2023 climate-related financial disclosures

The business of being green

Overview

The impact of Argosy's business on the natural environment is an increasingly important consideration for investors, occupiers and other stakeholders. Argosy recognises that an important part of our responsibility is to identify and assess the risks presented by climate change, just as we manage other risks facing our business.

For the last two years Argosy's has reported climate related disclosures based on the TCFD's recommendations. This is our first-year reporting since the XRB's Climate-related Disclosure Standards ("CRD Standards") were finalised in December 2022.

We have reported this year's climate related disclosures with reference to the CRD Standards. However, the CRD Standards are not mandatory for Argosy's year ending 31 March 2023; and while this Report has generally been prepared having regard to the CRD Standards, it does not comply with them in all respects. Reporting of metrics and targets covers scope 1, 2 and 3 emissions and medium-term targets in respect of green buildings and emissions reductions.

Governance

Disclosure objective:

To enable primary users to understand both the role an entity's governance body plays in overseeing climate-related risks and climate-related opportunities, and the role management plays in assessing and managing those climate-related risks and opportunities.

Governance disclosures:

To achieve the disclosure objective above, an entity must disclose the following information:

(a) the identity of the governance body responsible for oversight of climate-related risks and opportunities;

(b) a description of the governance body's oversight of climate-related risks and opportunities; and

(c) a description of management's role in assessing and managing climate-related risks and opportunities.

a) Identity of the governance body

Argosy's Board is responsible for establishing, reviewing and monitoring processes to identify climate-related risks and opportunities. The Board's Audit and Risk and ESG Committees also support the Board with governance around climate related risks and opportunities as outlined below.

b) Governance body oversight

Board oversight

The Board is ultimately responsible for the oversight of climate related risks and opportunities. The Audit and Risk Committee and ESG Committee support the Board by providing information and recommendations in relation to climate-related risks and opportunities.

Audit and Risk Commitee oversight

The Audit and Risk Committee is responsible for overseeing the management of physical and transitional climate change risks as part of its overall responsibility for risk management, implemented through Argosy's Risk Management Policy and Framework.

Under Argosy's Risk Management Policy and Framework, the Audit and Risk Committee oversees the risk register and reviews it biennially. Argosy's climate related risks are included in the risk register.

ESG Commitee oversight

The ESG Committee brings specialised skill and focus to ESG matters, which include climate related risks and opportunities. This helps to ensure that emergent climate-related risks are brought to the Board's attention and taken into account in the development and implementation of Argosy's strategy. The ESG Committee meets four times per year and has the following responsibilities in connection with climate-related risks and opportunities:

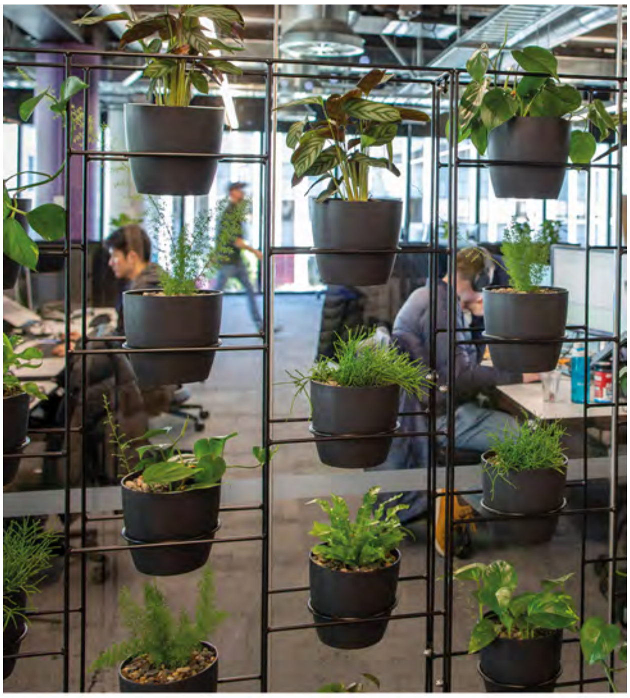
- Identifying and considering ESG matters relevant to the Company and report to the Board as appropriate.
- Identifying and considering climate change risks arising from physical risks of climate change and risks arising from the transition to a low carbon economy.
- Making recommendations on the Company's approach to ESG matters, including in relation to how performance metrics for climate related risks can be included in remuneration policies.
- Overseeing implementation of the Company's Sustainability Policy and Framework, which include metrics and targets for managing climate change risks.
- Reviewing and reporting to the Board on the Sustainability Policy and Framework.
- Reviewing the ESG elements of the Company's annual and interim financial statements and recommending them to the Board for approval.

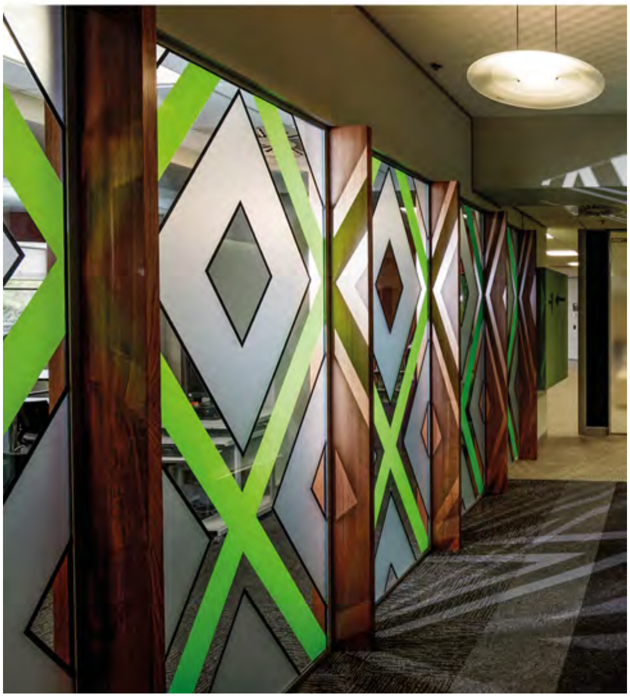
c) Management's role

Argosy's management team has a Sustainability Committee which meets regularly, and reports to the ESG Committee four times per year. The Sustainability Committee is responsible for assessing and managing climate related risks, opportunities and initiatives at a management level.

The membership of the Committee includes, among others, the Chief Executive Officer, Chief Financial Officer, Head of Sustainability and Environmental Engineer. The membership includes people from areas of the business focused on strategic, operational and compliance aspects of sustainability, ensuring that climate related risks and opportunities are identified and considered.

The Sustainability Committee is also represented through cross-membership on the Risk Management Committee which implements the Company's Risk Management Framework, maintains the risk register, and reports to the Board's Audit and Risk Committee. This ensures that (although not subject to external audit) climate related risks are subject to the same level of scrutiny as other types of financial and non-financial risk.





Strategy

Disclosure objective:

To enable primary users to understand how climate change is currently impacting an entity and how it may do so in the future. This includes the scenario analysis an entity has undertaken, the climate-related risks and opportunities an entity has identified, the anticipated impacts and financial impacts of these, and how an entity will position itself as the global and domestic economy transitions towards a low-emissions, climate-resilient future.

Strategy Disclosures:

To achieve the disclosure objective, an entity must disclose:

(a) a description of its current climate-related impacts;

(b) a description of the scenario analysis it has undertaken;

(c) a description of the climate-related risks and opportunities it has identified over the short, medium, and long term;

(d) a description of the anticipated impacts of climate-related risks and opportunities; and

(e) a description of how it will position itself as the global and domestic economy transitions towards a low-emissions, climate-resilient future state.

a) Current climate-related impacts

Argosy has identified physical and transitional risks of climate change which may have an impact in the future. However, it is not considered that these currently have a direct impact on Argosy's operations and there are no identified current material financial impacts.

Many of Argosy's stakeholders are concerned about physical and transitional risks of climate change which may be realised in the future. These concerns are recognised by Argosy and addressed in the Company's investment and capital management strategies. For example, Argosy had its first Green Building certified in March 2014, established ESG (Board) and Sustainability (Management) Committees in 2019, issued its first Green Bonds in 2019 and began reporting voluntarily based on TCFD recommendations for the year ended 31 March 2021.

b) Scenario analysis

Consistent with the XRB's recommendations, Argosy will rely on industry scenarios developed by Beca Limited and the New Zealand Green Building Council for the construction and property sector. The industry scenarios were published on 4 May 2023 and have not had been addressed in this report. The climate-related risks and opportunities discussed below will be updated to reflect the industry scenario analysis in future reports.

c) Climate-related risks and opportunities

Short, medium and long term

For the purposes of classifying physical and transitional climate related risks and opportunities, Argosy defines within 3 years as the short term, from 3 to 10 years as the medium term and longer than 10 years as the long term. These timeframes correspond to timeframes used in Argosy's internal budgeting, strategy and planning processes.

Climate related physical risks

No material short or medium-term physical risks have been identified.

Long term physical risks are identified in the property strategy for each of Argosy's 54 properties. Argosy considers the nature of the risks to which its assets could potentially be exposed in the long term are:

- direct damage from storm tides, flooding and other severe weather events in the long term;
- increased temperature causing increased demand on buildings services in the long term, particularly air conditioning; and
- rising sea levels in the long term.

Long term physical risks will be mitigated by Argosy's stock selection, asset allocation and redevelopment decisions.

Climated related transitional risks

Argosy has identified transitional risks and opportunities based on assumptions about Government policy and the expectations of its occupiers, investors and other stakeholders. These include costs to meet green building certification requirements, potential obsolescence of building services and climate change-related reporting requirements.

d) Anticipated climate-related impacts (financial and non-financial)

Argosy has no identified material physical risks in the short to medium term. In the long term, it is expected that physical risks and opportunities will be addressed through stock selection, asset allocation and redevelopment decisions.

Argosy is exposed to transitional risks arising from emergent tenant and investor preferences for more energy efficient buildings, particularly green certified energy efficient buildings with reduced emissions.

Argosy mitigates these risks by obtaining internationally recognised certifications for its buildings, such as Green Star and NABERSNZ ratings. These certifications provide evidence of energy efficiency and reduced emissions for Argosy's buildings.

Obtaining certifications for Argosy's buildings has also provided opportunities beyond mitigating transitional risks. These include attracting tenants who require such certifications and investment through Argosy's Green Bonds.

The attention paid to transitional climate related risks and opportunities by Government, occupiers, investors and other stakeholders has grown markedly in recent years and naturally connects through to investment decisions. Argosy expects that it will be well placed to mitigate risks and benefit from opportunities.

Transitional risks are expected to result in obsolescence and upgrade costs, and the costs of green building certifications. It is expected that such costs will be mitigated through implementation of more efficient technology during planned building upgrades and replacement of plant and equipment.

e) Transition plan

Argosy is committed to managing and reducing the impact of its operations on the environment, including through climate change. Our environmental strategy reflects our ambition to address environmental issues by creating well designed, vibrant and sustainable buildings for today and into the future. We also believe that energy efficient green certified buildings have the potential to provide several key business benefits including:

- lower energy costs;
- higher occupancy;
- higher value;
- improved worker productivity and occupant health and wellbeing; and
- lower transitional risk.

Argosy has a sustainability strategy which applies to all areas of its business. The most observable impact of climate-related risks has been the drive for Argosy and its stakeholders to obtain certifications in relation to the refurbishment or construction (i.e. Green Star ratings) and ongoing operation (i.e. NABERSNZ ratings) of its buildings.

These certifications provide evidence of reduced energy use and emissions from Argosy's buildings in accordance with internationally recognised standards which help reduce the carbon footprint of Argosy and its occupiers. This drive toward green certified buildings is reflected in Argosy's financial planning as well as its plans for acquisitions, developments and disposals.

The development of green certified buildings has also provided Argosy with an opportunity to diversify its funding through Green Bonds. At the date of this report, Argosy has funding of $325 million from Green Bonds supported by green certified buildings (including developments targeting such a certification) valued at $666 million.

Through careful management of building upgrades, acquisitions and disposals, Argosy does not expect material financial impacts from transitional risks. It appears more likely that these risks will be reflected in an increasing focus on more efficient buildings with "green" features that meet the needs of tenants.

Argosy has a resilient portfolio that is diversified by sector, tenant mix and location. This reduces risk to severe climate change induced events.

There is the potential for increased demand on building services, particularly air-conditioning systems, due to increased temperatures. However, Argosy does not expect the increased cost to be material, particularly as these will likely be mitigated through the introduction of more efficient technologies during planned replacement of the existing plant and equipment.

Argosy has been preparing its property portfolio for progressive certification, starting with the 5 Green Star Office Built rating obtained for the redevelopment of the historic Te Puni Kōkiri House in March 2014. Since then, Argosy has obtained Green Star ratings on a further 4 buildings and has obtained (4.5 star or better) NABERSNZ ratings on 6 other buildings. Argosy has applied for a Green Star Rating on its 8-14 Willis Street/360 Lambton Quay development which is targeting a 6-star rating.

Argosy expects that, in the absence of material physical impacts, and with the progressive upgrade and certification of buildings in its portfolio to mitigate transitional impacts, its business will be resilient to risks from climate change.

Risk Management

Disclosure objective:

To enable primary users to understand how an entity's climate-related risks are identified, assessed, and managed and how those processes are integrated into existing *risk management* processes.

Risk Management Disclosures:

To achieve the disclosure objective above, an entity must disclose the following information for both transition risks and physical risks:

(a) a description of its processes for identifying, assessing and managing climate-related risks; and

(b) a description of how its processes for identifying, assessing, and managing climate-related risks are integrated into its overall risk management processes.

a) Processes for identifying, assessing and managing climate-related risks.

Argosy identifies and assesses climate-related risk through its Risk Management Policy and Framework, preparing individual asset management plans and Management's Sustainability Committee who identify and assess climate-related risks.

Members of the Sustainability Committee consult with the Property Council of New Zealand, New Zealand Green Building Council and other industry bodies focused on climate-related policy and building certification.

Argosy considers that material climate-related risk could arise from transitional risks which may result in a mismatch between its portfolio and requirements of occupiers, investors and other stakeholders. To mitigate this risk Argosy assesses the suitability of its buildings against the expected requirements of its stakeholders and makes acquisition, development and divestment decisions to ensure that buildings in its portfolio are fit for purpose.

c) How processes for identifying, assessing, and managing climate-related risks are integrated into overall risk management processes

Argosy includes climate-related risks in its Risk Register maintained in accordance with its Risk Management Policy and Framework which is overseen by the Board's Audit and Risk Committee. The composition and structure of Management and Board Committees (outlined above) ensures that climate-related risks identified by the Board's ESG Committee and Management's Sustainability Committee (although not subject to external audit) are scrutinised at the same level as other financial and nonfinancial risks.

Metrics and Targets

Disclosure objective:

To enable primary users to understand how an entity measures and manages its climate-related risks and opportunities. Metrics and targets also provide a basis upon which primary users can compare entities within a sector or industry.

Scope 1, 2 and 3 greenhouse gas emissions

	Tonnes CO_2-e
Scope 1 Emissions	108
Scope 2 Emissions	8
Scope 3 Emissions	34
Total gross emissions	**150**

Emissions reported in the table above are calculated using the location-based method and for the reporting period to 31 March. Emissions data has been collected to the guidelines of the Toitu Net Carbonzero Programme, however the emission reported are not certified by Toitu (Argosy's Toitu certification relates only to the year from 1 January 2022 to 31 December 2022).

Under Toitu's Net Carbonzero Programme, Argosy reports on emissions in respect of which it has operational control. Argosy is deemed to have operational control of emissions in relation to its own operations (e.g. employee transport and corporate premises), areas Argosy controls (e.g. common areas of multi-tenanted buildings), and building services maintained by Argosy (eg air-conditioning, backup generators and fire services for multi-tenanted buildings).

Note that Scope 1 emissions for the year ending 31 March 2023 reported above are less than the emissions reported for the period to 31 December 2022 certified by Toitū. This is mainly due to refrigerant leaks in January 2022 (which occurred prior to the current period reported in the table above but which are included in the year to 31 December certified by Toitū).

Argosy's GHG emissions in this report for the year ended 31 March 2023 are not the subject of an external assurance engagement. The Aotearoa New Zealand Climate Standards require that Argosy's GHG emissions be the subject of an external assurance engagement from the reporting period ending 31 March 2025.

However, Argosy has acheived Toitū Net Carbonzero certification for its scope 1, 2 and 3 emissions for the years ended 31 December 2020, 2021 and 2022. Toitū independently reviews Argoys's GHG emissions for this purpose.

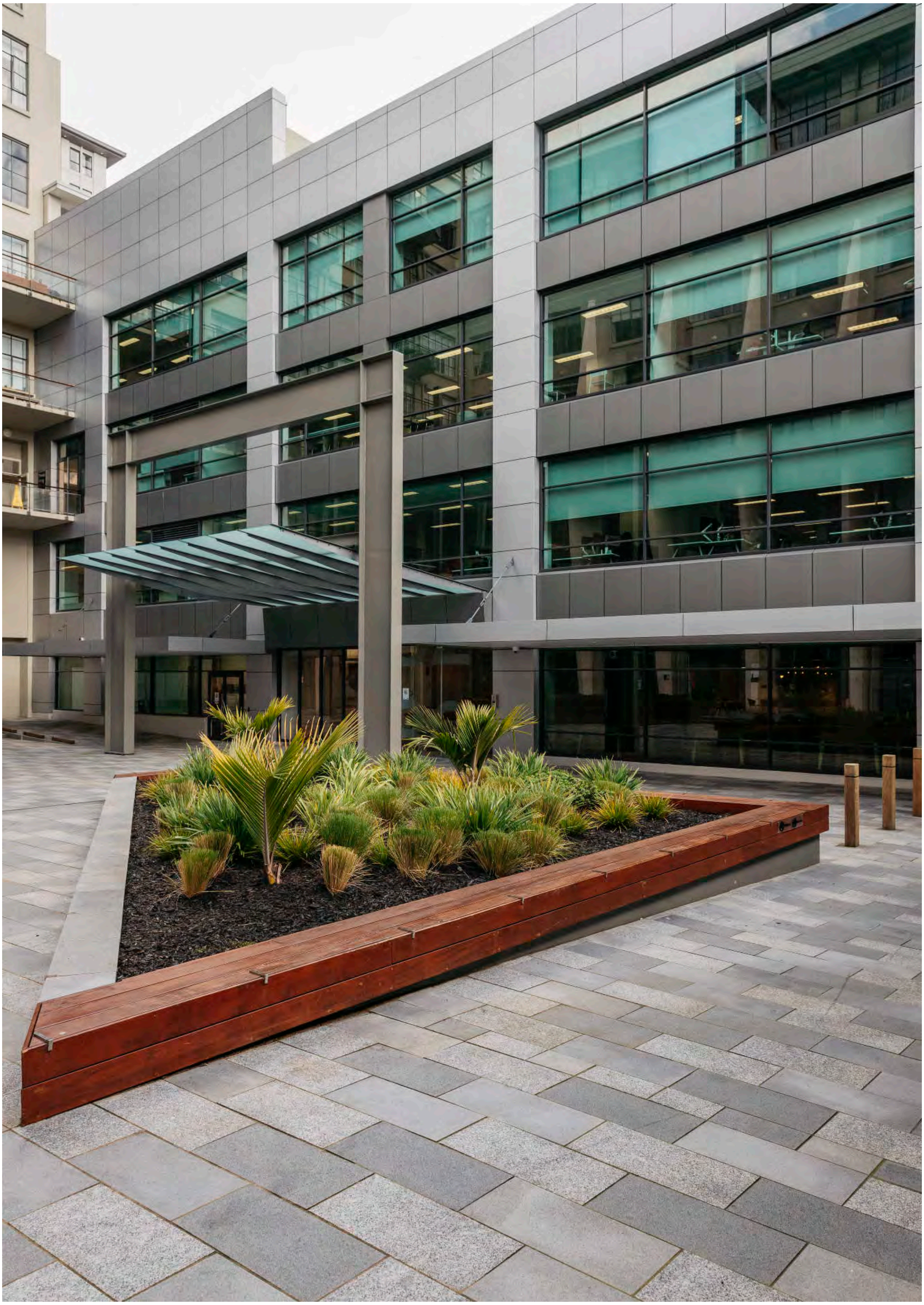
Targets used to manage climate-related risks and opportunities

Argosy is exposed to transitional risks arising from emergent tenant and investor preferences for certified energy efficient buildings with reduced emissions. As outlined above, Argosy is managing these risks by obtaining internationally recognised certifications for its buildings, such as Green Star and NABERSNZ ratings. These certifications provide evidence of energy efficiency and reduced emissions for Argosy's buildings.

Obtaining certifications for Argosy's buildings has also provided opportunities beyond mitigating transitional risks. These include attracting tenants who require such certifications and investment through Argosy's Green Bonds.

Argosy is targeting that such green buildings will make up at least 50% of its portfolio by 2033, measured by market value. We are making good progress toward this goal with 31% of the portfolio comprised of green buildings, measured by market value.

Argosy is also committed to reducing emissions from its operations in accordance with the expectations of its stakeholders. Under the Toitū Net Cabon Zero Programme Argosy is committed to a 30% reduction in scope 1, 2 and 3 emissions by 2030 relative to 2019 emissions.



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