

investore

Managed by Stride Investment
Management Limited

Interim Report
For the six months ended
30 September 2017

Contents

1	Highlights
2	About Investore
8	Chairman's Report
10	Manager's Report
12	Interim Financial Statements
32	Corporate Directory

Highlights

**Profit after
income tax** **\$11.6m**, up \$9.3m¹

**Distributable profit²
after income tax** **\$10.4m**, up \$3.0m¹

**Cash dividend
guidance for FY18** **7.46cps**

**Investment
property values** **\$663m**

**Bank loan to
value ratio** **39.4%**

Occupancy **99.9%**

WALT³ **13.8 years**

1. Compared to prior six month period to 30 September 2016.

2. Distributable profit is a non-GAAP measure and consists of profit/(loss) before income tax, adjusted for non-recurring and/or non-cash items (including non-recurring adjustments for incentives payable to anchor tenants for lease extensions) and current tax. Further information including the calculation of the distributable profit and the adjustments to profit before income tax, is set out in note 5 to the Interim Financial Statements on page 19.

3. Weighted Average Lease Term (WALT).

About Investore

Investore Property Limited (Investore) is performing in line with forecasts set out at the time of listing and delivering solid results to shareholders.

Investore occupies a unique position in the New Zealand publicly-listed property sector with its sole focus on standalone large-format retail properties. Initially incorporated in 2015 as a subsidiary of Stride Property Limited (Stride), Investore was strategically demerged from Stride and listed on the NZX Main Board securities market in July 2016. Since then, the performance of Investore's investment properties has been in line with the prospective financial information contained in Investore's Product Disclosure Statement at the time of its IPO. The portfolio is managed by Stride Investment Management Limited (SIML), a company forming part of Stride Property Group, which is listed on the NZX.

Investore has been designated as a "Non-Standard" (NS) issuer by NZX Limited (NZX). A copy of the waivers granted by NZX in respect of Investore can be found at www.nzx.com/companies/IPL. Further waivers granted by NZX which relate to Investore can be found at www.nzx.com/companies/SPG.

Through its portfolio of quality standalone large-format retail properties, Investore provides shareholders with stable

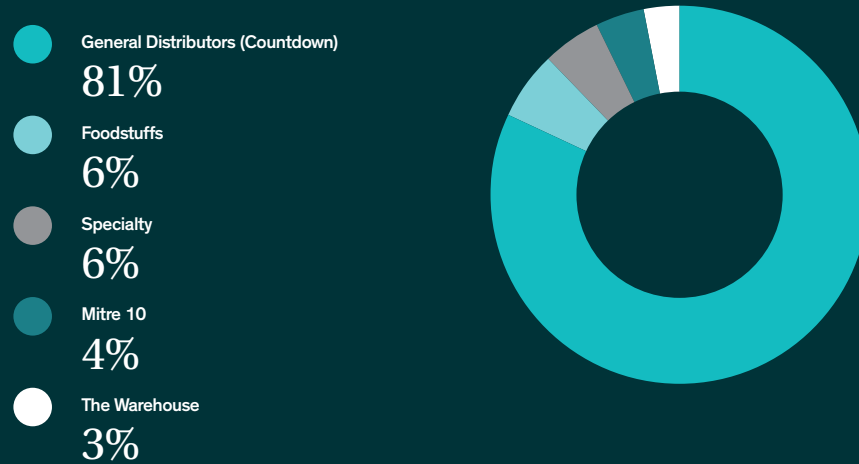
and enduring returns from a segment of the property sector that plays a significant role in the day-to-day lives of New Zealanders. Anchor tenants are nationally recognised tenants that seek long-term leases in visible and easily accessible urban locations. They typically occupy more than 50% of the net lettable area of the property, and are supported by a small number of specialty tenants at each property.

The anchor tenants are nationally recognised retailers operating in the grocery, bulk goods retailing, general merchandise, hardware and home maintenance, and convenience retailing sectors. Consumer demand for these products is consistent and current growth projections, particularly in New Zealand's urban areas, are encouraging for Investore's shareholders.

The resilient and stable rental income, derived from standalone large format retail properties, can be reliably forecast over the medium to long-term and is more resistant to changes in the wider market. This makes Investore a particularly attractive investment option for those seeking returns balanced with constancy and steadiness.

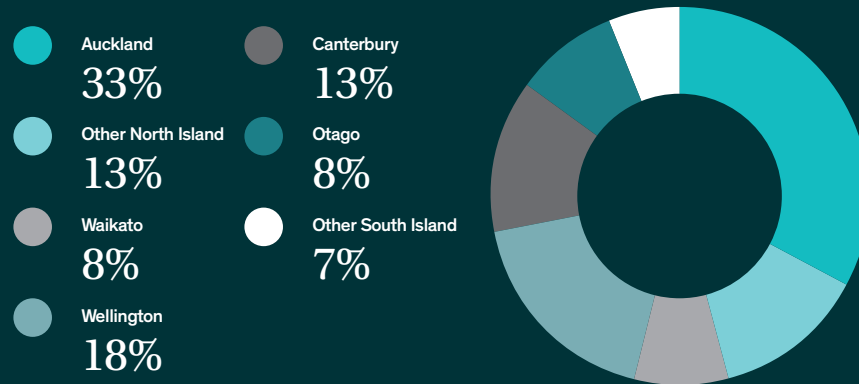
Tenant diversification of Investore Portfolio

based on Contract Rental¹ as at 30 September 2017



Geographic diversification of Investore Portfolio

based on Contract Rental¹ as at 30 September 2017



1. Contract Rental is the amount of rent payable by each tenant, plus other amounts payable by that tenant under the terms of the relevant leases as at 30 September 2017, annualised for the 12 month period on the basis of the occupancy level for the relevant property as at 30 September 2017, and assuming no default by the tenant.

The physical distribution is well placed to take advantage of the continuing population shift into regional New Zealand, as well as benefiting from the rapid population growth of the main centres.

Major tenants include:

- General Distributors (Countdown)
- Foodstuffs
- Mitre 10
- The Warehouse

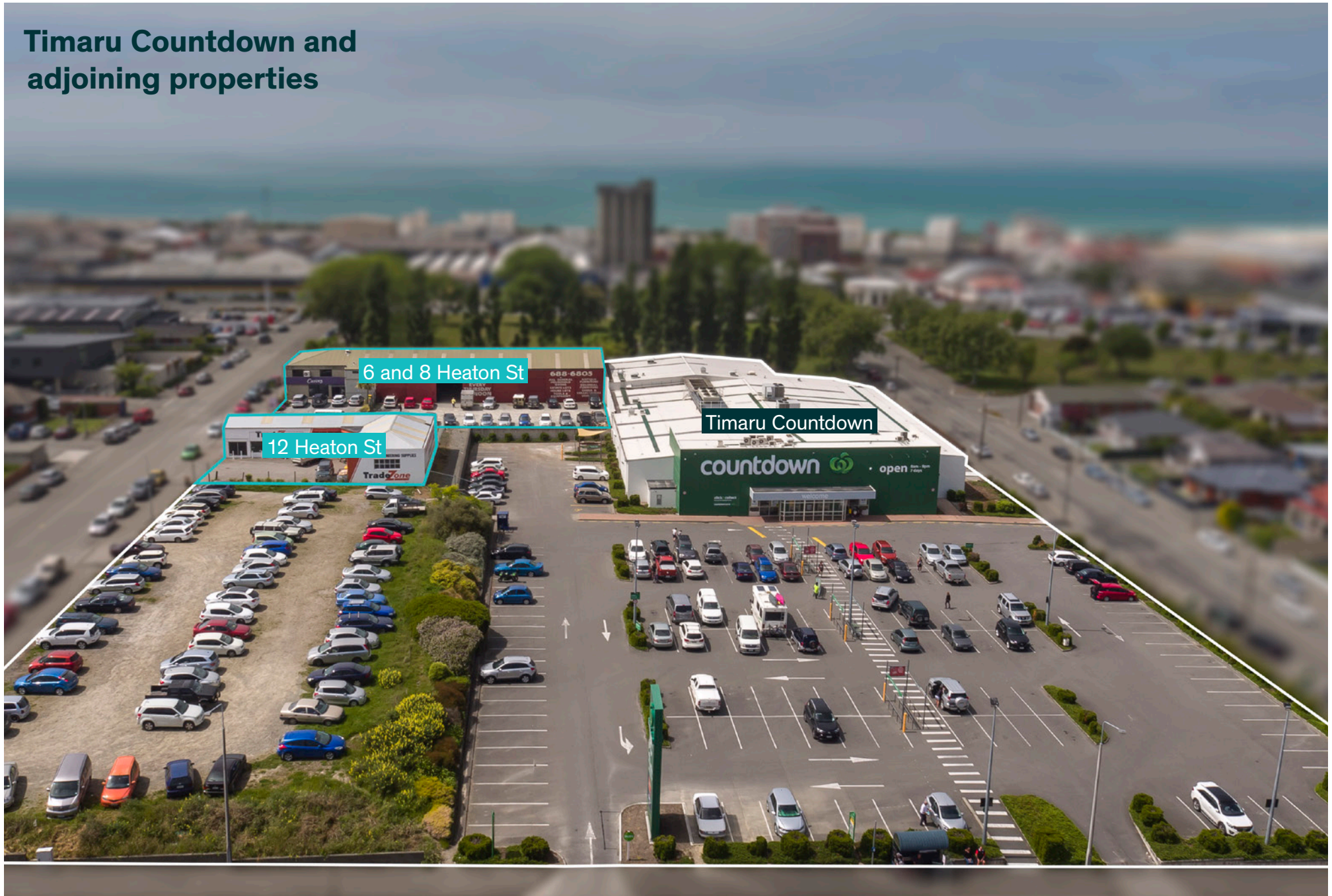
Specialty retailers comprise the balance of tenancies.

The illustration on page 4 highlights the geographic diversification of Investore's property portfolio, with an emphasis on the rapidly growing greater Auckland region, the urban areas of Wellington and Christchurch, and a strong representation in developing regions.

Typically, Investore's properties:

- have an anchor tenant occupying more than 50% of the net lettable area, usually more than 2,000m²
- feature no more than 15 specialty tenants
- all have long weighted-average lease terms (WALT)
- are low-maintenance, single floor, large, free-standing and rectangular on a concrete slab
- have easy vehicle access and ample car parking facilities; and
- have leases structured to provide stable income, net of operating costs.

Timaru Countdown and adjoining properties



Chairman's Report

Investore's portfolio is in excellent shape and the company is poised to take advantage of the positive market conditions for new investment opportunities in the foreseeable future.

Investore has now been a listed entity for over a year. The results for the first half of the FY18 financial year are in line with forecasts set out at the time of listing.

During the period, refurbishments were carried out by the tenant on five properties located at Rangiora,

Upper Hutt, Timaru, St James Hamilton, and Kaiapoi. SIML is working with the tenant to co-ordinate and where appropriate fund refurbishments subject to a corresponding increase in rental income. To date, one refurbishment has been completed costing \$728,000 with a corresponding rental increase of \$76,806 per annum.

Investore recently completed the development of two new retail units in Invercargill and new development opportunities exist for recently acquired sites adjacent to an existing property in Timaru.

Post balance date, Investore announced the acquisition of three Bunnings properties at Hamilton, Rotorua and Palmerston North, for \$78.5 million. The acquisition of the Bunnings properties will provide diversification to the tenant mix, with Bunnings equating to 10% of the portfolio contract rental, and the new twelve year lease terms will provide a higher proportion of structured growth into Investore's portfolio with fixed 2.5% per annum rental uplifts. The acquisition remains subject to shareholder approval, with the meeting expected to occur early in 2018.

In combination with this proposed acquisition, Investore is considering a range of capital management initiatives, which include options around the implementation of a share buy-back scheme and a bond issue, and repositioning of the portfolio

to enhance shareholder returns by optimising its capital structure.

An important feature of Investore's corporate structure is its Board of Directors, which includes Independent Directors Mike Allen and Kate Healy. At Investore's Annual Meeting of Shareholders, held on 8 September 2017, the shareholders approved amending Investore's Constitution to permit the appointment of another independent director to increase the independent representation on the Board for the benefit of shareholders and the company, and this process has now commenced.

The Board of Investore confirms guidance for the company's annual cash dividend for FY18 at 7.46cps. This is in line with the indicative range provided in the disclosure information prior to Investore's listing. The second quarterly dividend of 1.86cps is due to be paid on 19 December 2017.

I look forward to reporting our full year's results to you at the conclusion of the FY18 year.



Mike Allen
Chairman

Manager's Report

Investore Property Limited has grown from a strong beginning, managed by professionals with extensive experience in the property sector.

Stride Investment Management Limited (SIML) has actively supported the growth of Investore since its strategic divestment from Stride Property Limited, and continues to see significant potential for the company. SIML, as Manager, is pleased that Investore's shareholders are receiving returns in line with the forecasts when Investore listed on the NZX in July 2016. A key part of SIML's role is to actively manage the properties to increase their value and income growth prospects. This programme compliments the improvements made by tenants themselves and continues to be a key factor in lifting the overall value of Investore's property portfolio.

The company's net rental income was \$22.2 million, corporate expenses were contained to \$2.7 million, and profit before other income and income tax was \$13.6 million for the six months to 30 September 2017. Investore will provide a comparison of its FY18 results against

the prospective financial information contained in the Product Disclosure Statement dated 10 June 2016, when it releases its annual results for the full year ended 31 March 2018.

Long weighted average lease terms (WALT) are a feature of this sector of the property market and, at 30 September 2017, more than two thirds of the leases in Investore's property portfolio run until 2033 or beyond.

These are very positive fundamentals on which to build for the future. As further investment opportunities arise, they will be evaluated and presented to the Board of Investore. In the meantime, the existing portfolio will be regularly reviewed and rebalanced to ensure that its performance is consistent with Investore's primary investment objective.



Philip Littlewood
Chief Executive Officer
Stride Investment Management Limited

Interim Financial Statements

13	Statement of Comprehensive Income
14	Statement of Changes in Equity
15	Statement of Financial Position
16	Statement of Cash Flows
17	Notes to the Financial Statements
31	Independent Review Report
32	Corporate Directory

Statement of Comprehensive Income

For the six months ended 30 September 2017

	Notes	Unaudited 6 Months 30 Sep 17 \$000	Unaudited 6 Months 30 Sep 16 \$000	Audited 12 Months 31 Mar 17 \$000
Rental income	3	23,395	14,214	37,398
Direct property operating expenses		(1,242)	(901)	(2,384)
Net rental income		22,153	13,313	35,014
Less corporate expenses				
Management fees expense	12	(2,011)	(695)	(2,653)
Administration expenses		(730)	(433)	(1,113)
Transaction costs		-	(850)	(889)
Total corporate expenses		(2,741)	(1,978)	(4,655)
Profit before net finance expenses, other income/ (expenses) and income tax		19,412	11,335	30,359
Finance income		46	35	93
Finance expense		(5,897)	(3,839)	(9,716)
Finance expense – swap break expense	9	-	(3,680)	(3,680)
Net finance expenses	4	(5,851)	(7,484)	(13,303)
Profit before other income/(expenses) and income tax		13,561	3,851	17,056
Other income/(expenses)				
Net change in fair value of investment properties	7	1,157	(934)	13,720
Profit before income tax		14,718	2,917	30,776
Income tax expense	8	(3,098)	(582)	(2,260)
Profit after income tax attributable to shareholders		11,620	2,335	28,516
Other comprehensive income:				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Movement in cash flow hedges, net of tax		(1,291)	1,056	4,058
Total comprehensive income after tax attributable to shareholders		10,329	3,391	32,574
Basic and diluted earnings per share (cents)	11	4.44	1.79	15.12

The attached notes form part of and are to be read in conjunction with these financial statements.

Statement of Changes in Equity

For the six months ended 30 September 2017

	Notes	Share capital \$000	Retained earnings \$000	Cash flow hedge reserve \$000	Total \$000
Balance 31 Mar 16 (Audited)		-	2,074	(2,050)	24
Transactions with shareholders:					
Issue of shares	11	387,615	-	-	387,615
Capital raising expenses	11	(5,368)	-	-	(5,368)
Dividends paid		-	(9,817)	-	(9,817)
Total transactions with shareholders		382,247	(9,817)	-	372,430
Other comprehensive income:					
Movement in cash flow hedges, net of tax		-	-	4,058	4,058
Total other comprehensive income		-	-	4,058	4,058
Profit after income tax		-	28,516	-	28,516
Total comprehensive income		-	28,516	4,058	32,574
Balance 31 Mar 17 (Audited)		382,247	20,773	2,008	405,028
Transactions with shareholders:					
Dividends paid		-	(10,261)	-	(10,261)
Total transactions with shareholders		-	(10,261)	-	(10,261)
Other comprehensive income:					
Movement in cash flow hedges, net of tax		-	-	(1,291)	(1,291)
Total other comprehensive income		-	-	(1,291)	(1,291)
Profit after income tax		-	11,620	-	11,620
Total comprehensive income		-	11,620	(1,291)	10,329
Balance 30 Sep 17 (Unaudited)		382,247	22,132	717	405,096
Balance 31 Mar 16 (Audited)		-	2,074	(2,050)	24
Transactions with shareholders:					
Issue of shares	11	387,615	-	-	387,615
Capital raising expenses	11	(5,366)	-	-	(5,366)
Dividends paid		-	(1,205)	-	(1,205)
Total transactions with shareholders		382,249	(1,205)	-	381,044
Other comprehensive income:					
Movement in cash flow hedges, net of tax		-	-	1,056	1,056
Total other comprehensive income		-	-	1,056	1,056
Profit after income tax		-	2,335	-	2,335
Total comprehensive income		-	2,335	1,056	3,391
Balance 30 Sep 16 (Unaudited)		382,249	3,204	(994)	384,459

The attached notes form part of and are to be read in conjunction with these financial statements.

Statement of Financial Position

As at 30 September 2017

	Notes	Unaudited 30 Sep 17 \$000	Unaudited 30 Sep 16 \$000	Audited 31 Mar 17 \$000
Current assets				
Cash and cash equivalents		2,489	3,426	4,377
Trade and other receivables		1,226	323	412
Prepayments		434	144	80
Current tax asset		-	234	-
Other current assets		696	151	404
		4,845	4,278	5,273
Non-current assets				
Investment properties	7	662,680	642,825	660,430
Derivative financial instruments	9	899	-	2,714
Property, plant and equipment		2	4	3
Deferred tax asset	8	688	769	538
		664,269	643,598	663,685
Total assets		669,114	647,876	668,958
Current liabilities				
Trade and other payables	12	2,747	1,883	2,273
Current tax liability		905	-	1,404
Derivative financial instruments	9	-	14	12
		3,652	1,897	3,689
Non-current liabilities				
Bank borrowings	10	260,366	260,153	260,241
Derivative financial instruments	9	-	1,367	-
		260,366	261,520	260,241
Total liabilities		264,018	263,417	263,930
Net assets		405,096	384,459	405,028
Share capital	11	382,247	382,249	382,247
Retained earnings		22,132	3,204	20,773
Reserves		717	(994)	2,008
Equity		405,096	384,459	405,028

For and on behalf of the Board of Directors, dated 22 November 2017:


 Mike Allen
 Chairman


 Kate Healy
 Director

The attached notes form part of and are to be read in conjunction with these financial statements.

Statement of Cash Flows

For the six months ended 30 September 2017

	Notes	Unaudited 6 months 30 Sep 17 \$000	Unaudited 6 months 30 Sep 16 \$000	Audited 12 months 31 Mar 17 \$000
Cash flows from operating activities				
Rent received		22,439	13,730	35,940
Interest received		46	35	93
Interest paid		(5,742)	(3,409)	(9,067)
Operating expenses (including goods and services tax)		(4,415)	(2,807)	(6,593)
Income tax paid		(3,222)	(1,200)	(2,175)
Net cash provided by operating activities	6	9,106	6,349	18,198
Cash flows from investing activities				
Capital expenditure on investment properties		(284)	(1,191)	(3,387)
Acquisition of investment properties		(449)	(268,310)	(268,398)
Property, plant and equipment purchased		-	(4)	(4)
NZX bond		-	(75)	(75)
Net cash applied to investing activities		(733)	(269,580)	(271,864)
Cash flows from financing activities				
Dividends paid		(10,261)	(1,205)	(9,817)
Proceeds from equity issued		-	185,000	185,000
Capital raising expenses		-	(5,366)	(5,368)
Repayment of bank borrowings		-	(160,000)	(160,000)
Drawdown of bank borrowings		-	261,000	261,000
Refinancing of bank borrowings		-	(898)	(898)
Finance expense – swap break expense	9	-	(3,680)	(3,680)
Advance from related party		-	3,396	3,396
Repayment of advance from related party		-	(11,624)	(11,624)
Net cash (applied to)/provided by financing activities		(10,261)	266,623	258,009
Net (decrease)/increase in cash and cash equivalents held		(1,888)	3,392	4,343
Opening cash and cash equivalents		4,377	34	34
Closing cash and cash equivalents		2,489	3,426	4,377

The attached notes form part of and are to be read in conjunction with these financial statements.

Notes to the Financial Statements

For the six months ended 30 September 2017

Note 1: Accounting Policies

Reporting entity

The unaudited interim financial statements ('financial statements') presented are those of Investore Property Limited (Investore). Investore is domiciled in New Zealand and is registered under the Companies Act 1993. Investore is also an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The financial statements of Investore have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules.

Investore was incorporated on 1 October 2015 as a subsidiary company of Stride Property Limited (Stride). Investore was established to invest in large format retail property throughout New Zealand.

On 11 July 2016, Stride distributed shares in Investore to Stride shareholders and Investore issued shares to investors in connection with its initial public offer (IPO). Investore entered into a listing agreement with NZX Limited (NZX) and its ordinary shares were quoted, and commenced trading on the main board equity security market of NZX, on 12 July 2016. Investore's ticker code is IPL.

The financial statements were approved for issue by the Board of Directors (the Board) on 22 November 2017.

Basis of preparation

The interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), New Zealand International Accounting Standard 34 (NZ IAS 34): *Interim Financial Reporting* and International Accounting Standard 34 (IAS 34): *Interim Financial Reporting*. The interim financial statements do not contain all the disclosures normally included in an annual financial report, and should be read in conjunction with the 2017 annual financial statements. The interim financial statements have been prepared using the New Zealand Dollar functional and reporting currency and have been rounded to the nearest thousand dollars (\$000), unless stated otherwise.

The interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain classes of assets and liabilities as identified in the specific accounting policies below and the accompanying notes.

The interim financial statements include additional comparative information beyond that required under NZ IAS 34 and IAS 34 and has been provided for information purposes for the shareholders.

Significant accounting policies, estimates and judgements

The same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements.

Notes to the Financial Statements (continued)

For the six months ended 30 September 2017

Note 2: 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, as it makes all key strategic resource allocation decisions (such as those concerning acquisition, divestment and significant capital expenditure). Investore is reported as a single operating segment, being large format retail properties.

Investore's revenue streams are earned from investment properties owned in New Zealand, with no specific exposure to geographical risk. One tenant, General Distributors Limited (Countdown), contributes 81% of Investore's portfolio contract rental as at 30 September 2017 (30 Sep 2016: 82%, 31 Mar 2017: 82%).

Note 3: Rental Income

	Unaudited 6 months 30 Sep 17 \$000	Unaudited 6 months 30 Sep 16 \$000	Audited 12 months 31 Mar 17 \$000
Rental income	22,847	13,906	36,542
Spreading of fixed rental increases	548	308	856
	23,395	14,214	37,398

Note 4: Net Finance Expenses

Interest income is recognised on a time-proportional basis using the effective interest rate.

	Unaudited 6 months 30 Sep 17 \$000	Unaudited 6 months 30 Sep 16 \$000	Audited 12 months 31 Mar 17 \$000
Finance income			
– Bank interest income	46	35	93
Finance expense			
Interest expense:			
– Bank borrowings interest	(5,897)	(3,715)	(9,592)
– Other finance expenses	-	(124)	(124)
	(5,897)	(3,839)	(9,716)
Swap break expense (note 9)	-	(3,680)	(3,680)
Net finance expenses	(5,851)	(7,484)	(13,303)

Notes to the Financial Statements (continued)

For the six months ended 30 September 2017

Note 5: Distributable Profit

Investore's dividend policy is to target a cash dividend to shareholders that is between 95% and 100% of its distributable profit. Distributable profit is a non-GAAP measure and consists of profit/(loss) before income tax, adjusted for non-recurring and/or non-cash items (including non-recurring adjustments for incentives payable to anchor tenants for lease extensions) and current tax as follows:

	Unaudited 6 months 30 Sep 17 \$000	Unaudited 6 months 30 Sep 16 \$000	Audited 12 months 31 Mar 17 \$000
Profit before income tax	14,718	2,917	30,776
Non-recurring and non-cash adjustments:			
– Net change in fair value of investment properties	(1,157)	934	(13,720)
– Spreading of fixed rental increases	(548)	(308)	(856)
– Refinancing cost amortisation	125	302	454
– Depreciation	1	-	-
– Finance expense – swap break expense	-	3,680	3,680
– One-off transaction costs	-	850	889
Distributable profit before income tax	13,139	8,375	21,223
Current tax expense	(2,746)	(966)	(3,580)
Distributable profit after income tax	10,393	7,409	17,643
Pre-demerger distributable profit after income tax	-	2,912	2,912
Post-demerger distributable profit after income tax	10,393	4,497	14,731
Distributable profit after income tax	10,393	7,409	17,643
Adjustments to funds from operations:			
– Maintenance capital expenditure	(79)	(542)	(1,350)
Adjusted Funds From Operations (AFFO)	10,314	6,867	16,293
Weighted average number of shares for purpose of basic and diluted distributable profit per share (000)	261,772	130,886	188,619
Basic and diluted distributable profit after income tax per share – weighted (cents)	3.97	5.66	9.35
AFFO basic and diluted distributable profit after income tax per share – weighted (cents)	3.94	5.25	8.64

Notes to the Financial Statements (continued)

For the six months ended 30 September 2017

Note 6: Statement of Cash Flows Reconciliation

	Unaudited 6 months 30 Sep 17 \$000	Unaudited 6 months 30 Sep 16 \$000	Audited 12 months 31 Mar 17 \$000
Reconciliation of profit after income tax attributable to shareholders to net cash flows from operating activities:			
Profit after income tax attributable to shareholders	11,620	2,335	28,516
Add/(less) non-cash items:			
Movement in deferred tax (note 8)	352	(384)	(1,320)
Net change in fair value of investment properties	(1,157)	934	(13,720)
Amortisation of borrowing costs	125	(596)	(446)
Depreciation	1	-	-
Spreading of fixed rental increases	(548)	(308)	(856)
	10,393	1,981	12,174
Add/(less) activity classified as investing activity:			
Movement in working capital items relating to investing activities	187	-	(180)
	10,580	1,981	11,994
Add activities classified as financing activity:			
Refinancing of bank borrowings	-	898	898
Finance expense – swap break expense	-	3,680	3,680
	10,580	6,559	16,572
Movement in working capital:			
Increase in trade and other receivables	(814)	(211)	(300)
(Increase)/decrease in prepayments and other current assets	(646)	22	(167)
Increase in trade and other payables	485	917	1,393
(Decrease)/increase in tax payable	(499)	(938)	700
Net cash provided by operating activities	9,106	6,349	18,198

Notes to the Financial Statements (continued)

For the six months ended 30 September 2017

Note 7: Investment Properties

	Unaudited 6 months 30 Sep 17 \$000	Unaudited 6 months 30 Sep 16 \$000	Audited 12 months 31 Mar 17 \$000
Opening balance	660,430	287,000	287,000
Acquisitions	430	-	-
Reduction in purchase price	(711)	-	-
Property acquisition costs	19	910	937
Subsequent capital expenditure	807	1,191	3,567
Spreading of fixed rental increases	548	308	856
Net change in fair value	1,157	(934)	13,720
Stride Property Group investment properties transferred	-	86,950	86,950
SCA investment properties acquired	-	267,400	267,400
Closing balance	662,680	642,825	660,430

On 19 July 2017, Investore acquired the property at 12 Heaton Street, Timaru, for \$430,000. This site is immediately adjacent to the property already owned by Investore at the corner of Victoria & Browne Streets, Timaru. The combined sites are reported as 'corner Victoria & Browne Streets, Timaru'.

Subsequent to balance date, Investore acquired the properties at 6 and 8 Heaton Street, Timaru, for \$957,280 (note 14).

When Investore purchased the property at 35a St Johns Road, Auckland, there was an amount held in retention, relating to an operating expense recovery shortfall. The retention had a release period of 24 months from the date of the agreement, and elapsed on 22 September 2017, resulting in a reduction in the purchase price. The retention of \$711,168 was outstanding as at 30 September 2017, and has been recorded in trade and other receivables.

Capital expenditure consists of fit-outs and other physical enhancements to the investment properties, with ownership of such capital amounts being retained by Investore.

Capital expenditure commitments contracted for

As at 30 September 2017, Investore had the following major commitments:

- \$2,971,452 (30 Sep 2016: \$1,404,455, 31 Mar 2017: \$nil) in total for various capital expenditure works to be undertaken on a number of investment properties over the next twelve months.

Subsequent to balance date, Investore has committed to a further \$1,933,646 in total for various capital expenditure works to be undertaken on a number of investment properties in this financial period.

Notes to the Financial Statements (continued)

For the six months ended 30 September 2017

Note 7: Investment Properties (continued)

Valuation basis

The Board has reviewed the fair value of the investment properties as at 30 September 2017 on an asset by asset basis after considering recent comparable transactional evidence of market sales and leasing activity and is satisfied that there has been no significant change to the overall carrying value, other than the following investment property which was subject to an independent valuation due to the acquisition of the adjacent site and significant capital expenditure works undertaken.

		Unaudited 30 Sep 17 \$000	Audited 31 Mar 17 \$000
Corner Victoria & Browne Streets, Timaru	Savills	11,210	8,960

This valuation was performed by an independent registered valuer, Savills (NZ) Limited (Savills), who holds an annual practising certificate with the Valuers Registration Board and is a member of the New Zealand Institute of Valuers. The valuation is dated effective 30 September 2017. Valuers are engaged on terms ensuring no valuer values the same investment property for more than three consecutive years.

With regard to this investment property, the valuer took into account:

- occupancy (leased area as a proportion of the total net lettable area) (100% at balance date);
- average lease term (weighted average lease term (WALT) at balance date is 16.72 years); and
- discount rate (7.79%).

The capitalisation rate was 6.04%.

Investment property measurements are categorised as Level 3 in the fair value hierarchy as inputs for the valuations are not based on observable market data. During the period, there were no transfers of investment properties between levels of the fair value hierarchy.

Notes to the Financial Statements (continued)

For the six months ended 30 September 2017

Note 8: Income Tax

Current and deferred tax is calculated on the basis of the laws enacted or substantively enacted at the reporting date.

	Unaudited 6 months 30 Sep 17 \$000	Unaudited 6 months 30 Sep 16 \$000	Audited 12 months 31 Mar 17 \$000
The income tax expense is represented by			
Current tax	(2,746)	(966)	(3,580)
Deferred tax	(352)	384	1,320
Income tax expense per the statement of comprehensive income	(3,098)	(582)	(2,260)
Profit before income tax	14,718	2,917	30,776
Prima facie income tax using the company tax rate of 28%	(4,121)	(817)	(8,618)
Adjustment to income tax due to:			
Net change in fair value of investment properties	324	(261)	3,842
Non-taxable income	154	87	240
Depreciation	935	801	1,767
Non-deductible expenses	(7)	(227)	(262)
Temporary differences	(31)	(45)	(45)
Finance expenses – swap break expense	–	(504)	(504)
Current tax expense	(2,746)	(966)	(3,580)
Depreciation	(383)	329	1,276
Other	31	55	44
Deferred tax (charged)/credited to profit or loss	(352)	384	1,320
Income tax expense per the statement of comprehensive income	(3,098)	(582)	(2,260)
Gross movement in net deferred tax liability			
Opening balance	538	796	796
(Charged)/credited to profit or loss	(352)	384	1,320
Credited/(charged) to other comprehensive income	502	(411)	(1,578)
Closing balance	688	769	538

Notes to the Financial Statements (continued)

For the six months ended 30 September 2017

Note 8: Income Tax (continued)

	Audited 12 Months 31 Mar 17 \$000	Recognised in profit or loss \$000	Recognised in other comprehensive income \$000	Unaudited 6 months 30 Sep 17 \$000	Unaudited 6 months 30 Sep 16 \$000
Deferred tax assets					
Depreciation on investment properties	1,264	(383)	-	881	329
Other temporary differences	54	31	-	85	53
Derivative financial instruments	-	-	-	-	387
	1,318	(352)	-	966	769
Deferred tax liabilities					
Derivative financial instruments	(780)	-	502	(278)	-
	(780)	-	502	(278)	-

Note 9: Derivative Financial Instruments

	Unaudited 6 months 30 Sep 17 \$000	Unaudited 6 months 30 Sep 16 \$000	Audited 12 months 31 Mar 17 \$000
Total active interest rate derivative contracts (notional)	230,000	190,000	220,000

At 30 September 2017, the fixed interest rates ranged from 2.19% to 3.01% (30 Sep 2016: 2.18% to 2.54%, 31 Mar 2017: 2.18% to 3.01%), and the weighted average interest rate was 2.48% (30 Sep 2016: 2.33%, 31 Mar 2017: 2.42%). Gains and losses recognised in the cash flow hedge reserve in equity (note 11) on interest rate derivative contracts as at 30 September 2017 will be reclassified in the same period in which the hedged forecast cash flows affect profit or loss, until the repayment of the bank borrowings.

As at 30 September 2017, the fair value of the interest rate derivatives was \$899,351 (30 Sep 2016: (\$1,381,012), 31 Mar 2017: \$2,702,054).

The fair values of interest rate derivatives are determined from valuations prepared by independent treasury advisors using valuation techniques classified as Level 2 in the fair value hierarchy (30 Sep 2016: Level 2, 31 Mar 2017: Level 2). These are based on the present value of estimated future cash flows based on the terms and maturities of each contract and the current market interest rates as at balance date. Fair values also reflect the current creditworthiness of the derivative counterparties. The valuations were based on market rates at 30 September 2017 of between 1.96%, for the 90-day BKBM, and 3.27%, for the 10-year swap rate (30 Sep 2016: 2.20% and 2.44%, 31 Mar 2017: 2.00% and 3.45%).

As at 30 September 2017, the percentage of drawn debt hedged was 88% (30 Sep 2016: 73%, 31 Mar 2017: 84%).

On 12 July 2016, Investore broke interest rate swaps with a notional value of \$110 million for a cost of \$3,679,860.

Notes to the Financial Statements (continued)

For the six months ended 30 September 2017

Note 10: Bank Borrowings

	Unaudited 6 months 30 Sep 17 \$000	Unaudited 6 months 30 Sep 16 \$000	Audited 12 months 31 Mar 17 \$000
Non-current			
Facility drawn down	261,000	261,000	261,000
Borrowing costs	(634)	(847)	(759)
Total borrowings	260,366	260,153	260,241
Facility drawn down	261,000	261,000	261,000
Undrawn facility available	109,000	109,000	109,000
Total facility available	370,000	370,000	370,000
Weighted average interest rate for debt (inclusive of current interest rate derivatives, margins and line fees) at balance date	4.47%	4.36%	4.40%

Investore's bank facility consists of Facility A for \$165 million expiring 9 June 2019, Facility B for \$165 million expiring 9 June 2021 and Facility C for \$40 million expiring 9 June 2020. Investore's secured borrowings are via syndicated senior secured facilities with ANZ Bank New Zealand Limited, Bank of New Zealand, Commonwealth Bank of Australia and Westpac New Zealand Limited. The bank security on the facilities is managed through a security agent who holds a first registered mortgage on all the investment properties owned by Investore and a registered first ranking security interest under a General Security Deed over substantially all the assets of Investore. The interest rate on the facility was 2.94% as at 30 September 2017 (30 Sep 2016: 3.27%, 31 Mar 2017: 3.05%).

Investore's debt facilities are subject to the following key covenants:

- The bank loan to value ratio (LVR) will not exceed 65%. Investore's debt margins are structured to increase if the LVR exceeds 55%, with a further step up if the LVR exceeds 60%. If the LVR exceeds 65%, Investore's facility agreement permits Investore time to resolve the LVR breach by way of asset disposals or raising additional equity.
- The ratio of earnings before interest and tax to total interest and financing costs must be greater than 1.75 times. Investore received a waiver from the syndicate to exclude the cost of \$3,679,860 for breaking the interest rate swaps from this ratio on the 30 September 2016 and 31 March 2017 calculation dates.
- The WALT is at all times greater than six years.

Investore has been compliant with bank covenants during the relevant periods.

Notes to the Financial Statements (continued)

For the six months ended 30 September 2017

Note 11: Equity

Share Capital	\$000
Opening balance 31 Mar 16 (Audited)	-
Issue of shares	387,615
Capital raising expenses	(5,366)
Balance 30 Sep 16 (Unaudited)	382,249
Capital raising expenses	(2)
Balance 31 Mar 17 (Audited)	382,247
Current period transactions	-
Closing balance 30 Sep 17 (Unaudited)	382,247
	Shares
	000
Number of shares on issue	-
Opening balance 31 Mar 16 (Audited)	-
Issues of shares to Stride shareholders prior to the demerger	91,114
Issue of shares to Stride prior to demerger	46,496
New capital raised on market	124,162
Closing balance 30 Sep 16 (Unaudited)	261,772
Closing balance 31 Mar 17 (Audited)	261,772
Closing balance 30 Sep 17 (Unaudited)	261,772

There is only one class of shares, being ordinary shares, and they rank equally with each other. All issued shares are fully paid and have no par value.

Investore has appointed Stride Investment Management Limited (SIML) as its exclusive provider of ongoing real estate investment management services. The management agreement between Investore and SIML and Investore's Constitution each provide that, for such time as SIML is the manager of Investore, SIML will have the right to appoint two directors to the Investore Board. Tim Storey and John Harvey have been appointed to the Investore Board by SIML under this right.

Ordinarily, all directors of a company that has its shares quoted on the NZX Main Board would be elected by shareholders by way of ordinary resolution, but NZX has issued a waiver to Investore which permits SIML to have the right to appoint two directors to the Investore Board. NZX has also issued a waiver to allow the directors appointed by SIML to vote on resolutions of the Board to the extent that those directors are restricted from voting on the grounds that they are "interested" (as defined in the Companies Act 1993) in the matter solely due to being directors of SIML but for no other reason. The chairperson of the Board is a director elected by shareholders not associated with SIML.

Notes to the Financial Statements (continued)

For the six months ended 30 September 2017

Note 11: Equity (continued)

The Investore Board proposed to amend Investore's Constitution at the Annual Meeting of Shareholders, held on 8 September 2017, to allow for an additional independent director to be appointed. These amendments were approved by shareholders at the Annual Meeting and Investore's Constitution was amended. A copy of the amended Constitution is available on Investore's website.

In summary, the key amendments made to the Constitution were to provide that:

- the Board will consist of a minimum of four directors and a maximum of five directors;
- where the Board consists of four directors, at least two of the directors must be independent of SIML;
- where the Board consists of five directors, at least three of the directors must be independent of SIML;
- the quorum for meetings of the Board will be three directors, irrespective of whether the directors have been appointed by SIML or by shareholders; and
- written resolutions of the Board will be valid if signed by 75% or more of the directors.

An issuer which does not comply with all of the requirements of the NZX Listing Rules may be granted listing with the designation 'Non-Standard' or 'NS'. A term of the waiver granted to Investore to permit SIML to have the right to appoint two directors was that Investore would be given a Non-Standard Designation upon its listing and the quotation of its shares.

As at 30 September 2017, Stride has a cornerstone shareholding in Investore of 19.9%, being 52,091,786 shares. Stride is not subject to any escrow arrangements that prevent it from selling or otherwise disposing of any shares that it holds. However, Stride advised Investore in June 2016 that it had no present intention to sell or otherwise dispose of any of the 19.9% shareholding in Investore. Other than in the case of a proposed transaction affecting Investore shareholders generally, Stride does not intend to review its optimal shareholding level in Investore until 1 April 2018 at the earliest.

Notes to the Financial Statements (continued)

For the six months ended 30 September 2017

Note 11: Equity (continued)

Basic and diluted earnings per share

Basic and diluted earnings per share amounts are calculated by dividing profit after income tax attributable to shareholders by the weighted average number of shares on issue.

	Unaudited 6 months 30 Sep 17 \$000	Unaudited 6 months 30 Sep 16 \$000	Audited 12 months 31 Mar 17 \$000
Profit after income tax attributable to shareholders	11,620	2,335	28,516
Weighted average number of shares for purpose of basic and diluted earnings per share	261,772	130,886	188,619
Basic and diluted earnings per share – weighted (cents)	4.44	1.79	15.12
Reserves			
Cash flow hedge reserve			
Opening balance	2,008	(2,050)	(2,050)
Movement in fair value of interest rate derivatives	(1,793)	(583)	2,788
Tax on fair value movement	502	(411)	(780)
Reclassification to profit or loss – swap break expense	-	2,050	2,050
Closing Balance	717	(994)	2,008

Notes to the Financial Statements (continued)

For the six months ended 30 September 2017

Note 12: Related Party Disclosures

	Unaudited 6 months 30 Sep 17 \$000	Unaudited 6 months 30 Sep 16 \$000	Audited 12 months 31 Mar 17 \$000
The following transactions with a related party took place			
Stride Investment Management Limited (SIML)			
Asset management fee expense	(1,816)	(618)	(2,386)
Building management fee expense	(195)	(77)	(267)
Management fee expense	(2,011)	(695)	(2,653)
Accounting fee expense	(125)	(55)	(180)
Project management fee expense	(7)	(39)	(131)
Leasing fee expense	(29)	-	(137)
Maintenance fee expense	(9)	-	(10)
Stride Property Limited			
Advance repaid to parent (prior to initial public offering)	-	(11,624)	(11,624)
Demerger dividend paid	-	(1,205)	(1,205)
The following balance was payable to a related party			
Stride Investment Management Limited	(5)	(1)	(37)
Stride Property Limited	-	(217)	-

The management services are provided under a management agreement between SIML and Investore dated 10 June 2016, (as amended by way of deed of amendment dated 8 September 2017 (Deed of Amendment)). SIML and Investore entered into the Deed of Amendment in connection with the changes approved to Investore's Constitution at the Investore Annual Meeting on 8 September 2017.

Investore does not have any employees. Accordingly, there are no senior managers of Investore who have a relevant interest in the shares of Investore.

Notes to the Financial Statements (continued)

For the six months ended 30 September 2017

Note 13: Contingent Liabilities

Investore has no contingent liabilities at balance date (30 Sep 2016: \$nil, 31 Mar 2017: \$nil).

Note 14: Subsequent Events

On 8 November 2017, Investore acquired the properties at 6 and 8 Heaton Street, Timaru, for \$957,280. These properties are immediately adjacent to the properties already owned by Investore at 12 Heaton Street and the corner of Victoria & Browne Streets, Timaru.

On 13 November 2017, Investore agreed with Stride to purchase three Bunnings properties at Hamilton, Rotorua and Palmerston North, for \$78.5 million. This transaction is subject to Investore shareholder approval and a special meeting of shareholders will be arranged. If approved, the effective date for the settlement of the proposed acquisitions is expected to be 28 February 2018.

On 22 November 2017, Investore declared a cash dividend for the period 1 July 2017 to 30 September 2017 of 1.86 cents per share, to be paid on 19 December 2017 to all shareholders on Investore's register at the close of business on 6 December 2017. This dividend will carry imputation credits of 0.5200 cents per share. This dividend has not been recognised in the financial statements.

There have been no other material events subsequent to balance date.

Independent Review Report

To the shareholders of Investore Property Limited



Report on the interim financial statements

We have reviewed the accompanying interim financial statements of Investore Property Limited (the "Company") on pages 13 to 30, which comprise the statement of financial position as at 30 September 2017, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the six month period ended on that date, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the interim financial statements

The Directors of Investore Property Limited are responsible on behalf of the Company for the preparation and presentation of these interim financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34) and International Accounting Standard 34 *Interim Financial Reporting* (IAS 34), 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.

Our Responsibility

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

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

We are independent of the Company. Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

Conclusion

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

Who we report to

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

For and on behalf of:

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

Chartered Accountants, Auckland
22 November 2017

Corporate Directory

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Kate Healy
Tim Storey
John Harvey

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Manager

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