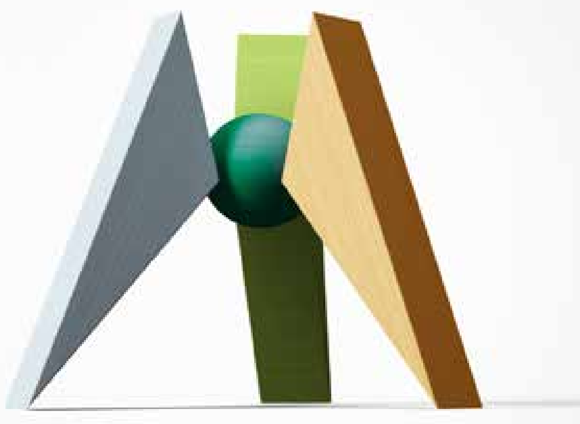
Argosy

2022 Climate-related Financial Disclosures

Building a
better future



Overview

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

In this report we have added to last year's reporting by including disclosures on metrics and targets, reflecting the TCFD's updated guidance issued in 2021.

We anticipate that the New Zealand External Reporting Board (XRB) will issue its climate related disclosure framework during the current year and that Argosy's next climate change report will be based on the XRB's framework. Based on the XRB's published implementation timeframes, it is anticipated that the XRB's framework will be mandatory for Argosy in the financial year commencing 1 April 2023.

This report has been prepared based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) which provides a framework for climate-related financial disclosures across four core elements: **governance, strategy, risk management and metrics and targets.**

Governance

TCFD Objective:

Disclose the organisation's governance around climate-related risks and opportunities.

TCFD Requirement:

a) Describe the board's oversight of climate-related risks and opportunities.

b) Describe management's role in assessing and managing climate-related risks and opportunities.

a) Describe the board's oversight of climate-related risks and opportunities.

Argosy's Board is responsible for establishing, reviewing and monitoring processes to identify climate change risks. The Board's Audit and Risk and ESG Committees also have specific responsibilities to assist the Board with governance around climate related risks.

The Audit and Risk Committee is responsible for overseeing the management of climate related risks as part of its overall responsibility for risk management which is implemented through Argosy's Risk Management Policy and Framework, including Argosy's risk register. The Audit and Risk Committee oversees the risk register and reviews it regularly with management. Argosy's climate related risks are included in the risk register.

The ESG Committee brings a particular focus to all ESG matters, which includes considering climate related risks and opportunities, and ensuring that these are brought to the Board's attention. The responsibilities of the ESG Committee are as follows:

- Identify and consider ESG matters relevant to the Company and report to the Board as appropriate.
- Identify and consider climate change risks arising from physical risks of climate change and risks arising from the transition to a low carbon economy.
- Make recommendations on the Company's approach to ESG matters.
- Oversee implementation of the Company's Sustainability Policy and ESG Framework.
- Review and report to the Board on the Sustainability Policy and ESG Framework.
- Review the ESG elements of the Company's annual and interim financial statements and recommend them to the Board for approval.

b) Describe management's role in assessing and managing climate-related risks and opportunities.

Argosy established a Sustainability Committee in 2019. The Sustainability Committee reviews climate related risks, opportunities and initiatives. The Sustainability Committee meets four times per year and reports to the Board's ESG Committee. The membership of the Committee includes, among others, the Chief Executive Officer, Chief Financial Officer, Head of Sustainability and Environmental Engineer. This provides a diversity of thought, ensuring that climate related risks and opportunities are properly identified and considered.

The Sustainability Committee is also represented on the Risk Management Committee which implement's the Company's Risk Management Framework and reports to the Board's Audit and Risk Committee. This ensures that (although not subject to external audit) risks identified by the Sustainability Committee are subject to the same level of scrutiny as other types of financial and non-financial risk.

Strategy

TCFD Objective:

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

TCFD Requirement:

a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

For the purposes of classifying risks and opportunities Argosy has adopted the TCFD's classification of physical and transitional risks and timeframes of within three years for the short term, within 10 years for the medium term and longer than 10 years for the long term. Physical and transitional risks are outlined below.

Physical risks

Physical risks are identified in the property strategy for each of Argosy's 53 property assets. Argosy considers the nature of the risks to which its assets could potentially be exposed are:

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

Rising sea levels could possibly lead to significant asset value impairment due to coastal storm inundation. Several of Argosy's buildings are located close to the waterfront in both Auckland and Wellington. As a result, the potential for rising sea levels represents a possible physical risk.

Auckland and Wellington Councils model coastal-storm inundation from 1 in 100 year events based on current sea level and a projected sea level rise of up to one metre. This information indicates that Argosy's assets will not be materially affected by coastal storm inundation. These long-term risks remain under review.

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

Transitional risks

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

Such transitional risks are expected to arise in the medium to long term. While these costs represent a risk to affected assets, they also represent an opportunity to the extent that Argosy can meet stakeholder requirements. The attention paid to transitional climate related risks and opportunities by Government, occupiers, investors and other stakeholders has grown markedly in recent years and it is expected that in New Zealand these risks and opportunities will be influenced by the final report issued by the Climate Change Commission in June 2021 as well as the Government's carbon budgets and wider policy response to climate change.

Argosy is considering the risks and opportunities suggested by the Commission's final report issued in June 2021. Argosy expects that it will be well placed to mitigate risks and benefit from opportunities.

b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

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

- lower operating costs;
- higher occupancy;
- higher value;
- improved worker productivity and occupant health and well-being;
- lower regulatory risk.

Argosy has a sustainability strategy which applies to all areas of its business. The most observable impact of climate-related risks has been the drive for Argosy and its stakeholders to obtain certifications in relation to the refurbishment or construction (i.e. Green Star ratings) and ongoing operation (i.e. NabersNZ ratings) of its buildings. These certifications provide evidence of reduced emissions from Argosy's buildings in accordance with internationally recognised standards which help reduce the carbon footprint of Argosy and its occupiers. This drive toward green certified buildings is reflected in Argosy's financial planning as well as its plans for acquisitions, developments and disposals.

The development of green certified buildings has also provided Argosy with an opportunity to diversify its funding through Green Bonds. At the date of this report, Argosy has funding of $325 million from Green Bonds supported by existing and planned green certified buildings valued at $607 million.

Argosy does not expect any material effect from physical climate related risks. However, as noted above, the potential impact of long-term risks remains under review. Argosy has recently commissioned natural hazard loss modelling to assess the impact of physical climate change risks on its portfolio, for insurance purposes.

c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Argosy has a resilient portfolio that is diversified by sector, tenant and location. This reduces risk to severe climate change induced events. Argosy does not expect to suffer material direct effects from a 2°C or lower scenario and considers its portfolio resilient to physical impacts.

While there is the potential for increased demands on building services, particularly air-conditioning systems, due to increased temperatures, Argosy does not expect the increased cost to be material, particularly as this will likely be mitigated by the introduction of more efficient technologies to address transitional risks.

Argosy has been preparing its portfolio of property assets for progressive certification, starting with the 5 Green Star Office Built rating obtained for the redevelopment of Te Puni Kōkiri House at 143 Lambton Quay, Wellington. Since then, Argosy has obtained Green Star ratings on a further 4 buildings and has NabersNZ ratings on 4 other buildings. Argosy's 8-14 Willis Street/360 Lambton Quay development, which is nearing completion, will also have a Green Star rating.

Argosy expects that, without any anticipated physical impacts, and with the progressive certification of buildings in its portfolio, its business will be resilient to risks from climate change. However, Argosy will also undertake scenario analysis to identify and interrogate climate-related risks and opportunities.

107 Calrton Gore Road, Auckland.

Risk Management

TCFD Objective:

Disclose how the organisation identifies, assesses, and manages climate-related risks.

TCFD Requirement:

a) Describe the organisation's processes for identifying and assessing climate-related risks.

b) Describe the organisation's processes for managing climate-related risks.

c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

a) Describe the organisation's processes for identifying and assessing climate-related risks.

Argosy identifies and assesses climate-related risk through its Risk Management Policy and Framework as well as Management's Sustainability Committee who identify and assess climate-related risks.

The Sustainability Committee consults with the Property Council and other industry bodies focused on climate-related policy and building certification.

Argosy has recently commissioned natural hazard risk modelling to model the impact of physical climate change risks on its portfolio, for insurance purposes.

b) Describe the organisation's processes for managing climate-related risks.

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

c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

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

Metrics and Targets

TCFD Objective:

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

TCFD Requirement:

a) Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process.

b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

a) Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process.

Argosy collects and reports on its scope 1, 2 and 3 carbon emissions.

b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Argosy's emissions in 2021	tCO2e
Scope 1	
Other fuels	45.9
Passenger vehicles - default age	0.1
Refrigerants	94.4
Stationary Energy	7.2
Transport Fuels	19.5
Scope 2	
Electricity	139.2
Scope 3	
Electricity	16.2
Other fuels	1.7
Passenger vehicles - default age	0.8
Transport - other	28.3
Waste	0.1
Total	**353.4**

c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

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

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

Argosy itself has received a net carbon zero certification from Toitū. This reflects tenant and investor expectations of increased energy efficiency and reduced carbon emissions from Argosy's operations.

Argosy

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