Argosy

STRENGTH IN DIVERSITY

ANNUAL REPORT 2017

OFFICE

INDUSTRIAL

RETAIL

PORTFOLIO

$1.44b

Total portfolio value of $1.44 billion

PROPERTIES

64

TENANTS

185

Our strength lies in the diversity of our properties across sectors, grades, sizes and locations allowing us to adapt to the changing needs of our growing family of tenants.

It's this balanced combination of quality properties, and doing what's right for our tenants, that allows us to consistently deliver value to our investors and communities.

OCCUPANCY

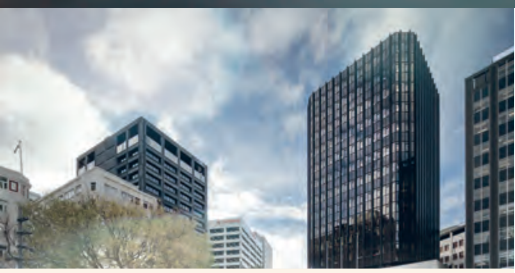
98.6%

Occupancy (by rental) high at 98.6%

WALT / YEARS

5.59

Weighted average lease term remains over five years



OFFICE **17** Properties

INDUSTRIAL **38** Properties

RETAIL **9** Properties

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VALUE CREATION

Sustainable returns

Positive impact on the environment

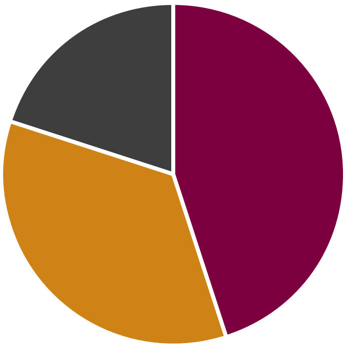
Job creation and career opportunities

Safe, quality accommodation

Positive contribution to society

Argosy strives to deliver reliable and attractive returns to shareholders.

Where will we buy?



Industrial	40-50%
Office	30-40%
Retail	15-25%

Focus on good quality Office, Industrial and Large Format Retail

No international properties
No Leasehold

Concentrate on Auckland (65%-75%) and Wellington (20%-30%). Regional North Island or South Island tenant-driven only (<10%)

Target "off-market" acquisitions and avoid competitive processes

Target Value Add properties where we can leverage internal expertise within overall Core/Value Add targets

Target contiguous properties with potential

Value parameters

$10m +

Greater than $10 million unless strategically imperative ($6 million for Industrial)

10%

No more than 10% of overall portfolio value

Due diligence

Apply Argosy's due diligence checklist

Structural integrity ≥ 70% of New Building Standard (unless this represents a Value Add opportunity)

Development

Developments only for tenants who provide strategic value to Argosy

Joint ventures will be undertaken only where the counterparty is of sufficient financial standing to carry their share of risk

Other

No third party management of external portfolios

We have a clearly defined investment strategy and acquisition policy which guides our commercial decision making.

Argosy is, and will remain, invested in a portfolio that is diversified by sector, grade, location and tenant mix.

Strategy Review

Following an extensive review of Argosy's strategy, including considering factors such as sector historical and forecast returns, volatility and supply, the Board has approved slight amendments to our Investment Strategy and Investment Policy.

Argosy's portfolio will continue to consist of Core and Value Add properties.

CORE

Core properties are well constructed, well located assets which are intended to be long-term investments (>10 years). The permitted range of Core properties has been expanded to between 75% to 90% of the portfolio by value (increased from 75% to 85%).

Core properties enjoy strong long-term demand (well located and generic), a leasing profile that provides for rental growth of at least CPI and good structural integrity with minimal maintenance capital expenditure required.

VALUE ADD

Value Add properties are assets which, through skilled asset management, can increase future earnings and provide capital growth. Value Add properties will already be well located with the potential for strong long-term tenant demand.

These properties are available for near to medium term repositioning or development with the view to moving into the Core category.

Investment Policy

Our Investment Policy clearly defines what properties we will seek to own; i.e. it sets the boundaries within which we will operate and invest. The investment policy delivers a clear acquisition checklist and every potential acquisition (and portfolio asset) can be measured against that checklist.

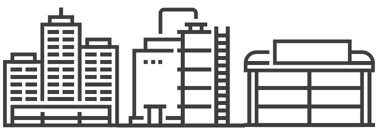
In some cases a portfolio of assets may be considered. The strategy for the acquired portfolio must be consistent with the overall Argosy Portfolio Investment Strategy (i.e. the majority by value of the properties either are Core or offer potential to move to Core in the medium term).

In certain circumstances exceptions to the Investment Policy may be considered where an acquisition is made to meet the requirements of a valued tenant.

Following the strategic review, our Investment Policy has changed with an amendment to the sector band parameters. The targeted industrial band will increase to 40-50% of the total portfolio by value (previously 35-45%) and the office band will reduce to 30-40% (previously 35-45%). Retail remains unchanged at 15-25%.

As at 31 March 2017, Argosy was operating within the parameters of its Investment Policy.

Argosy has a diversified portfolio of quality properties with an average value of $22.5 million. This allows the Company to react quickly to changing market conditions without the need for potentially dilutive capital raisings when the market is weak. Liquid properties (which are properties that could potentially be under contract within a short period) currently represent 26% of the portfolio.



Average value of:

$22.5m

This allows the Company to react quickly to changing market conditions without the need for potentially dilutive capital raisings when the market is weak.

Capital Management

The optimal capital structure for Argosy should be one that enables the Company to maximise its earnings yield through the property cycle within the following parameters:

- properties can be acquired when they meet the approved Investment Policy criteria, or sold when they are non Core
- there are no forced sales of properties or a requirement to issue equity at a price that is dilutive to shareholders
- measured dividend growth is maintained.

Argosy's capital structure policy is to retain the debt-to-total-assets ratio at between 35% and 40% in the medium term.

This ratio is monitored on an ongoing basis. Any movement beyond pre-set parameters requires an action plan and timeframe to move debt levels to within the prescribed range.

Risk Management

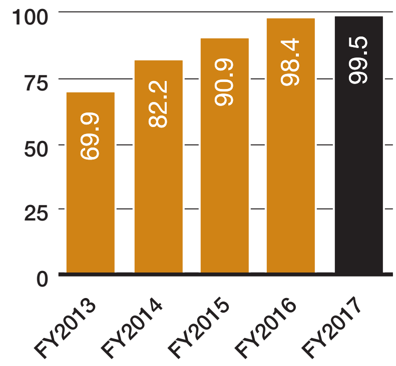
Argosy strives to deliver reliable and attractive returns to shareholders. We take a considered approach to development, acquisition, divestment, leasing and capital management decisions, reflecting our proposition to shareholders as a dividend stock.

Argosy generally operates within a medium/low overall risk range. Argosy adopts a medium risk appetite for risks associated with leasing metrics and the repositioning of the portfolio, in line with our overall investment strategy.

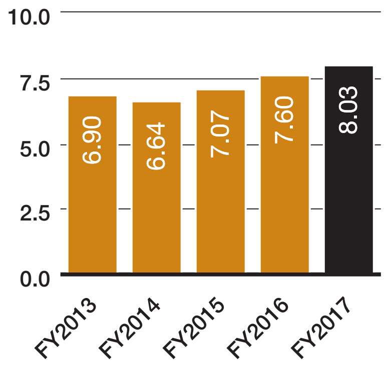
Argosy has a low risk appetite for risks associated with managing developments and Value Add projects and compliance matters.

Financial Summary

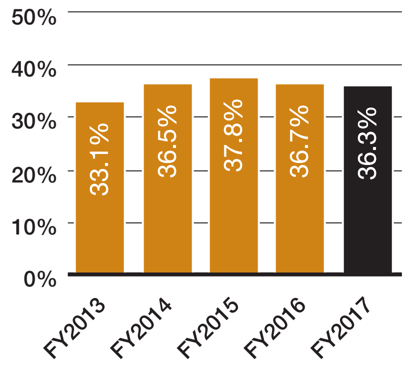
Net Property Income
$M



Gross Distributable Income
CENTS PER SHARE



Debt-to-total-assets ratio



FINANCIAL SUMMARY

	Unit of measure	FY2013	FY2014	FY2015	FY2016	FY2017
Net property income	$m	69.9	82.2	90.9	98.4	99.5
Profit before financial income/(expenses) and other gains/(losses) and tax	$m	63.1	74.8	83.0	89.4	90.2
Revaluation gains on investment property	$m	9.3	33.5	38.6	42.2	42.3
Profit for the year (before taxation)	$m	38.7	98.8	68.6	83.6	120.4
Profit for the year (after taxation)	$m	39.2	85.6	64.4	78.9	104.4
Earnings per share	cents	6.69	11.45	8.08	9.79	12.78
Gross distributable income per share	cents	6.90	6.64	7.07	7.60	8.03
Net distributable income per share[1]	cents	7.22	6.69	5.97	6.35	6.64
Total assets	$m	992.7	1,232.4	1,313.2	1,374.9	1,458.6
Debt-to-total-assets ratio	%	33.1	36.5	37.8	36.7	36.3
Net assets backing per share	cents	88	94	96	100	106
Cash dividend per share	cents	6.00	6.00	6.00	6.03	6.10
Shares on issue at year end	m	680.9	790.9	802.6	812.6	822.9
Total equity	$m	601.3	739.5	768.7	810.4	875.2

1. Tax in FY15-FY16 has been restated based on current tax expense following a recent change in our bank facility document (previously it was based on tax paid to the Inland Revenue Department). In FY13 and FY14 no tax was paid due to significant prior tax losses.

PROPERTY METRICS

	Unit of measure	FY2013	FY2014	FY2015	FY2016	FY2017
Number of tenants	#	221	224	192	193	185
Number of properties[1]	#	63	66	68	66	64
Average property value	$m	15.51	18.58	19.21	20.72	22.53
Net lettable area	sqm	485,531	590,991	607,799	601,045	606,324
Total book value	$m	976.9	1,226.3	1,306.4	1,367.6	1,442.2
Weighted average lease term	years	5.24	5.68	5.54	5.24	5.59
Occupancy factor by rental	%	96.2	98.7	99.2	99.4	98.6
Occupancy factor by area	%	94.5	98.7	99.3	99.6	97.4

1. Certain titles have been consolidated and treated as one. The total number of buildings excludes properties held for sale.

19 Barnes Street WELLINGTON

Sound Strategy

"We are very proud to be able to demonstrate, through the careful execution of our strategy, a five-year history of profit growth and very strong operating metrics."

MICHAEL SMITH
CHAIRMAN

Net Property Income

$99.5m

Net Property Income increased by 1.2% to $99.5 million

Net Profit After Tax

$104.4m

Net profit after tax increased by 32.3% to $104.4 million

Dividend

6.10c

FY17 dividend increased by 1.2% to 6.10 cents per share

STRONG PERFORMANCE

On behalf of the Board of Directors, I am pleased to present Argosy's 2017 Annual Report.

This has been another excellent year for Argosy as our operating results have continued to improve, with increases in net property income, distributable income and net tangible assets per share. The portfolio continues to grow in value, as well as in quality, and the metrics remain strong with a high occupancy rate at 98.6% and a Weighted Average Lease Term (WALT) that has increased to 5.59 years.

IMPROVED FINANCIAL RESULTS

We are very proud to be able to demonstrate, through the careful execution of our strategy, a five-year history of outstanding financial results and very strong operating metrics. Net property income has increased by 1.2% to $99.5 million (2016: $98.4 million) and net profit after tax has increased by 32.3% to $104.4 million (2016: $78.9 million).

We continue to improve the quality of the portfolio as we manage our assets through the property cycle. We have made steady progress on our long-term strategy of acquiring good quality properties, divesting our non Core assets and working with our existing tenants to add value to the existing portfolio. We remain committed to providing our shareholders with sustainable and attractive returns in the years ahead.

DIVIDENDS

The Board is pleased to pay a full year cash dividend of 6.10 cents per share, a 1.2% increase on the prior year.

The final quarter dividend of 1.525 cents per share, with imputation credits of 0.27768 cents per share attached, will be paid to shareholders on 29 June 2017. The record date will be 15 June 2017. The dividend reinvestment plan (DRP) will continue, however no discount will be applied to the price at which shares will be issued under the DRP for this dividend.

Our current dividend policy is to pay dividends that are less than net distributable income. For some investors, Adjusted Funds from Operations (AFFO) represents a measure of dividend sustainability. The Board recognises this view and intends to move to an amended dividend policy, based on AFFO earnings, in the medium term. The Board expects, based on current projections, that the cash dividend will be at least maintained over the transition period.

The Board can confirm that, based on current projections for the portfolio, a dividend of 6.20 cents per share is expected to be paid for the year to 31 March 2018.

STRATEGY

Following an extensive review of Argosy's strategy, including considering factors such as sector historical and forecast returns, volatility and supply, the Board has approved slight amendments to our Investment Strategy and Investment Policy.

Our Investment Strategy has been amended to take into account tighter conditions at the top of the property cycle. We have extended the permitted range of Core properties to between 75% to 90% so we have the required flexibility to continue to operate the portfolio in the most efficient manner.

Our Investment Policy has also changed with an amendment to the sector band parameters. The targeted industrial band will increase to 40-50% of the total portfolio by value (previously 35-45%) and the office band will reduce to 30-40% (previously 35-45%). Retail remains unchanged at 15-25%. As at 31 March 2017, we were operating within the parameters of our Investment Policy.

More detail on our strategy can be found on pages 4 and 5 of this report.

GOVERNANCE

We remain committed to the highest standards of business behaviour and accountability and we uphold the highest ethical and behavioural standards as set out in our Code of Conduct and Ethics. We make our corporate governance policies available on our website and I encourage you to read them for yourselves.

We strive to build a diverse and inclusive culture and we recognise the benefits that this can bring to achieving improved business performance. Following year end, we introduced a Diversity Policy which sets out our position on diversity and inclusiveness as well as setting measurable objectives to achieve our diversity goals. Our Diversity Policy is available on our website at www.argosy.co.nz.

At the Annual Meeting in August 2016, Peter Brook and I were re-elected as independent Directors. At the date of this report, the Board comprised six Directors who are all independent.

The 2017 Annual Meeting of shareholders is scheduled to be held at 2pm on Tuesday, 25 July 2017 at the Royal New Zealand Yacht Squadron, 101 Curran Street, Westhaven Marina, Auckland. Andrew Evans and Mark Cross will retire in accordance with the Company's constitution and the NZX Listing Rules and will be eligible for re-election.

SHARE PRICE PERFORMANCE

Like many of our shareholders, the Board has been disappointed with the performance of the Argosy share price over the past 12 months as rising long-term interest rates, both here in New Zealand and around the world, take effect.

The share prices of listed property companies can be highly susceptible to changes in interest rates. Since September 2016, the 10 year bond rate has risen by approximately 100 basis points and many investors have taken this as a sign to move away from yield based stocks, including property stocks. The impact on share prices of the entire listed property sector has been significant.

Notwithstanding this, the fundamentals of the business remain strong with close to 99% occupancy in the portfolio and we have enjoyed continued leasing success over this period. Net tangible assets per share has steadily increased over the past 5 years, from 87 cents per share as at 31 March 2012 to 106 cents per share as at 31 March 2017. The dividend for the year to 31 March 2018, with all the advantages of the PIE Regime, is expected to increase to 6.20 cents per share.

OUTLOOK

We remain focussed on doing what we do best – improving the quality of the portfolio and dealing with vacancies and expiries promptly.

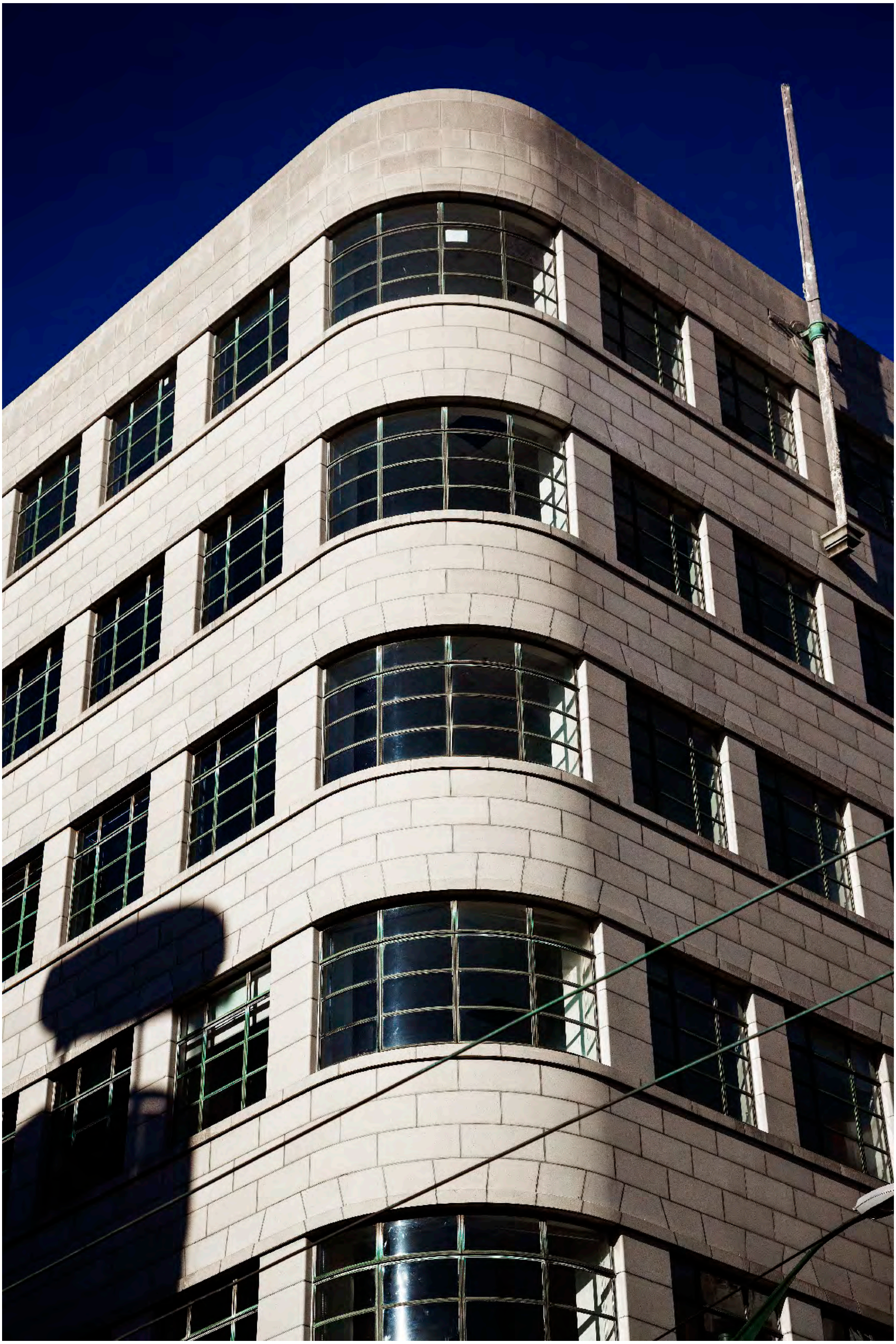
Argosy remains in a very strong position with a solid portfolio that is improving in quality and is diversified by sector, grade, location and tenant mix. The management team has built an excellent reputation for promptly dealing with expiries and vacancies and will remain focussed on this, as ever, in the year ahead. We will also continue to look for opportunities to provide our shareholders with sustainable and attractive returns in the years ahead.

Thank you all for your continued support over the past year.

P MICHAEL SMITH

Chairman

8 Nugent Street AUCKLAND



15-21 Stout Street WELLINGTON

Strong Execution

"By remaining focused on the execution of our strategy we have been able to deliver a strong 2017 result."

PETER MENCE
CHIEF EXECUTIVE OFFICER

Gross Distributable Income

8.03c

Gross distributable income per share increased by 5.7% to 8.03 cents

Net Distributable Income

6.64c

Net distributable income per share increased by 4.6% to 6.64 cents

Valuation Gain

$42.3m

Total revaluation gain of $42.3 million, up 3.0% on book values

DELIVERING RESULTS

It is pleasing to be able to report that over the past year we have continued to make progress in executing our strategy and improving the quality of the portfolio. The balance sheet remains in a very strong position, with the value of total assets in excess of $1.4 billion and a gearing ratio at the lower end of our target range. The operational metrics remain at excellent levels. We are proud to be able to report another strong financial result for our shareholders.

HIGHLIGHTS:

- Gross distributable income per share increased to 8.03 cents (up 5.7%).
- Net distributable income per share increased to 6.64 cents (up 4.6%).
- FY17 dividend increased to 6.10 cents per share (up 1.2%).
- Net Tangible Assets increased to 106.4 cents per share (up 6.7%).
- Valuation gain of $42.3 million, up 3.0% on book values.
- Acquisitions totalling $32.0 million, including 240 Puhinui Road and land at Highgate in Auckland.
- Divestment of non Core properties totalling $31.1 million (including properties yet to settle at balance date).
- Net property income increased to $99.5 million (up 1.2%).
- Weighted average lease term increased to 5.59 years.
- Occupancy (by rental) remains high at 98.6%.

FINANCIAL RESULTS

Profit before tax

Net property income increased by $1.1 million to $99.5 million (2016: $98.4 million), a 1.2% increase on the prior year, due to increases in income from acquisitions, offset by lost income from sales of non Core assets.

As we noted in the interim result, net property income was also positively affected by a surrender payment received in respect of the surrender of the lease by New Zealand Post (NZ Post) for the top three floors of the building at 7 Waterloo Quay in Wellington. This has been partially offset by a loss of rental income following the November 2016 earthquake that damaged the building services of the property and left some of the floors in the building unoccupied. While this loss of income is expected to be recovered from our insurers, the insurance claim has not been fully quantified and agreed which means that the insurance proceeds are likely to be received in the 2018 financial year (see below for further details on NZ Post House).

Profit before finance costs, property revaluations and tax increased to $90.2 million (2016: $89.4 million), a 0.9% increase.

Interest expense for the year reduced to $25.9 million, a reduction of $2.4 million compared to the prior year primarily due to lower interest rates. An increase in long term interest rates also saw a partial reduction of the derivative financial instruments liability of $11.0 million.

Profit before tax, after allowing for the non-cash impact of interest rate swaps and property revaluations, increased to $120.4 million, a 44.1% increase compared prior year (2016: $83.6 million).

Distributable income

Gross distributable income[1] has increased by 7.1% to $65.6 million (2016: $61.3 million). This equates to 8.03 cents per share, up from 7.60 cents per share in the previous year, an increase of 5.7%.

Net distributable income has also increased to 6.64 cents per share from 6.35 cents per share as at 31 March 2016, a 4.6% increase.

PORTFOLIO ACTIVITY

Leasing

Leasing activity has remained strong throughout the 2017 financial year as we re-leased several important expiries and vacancies. Key successes include:

- A nine-year lease of 2,657 square metres across two floors at 82 Wyndham Street in Auckland to Panuku Development Limited.
- A ten-year lease to The Warehouse Limited at 17 Mayo Road in Wiri.
- The leasing of 11,675 square metres of warehouse space at 320 Ti Rakau Drive in Manukau to Target International NZ Limited and Gunnersen Limited, both for ten years each.

During the year, 50 lease transactions were completed, including 29 new leases and 21 lease renewals and extensions. The weighted average lease term remains at historically high levels and was 5.59 years at 31 March 2017, compared with 5.24 years at 31 March 2016.

Occupancy (by rental) has also remained high at 98.6%, slightly down from 99.4% at 31 March 2016. Outstanding lease expiries for the period to 31 March 2018 were 9.8% at 31 March 2017 (10.1% in the prior year) and we remain focused on re-leasing these efficiently and with minimal downtime.

Acquisitions and Major Projects

During the year we settled on the acquisition of the new prime industrial property at 240 Puhinui Road for $23.9 million and have continued to make progress on our developments where, in many cases, we have worked with our tenants to find solutions to their expanding occupancy requirements. These include the $7.5 million redevelopment of the property at 8 Foundry Drive in Christchurch which is substantially complete, the acquisition of 22,575 square metres of land at Highgate Business Park in Silverdale, Auckland for Mighty Ape's new headquarters and the proposed $9.4 million development of the Placemakers property at 180 Hutt Road in Kaiwharawhara, Wellington.

We have also commenced an extensive $9 million refurbishment of 82 Wyndham

1 Profit before tax and distributable income are alternative performance measures used to assist investors in assessing the Company's underlying operating performance and to determine income available for distribution to shareholders. Note 24 of the financial statements provides a full reconciliation between profit before tax and distributable income.

Summary Financial Information

	FY17	FY16
Net property income ($m)	**99,521**	**98,350**
Administration expenses ($m)	9,328	8,948
Operating profit before tax ($m)	**90,193**	**89,402**
Gross distributable income ($m)	65,592	61,267
Net distributable income ($m)[1]	54,257	51,211
Net distributable income (cents per share)[1]	6.64	6.35
Dividends (cents per share)	6.10	6.03
Net distributable income payout ratio	92%	95%

1. Under the amended bank facility document, tax paid has changed to current tax expense in line with the rest of the sector

Street that will result in the property being upgraded to a minimum 4 Green Star built rating. Progress on Snickel Lane, Argosy's laneways style development at the Citibank Centre in Auckland, has been steady with the first retailers moving into the site in May 2017.

New Zealand Post House

NZ Post House at 7 Waterloo Quay in Wellington sustained damage to building services in the 7.5 magnitude Kaikoura earthquake on 14 November 2016. Independent engineers confirmed that the building remains structurally sound, but significant replacement of fit-out and services is required. The ground floor, and four other levels, have been re-occupied by NZ Post.

It is expected that the repairs to the damage to the building services and fit-out to levels 1-4 and 7 will commence during the next financial year. We have obtained an indicative estimate that the reinstatement cost will be approximately $50 million, based on a preliminary scope of works. We have notified our insurers that there will be a claim for the reinstatement cost and associated loss of rents under our material damage and business interruption insurance policy (less a $4.8 million deductible). We are working closely with our insurers and NZ Post to ensure that repairs are completed expeditiously and to minimise disruption to NZ Post.

The building was valued on an "as if complete" basis at year end, with estimated costs to complete being deducted from the value at completion. The valuation did not take into consideration any reinstatement proceeds from the insurance claim. This has resulted in a write down of the value of this property at year end of $26.6 million.

Divestment of non Core Assets

A key strategy is to divest vacant land and non Core assets and we have made further progress in achieving this over the past financial year. In that time, we have successfully divested 44 Neil Lane in Palmerston North, 19 Richard Pearce Drive in Mangere, 67 Dalgety Drive in Manukau, 28-30 Catherine Street in Henderson and 14,600 square metres of vacant land at 258 Oteha Valley Road in Albany.

Approximately 3% of the portfolio remains designated as non Core and we will divest these assets as market conditions allow.

Capital Management

We have a target debt-to-total-asset ratio, or gearing, of between 35% to 40% and at balance date we were at the lower end of this range. Argosy's debt levels, excluding capitalised borrowing costs, were 36.3% of total assets (31 March 2016: 36.7%).

Bank Facility

We restructured our syndicated bank facility in May 2017. Following the restructure, the expiry of Tranche A ($275 million) has been extended to 31 October 2021. Tranche B ($275 million) remains at 30 September 2020. An additional tranche, Tranche C, of $25 million was also added to the facility with an expiry date of 31 October 2021.

We continue to maintain strong relationships with our banking partners and remain well within all bank covenants.

Valuations

An independent revaluation of the portfolio was undertaken as at 31 March 2017, resulting in a full year gain of $42.3 million, a 3.0% increase on the book value of the portfolio (note that $35.8 million was included in the interim accounts at 30 September 2016). The overall valuation result was impacted by the earthquake damage at NZ Post House.

The Company's portfolio following the revaluation (excluding NZ Post House) shows a passing yield on values of 7.15% and a yield on fully let market rentals of 7.31%.

SUSTAINABILITY

During the year, we established an Environmental, Social and Governance (ESG) Framework to recognise the importance that sustainable business practices have on the long term creation of value for our shareholders. We have also made some aspirational goals to achieve NABERSNZ ratings on all of our office buildings in order to measure outputs and make improvements to the operational performance of these properties. We have committed funds to sponsor some worthwhile causes in the communities in which we operate, namely surf lifesaving and The Spirit of Adventure Trust. Further information about these initiatives can be found later in this report.

OUTLOOK

Whilst we live in globally uncertain times, the fundamentals of the New Zealand economy remain strong. Business confidence is high which points towards continued growth and increased inflation.

As we near the top of the property cycle, the risks associated with investment property have increased. We remain disciplined and focussed on these risks. We expect to see real rental growth in the near future due to a combination of an end to the tightening of the capitalisation rate cycle and the continuation of positive net absorption.

The improved nature of our diversified portfolio allows us to make the most of the current market conditions. We will continue to adhere to the strategy with the aim of delivering sustainable and attractive returns to our shareholders.

I would like to thank the Board for its governance and oversight and the team at Argosy for their dedication to our values and vision over the past year.

PETER MENCE

Chief Executive Officer

19 Nesdale Avenue AUCKLAND

Focus Area

01

Our Tenants

We actively manage our tenant relationships to benefit both parties. We are committed to ensuring our properties are professionally managed and that the building environment is safe and provides spaces for our tenants' businesses to thrive.

OUR TENANT PHILOSOPHY

Our tenant philopsophy is simple - the tenant's success is our success.

It makes sense for us to build mutually rewarding long-term relationships with our tenants and that's what we work hard to do.

We appreciate that our buildings provide an environment for companies to grow and succeed. They are spaces for people to work, develop and belong. Expect us to work with our tenants to make sure our buildings provide the facilities that are needed today and into the future.

We do everything we can to make it easy for our tenants to work with us. We assign a dedicated person to be the primary point of contact – someone who gets to know our tenants' businesses and their specific needs. We provide regular communication that is clear, timely and relevant, and we pride ourselves on being very responsive. We deal with any issues quickly and appropriately to make sure they don't become big problems for the tenant, or us.

STRATEGIC PARTNERSHIPS

A key part of our strategy (which can be found on pages 4 and 5 of this report) is to work with our key tenants to add value to the portfolio.

Over the past 12 months we have worked closely with our tenants to improve the quality of our buildings and provide better facilities to operate in.

Examples of this include:

- a redevelopment of the previously earthquake damaged property at 8 Foundry Drive in Christchurch for Polarcold Stores Limited;
- an upgrade at 4 Henderson Place in Onehunga, Auckland for Compac Sorting Equipment Limited;
- the acquisition and lease back to Cardinal Logistics Limited of the new prime industrial building 240 Puhinui Road in Wiri, Auckland; and
- the redevelopment of the Placemakers property at 180 Hutt Road in Kaiwharawhara, Wellington for Fletcher Distributions Limited.

We also work with our existing tenants who are seeking expanded premises when they outgrow their current surroundings. Good examples of this include the

Our tenants have a large variety of ever-changing requirements and that's why we take the time to really understand their needs.

We continue to keep our tenants up to date with Argosy and broader industry news through our tenant newsletters and dedicated property managers.

We work with tenants on developments that provide strategic value to both parties. This helps our tenant's business and improves the quality of our portfolio.

proposed Mighty Ape development at Highgate Business Park in Silverdale, Auckland (see case study) and a ten year lease to The Warehouse, an existing Argosy tenant, at 17 Mayo Road after the building was vacated by a previous tenant.

TENANT COMMUNICATIONS

We pride ourselves on our communication with our tenants. Each property has a dedicated asset manager and property manager allowing our tenants to have a direct line of communication with us. We attempt to address all tenancy issues promptly in order to ensure the building environment is safe and conducive to comfortable occupation. We also have an after hours help desk that allows us to respond to any issues should they come up outside of our normal office hours.

Twice a year we send our tenant newsletter to keep our tenant family updated on what's happening within the portfolio as well as other areas of interest. We periodically survey our tenants allowing us to address any concerns as they become apparent.

We also work very closely with our tenants on all issues relating to health and safety. We actively encourage our tenants to strive to achieve excellence in their own health and safety performance as we do at Argosy.

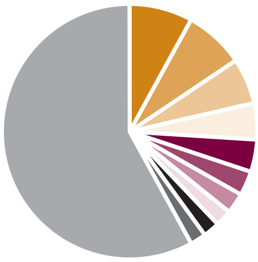
> "Building strong, mutually beneficial relationships is important to us."

TENANT DIVERSITY

Every one of our tenants is important to us. We are proud to have a highly diversified portfolio of close to 200 tenants. Our list of tenants includes Government departments, large listed and unlisted businesses, owner occupiers and large and small retailers. This variety of tenants provides the portfolio with well diversified income streams, with the largest tenant in the portfolio being New Zealand Post Limited with approximately 8% of gross property rental income. This tenant diversification assists us in our goal of providing reliable and attractive returns to our shareholders.

Largest tenants

BY PERCENTAGE OF RENTAL INCOME



8.0%	New Zealand Post Limited
7.6%	Ministry of Business, Innovation & Employment
5.8%	General Distributors Limited (Progressive Enterprises)
4.6%	Cardinal Logistics Limited
4.1%	The Warehouse Limited
3.1%	Department of Internal Affairs
2.6%	Ezibuy Limited
2.1%	PBT Transport Limited
2.1%	Mitre 10 (New Zealand) LImited
2.0%	Te Puni Kōkiri
58.0%	Other

Mighty Ape Development

Working with our existing tenants who provide strategic value to develop properties is a key part of our strategy. In March 2016, we announced that we had partnered with one of our existing tenants, Mighty Ape, to build a brand new 10,500 square metre warehouse at the Highgate Business Park. Mighty Ape currently occupy 5,500 square metres of space at 1 Rothwell Avenue in Albany.

Highgate Business Park is a new 60-hectare industrial development north of Silverdale in Auckland. This area has experienced significant growth over the past few years. It will eventually be characterised by low rise buildings, light warehouse and retail sites once development is complete.

We recently settled the acquisition of 22,575 square metres of land at the park for $8.1 million, equating to $358 per square metre. Work has now commenced on the $14.2 million development which is expected to be completed by December 2017. The development will consist of 9,000 square metres of warehouse with 1,500 square metres of office space over two storeys, as well as 116 onsite carparks.

Focus Area

02

Our Shareholders

We are committed to providing a high standard of communication, complying with the NZX listing rules and fostering constructive relationships with shareholders. We ensure that shareholders are informed of all information necessary to assess the Company's performance.

We strive to maintain a strong relationship with all of our shareholders.

We pride ourselves on our ability to release accurate and relevant information to all of our shareholders.

Our senior management make themselves available to shareholders through meetings, property tours, investor roadshows, conference calls and webcasts.

OUR COMMUNICATIONS STRATEGY

Our communications strategy includes:

- Periodic and continuous disclosure to NZX in accordance with the NZX listing rules and Argosy's Continuous Disclosure Policy;
- Information and briefings provided to analysts and media;
- Market announcements sent to persons in the investor relations contacts list and published on our website;
- Annual and interim reports, distributed to shareholders and made available on the Company's website;
- Bi-annual Investor Update newsletters;
- The annual shareholders' meeting and any other meetings called to obtain approval for Company actions as appropriate;
- Notices and explanatory memoranda for annual and special meetings;
- Annual Investor roadshows; and
- The Company's website containing investor-related information, including portfolio information, market releases, annual and interim reports, investor presentations and webcasts, share price information, dividend details, notices of shareholder meetings and Argosy's governance policies and charters.

GOVERNANCE

We are committed to the highest standards of business behaviour and accountability. Our corporate governance practices comply with the NZX Corporate Governance Best Practice Code and the Financial Markets Authority's Principles of Corporate Governance and Guidelines.

We uphold the highest ethical standards, acting in good faith and in the best interests of shareholders at all times. The ethical and behavioural standards we expect of directors, officers and employees are set out in our Code of Conduct and Ethics. This includes policies about conflicts of interest, fair dealing, compliance with applicable laws and regulations, maintaining confidentiality of information, dealing with company assets and use of company information.

Our focus is on having a Board whose members are able to act independently and have the composite skills to optimise our financial performance and returns to shareholders. The Constitution provides for no fewer than three directors. All Board members are non-executive directors. The Board does not impose a restriction on the tenure of any director as such a restriction may lead to the loss of experience and expertise.

Having independent directors helps assure shareholders that the Board is fulfilling its role properly and is diligent in holding management accountable for its performance. By 'independent director' we mean independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement. As required under Listing Rule 3.3.2, the Board has determined that Peter Brook, Mark Cross, Michael Smith, Andrew Evans, Chris Hunter and Jeff Morrison are considered to be independent directors under the NZX Listing Rules.

Strongly committed

We are committed to delivering sustainable and attractive returns to our shareholders.

We are committed to the highest standards of business behaviour and accountability.

Our communications strategy aims to keep all shareholders updated on what is happening with their investment.

Further information on the Board of Directors can be found in the Our People section on page 22 of this report.

Our corporate governance policies have been made public and can be viewed on our website.

ANNUAL MEETING

The 2017 Annual Meeting will be held at the Royal New Zealand Yacht Squadron, 101 Curran Street, Westhaven Marina, Auckland on Tuesday, 25th July 2017, commencing at 2pm.

Andrew Evans and Mark Cross will retire in accordance with the Company's constitution and the NZX Listing Rules, and will be eligible for re-election.

We encourage you to attend the meeting where you will have the opportunity to listen to and meet the Board of Directors in person.

OUR WEBSITE

We have recently launched a new version of our website at www.argosy.co.nz. The Company's website has an Investors section designed to provide relevant public information to all Investors.

The website will:

- Be updated to reflect any information released to the NZX as soon as practicable after the event;
- Be a repository for relevant documents, including annual reports, interim reports, newsletters, information releases, Company policies, Committee charters, corporate governance related material and similar documents; and
- Provide Investor related information including registry forms and full texts of notices of meetings and explanatory notes.

Website information will be reviewed regularly to ensure all information is current, and where required, archived.

Investors who have provided the Company with an email address will be sent annual and interim reports and other investor communications electronically, unless they opt to receive hard copies of these reports.

We encourage investors to receive their communications online, helping to manage costs and improve timeliness.

RETAIL ROADSHOW

We hold an annual Retail Investor Roadshow each year following the release of the annual result. The 2017 Roadshow will be held from late May to mid-June 2017 and senior management will visit 13 locations across the country to present the 2017 annual financial results and provide an update on our strategy as well as recent activity within the portfolio. We encourage you to take the opportunity to attend and catch up with members of the management team.

Futher information about the 2017 Investor Roadshow can be found in the Investors section of our website.

DIVIDEND PAYMENTS

We are committed to delivering sustainable and attractive returns to our shareholders. The Board has announced a full year cash dividend of 6.10 cents per share, a 1.2% increase on the prior year.

Our dividend policy is to pay dividends that are less than net distributable income. For some investors, Adjusted Funds From Operations (AFFO) represents an important measure of dividend sustainability. Argosy's Board recognises this view and intends to transition to a new dividend policy, based on AFFO earnings, in the medium term. The Board expects, based on current projections, that the cash dividend will be at least maintained over the transition period.

The final quarter dividend of 1.525 cents per share, with imputation credits of 0.27768 cents per share attached, will be paid to shareholders on 29 June 2017. The record date will be 15 June 2017. The dividend reinvestment plan (DRP) will continue, however no discount will be applied to the price at which shares will be issued under the DRP for this dividend.

The Board can confirm that, based on current projections for the portfolio, a dividend of 6.20 cents per share is expected to be paid for the year to 31 March 2018.

KEY DATES

Dates are indicative and may be subject to change

25 May 2017
FY17 annual results release

29 June 2017
FY17 final dividend payment

25 July 2017
Annual Shareholders' Meeting

September 2017
FY18 first interim dividend payment

November 2017
FY18 interim results release

December 2017
FY18 second interim dividend payment

Focus Area

03 Our People

Argosy has a staff of 31. The wellbeing of our employees and maintaining a diverse and inclusive workplace are important to us.

DIVERSE CULTURE

We are committed to achieving a diverse workforce and inclusive workplace practices in order to harness the business benefits of diversity. We have recently adopted a Diversity Policy, made available on our website, which sets out Argosy's position on diversity and inclusiveness as well as setting measurable objectives to achieve our diversity goals.

We do not tolerate discrimination and recognise that a talented and diverse workforce, where each employee brings their own unique capabilities, experiences and characteristics to their work, is a key competitive advantage and that Argosy's success is ultimately derived from the quality and skill of our people. We are committed to seeking out and retaining the finest talent to ensure top business growth and performance.

Our Values include treating all people with respect. We strive to create and foster a supportive and understanding environment in which all individuals realise their maximum potential within the company, regardless of their differences. We are committed to employing the best people to do the best job possible.

STAFF WELLBEING

We provide a healthy and safe workplace for all of our employees and we have an established Workplace Health and Safety Committee. The purpose of the committee is to support the health and wellbeing of Argosy staff and encourage the safe and early return to work of ill or injured employees. The Committee is also responsible for establishing initiatives that support this purpose such as the provision of subsidised gym memberships and access to independent employee assistance programs. As well as this, our permanent employees are provided with health, life and disability insurance cover as part of their employment.

DEVELOPING OUR TALENT

We invest resources into upskilling our people to ensure we have the requisite skills and experience to be able to perform our roles professionally and proficiently. Each employee has a personal development plan as part of their Employee Performance Plan. The plan is developed with the employee's line manager and reviewed as part of the annual review process.

We invest in developing the skills of our employees.

The health and wellbeing of our staff is of the utmost importance to the company.

Diverse & inclusive

We operate a diverse and inclusive workplace.

We also intend to be a host board for the Institute of Directors Future Directors program. This program aims to give talented people the opportunity to observe and participate on a company board for a year. The benefits that this brings to us include a fresh perspective, a skill set from a different generation, diversity and assistance in developing talent for future boards.

OUR VALUES

Our values guide our internal conduct as well as our relationships with external parties.

The Company is committed to achieving outstanding performance and results within the listed property sector to provide value to our shareholders, while considering the interests of workers, tenants, the community and others with whom we do business. In striving for outstanding performance and results, we do not compromise our ethics or principles. We place great importance on honesty, integrity, quality and trust.

Our Values

Ethics

Doing the right thing and doing things right

Culture

Creating a fun environment that encourages excellence

Respect

Treating all stakeholders with courtesy and understanding

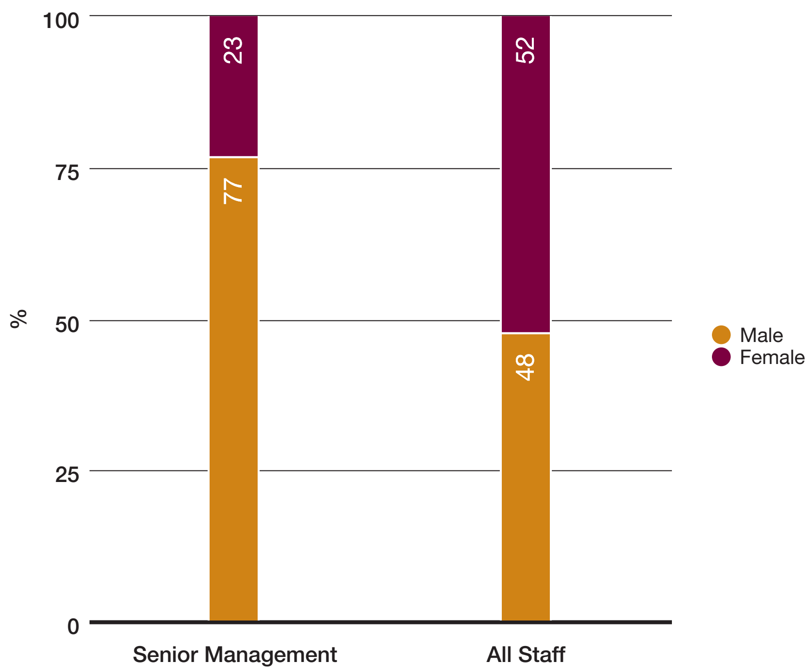
Accountability

Taking ownership and responsibility

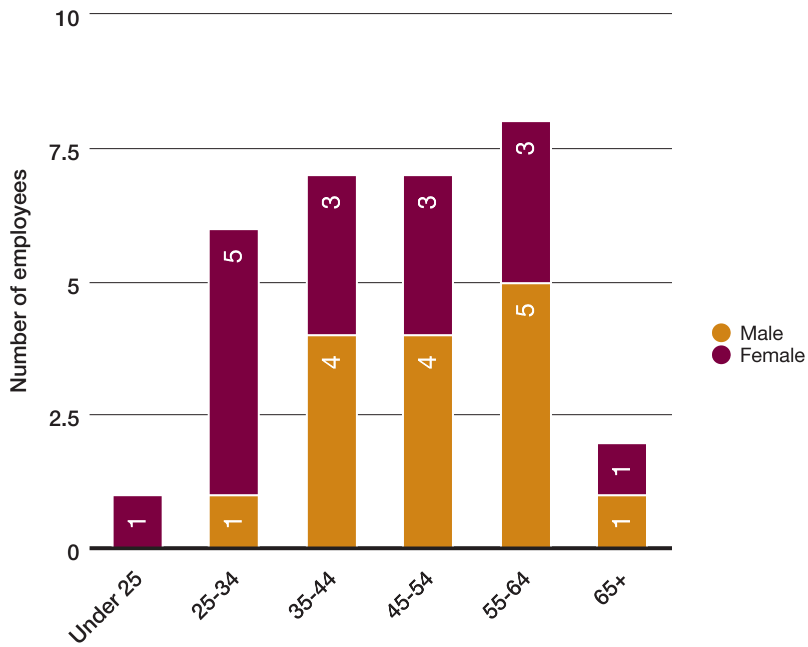
Communication

Promoting responsive, proactive, honest and appropriate communication with all stakeholders

Gender Diversity
SENIOR MANAGEMENT AND STAFF



Gender Diversity
STAFF AGE AND GENDER PROFILES



BOARD OF DIRECTORS

Michael Smith Chairman

Director since December 2002[2]

Mr Smith was employed by Lion Nathan Limited for 29 years. During that time, he held a number of senior executive positions with the Lion Nathan Group and was a director of the parent company for 16 years. Mr Smith is a director of a number of companies, including Greymouth Petroleum Limited, Maui Capital Indigo Fund Limited and Maui Capital Aqua Fund Limited. His previous directorships/trusteeships include Lion Nathan Limited, The Lion Foundation, Fonterra Co-operative Group Limited, Auckland International Airport Limited, OnePath Holdings (NZ) Limited and Fisher & Paykel Healthcare Corporation Limited.

Mr Smith holds a Master of Commerce degree from The University of Auckland and is a Graduate of the Program for Management at Harvard Business School. He is also a member of the Institute of Directors in New Zealand.

Peter Brook

Director since December 2002[2]

Mr Brook has 20 years' experience in the investment banking industry, retiring in 2000 to pursue his own business and consultancy activities. He is presently Chairman of BurgerFuel Worldwide Limited, Trust Investments Management Limited and Generate Investment Management Limited. Mr Brook is also a trustee of the Melanesian Mission Trust Board, a member of the Institute of Finance Professionals New Zealand Inc. and a director of several private companies.

Mr Brook holds a Bachelor of Commerce degree from The University of Auckland and is a member of the Chartered Accountants Australia and New Zealand.

Mark Cross

Director since March 2012

Mr Cross has more than 20 years' experience in investment banking, holding senior positions in New Zealand, Australia and the United Kingdom. He is currently chairman of Milford Asset Management Limited and MFL Mutual Fund Limited/Superannuation Investments Limited, and a director of Genesis Energy Limited, Z Energy Limited, Chorus Limited, Triathlon New Zealand Inc. and other private companies in which he is an investor.

Mr Cross holds a Bachelor of Business Studies degree from Massey University. He is a member of Chartered Accountants Australia and New Zealand and the Institute of Directors in New Zealand.

Andrew Evans

Director since August 2003[2]

Mr Evans has more than 25 years' experience in commercial real estate and asset management, previously holding executive positions in listed and unlisted real estate investment businesses. He is a director of Vital Healthcare Management Limited, Holmes Group Limited, Holmes GP Fire Limited, Trust Investments Management Limited, Hughes and Cossar Group Holdings Limited, Infinity Investment Group Limited and Westbrooke Capital Partners Limited. In addition, Mr Evans is a past national president of the Property Council of New Zealand, a foundation member of the Property Institute of New Zealand, a government appointee to the Land Valuation Tribunal (Waikato No.1) and is a trustee of the Marist Brothers Rugby Charitable Trust.

Mr Evans is a Chartered Fellow of the Institute of Directors and is on the Auckland Branch Committee. He has Bachelor of Business Studies and Master of Business Administration (with distinction) degrees from Massey University and a Graduate Diploma in Finance from The University of Auckland.

Chris Hunter

Director since June 2013

Mr Hunter has extensive commercial property experience including more than 25 years' in New Zealand's construction industry, most recently as the Chief Executive Officer of Hawkins Construction and he has recently invested in NZ Strong Group. Over the past 20 years he has been associated with more than $10 billion of developments across industrial, commercial, retail, residential and infrastructure sectors. Mr Hunter currently has a portfolio of business investments and is active in the property development sector.

Mr Hunter is a member of the New Zealand Institute of Quantity Surveyors, a fellow of the Royal Institute of Chartered Surveyors and holds a Master of Business Administration degree from Massey University.

Jeff Morrison

Director since July 2013

Mr Morrison has 39 years' of experience as a property lawyer, 29 of them as a commercial property partner at Russell McVeagh, and now practises on his own account. Mr Morrison is a trustee of the Spirit of Adventure and other charitable trusts and holds a number of private company directorships.

Mr Morrison is a qualified lawyer with a Bachelor of Laws degree from The University of Auckland. He is also a member of the Institute of Directors in New Zealand.

2 On 1 March 2012, Argosy Property Trust converted from a unit trust into a company, Argosy Property Limited, through a corporatisation process. On incorporatisation, the Board of Argosy Property Limited comprised the same directors as the Board of Argosy Property Management Limited, the manager of Argosy Property Trust. Prior to 1 March 2012, Michael Smith, Peter Brook, and Andrew Evans were directors of the manager of the former Trust and began their tenures in December 2002, December 2002 and August 2003 respectively.

▲ Michael Smith Chairman

▲ Andrew Evans Director

▲ Peter Brook Director

▲ Chris Hunter Director

▲ Mark Cross Director

▲ Jeff Morrison Director

03 Focus Area
Our People

▲ Peter Mence Chief Executive Officer

▲ Anna Hamill Financial Controller

▲ Dave Fraser Chief Financial Officer

▲ David Snelling General Counsel

▲ Scott Lunny Investor Relations Manager

▲ Saatyesh Bhana Asset Manager

▲ Rob Smith Asset Manager

▲ Joanna Sharpe Asset Manager

▲ Warren Cate Asset Manager

▲ Tony Frost Asset Manager

▲ Marilyn Storey Asset Manager

▲ Wade Allen Leasing Manager

To read bios of our people please visit our website:
argosy.co.nz/about-us/our-people

Focus Area

04

Health & Safety

We are committed to health and safety in the workplace and the aspirational goal of Zero Harm

Our health and safety commitment includes accurate recording and reporting of workplace incidents, supporting innovation and fresh ideas to improve health and safety systems, support for worker participation through health and safety representatives and supporting the safe and early return to work of injured employees.

We strive to provide and maintain a healthy and safe workplace for our employees and workers, monitor health and safety outcomes, and provide the information, training, resources and supervision needed to achieve this. We also acknowledge our responsibilities to tenants, other workers and the public.

HEALTH AND SAFETY STRATEGIC GOALS

We strive to create a positive safety culture. It is important that we manage health and safety risks, provide adequate training and resources and ensure that managers and individuals are accountable for their actions or inaction.

We have developed seven key strategic goals to provide a safer work environment.

1. We will proactively identify risks and and implement actions to eliminate, isolate or minimise the risk of harm.
2. We will consult and actively engage with employees and contractors to ensure they have the training, skills, knowledge and resources to maintain a healthy and safe workplace.
3. We will maintain and continually improve our health and safety system.
4. We will actively encourage our contractors and tenants to demonstrate the same commitment to achieving excellence in health and safety performance as we do.
5. We will support the health and wellbeing of staff and encourage the safe and early return to work of injured or ill employees.
6. We will comply with relevant legislation and regulations.
7. We will accurately report our incidents and investigate root causes, in a timely manner.

We are committed to health and safety in the workplace, striving to create a positive safety culture.

We are strongly committed to health and safety and have the aspirational vision of Zero Harm.

We have seven strategic health and safety goals designed to provide a safe work environment.

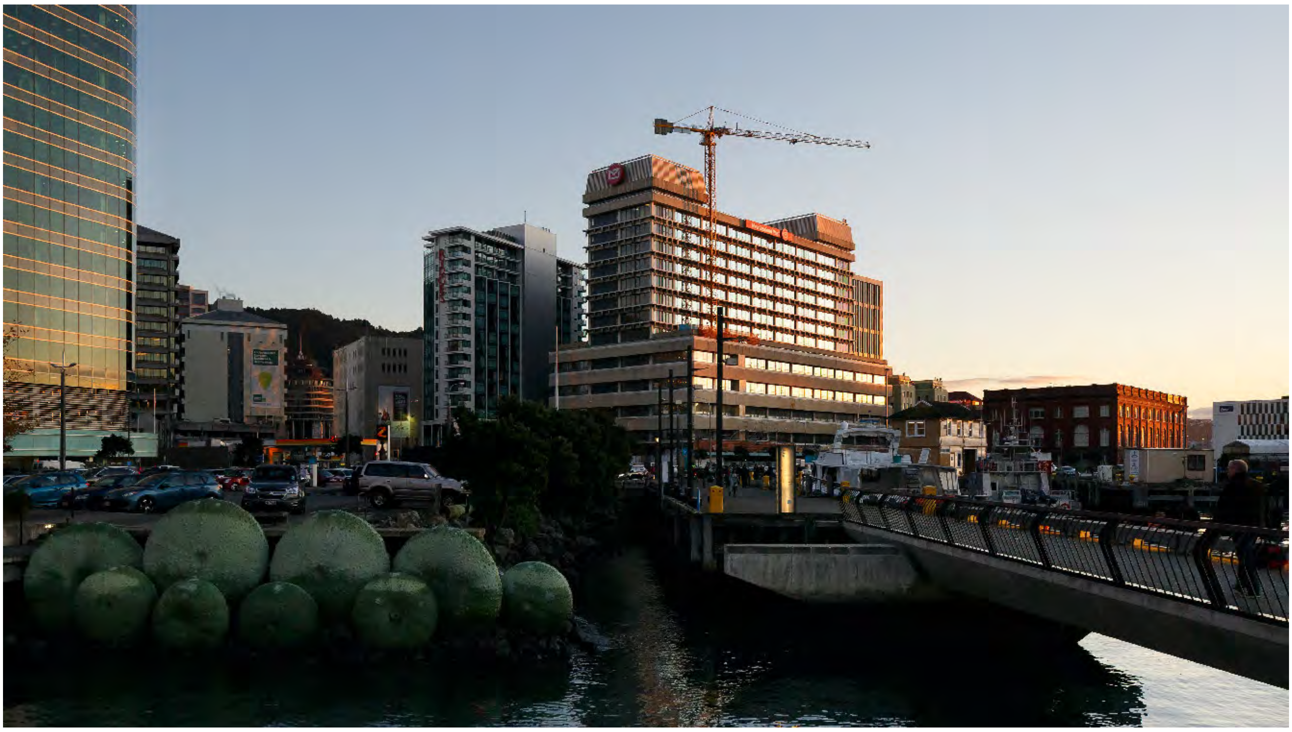
PROGRESS

Protection for our staff, tenants and contractors is paramount and we have made excellent progress in achieving our seven strategic goals. We have adopted the following health and safety initiatives:

- Conducting pre-project meetings and communicating risks.
- Regularly monitoring risk mitigation controls.
- Providing ongoing training and appropriate equipment to staff.
- Conducting spot health and safety audits.
- Maintaining a robust health and safety system.
- Conducting regular meetings to discuss health and safety issues.
- Employing a Compliance Manager to lead our health and safety program (and who is trained in root cause analysis).

ACC ACCREDITATION TERTIARY STATUS

During the year, we were awarded "Tertiary Status" in ACC's Workplace Safety Practices which is the highest level of achievement possible and represents "best practice" in health and safety compliance, according to ACC. This achievement is testament to the high standard of health and safety practices that we have set out to achieve and has resulted in a reduction in the amount of ACC levies that we are charged.



7 Waterloo Quay WELLINGTON

Focus Area

05

Environment & Community

We strive to deliver financial, environmental and social value to all of our stakeholders.

THE ENVIRONMENT

We pay attention to environmental issues and encourage environmentally responsible behaviour. We strive to improve the environmental performance of our properties.

We acknowledge that our activities can have an impact on the natural environment and we are committed to managing and reducing the consequences of these activities.

We understand that the way in which we engage with, and impact on, our stakeholders is critical to the continued sustainable success of our business.

We believe that a focus on sustainability can yield better company performance through two main channels:

1. more robust risk management
2. concentrated attention to long term value creation

We are a member of the New Zealand Green Building Council (NZGBC), a not-for-profit industry organisation dedicated to accelerating the development and adoption of market based green building practices.

WHAT WE DO

We aim to deliver environments that promote productivity and minimise the impact on the environment whilst providing better ways for people to work together.

We foster an innovation culture that allows us to be up to date with our tenants, our shareholders and the community, providing benefits for all stakeholders and assisting in achieving sustainable outcomes quicker.

We strive to be smarter and efficient in the way we use energy to reduce carbon emissions.

We respect that the quality and quantum of our water supply is limited and aim to rethink the way we use and reuse water across the portfolio.

We ensure resources are reused and recycled where possible during major construction projects.

We acknowledge that our activities can have an impact on the natural environment and are committed to managing and reducing the consequences of these activities.

Actively engaged

We are committed to actively engaging with our stakeholders including the communities we are part of.

We believe that with improved Environmental, Social and Governance policies and practices, shareholders and tenants can make better informed investment decisions.

OUR ASPIRATIONAL GOALS

During the year, we established an Environmental, Social and Governance (ESG) Framework. As a result of this framework, we established the following aspirational environmental goals.

1. We will strive to obtain NABERSNZ Energy Ratings on all of our office buildings by 2022.

We currently have a 4½ Star NABERSNZ rating on 143 Lambton Quay, Wellington and are seeking a rating at 15-21 Stout Street in Wellington. The redevelopment of 82 Wyndham Street in Auckland is expected to result in a 4 Star NABERSNZ rating (see case study on page 30 for more details on this property).

2. We will collect energy consumption data (electricity, water and gas) on all buildings.

Data will be used to enable us to work with our tenants in the future to achieve operational improvements that will be beneficial for us as property owners and our tenants.

3. We will develop a Waste Management Plan which will be incorporated into all major projects

A waste management plan was successfully used in the upgrade project at 143 Lambton Quay in Wellington (see case study) which resulted in 90% of all waste being recycled. This approach will be used on all major projects.

4½ Star

NABERSNZ rating
at 143 Lambton Quay

WHAT IS NABERSNZ?

NABERSNZ is an independent system for rating the energy efficiency of office buildings, which is backed by the New Zealand Government. NABERSNZ is a useful tool for an owner to understand how energy is used in a building and to be able to improve its performance.

By using this information, energy-management strategies can be instigated to make operational improvements and reduce energy consumption.

Evidence from Australia, where NABERS is more established, shows that a building with a high NABERS Certified Rating has the potential to attract high value tenants willing to pay a premium for an energy efficient building. This premium can be up to 8%.

WHAT DOES GREEN STAR MEAN?

Green Star rating tools have been developed by the NZGBC as a way of predicting the energy use and environmental impact of a building from the design phase to completion. To rate a building's overall environmental impact, the tool awards points across nine categories: energy, water, materials, indoor environment quality, transport, land use & ecology, management, emissions, and innovation. A 5 Green Star rating indicates New Zealand excellence.

5 Star

Office Green Built Rating
at 143 Lambton Quay

Te Puni Kōkiri 5 Star Green Upgrade

143 Lambton Quay in Wellington was built in 1940, providing 6,216m² of office accommodation over 11 levels. In the mid 1980's, three new levels were added to the building and new services installed. We acquired the property when the Urbus portfolio was purchased in 2005.

In collaboration with Te Puni Kōkiri, we undertook a $3.6 million green upgrade of the property with full replacement of services to provide a premium working environment with a focus on energy efficiency and sustainability within an existing heritage building.

The project was awarded a 5-Star Built rating from the New Zealand Green Building Council - the first 5 Star built rated office building in Wellington. We were particularly proud of the first innovation point, which was awarded for recycling over 90% (by weight) of the project's construction waste, more than 20% above the minimum standard required at the time.

05 Focus Area

Environment & Community

Green Star Upgrade of 82 Wyndham Street

Our property at 82 Wyndham Street in Auckland's CBD is currently undergoing a makeover, incorporating Green Star and NABERSNZ ratings. The four-level 6,199m² building, with three levels of offices and basement parking was constructed in the 1990s as part of the redevelopment that included the old Farmers Department store building, now the Heritage Hotel.

We are taking the opportunity to undertake a complete refurbishment of all the building's base services which will be upgraded to a minimum 4 Green Star built rating, with a 4 Star NABERSNZ energy efficiency rating also being sought.

New services will include an "end of trip" facility to encourage cycling to work with bike racks and showers, a variable refrigerant flow air conditioning system with heat recovery allowing for substantial energy savings in partial-load conditions, an increase in the building's cooling and fresh air supply so it can cater for a density of one person per eight square metres, a "smart" lighting system linked to automatic blinds and the latest water saving and recovery services including metering to enable usage to be measured for NABERSNZ.

OUR COMMUNITY

Our social responsibility commitment is to actively engage with the communities in which we operate. We recognise that shareholders are increasingly looking for companies to take a broader view of responsibility beyond delivering returns to shareholders. We have recognised this trend and have made the commitment to sponsor two main worthwhile causes: surf lifesaving and the Spirit of Adventure Trust, at a total of $50,000 per annum.

Surf Lifesaving

In 2013 we identified surf lifesaving as an excellent charity to partner with as we recognise the contribution that lifeguards provide in keeping us and our loved ones safe in the water each year.

Since then we have held a very successful partnership with the Red Beach Surf Life Saving Club (RBSLC). This year we have reaffirmed our commitment to support the great work that RBSLC do for their community by providing them with further funding over two years.

This year we also sought to identify three further surf lifesaving clubs around New Zealand and will provide each of these clubs $10,000 per annum over the next two years with the purpose of using the funds to purchase essential life saving equipment for their clubs.

The three additional clubs that we will support over the next two years are:

1. Hot Water Beach Surf Lifesaving Club, Coromandel
2. Lyall Bay Surf Lifesaving Club, Wellington
3. Taylors Mistake Surf Lifesaving Club, Christchurch

We are looking forward to working with these clubs and hope that Argosy shareholders take pride in the great work that they all do.

Spirit of Adventure Trust

We are also proud to sponsor two teenagers, aged 16-18, to participate in the 10-day development voyage on the Spirit of New Zealand, through the Spirit of Adventure Trust, based in Auckland. Argosy is contributing a total of $5,000 per annum for this initiative.

Over 1,000 Kiwi teenagers get the opportunity to participate in this potentially life changing voyage every year and Argosy has teamed up with the Trust to identify two worthwhile people that would benefit from this experience but who would otherwise not necessarily have the means to be able to fund it.

This development programme has been building generations of young Kiwis with confidence, resilience and self-esteem since 1972. We are extremely happy to be supporting this programme, especially as NZ Ministry of Youth Research has found that too many young people are arriving at adulthood ill-prepared to contribute productively as citizens of New Zealand and as future employees.

Further information about the Trust can be found at www.spiritofadventure.org.nz.

> "Thank you so much Argosy. It was life changing...I wouldn't have been able to do anything I've done on this voyage if it wasn't for you."
>
> SPIRIT OF ADVENTURE VOYAGE RECIPIENT

Staff Volunteer Days

Each member of staff at Argosy is encouraged to spend one day per year doing voluntary community work for a charity of their choice. During the year, staff and tenants of Argosy held a breakfast to support NZ Breast Cancer Research with $1,426 raised to go towards research.

Red Beach Surf Lifesaving Club

Spirit of Adventure Trust

Focus Area

06

Portfolio Positioning

Argosy has continued to improve the quality of the portfolio through acquisitions, divestments and tenant-led developments.

Over the past 12 months we have made the most of the property cycle to actively manage our portfolio and divest non Core assets that no longer fit our Investment Strategy. We have also worked closely with one of our major tenants, Cardinal Logistics, to acquire a new prime industrial warehouse in South Auckland and we continue to make progress on our tenant-led development initiatives to enhance the quality of the portfolio.

ACQUISITIONS AND MAJOR PROJECTS

In December 2016, we settled on the acquisition of the new prime industrial property at 240 Puhinui Road for $23.9 million. The property has the identical design and specifications to the modern standard of the adjacent Argosy-owned property at 19 Nesdale Avenue.

Argosy has a number of developments in progress where, in many cases, we have worked with our tenants to find solutions to their expanding occupancy requirements.

- The $7.5 million redevelopment of the property at 8 Foundry Drive in Christchurch is now substantially complete. The tenant, Polarcold Stores Limited, is now fully utilising the entire space on a 12 year lease.
- We acquired 22,575 square metres of land at Highgate Business Park in Silverdale, Auckland for $8.1 million and will undertake a $14.2 million development at the site for Mighty Ape, an existing tenant in the portfolio. Resource consent for this project was recently issued and works have now commenced. This development is expected to be completed by the end of 2017 and Mighty Ape is expected to move into their new premises by early 2018.
- We have also reached an agreement with Fletcher Distribution Limited (Placemakers) to develop the Value Add property at 180 Hutt Road in Kaiwharawhara, Wellington. The property is currently occupied by Placemakers and we have conditionally entered into a new nine-year lease on 3,713 square metres of the property following completion. The development is expected to cost approximately $9.4 million and will also include the addition of 1,100 square metres of retail space for lease.

In addition we have commenced exciting new developments which have significantly upgraded existing, well located assets.

- An extensive $9 million refurbishment of 82 Wyndham Street is underway that will result in the property being upgraded to a minimum 4 Green Star built rating and targeting a 4 Star NABERSNZ energy efficient rating. Panuku Development Auckland, an Auckland Council organisation, has signed a nine year lease on 2,657 square metres in this building over two floors, and is expected to move in in August 2017 once the upgrade works are complete (see our case study on page 30 for further information on this project).
- Progress on Snickel Lane, Argosy's laneways style development at the Citibank Centre in Auckland, has been steady with the first retailers moving into the site in May 2017. Leasing enquiry on remaining retail sites within the development remains strong and we expect to make significant progress in the coming year.

We have a clearly defined investment strategy and acquisition policy which guides our commercial decision making.

Argosy is, and will remain, invested in a portfolio that is diversified by sector, grade, location and tenant mix.

Quality portfolio

We have a high quality portfolio that continues to improve through careful acquisitions, divestments of non Core assets and adding value to the existing portfolio.

NEW ZEALAND POST HOUSE

During the year, New Zealand Post House on Waterloo Quay in Wellington was being refurbished as part of a development agreement that included NZ Post taking a 10-year lease over all but the top three floors of the building. This deal replaced the 5-year evergreen lease that NZ Post had previously over the whole building.

The building sustained damage to building services in the 7.5 magnitude Kaikoura earthquake in November 2016. Independent engineers confirmed that the building remains structurally sound, but significant replacement of fit-out and services is required. At year end, the ground floor plus four other levels have been re-occupied by NZ Post. As part of the new refurbishment works, all services on the remaining unoccupied floors will be completely replaced. The intended result will be a higher level of office accommodation quality for this building.

It is expected that we will commence repair of the damage to the building services and fit-out to levels 1-4 and 7 during the next financial year. We have obtained an indicative estimate that the reinstatement cost will be approximately $50 million, based on a preliminary scope of works. We have notified our insurers that there will be a claim for the reinstatement cost and associated loss of rents under our material damage and business interruption insurance policy (less a $4.8 million deductible). We are working closely with our insurers and NZ Post to ensure that repairs are completed expeditiously and to minimise disruption to NZ Post.

The building was valued on an "as if complete" basis at year end, with estimated costs to complete being deducted from the value at completion. The valuation did not take into consideration any reinstatement proceeds from the insurance claim. This has resulted in a write down of the value of this property at year end of $26.6 million.

DIVESTMENT OF NON CORE ASSETS

A key strategy is to divest vacant land and non Core assets and we have made further progress in achieving this over the past financial year.

We successfully divested the following non Core properties:

— the industrial property at 19 Richard Pearce Drive in Mangere for $7.6 million. Settlement took place in April 2017;
— the industrial property at 67 Dalgety Drive in Manukau for $6.85 million, a 44% premium to its book value;
— the retail property at 28-30 Catherine Street in Henderson for $5.6 million. Settlement is due to take place in June 2017;
— the industrial property at 44 Neil Lane in Palmerston North for $3.3 million; and
— 14,600 square metres of vacant land at 258 Oteha Valley Road in Albany for $11 million.

240 Puhinui Road Acquisition

In December 2016, Argosy settled the off-market acquisition of the brand new A-Grade industrial property at 240 Puhinui Road in Wiri, Auckland for $23.9 million.

This top quality property has the identical design and specifications to the very high, modern standard of the adjacent Argosy owned property at 19 Nesdale Avenue. Both properties are occupied by Cardinal Logistics, with matching 15 year leases in place.

The property is situated in south Auckland, only 3 kilometres from the Manukau CBD and has excellent access to Auckland motorways and the International Airport.

Cardinal Logistics is a 100% New Zealand owned and operated business and one of Argosy's largest tenants. They are one of New Zealand's leading and fastest-growing logistics companies, specialising in providing distribution and storage solutions with a strong focus on grocery products and other FMCGs.

Cardinal Logistics now occupy more than 38,000 square metres of net lettable area across the two properties.

Focus Area

07

Asset Management

Argosy has a diversified portfolio with strong portfolio metrics. The portfolio has a very high occupancy rate and a weighted average lease term of over five years.

MARKET UPDATE

As we get closer to the top of the property cycle, naturally the risks associated with property investment have increased. However, as long as positive net absorption continues we would expect to see real rental growth at this stage of the capitalisation rate cycle.

Despite an increase in long-term interest rates over the past six months, occupier demand in commercial property remains strong. In Auckland, office vacancy remains at lows that haven't been seen for twenty years although this is unlikely to remain for the long term as new supply has already started to hit the market.

The Auckland industrial market is showing signs of rental growth.

In Wellington, the earthquakes of late 2016 have had a significant impact and has caused the withdrawal of stock from the market. Owners of well located, earthquake sound properties in the city are well positioned.

VALUATIONS

An independent revaluation of the portfolio was undertaken as at 31 March 2017, resulting in a full year gain of $42.3 million, a 3.0% increase on the book value of the portfolio (note that $35.8 million was included in the interim accounts at 30 September 2016). This includes the $26.6 million write down of New Zealand Post House at 7 Waterloo Quay in Wellington.

The Company's portfolio following the revaluation (excluding NZ Post House) shows a passing yield on values of 7.15% and a yield on fully let market rentals of 7.31%.

LEASING ACTIVITY

Leasing activity has remained strong throughout the 2017 financial year as we re-leased several important expiries and vacancies.

Overall 113,995 square metres of space was subject to a lease event (new lease, lease extension or right of renewal) during the year which represents approximately 19% of the net lettable area of the entire portfolio.

Key lease successes included:

- A new nine-year lease of 2,657 square metres across two floors at 82 Wyndham Street in Auckland to Panuku Development Limited.
- A ten-year lease to The Warehouse Limited at 17 Mayo Road in Wiri.
- The leasing of 11,675 square metres of warehouse space at 320 Ti Rakau Drive in Manukau to Target International NZ Limited and Gunnersen Limited, both for ten years each.

During the year, 50 lease transactions were completed, including 29 new leases and 21 lease renewals and extensions. The weighted average lease term remains at historically high levels and was 5.59 years at 31 March 2017, compared with 5.24 years at 31 March 2016.

Occupancy (by rental) was 98.6%, slightly down from 99.4% at 31 March 2016. Outstanding lease expiries for the period to 31 March 2018 were 9.8% at 31 March 2017 (10.1% in the prior year) .

Each of our properties has a dedicated asset and property manager which allows us to optimise opportunities to maximise the return of our properties.

This focus allows us to minimise vacancy and maintain a strong weighted average lease term.

Our lease terms are diversified with fixed, market, and CPI rental growth.

PORTFOLIO STATISTICS

	Unit of measure	TOTAL	Industrial	Office	Retail
Number of buildings	#	64	38	17	9
Market value of assets	$m	1,442.16	583.41	547.45	311.30
Net lettable area	sqm	606,324	369,175	127,699	109,450
Vacancy factor by rent	%	1.4%	1.7%	1.6%	0.6%
Weighted average lease term	years	5.59	6.40	4.87	5.46
Average value	$m	22.53	15.35	32.20	34.59
Passing yield[1]	%	7.15%	6.93%	7.26%	7.38%

1. New Zeland Post House has been excluded from these yield metrics as the rents included in the valuation report were based on the completion of the earthquake remedial works required to be undertaken on this property.

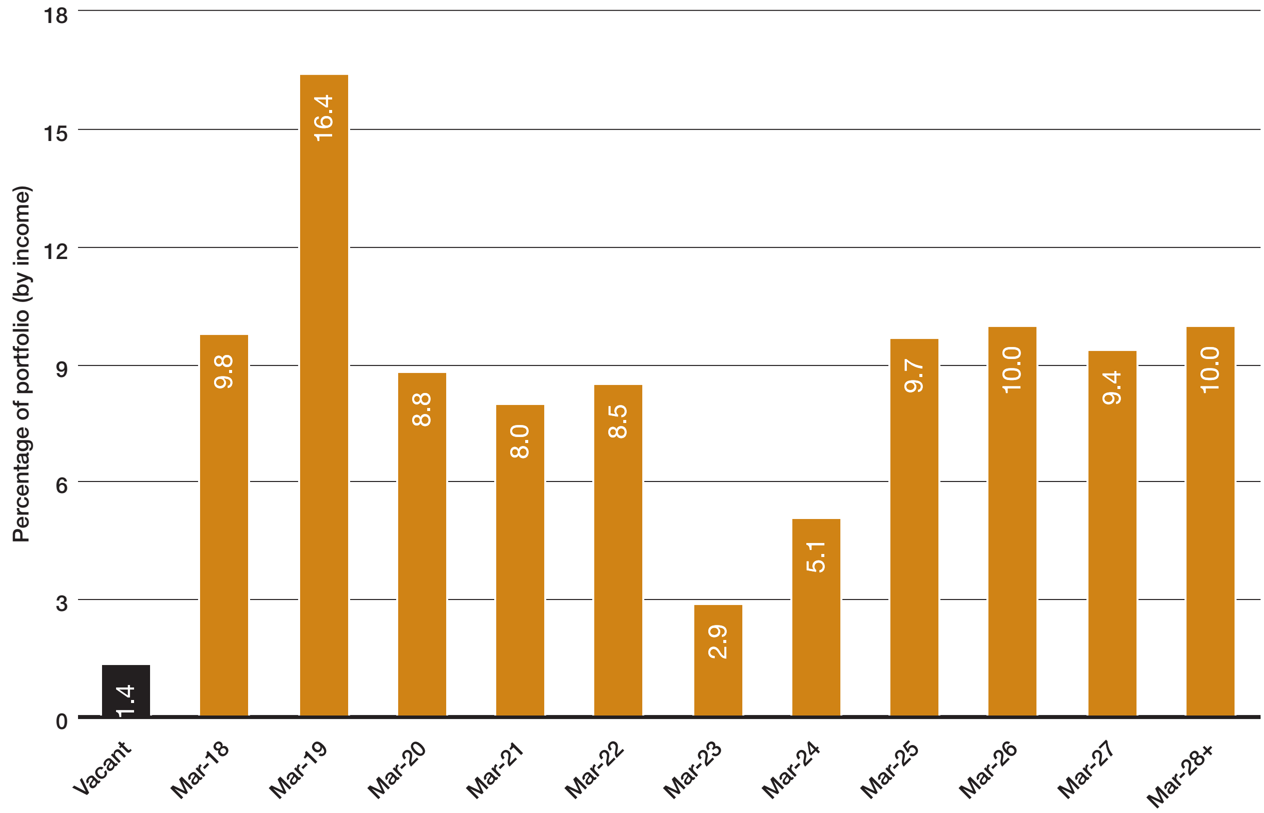
Net lettable area is used to calculate rentable area in buildings.

The **weighted average lease term** is very important because portfolio values are fundamentally affected by security of income streams.

Passing yield is net contract income divided by property valuation.

LEASE EXPIRY PROFILE

BY RENT

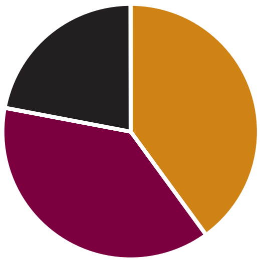


07

Focus Area

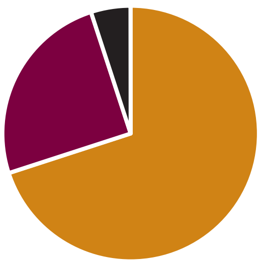
Asset Management

Total Portfolio Value
BY SECTOR



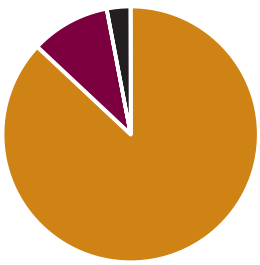
●	40%	Industrial
●	38%	Office
●	22%	Retail

Total Portfolio Value
BY REGION



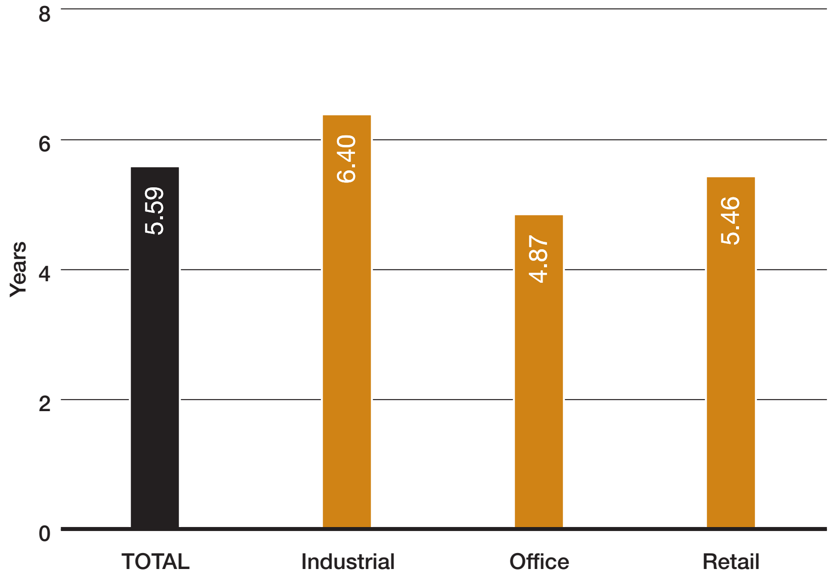
●	70%	Auckland
●	25%	Wellington
●	5%	North Island regional and South Island

Portfolio Mix



●	87%	Core properties
●	10%	Value Add properties
●	3%	Properties and land to divest

WEIGHTED AVERAGE LEASE TERM
BY RENT



"An independent revaluation of the portfolio was undertaken as at 31 March 2017 resulting in a gain of $42.3 million, a 3.0% increase on the book value of the portfolio"

New Leases and Lease Extensions
BY SECTOR

	Floor Area (sqm)	Average Lease Term (years)	No. of Leases
Industrial	60,720	4.03	8
Office	24,242	4.96	28
Retail	29,033	10.78	14
TOTAL	113,995	5.86	50

New Leases and Lease Extensions
BY TYPE

	Floor Area (sqm)	Average Lease Term (years)	No. of Leases
New lease	63,105	8.41	29
Right of renewal	14,926	2.79	16
Extension	35,964	2.12	5
TOTAL	113,995	5.86	50

Rent Reviews
BY SECTOR

	No. of Reviews	Annualised Rent Increase	Increase over Contract ($)
Industrial	20	2.0%	429,064
Office	35	2.2%	500,300
Retail	35	1.8%	271,047
TOTAL	90	2.0%	1,200,411

RENT REVIEWS

During the FY17 year, a total of 90 rent reviews were completed across the portfolio which generated a total increase in rent of $1,200,411. This represents an annualised rental increase of 2.0% for the year. The office sector was the best performer with rental growth of 2.2% over 35 reviews, followed by the industrial sector with 2.0% growth over 20 reviews and retail with an annualised growth of 1.8% over 35 reviews.

Rental growth in Auckland and Wellington was very similar, with annualised rental growth of 1.9% and 2.0% respectively. We experienced 2.9% rental growth outside of these two regions, however this was only across 3 rent reviews.

There were 21 market reviews, 22 CPI reviews and 47 fixed reviews during the year. These produced annualised rental growth of 1.1%, 1.2% and 3.3% respectively.

90 rent reviews

During the FY17 year, a total of 90 rent reviews were completed across the portfolio which generated a total increase in rent of $1,200,411.

New nine-year lease at 82 Wyndham Street in Auckland

We successfully reached an agreement to lease approximately 2,657 square metres of space across two floors at 82 Wyndham Street in central Auckland to Panuku Development Auckland, an Auckland Council organisation.

The lease is for a term of 9 years, with a break clause (with penalty) at 6 years, and will commence in August 2017.

The top floor of the building is leased to long term tenant Boffa Miskell on a recently renewed lease leaving one 1,575 square metre floor available. The remaining floor is being marketed for lease, with good enquiry, and will be available for occupation in the second half of FY18.

An extensive $9 million refurbishment of the entire building is being completed to a high standard including a minimum 4 Green Star built rating and is targeting a 4 Star NABERSNZ energy efficiency rating.

Argosy is, and will remain, invested in a portfolio that is diversified by sector, grade, location and tenant mix.

STRENGTH IN DIVERSITY

Number of Buildings

64

Market Value of Buildings $M

1,442.2

Occupancy By Rent

98.6%

WALT Years

5.59

Passing Yield*

7.15%

*excluding NZ Post House, Wellington

INDUSTRIAL

AUCKLAND

90 - 104 Springs Road, East Tamaki

VALUATION	$ 4,060,000
WALT	0.08
NET LETTABLE AREA (SQM)	3,875
VACANT SPACE (SQM)	–
PASSING YIELD	8.52%

8 Forge Way, Panmure

VALUATION	$ 19,150,000
WALT	1.53
NET LETTABLE AREA (SQM)	4,230
VACANT SPACE (SQM)	–
PASSING YIELD	6.88%

10 Transport Place, East Tamaki

VALUATION	$ 27,590,000
WALT	7.33
NET LETTABLE AREA (SQM)	10,641
VACANT SPACE (SQM)	–
PASSING YIELD	6.81%

1 Rothwell Avenue, Albany

VALUATION	$ 23,700,000
WALT	0.70
NET LETTABLE AREA (SQM)	12,936
VACANT SPACE (SQM)	–
PASSING YIELD	6.09%

4 Henderson Place, Onehunga

VALUATION	$ 22,225,000
WALT	14.29
NET LETTABLE AREA (SQM)	10,841
VACANT SPACE (SQM)	–
PASSING YIELD	6.49%

1-3 Unity Drive, Albany

VALUATION	$ 9,300,000
WALT	4.50
NET LETTABLE AREA (SQM)	6,204
VACANT SPACE (SQM)	–
PASSING YIELD	7.61%

5 Unity Drive, Albany

VALUATION	$ 5,450,000
WALT	2.00
NET LETTABLE AREA (SQM)	3,046
VACANT SPACE (SQM)	–
PASSING YIELD	6.70%

80 Springs Road, East Tamaki

VALUATION	$ 8,850,000
WALT	0.02
NET LETTABLE AREA (SQM)	9,675
VACANT SPACE (SQM)	–
PASSING YIELD	9.46%

211 Albany Highway, Albany

VALUATION	$ 15,800,000
WALT	0.84
NET LETTABLE AREA (SQM)	14,589
VACANT SPACE (SQM)	–
PASSING YIELD	8.43%

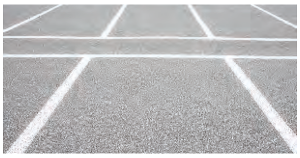
80-120 Favona Road, Mangere

VALUATION	$ 83,750,000
WALT	7.42
NET LETTABLE AREA (SQM)	59,448
VACANT SPACE (SQM)	–
PASSING YIELD	7.27%

19 Nesdale Avenue, Wiri

VALUATION	$ 44,000,000
WALT	14.68
NET LETTABLE AREA (SQM)	20,677
VACANT SPACE (SQM)	–
PASSING YIELD	6.75%

15 Unity Drive, Albany



VALUATION	$ 4,140,000
WALT	3.07
NET LETTABLE AREA (SQM)	7,002
VACANT SPACE (SQM)	–
PASSING YIELD	5.72%

12-16 Bell Avenue, Mt Wellington

VALUATION	$ 21,430,000
WALT	3.02
NET LETTABLE AREA (SQM)	14,809
VACANT SPACE (SQM)	–
PASSING YIELD	6.38%

18-20 Bell Avenue, Mt Wellington

VALUATION	$ 13,250,000
WALT	4.17
NET LETTABLE AREA (SQM)	8,998
VACANT SPACE (SQM)	–
PASSING YIELD	6.21%

32 Bell Avenue, Mt Wellington

VALUATION	$ 9,850,000
WALT	3.08
NET LETTABLE AREA (SQM)	8,790
VACANT SPACE (SQM)	–
PASSING YIELD	7.26%

9 Ride Way, Albany

VALUATION	$ 17,000,000
WALT	0.46
NET LETTABLE AREA (SQM)	9,178
VACANT SPACE (SQM)	–
PASSING YIELD	7.99%

2 Allens Road, East Tamaki

VALUATION	$ 3,960,000
WALT	1.50
NET LETTABLE AREA (SQM)	2,920
VACANT SPACE (SQM)	–
PASSING YIELD	7.49%

12 Allens Road, East Tamaki

VALUATION	$ 3,290,000
WALT	1.35
NET LETTABLE AREA (SQM)	2,372
VACANT SPACE (SQM)	–
PASSING YIELD	7.46%

106 Springs Road, East Tamaki

VALUATION	$ 5,100,000
WALT	1.50
NET LETTABLE AREA (SQM)	3,846
VACANT SPACE (SQM)	–
PASSING YIELD	7.48%

INDUSTRIAL

5 Allens Road, East Tamaki

VALUATION	$ 3,680,000
WALT	1.67
NET LETTABLE AREA (SQM)	2,663
VACANT SPACE (SQM)	–
PASSING YIELD	6.71%

960 Great South Road, Penrose

VALUATION	$ 6,050,000
WALT	1.00
NET LETTABLE AREA (SQM)	3,677
VACANT SPACE (SQM)	–
PASSING YIELD	6.56%

17 Mayo Road, Wiri

VALUATION	$ 24,700,000
WALT	9.84
NET LETTABLE AREA (SQM)	13,351
VACANT SPACE (SQM)	–
PASSING YIELD	5.99%

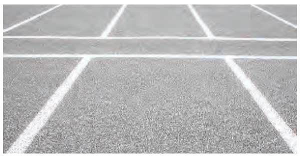
Cnr William Pickering Drive & Rothwell Avenue, Albany

VALUATION	$ 11,550,000
WALT	3.53
NET LETTABLE AREA (SQM)	7,074
VACANT SPACE (SQM)	–
PASSING YIELD	7.01%

240 Puhinui Road, Manukau

VALUATION	$ 28,500,000
WALT	14.68
NET LETTABLE AREA (SQM)	13,273
VACANT SPACE (SQM)	–
PASSING YIELD	6.44%

246 Puhinui Road, Manukau



VALUATION	$ 3,130,000
WALT	–
NET LETTABLE AREA (SQM)	–
VACANT SPACE (SQM)	–
PASSING YIELD	–

Highgate Parkway, Silverdale

VALUATION	$ 12,050,000
WALT	–
NET LETTABLE AREA (SQM)	–
VACANT SPACE (SQM)	–
PASSING YIELD	–

WELLINGTON

Cnr Wakefield, Taranaki & Cable Streets

VALUATION	$ 22,050,000
WALT	6.49
NET LETTABLE AREA (SQM)	3,307
VACANT SPACE (SQM)	–
PASSING YIELD	4.11%

14 Tunnel Grove, Seaview

VALUATION	$ 2,550,000
WALT	3.56
NET LETTABLE AREA (SQM)	2,324
VACANT SPACE (SQM)	–
PASSING YIELD	8.63%

147 Gracefield Road, Seaview

VALUATION	$ 11,250,000
WALT	1.75
NET LETTABLE AREA (SQM)	8,018
VACANT SPACE (SQM)	–
PASSING YIELD	9.96%

19 Barnes Street, Seaview

VALUATION	$ 12,900,000
WALT	11.43
NET LETTABLE AREA (SQM)	6,857
VACANT SPACE (SQM)	–
PASSING YIELD	7.56%

39 Randwick Road, Seaview

VALUATION	$ 17,250,000
WALT	3.01
NET LETTABLE AREA (SQM)	16,246
VACANT SPACE (SQM)	–
PASSING YIELD	8.98%

68 Jamaica Drive, Grenada North

VALUATION	$ 16,100,000
WALT	4.34
NET LETTABLE AREA (SQM)	9,404
VACANT SPACE (SQM)	–
PASSING YIELD	7.61%

56 Jamaica Drive, Grenada North

VALUATION	$ 1,100,000
WALT	–
NET LETTABLE AREA (SQM)	–
VACANT SPACE (SQM)	–
PASSING YIELD	–

OTHER

31 El Prado Drive, Palmerston North

VALUATION	$ 27,100,000
WALT	6.92
NET LETTABLE AREA (SQM)	24,656
VACANT SPACE (SQM)	–
PASSING YIELD	8.83%

1 Pandora Road, Napier

VALUATION	$ 7,500,000
WALT	0.08
NET LETTABLE AREA (SQM)	18,269
VACANT SPACE (SQM)	13,769
PASSING YIELD	3.30%

8 Foundry Drive, Woolston, Christchurch

VALUATION	$ 12,300,000
WALT	12.67
NET LETTABLE AREA (SQM)	7,668
VACANT SPACE (SQM)	–
PASSING YIELD	8.68%

1478 Omahu Road, Hastings

VALUATION	$ 8,650,000
WALT	6.33
NET LETTABLE AREA (SQM)	8,514
VACANT SPACE (SQM)	–
PASSING YIELD	7.51%

223 Kioreroa Road, Whangarei

VALUATION	$ 13,100,000
WALT	4.94
NET LETTABLE AREA (SQM)	9,797
VACANT SPACE (SQM)	–
PASSING YIELD	8.68%

OFFICE

AUCKLAND

99-107 Khyber Pass Road, Grafton

VALUATION	$ 8,000,000
WALT	0.92
NET LETTABLE AREA (SQM)	2,442
VACANT SPACE (SQM)	–
PASSING YIELD	8.16%

101 Carlton Gore Road, Newmarket

VALUATION	$ 26,900,000
WALT	3.60
NET LETTABLE AREA (SQM)	4,821
VACANT SPACE (SQM)	–
PASSING YIELD	6.42%

8 Nugent Street, Grafton

VALUATION	$ 44,900,000
WALT	4.70
NET LETTABLE AREA (SQM)	8,125
VACANT SPACE (SQM)	–
PASSING YIELD	6.90%

39 Market Place, Viaduct Harbour

VALUATION	$ 33,700,000
WALT	5.05
NET LETTABLE AREA (SQM)	10,233
VACANT SPACE (SQM)	–
PASSING YIELD	10.92%

105 Carlton Gore Road, Newmarket

VALUATION	$ 30,500,000
WALT	1.29
NET LETTABLE AREA (SQM)	5,312
VACANT SPACE (SQM)	–
PASSING YIELD	6.89%

302 Great South Road, Greenlane

VALUATION	$ 7,750,000
WALT	2.78
NET LETTABLE AREA (SQM)	1,890
VACANT SPACE (SQM)	–
PASSING YIELD	7.64%

308 Great South Road, Greenlane

VALUATION	$ 6,650,000
WALT	3.37
NET LETTABLE AREA (SQM)	1,570
VACANT SPACE (SQM)	–
PASSING YIELD	6.87%

626 Great South Road, Ellerslie

VALUATION	$ 9,600,000
WALT	4.26
NET LETTABLE AREA (SQM)	2,647
VACANT SPACE (SQM)	–
PASSING YIELD	7.87%

25 Nugent Street, Grafton

VALUATION	$ 10,000,000
WALT	2.19
NET LETTABLE AREA (SQM)	3,028
VACANT SPACE (SQM)	–
PASSING YIELD	7.16%

107 Carlton Gore Road, Newmarket

VALUATION	$ 29,300,000
WALT	2.10
NET LETTABLE AREA (SQM)	6,061
VACANT SPACE (SQM)	–
PASSING YIELD	6.94%

Citibank Centre, 23 Customs Street East

VALUATION	$ 62,300,000
WALT	2.86
NET LETTABLE AREA (SQM)	9,539
VACANT SPACE (SQM)	–
PASSING YIELD	6.35%

82 Wyndham Street

VALUATION	$ 29,200,000
WALT	5.83
NET LETTABLE AREA (SQM)	6,154
VACANT SPACE (SQM)	1,577
PASSING YIELD	7.23%

WELLINGTON

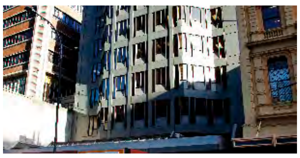
143 Lambton Quay

VALUATION	$ 27,150,000
WALT	2.25
NET LETTABLE AREA (SQM)	6,216
VACANT SPACE (SQM)	–
PASSING YIELD	7.90%

147 Lambton Quay

VALUATION	$ 34,300,000
WALT	2.47
NET LETTABLE AREA (SQM)	8,919
VACANT SPACE (SQM)	155
PASSING YIELD	7.84%

8-14 Willis Street



VALUATION	$ 15,200,000
WALT	0.90
NET LETTABLE AREA (SQM)	5,056
VACANT SPACE (SQM)	–
PASSING YIELD	7.60%

New Zealand Post House, 7-27 Waterloo Quay

VALUATION	$ 78,000,000
WALT	7.14
NET LETTABLE AREA (SQM)	24,977
VACANT SPACE (SQM)	–
PASSING YIELD	9.73%

15-21 Stout Street

VALUATION	$ 94,000,000
WALT	9.30
NET LETTABLE AREA (SQM)	20,709
VACANT SPACE (SQM)	–
PASSING YIELD	6.61%

RETAIL

AUCKLAND

Albany Mega Centre, Albany

VALUATION	$ 100,000,000
WALT	4.66
NET LETTABLE AREA (SQM)	25,155
VACANT SPACE (SQM)	–
PASSING YIELD	7.03%

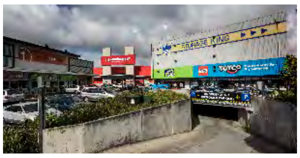
320 Ti Rakau Drive, East Tamaki

VALUATION	$ 45,400,000
WALT	5.17
NET LETTABLE AREA (SQM)	28,206
VACANT SPACE (SQM)	–
PASSING YIELD	7.04%

Albany Lifestyle Centre, Albany

VALUATION	$ 72,500,000
WALT	8.33
NET LETTABLE AREA (SQM)	25,029
VACANT SPACE (SQM)	–
PASSING YIELD	8.06%

7 Wagener Place, St Lukes



VALUATION	$ 27,400,000
WALT	2.15
NET LETTABLE AREA (SQM)	7,056
VACANT SPACE (SQM)	–
PASSING YIELD	7.73%

50 & 54-62 Cavendish Drive, Manukau

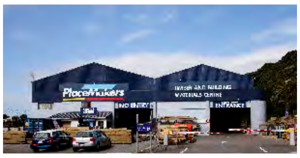
VALUATION	$ 26,000,000
WALT	7.98
NET LETTABLE AREA (SQM)	9,939
VACANT SPACE (SQM)	–
PASSING YIELD	6.54%

252 Dairy Flat Highway, Albany

VALUATION	$ 6,850,000
WALT	3.00
NET LETTABLE AREA (SQM)	2,107
VACANT SPACE (SQM)	–
PASSING YIELD	5.81%

WELLINGTON

180-202 Hutt Road, Kaiwharawhara



VALUATION	$ 8,150,000
WALT	1.37
NET LETTABLE AREA (SQM)	6,019
VACANT SPACE (SQM)	–
PASSING YIELD	9.03%

Stewart Dawsons Corner

VALUATION	$ 15,300,000
WALT	2.49
NET LETTABLE AREA (SQM)	1,752
VACANT SPACE (SQM)	404
PASSING YIELD	8.00%

OTHER

Cnr Taniwha & Paora Hapi Streets, Taupo

VALUATION	$ 9,700,000
WALT	5.50
NET LETTABLE AREA (SQM)	4,187
VACANT SPACE (SQM)	–
PASSING YIELD	7.44%

39 Market Place AUCKLAND

CONSOLIDATED FINANCIAL STATEMENTS

Contents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2017

	Note	Group 2017 $000s	Group 2016 $000s
Non-current assets			
Investment properties	5	1,442,155	1,367,551
Other non-current assets	7	518	1,656
Total non-current assets		1,442,673	1,369,207
Current assets			
Cash and cash equivalents		968	1,130
Trade and other receivables	8	1,301	4,281
Other current assets	9	568	273
		2,837	5,684
Non-current assets classified as held for sale	10	13,043	–
Total current assets		15,880	5,684
Total assets		1,458,553	1,374,891
Shareholders' funds			
Share capital	11	788,372	777,514
Share based payments reserve	13	194	65
Retained earnings	14	86,655	32,825
Total shareholders' funds		875,221	810,404
Non-current liabilities			
Borrowings	15	528,795	502,323
Derivative financial instruments	6	28,878	39,858
Deferred tax	21	12,619	8,952
Total non-current liabilities		570,292	551,133
Current liabilities			
Trade and other payables	16	8,911	10,430
Derivative financial instruments	6	–	51
Other current liabilities	17	3,272	2,591
Taxation payable		857	282
Total current liabilities		13,040	13,354
Total liabilities		583,332	564,487
Total shareholders' funds and liabilities		1,458,553	1,374,891

For and on behalf of the Board

P Michael Smith
Director

Mark Cross
Director

Date: 24 May 2017

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2017

	Note	Group 2017 $000s	Group 2016 $000s
Gross property income from rentals		106,754	103,936
Gross property income from expense recoveries		18,175	18,277
Property expenses		(24,177)	(23,863)
Earthquake related expenses		(1,231)	–
Net property income	4	99,521	98,350
Administration expenses	18	9,328	8,948
Profit before financial income/(expenses), other gains/(losses) and tax		90,193	89,402
Financial income/(expenses)			
Interest expense	19	(25,880)	(28,241)
Gain/(loss) on derivative financial instruments held for trading		11,031	(18,552)
Transfer from hedge reserve	12	–	(814)
Interest income		48	106
		(14,801)	(47,501)
Other gains/(losses)			
Revaluation gains on investment property	5	42,317	42,218
Realised gains/(losses) on disposal of investment property	5	2,712	(925)
Gain on sale of storage business		–	360
		45,029	41,653
Profit before income tax attributable to shareholders		120,421	83,554
Taxation expense	20	16,044	4,657
Profit for the year attributable to shareholders		104,377	78,897
Other comprehensive income			
Movement in cash flow hedge reserve	12	–	814
Income tax expense relating to other comprehensive income	20	–	(228)
Total other comprehensive income after tax		–	586
Total comprehensive income after tax		104,377	79,483
All amounts are from continuing operations			
Earnings per share			
Basic and diluted earnings per share (cents)	23	12.78	9.79

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2017

	Note	Group 2017 $000s	Group 2016 $000s
Shareholders' funds at the beginning of the year		810,404	768,726
Profit for the year		104,377	78,897
Movement in cash flow hedge reserve		–	586
Total comprehensive income for the year		104,377	79,483
Contributions by shareholders			
Issue of shares from Dividend Reinvestment Plan	11	10,900	11,121
Issue costs of shares	11	(42)	(38)
Dividends to shareholders	14	(50,547)	(48,953)
Equity settled share based payments	13	129	65
Shareholders' funds at the end of the year		875,221	810,404

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2017

	Note	Group 2017 $000s	Group 2016 $000s
Cash flows from operating activities			
Cash was provided from:			
Property income		128,288	124,249
Interest received		48	106
Cash was applied to:			
Property expenses		(25,471)	(26,024)
Interest paid		(25,326)	(28,230)
Employee benefits		(5,601)	(5,028)
Taxation paid		(11,801)	(11,269)
Other expenses		(3,368)	(3,524)
Net cash from/(used in) operating activities	22	56,769	50,280
Cash flows from investing activities			
Cash was provided from:			
Sale of properties, deposits and deferrals		22,881	57,515
Purchase price adjustment for New Zealand Post House		6,000	–
Sale of storage business		–	500
Cash was applied to:			
Capital additions on investment properties		(40,793)	(28,074)
Capitalised interest on investment properties		(471)	(76)
Purchase of properties, deposits and deferrals		(30,876)	(49,245)
Net cash from/(used in) investing activities		(43,259)	(19,380)
Cash flows from financing activities			
Cash was provided from:			
Debt drawdown		89,488	98,179
Cash was applied to:			
Repayment of debt		(63,471)	(91,263)
Dividends paid to shareholders net of reinvestments		(39,647)	(37,832)
Issue cost of shares		(42)	(38)
Facility refinancing fee		–	(310)
Net cash from/(used in) financing activities		(13,672)	(31,264)
Net increase/(decrease) in cash and cash equivalents		(162)	(364)
Cash and cash equivalents at the beginning of the year		1,130	1,494
Cash and cash equivalents at the end of the year		968	1,130

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

1. REPORTING ENTITY

Argosy Property Limited (APL or the Company) is an FMC Reporting Entity under the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013. APL is incorporated under the Companies Act 1993 and domiciled in New Zealand.

The Company's principal activity is investment in properties which include industrial, office and retail properties throughout New Zealand.

These financial statements are the consolidation of APL and its subsidiaries (the Group).

2. BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The accounting policies applied in these financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards issued and effective at the time of preparing these statements as applicable to the Company as a profit-oriented entity. These Group financial statements also comply with International Financial Reporting Standards (IFRS).

These financial statements were approved by the Board of Directors on 24 May 2017.

Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments and investment properties which are measured at fair value.

Use of estimates and judgements

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates that affect the application of policies and reported amount of assets and liabilities, income and expenses. The area involving a higher degree of judgement or complexity and where assumptions and estimates are significant to the financial statements is Note 5 - Valuation of Investment Property.

Functional and presentation currency

These financial statements are presented in New Zealand dollars which is the Company's functional currency and have been rounded to the nearest thousand dollars ($000).

Basis of consolidation

The Group's financial statements incorporate the financial statements of APL and its controlled subsidiaries as set out in Note 25. Control is achieved when the Company has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns. The results of the subsidiaries are included in the consolidated statement of comprehensive income from the date of acquisition which is the date the Company became entitled to income from the subsidiaries acquired. All significant intercompany transactions are eliminated on consolidation.

Statement of cash flows

The statement of cash flows is prepared on a GST exclusive basis, which is consistent with the statement of comprehensive income.

The following terms are used in the statement of cash flows:

Operating activities are the principal revenue producing activities of the Group and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity. Termination payments for swap contracts, establishment fees, extension fees and arranger fees are considered financing activities as they effect a change in the company's borrowing arrangements.

Cash and cash equivalents comprise cash balances and demand deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES

Change in accounting policies

Accounting policies and methods of computation have been applied consistently to all periods and by all group entities.

Standards and interpretations in issue not yet effective

At the date of authorisation of these financial statements the following relevant Standards and Interpretations were in issue but not yet effective and have not been applied in preparing these financial statements. These changes are not expected to have a material impact on the financial statements but may affect presentation and disclosure:

NZ IFRS 9 Financial Instruments (effective for accounting periods beginning on or after 1 January 2018) introduces a new classification and measurement regime for financial assets and liabilities.

NZ IFRS 15 Revenue from Contracts with Customers (effective for accounting periods beginning on or after 1 January 2018) provides revenue recognition criteria in relation to the nature, amount and timing of revenue associated with contracts with customers.

NZ IFRS 16 Leases (effective for accounting periods beginning on or after 1 January 2019) eliminates the distinction between operating and finance leases for lessees and will result in lessees bringing most leases onto their balance sheet, with the exception of certain short-term leases and leases of low-value assets. There are minimal changes from the current NZ IAS 17 requirements for lessors.

Other Standards and Interpretations in issue but not yet effective are not expected to have an impact on the financial statements of the Group in the period of initial application.

4. SEGMENT INFORMATION

The principal business activity of the Group is to invest in, and actively manage, properties in New Zealand. NZ IFRS 8 - Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, being the Chief Executive Officer, in order to allocate resources to the segments and to assess their performance.

The information reported to the Group's Chief Executive Officer includes information by investment property and has been aggregated based on three business sectors, being Industrial, Office and Retail, based on what occupants actual or intended use is. Segment profit represents the profit earned by each segment including allocation of identifiable revaluation gains on investment properties and gains/(losses) on disposal of investment properties. This is the measure reported to the Chief Executive Officer.

The following is an analysis of the Group's results by reportable segments.

	Industrial		Office		Retail		Total	
	2017 $000s	2016 $000s	2017 $000s	2016 $000s	2017 $000s	2016 $000s	2017 $000s	2016 $000s
Segment profit								
Net property income[1]	36,844	36,175	40,253	40,873	22,424	21,302	99,521	98,350
Realised gains/(losses) on disposal of investment properties	1,746	(342)	(20)	(15)	986	(568)	2,712	(925)
Gain on sale of storage business	–	360	–	–	–	–	–	360
	38,590	36,193	40,233	40,858	23,410	20,734	102,233	97,785
Revaluation gains/(losses) on investment properties	44,217	23,387	(11,971)	8,204	10,071	10,627	42,317	42,218
Total segment profit[2]	82,807	59,580	28,262	49,062	33,481	31,361	144,550	140,003
Unallocated:								
Administration expenses							(9,328)	(8,948)
Net interest expense							(25,832)	(28,135)
Gain/(loss) on derivative financial instruments held for trading and transfer from hedge reserve							11,031	(19,366)
Profit before income tax							120,421	83,554
Taxation expense							(16,044)	(4,657)
Profit for the year							104,377	78,897

1. Net property income consists of revenue generated from external tenants less property operating expenditure and earthquake related expenses.
2. There were no inter-segment sales during the year (31 March 2016: Nil).

4. SEGMENT INFORMATION (CONTINUED)

	Industrial		Office		Retail		Total	
	2017 $000s	2016 $000s	2017 $000s	2016 $000s	2017 $000s	2016 $000s	2017 $000s	2016 $000s
Segment assets								
Current assets	670	2,571	928	598	83	472	1,681	3,641
Investment properties	583,405	507,113	547,450	548,610	311,300	311,828	1,442,155	1,367,551
Non-current assets classified as held for sale	7,428	–	–	–	5,615	–	13,043	–
Total segment assets	591,503	509,684	548,378	549,208	316,998	312,300	1,456,879	1,371,192
Unallocated assets							1,674	3,699
Total assets							1,458,553	1,374,891

	Industrial		Office		Retail		Total	
	2017 $000s	2016 $000s	2017 $000s	2016 $000s	2017 $000s	2016 $000s	2017 $000s	2016 $000s
Segment liabilities								
Current liabilities	1,743	2,453	3,506	4,547	2,342	493	7,591	7,493
Total segment liabilities	1,743	2,453	3,506	4,547	2,342	493	7,591	7,493
Unallocated liabilities							575,741	556,994
Total liabilities							583,332	564,487

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than cash and cash equivalents, other non-current assets and other minor current assets that cannot be allocated to particular segments.
- all liabilities are allocated to reportable segments other than borrowings, derivatives, tax liabilities and other minor current liabilities that cannot be allocated to particular segments.

5. INVESTMENT PROPERTIES

Accounting policy – Investment properties

Investment property is property held either to earn rental income, for capital appreciation or for both.

Investment property is initially measured at cost and subsequently measured at fair value with any change therein recognised in profit or loss.

Initial direct costs incurred in negotiating and arranging operating leases and lease incentives granted are added to the carrying amount of the leased asset.

In accordance with the valuation policy of the Group, complete property valuations are carried out at least annually by independent registered valuers. The valuation policy stipulates that the same valuer may not value a building for more than two consecutive years. The fair values are based on market values being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The valuations are prepared using a combination of the Capitalisation of Contract Income, Capitalisation of Market Income and Discounted Cash Flow methodologies. Discounted Cash Flow methodology is based on the estimated rental cash flows expected to be received from the property adjusted by a discount rate that appropriately reflects the risks inherent in the expected cash flows.

Investment properties are derecognised when they have been disposed of and any gains or losses incurred on disposal are recognised in profit or loss in the year of derecognition.

Borrowing costs directly attributable to property under development are capitalised as part of the cost of those assets.

5. INVESTMENT PROPERTIES (CONTINUED)

	Industrial 2017 $000s	Office 2017 $000s	Retail 2017 $000s	Group 2017 $000s
Movement in investment properties				
Balance at 1 April	507,113	548,610	311,828	1,367,551
Acquisition of properties	32,039	–	–	32,039
Purchase price adjustment on New Zealand Post House	–	(6,000)	–	(6,000)
Capitalised costs	11,844	17,720	4,208	33,772
Disposals	(7,928)	–	(9,956)	(17,884)
Transfer to properties held for sale	(7,599)	–	(5,615)	(13,214)
Change in fair value	44,217	(11,971)	10,071	42,317
Change in capitalised leasing costs	163	160	401	724
Change in lease incentives	3,556	(1,069)	363	2,850
Investment properties balance at 31 March	583,405	547,450	311,300	1,442,155

	Industrial 2016 $000s	Office 2016 $000s	Retail 2016 $000s	Group 2016 $000s
Movement in investment properties				
Balance at 1 April	510,420	483,560	312,415	1,306,395
Acquisition of properties	5,990	42,020	–	48,010
Capitalised costs	6,592	22,098	842	29,532
Disposals	(38,535)	(6,407)	(11,625)	(56,567)
Change in fair value	23,387	8,204	10,627	42,218
Change in capitalised leasing costs	105	(254)	(271)	(420)
Change in lease incentives	(846)	(611)	(160)	(1,617)
Investment properties balance at 31 March	507,113	548,610	311,828	1,367,551

Investment properties are classified as level 3 (inputs are unobservable for the asset or liability) under the fair value hierarchy on the basis that adjustments must be made to observable data of similar properties to determine the fair value of an individual property.

The Group holds the freehold to all investment properties other than 39 Market Place, Viaduct Harbour, Auckland and a small part of 19 Barnes Street, Wellington.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. INVESTMENT PROPERTY (CONTINUED)

	Group 2017 $000s	Group 2016 $000s
Acquisition of properties		
240 Puhinui Road, Manukau, Auckland	23,947	–
Lot 8, Highgate Parkway, Silverdale, Auckland (land only)	8,092	–
15 Unity Drive, Albany, Auckland (land only)	–	3,122
8 Nugent Street, Grafton, Auckland	–	42,020
246 Puhinui Road, Manukau, Auckland (land only)	–	2,868
	32,039	48,010
Disposal of properties		
44 Neil Lane, Palmerston North	3,171	–
258 Oteha Valley Road, Albany, Auckland (land only)	9,956	–
67 Dalgety Drive, Wiri, Auckland	4,757	–
1 Allens Road, East Tamaki, Auckland[1]	–	3,003
Lot 56, 11-17 Valor Drive, Palmerston North	–	272
2 Allens Road, East Tamaki (land only)	–	310
5 Allens Road, East Tamaki (land only)	–	321
Lot 58, 19-25 El Prado Drive, Palmerston North	–	238
Porirua Mega Centre, 2-10 Semple Street, Porirua, Wellington	–	11,625
Lot 60, 20-28 El Prado Drive, Palmerston North	–	591
7 El Prado Drive, Palmerston North	–	1,758
65 Upper Queen Street, Auckland	–	6,407
Manawatu Industrial Park, Palmerston North[2]	–	24,545
Storage King, Wagener Place, Mt Albert, Auckland	–	10,500
	17,884	59,570
Sale proceeds of properties disposed of	21,147	60,018
Net gain/(loss) on disposal	3,263	448
Selling costs	(380)	(1,373)
Loss on properties held for sale	(171)	–
Total gain/(loss) on disposal	2,712	(925)

1. This propertiy was included as a non-current asset classified as held for sale in the prior year.
2. Includes $2.4 million of land previously classifield as part of 31 El Prado Drive, Palmerston North (EziBuy expansion land).

5. INVESTMENT PROPERTIES (CONTINUED)

All investment properties, with the exception of 56 Jamaica Drive, Wellington (2016: Lot 2, 246 Puhinui Road, Manukau, Auckland) were independently valued as at 31 March 2017 in accordance with the Group's accounting policy. The valuations were prepared by independent registered valuers CBRE Limited and Colliers International New Zealand Limited. The total value per valuer was as follows:

	Group 2017 $000s	Group 2016 $000s
CBRE Limited	849,835	705,924
Colliers International New Zealand Limited	591,220	658,759
Not valued	1,100	2,868
	1,442,155	1,367,551

Investment properties are stated at fair value by independent valuers supported by market evidence of property sale transactions and leasing activity. These valuations are reviewed by the Asset Management team within Argosy. The major inputs and assumptions that are used in the valuation that require judgement include forecasts of the current and expected future market rentals and growth, maintenance and capital expenditure requirements, an assessment of yields, discount rates, occupancy, leasing costs and weighted average lease terms.

In deriving a market value under each approach, all assumptions are based, where possible, on market based evidence and transactions for properties with similar locations, conditions and quality of construction and fit out.

Generally as occupancy and weighted average lease terms increase, yields firm, resulting in increased fair values for investment properties. A movement in any of these assumptions could result in a significant change in fair value.

New Zealand Post House located at 7 Waterloo Quay, Wellington sustained significant damage to fit out and building services as a result of the Kaikoura earthquake on 14 November 2016. It is expected that repairs (estimated to be approximately $50 million) will commence over the next financial year, and we have notified our insurers that an insurance claim will be forthcoming. This property has been valued at 31 March 2017 'as if complete' with the estimated costs for the reinstatement works being deducted from the 'as if complete' value.

Investment property metrics for the year ended 31 March 2017 are as follows:

		Industrial	Office	Retail	Total
Contract yield[1]	- Average	6.93%	7.26%	7.38%	7.15%
	- Maximum	9.96%	10.92%	9.03%	10.92%
	- Minimum	0.00%	6.35%	5.81%	0.00%
Market yield[1]	- Average	7.12%	7.58%	7.27%	7.31%
	- Maximum	12.15%	9.32%	9.00%	12.15%
	- Minimum	0.00%	6.81%	6.29%	0.00%
Occupancy (rent)		98.29%	98.42%	99.41%	98.58%
Occupancy (net lettable area)		96.27%	98.64%	99.63%	97.38%
Weighted average lease term (years)		6.40	4.87	5.46	5.59
No. of buildings[2]		38	17	9	64
Fair value total ($000s)		$583,405	$547,450	$311,300	$1,442,155

1. New Zealand Post House has been excluded from these yield metrics as the rents included in the valuation report were based on the completion of the earthquake remedial works required to be undertaken on this property.
2. Certain titles have been consolidated and treated as one. The total number of buildings excludes properties held for sale.

5. INVESTMENT PROPERTIES (CONTINUED)

Investment property metrics for the year ended 31 March 2016 are as follows:

		Industrial	Office	Retail	Total
Contract yield	- Average	7.70%	7.56%	7.36%	7.57%
	- Maximum	13.10%	10.95%	9.48%	13.10%
	- Minimum	0.00%	2.27%	6.32%	0.00%
Market yield	- Average	7.69%	7.62%	7.09%	7.53%
	- Maximum	12.09%	9.49%	9.32%	12.09%
	- Minimum	0.00%	6.84%	6.00%	0.00%
Occupancy (rent)		99.88%	99.09%	99.20%	99.39%
Occupancy (net lettable area)		99.92%	98.85%	99.29%	99.58%
Weighted average lease term (years)		5.99	4.82	4.78	5.24
No. of buildings[1]		39	17	10	66
Fair value total ($000s)		$507,113	$548,610	$311,828	$1,367,551

1. Certain titles have been consolidated and treated as one. The total number of buildings excludes properties held for sale.

6. FINANCIAL INSTRUMENTS

Accounting policy - Non-derivative financial instruments

Non-derivative financial instruments comprise investments, trade and other receivables, cash and cash equivalents, borrowings and trade and other payables.

Non-derivative financial instruments are initially measured at fair value plus directly attributable costs. Subsequently these instruments are measured at amortised cost using the effective interest method. The carrying values of these financial instruments are a reasonable approximation of their fair values.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income over the relevant period (including all fees and points paid or received between the parties to the contract that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period to the net carrying amount of the financial instrument.

Accounting policy - Derivative financial instruments

Interest rate swaps are entered into to manage interest rate exposure. For interest rate swaps, the net differential paid or received is recognised as a component of interest expense in the profit or loss.

Interest rate swaps are initially recognised at zero at the date a derivative contract is entered into and are remeasured to their fair value at subsequent reporting dates. The resulting gain or loss is recognised in profit or loss immediately.

Interest rate swaps are presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other interest rate swaps are presented as current assets or current liabilities.

6. FINANCIAL INSTRUMENTS (CONTINUED)

The Group has the following financial instruments:

Group 2017	Derivatives at fair value through profit/loss $000	Loans and receivables $000	Financial liabilities at amortised cost $000	Total $000
Financial assets				
Cash and cash equivalents	–	968	–	968
Trade and other receivables	–	1,301	–	1,301
	–	2,269	–	2,269
Financial liabilities				
Borrowings	–	–	(528,795)	(528,795)
Trade and other payables	–	–	(8,911)	(8,911)
Derivative financial instruments (current and term)	(28,878)	–	–	(28,878)
Other current liabilities	–	–	(3,272)	(3,272)
	(28,878)	–	(540,978)	(569,856)

Group 2016	Derivatives at fair value through profit/loss $000	Loans and receivables $000	Financial liabilities at amortised cost $000	Total $000
Financial assets				
Cash and cash equivalents	–	1,130	–	1,130
Trade and other receivables	–	4,281	–	4,281
	–	5,411	–	5,411
Financial liabilities				
Borrowings	–	–	(502,323)	(502,323)
Trade and other payables	–	–	(10,430)	(10,430)
Derivative financial instruments (current and term)	(39,909)	–	–	(39,909)
Other current liabilities	–	–	(2,591)	(2,591)
	(39,909)	–	(515,344)	(555,253)

6. FINANCIAL INSTRUMENTS (CONTINUED)

Risk management

The use of financial instruments exposes the Group to credit, interest rate and liquidity risks. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Credit risk

Credit risk relates to the risk that the counterparty to a financial instrument may default on its obligations to the Group, resulting in financial loss.

The Group's main exposure to credit risk arises from trade receivables and transactions with financial institutions, and is summarised in the preceding table. There are no significant concentrations of credit risk in specific receivables due to receivables mainly comprising a large number of tenants in the Group's property portfolio and the Group policy to limit the amount of credit exposure to any financial institution.

The Group manages its exposure to credit risk from trade receivables through its credit policy which includes performing credit evaluations on customers requiring credit. The Group does not hold any collateral in respect of balances past due. Details of impairment losses relating to trade receivables together with the ageing of receivables is provided in Note 8.

The risk from financial institutions is managed by placing cash and deposits with high credit quality financial institutions only. Cash deposits are placed with ANZ Bank New Zealand Limited.

Interest rate risk

Interest rate risk arises from long term borrowings (refer Note 15). Variable rate borrowings expose the Group to cash flow interest rate risk while fixed rate borrowings expose the group to fair value interest rate risk.

The Group manages its exposure to interest rate risk through derivatives in the form of floating to fixed interest rate swaps. These derivatives provide an economic hedge against variability in cash flows as a result of changes in variable interest rates on borrowings.

The Group's policy is to maintain a range of approximately 50%-100% of its borrowings in fixed interest rate instruments unless otherwise instructed by the Board of Directors. At year end, 65% of borrowings, after the effect of associated swaps, were at fixed rates (2016: 66%).

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk mainly arises from the Group's obligations in respect of long term borrowings, derivatives and trade and other payables. The Group aims to maintain flexibility in funding by keeping committed credit lines available (refer Note 15).

6. FINANCIAL INSTRUMENTS (CONTINUED)

The expected undiscounted cash flows of the Group's financial liabilities by remaining contractual maturity at the balance sheet date is as follows:

Group 2017	Carrying Amount $000	Less than 1 year $000	1-2 years $000	2-3 years $000	3-4 years $000	4-5 years $000	5+ years $000
Financial liabilities							
Borrowings[1]	(528,795)	(17,157)	(287,777)	(8,398)	(259,133)	–	–
Trade and other payables	(8,911)	(8,911)	–	–	–	–	–
Derivative financial instruments	(28,878)	(8,566)	(7,466)	(6,347)	(5,849)	(5,335)	(4,658)
Other current liabilities	(3,272)	(3,272)	–	–	–	–	–
	(569,856)	(37,906)	(295,243)	(14,745)	(264,982)	(5,335)	(4,658)

Group 2016	Carrying Amount $000	Less than 1 year $000	1-2 years $000	2-3 years $000	3-4 years $000	4-5 years $000	5+ years $000
Financial liabilities							
Borrowings[1]	(502,323)	(19,267)	(19,267)	(289,097)	(8,927)	(233,382)	–
Trade and other payables	(10,430)	(10,430)	–	–	–	–	–
Derivative financial instruments	(39,909)	(7,205)	(7,962)	(7,472)	(6,678)	(6,347)	(5,911)
Other current liabilities	(2,591)	(2,591)	–	–	–	–	–
	(555,253)	(39,493)	(27,229)	(296,569)	(15,605)	(239,729)	(5,911)

1. The undiscounted cashflows on borrowings includes interest, margin and line fees.

To manage the Group's exposure to interest rate risk on variable rate instruments, the Group has implemented a hedging strategy that uses interest rate swaps that have a range of maturities. At 31 March 2017, the Group had active interest rate derivatives with a notional contract amount of $345 million (2016: $335 million). The active derivatives mature over the next 8 years (2016: 9 years) and have fixed interest rates ranging from 3.87% to 4.90% (2016: 3.87% to 4.90%). There are no contracts entered into but not yet effective at 31 March 2017 (2016: $25 million).

Interest rate swaps are measured at present value of future cash flows estimated and discounted based on applicable yield curves derived from observable market interest rates. Accepted market best practice valuation methodology using mid-market interest rates at the balance date is used, provided from sources perceived to be reliable and accurate. Interest rate swaps have been classified into Level 2 of the fair value hierarchy on the basis that the valuation techniques used to determine the values at balance date use observable inputs.

The net liability for derivative financial instruments as at 31 March 2017 is $28.88 million (2016: $39.91 million). The mark-to-market decrease in the liability for derivative financial instruments is a result of the movement in the interest rate curve during the financial year.

6. FINANCIAL INSTRUMENTS (CONTINUED)

Sensitivity analysis

The sensitivity analysis below details the potential future impact of reasonably possible changes in the observable inputs over the next financial period. It has been determined based on the exposure to interest rates for both derivative and non-derivative financial instruments at the reporting date.

	2017 Group Impact on Profit & Loss $000s	2016 Group Impact on Profit & Loss $000s
Increase of 100 basis points	17,937	21,619
Decrease of 100 basis points	(19,476)	(23,638)

7. OTHER NON-CURRENT ASSETS

Accounting policy - Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An impairment loss is recognised immediately in profit or loss.

	Group 2017 $000s	Group 2016 $000s
Property, plant and equipment and software	518	492
Deposits associated with future acquisitions	–	1,164
Total other non-current assets	518	1,656

There was no impairment loss in the current year (2016: Nil).

8. TRADE AND OTHER RECEIVABLES

Accounting policy - Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

	Group 2017 $000s	Group 2016 $000s
Trade receivables	1,399	1,794
Allowance for doubtful debts	(111)	(37)
	1,288	1,757
Amount receivable from insurance proceeds	13	21
Other receivables from deferred settlement of properties divested	–	2,503
Total trade and other receivables	1,301	4,281

The average credit period on receivables is 3.4 days (2016: 3.5 days). The Group is entitled to charge interest on trade receivables as determined in each individual lease agreement. Interest is charged on receivables over 90 days on a case by case basis. The Group has provided for 50% of all receivables over 90 days that are considered doubtful. This amount increases to 100% of any receivable that is determined as not being recoverable. Trade receivables less than 90 days are provided for based on estimated irrecoverable amounts, determined by reference to past default experience.

Aged past due but not impaired trade receivables

	Group 2017 $000s	Group 2016 $000s
0-30 days past due	73	184
31-60 days past due	13	24
Beyond 60 days past due	26	4
	112	212

Included in the Group's trade receivable balance are debtors with a carrying amount of $112,409 (2016: $211,589) which are past due at the reporting date, for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable.

Movement in the allowance for doubtful debts

	Group 2017 $000s	Group 2016 $000s
Balance at the beginning of the year	37	153
Amounts written off as uncollectible	(13)	(67)
(Decrease) / increase in allowance recognised in profit or loss	87	(49)
Balance at the end of the year	111	37

9. OTHER CURRENT ASSETS

	Group 2017 $000s	Group 2016 $000s
Accrued Income	11	28
Prepayments	477	112
Other	80	133
Total other current assets	568	273

10. PROPERTY HELD FOR SALE

Accounting policy - Non-current assets classified as held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale (principally investment property) are measured at the lower of their previous carrying amount and fair value.

28-30 Catherine Street, Henderson, Auckland ($5,615,000), and 19 Richard Pearse Drive and 26 Ascot Avenue, Mangere ($7,427,875) were subject to unconditional sale and purchase agreements at balance date (2016: Nil).

11. SHARE CAPITAL

	Group 2017 $000s	Group 2016 $000s
Balance at the beginning of the year	777,514	766,431
Issue of shares from Dividend Reinvestment Plan	10,900	11,121
Issue costs of shares	(42)	(38)
Total share capital	788,372	777,514

The number of shares on issue at 31 March 2017 was 822,928,249 (2016: 812,615,602).

All shares are fully paid and rank equally with one vote attached and carry the right to dividends. All ordinary shares have equal voting rights.

Reconciliation of number of shares (in thousands of shares)	Group 2017 000s	Group 2016 000s
Balance at the beginning of the year	812,616	802,629
Issue of shares from Dividend Reinvestment Plan	10,312	9,987
Total number of shares on issue	822,928	812,616

Capital risk management

The Group's capital includes shares, reserves and retained earnings with total shareholders' funds equal to $875.2m (2016: $810.4m).

The Group maintains a strong capital base so as to maintain investor, creditor and market confidence and to sustain the Group's future on-going activities and development of the business. The impact of the level of capital on equity holder returns is also recognised along with the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Board's intention is to maintain the debt-to-total-assets ratio between 35-40% in the medium term. The Group's banking covenants require that the aggregate principal amount of the loan outstanding does not exceed 50% of the fair value of property at all times. All banking covenants have been met during the year.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through optimisation of debt and equity. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors. There have been no material changes in the Group's overall strategy during the year.

12. HEDGING RESERVES

Accounting policy - Hedge accounting

The Group no longer applies hedge accounting. However, the cumulative gains and losses relating to derivatives that were previously designated as effective hedges are recognised in profit or loss when the forecast transactions are ultimately recognised. When a forecast transaction is no longer expected to occur, the cumulative gains and losses that were previously recognised in equity are recognised immediately in profit or loss.

	Group 2017 $000s	Group 2016 $000s
Balance at the beginning of the year	–	(586)
Transferred to financial income/(expense)	–	814
Tax on fair value (losses)/gains on cashflow hedges	–	(228)
Total hedging reserves	–	–

13. SHARE BASED PAYMENTS RESERVE

Accounting policy - Share based payments

The fair value of performance share rights (PSRs) are recognised as an expense in the statement of financial performance over the vesting period of the rights with a corresponding entry to the share based payments reserve.

PSRs were offered to senior executives, commencing 1 April 2015. Under the scheme, PSRs are issued to participants which give them the right to receive ordinary shares in the Company after a three year period, subject to certain vesting and other conditions being met. The vesting of the PSRs is subject to the Company achieving a positive total shareholder return (measured against the Company's share price on the date of the issue of the PSRs, and including dividends) over a three year measurement period. The total number which actually vest will be dependent on the relative ranking of the Company's total shareholder returns against a comparator group of listed entities determined by the Board from the S&P/NZX All Real Estate Gross Index.

The total expense recognised in the year to 31 March 2017 in relation to equity settled share based payments was $129,400 (2016: $64,800). No rights were exercised or forfeited during the period.

Grant date	Vesting date	Granted during the year[1]	Weighted average issue price	Balance at the beginning of the year[1]	Vested during the year	Forfeited during the year	Balance at the end of the year[1]
2017							
1 April 2016	1 April 2019	268,670	$1.17	279,203	–	–	547,873
2016							
1 April 2015	1 April 2018	279,203	$1.13	–	–	–	279,203

1. This is the number of PSRs.

14. RETAINED EARNINGS

	Group 2017 $000s	Group 2016 $000s
Balance at the beginning of the year	32,825	2,881
Profit for the year	104,377	78,897
Dividends to shareholders	(50,547)	(48,953)
Total retained earnings	86,655	32,825

The annual dividend paid to shareholders was 6.10 cents per share, paid in four quarterly distributions of 1.525 cents per share (2016: annual dividend was 6.025 cents per share).

After 31 March 2017, the final dividend was declared. The dividend has not been provided for. Refer to Note 27.

15. BORROWINGS

Accounting policy - Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference being recognised in profit or loss over the period of the borrowing using the effective interest method.

Borrowing costs are the costs incurred in establishing the bank facility. These costs are amortised over the life of the facility at the effective interest rate.

	Group 2017 $000s	Group 2016 $000s
ANZ Bank New Zealand Limited	264,967	251,959
Bank of New Zealand	158,980	151,175
The Hongkong and Shanghai Banking Corporation Limited	105,987	100,784
Borrowing costs	(1,139)	(1,595)
Total borrowings	528,795	502,323
Shown as:		
Term	528,795	502,323

As at 31 March 2017, the Group had a syndicated revolving facility with ANZ Bank New Zealand Limited, Bank of New Zealand and The Hongkong and Shanghai Banking Corporation Limited for $550,000,000 (2016: $550,000,000) secured by way of mortgage over the investment properties of the Group. The facility included a Tranche A limit of $275,000,000 and a Tranche B limit of $275,000,000. Tranche A expired on 30 September 2018 and Tranche B on 30 September 2020 (2016: Tranche A ($275,000,000) expired on 30 September 2018 and Tranche B ($275,000,000) expired on 30 September 2020).

The weighted average interest rate on borrowings (including margin and line fee and interest rate swaps) as at 31 March 2017 was 4.88% (2016: 5.12%).

In May 2017, a new facility agreement was entered into with ANZ Bank New Zealand Limited, Bank of New Zealand and The Hongkong and Shanghai Banking Corporation Limited for $575,000,000 secured by way of mortgage over the investment properties of the Group. The facility includes a Tranche A limit of $275,000,000 expiring on 31 October 2021, a Tranche B limit of $275,000,000 expiring on 30 September 2020 and a Tranche C limit of $25,000,000 expiring on 31 October 2021.

16. TRADE AND OTHER PAYABLES

Accounting policy - Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

	Group 2017 $000s	Group 2016 $000s
GST payable	691	939
Other creditors and accruals	8,220	9,491
Total trade and other payables	8,911	10,430

17. OTHER CURRENT LIABILITIES

Accounting policy - Employee benefits

A provision is recognised for benefits accruing to employees in respect of annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future outflows to be made by the Group in respect of services provided by employees up to the reporting date.

	Group 2017 $000s	Group 2016 $000s
Employee entitlements	344	306
Other liabilities	2,928	2,285
Total other current liabilities	3,272	2,591

18. ADMINISTRATION EXPENSES

	Group 2017 $000s	Group 2016 $000s
Auditor's remuneration:		
Audit of the annual financial statements	151	148
Review of the interim financial statements	28	27
Annual meeting fees	7	7
Employee benefits	5,912	5,322
Other expenses	3,143	3,493
Doubtful debts expense/(recovery)	74	(116)
Bad debts	13	67
Total administration expenses	9,328	8,948

19. INTEREST EXPENSE

Accounting policy - Financial income and expenses

Finance expenses comprise interest expense on borrowings and gains and losses on hedging instruments that are recognised in profit or loss. Interest expense on borrowings is recognised using the effective interest method. Finance income comprises interest income using the effective interest method.

	Group 2017 $000s	Group 2016 $000s
Interest expense	(26,351)	(28,317)
Less amount capitalised to investment properties	471	76
Total interest expense	(25,880)	(28,241)

Capitalised interest relates to the Polarcold development at 8 Foundry Drive, Christchurch and the Mighty Ape development at Highgate Parkway, Silverdale, Auckland (2016: capitalised interest relates to the Polarcold development at 8 Foundry Drive, Christchurch).

20. TAXATION

Accounting policy - Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

	Group 2017 $000s	Group 2016 $000s
The taxation charge is made up as follows:		
Current tax expense	12,488	11,874
Deferred tax expense	3,667	(5,809)
Adjustment recognised in the current year in relation to the current tax of prior years	(111)	(1,408)
Total taxation expense recognised in profit/(loss)	16,044	4,657
Reconciliation of accounting profit to tax expense		
Profit before tax	120,421	83,554
Current tax expense at 28%	33,718	23,395
Adjusted for :		
Capitalised interest	(132)	(21)
Fair value movement in derivative financial instruments	(3,089)	5,422
Fair value movement in investment properties	(11,849)	(11,821)
Depreciation	(5,632)	(5,300)
Depreciation recovered on disposal of investment properties	259	350
Other	(787)	(151)
Current taxation expense	12,488	11,874
Movements in deferred tax assets and liabilities attributable to:		
Investment properties	512	157
Fair value movement in derivative financial instruments	3,089	(5,422)
Other	66	(544)
Deferred tax expense/(credit)	3,667	(5,809)
Prior year adjustment	(111)	(1,408)
Total tax expense recognised in profit or loss	16,044	4,657
Deferred tax recognised in other comprehensive income		
Deferred tax arising from revaluations of derivative financial instruments treated as cashflow hedges	–	228
Total tax recognised in other comprehensive income	–	228

Imputation credits at 31 March 2017 were Nil (2016: Nil).

21. DEFERRED TAX

Accounting policy - Deferred tax

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affect neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised.

Under NZ IAS 12, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it and includes a presumption that an investment property is recovered entirely through sale unless it will be consumed over its useful life.

The following are the major deferred tax liabilities and (assets) recognised by the Group, and the movements thereon during the current and prior reporting years:

	Interest rate swaps $000s	Investment property $000s	Other $000s	Total $000s
At 1 April 2016	(11,175)	16,982	3,145	8,952
Charge/(credit) to deferred taxation expense for the year	3,089	512	66	3,667
At 31 March 2017	(8,086)	17,494	3,211	12,619
At 1 April 2015	(5,981)	16,825	3,689	14,533
Credit to other comprehensive income for the year	228	–	–	228
Charge/(credit) to deferred taxation expense for the year	(5,422)	157	(544)	(5,809)
At 31 March 2016	(11,175)	16,982	3,145	8,952

Deferred tax is provided in respect of depreciation expected to be recovered on the sale of property at fair value. Depreciation is claimed at Inland Revenue Department approved rates.

Investment properties are valued each year by independent valuers (as outlined in Note 5). These values include an allocation of the valuation between the land and building components. The calculation of deferred tax on depreciation recovered and changes in fair value relies on the split provided by the valuers.

It is assumed that all fixtures and fittings will be sold at their tax book value.

22. RECONCILIATION OF PROFIT FOR THE YEAR AFTER TAXATION WITH CASH FLOWS FROM OPERATING ACTIVITIES

	Group 2017 $000s	Group 2016 $000s
Profit after tax for the year	104,377	78,897
Movements in working capital items relating to investing and financing activities	(349)	2,387
Non cash items		
Movement in deferred tax liability	3,667	(5,581)
Movement in interest rate swaps	(11,031)	18,552
Fair value change in investment properties	(42,317)	(42,218)
Movement in cashflow hedge reserve	–	586
Movements in working capital items		
Trade and other receivables	2,980	(2,456)
Taxation payable	575	(820)
Trade and other payables	(1,519)	603
Other current assets	(295)	108
Other current liabilities	681	222
Net cash from operating activities	56,769	50,280

23. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares on issue during the year.

	Group 2017	Group 2016
Profit attributable to shareholders of the Company ($000s)	104,377	78,897
Weighted average number of shares on issue (000s)	816,693	806,199
Basic and undiluted earnings per share (cents)	12.78	9.79

On 24 May 2017, a final dividend of 1.525 cents per share was approved by the Company. Continuation of the Dividend Reinvestment Plan programme will increase the number of shares on issue.

24. DISTRIBUTABLE INCOME

	Group 2017 $000s	Group 2016 $000s
Profit before income tax	120,421	83,554
Adjustments:		
Revaluation gains on investment property	(42,317)	(42,218)
Realised (gains)/losses on disposal of investment properties	(2,712)	925
Derivative fair value (gain)/loss	(11,031)	19,366
Earthquake related expenses	1,231	–
Gain on sale of storage business	–	(360)
Gross distributable income	65,592	61,267
Tax impact of depreciation recovered on disposal of investment properties and taxable gains on disposal of revenue account properties	1,042	410
Current tax expense	(12,377)	(10,466)
Net distributable income	54,257	51,211
Weighted average number of ordinary shares (000s)	816,693	806,199
Gross distributable income per share - (cents per share)	8.03	7.60
Net distributable income per share - (cents per share)	6.64	6.35

The Company's dividend policy is based on net distributable income. Net distributable income is determined under the Company's bank facility agreement.

25. INVESTMENT IN SUBSIDIARIES

The Company has control over the following subsidiaries:

Name of subsidiary	Principal activity	Place of incorporation and operation	Holding 2017	Holding 2016
Argosy Property No.1 Limited	Property investment	NZ	100%	100%
Argosy No.1 Trust	Property investment	NZ	100%	100%
Argosy Property Management Limited	Management company	NZ	100%	100%
Argosy Property No.3 Limited	Property investment	NZ	100%	100%
Argosy Property Unit Holdings Limited	Holding company	NZ	100%	100%

The subsidiaries have the same reporting date as the Company.

26. COMMITMENTS

Accounting policy - Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company has entered into commercial property leases on its investment properties. The Company has determined that it retains all significant risks and rewards of ownership of these properties and has thus classified these leases as operating leases.

The Group as a lessor

Rental income from operating leases is recognised in the period to which it relates. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and amortised to property expenses on a straight-line basis over the lease term.

In the event that lease incentives are paid to enter into the operating leases, such incentives are recognised as an asset. The aggregate cost of incentives is recognised as a reduction of rental revenue on a straight-line basis.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Ground rent

Ground leases exist over 39 Market Place, Viaduct Harbour, Auckland and a small part of 19 Barnes Street, Wellington. The amount paid in respect of the Auckland ground lease during the year was $1.0 million (2016: $1.0 million). The annual ground lease commitment is $1.0 million and is generally recoverable from tenants in proportion to their area of occupancy. The Auckland ground lease is renewable in perpetuity with the next renewal date in 2019.

Building upgrades and developments

Estimated capital commitments contracted for building projects not yet completed at 31 March 2017 and not provided for were $48.8 million (2016: $46.8 million).

There were no other commitments as at 31 March 2017 (2016: Nil).

Non-cancellable operating lease receivable

Operating leases relate to the investment properties owned by the Group with the leases expiring between 2017 and 2031. The lessee does not have an option to purchase the property at the expiry of the period.

	Group 2017 $000s	Group 2016 $000s
Within one year	105,260	103,096
One year or later and not later than five years	294,244	291,394
Later than five years	213,278	180,132
	612,782	574,622

26. COMMITMENTS (CONTINUED)

Non-cancellable operating lease payable

Operating lease commitments relate mainly to the IT infrastructure and vehicle leases. There are no renewal options or options to purchase in respect of these leases.

	Group 2017 $000s	Group 2016 $000s
Within one year	416	363
One year or later and not later than five years	492	564
Later than five years	–	–
	908	927

There were no contingent rents recognised as income during the year.

The Company has the following guarantee, which is not expected to be called upon:

As a condition of listing on the New Zealand Stock Exchange (NZX), NZX requires all issuers to provide a bank bond to NZX under NZX Main Board/Debt Market Listing Rule 2.6.2. The bank bond required from APL for listing on the NZX Main Board is $75,000.

27. SUBSEQUENT EVENTS

On 3 April 2017, the sale of 19 Richard Pearse Drive and 26 Ascot Avenue, Mangere was settled for $7,600,000 (net book value of $7,427,875).

On 24 May 2017, a final dividend of 1.525 cents per share was approved by the Company. The record date for the final dividend is 15 June 2017 and a payment is scheduled to shareholders on 29 June 2017. Imputation credits of 0.27768 cents per share are attached to the dividend.

28. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries , which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

	Group 2017 $000s	Group 2016 $000s
Key management and directors compensation		
Salaries and other short term employee benefits	1,393	1,370
Directors' fees	565	535
Total	1,958	1,905

INDEPENDENT AUDITOR'S REPORT

Deloitte.

To the Shareholders of Argosy Property Limited

Opinion

We have audited the consolidated financial statements of Argosy Property Limited and its subsidiaries (the 'Group') on pages 46 to 72, which comprise the consolidated statement of financial position as at 31 March 2017, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements on pages 46 to 72 present fairly, in all material respects, the financial position of the Group as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor and attending the Annual Meeting, we have no relationship with, or interests in, Argosy Property Limited or any of its subsidiaries. These services have not impaired our independence as auditor of the Group.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Company that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined the quantitative materiality for our audit of the Group's financial statements as a whole to be $2.9 million.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter and results
Investment Property Valuations Investment properties valued at $1,442 million are classified into three segments being, Industrial, Office, and Retail as disclosed in note 5 of the financial statements. The valuation of investment properties is a key audit matter due to the subjective judgements and assumptions in the valuation models. Adjustments are made to observable market data of similar properties to reflect the specific nature and location of the individual properties. Fair values are calculated using actual and forecast inputs including: market rentals and growth, maintenance and capital expenditure requirements, yields, discount rates, occupancy, leasing costs, and weighted average lease terms.	We read the valuation reports for all properties that were subject to revaluation at year end. We checked for any limitations of scope in the valuation reports that would impact the reliability of the valuations. When considered appropriate, discussions were held with the valuers to confirm the valuation approach used. We assessed the valuers' experience and professional accreditations. This included having each valuer confirm to us their independence, qualifications and that the scope of the work undertaken was in line with professional valuation standards and accounting standards. In addition we considered the Group's process for reviewing and challenging the valuation reports to ensure they accurately reflect the individual characteristics of each property.

NZ Post House sustained damage due to the Kaikoura earthquake. As a result the building is valued as though it was complete, less the estimated costs to reinstate the building to its pre-earthquake condition.

The Group's policy is to engage external valuers to perform valuations for each of the properties on at least an annual basis. The valuation methods used for assessing the fair value include a combination of the capitalisation of contract income, capitalisation of market income and discounted cash flow methodologies.

The key inputs to the valuations were tested across a sample of properties including those where the fair value had moved significantly from the previous year. This included understanding the key drivers of those movements and challenging the reasonableness of those key drivers.

For the sample selected, key changes in rentals, occupancy, lease costs and lease terms were agreed to underlying lease agreements, and market comparatives where applicable. In addition, we assessed the Group's estimated costs to re-instate NZ Post House to its pre-earthquake condition.

Our internal valuation specialist was used in assessing the appropriateness of the valuation methodology. Yields across the three segments were compared to property industry publications and other observable market data where available.

Other information

The Board of Directors are responsible on behalf of the Group for other information. The other information comprises the information included in the Annual Report that accompanies the consolidated financial statements and the audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated financial statements

The Board of Directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1

This description forms part of our auditor's report.

Restriction on Use

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

Deloitte Limited

Andrew Boivin, Partner
for Deloitte Limited
Auckland, New Zealand
24 May 2017

THE COMPANY

Argosy is a limited liability company incorporated under the Companies Act 1993. Argosy shares are listed on the NZX Main Board (NZX code: ARG). Argosy's constitution is available on its website (www.argosy.co.nz) and the New Zealand Companies Office website (www.business.govt.nz/companies).

CORPORATE GOVERNANCE PHILOSOPHY

Ultimate responsibility for corporate governance of the Company resides with the Board of Directors. The Board sees strong corporate governance and stewardship as fundamental to the strong performance of the Company and, accordingly, the Board's commitment is to the highest standards of business behaviour and accountability.

Outlined below are the main corporate governance practices in place throughout the year, which, in the Board's opinion, comply with the NZX Corporate Governance Best Practice Code (NZX Code) and the Corporate Governance in New Zealand Principles and Guidelines published by the Financial Markets Authority, unless otherwise stated.

ETHICAL STANDARDS

The Board has adopted a Code of Conduct and Ethics, which sets out the ethical and behavioural standards expected of Argosy's Directors, Officers and employees. The purpose of the Code of Conduct and Ethics is to uphold the highest ethical standards, acting in good faith and in the best interests of shareholders at all times. The Code of Conduct and Ethics outlines the Company's policies in respect of conflicts of interest, fair dealing, compliance with applicable laws and regulations, maintaining confidentiality of information, dealing with company assets and use of company information.

Procedures for dealing with breaches of these policies are contained in the Code of Conduct and Ethics, which forms part of each employee's conditions of employment.

Argosy's Code of Conduct and Ethics is available on its website (www.argosy.co.nz).

COMPOSITION OF THE BOARD

Argosy is committed to having a Board whose members have the capacity to act independently and have the composite skills to optimise the financial performance of the Company and returns to shareholders. The constitution provides for there to be not fewer than three Directors. All the members of the Board are non-executive Directors. The members of the Board are listed below and their brief resumés are included in the section headed "Board of Directors" on page 22.

ATTENDANCE OF DIRECTORS

Board Meetings attended

Michael Smith (Chair)	8 of 8
Peter Brook	8 of 8
Mark Cross	8 of 8
Andrew Evans	8 of 8
Chris Hunter	8 of 8
Jeff Morrison	8 of 8

All of the above persons were Directors as at 31 March 2017.

The Board does not impose a restriction on the tenure of any Director as it considers that such a restriction may lead to the loss of experience and expertise from the Board.

INDEPENDENT DIRECTORS

The Company recognises that independent directors are important in assuring shareholders that the Board is properly fulfilling its role and is diligent in holding management accountable for its performance.

In determining whether a Director is independent, the Board considers whether the Director is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of his or her unfettered and independent judgement. In accordance with Rule 3.3.2 of the NZX Main Board Listing Rules, the Board has determined that all of the Directors are, in its view, independent directors as at balance date as they do not have a disqualifying relationship with the Company.

BOARD AND DIRECTOR PERFORMANCE

The Board has an annual performance assessment, carried out under the direction of the Chairman. Assessment of individual Directors' performance is a process determined by the Chairman, taking into account the attendance, contribution and experience of each individual Director concerned.

INSIDER TRADING AND RESTRICTED PERSONS TRADING

Argosy's Directors, Officers and employees, their families and related parties must comply with the Insider Trading and Restricted Persons Trading policy. Amongst other requirements, the policy identifies two 'black-out periods' where trading in the Company's shares is prohibited (unless a special circumstances trading application is granted). The black-out periods are from the close of trading on 28 February (or 29 February in a leap year) until the day following the full year announcement date and from the close of trading on 31 August until the day following the half year announcement date each year.

Ongoing fixed participation in the Dividend Reinvestment Plan (DRP) is available throughout the year.

Trading by Directors, Officers and senior employees requires pre-trade approval (with limited exceptions, such as shares acquired under the DRP). Officers and employees must obtain approval from any two Directors or a Director and the Chief Financial Officer and Directors must obtain pre-trade approval from the Chairman (or in the case of the Chairman, the Chairman of the Audit and Risk Committee). The holdings of Directors of shares in Argosy are disclosed in the section headed "Directors' shareholdings" on page 79.

Argosy's Insider Trading and Restricted Persons Trading Policy is available on its website (www.argosy.co.nz).

DIRECTORS AND OFFICERS' INDEMNIFICATION AND INSURANCE

In accordance with section 162 of the Companies Act 1993 and the constitution of the Company, Argosy has indemnified and insured its Directors and employees, including Directors and employees of subsidiaries, in respect of liability incurred for any act or omission in their capacity as a Director or employee (including defence costs). The insurer reimburses the Company where it has indemnified the Directors or employees.

BOARD COMMITTEES

Board committees assist with the execution of the Board's responsibilities to shareholders. Each committee operates under a constitution approved by the Board, setting out its role, responsibilities, authority, relationship with the Board, reporting requirements, composition, structure and membership. Argosy's board committee constitutions are available on its website (www.argosy.co.nz).

REMUNERATION COMMITTEE

The Board has established a Remuneration Committee which considers the remuneration of the Directors and senior executives, and administers the Company's bonus and incentive schemes. The members of the Remuneration Committee are Michael Smith (Chairman), Peter Brook and Jeff Morrison.

ATTENDANCE AT REMUNERATION COMMITTEE

Remuneration Committee Meetings Attended

Michael Smith (Chair)	1 of 1
Peter Brook	1 of 1
Jeff Morrison	1 of 1

NOMINATIONS COMMITTEE

The Board does not maintain a Nominations Committee. As all Directors participate in nomination decisions a nominations committee is considered unnecessary.

AUDIT AND RISK COMMITTEE

The Board has established an Audit and Risk Committee, which is responsible for overseeing the financial, accounting and risk management responsibilities of the Company. The minimum number of members on the Audit and Risk Committee is three. All members must be Directors, the majority must be Independent Directors and at least one member must have an accounting or financial background.

The members of the Audit and Risk Committee are Mark Cross (Chairman), Peter Brook and Michael Smith.

The Audit and Risk Committee assists the Board in fulfilling its corporate governance and disclosure responsibilities with particular reference to financial matters, external audit and risk management, and is specifically responsible for:

— ensuring that processes are in place and monitoring those processes so that the Board is properly and regularly informed and updated on corporate financial matters;

— the appointment and removal of the external auditor;

— meeting regularly to monitor and review external audit practices;

— having direct communication with and unrestricted access to the external auditors;

— reviewing the financial reports and advising the Board whether they comply with applicable laws and regulations;

— ensuring the external auditor or lead audit partner is changed at least every five years;

— reviewing the performance and independence of the external auditor;

— monitoring compliance with the Financial Markets Conduct Act 2013, the Financial Reporting Act 2013, the Companies Act 1993 and the NZX Main Board Listing Rules; and

— overseeing the Company's risk management policy and framework and monitoring compliance.

ATTENDANCE AT AUDIT AND RISK COMMITTEE

Audit and Risk Committee Meetings Attended

Mark Cross (Chair)	4 of 4
Peter Brook	4 of 4
Michael Smith	4 of 4

DIRECTORS' REMUNERATION

Directors' Fees

The current total Directors' fee pool approved by ordinary resolution at the Company's 2015 Annual Meeting is $665,000 per annum.

Directors' Remuneration

Remuneration paid to Directors by the Company during the year is as follows:

Michael Smith (Chair)	$155,000
Peter Brook	$87,500
Andrew Evans	$75,000
Mark Cross	$95,000
Chris Hunter	$75,000
Jeff Morrison	$77,500

The Company considers it desirable to attract and retain high performing Directors whose skills and experience are well suited to the Company's requirements. To this end, it is important that the Directors are remunerated appropriately. The Directors' fees are presently set as follows:

— each Director (other than the Chairman) is paid $75,000 per annum.

— the Chairman is paid $140,000 per annum.

— additional amounts are paid to committee members.

The Audit and Risk Committee Chairman receives $20,000 per annum and its members each receive $10,000 per annum. The Remuneration Committee Chairman receives $5,000 per annum and its members each receive $2,500 per annum.

The Remuneration Committee reviews Director remuneration annually and makes recommendations to the Board. The Board takes advice from independent remuneration specialists when considering any proposal to increase the Directors' fees.

Additional payments may be made from the approved pool of $665,000 to Directors who assume additional responsibilities (including in relation to one-off project work) from time to time beyond the scope of their usual responsibilities. No payments were made in the year to 31 March 2017 (2016: Nil).

GENDER BALANCE

As at 31 March 2017 the gender balance of the Company's Directors, Officers and all employees was as follows:

	Directors	Officers	All employees
Female	0 (2016: 0)	3 (2016: 3)	16 (2016: 12)
Male	6 (2016: 6)	9 (2016: 9)	15 (2016: 15)
Total	6 (2016: 6)	12 (2016: 12)	31 (2016: 27)

The Company adopted a Diversity Policy with effect from April 2017. The Board considers that the Company is complying with the Policy and will be implementing it during the year ahead. Further reporting against the Policy will be provided in next year's annual report.

REMUNERATION REPORT

Under the guidance of the Remuneration Committee, the Board has established a remuneration framework which is designed to attract, retain and reward individual employees to deliver premium performance aligned to business objectives, strategy, shareholder interests and investment performance.

Employees Remuneration

An employee's remuneration is comprised of the following components:

- fixed remuneration
- variable or 'at risk' components

The fixed remuneration component (including salary, Kiwisaver contributions, health and disability benefits and vehicles) is designed to reward employees for their skills and experience and the accountability of their role. The variable component is comprised of a short term incentive scheme for all permanent employees and a long term incentive scheme for eligible senior employees.

Fixed Remuneration

Fixed remuneration is the primary basis for remunerating the Company's employees. Each employee's fixed remuneration is determined based on their responsibilities, capability, performance and market benchmarks.

Fixed remuneration for permanent employees is comprised of their base salary and benefits. Benefits may include:

- KiwiSaver employer superannuation contributions
- life and disability insurance
- health insurance
- private use of a company vehicle

Short Term Incentive Scheme (STI)

The STI is a discretionary variable pay scheme for permanent employees, designed to reward participants for high performance and the Company's success over the financial year.

- The STI is based on Company and individual performance measures with stretch performance goals.
- The Company performance measure is based on specific annual Company targets, which are linked to the Company's strategy and approved by the Board.
- Individual goals and performance measures are agreed between each manager and their direct reports, to encourage outstanding performance.
- Measures and stretch performance goals are reviewed each financial year.
- The value of the STI and its weighting between Company and individual performance measures each vary depending on the requirements of each employee's role.
- The STI for each of the Chief Executive Officer and Chief Financial Officer is based solely on Company performance.

Long Term Incentive Scheme (LTI)

The Company established an LTI scheme for senior executives with effect from 1 April 2015. The scheme remunerates senior executives for sustained performance over the medium term. Under the LTI scheme, the Company may issue performance share rights (PSRs) to eligible employees each year (currently the Chief Executive Officer and Chief Financial Officer).

Each PSR entitles its holder to one share in Argosy on its vesting date, subject to meeting LTI performance measures. Each PSR has a vesting date three years after commencement of the financial year in which it is issued.

The LTI performance measure is a comparison of the Company's Total Shareholder Return (TSR) against the TSR of a comparator group of listed entities determined by the Board.

- Comparator entities are chosen from the S&P/ NZX All Real Estate Gross Index.
- TSRs of the entities in the comparison group over the performance period (which is three years) will be ranked from highest to lowest.
- If Argosy's TSR over the performance period exceeds the TSR of the company ranked at the 50th percentile in the comparison group, 50% of the PSRs will vest.
- If Argosy's TSR over the performance period exceeds the TSR of the company ranked at the 75th percentile in the comparison group, 100% of the PSRs will vest.
- There is a straight line progression and apportionment between these two points. No shares will vest if the TSR over the performance period is negative.

No PSRs vested in the year ending 31 March 2017.

REMUNERATION

Chief Executive's Remuneration

The Chief Executive's remuneration for the year ended 31 March 2017 is outlined below:

Fixed remuneration and other benefits	$540,982
Short Term Incentive	$208,000
Total	$748,982

The Chief Executive's remuneration does not include the value of PSR's issued under the Company's LTI scheme which have been granted but have not yet vested. The first tranche of 176,991 PSR's issued to the Chief Executive under the LTI scheme in 2015 will have a vesting date of 31 March 2018. The second tranche of 170,314 PSR's issued in 2016 have a vesting date of 31 March 2019.

Employee remuneration

All employees of the Group are employed by Argosy Property Management Limited. The number of employees or former employees of the Group, not being Directors of Argosy Property Limited or the Chief Executive who received remuneration and any other benefits in their capacity as employees of $100,000 per annum or more, are set out below:

Amount of remuneration	Number of employees
$100,001 - $110,000	2
$110,001 - $120,000	2
$130,001 - $140,000	3
$150,001 - $160,000	1
$160,001 - $170,000	1
$210,001 - $220,000	1
$220,001 - $230,000	1
$230,001 - $240,000	3
$240,001 - $250,000	2
$270,001 - $280,000	2
$360,001 - $370,000	1
$570,001 - $580,000	1

Employee remuneration does not include PSRs issued under the Company's LTI scheme that have been granted but which have not vested. (No PSRs vested in the year to 31 March 2017.)

INTERESTS REGISTERS

Directors' shareholdings

Equity securities in which each Director and associated person of each Director held a relevant interest as at 31 March 2017 are listed below:

Director	Holder	Trustees	Interest	Number Shares
Phillip Michael Smith	FNZ Custodians Limited for trustees of the Mallowdale Trust	Philip Michael Smith and Dale D'Rose	Non beneficial	592,579
Peter Brook	Peter Brook	n/a	Beneficial	137,379
	FNZ Custodians Limited for trustees of the Bayview Trust	Peter Brook, Mary Brook, Samuel Goldwater, Nicholas Goldwater	Non beneficial	360,288
Andrew Mark Cross	Nil	Nil	Nil	Nil
Andrew Evans	Trustees of the Hardwick Trust	Andrew Evans & The Hardwick Trustees Limited	Non beneficial	106,046
	Graeme Horsley #3 Trust	Graeme Horsley, Susan Horsley, Andrew Evans	Non beneficial	18,976
Chris Hunter	Nil	Nil	Nil	Nil
Jeff Morrison	Investment Custodial Services for the trustees of the Suzanne Fisher Trust	Jeff Morrison and Barry Fisher	Non beneficial	435,002
	Investment Custodial Services for trustees of the L J Fisher Trust	Jeff Morrison and Andrew Spencer	Non beneficial	93,000
	Trustees of the J M Thompson Trust	Jeff Morrison, Robyn Shearer	Non beneficial	356,500
	Trustees of the Dalbeth Family Trust No.2	Audrey Dalbeth, Anthony Hudson, Bronwyn Patterson, William Dalbeth, Jeff Morrison	Non beneficial	80,770
	Trustees of the Dalbeth Family Trust No.3	William Dalbeth, Jeff Morrison	Non beneficial	133,400
	Trustees of the Dalbeth Family Trust No.4	William Dalbeth and Jeff Morrison	Non beneficial	190,400
	FNZ Custodians Limited for Stephen Fisher, Virginia Fisher and Jeff Morrison as trustees of the Stephen and Virginia Fisher Trust	Stephen Fisher, Virginia Fisher and Jeff Morrison	Non beneficial	150,000

SENIORS MANAGERS' SHAREHOLDINGS

Equity securities in which each Senior Manager and associated person of each Senior Manager held a relevant interest as at 31 March 2017 are listed below:

Officer	Holder	Trustees	Interest	No. of shares	PSRs vested
Peter Mence	Peter Mence	n/a	PSR	347,305	Nil
Dave Fraser	Dave Fraser	n/a	PSR	200,568	Nil

DIRECTORS AND SENIOR MANAGERS' SHARE DEALINGS

The Directors and Senior Managers entered into the following share dealings which relate to the acquisition of shares in the Company during the year:

- Michael Smith acquired a non-beneficial (trust) interest in 100,000 shares in the Company on 20 June 2016 for consideration of $114,000 through an on-market acquisition.
- Michael Smith acquired a non-beneficial (trust) interest in 250,000 shares in the Company on 14 December 2016 for consideration of $252,775 through an on-market acquisition.
- Peter Brook acquired a beneficial interest in 1,752 shares in the Company on 29 June 2016 for consideration of $1,977.76 under the Company's dividend reinvestment plan.
- Peter Brook acquired a beneficial interest in 1,802 shares in the Company on 28 September 2016 for consideration of $2,004.48 under the Company's dividend reinvestment plan.
- Peter Brook acquired a beneficial interest in 2,024 shares in the Company on 21 December 2016 for consideration of $2,031.96 under the Company's dividend reinvestment plan.
- Peter Brook acquired a beneficial interest in 2,112 shares in the Company on 30 March 2017 for consideration of $2,062.82 under the Company's dividend reinvestment plan.
- Andrew Evans acquired a non-beneficial (trust) interest in 1,219 shares in the Company on 29 June 2016 for consideration of $1,376.21 under the Company's dividend reinvestment plan.
- Andrew Evans acquired a non-beneficial (trust) interest in 10,000 shares in the Company on 6 July 2016 for consideration of $11,400 through an on-market acquisition.
- Andrew Evans acquired a non-beneficial (trust) interest in 1,391 shares in the Company on 28 September 2016 for consideration of $1,547.30 under the Company's dividend reinvestment plan.
- Andrew Evans acquired a non-beneficial (trust) interest in 1,563 shares in the Company on 21 December 2016 for consideration of $1,568.51 under the Company's dividend reinvestment plan.
- Andrew Evans acquired a non-beneficial (trust) interest in 1,630 shares in the Company on 30 March 2017 for consideration of $1,592.34 under the Company's dividend reinvestment plan.
- Dave Fraser acquired 98,356 PSRs on 29 June 2016 under the Company's Long Term Incentive Scheme.
- Peter Mence acquired 170,314 PSRs on 29 June 2016 under the Company's Long Term Incentive Scheme.
- Jeff Morrison acquired a non-beneficial (trust) interest in 88,000 shares in the Company on 22 June 2016 for consideration of $100,760 through an on-market acquisition.
- Jeff Morrison acquired a non-beneficial (trust) interest in 4,546 shares in the Company on 29 June 2016 for consideration of $5,132.31 under the Company's dividend reinvestment plan.
- Jeff Morrison acquired a non-beneficial (trust) interest in 62,000 shares in the Company on 21 July 2016 for consideration of $71,920 through an on-market acquisition.
- Jeff Morrison acquired a non-beneficial (trust) interest in 42,470 shares in the Company on 19 August 2016 for consideration of $49,477.55 through an on-market acquisition.
- Jeff Morrison acquired a non-beneficial (trust) interest in 4,676 shares in the Company on 28 September 2016 for consideration of $5,201.64 under the Company's dividend reinvestment plan.
- Jeff Morrison acquired a non-beneficial (trust) interest in 5,253 shares in the Company on 21 December 2016 for consideration of $5,272.95 under the Company's dividend reinvestment plan.
- Jeff Morrison acquired a non-beneficial (trust) interest in 5,480 shares in the Company on 30 March 2017 for consideration of $5,353.06 under the Company's dividend reinvestment plan.

DIRECTORS' INTERESTS

The Directors have declared interests in the entities listed below. Where (R) is included next to the interest, the Director has ceased to have that interest during the year.

Director	Position	Company/Organisation
Michael Smith	Director	Greymouth Petroleum Limited
	Director	Maui Capital Indigo Fund
	Director	Maui Capital Aqua Fund Limited
	Indirect interest	Partners Life Limited
Peter Brook	Trustee	Melanesia Mission Trust Board
	Chairman	Trust Investments Management Limited
	Chairman	Burger Fuel Worldwide Limited
	Chairman	Generate Investment Management Limited
Mark Cross	Director	Alpha Investment Partners Limited
	Director	Aspect Productivity Technology Limited
	Director	Emcee Squared Limited
	Chairman	Superannuation Investments Limited
	Chairman	MFL Mutual Fund Limited
	Chairman	Milford Asset Management Limited
	Director	Milford Funds Limited
	Board member	Triathlon New Zealand Inc.
	Director	Genesis Energy Limited
	Director	Milford Private Wealth Limited
	Director	Virsae Group Limited
	Director	Z Energy Limited
	Director	Chorus Limited
	Director	Milford Capital Investments Limited
	Director	Milford Private Equity Limited
	Director	MPE II GP Limited
Andrew Evans	Director	Vital Healthcare Management Limited
	Director	Holmes Group Limited
	Director	Holmes Fire & Safety Limited
	Director	Trust Investments Management Limited
	Director	Holmes GP Fire Limited
	Director	Hughes & Cossar Limited
	Director	Westbrooke Capital Partners Limited
	Director	Infinity Investment Group Limited
Chris Hunter	Director	Hunter Corporation Limited
	Director	Amalgamated Builders Limited
	Director	Hunter Consulting Services Limited
	Director	NZ Strong Group Limited
	Director	NZ Strong Construction Limited
Jeff Morrison	Trustee	Spirit of Adventure Trust
Peter Mence	Director	Argosy Property No. 3 Limited
	Director	Argosy Property No. 1 Limited
	Director	Argosy Property Unit Holdings Limited
	Director	Argosy Property Management Limited
Dave Fraser	Director	Argosy Property No. 3 Limited
	Director	Argosy Property No. 1 Limited
	Director	Argosy Property Unit Holdings Limited
	Director	Argosy Property Management Limited

INFORMATION USED BY DIRECTORS

No Director requested to use information received in his or her capacity as a director that would not otherwise be available to the Director.

INDEMNITIES AND INSURANCE

The Company effected indemnities for Directors and employees for liability (including defence costs) arising in respect of acts or omissions while acting in the capacity of a director or employee.

The Company effected insurance for Directors and employees for liability (including defence costs) arising in respect of acts or omissions while acting in the capacity of a director or employee, and a policy for defence costs.

EXTERNAL AUDIT FIRM GUIDELINES

In addition to the formal constitution under which the Audit and Risk Committee operates, the Audit and Risk Committee has adopted an External Auditor Independence Policy containing procedures to ensure the independence of the Company's external auditor.

The Audit and Risk Committee is responsible for recommending the appointment of the external auditor and maintaining procedures for the rotation of the external audit lead partner. Under the Auditor Independence Policy, the external audit lead partner must be rotated every five years.

The policy covers provision of non-audit services with the general principle being that the external auditor should not have any involvement in the production of financial information or preparation of financial statements such that they might be perceived as auditing their own work. It is, however, appropriate for the external auditor to provide services of due diligence on proposed transactions and accounting policy advice.

Deloitte has been appointed as the Company's external auditor.

NZX RULINGS AND WAIVERS

The Company did not apply to NZX for, nor rely on, any rulings or waivers during the year.

DONATIONS

The Company made the following sponsorship payments during the 2017 financial year:

— $15,000 to the Red Beach Surf Lifesaving Club Inc.

— $2,087 to the Spirit of Adventure Trust.

No other member of the Group made donations in the 2017 financial year.

ARGOSY SUBSIDIARIES – DIRECTORS

As at 31 March 2017:

— Michael Smith, Peter Brook, Andrew Evans, Peter Mence and David Fraser were the directors of Argosy Property No. 1 Limited.

— Michael Smith, Peter Brook, Andrew Evans, Peter Mence and David Fraser were the directors of Argosy Property No. 3 Limited.

— Michael Smith, Peter Brook, Andrew Evans, Peter Mence and David Fraser were the directors of Argosy Property Management Limited.

— Michael Smith, Peter Brook, Peter Mence and David Fraser were the directors of Argosy Property Unit Holdings Limited.

No director of any Argosy subsidiary received additional remuneration or benefits in respect of their directorships. The directors of Argosy's subsidiaries who are not also directors of the Company have no interests recorded in the interest registers of those companies.

20 LARGEST REGISTERED FINANCIAL PRODUCT HOLDERS AS AT 31 MARCH 2017

Rank	Holder Name	Total	Percentage
1	New Zealand Central Securities Depository Limited	331,588,469	40.29
2	FNZ Custodians Limited	48,338,416	5.87
3	Investment Custodial Services Limited <A/C C>	23,409,363	2.84
4	Custodial Services Limited <A/C 3>	22,546,971	2.73
5	Forsyth Barr Custodians Limited <1-Custody>	17,685,652	2.14
6	Custodial Services Limited <A/C 2>	11,856,973	1.44
7	Custodial Services Limited <A/C 4>	8,050,587	0.97
8	Christine Anne Mansell & Douglas Tony Brown <Harvan A/C>	6,850,000	0.83
9	University Of Otago Foundation Trust	6,696,568	0.81
10	Peter John Whiting & Janet Graham Whiting & Peter Austin Gowing <Whiting Family A/C>	6,177,100	0.75
11	PT (Booster Investments) Nominees Limited	5,682,415	0.69
12	JB Were (NZ) Nominees Limited <NZ Resident A/C>	5,600,935	0.68
13	Southern Capital Limited	5,500,000	0.66
14	Custodial Services Limited <A/C 18>	5,440,736	0.66
15	New Zealand Depository Nominee Limited <A/C 1> Cash Account	4,872,299	0.59
16	Custodial Services Limited <A/C 1>	3,302,731	0.40
17	Jarden Custodians Limited <A/C 7>	3,200,000	0.38
18	Jarden Custodians Limited <A/C 6>	3,000,000	0.36
19	Antony Trevor Morris & James Edward Webber <Lasik No.2 A/C>	2,700,000	0.32
20	Barry Winston Jones & Jocelyn Elma Jones & Heritage Trustee Company Ltd <Winston Investment A/C>	2,538,850	0.30

5 LARGEST FINANCIAL PRODUCT HOLDERS DISCLOSED BY THE NEW ZEALAND CENTRAL SECURITIES DEPOSITORY LIMITED AS AT 31 MARCH 2017

Rank	Holder Name	No of Shares
1	Guardian Nominees No 2 A/C - NZCSD	47,819,789
2	Accident Compensation Corporation – NZCSD	44,450,785
3	Citibank Nominees (New Zealand) Limited – NZCSD	39,688,959
4	National Nominees New Zealand Limited - NZCSD	38,670,578
5	BNP Paribas Nominees (NZ) Limited – NZCSD	32,585,170

Investor Statistics

SUBSTANTIAL PRODUCT HOLDERS AS AT 31 MARCH 2017

	Date notice filed	No of shares	% of total issued shares
Salt Funds Management Limited	10-Jan-17	52,411,024	6.38
Accident Compensation Corporation	10-Nov-16	46,947,683	5.71
Westpac Banking Corporation	14-Dec-16	40,933,385	5.01

The total number of shares on issue in the Company as at 31 March 2017 was 822,928,249. The only class of shares on issue as at 31 March 2017 was ordinary shares.

The number and percentage of shares shown are as advised in the substantial security holder notice to the Company disclosed by 31 March 2017 and may not be that substantial holder's current relevant interest.

DISTRIBUTION OF FINANCIAL PRODUCT HOLDERS AND FINANCIAL PRODUCT HOLDINGS AS AT 31 MARCH 2017

Holding Range	Holder Count	Holder Count %	Holding Quantity	Holding Quantity %
1 to 999	166	1.88	70,866	0.01
1,000 to 1,999	254	2.87	331,421	0.04
2,000 to 4,999	972	10.99	3,431,630	0.42
5,000 to 9,999	1,714	19.37	12,409,327	1.51
10,000 to 49,999	4,483	50.67	99,178,424	12.05
50,000 to 99,999	723	8.17	48,075,331	5.84
100,000 to 499,999	464	5.25	84,145,988	10.23
500,000 to 999,999	30	0.34	19,391,899	2.35
1,000,000 +	41	0.46	555,893,363	67.55
Total	8,847	100.00	822,928,249	100.00

HOLDINGS OF DIRECTORS OF THE COMPANY AS AT 31 MARCH 2017

Director	No of shares non beneficial	No of shares beneficial
Michael Smith	592,579	–
Peter Brook	360,288	137,379
Mark Cross	–	–
Andrew Evans	125,022	–
Chris Hunter	–	–
Jeff Morrison	1,439,072	

DIRECTORS' STATEMENT

The Board is responsible for preparing the Annual Report. This report is dated 24 May 2017 and is signed on behalf of the Board of Argosy Property Limited by Michael Smith, Chairman and Mark Cross, Director.

P Michael Smith
Director

Mark Cross
Director

Directory

DIRECTORS

Argosy Property Limited

Philip Michael Smith, Auckland (Chair)
Peter Clynton Brook, Auckland
Andrew Mark Cross, Auckland
Andrew Hardwick Evans, Auckland
Christopher Brent Hunter, Auckland
Jeffrey Robert Morrison, Auckland

REGISTERED OFFICE

Argosy Property Limited

39 Market Place
Auckland 1010
PO Box 90214
Victoria Street West
Auckland 1142
Telephone: (09) 304 3400
Facsimile: (09) 302 0996

REGISTRAR

Computershare Investor Services Limited

159 Hurstmere Road
Takapuna
Private Bag 92119
Auckland 1142
Telephone: (09) 488 8777
Facsimile: (09) 488 8787

AUDITOR

Deloitte

Deloitte Centre
80 Queen Street
Private Bag 115-003
Auckland 1010
Telephone: (09) 303 0700
Facsimile: (09) 303 0701

LEGAL ADVISORS

Harmos Horton Lusk Limited

Vero Centre
48 Shortland Street
PO Box 28
Auckland 1010
Telephone: (09) 921 4300
Facsimile: (09) 921 4319

Russell McVeagh

Vero Centre
48 Shortland Street
PO Box 8
Auckland 1140
Telephone: (09) 367 8000
Facsimile: (09) 367 8163

BANKERS TO THE COMPANY

ANZ Bank New Zealand Limited

ANZ House
23–29 Albert Street
PO Box 6243
Auckland 1141

Bank of New Zealand Limited

Deloitte Centre
80 Queen Street
Private Bag 99208
Auckland 1142

The Hongkong and Shanghai Banking Corporation Limited

HSBC House
1 Queen Street
PO Box 5947
Wellesley Street
Auckland 1141

Argosy

39 Market Place
Po Box 90214, Victoria Street West, Auckland 1142
P / 09 304 3400
F / 09 302 0996
www.argosy.co.nz