;
- a commitment to targeting Green Star certification for significant new buildings;
- a commitment to completing refurbishments of existing buildings with consideration for sustainability; and
- a target to implement energy monitoring at existing properties.

With our proactive plan to invest in the sustainability and climate resilience of our assets over time, we consider the risk of stranded assets in our portfolio to be relatively low based on our current understanding.

Finally, we undertake annual reviews of our climate change strategies to ensure we remain responsive to climate risks as they evolve.

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.

This assessment is also informed by the external analysis on the physical climate risk exposure of each PFI property that was completed during 2021.

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 holds 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 risks and opportunities 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;
- committing to a Green Star certification target for significant new buildings;
- growing our capabilities in sustainable refurbishment;
- disclosing to stakeholders on our ESG progress;
- building a long-term insurance strategy;
- periodically assessing the vulnerability of individual PFI properties to physical climate impacts;
- designing our new developments with consideration for future physical climate impacts;
- bringing facilities management in-house and starting to measure the operational performance of our buildings; and
- maintaining a strong balance sheet.

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 for climate change impacts. We also introduced a new control in 2021 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.

During 2022, PFI used the following metrics to assess climate-related risks and opportunities in line with its strategy and risk management process:

METRIC	PURPOSE	2021 RESULT	2022 RESULT
Scope 1 emissions	To measure PFI's impact on the climate.	77.0 tCO_2e	65.8 tCO_2e
Scope 2 emissions	To measure PFI's impact on the climate.	14.2 tCO_2e	19.6 tCO_2e
Scope 3 emissions	To measure PFI's indirect impact on the climate.	2,760.1 tCO_2e	2,439.9 tCO_2e
CDP score	To understand how our climate performance compares to other corporations globally.	B-	B
Capital investment deployed toward removal of R22 gas	To measure progress on our commitment to phasing out R22 within PFI's operational control.	$688k	$1.78m
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)	

* This score was provided in 2021 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 2022 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. PFI's approach to managing greenhouse gas emissions is set out on pages 30-33 of our sustainability report.

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

The following targets that had previously been set by PFI to manage climate-related risks and opportunities were met during 2022:

- Replacement of all HVAC systems currently in our portfolio and within our operational control that use R22 refrigerant gas by 2023.
- Improvement in our CDP score from C (in 2020) to B by 2023.

New targets have been set by PFI to manage climate-related risks and opportunities through our sustainability strategy refresh, including:

- Significant new buildings to target minimum 5 Green Star certification.
- Implement power metering and monitoring for 50% of properties by the end of 2025.
- Install solar systems at five buildings by the end of 2025.
- Minimise and offset residual Scope 1 + 2 emissions.

Further information on PFI's sustainability strategy is set out on pages 28-29 of our sustainability report.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

ALL VALUES IN $000S	NOTE	2022	2021
INCOME			
Rental and management fee income	2.3	110,909	108,653
Interest income		12	2
Fair value (loss) / gain on investment properties and non-current assets classified as held for sale	2.1, 2.2	(56,735)	392,519
Gain on disposal of investment properties and non-current assets classified as held for sale		575	2,636
Fair value gain on derivative financial instruments	3.2	18,536	12,271
Business interruption insurance income	2.6	–	170
Material damage insurance income	2.6	–	900
Total income		73,297	517,151
EXPENSES			
Property costs	2.4	(17,598)	(16,753)
Interest expense and bank fees		(24,638)	(20,106)
Administrative expenses	5.1	(8,508)	(7,465)
Goodwill impairment	5.5	(29,086)	–
Total expenses		(79,830)	(44,324)
(Loss)/profit before taxation		(6,533)	472,827
Income tax expense	5.2	(7,411)	(20,017)
(Loss)/profit and total comprehensive income after income tax attributable to the shareholders of the Company	4.1	(13,944)	452,810
Basic earnings per share (cents)	4.1	(2.70)	89.97
Diluted earnings per share (cents)	4.1	(2.70)	89.96

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	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 2021		–	501,302,888	569,169	615	566,829	1,136,613
Total comprehensive (loss)/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
Total comprehensive (loss)/income		–	-	–	–	(13,944)	(13,944)
Dividends and reinvestment							
Q4 2021 final dividend – 9/3/2022		2.45	–	–	–	(12,388)	(12,388)
Q1 2022 interim dividend – 24/5/2022		1.80	–	–	–	(9,100)	(9,100)
Q2 2022 interim dividend – 7/9/2022		1.80	–	–	–	(9,087)	(9,087)
Q3 2022 interim dividend – 22/11/2022		1.85	–	–	–	(9,311)	(9,311)
Share buyback	5.5		(3,554,708)	(8,658)			(8,658)
Long-term incentive plan	5.9		111,564	300	(136)	–	164
Balance as at 31 December 2022		-	502,050,524	572,637	615	927,086	1,500,338

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2022

ALL VALUES IN $000S	NOTE	2022	2021
CURRENT ASSETS			
Cash at bank		1,332	1,103
Accounts receivable, prepayments and other assets	5.3	4,918	5,842
Derivative financial instruments	3.2	287	–
Total current assets		6,537	6,945
NON-CURRENT ASSETS			
Investment properties	2.1	2,096,200	2,158,940
Property, plant and equipment		3,695	412
Derivative financial instruments	3.2	35,355	11,623
Goodwill	5.5	–	29,086
Total non-current assets		2,135,250	2,200,061
Non-current assets classified as held for sale	2.2	21,000	10,000
Total assets		2,162,787	2,217,006
CURRENT LIABILITIES			
Derivative financial instruments	3.2	–	710
Accounts payable, accruals and other liabilities	5.4	13,727	12,344
Taxation payable		3,002	3,557
Total current liabilities		16,729	16,611
NON-CURRENT LIABILITIES			
Borrowings	3.1	601,523	598,653
Derivative financial instruments	3.2	10,801	4,608
Deferred tax liabilities	5.2	31,284	34,419
Lease liabilities	5.10	2,112	53
Total non-current liabilities		645,720	637,733
Total liabilities		662,449	654,344
Net assets	4.2	1,500,338	1,562,662
EQUITY			
Share capital		572,637	580,995
Share-based payments reserve	5.9	615	751
Retained earnings		927,086	980,916
Total equity		1,500,338	1,562,662

These Group financial statements are signed on behalf of Property for Industry Limited and were authorised for issue on 20 February 2023.

Anthony Beverley
Chairman

Carolyn Steele
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 2022

ALL VALUES IN $000S	NOTE	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Property and management fee income received		111,867	105,440
Business interruption insurance income	2.6	–	191
Net goods and services tax paid		273	(157)
Interest received		12	2
Interest and other finance costs paid		(23,583)	(19,812)
Payments to suppliers and employees		(25,409)	(19,239)
Income tax paid		(11,080)	(10,300)
Net cash flows from operating activities		52,080	56,125
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment properties and non-current assets classified as held for sale		21,700	108,762
Acquisition of investment properties	2.1	(6,843)	(226,279)
Acquisition of property, plant and equipment		(1,348)	(23)
Expenditure on investment properties		(19,157)	(23,766)
Capitalisation of interest on development properties	2.1	(13)	(204)
Material damage insurance income	2.6	–	900
Net cash flows from investing activities		(5,661)	(140,610)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from syndicated bank facility		2,468	86,360
Net proceeds from bilateral CBA bank facility		–	25,000
Principal elements of finance lease payments		(114)	(113)
Dividends paid to shareholders net of reinvestments		(39,886)	(27,073)
Share buyback costs		(8,658)	–
Net cash flows from financing activities		(46,190)	84,174
Net increase / (decrease) in cash and cash equivalents		229	(311)
Cash and cash equivalents at beginning of year		1,103	1,414
Cash and cash equivalents at end of year		1,332	1,103

Cash and cash equivalents at end of year comprises:

ALL VALUES IN $000S	2022	2021
Cash at bank	1,332	1,103
Cash and cash equivalents at end of year	1,332	1,103

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

RECONCILIATION OF (LOSS)/PROFIT AFTER INCOME TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES

ALL VALUES IN $000S	NOTE	**2022**	2021
(Loss)/profit for the year after income tax		(13,944)	452,810
Non-cash items:			
Fair value loss/(gain) on investment properties and non-current assets classified as held for sale	2.1, 2.2	56,735	(392,519)
Gain on disposal of investment properties and non-current assets classified as held for sale		(575)	(2,636)
Fair value gain on derivative financial instruments		(18,536)	(12,271)
(Decrease)/increase in deferred taxation	5.2	(3,114)	9,412
Goodwill impairment	5.5	29,086	–
Depreciation	5.1	190	181
Release of provision for doubtful debts		–	(450)
Lease liability interest expense	5.10	12	19
Employee benefits expense – share-based payments		356	335
Movements in working capital items:			
Decrease/(increase) in accounts receivable, prepayments and other assets		1,326	(351)
Increase in accounts payable, accruals and other liabilities		1,099	2,190
(Decrease)/increase in taxation payable		(555)	305
Other: material damage insurance income (classified as cash flows from investing activities)	2.6	–	(900)
Net cash flows from operating activities		52,080	56,125

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

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 2022 and 31 December 2021, 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 55
3.2. Derivative financial instruments	Page 69
5.2. Taxation	Page 71
5.5. Goodwill	Page 74
5.9. Share-based payments	Page 79

1. GENERAL INFORMATION (continued)

1.6. Accounting policies

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

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

Other relevant policies are provided as follows:

Accounting for SaaS arrangements
Following developments in how to account for Software-as-a-Service (SaaS) arrangements during the prior 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 prior year. As at the beginning of the prior year, 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 fair value hierarchy has the following levels:

- Level 1: Fair value is based on observable quoted prices in active markets.
- Level 2: Fair value is based on observable market data where Level 1 quoted prices are not available.
- Level 3: Fair value is not based on observable market data (unobservable inputs).

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 2022

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 22 February 2022, the Group settled the disposal of a non-current asset classified as held for sale located at 48 Seaview Road, Wellington for a gross sales price of $10.00 million.

On 7 March 2022, the Group settled the acquisition of the property located at 318 Neilson Street, Penrose, for a net purchase price of $6.83 million.

On 10 June 2022, the Group announced the divestment of 39 Edmundson Street, Napier for a gross sales price of $5.25 million. Settlement of this divestment took place on 8 July 2022.

On 29 July 2022, the Group announced the divestment of 330 Devon Street East, New Plymouth for a gross sales price of $2.25 million. Settlement of this divestment took place on 25 August 2022.

On 28 September 2022, the Group announced the divestment of 20 Constance Street, New Plymouth for a gross sales price of $4.90 million. Settlement of this divestment took place on 17 October 2022.

On 6 December 2022, the Group announced the divestment of 8a & 8b Canada Crescent, Christchurch for a contracted gross sales price of $21.00 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 early April 2023.

BNZ facilities

On 17 June 2022, the Group announced that it had refinanced its $100 million loan facility from the Bank of New Zealand (also known as Syndicated Bank Facility C), extending the expiry date by one year from 2 July 2023 to 2 July 2024.

USPP facility

On 19 August 2022, a USPP facility was established with Pricoa Capital Group (Pricoa), part of Prudential Financial, Inc. (Prudential). Prudential is one of the largest U.S. insurance companies. Establishing this facility with Pricoa provides the Group with access to long-term funding in the future to finance investment opportunities. No initial draw of funds has been made as at 31 December 2022.

Share buyback

On 25 May 2022, the Group announced that it would begin an on-market share buyback programme to purchase up to 5% of its ordinary shares (being 25,280,262 ordinary shares). Under the programme, the Group only acquires shares on the NZX Main Board for a period of up to one year and all acquired shares are cancelled upon acquisition. The buyback programme was briefly paused from 1 July 2022, as the Group entered a blackout period under its Financial Products Trading Policy in relation to the 2022 interim results and recommenced on 23 August 2022, being the day following the interim results announcement.

The Group continued to assess the market conditions and investment opportunities throughout the buyback period and, following an announcement regarding the commitment to the redevelopment project at 78 Springs Road on 19 December 2022, the share buyback programme was paused indefinitely.

As at 31 December 2022, the Group had acquired and cancelled 3,554,708 shares for a cost of $8,658,412 (including transaction costs).

Impairment of goodwill

On 30 June 2022, the market value of PFI, based on the quoted market price, was below the value net assets of PFI. PFI assessed whether objective evidence of impairment of goodwill exists, the outcome of which was that an impairment test has been performed. PFI has estimated the recoverable amount by performing fair value less costs of disposal (FVLCOD) and value in use valuation approaches. PFI has estimated the recoverable amount of the Property for Industry Limited CGU using FVLCOD (as the higher of the two valuation approaches), resulting in an impairment loss of $29.086 million (2021: $NIL) against the carrying amount of goodwill (refer note 5.5).

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	**2022**	2021
Opening balance	2,158,940	1,524,785
Capital movements:		
Additions	6,843	226,279
Disposals	(11,125)	–
Transfer to non-current assets classified as held for sale	(21,000)	(8,715)
Capital expenditure	18,014	20,114
Capitalised interest[1]	13	204
Movement in lease incentives, fees and fixed rental income	1,250	4,731
	(6,005)	242,613
Unrealised fair value (loss)/gain	(56,735)	391,542
As at 31 December	2,096,200	2,158,940

1 The effective interest rate applied to capitalised interest was 4.34% (2021: 3.75%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

2. PROPERTY (continued)

2.1. Investment properties (continued)

ALL VALUES IN $000S UNLESS NOTED	Key tenant	Occupancy (%)	
	2022	**2022**	2021
Avondale:			
15 Copsey Place	Canterbury	100%	100%
32 Honan Place	Solo Plastics	100%	100%
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%	100%
528-558 Rosebank Road	ETEL	100%	100%
670-680 Rosebank Road	New Zealand Comfort	100%	100%
686 Rosebank Road	Brand Developers	100%	100%
		100%	100%
East Tamaki:			
17 Allens Road	Contract Warehousing	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[1]	Fletcher Building Products	100%	100%
47 Dalgety Drive	Peter Hay Kitchens	100%	100%
47a Dalgety Drive	Shaw	100%	100%
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%	100%
		100%	100%

1 Excludes development land shown separately on page 62.

Yield on valuation (%)		Contract rent		Lettable area (sqm)	Valuer	Carrying value	Capital movements	Fair value adjustment	Carrying value
2022	2021	**2022**	2021	**2022**	**2022**	2021	**2022**	**2022**	**2022**
5.0%	4.6%	986	948	7,907	CBRE	20,600	(18)	(982)	19,600
4.6%	3.3%	145	103	795	JLL	3,100	88	(63)	3,125
5.1%	6.6%	1,695	1,759	9,534	Savills	26,600	3	6,397	33,000
4.5%	4.4%	1,292	1,279	9,776	Savills	29,050	40	(340)	28,750
4.0%	3.8%	802	782	6,625	JLL	20,400	214	(614)	20,000
4.1%	3.5%	187	182	1,995	Savills	5,225	14	(639)	4,600
5.2%	4.5%	3,472	3,066	26,451	Savills	67,500	1,042	(1,542)	67,000
4.3%	4.3%	1,764	1,764	17,295	Savills	41,350	169	(19)	41,500
4.8%	4.6%	3,019	2,766	23,885	Savills	60,300	555	2,645	63,500
4.8%	4.6%	13,362	12,649	104,263		274,125	2,107	4,843	281,075
4.2%	4.2%	1,328	1,160	11,897	JLL	27,500	953	3,297	31,750
4.6%	4.4%	856	833	6,068	Colliers	18,850	9	(359)	18,500
4.0%	3.9%	739	721	6,590	Colliers	18,500	806	(806)	18,500
6.1%	5.8%	1,423	1,388	10,687	Colliers	23,750	(19)	(231)	23,500
4.2%	4.0%	1,583	1,545	12,563	JLL	38,750	88	(1,088)	37,750
4.6%	4.3%	540	527	5,393	CBRE	12,150	(48)	(352)	11,750
6.8%	6.3%	6,672	6,478	41,530	JLL	102,500	831	(5,331)	98,000
4.8%	4.8%	1,005	978	8,711	CBRE	20,250	537	113	20,900
4.1%	3.9%	1,023	1,023	9,981	Colliers	26,100	37	(1,337)	24,800
4.2%	4.0%	754	701	6,098	Colliers	17,600	24	476	18,100
4.2%	4.3%	488	478	3,811	Colliers	11,050	111	539	11,700
5.2%	5.0%	16,411	15,832	123,329		317,000	3,329	(5,079)	315,250
4.2%	4.0%	2,182	2,115	25,896	JLL	53,000	62	(1,062)	52,000
3.9%	3.4%	1,332	1,232	16,832	JLL	36,500	(118)	(1,882)	34,500
4.3%	4.6%	952	952	10,155	Savills	20,500	188	1,412	22,100
3.9%	4.2%	592	530	4,832	Savills	12,500	1,018	1,482	15,000
4.2%	4.1%	1,267	1,237	11,844	Savills	30,000	1,015	(1,015)	30,000
4.5%	3.9%	727	746	6,492	CBRE	19,350	37	(3,237)	16,150
4.2%	4.0%	2,190	2,136	21,248	Colliers	53,500	164	(2,064)	51,600
4.6%	4.3%	705	659	6,361	Colliers	15,150	29	21	15,200
4.1%	3.9%	1,257	1,257	13,347	Colliers	32,500	92	(1,892)	30,700
4.7%	4.3%	650	616	3,577	Savills	14,200	4	(454)	13,750
4.0%	3.8%	863	838	14,163	JLL	22,250	10	(760)	21,500
3.9%	3.5%	3,403	3,320	32,807	Bayleys	94,500	199	(8,199)	86,500
4.1%	3.9%	16,120	15,638	167,554		403,950	2,700	(17,650)	389,000

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

2. PROPERTY (continued)

2.1. Investment properties (continued)

ALL VALUES IN $000S UNLESS NOTED	Key tenant	Occupancy (%)	
	2022	**2022**	2021
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%	100%
523 Mt Wellington Highway	Motion New Zealand	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	NEP Broadcast Services	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	Pact Group Holdings	100%	100%
36 Vestey Drive	Motion New Zealand	100%	100%
		100%	100%
North Shore:			
2-4 Argus Place	Pharmapac	100%	100%
47 Arrenway Drive	Device Technologies	100%	100%
51 Arrenway Drive	Pacific Hygiene	100%	100%
15 Omega Street	Wesfarmers	100%	100%
322 Rosedale Road	BSGi	100%	100%
41 William Pickering Drive	Innopak Global	100%	100%
		100%	100%

Yield on valuation (%)		Contract rent		Lettable area (sqm)	Valuer	Carrying value	Capital movements	Fair value adjustment	Carrying value
2022	2021	**2022**	2021	**2022**	**2022**	2021	**2022**	**2022**	**2022**
5.5%	5.7%	1,867	1,867	19,639	Savills	32,500	1,170	330	34,000
4.0%	3.4%	239	190	2,592	Savills	5,600	9	391	6,000
4.9%	4.8%	2,270	2,107	17,015	Savills	43,500	143	3,107	46,750
5.1%	4.2%	646	514	5,080	CBRE	12,300	(1)	251	12,550
4.7%	4.2%	751	665	5,776	CBRE	15,950	65	(65)	15,950
4.8%	4.7%	1,593	1,546	16,686	Savills	33,000	(112)	612	33,500
3.4%	3.4%	918	918	7,946	JLL	27,250	28	(528)	26,750
4.3%	4.1%	1,083	1,056	8,744	Colliers	25,600	(25)	(575)	25,000
4.3%	3.7%	512	498	3,054	Colliers	13,600	98	(1,798)	11,900
4.3%	3.2%	326	252	2,324	Colliers	8,000	8	(408)	7,600
3.9%	3.6%	285	263	1,677	Savills	7,400	–	(100)	7,300
3.8%	3.6%	265	259	1,742	Colliers	7,200	(8)	(192)	7,000
5.2%	5.0%	1,081	1,071	6,874	CBRE	21,550	53	(653)	20,950
4.2%	3.7%	1,302	1,115	13,266	Colliers	30,200	4,089	(3,089)	31,200
4.1%	3.9%	2,573	2,493	23,565	Colliers	64,000	165	(1,665)	62,500
4.4%	4.2%	300	275	1,725	JLL	6,550	80	170	6,800
3.9%	3.9%	236	236	1,269	Savills	6,100	72	(72)	6,100
3.7%	4.0%	663	663	6,067	JLL	16,750	14	986	17,750
3.6%	3.5%	217	208	1,600	Savills	6,000	29	(29)	6,000
4.1%	4.2%	527	515	3,470	Savills	12,400	(31)	381	12,750
4.8%	4.6%	597	594	3,261	Colliers	12,800	(26)	(374)	12,400
4.1%	3.6%	182	177	1,120	CBRE	4,900	(2)	(498)	4,400
4.4%	4.2%	18,433	17,482	154,492		413,150	5,818	(3,818)	415,150
4.1%	4.0%	474	463	3,560	Colliers	11,600	10	(10)	11,600
4.3%	4.1%	251	257	1,245	Colliers	6,200	137	(537)	5,800
4.6%	4.2%	456	410	2,680	CBRE	9,650	(2)	202	9,850
4.9%	4.1%	577	513	3,498	Colliers	12,400	23	(623)	11,800
4.8%	4.1%	1,199	1,169	7,936	CBRE	28,500	71	(3,371)	25,200
4.3%	4.2%	503	491	3,027	JLL	11,750	60	(210)	11,600
4.6%	4.1%	3,460	3,303	21,946		80,100	299	(4,549)	75,850

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

2. PROPERTY (continued)

2.1. Investment properties (continued)

ALL VALUES IN $000S UNLESS NOTED	Key tenant	Occupancy (%)	
	2022	**2022**	2021
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%
318 Neilson Street	Hi-Tech Security Disposals	100%	–
12 Southpark Place	QCD	100%	100%
		100%	100%
Other Auckland:			
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%	100%

Yield on valuation (%)		Contract rent		Lettable area (sqm)	Valuer	Carrying value	Capital movements	Fair value adjustment	Carrying value
2022	2021	**2022**	2021	**2022**	**2022**	2021	**2022**	**2022**	**2022**
3.7%	4.0%	170	165	1,210	Savills	4,100	(1)	451	4,550
3.5%	3.6%	192	188	1,718	Savills	5,200	6	294	5,500
3.6%	3.7%	721	707	7,646	Savills	18,900	(62)	1,062	19,900
4.6%	4.4%	577	577	7,431	Colliers	13,050	69	(619)	12,500
6.0%	5.4%	836	740	4,359	CBRE	13,600	515	(115)	14,000
5.1%	4.4%	455	384	2,639	CBRE	8,800	334	(284)	8,850
4.9%	4.4%	424	414	2,619	CBRE	9,425	9	(734)	8,700
4.0%	3.9%	517	505	3,872	Savills	12,850	(39)	189	13,000
4.3%	4.3%	659	659	6,596	Savills	15,300	995	(895)	15,400
4.1%	4.0%	829	773	13,438	JLL	19,500	(8)	758	20,250
4.7%	4.6%	964	944	6,301	JLL	20,500	19	(119)	20,400
4.3%	4.2%	424	421	3,862	JLL	10,000	4	(204)	9,800
3.9%	3.7%	844	835	6,635	JLL	22,500	132	(1,132)	21,500
2.8%	–	182	–	4,977	JLL	–	7,415	(815)	6,600
3.6%	3.4%	541	531	5,477	Colliers	15,800	131	(831)	15,100
4.3%	4.1%	8,335	7,843	78,780		189,525	9,519	(2,994)	196,050
3.9%	3.5%	1,255	1,255	12,708	JLL	36,250	189	(3,939)	32,500
4.7%	3.7%	998	971	13,519	CBRE	26,500	68	(5,268)	21,300
3.4%	3.4%	1,148	1,148	37,601	Savills	33,500	(107)	107	33,500
3.9%	3.5%	3,401	3,374	63,828		96,250	150	(9,100)	87,300

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

2. PROPERTY(continued)

2.1. Investment properties (continued)

ALL VALUES IN $000S UNLESS NOTED	Key tenant	Occupancy (%)	
	2022	**2022**	2021
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[1]	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%	100%
		100%	100%
South Island:			
15 Artillery Place, Nelson	MOVe Logistics	100%	100%
8a & 8b Canada Crescent, Christchurch	Emergent Cold	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%
		100%	100%
Investment properties – subtotal		100%	100%
Development land:			
232 Cavendish Drive, Manukau			
Development land – subtotal			
Investment properties – total			

1 Included in the 2022 balance is a right-of-use asset of $4.13 million (2021: $4.13 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
2022	2021	**2022**	2021	**2022**	**2022**	2021	**2022**	**2022**	**2022**
–	5.3%	–	247	–	–	4,640	(4,640)	–	–
–	13.5%	–	415	–	–	3,075	(4,348)	1,273	–
–	5.2%	–	122	–	–	2,325	(2,325)	–	–
4.7%	4.1%	3,537	3,418	34,802	JLL	83,500	1	(7,501)	76,000
4.1%	3.7%	1,107	1,107	10,497	JLL	29,750	8	(2,658)	27,100
4.5%	3.9%	999	935	8,867	JLL	24,100	71	(2,121)	22,050
4.2%	4.2%	165	165	1,250	JLL	3,950	(5)	(45)	3,900
5.3%	5.0%	1,256	1,256	11,372	CBRE	25,100	2	(1,352)	23,750
5.9%	5.5%	795	786	6,686	JLL	14,200	18	(668)	13,550
7.9%	7.7%	1,306	1,306	15,636	CBRE	16,900	155	(455)	16,600
–	3.9%	–	386	–	–	–	–	–	–
6.8%	6.7%	940	917	2,809	JLL	13,650	1,644	(1,394)	13,900
6.7%	6.2%	334	334	2,359	CBRE	5,400	13	(413)	5,000
4.4%	4.3%	480	480	5,026	Colliers	11,100	89	(389)	10,800
4.6%	4.4%	3,579	3,500	52,718	Bayleys	79,550	196	(1,246)	78,500
4.8%	4.7%	14,498	15,374	152,022		317,240	(9,121)	(16,969)	291,150
5.8%	5.8%	590	590	18,052	CBRE	10,250	37	(37)	10,250
6.5%	6.1%	1,357	1,206	9,500	CBRE	19,750	(20,962)	1,212	–
5.9%	5.1%	802	802	14,710	CBRE	15,750	57	(2,107)	13,700
7.7%	7.5%	969	959	11,154	JLL	12,800	(49)	(151)	12,600
6.7%	6.5%	536	536	10,823	CBRE	8,300	36	(336)	8,000
9.5%	6.1%	4,254	4,093	64,239		66,850	(20,881)	(1,419)	44,550
4.6%	4.4%	98,274	95,588	930,453		2,158,190	(6,080)	(56,735)	2,095,375
					JLL	750	75	–	825
						750	75	–	825
						2,158,940	(6,005)	(56,735)	2,096,200

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

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 2022 by Bayleys Valuation Limited (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.

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, as part of the acquisitions. These valuations remained the best estimate of fair value as at 31 December 2021).

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 2022 the Group made an exemption to this policy for four properties (2021: 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	
	2022	2021	Increase in input	Decrease in input
Market capitalisation rate (%)[1]	3.25 – 7.75	3.48 – 7.50	Decrease	Increase
Market rental ($ per sqm)[2]	31 – 335	28 – 286	Increase	Decrease
Discount rate (%)[3]	5.50 – 9.00	5.50 – 9.00	Decrease	Increase
Rental growth rate (%)[4]	1.00 – 3.05	1.62 – 2.99	Increase	Decrease
Terminal capitalisation rate (%)[5]	3.50 – 8.25	3.62 – 7.75	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	**2022**	+ 0.25%	– 0.25%	+ 0.25%	– 0.25%
Valuation	2,096,200				
Change		(99,000)	109,000	(74,000)	80,000
Change (%)		(5%)	5%	(4%)	4%

	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%

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
In the prior year, the valuers had noted that, there was no evidence of a shift in market sentiment to suggest any material change in commercial property values resulting from the changes in the Government-directed Alert Levels and Traffic Light Settings in and around that date. The valuers did not comment on the impact of the COVID-19 pandemic as at 31 December 2022.

The impact of climate change
The Group continues to assess the impact of climate change on the business and assets. The valuers have considered the impact but have made no explicit adjustments in respect of climate change matters. However, the Group and valuers anticipate that climate change could have a greater influence on valuations in the future as investment markets place a greater emphasis on this topic.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

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	2022	2021
48 Seaview Road, Wellington	–	10,000
8a & 8b Canada Crescent, Christchurch[1]	21,000	–
Total non-current assets classified as held for sale	21,000	10,000

1. A revaluation gain of $1,211,767 was recorded when revaluing 8a & 8b Canada Crescent based on the actual contracted sales price of $21,000,000 (2021: A revaluation gain of $977,000 was recorded when revaluing 48 Seaview Road based on the actual contracted sales price of $10,000,000).

2.3. Rental and management fee income

ALL VALUES IN $000S	2022	2021
Gross rental receipts	95,208	92,271
Service charge income recovered from tenants	14,520	13,647
Fixed rental income adjustments	942	1,417
Capitalised lease incentive adjustments	(580)	240
Impact of rental income deferred and abated due to the COVID-19 pandemic	77	366
Management fee income	742	712
Total rental and management fee income	110,909	108,653

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 were also 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	2022	2021
Within one year	85,961	84,987
After one year but not more than five years	229,997	223,829
More than five years	104,476	138,830
Total	420,434	447,646

2.4. Property costs

ALL VALUES IN $000S	2022	2021
Service charge expenses	(14,893)	(13,898)
Bad and doubtful debts recovery / (expense)[2]	–	155
Other non-recoverable property costs	(2,705)	(3,010)
Total property costs	(17,598)	(16,753)

2. Included in the 2021 balance is $(90,000) specifically relating to COVID-19 rent deferrals provided and NIL 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	2022	2021
Gross rental receipts	95,208	92,271
Service charge income recovered from tenants	14,520	13,647
Fixed rental income adjustments	942	1,417
Capitalised lease incentive adjustments	(580)	240
Impact of rental income deferred and abated due to the COVID-19 pandemic	77	366
less: Service charge expenses	(14,893)	(13,898)
Net rental income	95,274	94,043

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 were received as at 31 December 2021.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

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	2022	2021
Bilateral CBA bank facility drawn down – non-current	125,000	125,000
Syndicated bank facility drawn down – non-current	278,704	276,237
Fixed rate bonds – non-current	200,000	200,000
Unamortised borrowings establishment costs	(2,181)	(2,584)
Net borrowings	601,523	598,653
Weighted average interest rate for drawn debt (inclusive of current interest rate swaps, margins and line fees)	4.77%	3.81%
Weighted average term to maturity (years)	3.01	3.87

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 2022**	Issue Date	Maturity Date	Interest Rate	Facility drawn / amount	Undrawn facility	Fair Value
Syndicated Bank Facility C	-	2-Jul-24	Floating	100,000		100,000
PFI010	28-Nov-17	28-Nov-24	4.59%	100,000	–	97,354
Syndicated Bank Facility A	-	2-Jul-25	Floating	150,000	–	150,000
PFI020	1-Oct-18	1-Oct-25	4.25%	100,000	–	96,395
Syndicated Bank Facility B	-	2-Jul-26	Floating	28,705	121,295	28,705
Bilateral CBA Bank Facility	-	16-Apr-28	Floating	125,000	–	125,000
Total borrowings				603,705	121,295	597,454

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

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. BNZ provides the Group with a further $100 million facility (C). Finally, the Group has a long-term bilateral facility with CBA, providing $125,000,000. The carrying values of the bank facilities approximate the fair value of the facilities because the loans have floating rates of interest that reset every 30-90 days.

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 (2021: 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 2021: $1,450,000,000). 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 2022, investment properties totalling $2,115,950,000 (31 December 2021: $2,168,615,000) were mortgaged as security for the Group's borrowings.

3.2. Derivative financial instruments

(i) Fair values

ALL VALUES IN $000S	2022	2021
Current asset	287	–
Non-current assets	35,355	11,623
Current liabilities	–	(710)
Non-current liabilities	(10,801)	(4,608)
Total	24,841	6,305

(ii) Notional values, maturities and interest rates

	2022	2021
Notional value of interest rate swaps – fixed rate payer – start dates commenced ($000s)	390,000	400,000
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)	60,000	120,000
Total ($000s)	650,000	720,000
Percentage of borrowings fixed (%)	65%	67%
Fixed rate payer swaps:		
Average period to expiry – start dates commenced (years)	3.06	3.66
Average period to expiry – forward starting (years from commencement)	4.33	4.09
Average (years)	3.40	3.76
Fixed rate payer swaps:		
Average interest rate[2] – start dates commenced (%)	2.44%	2.58%
Average interest rate[2] – forward starting (% during effective period)	2.75%	2.69%
Average (%)	2.48%	2.61%

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	2022	2021
Interest rate swaps	18,536	12,271
Total movement in fair value of derivative financial instruments	18,536	12,271

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

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: Derivatives

The fair values of derivative financial instruments are determined from valuations prepared by independent treasury advisers using Level 2 valuation techniques (2021: 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 2022 of between 4.65% for the 90 day BKBM (31 December 2021: 0.97%) and 4.80% for the 10 year swap rate (31 December 2021: 2.65%). There were no changes to these valuation techniques during the reporting period.

4. INVESTOR RETURNS AND INVESTMENT METRICS

IN THIS SECTION

This section summarises the earnings per share and net tangible assets per share which are common investment metrics.

4.1. Earnings per share

(i) Basic earnings per share

	2022	2021
Total comprehensive income for the year attributable to the shareholders of the Company ($000s)	(13,944)	452,810
Weighted average number of ordinary shares (shares)	517,366,785	503,301,662
Basic earnings per share (cents)	(2.70)	89.97

(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 (2021: 44,503) rights issued under the Group's LTI Plan as at 31 December 2022. This adjustment has been calculated using the treasury share method. Refer to note 5.9 "Share-based payments" for further details.

	2022	2021
Total comprehensive income for the year attributable to the shareholders of the Company ($000s)	(13,944)	452,810
Weighted average number of shares for purpose of diluted earnings per share (shares)	517,395,860	503,346,165
Diluted earnings per share (cents)	(2.70)	89.96

4.2. Net tangible assets per share

	2022	2021
Net assets ($000s)	1,500,338	1,562,662
Less: Goodwill ($000s) (note 5.5)	–	(29,086)
Net tangible assets ($000s)	1,500,338	1,533,576
Closing shares on issue (shares)	502,050,524	505,493,668
Net tangible assets per share (cents)	299	303

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	2022	2021
Auditors remuneration[1]			
Audit and review of financial statements		(255)	(200)
Provide market remuneration data and other services		(9)	(1)
Employee benefits		(4,574)	(4,065)
Directors' fees	5.8	(596)	(547)
Office expenses		(1,020)	(730)
IT – licence fees and support		(189)	(8)
IT – implementation costs		(129)	(712)
Depreciation		(190)	(181)
Other expenses		(1,278)	(1,021)
Facilities management project		(268)	–
Total administrative expenses		(8,508)	(7,465)

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

5.2. Taxation

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

ALL VALUES IN $000S	2022	2021
(Loss)/profit before income tax	(6,533)	472,827
Prima facie income tax calculated at 28%	1,829	(132,392)
Adjusted for:		
Non-tax deductible revenue and expenses	(30)	228
Fair value (loss) / gain on investment properties	(15,886)	109,905
Gain on disposal of investment properties	161	738
Goodwill impairment	(8,144)	–
Depreciation	5,834	4,917
Disposal of depreciable assets	(434)	645
Deductible capital expenditure	1,030	1,106
Lease incentives, fees and fixed rental income	212	185
Derivative financial instruments	5,148	3,436
Impairment gains / (allowance)	–	126
Current tax prior period adjustment	(246)	157
Other	1	344
Current taxation expense	(10,525)	(10,605)
Depreciation	8,585	(5,715)
Lease incentives, fees and fixed rental income	(212)	(185)
Derivative financial instruments	(5,148)	(3,436)
Impairment (allowance) / gains	–	(126)
Other	(111)	50
Deferred taxation benefit/(expense)	3,114	(9,412)
Total taxation reported in Consolidated Statement of Comprehensive Income	(7,411)	(20,017)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

5. OTHER (continued)

5.2. Taxation (continued)

(ii) Deferred tax

ALL VALUES IN $000S	2020 As at	2021 Recognised in profit	2021 As at	2022 Recognised in profit	2022 As at
Deferred tax assets					
Impairment allowance	(126)	126	–	–	–
Other	(60)	(203)	(263)	90	(172)
Gross deferred tax assets	(186)	(77)	(263)	90	(172)
Deferred tax liabilities					
Investment properties	27,017	5,900	32,917	(8,373)	24,543
Derivative financial instruments	(1,671)	3,436	1,765	5,148	6,913
Gross deferred tax liabilities	25,346	9,336	34,682	(3,225)	31,456
Share-based payment reserve	–	153	–	21	–
Net deferred tax liability	25,160	9,412	34,419	(3,114)	31,284

(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	2022	2021
Opening balance	1,264	2,577
Taxation paid / payable	10,379	10,343
Imputation credits attached to dividends paid	(9,344)	(11,656)
Closing balance available to shareholders for use in subsequent periods	2,299	1,264

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

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 2022

5. OTHER (continued)

5.3. Accounts receivable, prepayments and other assets

ALL VALUES IN $000S	2022	2021
Accounts receivable	1,972	1,834
Provision for doubtful debts	–	–
Prepayments and other assets	2,946	3,325
Deposit paid for the acquisition of 318 Neilson Street	–	683
Total accounts receivable, prepayments and other assets	4,918	5,842

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	2022	2021
Accounts payable	3,348	1,570
Accrued interest expense and bank fees	3,468	2,827
Accruals and other liabilities in respect of investment properties	2,349	2,242
Accruals and other liabilities	4,562	5,705
Total accounts payable, accruals and other liabilities	13,727	12,344

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	2022	2021
Opening balance	29,086	29,086
Impairment loss	(29,086)	
Closing balance	–	29,086

On 30 June 2022 (being the last interim reporting period for the Group), the market value of the Group, based on the quoted market price, was below the value net assets of the Group. PFI, with the assistance of an independent expert, assessed whether objective evidence of impairment of goodwill exists, the outcome of which was that an impairment test has been performed. PFI estimated the recoverable amount by performing fair value less costs of disposal (FVLCOD) and value in use valuation approaches. PFI estimated the recoverable amount of the Property for Industry Limited CGU using FVLCOD (as the higher of the two valuation approaches), resulting in an impairment loss of $29.086 million (2021: $NIL) against the carrying amount of goodwill. Once goodwill is impaired, it cannot be reversed.

As at 31 December 2022, the market value of the Group had further declined with the market price reported at $2.30 per share.

5. OTHER (continued)

5.5. Goodwill (continued)

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.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. PFI have identified one CGU, representing the entire Group.

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. Fair value less costs of disposal is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, less the costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

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 (2021: 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 of $2.44 as at 30 June 2022, applying a control premium (15.2%, as determined by a third party advisor as at 30 June 2022, 2021: 15.8%) and deducting costs of disposal. In performing a sensitivity analysis a control premium range of between 15-20% (as determined by a third party advisor as at 30 June 2022 and based on observable premiums) has been used. When a fair value less cost of disposal is estimated, critical judgements and estimates are made in relation to the appropriate premium in assessing fair value of investment as a whole.

The recoverable amount was based on the fair value less costs of disposal. Due to significant decline in market value, the carrying amount of Property for Industry Limited CGU was determined to be higher than its recoverable amount and an impairment loss of $29.086 million was recognised against goodwill. Based on the 1 day volume-weighted average share price as at 31 December 2022 ($2.30), the market capitalisation of the Group is less than the net assets of the Group at that date. All other assets have been assessed for impairment and it has been determined that they are held at fair value with no impairment necessary.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

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	2022	2021
Financial assets		
Financial assets at amortised cost:		
Cash at bank	1,332	1,103
Accounts receivable and other assets	1,972	1,834
Total – Financial assets at amortised cost	3,304	2,937
Financial assets at fair value through profit or loss:		
Derivative financial instruments	35,642	11,623
Total – Financial assets at fair value through profit or loss	35,642	11,623
Total Financial Assets	38,946	14,560
Financial Liabilities		
Financial liabilities at amortised cost:		
Accounts payable, accruals and other liabilities	13,450	12,072
Lease liabilities	2,112	53
Borrowings	601,523	598,653
Total – Financial liabilities at amortised cost	617,085	610,778
Financial liabilities at fair value through profit or loss:		
Derivative financial instruments	10,801	5,318
Total – Financial liabilities at fair value through profit or loss	10,801	5,318
Total Financial Liabilities	627,886	616,096

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 (loss)/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.

5. OTHER (continued)

5.7. Financial risk management (continued)

	2022		2021	
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	1,726	(1,679)	3,374	(3,670)
Impact on equity	1,243	(1,209)	2,429	(2,642)

(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 3.0 years (2021: 3.9 years), with all borrowings due later than one year (2021: 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

5. OTHER (continued)

5.7. Financial risk management (continued)

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 2022 and 31 December 2021.

ALL VALUES IN $000S	Carrying amount	Contractual cash flows 0 – 1 year	1 – 2 years	2 – 5 years	> 5 years	Total
Financial liabilities						
Accounts payable, accruals and other liabilities	13,450	13,450	–	–	–	13,450
Lease liabilities	2,112	79	236	1,158	692	2,165
Derivative financial instruments[1]	(24,841)	(5,978)	(5,045)	(14,386)	(3,833)	(29,242)
Borrowings	601,523	35,231	231,983	298,008	127,130	692,352
Total as at 31 December 2022	592,244	42,782	227,174	284,780	123,989	678,725
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

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

(d) Capital risk management

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

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

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

5. OTHER (continued)

5.8. Related party transactions

(i) Key management personnel

ALL VALUES IN $000S	2022	2021
Directors' fees – annual fees[2]	596	547
Leadership Team remuneration	2,502	2,452
Key management personnel	3,098	2,999

2. In 2022, there were changes to the composition of the Board of Directors of the Group, with the appointment of a Carolyn Steele as an independent director and a member of the Audit and Risk Committee effective from 22 August 2022 and the retirement of Susan Peterson on 15 December 2022.

(ii) Other related party transactions

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

Related party	Abbreviation	Nature of relationship(s)
The Board of Directors	Directors	The Board of Directors

The following transactions with related parties took place:

ALL VALUES IN $000S	Related party	31 Dec 2022	31 Dec 2021
Shares held beneficially in the company	Directors	214,367	194,367
Shares held non-beneficially in the company	Directors	–	–

No related party debts have been written off or forgiven during the year (2021: 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. A second grant of PSRs ("2020 Grant") on 17 February 2020, a third grant of PSRs ("2021 Grant") on 22 February 2021, and a fourth grant of PSRs ("2022 Grant") on 21 February 2022 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 2020, 1 January 2021 and 1 January 2022. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

5. OTHER (continued)

5.9. Share-based payments (continued)

The following table reconciles the opening PSR balance as at 1 January 2022 to the closing PSR balance as at 31 December 2022.

GRANT YEAR	2021 Opening (PSRs)	2021 Granted (PSRs)	2021 Vested (PSRs)	**2021 Closing / 2022 Opening (PSRs)**	2022 Granted (PSRs)	2022 Vested (PSRs)	2022 Lapsed (PSRs)	**2022 Closing (PSRs)**
2022	–	–	–		166,910	(41,728)	(13,909)	111,273
2021	–	155,174	(51,725)	103,449	–	(38,794)	(12,931)	51,724
2020	110,186	–	(55,093)	55,093	–	(41,319)	(13,774)	–
2019	65,341	–	(65,341)	–	–	–		–
Total	175,527	155,174	(172,159)	158,542	166,910	(121,841)	(40,614)	162,997

The PSRs outstanding at 31 December 2022 had a weighted – average contractual life of 1.34 years (31 December 2021: 1.33 years).

The LTI Plan has resulted in a share-based payment reserve totalling $615,000 as at 31 December 2022 (2021: $751,000).

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					
	2022 Grant		2021 Grant		2020 Grant	
	Part A	Part B	Part A	Part B	Part A	Part B
Weighted average fair value at grant date	$2.80	$1.66	$2.88	$1.49	$2.49	$1.18
Share price at grant date	$2.80	$2.80	$2.88	$2.88	$2.49	$2.49
Expected volatility (weighted-average)	N/A	11.8%	N/A	21.9%	N/A	10.3%
Expected life (weighted-average)	22 months	22 months	22 months	22 months	22 months	22 months
Risk-free interest rate	N/A	2.23%	N/A	0.30%	N/A	1.22%

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.

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	2022	2021
Right-of-use assets[1]		
Properties	2,136	140
Total right-of-use assets	2,136	140

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 2022 financial year were $2,111,619 (2021: $3,000).

ALL VALUES IN $000S	2022	2021
Lease liabilities		
Current[2]	53	101
Non-current[3]	2,112	53
Total lease liabilities	2,165	154

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	2022	2021
Depreciation charge of right-of-use assets[4]		
Properties	(115)	(97)
Total depreciation charge of right-of-use assets	(115)	(97)

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

ALL VALUES IN $000S	2022	2021
Interest cost[5]	(12)	(19)

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 2022 was $114,000 (2021: $112,000).

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2022

5. OTHER (continued)

5.12. Capital commitments

As at 31 December 2022, the Group had capital commitments totalling $145,581,000 (31 December 2021: $4,875,000) as follows:

ALL VALUES IN $000S		2022	2021
Address	**Project**		
Shed 22, 23 Cable Street	Seismic works	–	413
47A Dalgety Drive	Design and build	–	1,558
3-5 Niall Burgess Road	Refurbishment	504	2,904
314 Neilson Street	Warehouse extension	1,383	–
30-32 Bowden Road	Design and build (Green Star development)	67,884	–
78 Springs Road	Design and build (Green Star development)	75,810	–
Total capital commitments		145,581	4,875

5.13. Subsequent events

On 20 February 2023, the Board of Directors of the Company approved the payment of a net dividend of 2.650000 cents per share to be paid on 8 March 2023. The gross dividend (3.107973 cents per share) carries imputation credits of 0.457973 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 2022 in respect of this dividend.

At the end of January 2023, the Auckland region experienced severe flooding and in the middle of February 2023 Cyclone Gabrielle's impact was felt across much of the North Island and the upper South Island of New Zealand. A small number of the Group's properties suffered damage. It is the Group's expectation that any losses will be covered by material damage and business interruption insurances and accordingly the Group does not expect the impact to have an adverse material impact at the date of signing these accounts.

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Independent auditor's report

To the shareholders of Property for Industry Limited

Our opinion

In our opinion, the accompanying financial statements of Property for Industry Limited (the Company), including its subsidiary (the Group), present fairly, in all material respects, the financial position of the Group as at 31 December 2022, 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 2022;
- 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 providing market remuneration data relating to executive levels and access to general training material. The provision of these other services have 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.

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Description of the key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
The valuations were carried out by independent third-party valuers who performed their work in accordance with New Zealand International Accounting Standard 40 *Investment Property* and relevant property valuation 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 direct 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 market capitalisation rates, discount rates and market rental and the rental growth rate, based on current market assessments. The valuers have also considered but made no explicit adjustments in respect of climate change matters. The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuation assumptions, when aggregated, could result in material misstatement, is why we have given specific audit focus and attention to this area.	In assessing the valuation of the investment properties, our procedures included the following: We held discussions with management to understand: • movements in the Group's investment property portfolio; • significant changes in the condition of properties; and • the controls in place over the valuation process. For a selection of properties, the carrying value was agreed to the external valuation reports and we held discussions with the valuers. Applying a risk-based approach, we agreed the carrying values of a selection of properties to the external valuation reports. The valuers confirmed that the valuation approach for the properties was in accordance with accounting and valuation standards, and that climate change matters were considered as part of their valuation process. We assessed the valuers' qualifications, expertise and their objectivity and we found no evidence to suggest that their objectivity was compromised in their performance of the valuations. 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. *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 were considered unusual. 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.

Description of the key audit matter	How our audit addressed the key audit matter
Goodwill impairment assessment As disclosed in note 5.5 of the financial statements, the goodwill balance of $29.1 million was recognised when the Company merged with Direct Property Fund Limited. As at the 30 June 2022 interim reporting date the market capitalisation of the Group, based on the quoted market price, was below the net assets of the Group. This was considered an indicator of impairment. With the assistance of management's expert, management assessed whether objective evidence of impairment of goodwill existed. Management estimated the recoverable amount using fair value less costs of disposal (FVLCOD) as the higher of the two valuation approaches, being FVLCOD and value in use. The significant estimates and judgement relate to the control premium and costs of disposal. This resulted in an impairment loss of $29.1 million against the carrying amount of goodwill as at 30 June 2022 interim reporting period. The goodwill balance at 31 December 2022 was nil. The impairment testing of goodwill is considered a key audit matter due to the size of the balance, the impact on the net loss for the year and the significant level of management estimation and judgement applied in performing the impairment assessment.	We considered management's process for testing goodwill impairment and performed the following procedures: ● engaged with our in-house valuation specialist to assess the reasonableness of management's assessment including: - assessed the appropriateness of using FVLCD approach against New Zealand International Accounting Standard 36 *Impairment of Assets*; - considered the reasonableness of the control premium and performed sensitivity analysis around the control premium assumption to ascertain the extent of change that would be required for the goodwill balance not to be impaired; and - assess the reasonableness of the cost of disposal estimate; ● agreed the 1 day volume-weighted average share price at 30 June 2022 to NZX trading data; ● assessed management's calculation that the FVLCD was below the Group's net assets as the 30 June 2022; and ● assessed the appropriateness of the financial statement disclosures.

Our audit approach

Overview

Overall group materiality: $3.1 million, which represents approximately 5% of profit before tax excluding valuation movements relating to investment properties and interest rate derivatives, and goodwill impairment.

We chose this benchmark because, in our view, it presents a more stable basis against which the performance of the Group is most likely to be 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 two key audit matters, being:

- Valuation of investment properties; and
- Goodwill impairment assessment.

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.

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.

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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
20 February 2023

Auckland

FIVE-YEAR PERFORMANCE SUMMARY

YEAR ENDED 31 DECEMBER	2022	2021	2020	2019	2018
ALL VALUES IN $M UNLESS OTHERWISE NOTED					
FINANCIAL PERFORMANCE					
Income	73.2	517.1	176.1	229.3	158.3
Expenses	(79.8)	(44.3)	(40.4)	(38.9)	(36.0)
Profit before taxation	(6.5)	472.8	135.7	190.4	122.3
Total taxation (expense) / benefit	(7.4)	(20.0)	(22.2)	(14.1)	(12.2)
Total comprehensive income after tax	(13.9)	452.8	113.5	176.3	110.1
Weighted average number of ordinary shares ('000 shares)	504,674	503,302	499,650	498,723	498,723
IFRS basic earnings per share (cents per share)	(2.70)	89.97	22.71	35.35	22.08
DISTRIBUTIONS					
Total comprehensive income after tax	(13.9)	452.8	113.5	176.3	110.1
Distribution adjustments	58.5	(406.1)	(73.4)	(137.5)	(72.9)
Adjusted Funds From Operations (AFFO)	44.6	46.7	40.1	38.8	37.2
Weighted average number of ordinary shares ('000 shares)	504,674	503,302	499,650	498,723	498,723
AFFO per share (cents per share)	8.83	9.29	8.03	7.79	7.46
Gross dividends paid relating to the year reported (cents per share)	10.19	9.99	9.73	10.20	9.33
Net dividends paid relating to the year reported (cents per share)	8.10	7.90	7.70	7.60	7.55
AFFO pay-out ratio (%)	91.7%	85.1%	95.9%	97.6%	101.2%
FINANCIAL POSITION					
Investment properties	2,096.2	2,158.9	1,524.8	1,469.3	1,318.7
Goodwill	–	29.1	29.1	29.1	29.1
Other assets	66.6	29.0	133.5	24.3	11.2
Total assets	2,162.8	2,217.0	1,687.4	1,522.7	1,358.9
Borrowings	601.5	598.7	487.6	412.9	398.2
Other liabilities	60.9	55.6	63.2	55.8	45.5
Total liabilities	662.4	654.3	550.8	468.7	443.8
Total equity	1,500.3	1,562.7	1,136.6	1,054.0	915.1
Closing shares on issue ('000 shares)	502,051	505,494	501,303	498,723	498,723
Net tangible (excluding goodwill) assets (cents per share)	298.8	303.4	220.9	205.5	177.7
Gearing (%)	28.5%	27.7%	30.0%	28.2%	30.3%
PROPERTY PORTFOLIO METRICS					
Number of properties (#)	94	97	94	94	94
Number of tenants (#)	132	136	148	144	148
Contract rent	98.2	95.6	89.8	84.9	82.0
Occupancy (%)	100.0%	100.0%	99.4%	99.0%	99.3%
Net lettable area including yard (sqm)	930,453	940,204	838,403	809,183	780,092
Weighted average lease term (years)	5.08	5.40	5.28	5.38	5.39
Portfolio capitalisation rate (%)	5.0%	4.4%	5.5%	5.7%	6.1%

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, all 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/.

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 2022, 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 August 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. People Committee Charter, which includes the Company's Remuneration Policy;
5. Continuous Disclosure Policy;
6. Financial Product Trading Policy; and
7. Diversity and Inclusion Policy.

COMPLIANCE WITH NZX REQUIREMENTS

PFI considers that it complied with the NZX Code in the year ended 31 December 2022.

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 set of expectations for PFI's Directors, employees and contractors surrounding their business conduct when representing PFI. The Code intends to facilitate 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. PFI provides access to a confidential third-party agency for whistleblowing purposes. 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. Training on ethical conduct was last provided to employees in 2022, following the August 2022 review of the Code of Ethics and related internal policies.

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 and Management;
- structures itself to be effective in discharging its responsibilities and duties;
- sets standards of behaviour expected of the Company's employees 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 effectiveness;
- ensures remuneration of Directors, employees and contractors is fair and reasonable;
- recognises the legitimate interests of all stakeholders (including stakeholder expectations around ESG and sustainability); and
- promotes a corporate culture which embraces inclusion and diversity.

The Board's primary focus is on the creation of long-term shareholder wealth and ensuring PFI is run in accordance with appropriate management and corporate governance practices. The Board has an obligation to protect and enhance the value of the assets of PFI for the benefit of PFI and its shareholders. It achieves this through approval of appropriate corporate strategies, business plans and budgets, and monitoring actual results against the Company's strategic objectives. PFI's Board pays particular attention to capital structure, capital expenditure, acquisition and divestment proposals, performance against PFI's sustainability strategy, and ensuring effective audit, risk and compliance procedures are in place to protect PFI's assets and ensure integrity of reporting. The Board is also responsible for approving PFI's Corporate Governance Manual and maintaining corporate and Board values to ensure PFI acts to the highest ethical standards and integrity.

The Board delegates implementation of the adopted corporate strategies to the Management Team and reviews the performance of the Management Team on a regular basis.

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 2022, there were five Directors, all 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 2022, their status, date of appointment and meeting attendances follows:

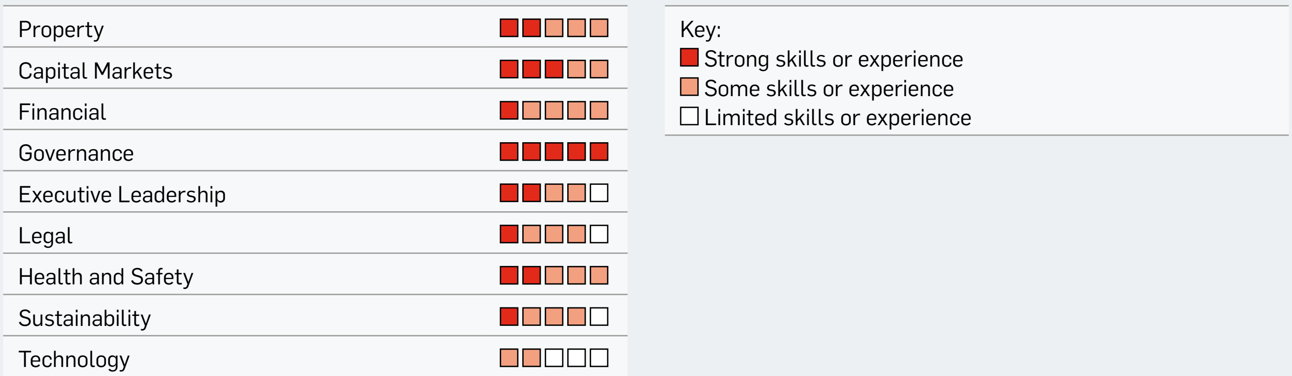
DIRECTOR	STATUS	DATE OF APPOINTMENT	LAST RE-ELECTED	DATE CEASED TO BE A DIRECTOR	MEETINGS ATTENDED (TEN MEETINGS HELD)
Anthony Beverley	Independent Director Board Chair	2 July 2001	3 June 2020	N/A	10
Carolyn Steele	Independent Director Audit and Risk Committee Chair[1]	22 August 2022	N/A	N/A	3
David Thomson	Independent Director	12 February 2018	19 May 2021	N/A	10
Dean Bracewell	Independent Director People Committee Chair	29 November 2019	3 June 2020	N/A	10
Gregory Reidy	Non-Executive Director	20 January 2012	19 May 2021	N/A	10
Susan Peterson	Independent Director Audit and Risk Committee Chair[1]	24 May 2016	13 May 2022	14 December 2022[2]	9

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 skills, 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:



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

1. Carolyn Steele replaced Susan Peterson as Chair of the Audit and Risk Committee effective 14 December 2022.
2. Independent Director Susan Peterson retired from the Board on 14 December 2022. Susan Peterson also retired as a director of P.F.I. Property No. 1 Limited on that date.

Carolyn Steele, who joined PFI's Board on 22 August 2022 and is now Chair of the Audit and Risk Committee, is considered to be PFI's financial expert. Carolyn has a background in investment management, capital markets and mergers and acquisitions, having spent six years as a portfolio manager at the Guardians of New Zealand Superannuation, and a further ten years prior to that in investment banking at Forsyth Barr and First NZ Capital / Credit Suisse. Carolyn is also Audit and Risk Committee Chair for Green Cross Health, WEL Networks and Vulcan Steel and an Investment Committee member at Oriens Capital. PFI's Board and Management consider that Carolyn has a strong financial background for the purposes of Listing Rule 2.13.2.

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 2022 all Directors of the Company were independent: Anthony Beverley, David Thomson, Dean Bracewell, Gregory Reidy, and Carolyn Steele. 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 has resolved that Gregory Reidy is now considered to be independent as more than three years have passed since his role as Managing Director.

Anthony Beverley has served on the Board of PFI for 21 years and has been Chair of the Board for four years. When assessing independence, the Board considered the effect of Anthony Beverley's length of tenure, and has concluded that Anthony Beverley's length of tenure has not in practice impacted his ability 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 PFI Board is continuing to progress its succession planning, and notes that any change in Board composition needs to be balanced with ensuring that necessary skills, experience and depth of understanding are retained on the Board, particularly when facing economic uncertainty. As with existing Directors, future appointees will be expected to provide governance leadership potential in addition to their specific skills.

Details of Directors' relevant interests in the Company's financial products as at 31 December 2022 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. As such, Director Carolyn Steele was appointed to the Board on 22 August 2022 and is required to retire and stand for re-election at the Annual Meeting of Shareholders in 2023.

Where a Board vacancy arises or the Board otherwise determines a need to appoint a new Director, it is the responsibility of the People 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, Officers and Senior Leadership Team as at the end of the previous two financial years is as follows:

	MALE			FEMALE		
FINANCIAL YEAR	DIRECTORS	OFFICERS	SENIOR LEADERS[1]	DIRECTORS	OFFICERS	SENIOR LEADERS
Year ending 31 December 2021	4	3	3	1	0	1
Year ending 31 December 2022	4	3	3	1	0	1

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. This 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 established a Diversity and Inclusion Policy in accordance with the NZX Code. The PFI Board believes that an inclusive work environment where everyone is treated equitably and fairly and is supported to be successful in their roles is essential for it to be able to deliver its strategic objectives and continue to meet its responsibilities to its customers, its employees, the communities in which it works, and its shareholders.

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

The Board is committed to taking steps that will see diversity in the composition of both the Board and leadership team move progressively over time. It is important to note that PFI has a small team comprising 19 permanent and dedicated team members and that nine of these team members are female (2021: seven out of 16).

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.

1. Includes officers

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 2022, the members of the Audit and Risk Committee were Carolyn Steele (Chair of the Audit and Risk Committee), Anthony Beverley and David Thomson. Former Director Susan Peterson was Chair of the Audit and Risk Committee until 14 December 2022. Carolyn Steele became a member of the Audit and Risk Committee on 22 August 2022 and became Chair of the Audit and Risk Committee on 14 December 2022. Anthony Beverley and David Thomson were members of the committee at all times during 2022. Susan Peterson, Anthony Beverley and David Thomson attended the four meetings of the committee held during 2022, whilst Carolyn Steele attended one meeting as a member of the Audit and Risk Committee in December 2022.

People Committee

The Board has also established a People Committee (previously known as the Nomination and Remuneration Committee) in accordance with the NZX Code. 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 People Committee and undertakes a review annually of its objectives and activities.

The People Committee's role includes identifying and recommending individuals for nomination to be members of the Board and its committees, regularly reviewing composition and successions plans and, where appropriate, recommending changes to the composition of the Board to ensure PFI maintains the right composition of Directors to effectively govern and provide guidance to the business. The Committee is also responsible for assisting the Board with performance reviews, assessing independence of PFI's Directors, and regularly reviewing the remuneration policy (for further information on remuneration, see Principle Five: Remuneration).

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

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

At 31 December 2022, the members of the People Committee were Dean Bracewell (Chair of the People Committee), Anthony Beverley and David Thomson. Dean Bracewell and Anthony Beverley were members of the committee at all times during 2022 and attended the five meetings of the committee held during 2022. Former Director, Susan Peterson, was a member of the People Committee until her retirement from PFI's Board on 14 December 2022 and attended the five meetings of the committee held during 2022. David Thomson was appointed as a People Committee member on 14 December 2022. There were no further meetings of the committee after that date during 2022.

Other Committees

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

Principle Four: Reporting & Disclosure

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

Continuous Disclosure Policy

PFI is committed to its obligation to inform shareholders and market participants of all material information that might affect the price of its listed securities in accordance with the NZX Listing Rules and the Financial Markets Conduct Act 2013. Accordingly, the Board has adopted a Continuous Disclosure Policy which applies to the Group, and the 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 Reporting

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

Non-Financial Disclosure

PFI is committed to non-financial disclosure, including reporting on environmental, social sustainability and governance factors and practices. PFI acknowledges it will be required to provide climate-related disclosures as a climate reporting entity under the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 in its FY23 Annual Report, and notes that the Company already voluntarily reports climate-related disclosures in line with TCFD recommendations (see pages 36-43).

You can find more information on PFI's approach to sustainability on pages 25-35.

You can find more information about PFI's approach to risk management, including health and safety risks, 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 2022 are as follows:

DIRECTOR	NO. OF SHARES (ACQUIRED)	CONSIDERATION PER SHARE	DATE
Dean Bracewell	20,000	$2.7105	2 March 2022

Details of Directors' relevant interests in the Company's financial products as at 31 December 2022 are as follows:

DIRECTOR	NATURE OF RELEVANT INTEREST	NUMBER OF SHARES
Gregory Reidy	Beneficial holder	155,708
Dean Bracewell	Beneficial holder	40,000

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 People Committee Charter. 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
People Committee Chair	10,000
People 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 2022 and the prior year comparative:

DIRECTOR	ROLE	FEES PAID 2022 $000	FEES PAID 2021 $000
Anthony Beverley	Board Chair	80	79
	Independent Director	90	87
	Audit and Risk Committee Member	–	–
	People Committee Member	–	–
Carolyn Steele[1]	Audit and Risk Committee Chair	1	–
	Independent Director	33	–
	Audit and Risk Committee Member	2	–
David Thomson	Independent Director	90	87
	Audit and Risk Committee Member	5	5
	People Committee Member	–	–
Dean Bracewell	People Committee Chair	10	10
	Independent Director	90	87
Gregory Reidy	Non-Executive Director	90	87
Susan Peterson[2]	Audit and Risk Committee Chair	14	15
	Independent Director	86	87
	People Committee Member	5	3
Total		**596**	**548**

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.

1. Carolyn Steele was appointed to the Board on 22 August 2022. Carolyn Steele was an Audit and Risk Committee member from 22 August 2022 and became Chair of the Audit and Risk Committee from 14 December 2022.
2. Susan Peterson ceased to be a Director on 14 December 2022.

Chief Executive Officer Remuneration

The Chief Executive Officer's (CEO) 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 which are aligned to the delivery of PFI's key operational objectives. Target areas for the CEO's key performance indicators for 2022 are outlined below:

TARGET AREA	WEIGHTING
Leadership objectives including staff engagement	15%
Strategic execution	15%
Portfolio metrics	15%
Operational performance including ESG performance	15%
Financial performance	40%

STI payments are endorsed by the People Committee and approved by the Board, based on achievement of the objectives and targets. In 2022 and 2021, the People Committee endorsed, and the Board approved, the payment of 100% of the potential STI payable.

Further details on the LTI plan can be found on pages 79 to 80.

There is no commitment to making a severance payment in the CEO's contract.

Simon Woodhams became CEO on 1 January 2019. Simon Woodhams' remuneration as CEO for all four reporting periods since his appointment as CEO is set out below:

				PAY FOR PERFORMANCE			
YEAR ENDING	SALARY	BENEFITS[1]	SUBTOTAL	STI	LTI[2]	SUBTOTAL	TOTAL REMUNERATION
31 December 2019	$450,000	$31,711	**$481,711**	$200,000	$39,148	**$239,148**	**$720,859**
31 December 2020	$500,000	$30,824	**$530,824**	$225,000	$52,376	**$277,376**	**$808,200**
31 December 2021	$550,000	$40,199	**$590,199**	$250,000	$68,107	**$318,107**	**$908,306**
31 December 2022	$576,640	$44,939	**$621,579**	$263,250	$54,903	**$318,153**	**$939,733**

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

YEAR ENDING	SHARE RIGHTS GRANTED (SHARES)	SHARE RIGHTS VESTED DURING THE YEAR[3] (SHARES)	SHARE RIGHTS LAPSED DURING THE YEAR (SHARES)	SHARE RIGHTS OUTSTANDING AT THE END OF THE YEAR (SHARES)
31 December 2019	85,227	28,409	–	**56,818**
31 December 2020	73,224	52,817	–	**77,225**
31 December 2021	67,242	75,231	–	**69,236**
31 December 2022	79,872	55,085	18,362	**75,662**

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

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.

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 2022 and 2021, and the share rights outstanding at the end of 31 December 2021 and 31 December 2022 are as follows:

YEAR ENDING	SHARE RIGHTS GRANTED (SHARES)	SHARE RIGHTS VESTED DURING THE YEAR (SHARES)[1]	SHARE RIGHTS LAPSED DURING THE YEAR (SHARES)	SHARE RIGHTS OUTSTANDING AT THE END OF THE YEAR (SHARES)
31 December 2021	155,174	172,159	–	**158,542**
31 December 2022	166,910	121,841	40,614	**162,997**

Employee Remuneration

During the years ended 31 December 2022 and 31 December 2021, the number of employees who received remuneration with a combined total value exceeding $100,000[2] is set out below:

	NUMBER OF EMPLOYEES			NUMBER OF EMPLOYEES	
REMUNERATION RANGE	2022	2021	REMUNERATION RANGE	2022	2021
$930,001 – $940,000	1		$190,001 - $200,000	1	1
$900,001 - $910,000		1	$170,001 - $180,000		1
$790,001 - $800,000	1		$160,001 - $170,000	2	1
$750,001 - $760,000		1	$150,001 - $160,000	1	1
$410,001 - $420,000	1		$130,001 - $140,000	1	1
$370,001 - $380,000		1	$120,001 - $130,000	3	
$230,001 - $240,000	1	1	$110,001 - $120,000		1
$210,001 - $220,000		1	$100,001 - $110,000	2	3

1. The share rights vested does not include shares vesting as a result of dividend protection.
2. 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

PFI has established a Risk Management Framework to ensure that risks are managed within PFI's Board-approved risk appetite. The Risk Management Framework was last reviewed and approved by PFI's Board in November 2021. PFI has established the following responsibilities 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, including providing risk oversight and ensuring an appropriate risk management framework is in place, appointing the external auditor and overseeing the internal control environment.
Senior Leadership Team	The Senior Leadership Team are responsible for promoting good risk practices by their teams.
Staff	Every staff member is responsible for the identification, management and escalation of risks as part of their role.

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 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 2022.

RISK DESCRIPTION	HOW PFI MANAGES THE RISK	2022 COMMENTARY
Economic and market risk: The risk of adverse changes in the 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, inflation, and other market challenges during 2022. PFI has responded early to address changing market conditions and has continued to deliver robust results during FY22.
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 reviewed regularly by the Board and Management Team. Quarterly reporting on strategy implementation is provided to the Board.	Good progress was made during 2022 on the implementation of PFI's strategy as set out on pages 12-17 of this report. In particular, PFI committed to major brownfields development projects at 30-32 Bowden Road and 78 Springs Road, which will commence during 2023.
Health, safety and wellbeing risk: The risk of failing to manage health, safety and wellbeing hazards at a PFI property.	Health, safety and wellbeing risks are actively managed by PFI's health and safety committees. A wide variety of risk mitigants are in place, including monitoring visits and proactive responses to the identification of potential hazards.	Continuous improvement of PFI's health, safety and wellbeing management has been a key focus during 2022. 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 continued to carefully and successfully manage its financial performance risk as outlined on pages 4 to 6.
People Risk: The risk of failing to attract and retain talented staff or deterioration in staff performance.	PFI actively manages this risk through a suite of controls, including training of staff, documentation of key processes, annual staff engagement surveys, annual review of staff performance and pay adjustments.	PFI has carefully monitored this risk during 2022 in light of the difficult labour market. However, the Company continues to achieve strong employee engagement (84% in 2022) and low turnover.

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 (TCFD) section of this annual report (pages 36-43).

Principle Seven: Auditors

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

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

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

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

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

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

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

Principle Eight: Shareholder Rights & Relations

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

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

In respect of voting rights, PFI shareholders have one vote per share they hold in PFI, and will have the right to vote on major decisions which may change the nature of PFI in accordance with the NZX Listing Rules.

In order for shareholders to fully participate in meetings, the Board endeavours to post the annual shareholders' notice of meeting on PFI's website as soon as possible and at least 20 working days prior to the meeting. In 2022, 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 2022 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 2022. Any entry added by notices given by the Directors during the year ended 31 December 2022 is denoted with a *. Any entry removed by notices given by the Directors during the year ended 31 December 2022 is denoted with a ~.

DIRECTOR	POSITION	COMPANY
Anthony Beverley	Director; Chair of Audit and Risk Committee~; Chair of Board*	Arvida Group Limited
Carolyn Steele	Director; Chair of Audit and Risk Committee	Green Cross Health Limited*
	Director; Chair of Audit and Risk Committee	WEL Networks Limited*
	Director; Investment Committee Member	Oriens Capital GP 2 Limited*
	Director; Chair of Audit and Risk Committee	Vulcan Steel Limited*
	Director; Chair of Board	Halberg Foundation*
	Director	Tuatahi First Fibre (UFF Holdings Limited and First Fibre Bidco)~
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	MRC2 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)
	Director	Ardea Properties Limited*
Susan Peterson[1]	Director; Chair of Nomination and Remuneration Committee~; Chair of Board*	Vista Group International Limited
	Director; Chair of Remuneration Committee	Xero Limited
	Board Member	Global Women
	Director	Arvida Group Limited
	Director	Mercury NZ Limited*

Other than noted in this report, there were no other interest register entries recorded for the Company or its subsidiary for the year ended 31 December 2022.

1. Susan Peterson retired from PFI's Board of Directors on 14 December 2022, and therefore her interests are current and as that date except as noted.

Donations

The Company made the following donations during 2022:

- $10,000 to the Auckland City Mission to help with emergency food parcels for families and individuals in need; and
- $5,000 to KidsCan to provide Kiwi children with the basics they need to get through their day safely, including food, raincoats, shoes and socks.

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 2022

As at 31 December 2022, the total number of ordinary shares on issue was 502,050,524. 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 2022 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)	37,489,726	7.425%

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 2022 $000	TOTAL PAID 2021 $000
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
Q4 2021 final dividend	9 March 2022	2.45	12,385	
Q1 2022 interim dividend	24 May 2022	1.80	9,101	
Q2 2022 interim dividend	7 September 2022	1.80	9,088	
Q3 2022 interim dividend	22 November 2022	1.85	9,325	
Total dividends per statement of changes in equity			**39,899**	**38,719**

NZX Waivers

The Company did not rely on any NZX waivers during 2022.

20 LARGEST REGISTERED SHAREHOLDERS AS AT 31 JANUARY 2023

HOLDER	HOLDING	% HOLDING
Custodial Services Limited	61,543,156	12.26%
Accident Compensation Corporation – NZCSD	40,121,683	7.99%
ANZ Wholesale Trans-Tasman Property Securities Fund – NZCSD	26,479,237	5.27%
BNP Paribas Nominees (NZ) Limited – NZCSD	22,475,408	4.48%
FNZ Custodians Limited	25,752,235	5.13%
Forsyth Barr Custodians Limited	17,485,913	3.48%
New Zealand Depository Nominee Limited	16,328,929	3.25%
HSBC Nominees (New Zealand) Limited – NZCSD	11,371,996	2.27%
Tea Custodians Limited, Client Property Trust Account – NZCSD	8,629,668	1.72%
ANZ Wholesale Property Securities – NZCSD	7,659,956	1.53%
Messrs. Wildermoth, Wilson and Young and Ms Wildermoth	6,948,605	1.38%
MFL Mutual Fund Limited – NZCSD	6,930,708	1.38%
Citibank Nominees (New Zealand) Limited – NZCSD	6,594,665	1.31%
Investment Custodial Services Limited	6,373,059	1.27%
Mr. Mckee and Ms. Mckee	5,566,373	1.11%
JBWere (NZ) Nominees Limited	5,563,027	1.11%
PT (Booster Investments) Nominees Limited	5,007,384	1.00%
Masfen Securities Limited	4,767,744	0.95%
Heatherfield Investments Limited	4,199,149	0.84%
Simplicity Nominees Limited	4,163,875	0.83%
Shares held by top 20 shareholders	**293,962,770**	**58.55%**
Balance of shares	208,087,754	41.45%
Total of issued shares	**502,050,524**	**100.00%**

SHAREHOLDER STATISTICS

SHAREHOLDER SPREAD AS AT 31 JANUARY 2023

ORDINARY SHARES	NUMBER OF HOLDERS	HOLDING	% HOLDING
Up to 4,999	1,327	3,301,671	0.66%
5,000 - 9,999	1,097	7,791,808	1.55%
10,000 - 49,999	2,167	45,514,233	9.07%
50,000 - 99,999	322	21,424,648	4.27%
100,000 - 499,999	258	50,635,213	10.09%
500,000 and above	74	373,382,951	74.36%
	5,245	**502,050,524**	**100.00%**

GEOGRAPHICAL SPREAD AS AT 31 JANUARY 2023

ORDINARY SHARES	HOLDING	% HOLDING
Auckland & Northern Region	271,640,568	54.12%
Hamilton & Surrounding Districts	110,272,654	21.96%
Wellington & Central Districts	74,167,891	14.77%
Dunedin & Southland	29,939,933	5.96%
Nelson, Marlborough & Christchurch	13,611,038	2.71%
Overseas	2,418,440	0.48%
Total	**502,050,524**	**100.00%**

20 LARGEST REGISTERED BONDHOLDERS AS AT 31 JANUARY 2023

HOLDER	PFI 010 HOLDING	PFI010 % HOLDING	PFI 020 HOLDING	PFI020 % HOLDING
Custodial Services Limited	23,394,000	23.39%	34,014,000	34.01%
Forsyth Barr Custodians Limited	21,020,000	21.02%	16,843,000	16.84%
FNZ Custodians Limited	10,317,000	10.32%	11,608,000	11.61%
Citibank Nominees (New Zealand) Limited - NZCSD	–	0.00%	10,037,000	10.04%
Generate Kiwisaver Public Trust Nominees Limited - NZCSD	–	0.00%	5,813,000	5.81%
Forsyth Barr Custodians Limited	–	0.00%	901,000	0.90%
NZPT Custodians (Grosvenor) Limited - NZCSD	8,549,000	8.55%	780,000	0.78%
National Nominees Limited - NZCSD	5,000,000	5.00%	–	0.00%
HSBC Nominees (New Zealand) Limited - NZCSD	4,075,000	4.08%	3,900,000	3.90%
Tea Custodians Limited Client Property Trust Account - NZCSD	3,473,000	3.47%	3,310,000	3.31%
Hobson Wealth Custodian Limited	2,053,000	2.05%	1,310,000	1.31%
Investment Custodial Services Limited	2,035,000	2.04%	869,000	0.87%
JML Capital Limited	–	0.00%	600,000	0.60%
Forsyth Barr Custodians Limited	1,802,000	1.80%	–	0.00%
FNZ Custodians Limited	1,065,000	1.07%	597,000	0.60%
Kiwigold.co.nz Limited	–	0.00%	300,000	0.30%
Dunedin Diocesan Trust Board	–	0.00%	250,000	0.25%
Custodial Services Limited	–	0.00%	203,000	0.20%
JBWere (NZ) Nominees Limited	774,000	0.77%	–	0.00%
Woolf Fisher Trust Incorporated	–	0.00%	184,000	0.18%
Mint Nominees Limited - NZCSD	–	0.00%	170,000	0.17%
FNZ Custodians Limited	410,000	0.41%	–	0.00%
Forsyth Barr Custodians Limited	382,000	0.38%	290,000	0.29%
Investment Custodial Services Limited	350,000	0.35%	–	0.00%
Hobson Wealth Custodian Limited	322,000	0.32%	–	0.00%
Hobson Wealth Custodian Limited	233,000	0.23%	–	0.00%
Custodial Services Limited	220,000	0.22%	185,000	0.19%
John Collingwood King and Pravir Atindra Tesiram (King Family)	200,000	0.20%	–	0.00%
Forsyth Barr Custodians Limited	195,000	0.20%	–	0.00%
Bonds held by top 20 Bondholders	**85,869,000**	**85.87%**	**92,164,000**	**92.16%**
Total Remaining Holders Balance	14,131,000	14.13%	7,836,000	7.84%
Total of issued Bonds	**100,000,000**	**100.00%**	**100,000,000**	**100.00%**

BONDHOLDER STATISTICS

BONDHOLDER SPREAD: PFI010 AS AT 31 JANUARY 2023

BONDS	NO. OF HOLDERS	HOLDING	% HOLDING
5,000 - 9,999	66	352,000	0.35%
10,000 - 49,999	406	7,641,000	7.64%
50,000 - 99,999	46	2,679,000	2.68%
100,000 - 499,999	35	5,343,000	5.34%
500,000 - 999,999	1	774,000	0.77%
1,000,000 and above	8	83,211,000	83.22%
Total	**562**	**100,000,000**	**100.00%**

BONDHOLDER SPREAD: PFI020 AS AT 31 JANUARY 2023

BONDS	NO. OF HOLDERS	HOLDING	% HOLDING
5,000 - 9,999	41	234,000	0.23%
10,000 - 49,999	208	4,381,000	4.38%
50,000 - 99,999	24	1,351,000	1.35%
100,000 - 499,999	22	3,157,000	3.16%
500,000 - 999,999	4	2,967,000	2.97%
1,000,000 and above	5	87,910,000	87.91%
Total	**304**	**100,000,000**	**100.00%**

DISCLOSURE TITLE	GRI	LOCATION / INFORMATION
General Disclosures		
Organisational details	2-1	Property for Industry Limited (PFI); https://www.propertyforindustry.co.nz/about-pfi/; https://www.propertyforindustry.co.nz/contact-us/; New Zealand.
Entities included in the organisation's sustainability reporting	2-2	PFI is comprised of a single holding parent company, Property for Industry Limited (PFI) and a subsidiary company, P.F.I. Property No. 1. For the purposes of reported information, there is no difference between PFI and P.F.I. Property No. 1.
Reporting period, frequency and contact point	2-3	1 January 2022 to 31 December 2022; annual reporting frequency (both financial and sustainability reporting); Publication date is 20 February 2023. Contact point: info@pfi.co.nz
Restatements of information	2-4	There have been no restatements of information made from previous reporting periods.
External assurance	2-5	PwC Audit Report, pages 83-88; PFI's sustainability reporting has not been externally assured for 2022. We did, however, receive an external quality review of our carbon footprint from Ekos.
Activities, value chain and other business relationships	2-6	a. PFI operates in the property sector. b. Sustainability Report, pages 25-35. c. PFI's business relationships include a number of tenants, partners and suppliers, most notably our external facilities management and construction partners. d. There have been no significant changes to PFI's business relationships during 2022.
Employees	2-7	Company Structure and Statutory Information – Diversity and Inclusion, page 97; Sustainability Report – 2022 Highlights, pages 26-27; At 31 December 2022, we had a team of 19 permanent staff (ten male and nine female) based in Auckland, and one contractor. This information is obtained in the recruitment process and maintained in personel records.
Workers who are not employees	2-8	PFI relies on a wide range of contractors and occassionally employs temporary staff for a number of its activities.
Governance structure and composition	2-9	Company Structure and Statutory Information – Board Composition and Performance, pages 94-97.
Nomination and selection of the highest governance body	2-10	Company Structure and Statutory Information – Board Composition and Performance, pages 94-97.
Chair of the highest governance body	2-11	The Chair of the Board is not a senior executive in the organisation; Company Structure and Statutory Information – Board Composition and Performance, pages 94-97.
Role of the highest governance body in overseeing the management of impacts	2-12	PFI Board and Committee Charters: https://www.propertyforindustry.co.nz/about-pfi/governance/
Delegation of responsibility for impacts	2-13	Climate-related Disclosures, TCFD Report – Governance, page 37.
Role of highest governance body in sustainability reporting	2-14	Climate-related Disclosures, TCFD Report – Governance, page 37.
Conflicts of interest	2-15	PFI Code of Ethics: https://www.propertyforindustry.co.nz/about-pfi/governance/

GRI INDEX

DISCLOSURE TITLE	GRI	LOCATION / INFORMATION
Communication of critical concerns	2-16	PFI Code of Ethics: https://www.propertyforindustry.co.nz/about-pfi/governance/; There were no critical concerns communicated to the Board during the reporting period ended 31 December 2022.
Collective knowledge of the highest governance body	2-17	Sustainability is an agenda item at quarterly Board meetings; Climate-related Disclosures, TCFD Report – Governance, page 37.
Evaluation of the performance of the highest governance body	2-18	Company Structure and Statutory Information - Board Composition and Performance, pages 94-97; PFI People Committee Charter: https://www.propertyforindustry.co.nz/about-pfi/governance/.
Remuneration policies	2-19	PFI People Committee Charter: https://www.propertyforindustry.co.nz/about-pfi/governance/; Company Structure and Statutory Information – Remuneration, pages 100-103.
Process to determine remuneration	2-20	PFI People Committee Charter: https://www.propertyforindustry.co.nz/about-pfi/governance/; Company Structure and Statutory Information - Remuneration, pages 100-103.
Annual total compensation ratio	2-21	PFI has not disclosed data on compensation ratios due to privacy considerations. We will review this disclosure in FY23.
Statement on sustainable development strategy	2-22	Sustainability Report, pages 25-35.
Policy commitments	2-23	PFI Code of Ethics: https://www.propertyforindustry.co.nz/about-pfi/governance/
Embedding policy commitments	2-24	Sustainability Report – People and Wellbeing, pages 34-35.
Processes to remediate negative impacts	2-25	Sustainability Report – 2030 Strategy, pages 28-29.
Mechanisms for seeking advice and raising concerns	2-26	PFI Code of Ethics: https://www.propertyforindustry.co.nz/about-pfi/governance/
Compliance with laws and regulations	2-27	PFI has had no significant instances of non-compliance during 2022.
Membership associations	2-28	New Zealand Green Building Council, Property Council of New Zealand.
Approach to stakeholder engagement	2-29	Sustainability Report, pages 25-35. Company Structure and Statutory Information, page 106.
Collective bargaining agreements	2-30	None of PFI's employees are covered by collective bargaining agreements, and all employee working conditions and terms of employment are determined irrespective of the collective bargaining agreements from other organisations.
Material Topics		
Process to determine material topics	3-1	Sustainability Report – 2030 Strategy, pages 28-29.
List of material topics	3-2	Sustainability Report – 2030 Strategy, pages 28-29.
Greenhouse Gas Emissions		
Management of material topics	3-3	Sustainability Report – Greenhouse Gas Emissions, pages 30-33.
Direct (Scope 1) GHG emissions	305-1	Sustainability Report – Greenhouse Gas Emissions, *Our carbon footprint*, page 30.

DISCLOSURE TITLE	GRI	LOCATION / INFORMATION
Energy indirect (Scope 2) GHG emissions	305-2	Sustainability Report – Greenhouse Gas Emissions, *Our carbon footprint*, page 30.
Other indirect (Scope 3) GHG emissions	305-3	Sustainability Report – Greenhouse Gas Emissions, *Our carbon footprint*, page 30.
Reduction of GHG emissions	305-5	Sustainability Report – Greenhouse Gas Emissions, *Scope 1 and 2 emissions*, pages 32-33.
Economic Value		
Management of material topics	3-3	Sustainability Report – Economic Value, page 35.
Direct economic value generated and distributed	201-1	Financial Statements, pages 46-82.
Financial implications and other risks and opportunities due to climate change	201-2	Climate-related Disclosures, TCFD Report, pages 36-43. PFI is developing its approach to estimate and quantify the financial implications of climate-related risks in accordance with the incoming Aotearoa New Zealand Climate Standards.
Significant indirect economic impacts	203-2	Sustainability Report, pages 25-35.
Resources and Waste		
Management of material topics	3-3	Sustainability Report – Resources and Waste, page 33.
Waste generation and significant waste-related impacts	306-1	Sustainability Report – Resources and Waste, page 33.
Management of significant waste-related impacts	306-2	Sustainability Report – Resources and Waste, page 33.
Waste generated	306-3	Omission: PFI is collaborating with suppliers to begin estimating total generated waste from developments and refurbishments and its composition. We expect to have initial estimates in the next two years.
People and Wellbeing		
Management of material topics	3-3	Sustainability Report – People and Wellbeing, pages 34-35.
Occupational health and safety management system	403-1	Sustainability Report – People and Wellbeing, pages 34-35.
Promotion of worker health	403-6	Sustainability Report – People and Wellbeing, pages 34-35.
Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	403-7	Sustainability Report – People and Wellbeing, pages 34-35.
Work-related injuries	403-9	Sustainability Report – People and Wellbeing, pages 34-35.
Diversity of governance bodies and employees	405-1	Company Structure and Statutory Information – Diversity and Inclusion, page 97. PFI does not collect data on age and other diversity indicators due to the small team size.
Disaster and Climate Resilience		
N/A	N/A	Sustainability Report – Disaster and Climate Resilience, page 34. Disaster and Climate Resilience is a topic of strategic importance to PFI. However, Disaster and Climate Resilience does not trigger specific topic disclosures under the GRI Standards.

FUTURE-FIT

_ Level 4, Hayman Kronfeld Building, 15 Galway Street, Auckland

DIRECTORY

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VALUATION PANEL

Bayleys Valuation Limited
CBRE Limited
Colliers International New Zealand Limited
Jones Lang LaSalle Limited
Savills (NZ) Limited

BANKERS

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

SECURITY TRUSTEE

New Zealand Permanent Trustees Limited
SAP Tower, Level 16,
151, Queen Street, Auckland 1010
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BOND SUPERVISOR

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REGISTRAR

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This Annual Report is dated 20 February 2023 and signed on behalf of the Board by:

Anthony Beverley
Chair

Carolyn Steele
Chair, Audit and Risk Committee

CALENDAR

2023

FEBRUARY

- 2022 Full-year announcement
- 2022 Annual report released

MARCH

- 2022 Final dividend payment
- Annual meeting

MAY

- 2023 First-quarter announcement
- 2023 First-quarter dividend payment

AUGUST

- 2023 Half-year announcement
- 2023 Interim financial statements released

SEPTEMBER

- 2023 Half-year dividend payment

NOVEMBER

- 2023 Third-quarter announcement
- 2023 Third-quarter dividend payment

2024

FEBRUARY

- 2023 Full-year announcement
- 2023 Annual report released

MARCH

- 2023 Final dividend payment
- Annual meeting

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PROPERTY
EXPERTS

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