Argosy

INTERIM REPORT
30 SEPTEMBER 2017

STRENGTH IN DIVERSITY

OFFICE RETAIL INDUSTRIAL

Our property portfolio is at the heart of everything we do. Its strength lies in the diversity of our properties across sectors, grades, sizes, styles 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 for our communities.

PORTFOLIO

$1.46b

Total portfolio value of $1.46 billion

PROPERTIES

63

TENANTS

185

OCCUPANCY

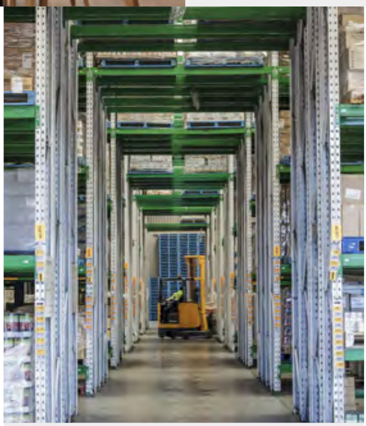
98.1%

Occupancy (by rental)
steady at 98.1%

WALT / YEARS

5.6

Weighted average lease term
remains over five years



OFFICE

17

Properties

INDUSTRIAL

37

Properties

RETAIL

09

Properties

Staying on track

"We have started the 2018 financial year well and we are pleased the team have delivered a good result for Argosy's shareholders."

MICHAEL SMITH
CHAIRMAN

On behalf of the Argosy Board of Directors, I am pleased to be able to report Argosy's interim results to 30 September 2017.

The management group continue to deal with significant lease expiries and vacancies and delivering on strategy. Looking ahead, there is now more visibility and certainty around New Zealand's medium term position and we are confident there will be no material impact on our business. There could potentially be some attractive opportunities for our Wellington assets.

FINANCIAL RESULT

Gross distributable income[1] was $31.2 million compared to $36.1 million, driven largely by the surrender payment recognised from NZ Post of $5.5 million in the six months to 30 September 2016 (previous period).

Gross distributable income for the period was 3.79 cents per share, down 14.6% from 4.44 cents per share in the previous period.

Net distributable income declined 9.8% to 3.23 cents per share from 3.58 cents per share in the previous period.

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 14 of the financial statements released today provides a full reconciliation between profit before tax and distributable income.

Gross Distributable Income per share

3.79c

Net Distributable Income per share

3.23c

DIVIDENDS

Consistent with the first quarter dividend, a second quarter dividend of 1.55 cents per share with imputation credits of 0.32720 cents per share attached, has been declared for the September quarter. This dividend represents an increase of 1.6% on the same period in the year ending 31 March 2017. The dividend will be paid to shareholders on 20 December 2017 and the record date will be 6 December 2017. The dividend reinvestment plan (DRP) will continue, but 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 full year dividend of 6.20 cents per share is expected to be paid for the year to 31 March 2018.

CAPITAL MANAGEMENT

At 30 September 2017, Argosy's debt to total assets ratio, excluding capitalised borrowing costs, was 36.8% versus 36.3% at 31 March 2017 year end. The slight increase reflects the net impact of developments during the period offset by divestments. Argosy remains at the lower end of the target debt-to-total-assets range of 35% to 40%. Argosy remains well within all bank covenants.

GOVERNANCE

At the July 2017 Annual Meeting, Andrew Evans and Mark Cross were re-elected as independent Directors. At the date of this report, the Board comprised six Directors who are all independent.

STRATEGY

The Board remains focused on our strategy to create value and deliver sustainable earnings to shareholders. The slight amendments made to our Investment Strategy asset allocation weightings in 2017 will support our ability to achieve this. It is the Boards view that the property cycle is at or nearing the top which makes acquisitions more challenging. As a result, we will continue to focus on our Value Add properties where we can use our proactive asset management skills to provide solutions to our tenants, increase future earnings and provide capital growth in these assets. This ultimately supports our strategy by increasing portfolio quality and the delivery of sustainable dividends.

OUTLOOK

The outlook for the New Zealand property market remains positive, with rental growth being achieved and good levels of enquiry for vacant space. We continue to see strength in our diversified portfolio and are focused on delivering sustainable dividends to our shareholders.

On behalf of the Board I would like to thank shareholders for their continuing support.

P MICHAEL SMITH
Chairman

Delivering on strategy

"We continued to concentrate on improving portfolio quality and delivering quality and sustainable earnings for our investors. "

PETER MENCE
CHIEF EXECUTIVE OFFICER

Against the backdrop of a stable economy, we are pleased to have delivered a solid result for the first half of the 2018 financial year. During the period, we continued to concentrate on improving portfolio quality and delivering quality and sustainable earnings for investors. The management team also maintained its focus on divesting non-Core assets whilst working closely with our existing tenants to develop and add value organically within the portfolio.

On the back of this work, Argosy's portfolio metrics remain in great shape. Our occupancy remains high at 98.1% and our Weighted Average Lease Term (WALT) has been maintained at 5.6 years.

HIGHLIGHTS:

- Net property income of $48.5 million
- Net distributable income per share of 3.23 cents
- Debt to total assets ratio at 36.8%
- NTA per share of $1.06
- Disposal of non-Core properties above book value
- Tenant led developments completed and other tenant developments on track
- Annualised rent review increase of 2.8%

FINANCIAL RESULTS

Profit Before Tax

Argosy reported net rental property income of $48.5 million for the period which includes rental loss recoveries from insurers. This is down $5.2 million due to the payment recognised in the six months to 30 September 2016 (previous period) of $5.5 million 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.

Net Rental Income

$48.5m

Portfolio Occupancy

98.1%

Administration expenses were stable.

Interest expense for the period reduced to $12.6 million, a reduction of $0.4 million compared to the previous period primarily due to capitalised interest in relation to development projects.

While there were no interim revaluations undertaken for the interim reporting period, full year revaluations will occur as per normal.

Profit before tax for the period was $27.4 million compared to $62.2 million in the previous period, the key difference being the interim revaluation gain recorded last year of $35.8 million.

PORTFOLIO ACTIVITY

Leasing and Rent Reviews

Supported by solid property market fundamentals, Argosy delivered strong leasing results over the first six months of the 2018 financial year.

During the period, 22 lease transactions were completed, including 13 new leases and 9 lease renewals. Argosy also re-leased several material expiries and dealt with some key vacancies.

Argosy's key leasing results during the period included the renewal of a 6-year lease at 9 Ride Way, Albany with Amcor Flexibles for 9,178sqm. This lease was Argosy's largest expiry in the current financial year accounting for 1.2% of portfolio income. Other results included a new 12-year lease to New Zealand Couriers Limited for 12,736sqm at 1 Rothwell Avenue, Albany. They will relocate when Mighty Ape shift to their new building being developed by Argosy in Highgate, Silverdale.

Due to the leasing success over the period, Argosy's outstanding lease expiries to 31 March 2018 has reduced to 5.7%.

Argosy remains confident of further leasing success with key expiries over the second half of this financial year. The strong leasing results including new leases over the period was a key driver in maintaining the weighted average lease term at 5.6 years and maintaining occupancy over 98%.

During the period Argosy completed 41 rent reviews achieving an annualised increase of 2.8%. Approximately 50% of rent reviews by value were fixed reviews with the balance split between CPI and market.

Acquisitions and Value Add Developments

No new acquisitions were made over the period. However, another development was completed and others remain in progress where Argosy has worked with tenants on solutions to support growth in their businesses.

The extensive $9.0 million refurbishment of 82 Wyndham Street in Auckland was completed during the period. This development has seen the building transformed, with both a 4 Star Office Built Green Star rating and a 4 Star NabersNZ[2] energy efficient rating being targeted. The ground and level 1 works have been completed to program and Panuku Development Auckland (an Auckland Council organisation) has moved in on a 9-year lease.

2 NabersNZ is National Australian Built Environment Rating System (New Zealand).

Developments in progress:

- Highgate, Silverdale. The $24.7 million development will be completed for Mighty Ape by December 2017. Over recent months Argosy has worked closely with Mighty Ape to create an environmentally sustainable design package or 'green building' which has now been included in the development. Many energy saving systems will now be incorporated into the project providing the opportunity to add significant value to the tenant and Argosy's portfolio.
- 23 Customs Street, Auckland (Snickel Lane). This is Argosy's laneway style development at the Citibank Centre. Whilst consenting delays have pushed time frames out, significant leasing progress has been made with an exciting mix of retailers already in the laneway. Argosy expects to make further detailed announcements on this before Christmas with expectations that final retailers could shift in by early 2018. The Snickel Lane concept has seen increased occupier interest within the building and Citibank has renewed their 689sqm of space on Level 11 for a further 3-years.
- 180 Hutt Road, Wellington. This redevelopment is forecast to cost $9.4 million. The property is currently occupied by Placemakers who have entered into a new 9-year lease on 3,713sqm of the property following completion. The development will also include the addition of 1,100 square metres of retail space for lease. Completion is due by late-2018.

DIVESTMENT OF NON CORE ASSETS

Argosy has continued to take advantage of the strength in the property market during the period, selling the predominantly vacant property at Pandora Rd in Napier. The property was sold to an owner-occupier for $7.7 million, a premium to the current book value of $7.5 million. The sale was in line with Argosy's strategy of divesting non-Core properties.

Argosy has approximately 4% or $60 million of the portfolio remaining as non-Core with potential to divest further properties over the back half of the financial year. Post 30 September 2017, there are currently two assets subject to conditional sale agreements with a combined sale price of $32.6 million being approximately 9% above current book value.

PORTFOLIO UPDATE

New Zealand Post House - 7 Waterloo Quay

Damage Assessment

Argosy's 12 storey property at 7 Waterloo Quay in Wellington sustained damage in the 7.5 magnitude Kaikoura earthquake on 14 November 2016. Independent engineers have confirmed that the building remains structurally sound, but significant reinstatement of fit out and services was required. We do not expect the final cost to be higher than the $50 million that was estimated by our quantity surveyor earlier in the year, based on a preliminary scope of works. Argosy has reinstatement insurance and we are working with our insurers to progress our insurance claim.

Insurance Claim

Argosy has made claims under its business interruption policy and has received $4.0 million on an unallocated basis (by October 31, 2017). The total amount claimed to 30 September 2017 is $8.7 million and a $4.8 million deductible has been applied against this amount. Argosy's business interruption insurance provides loss of rents cover for a 24 month period expiring in November 2018.

Leasing/Reinstatement

Argosy has commenced reinstatement works on levels 1-4 and 7 which remain unoccupied due to earthquake damage.

Levels 10-12 are being marketed to new tenants now, and will be reinstated and ready for occupation toward the end of the 2018 calendar year. We expect strong demand for these, and any other levels that become available.

Debt-to-total-assets ratio

36.8%

2nd Quarter Dividend

1.55c

CAPITAL MANAGEMENT

Argosy's weighted average interest rate for the period was 5.04% versus 4.88% at 31 March 2017 year end. During the period Argosy restructured its syndicated banking arrangements with ANZ Bank New Zealand Limited, Bank of New Zealand Limited and Hongkong and Shanghai Banking Corporation. Following the restructure, the expiry of Tranche A ($275 million) has been extended to 31 October 2021. The expiry of Tranche B (also $275 million) remains at 30 September 2020. An additional tranche (Tranche C) of $25 million has been added to the facility with an expiry date of 31 October 2021. The total facility is now $575 million. At 30 September 2017, the weighted average facility term is 3.6 years.

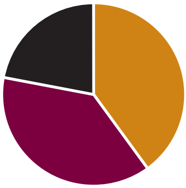
OUTLOOK

Argosy has delivered solid outcomes in the first six months of the 2018 financial year. The portfolio remains in great shape and our core portfolio metrics strong. We completed some value add developments with others still on track to deliver higher quality assets on completion. Key expiries were dealt with and we are confident about resolving a number of others over the remainder of the financial year.

PETER MENCE
Chief Executive Officer

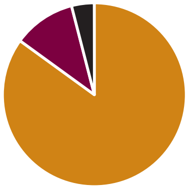
8 Nugent Street, Auckland

Total portfolio update
BY SECTOR



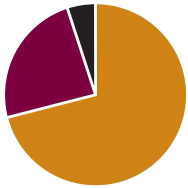
●	40%	Industrial
●	38%	Office
●	22%	Retail

Portfolio mix
BY VALUE



●	85%	Core properties
●	11%	Value Add properties
●	4%	Properties and land to divest

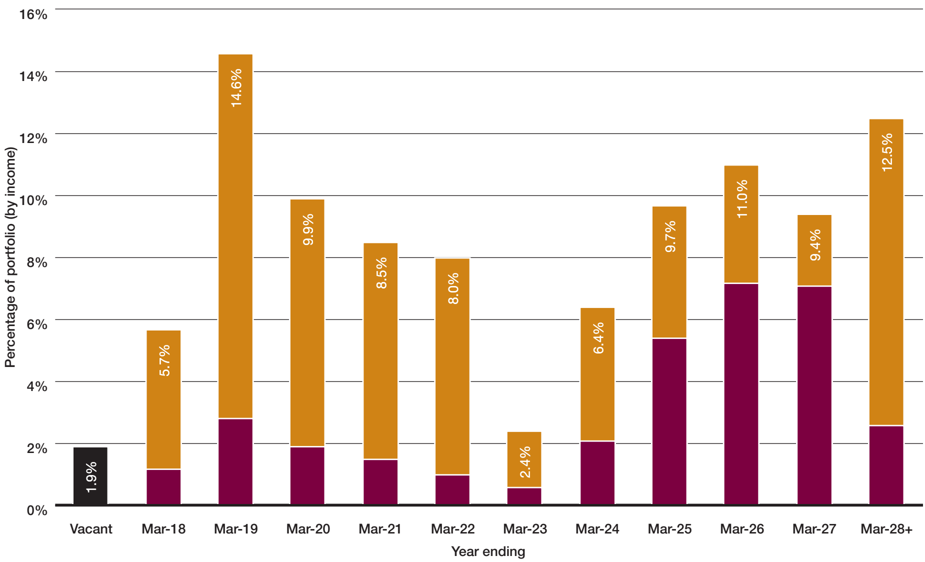
Total portfolio value
BY REGION



●	71%	Auckland
●	24%	Wellington
●	5%	Regional North & South Island

The above charts all exclude properties held for sale.

Lease Expiry Profile by Income
AS AT 30 SEPTEMBER 2017



● Total expiry
● Largest single expiry

A lower for longer interest rate cycle in New Zealand and replicated globally in recent years, has driven asset prices up and yields on property assets down. New Zealand is in a relatively strong financial position but the change in government could potentially see higher central government spending and inflation pressures rise. This could result in an interest rate rise and a stabilisation or even moderate softening in real estate yields. With its conservative capital position, Argosy remains well placed to manage such risks.

Industrial

NUMBER OF BUILDINGS

37

MARKET VALUE OF ASSETS

$588.0m

OCCUPANCY FACTOR (BY INCOME)

100%

WALT (YEARS)

6.6

PASSING YIELD

7.2%

17 Mayo Road, Auckland

Office

OCCUPANCY FACTOR (BY INCOME)

96.3%

NUMBER OF BUILDINGS

17

WALT (YEARS)

4.5

MARKET VALUE OF ASSETS

$560.6m

PASSING YIELD

7.3%

105 Carlton Gore Road, Auckland

Retail

OCCUPANCY FACTOR (BY INCOME)
98.4%

NUMBER OF BUILDINGS
9

WALT (YEARS)
5.5

MARKET VALUE OF ASSETS
$315.0m

PASSING YIELD
7.4%

Wagener Place, Auckland

Deloitte.

INDEPENDENT REVIEW REPORT

TO THE SHAREHOLDERS OF ARGOSY PROPERTY LIMITED

We have reviewed the condensed consolidated interim financial statements of Argosy Property Limited and its subsidiaries ('the Group') which comprise the statement of financial position as at 30 September 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months ended on that date, and a summary of significant accounting policies and other explanatory information on pages 16 to 32.

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

Board of Directors' Responsibilities

The Board of Directors are responsible for the preparation and fair presentation of the condensed consolidated interim financial statements, in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting* and for such internal control as the Board of Directors determine is necessary to enable the preparation and fair presentation of the condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Our Responsibilities

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

A review of the condensed consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 September 2017 and its financial performance and cash flows for the six months ended on that date in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*.

Deloitte Limited

Chartered Accountants
Auckland, New Zealand
20 November 2017

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2017 (UNAUDITED)

	Note	Group (unaudited) 30 September 2017 $000s	Group (audited) 31 March 2017 $000s
Non-current assets			
Investment properties	4	1,463,615	1,442,155
Other non-current assets		530	518
Total non-current assets		1,464,145	1,442,673
Current assets			
Cash and cash equivalents		287	968
Trade and other receivables		2,692	1,301
Other current assets		2,211	568
		5,190	2,837
Non-current assets classified as held for sale	5	–	13,043
Total current assets		5,190	15,880
Total assets	3	1,469,335	1,458,553
Shareholders' funds			
Share capital	7	791,569	788,372
Share based payments reserve	8	292	194
Retained earnings		84,421	86,655
Total shareholders' funds		876,282	875,221
Non-current liabilities			
Borrowings	9	539,141	528,795
Derivative financial instruments	6	31,542	28,878
Deferred tax	11	11,586	12,619
Total non-current liabilities		582,269	570,292
Current liabilities			
Trade and other payables		7,077	8,911
Other current liabilities		3,181	3,272
Taxation payable		526	857
Total current liabilities		10,784	13,040
Total liabilities		593,053	583,332
Total shareholders' funds and liabilities		1,469,335	1,458,553

For and on behalf of the Board

P Michael Smith
Director

Mark Cross
Director

20 November 2017

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017 (UNAUDITED)

	Note	Group (unaudited) Six months to 30 September 2017 $000s	Group (unaudited) Six months to 30 September 2016 $000s
Gross property income from rentals		49,467	56,782
Gross property income from expense recoveries		8,607	8,118
Insurance proceeds - rental loss		2,418	–
Property expenses		(11,990)	(11,174)
Net property income	3	48,502	53,726
Administration expenses		4,713	4,623
Profit before financial income/(expenses), other gains/(losses) and tax		43,789	49,103
Financial income/(expenses)			
Interest expense	15	(12,596)	(13,011)
Gain/(loss) on derivative financial instruments held for trading		(2,665)	(9,676)
Interest income		26	32
		(15,235)	(22,655)
Other gains/(losses)			
Revaluation gains on investment property		–	35,767
Realised gains/(losses) on disposal of investment property		165	(31)
Insurance proceeds - earthquake expenses		782	–
Earthquake expenses		(2,102)	–
		(1,155)	35,736
Profit before income tax attributable to shareholders		27,399	62,184
Taxation expense	10	4,005	6,029
Profit and total comprehensive income after tax		23,394	56,155

All amounts are from continuing operations.

	Note		
Earnings per share			
Basic and diluted earnings per share (cents)	13	2.84	6.90

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017 (UNAUDITED)

	Note	Shares on issue $000s	Share based payments reserve $000s	Retained earnings $000s	Total $000s
For the six months ended 30 September 2017 (unaudited)					
Shareholders' funds at the beginning of the period		788,372	194	86,655	875,221
Total comprehensive income for the period		–	–	23,394	23,394
Contributions by shareholders					
Issue of shares from Dividend Reinvestment Plan	7	3,200	–	–	3,200
Issue costs of shares	7	(3)	–	–	(3)
Dividends to shareholders		–	–	(25,628)	(25,628)
Equity settled share based payments	8	–	98	–	98
Shareholders' funds at the end of the period		791,569	292	84,421	876,282
For the six months ended 30 September 2016 (unaudited)					
Shareholders' funds at the beginning of the period		777,514	65	32,825	810,404
Total comprehensive income for the period		–	–	56,155	56,155
Contributions by shareholders					
Issue of shares from Dividend Reinvestment Plan		5,788	–	–	5,788
Issue costs of shares		(10)	–	–	(10)
Dividends to shareholders		–	–	(25,150)	(25,150)
Equity settled share based payments		–	32	–	32
Shareholders' funds at the end of the period		783,292	97	63,830	847,219

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017 (UNAUDITED)

	Note	Group (unaudited) Six months to 30 September 2017 $000s	Group (unaudited) Six months to 30 September 2016 $000s
Cash flows from operating activities			
Cash was provided from:			
Property income		58,032	67,366
Insurance proceeds received		2,000	–
Interest received		26	32
Cash was applied to:			
Property expenses		(12,993)	(12,623)
Earthquake expenses		(1,936)	–
Interest paid		(12,277)	(12,877)
Employee benefits		(3,417)	(3,175)
Taxation paid		(5,369)	(5,001)
Other expenses		(2,235)	(1,981)
Net cash from/(used in) operating activities	12	21,831	31,741
Cash flows from investing activities			
Cash was provided from:			
Sale of properties, deposits and deferrals		20,523	1,145
Purchase price adjustment for 7 Waterloo Quay		–	6,000
Cash was applied to:			
Capital additions on investment properties		(29,591)	(19,257)
Capitalised interest on investment properties		(1,142)	(140)
Purchase of properties, deposits and deferrals		–	(412)
Net cash from/(used in) investing activities		(10,210)	(12,664)
Cash flows from financing activities			
Cash was provided from:			
Debt drawdown		46,130	30,365
Cash was applied to:			
Repayment of debt		(35,489)	(30,300)
Dividends paid to shareholders net of reinvestments		(22,429)	(19,364)
Issue cost of shares		(14)	(22)
Facility refinancing fee		(500)	–
Net cash from/(used in) financing activities		(12,302)	(19,321)
Net increase/(decrease) in cash and cash equivalents		(681)	(244)
Cash and cash equivalents at the beginning of the period		968	1,130
Cash and cash equivalents at the end of the period		287	886

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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 condensed consolidated interim financial statements (interim 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) and include those of APL and its subsidiaries (the Group).

These interim financial statements were approved by the Board of Directors on 20 November 2017.

2. BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and comply with NZ IAS 34 and IAS 34 Interim Financial Reporting as applicable to the Company as a profit-oriented entity. These interim financial statements do not include all of the information required for full annual financial statements.

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

The preparation of financial statements in conformity with NZ GAAP requires the use of certain critical accounting estimates that affect the application of policies and reported amounts 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 set out in Note 4 - valuation of investment property.

Change in accounting policies

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

While there has been no change to accounting policies, due to the earthquake in Kaikoura on 14 November 2016, in the current period a number of earthquake related expenses have been incurred, and associated insurance proceeds reflecting acceptance of the claim by the insurance company have been recognised. Insurance proceeds are recognised only when received or when receipt is virtually certain.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

3. SEGMENT INFORMATION- OPERATING SEGMENTS

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 the 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 Six months to 30 September		Office Six months to 30 September		Retail Six months to 30 September		Total (unaudited) Six months to 30 September	
	2017 $000s	2016 $000s	2017 $000s	2016 $000s	2017 $000s	2016 $000s	2017 $000s	2016 $000s
Segment profit								
Net property income[1]	19,127	17,884	18,424	24,775	10,951	11,067	48,502	53,726
Realised gains/(losses) on disposal of investment properties	(47)	(31)	–	–	212	–	165	(31)
Earthquake expense recoveries	–	–	782	–	–	–	782	–
Earthquake expense	(6)	–	(2,096)	–	–	–	(2,102)	–
	19,074	17,853	17,110	24,775	11,163	11,067	47,347	53,695
Revaluation gains/(losses) on investment properties	–	29,922	–	(538)	–	6,383	–	35,767
Total segment profit[2]	19,074	47,775	17,110	24,237	11,163	17,450	47,347	89,462
Unallocated:								
Administration expenses							(4,713)	(4,623)
Net interest expense							(12,570)	(12,979)
Gain/(loss) on derivative financial instruments held for trading							(2,665)	(9,676)
Profit before income tax							27,399	62,184
Taxation expense							(4,005)	(6,029)
Profit for the year							23,394	56,155

1. Net property income consists of revenue generated from external tenants plus insurance proceeds from rental loss at 7 Waterloo Quay, Wellington, less property operating expenditure.
2. There were no inter-segment sales during the period (30 September 2016: Nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

	Industrial $000s	Office $000s	Retail $000s	Total $000s
Segment assets as at 30 September 2017 (unaudited)				
Current assets	980	3,064	308	4,352
Investment properties	588,026	560,605	314,984	1,463,615
Total segment assets	589,006	563,669	315,292	1,467,967
Unallocated assets				1,368
Total assets				1,469,335
Segment assets as at 31 March 2017 (audited)				
Current assets	670	928	83	1,681
Investment properties	583,405	547,450	311,300	1,442,155
Non-current assets classified as held for sale	7,428	–	5,615	13,043
Total segment liabilities	591,503	548,378	316,998	1,456,879
Unallocated liabilities				1,674
Total liabilities				1,458,553

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, derivatives, tax assets, other non-current assets and other minor assets that cannot be allocated to particular segments.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

4. INVESTMENT PROPERTIES

	Industrial Six months to 30 September 2017 $000s	Office Six months to 30 September 2017 $000s	Retail Six months to 30 September 2017 $000s	Group (unaudited) Six months to 30 September 2017 $000s
Movement in investment properties				
Balance at the beginning of the period	583,405	547,450	311,300	1,442,155
Capitalised costs	12,559	12,990	3,769	29,318
Disposals	(7,500)	–	–	(7,500)
Change in capitalised leasing costs	(57)	181	(57)	67
Change in lease incentives	(381)	(16)	(28)	(425)
Investment properties balance at 30 September	588,026	560,605	314,984	1,463,615

	Industrial 12 months to 31 March 2017 $000s	Office 12 months to 31 March 2017 $000s	Retail 12 months to 31 March 2017 $000s	Group (audited) 12 months to 31 March 2017 $000s
Movement in investment properties				
Balance at the beginning of the period	507,113	548,610	311,828	1,367,551
Acquisition of properties	32,039	–	–	32,039
Purchase price adjustment on 7 Waterloo Quay	–	(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

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 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

4. INVESTMENT PROPERTIES (CONTINUED)

Valuation of Investment properties

The Group's policy is for investment property to be measured at fair value for which the Group completes property valuations at least annually by independent registered valuers. There was no independent valuation completed for investment properties as at 30 September 2017. The Board and Management have reviewed the portfolio using available market data and considered other key property information (tenancy schedules, operating expenditure and capital expenditure) to determine that there has been no significant change to the valuation completed at 31 March 2017.

Generally as occupancy and weighted average lease term 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.

5. PROPERTY HELD FOR SALE

No property was subject to an unconditional sale and purchase agreement at 30 September 2017 (31 March 2017: 28-30 Catherine Street, Henderson, Auckland ($5,615,000), and 19 Richard Pearse Drive and 26 Ascot Avenue, Mangere ($7,428,000) were subject to unconditional sale and purchase agreements).

6. DERIVATIVE FINANCIAL INSTRUMENTS

	Group (unaudited) 30 September 2017 $000s	Group (audited) 31 March 2017 $000s
Nominal value of interest rate swaps	345,000	345,000
Average fixed interest rate	4.56%	4.56%
Floating rates based on NZD BBR (including margin)	2.83%	2.74%

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 period end 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 period end date use observable inputs.

The net liability for derivative financial instruments as at 30 September 2017 is $31.5 million (31 March 2017: $28.9 million). The mark-to-market increase in the liability for derivative financial instruments is a result of movements in the interest rate curve during the interim period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

7. SHARE CAPITAL

	Group (unaudited) 30 September 2017 $000s	Group (audited) 31 March 2017 $000s
Balance at the beginning of the period	788,372	777,514
Issue of shares from Dividend Reinvestment Plan	3,200	10,900
Issue costs of shares	(3)	(42)
Total share capital	791,569	788,372

The number of shares on issue at 30 September 2017 was 826,019,598 (31 March 2017: 822,928,249).

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 (unaudited) 30 September 2017	Group (audited) 31 March 2017
Balance at the beginning of the period	822,928	812,616
Issue of shares from Dividend Reinvestment Plan	3,092	10,312
Total number of shares on issue	826,020	822,928

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

8. SHARE BASED PAYMENTS RESERVE

Performance share rights (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 period to 30 September 2017 in relation to equity settled share based payments was $97,500 (30 September 2016: $32,400). 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 period[1]	Vested during the period	Forfeited during the period	Balance at the end of the period[1]
2018							
1 April 2017	1 April 2020	321,284	$0.99	547,873	–	–	869,157
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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

9. BORROWINGS

	Group (unaudited) 30 September 2017 $000s	Group (audited) 31 March 2017 $000s
ANZ Bank New Zealand Limited	270,288	264,967
Bank of New Zealand	162,173	158,980
The Hongkong and Shanghai Banking Corporation Limited	108,115	105,987
Borrowing costs	(1,435)	(1,139)
Total borrowings	539,141	528,795
Shown as:		
Term	539,141	528,795

As at 30 September 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 $575,000,000 (31 March 2017: $550,000,000) secured by way of mortgage over the investment properties of the Group. The facility includes a Tranche A limit of $275,000,000, a Tranche B limit of $275,000,000 and a Tranche C limit of $25,000,000. Tranche A matures on 31 October 2021, Tranche B on 30 September 2020 and Tranche C on 31 October 2021. (31 March 2017: Tranche A ($275,000,000) matured on 30 September 2018 and Tranche B ($275,000,000) matured on 30 September 2020).

The weighted average interest rate on borrowings (including margin and line fee and interest rate swaps) as at 30 September 2017 was 5.04% (31 March 2017: 4.88%).

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

10. TAXATION

	Group (unaudited) Six months to 30 September 2017 $000s	Group (unaudited) Six months to 30 September 2016 $000s
The taxation charge is made up as follows:		
Current tax expense	5,038	6,874
Deferred tax expense	(1,033)	(993)
Adjustment recognised in the current year in relation to the current tax of prior years	–	148
Total taxation expense recognised in profit/(loss)	4,005	6,029
Reconciliation of accounting profit to tax expense		
Profit before tax	27,399	62,184
Current tax expense at 28%	7,672	17,411
Adjusted for :		
Capitalised interest	(320)	(39)
Fair value movement in derivative financial instruments	746	2,709
Fair value movement in investment properties	–	(10,014)
Depreciation	(3,274)	(2,997)
Depreciation recovered on disposal of investment properties	382	3
Other	(168)	(199)
Current taxation expense	5,038	6,874
Movements in deferred tax assets and liabilities attributable to:		
Investment properties	(172)	1,841
Fair value movement in derivative financial instruments	(746)	(2,709)
Other	(115)	(125)
Deferred tax expense/(credit)	(1,033)	(993)
Prior year adjustment	–	148
Total tax expense recognised in profit or loss	4,005	6,029

There were no imputation credits at 30 September 2017 (30 September 2016: Nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

11. DEFERRED TAX

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 2017	(8,086)	17,494	3,211	12,619
Charge/(credit) to deferred taxation expense for the period	(746)	(172)	(115)	(1,033)
At 30 September 2017 (unaudited)	(8,832)	17,322	3,096	11,586
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 (audited)	(8,086)	17,494	3,211	12,619

12. RECONCILIATION OF SURPLUS AFTER TAXATION WITH CASH FLOWS FROM OPERATING ACTIVITIES

	Group (unaudited) Six months to 30 September 2017 $000s	Group (unaudited) Six months to 30 September 2016 $000s
Profit after tax	23,394	56,155
Movements in working capital items relating to investing and financing activities	2,095	1,748
Non cash items		
Movement in deferred tax liability	(1,033)	(993)
Movement in interest rate swaps	2,665	9,676
Fair value change in investment properties	–	(35,767)
Movements in working capital items		
Trade and other receivables	(1,391)	2,804
Taxation payable	(331)	2,020
Trade and other payables	(1,834)	(3,194)
Other current assets	(1,643)	(1,541)
Other current liabilities	(91)	833
Net cash from operating activities	21,831	31,741

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(CONTINUED)

13. 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 (unaudited) Six months to 30 September 2017	Group (unaudited) Six months to 30 September 2016
Profit attributable to shareholders of the Company ($000s)	23,394	56,155
Weighted average number of shares on issue (000s)	823,629	813,838
Basic and diluted earnings per share (cents)	2.84	6.90
Weighted average number of ordinary shares		
Issued shares at beginning of period (000s)	822,928	812,616
Issued shares at end of period (000s)	826,020	817,784
Weighted average number of ordinary shares (000s)	823,629	813,838

On 20 November 2017, a final dividend of 1.55 cents per share was approved by the Company. Continuation of the Dividend Reinvestment Plan programme will increase the number of shares on issue.

14. DISTRIBUTABLE INCOME

	Group (unaudited) Six months to 30 September 2017 $000s	Group (unaudited) Six months to 30 September 2016 $000s
Profit before income tax	27,399	62,184
Adjustments:		
Revaluation gains on investment property	–	(35,767)
Realised (gains)/losses on disposal of investment properties	(165)	31
Derivative fair value (gain)/loss	2,665	9,676
Earthquake expense	2,102	–
Earthquake expense recoveries	(782)	–
Gross distributable income	31,219	36,124
Tax impact of depreciation recovered on disposal of investment properties and taxable gains on disposal of revenue account properties	428	–
Tax expense	(5,038)	(7,022)
Net distributable income	26,609	29,102
Weighted average number of ordinary shares (000s)	823,629	813,838
Gross distributable income per share - (cents per share)	3.79	4.44
Net distributable income per share - (cents per share)	3.23	3.58

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

15. INTEREST EXPENSE

	Group (unaudited) Six months to 30 September 2017 $000s	Group (unaudited) Six months to 30 September 2016 $000s
Interest expense	(13,738)	(13,151)
Less amount capitalised to investment properties	1,142	140
Total interest expense	(12,596)	(13,011)

Capitalised interest for the period to 30 September 2017 relates to the Polarcold development at 8 Foundry Drive, Christchurch, the Placemaker development at 180-202 Hutt Road, Kaiwharawhara, the Mighty Ape development at Highgate Parkway, Silverdale, Auckland and the development at 82 Wyndham Street, Auckland. (30 September 2016: Capitalised interest relates to the Polarcold development at 8 Foundry Drive, Christchurch).

16. COMMITMENTS

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 period was $0.5 million (30 September 2016: $0.5 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 30 September 2017 and not provided for were $30.9 million (31 March 2017: $48.8 million). Of this total, $7.4 million relates to the Mighty Ape development at Parkway Drive, Highgate and $8.9 million relates to the Placemaker development at 180-202 Hutt Road, Kaiwharawhara.

There were no other commitments as at 30 September 2017 (31 March 2017: Nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(CONTINUED)

17. CONTINGENCIES

There were no contingencies as at 30 September 2017 (31 March 2017: Nil).

18. SUBSEQUENT EVENTS

On 20 November 2017, a dividend of 1.55 cents per share was approved by the Company. The record date for the dividend is 6 December 2017 and a payment is scheduled to shareholders on 20 December 2017. Imputation credits of 0.32720 cents per share are attached to the dividend.

19. 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.

There were no significant changes in relationships or transactions with related parties during the period ended 30 September 2017.

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