

# FINANCIAL REVIEW

## STATEMENT OF NET INCOME AND DISTRIBUTION

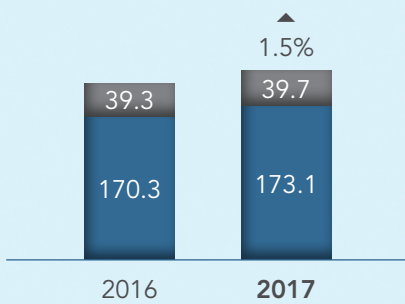
For the financial year ended 31 August

	2017 S\$'000	2016 S\$'000	Change %
Gross revenue	212,756	209,594	1.5
Property operating expenses	(44,668)	(48,683)	(8.2)
<b>Net property income</b>	<b>168,088</b>	<b>160,911</b>	<b>4.5</b>
Income support <sup>(1)</sup>	1,186	2,365	(49.9)
Amortisation of intangible asset	(1,186)	(2,365)	(49.9)
Write down of intangible asset <sup>(2)</sup>	(4,349)	-	NM
Manager's management fees	(16,708)	(16,312)	2.4
Trust expenses <sup>(3)</sup>	(1,579)	(1,610)	(1.9)
Finance income	744	915	(18.7)
Finance costs	(23,944)	(24,015)	(0.3)
<b>Net income</b>	<b>122,252</b>	<b>119,889</b>	<b>2.0</b>
Add: Non-tax deductible items <sup>(4)</sup>	18,976	21,189	(10.4)
<b>Income available for distribution</b>	<b>141,228</b>	<b>141,078</b>	<b>0.1</b>
<b>Distribution per unit (cents) ("DPU")</b>	<b>5.53</b>	<b>5.50</b>	<b>0.5</b>

### Notes:

- (1) Income support relates to the top-up payment from the vendors of The Clementi Mall pursuant to the Deed of Income Support. The income support will end on 23 July 2018, five years after listing date on 24 July 2013. The amount of income support for FY2017 translated to DPU of 0.05 cents (FY2016: 0.09 cents).
- (2) Intangible asset relates to unamortised income support receivable by The Clementi Mall from the vendors.  
In view of the better than expected net property income at The Clementi Mall, a lower amount of drawdown on the income support is expected. Accordingly, the intangible asset is written down. This write down amount of intangible asset has no impact on SPH REIT's income available for distribution.
- (3) Includes recurring trust expenses such as trustee's fees, valuation fees, audit and tax adviser's fees, cost associated with the preparation of annual reports, and investor communication costs.
- (4) Non-tax deductible items refer to the Manager's management fees paid/payable in units, trustee's fees, amortisation of income support, amortisation of debt issuance costs, the write down of intangible asset, capital allowances claim on qualifying assets under the Income Tax Act and the difference between taxable income previously distributed and the quantum agreed with IRAS for YA2014 and YA2015.

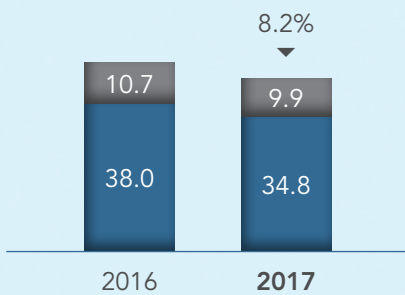
### GROSS REVENUE



Gross revenue for FY2017 was up S\$3.2 million (1.5%) to S\$212.8 million, on the back of higher rental income achieved from Paragon and The Clementi Mall.

Through proactive leasing strategy, both properties continued to maintain their track record of 100% occupancy.

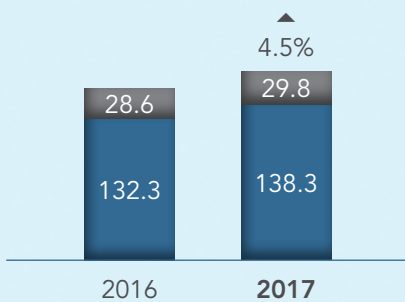
### PROPERTY OPERATING EXPENSES



Property operating expenses was S\$4.0 million (8.2%) lower against FY2016.

The continued efforts to improve operational efficiencies and manage cost has resulted in lower expenses.

### NET PROPERTY INCOME



Net Property Income ("NPI") of S\$168.1 million for FY2017, was S\$7.2 million (4.5%) higher than last year.

NPI margin of 79.0% was achieved, better than FY2016 of 76.8%.

Both Paragon and The Clementi Mall performed better than the previous year, by S\$6.0 million (4.5%) and S\$1.2 million (4.1%) respectively.

The required income support for The Clementi Mall was S\$1.2 million for FY2017. With higher NPI, the amount was halved of what was drawn last year.

All Figures (S\$ million)

■ Paragon ■ The Clementi Mall

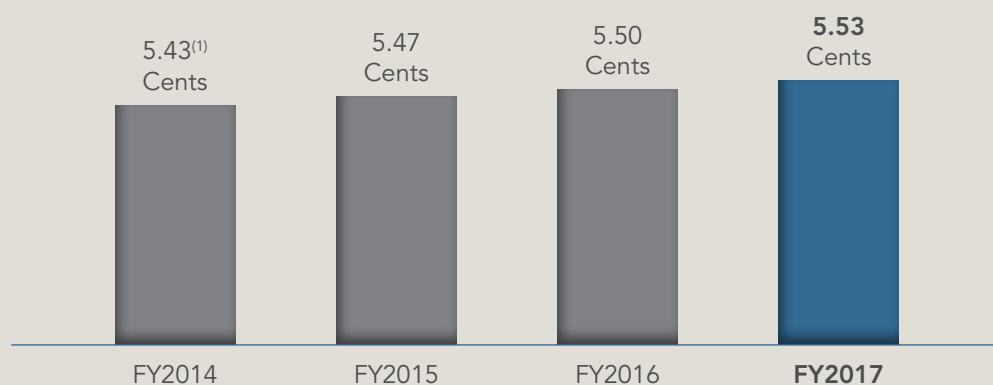
### NET INCOME

Net income increased by S\$2.4 million (2.0%) to S\$122.3 million for FY2017 against last year. This was mainly attributable to the higher NPI, partially offset by the write down of intangible asset of S\$4.3 million. In view of the better than expected NPI at The Clementi Mall, a lower amount of drawdown on income support is expected. Accordingly, the intangible asset is written down. The average cost of debt was maintained at 2.82% p.a. for FY2017.

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## DISTRIBUTION

Quarter Ended	2017 (cents)	2016 (cents)	Change %
1Q	1.34	1.33	0.8
2Q	1.40	1.40	-
3Q	1.37	1.36	0.7
4Q	1.42	1.41	0.7
<b>Total</b>	<b>5.53</b>	<b>5.50</b>	<b>0.5</b>



**Note:**

(1) Does not include the distribution of 0.56 cents from 24 July 2013 (listing date) to 31 August 2013.

SPH REIT continued to deliver consistent distribution growth to Unitholders in FY2017, the fourth year since listing in July 2013, on the back of steady performance of the properties. The aggregate distribution per unit ("DPU") of 5.53 cents for FY2017 was 0.5% higher than last year. This translated to a distribution yield of 5.53%, based on the closing price of S\$1.00 as at 31 August 2017.

## VALUATION OF PROPERTIES

As at 31 August 2017, the portfolio was valued at S\$3.278 billion by Jones Lang LaSalle Property Consultants Pte Ltd. This represented an increase of S\$48.0 million (1.5%) from last year's valuation of S\$3.230 billion. Net asset value per unit was S\$0.95 as at 31 August 2017.

Property	At Valuation (S\$m) As at 31 August			Capitalisation Rate (%) As at 31 August	
	2017	2016	Change	2017	2016
Paragon	2,695.0	2,656.0	39.0	<b>Retail:</b> 4.50%	<b>Retail:</b> 4.85%
				<b>Medical suite/office:</b> 3.75%	<b>Medical suite/office:</b> 4.00%
The Clementi Mall <sup>(1)</sup>	583.0	574.0	9.0	4.80%	5.00%
<b>SPH REIT Portfolio</b>	<b>3,278.0</b>	<b>3,230.0</b>	<b>48.0</b>	-	-
Representing:					
Additions			13.1		
Fair value change			34.9		

**Note:**

(1) The Clementi Mall's valuation was without income support.

## CASH FLOWS AND LIQUIDITY

As at 31 August 2017, SPH REIT's cash and cash equivalents amounted to S\$63.0 million.

Net cash generated from operating activities for FY2017 was S\$165.2 million. Net cash used in investing activities was S\$6.3 million, mainly for asset enhancement project and upgrading of equipment. Net cash used in financing activities was S\$163.3 million, mainly for distribution to Unitholders and interest settlement.

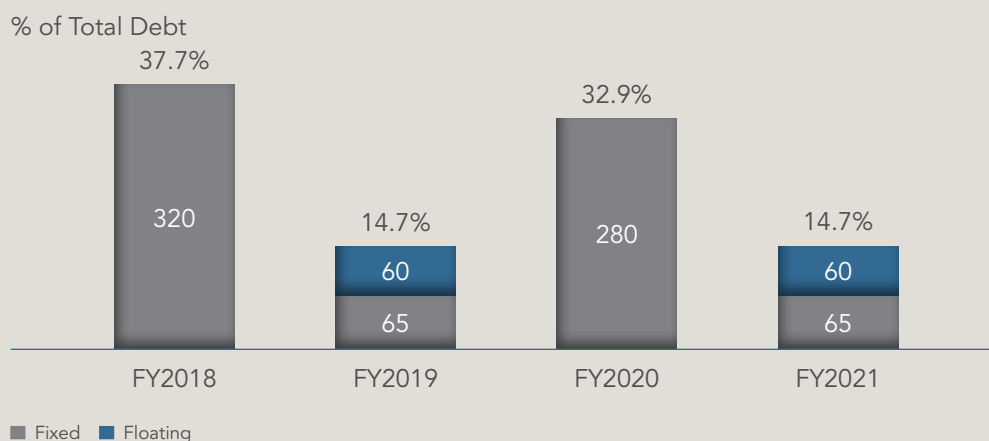
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## CAPITAL MANAGEMENT

On 24 July 2013 (listing date), SPH REIT established a term loan facility of S\$975 million obtained from DBS Bank Ltd. and Overseas-Chinese Banking Corporation Limited, of which the amount drawn down was S\$850 million. The term loan is secured by way of a first legal mortgage on Paragon, first legal charge over the tenancy account and sales proceeds account for Paragon, and an assignment of certain insurances taken in relation to Paragon.

In line with SPH REIT's prudent capital management strategy, the debt maturity profile was well-staggered, with weighted average term to maturity of 2.1 years and gearing level of 25.4% as at 31 August 2017. It registered an average cost of debt of 2.82% p.a. for FY2017, with around 86% of the total borrowing on fixed rate basis.

## DEBT MATURITY PROFILE (\$ MILLION)



Key Indicators as at 31 August	2017	2016
Gearing ratio	25.4%	25.7%
Interest coverage ratio	6.1 times	6.0 times
Weighted average term to maturity	2.1 years	3.1 years
Average all-in interest rate	2.82%	2.82%
Derivative financial instrument <sup>(1)</sup> as % of NAV	0.33%	0.41%

**Note:**

(1) The derivative financial instruments refer to the fair value of interest rate swap contracts as at balance sheet date.

