NZX and media announcement
12 February | 2018

INDUSTRIAL PROPERTY SPECIALIST CONTINUES TO DELIVER

The PFI management team will present these results via live webcast from 10.30 am NZT today. To view and listen to the webcast, please visit https://edge.media-server.com/m6/p/af9awvr6. We recommend you log on a few minutes before the start time, and if you cannot attend the live webcast, a recording will be available on PFI's website shortly after the conclusion of the live event.

Highlights

- Significant acquisition activity: $84.3 million of property acquired, improving portfolio metrics and providing significant medium to long-term development potential
- Transition of the Penrose portfolio: approximately $14 million of shareholder value created equating to a property level internal rate of return of approximately 26%
- Strong balance sheet: $70 million rights offer, $100 million of senior secured fixed rate seven-year bonds, gearing of 30.8%
- Dividend policy change and increased dividend for FY18: guidance of full year cash dividends of approximately 7.55 cents, approximately 95% to 100% of Adjusted Funds From Operations[1]
- Governance and management changes: David Thomson appointed to the Board as an Independent Director on 12 February 2018, internalisation of management on 30 June 2017

NZX listed industrial property landlord Property for Industry Limited (PFI, or the Company) today announced its annual results for the year ended 31 December 2017.

Chairman Peter Masfen noted: "PFI's 2017 financial results reflect strong leasing outcomes with nearly 97,000 square metres leased during the year. A series of important strategic initiatives have also been completed during the year, with the internalisation of management, portfolio acquisition, rights offer and bond offer all contributing to a very successful year."

Summary

- *Including the impact of the internalisation payment, net of tax*, PFI recorded a profit after tax for the year of $51.7 million or 11.25 cents per share and net tangible assets of 163.2 cents per share
- *Excluding the impact of the internalisation payment, net of tax*[2], PFI recorded profit after tax for the year of $82.6 million or 17.96 cents per share (down 34.5% on the prior year) and net tangible assets of 169.4 cents per share (up 5.4% from 31 December 2016)
- Distributable profit for the year up 6.6% on the prior year to 8.08 cents per share
- Fourth quarter cash dividend of 2.15 cents per share, total cash dividends for the year of 7.45 cents per share, an increase of 0.10 cents per share over the prior year
- $43.6 million or 3.7% increase in the value of the property portfolio from independent valuations
- 63% of contract rent varied, leased or reviewed during the year
- Year-end portfolio occupancy at 99.9%, 2018 expiries of 7.4%

Internalisation

At the Company's annual meeting in June 2017, PFI's shareholders passed a resolution to internalise the management of PFI, and the internalisation was settled on the 30th of that month.

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[1] Funds From Operations (FFO) and Adjusted Funds From Operations (AFFO) are non-GAAP financial information and are common investor metrics, which have been calculated in accordance with the guidelines issued by the Property Council of Australia. Please refer to Appendix 1 for more detail as to how these measures were calculated.

[2] The internalisation of management is a significant one-off event. In order to provide a basis for comparison, some measures have been presented excluding the impact of internalisation payment, net of tax. Please refer to Appendix 2 for more detail as to how these measures were calculated.

Cost savings as a result of the internalisation in the second half of 2017 are estimated at approximately $2.7 million before interest and tax, equating to an increase in distributable profit of 0.59 cents per share. After allowing for interest and tax, the increase is $1.4 million or 0.30 cents per share, a contribution of 7.1% to the increase in distributable profit in the second half of 2017. This contribution is ahead of the 6% estimated by Northington Partners in their Independent Appraisal Report.

Financial performance

Operating revenues for the year increased by $2.4 million or 3.4% over the prior year to $73.5 million, as increases due to positive leasing activity ($1.9 million), acquisitions ($1.7 million) and completed developments ($0.8 million) were partially offset by decreases due to increased intra-period vacancy ($1.2 million) and disposals ($0.8 million). The transition of the portfolio of five Penrose properties from the prior tenant (Sistema) to new tenants contributed approximately $0.8 million to the increase in vacancy.

Operating expenses for the year of $25.9 million reduced by $2.0 million or 7.3%. A reduction in management fees due to the June 2017 internalisation resulted in a reduction of $4.3 million, which was partially offset by a $1.6 million increase in administrative expenses incurred from July to December 2017 in lieu of management fees. Non-recoverable property costs also increased by $0.7 million due to the aforementioned higher levels of vacancy, and costs incurred due to PFI's recent asbestos testing programme.

Given these changes in operating revenues and expenses, the ratio of operating expenses to operating revenues reduced to 35.3% from 39.3%.

In May 2017, PFI received a binding ruling from the Inland Revenue Department confirming that the proportion of the payment relating to the termination of the PFI management contract is deductible for income tax purposes. As a result, PFI recorded no current taxation expense in 2017. Current year tax losses of $2.0 million will be carried forward and are expected to be fully utilised in 2018.

Excluding the impact of the internalisation payment, PFI's effective current tax rate (being the ratio of current taxation to operating earnings) increased to 21.0% (2016: 19.8%), this increase being largely due to the timing of deductible capital expenditure.

Non-operating income and expenses, which, for the most part, comprised the gross charge for the termination of management agreement of $42.9 million, offset by a $43.6 million fair value gain on investment properties, totalled income of $1.9 million, as compared to income of $88.9 million in the prior year.

After allowing for these non-operating income and expenses and deferred tax, the Company made a profit after tax for the year of $51.7 million or 11.25 cents per share. Excluding the impact of the internalisation payment, net of tax, the Company recorded profit after tax of $82.6 million or 17.96 cents per share, down 34.5% on the prior year.

Distributable profit, dividends, FFO and AFFO

PFI recorded distributable profit of 8.08 cents per share for the year, an increase of 0.50 cents per share or 6.6% over the prior year (2016: 7.58 cents per share).

The PFI Board has today resolved to pay a fourth quarter final cash dividend of 2.15 cents per share. Due to there being no tax paid by the Company during 2017, the dividend will have no imputation credits attached and a supplementary dividend will not be paid to non-resident shareholders. The record date for the dividend is 26 February 2018 and the payment date is 7 March 2018.

The Company's dividend reinvestment scheme (DRS) will not operate for this Q4 dividend, having only operated for the Q2 dividend during 2017, raising $1.5 million.

The fourth quarter final dividend will take cash dividends for the year to 7.45 cents per share, an increase of 0.10 cents per share over the prior year. The dividend pay-out ratio was 96% (2016: 97%).

PFI also reported FFO earnings of 8.57 cents per share (2016: 7.99 cents per share) and AFFO earnings of 7.49 cents per share (2016: 6.95 cents per share), resulting in a FFO dividend pay-out ratio of 87% (2016: 92%) and an AFFO pay-out ratio of 99% (2016: 106%).

Change in dividend policy
The PFI Board has today also resolved to make a change to the Company's dividend policy.

Whereas previously the dividend policy was based on Distributable Profit, from the start of the 2018 financial year, the new policy will be based on FFO and AFFO.

A copy of the new policy can be found in Appendix 3 but, put simply, the new policy means that dividend payments will reflect cashflow from sustainable rental activity alone.

The PFI Board believes that the new policy is in line with best practice in this area and is expected to have a minimal impact on the quantum of dividends paid. The change will also have no impact on the Company's DRS.

Guidance
The PFI Board recognises the importance of a rewarding dividend yield for shareholders.

Peter Masfen, explains: "Historically, dividends have increased by approximately 0.05 cps each year, if performance allowed. However, in the first half of 2018, higher earnings are forecast in part due to the 2017 management internalisation, and it is expected that this will allow for higher dividends in this period.

Therefore, taking all factors into consideration, we expect to pay full year cash dividends of approximately 7.55 cents per share for the 2018 financial year, up 0.10 cents per share on the prior year. It is expected that this level of full year cash dividends will approximate 95% to 100% of AFFO, in line with the Company's revised dividend policy."

By way of comparison, this represents full year distributable profit guidance of 8.10 – 8.30 cents per share, with the range being heavily influenced by the leasing of PFI's FY18 expiries (7.4% of contract rent), and in particular the leasing of the expiries at PFI's Carlaw Park asset in Parnell (see below for further details). The bottom of the guidance ranges assumes average occupancy during the year of around 97%, before reaching almost 100% again by the end of 2018.

Balance sheet
PFI's net tangible assets (NTA) per share increased by 2.5 cents per share or 1.6% from 160.7 cents per share as at the end of 2016 to 163.2 cents per share as at 2017.

After rebasing for additional shares on issue (-14.9 cents per share) and allowing for the rights offer and DRS (+13.9 cents per share), the change in NTA per share was driven by the increase in the fair value of investment properties (described below, +8.7 cents per share), retained earnings (+0.8 cents per share) and a gain on the disposal of PFI's property at 65 Hugo Johnston Drive in Penrose (described below, +0.4 cents per share). Offsetting this were reductions in NTA as a result of the decrease in fair value of derivative financial instruments (-0.2 cents per share) and the net internalisation payment (-6.2 cents per share).

Excluding the impact of the internalisation payment, net of tax, PFI's net tangible assets per share would have increased by 8.7 cents per share or 5.4% over the year to 169.4 cents per share.

Capital management

PFI carried out several capital management initiatives during the year to ensure that the Company maintained a strong balance sheet.

In the last quarter of 2017, PFI raised approximately $70 million of new equity via a rights offer, to support acquisition and ongoing activity across its portfolio. Existing shareholders were given the opportunity to purchase one additional share for every ten held, and there was a high level of take-up by those existing shareholders: almost 80% of the new shares available under the rights offer.

In November 2017, the Company also issued $100 million of senior secured fixed rate seven-year bonds. The interest rate of 4.59% per annum, which reflected a margin of 1.65% per annum above the seven-year swap rate, was swapped back to float interest rates via fixed rate receiver swaps.

PFI Chief Financial Officer and Company Secretary, Craig Peirce, noted: "Whilst the bank loan market remains supportive of PFI and the listed property sector more generally, we are delighted to have taken advantage of market conditions to have successfully issued PFI's inaugural senior secured bond. The bond not only helps us to diversify the Company's borrowings, but also increases the average term to expiry of all facilities to 3.7 years as at the end of 2017."

No changes were made to the Company's $375 million syndicated bank loan facility with ANZ, BNZ, CBA and Westpac, which expires in equal portions in May 2020 and 2021. Following the senior secured bond offer, PFI has approximately $100 million of unutilised bank loan capacity.

PFI's weighted average cost of debt (WACOD) reduced to 4.96%[3] as at 31 December 2017, a significant reduction from the 31 December 2016 rate of 5.24%, but up slightly from the end of the interim period (4.78%) rate, which was particularly low due to the increased levels of borrowings to fund the internalisation at that time.

The Company ended the year with gearing[4] of 30.8%, well within the Company's self-imposed gearing limit of 40% and bank covenants of 50%. The interest cover ratio[5] of 3.7 times was also well within bank covenants of 2.0 times.

Portfolio performance

Portfolio snapshot as at	31 December 2017	31 December 2016
Valuation	$1,210.8m	$1,083.3m
Number of properties	92	83
Number of tenants	148	143
Contract rent	$79.6m	$72.5m
Occupancy	99.9%	99.6%
Weighted avg. lease term (WALT)	5.33 years	4.79 years
Auckland property	82.4%	85.3%
Industrial property	86.4%	85.5%

[3] Weighted average cost of debt comprises BKBM, hedging, margins and all borrowings related fees.
[4] That is, total borrowings as a percentage of the most recent independent valuation of the property portfolio.
[5] That is, the ratio of interest expense and bank fees to operating earnings excluding interest expense and bank fees.

Further to the announcement in December, PFI recorded an annual increase from independent valuations in the value of its property portfolio of $43.6 million or 3.7% to $1,210.8 million. A key driver of this valuation outcome was the successful leasing described below. High levels of demand for industrial property from both investors and owner occupiers also influenced the increase. As a result of the year-end valuation process, PFI's passing yield firmed from 6.69% to 6.57%, and on a portfolio basis there continues to be no over or under renting.

Nearly 97,000 square metres representing more than 14% of PFI's existing portfolio by rent was leased during the year to 27 new and existing tenants for an average increase in term of 5.5 years. Lease renewals with 12 PFI tenants for an average term of 4.6 years represented approximately half of the contract rent secured. In addition to this, fifteen new leases were secured for an average term of 6.4 years. Across these renewals and new leases low levels of incentives were required to attract and retain tenants. Headline rental growth is being achieved, with contracted rental rates ahead of December 2016 market rents.

The Company also completed rent reviews on 73 leases during the year, resulting in an average annual uplift of 2.5% on $38.6 million of contract rent.

PFI has now completed the successful transition of the portfolio of five Penrose properties purchased for $28.5 million in August of 2015. In October of 2017, just over two years after purchase, Ryco Hydraulics began their occupation of 4 Autumn Place, and now all properties have been transitioned: four properties from former tenant Sistema to new tenants and one property has been sold for a gain on sale of $1.9 million.

Looking forward, the near-term leasing outlook remains positive: at year-end, the Company's portfolio was almost 100% occupied and just 7.4% of contract rent is due to expire during 2018 (as at 31 December 2016: 11.2% was due to expire during 2017). Of that 7.4% of contract rent, expiries at PFI's Carlaw Park asset in Parnell represent 3.2%, the leasing of that space being a key priority in 2018.

Around 68% of PFI's portfolio is subject to some form of lease event during 2018. PFI will continue to access projected market rental growth as approximately 25% of those lease events[6] are market related.

Divestments, acquisitions and development
2017 has been a busy year of divestments and acquisitions for PFI.

The sale of PFI's vacant industrial property at 27 Zelanian Drive, East Tamaki, settled in February 2017. Also in February 2017, the Company purchased a $14.2 million[7] industrial property at 11 Turin Place, East Tamaki.

In May 2017, the Company accepted an unsolicited offer to sell its property at 65 Hugo Johnston Drive, Penrose, for a gross sales price of $14.3 million.

In October 2017, PFI secured a portfolio of eight industrial properties and one head office for an acquisition price of $70.0 million. The portfolio has occupancy of 100% and was acquired on a passing yield of 7.22%. The WALT of the portfolio – 13.9 years on acquisition – increased PFI's overall WALT by more than half a year. The portfolio acquisition was settled on 31 October 2017 and has been successfully integrated into PFI's operations.

In speaking about the portfolio acquisition, PFI General Manager Simon Woodhams noted: "In addition to the immediate benefits of this transaction, the acquisition provides PFI with significant medium to

[6] Being ~17% of total contract rent.
[7] Net purchase price.

long-term development potential as a result of low site coverage of approximately 25% across the nine sites."

Tenant commitment continues to be sought for the Company's new 2,500 sqm warehouse to be built on surplus land at 212 Cavendish Drive, Manukau.

Market update

At a macro level, ANZ retain a broadly positive medium-term expectation: they forecast of annual growth of "up towards 3% by the end of 2018, and averaging 2½-3% over the next couple of years overall" and note that this is effectively the average rate of growth experienced since 2010.

In their December 2017 Auckland Market Outlook, CBRE note that for industrial property "… structural economic changes [are] supporting demand and the supply outlook [is] remaining fairly well balanced relative to our absorption forecasts."

They go on to say that "… secondary industrial continues as the market with the best return outlook, largely driven by favourable supply and demand conditions underpinning relatively good rent growth." Their forecast of annual returns over the next five years totals 11.9% per annum, comprising an income return of 6.5% and capital growth of 5.4%.

Prime industrial ranks seventh out of 12 property classes in their forecasts, with annual returns over the next five years expected to total 8.8% per annum, comprising an income return of 5.6% and capital growth of 3.2%. They note that prime industrial's very firm cap rates provide "…limited potential for further firming to influence its return rankings."

Governance changes

The PFI Board is also pleased to announce the appointment of David Thomson to the Board as an Independent Director, with effect from today.

David is a senior partner and member of the Board of Management at law firm Buddle Findlay, where he runs a broad corporate and commercial law practice, with particular expertise in mergers and acquisitions. He advises a wide range of local and international businesses and public-sector clients including Auckland Council, Panuku Development Auckland, The University of Auckland and Te Papa.

David was raised in Christchurch, where he completed commerce and law degrees at the University of Canterbury. He then practiced law in Wellington and London, before returning to Buddle Findlay in 2000 and becoming a partner of the firm in Auckland in 2002.

"We're delighted David has agreed to bring his expertise and experience to the PFI Board," said PFI Chairman Peter Masfen. "Through his clients, he has an active involvement in a wide variety of sectors, especially in matters concerning the growth of Auckland, as well as experience guiding companies through change. He brings a valuable and fresh perspective."

Please refer to the separate announcement made today for further details.

Strategy and outlook

2017 represented a significant year for PFI: a major acquisition funded by a rights offer, the Company's inaugural retail bond offer and the internalisation of management were all successfully concluded, and the Company has ended the year with improved operating and financial metrics.

Simon Woodhams notes: "PFI has ended 2017 in great shape, with significant balance sheet capacity to opportunistically pursue both core and value-add industrial acquisitions."

PFI Deputy Chairman Anthony Beverley concludes: “If you look at a number of our recent transactions, particularly the TIL transaction, and the earlier Sistema transaction, you see PFI operating at a scale that for a long time it didn’t have. And yet strategically nothing has changed: the yardstick has always been maintaining and growing earnings per share.”

“In 2018, we remain focused on investing in quality industrial property in New Zealand’s main centres. Our internalised team will continue to drive shareholder returns by actively managing vacancy and upcoming lease expiries, maximising utilisation of the portfolio and divesting of non-core assets when value has been maximised.”

ENDS

ABOUT PFI & CONTACT

PFI is New Zealand’s only listed company specialising in industrial property. PFI’s nationwide portfolio of 92 properties is leased to 148 tenants.

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Attachments

NZX Appendix 1 – 12ME 31 December 2017
NZX Appendix 1 – 12ME 31 December 2017 – Financial Statements
NZX Appendix 7 – 12ME 31 December 2017
NZX Annual Results Presentation – 12ME 31 December 2017

Appendices

Appendix 1 – Funds From Operations (FFO) and Adjusted Funds From Operations (AFFO)

Funds / Adjusted Funds From Operations **(unaudited, $000, unless noted)**	**For the year ended 31 December 2017**	**For the year ended 31 December 2016**
Profit and total comprehensive income after income tax attributable to the shareholders of the Company	**51,684**	**123,412**
Adjusted for:		
Fair value gain on investment properties	(43,595)	(88,214)
Material damage insurance income	(504)	-
Gain on disposal of investment properties	(1,949)	(302)
Fair value loss / (gain) on derivative financial instruments	1,230	(433)
Amortisation of tenant incentives	2,287	1,973
Straight lining of fixed rental increases	(490)	(607)
Deferred taxation	(2,142)	136
Termination of management agreement	42,869	-
Current taxation without deductibility of termination of management agreement	(10,010)	-
Funds from operations (FFO)	**39,380**	**35,965**
FFO per share (cents)	**8.57**	**7.99**
FFO dividend pay-out ratio (%)	**87%**	**92%**
Maintenance capex	(2,641)	(2,962)
Incentives and leasing fees given for the year	(2,316)	(1,729)
Other	(12)	(12)
Adjusted funds from operations (AFFO)	**34,411**	**31,262**
AFFO per share (cents)	**7.49**	**6.95**
AFFO dividend pay-out ratio (%)	**99%**	**106%**

Appendix 2 – Earnings and net tangible assets excluding the impact of the internalisation payment, net of tax

Adjusted earnings per share (unaudited, $000, unless noted)	**For the year ended 31 December 2017**	**For the year ended 31 December 2016**
Total comprehensive income attributable to the shareholders of the Company	**51,684**	**123,412**
Adjusted for internalisation:		
Termination of management agreement	42,869	-
Tax benefit of termination of management agreement	(12,003)	-
Adjusted total comprehensive income attributable to the shareholders of the Company	**82,550**	**123,412**
Weighted average number of ordinary shares (shares)	**459,600,237**	**450,078,636**
Adjusted basic and diluted earnings per share (cents)	**17.96**	**27.42**

Adjusted net tangible assets per share (unaudited, $000, unless noted)	**As at 31 December 2017**	**As at 31 December 2016**
Net tangible assets	**813,857**	**727,052**
Adjusted for internalisation:		
Termination of management agreement	42,869	-
Tax benefit of termination of management agreement	(12,003)	-
Adjusted net tangible assets	**844,723**	**727,052**
Closing shares on issue (shares)	**498,723,330**	**452,458,592**
Adjusted net tangible assets per share (cents)	**169.4**	**160.7**

Appendix 3 – Revised Dividend Policy

The dividend policy of the Property for Industry Limited Group (the Group) is to distribute between 80% to 90% of Funds From Operations (FFO) and 95% to 100% of Adjusted Funds From Operations (AFFO).

FFO and AFFO are non-GAAP financial information and are common investor metrics. They are calculated in accordance with the guidelines issued by the Property Council of Australia.

To provide sufficient flexibility for dividends to be maintained or normalised despite variations in FFO and AFFO, the payout ratios may be decreased or increased from time to time.

In fixing a dividend for any period, consideration will be given to, amongst other things, the Group's current and forecast financial performance and position, general business and financial conditions, and the solvency requirements of the Companies Act.

Dividends are paid quarterly, the payment of dividends is not guaranteed by the Group, and the Group's dividend policy may change from time to time.