Argosy

25 May 2017

MARKET RELEASE

ARGOSY ANNOUNCES STRONG ANNUAL RESULT

FOR THE YEAR ENDING 31 MARCH 2017

Argosy will present the FY17 annual results via a teleconference and webcast at 10am today.
Please visit https://edge.media-server.com/m/go/argosy-annual-results-briefing-0517
or dial 0800 122 360 and quote the conference ID 499513.
It is recommended that you dial in or log in a few minutes before the start time. A copy of the webcast will be available on Argosy's website later in the day.

Argosy Property Limited ("Argosy" or the "Company") is pleased to report its results for the year ending 31 March 2017.

Argosy has produced another strong result as the Company continues to improve the quality of the portfolio through the divestment of lower quality, non Core assets and working with our existing tenants to develop Value Add opportunities within the portfolio.

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

Chairman Mike Smith says "this is a good result for Argosy's shareholders. We are proud to be able to demonstrate, through the careful execution of our strategy, a five-year history of very good financial results and strong operating metrics. We continue to improve the quality of the portfolio which now presents to a very high standard and remain committed to providing our shareholders with sustainable and attractive returns in the years ahead."

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 Argosy's 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 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 increased to 6.64 cents per share from 6.35 cents per share as at 31 March 2016, a 4.6% increase.

Capital Management

Current leverage

Argosy's debt levels, excluding capitalised borrowing costs, were 36.3% of total assets (31 March 2016: 36.7%). At year end, the Company was at the lower end of the target debt-to-total-assets range of 35% to 40%.

Bank facility

Argosy restructured its 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.

Argosy continues to maintain strong relationships with its banking partners and remains well within all bank covenants.

Dividends

The Board is pleased to make 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 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, 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 dividend of 6.20 cents per share is expected to be paid for the year to 31 March 2018.

In our accompanying presentation that was also released today, we have provided an analysis of Adjusted Funds from Operations (AFFO). For some investors, AFFO represents a measure of dividend sustainability. Argosy's Board recognises this view and intends to move to an amended

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[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 released today provides a full reconciliation between profit before tax and distributable income.

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.

Portfolio activity

Leasing

Leasing activity has remained strong throughout the 2017 financial year as Argosy 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.
- A ten-year lease of 13,350 square metres at 17 Mayo Road in Wiri.
- The leasing of 11,675 square metres of warehouse space at 320 Ti Rakau Drive in Manukau for ten years.

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).

Acquisitions and Major Projects

In December 2016, Argosy settled on the acquisition of a 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. Both of these high quality properties are occupied by Cardinal Logistics Limited on 15-year lease terms.

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 and the tenant, Polarcold Stores Limited, is fully utilising the entire space on a 12 year lease.

- Argosy 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 the tenant is expected to move into their new premises by early 2018.

- Argosy has 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 Argosy has 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 we are 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 relocate in August 2017 once the upgrade works are complete.

- 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.

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 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 of Argosy 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, Argosy has successfully divested 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 will be divested as market conditions allow.

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 write-down of NZ Post House.

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

Strategy

Following an extensive review of Argosy's strategy, 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. Argosy's portfolio will continue to consist of Core and Value Add properties. We have extended the permitted range of Core properties to between 75% to 90% of the portfolio by value (increased from 75% to 85%) so we have the required flexibility to continue to operate the portfolio in the most efficient manner.

Core properties are well constructed, well located assets which are intended to be long-term investments (>10 years). They 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 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.

Following the review, our Investment Policy has also changed with an amendment to the sector band parameters. Our Industrial target will increase to 40-50% of the total portfolio by value (previously 35-45%) and Office 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.

More detail on Argosy's strategy can be found on pages 4 and 5 of the 2017 Annual Report that was released today.

Governance

At the Annual Meeting in August 2016, Mike Smith and Peter Brook 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.

Outlook

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

Summary Financial Information

	FY17	**FY16**	**% change**
Net property income	$99.5m	$98.4m	1.2%
Profit before financial income/(expenses), other gains/(losses) and tax	$90.2m	$89.4m	0.9%
Profit before tax	$120.4m	$83.6m	44.1%
Gross distributable income (cents per share)	8.03	7.60	5.7%
Net distributable income (cents per share)[1]	6.64	6.35	4.6%
Net tangible assets (cents per share)	106.4	99.7	6.7%

[1] Tax is based on current tax expense following a recent change in our bank facility document and in line with the rest of the Sector (previously it was based on tax paid to the Inland Revenue Department).

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