

Statement By Chairman & CEO



Ms Susan Leng Mee Yin

Dr Leong Horn Kee

99.4%
COMMITTED
OCCUPANCY

5.54c
DISTRIBUTION
PER UNIT

26.3%
GEARING

DEAR UNITHOLDERS,

On behalf of the Board of Directors of SPH REIT Management Pte. Ltd., the Manager of SPH REIT (the "Manager"), we are pleased to present you with SPH REIT's Annual Report for the period from 1 September 2017 to 31 August 2018 ("FY2018").

We continue to deliver consistent distribution growth to Unitholders over the five years since our Initial Public Offering in July 2013, underpinned by our portfolio of well-positioned and quality properties.

Total income available for distribution to Unitholders was steady at S\$142.3 million. The aggregate distribution per unit ("DPU") for FY2018 was 5.54 cents and this translated to a yield of 5.54%.

FOCUSED ON SUSTAINABLE GROWTH

In line with SPH REIT's mission to provide Unitholders with regular and stable distributions, and to grow our property portfolio steadily, we acquired The Rail Mall, a 99-year leasehold estate with a remaining lease tenure of about 28 years, in June 2018.

The Rail Mall is a retail strip, with a 360-metre prominent road frontage to Upper Bukit Timah Road, comprising 43 single-storey shop units and 95 private carpark lots. It has a total net lettable area of approximately 50,000 square feet. It is well served by the Hillview MRT station which is about 250 metres from the mall, as well as a network of public bus services. Accessibility is further enhanced by its close proximity

to the Bukit Timah Expressway ("BKE") and Pan Island Expressway ("PIE").

It is strategically located near the Rail Corridor, a popular 4km stretch between the Hillview area and the conserved Bukit Timah Railway Station. While it was formerly a railway line used for commuting and transporting goods between Singapore and the rest of the Malay Peninsula, it is currently well-known for its railway heritage structures and natural surroundings attracting both locals and tourists.

FOCUSED ON DISTINCTIVE RETAIL EXPERIENCES

The committed occupancy for our portfolio of properties remains high at 99.4%.

Whilst retaining quality tenants, we continue to focus on fine tuning the tenancy mix, and introducing new retailers with novel concepts to enhance retail experience. In view of the emerging trends in the retail environment, we partnered our tenants to provide shoppers with unique in-store experiences, and facilitated cross-marketing opportunities for retailers in the mall.

Paragon, widely known as one of the iconic shopping malls along Orchard Road, introduced a new integrated, "without inter-tenancy walls" concept on Level 3, creating a seamless shopping space for shoppers and enabling better synergies for cross-marketing for our tenants. The new zone will be completed in phases, with the final phase scheduled for completion by the end of 2018. When completed, it will provide shoppers with 16,000 sq ft of curated brands for shopping indulgence, including a new-to-market restaurant.

MCM, a German luxury brand, opened its first Southeast Asia MCM Haus at Paragon. In addition, the newly refurbished Gucci duplex flagship store now features a distinctive five-storey marble façade, setting up a new landmark along Orchard Road. Its bespoke client space on the second floor houses special ready-to-wear pieces, Gucci's customisation service section and Gucci Décor (home) collection for clients to enjoy a holistic shopping experience. Artisanal Japanese label 45R also unveiled its first Orchard Road store in

Singapore at Paragon, reaffirming Paragon's position as a premier upscale retail mall.

Paragon's signature event of the year was themed All Things Japanese, held in May and June. Titled Harmony in Perspective, the event's highlights included the ancient Japanese art of Ikebana floral showcases and an exhibition featuring unique kimonos worn by Japanese during special occasions. Shoppers were also treated to a host of activities such as handicraft workshops and musical performances by young Japanese musicians.

The Clementi Mall, a mid-market suburban mall, continued to perform well in the well-established residential estate. Apart from welcoming new popular food and beverage establishments such as Bobii Frutii, SayChiizu and Mei Heong Yuen Dessert, it also engaged the local community through various family activities held throughout the year. A noteworthy event was The Clementi Mall's Fun Fiesta, during which shoppers from all walks of life created more than 300 art pieces to form the largest weaved CD wall for the Singapore Book of Records.

Both Paragon and The Clementi Mall continued to attract high visitor traffic of 18.8 million and 29.9 million respectively. Tenant sales at Paragon grew by 2.7% to S\$693 million. As for The Clementi Mall, tenant sales was S\$230 million, higher by 2.2% compared to last year.

FOCUSED ON DELIVERING CONSISTENT RESULTS

The Manager sought to deliver a trusted and widely recognised brand of properties in Singapore. In 2016, the Manager embarked on a project to decant areas occupied by Air Handling Units at Paragon. The multi-phased decanting project was completed as scheduled. This project created about 7,000 sq ft of additional retail space, contributing approximately S\$0.9 million in revenue per year.

The Clementi Mall also commenced its green improvement works by replacing and upgrading the existing chiller plant in 2017 to improve its efficiency. The project was completed in July this year.

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In line with SPH REIT's prudent capital management strategy, we maintained our strong balance sheet with low gearing of about 26% as at 31 August 2018. An additional loan of S\$45 million was taken to partially finance the acquisition of The Rail Mall and total borrowing amounted to S\$895 million. The debt profile was well spread out without major concentration in any single year and the weighted average term to maturity stood at 2.3 years. Average cost of debt was kept at 2.85% per annum and about 70% of the loan was on a fixed rate basis.

The SPH REIT portfolio continued to record steady valuation of S\$3.368 billion as at 31 August 2018.

MOVING AHEAD

Consumer expectations and consumption behaviour continue to be impacted by the fast-changing retail environment. Amid the wave of e-commerce, more online retailers understand the benefits of experiential shopping and the lure of setting up brick-and-mortar shops to capture a wider customer base. Retailers are also increasingly adopting omni-channel strategies to engage shoppers. The brick and mortar stores continue to play a pivotal role in offering shoppers with unique touch points for in-store experience and at the same time, leveraging on technology to enlarge their shoppers reach.

Retail space demand remains high for prime shopping street, Orchard Road, and vibrant heartland estates like the Clementi town. Paragon's prominent and strategic location on Orchard Road, coupled with its well established premier positioning, has benefited from the rebound in Singapore's tourism market.

Arising from the stability of its residential catchment and its proximity to regional centres, The Clementi Mall, a well-connected mall to the surrounding infrastructure, has benefited from the steady growth of the Singapore economy.

We continue to tap on the firm partnerships forged with our tenants and improve customer engagement through

quality differentiated services and events. We remain committed to strengthening the value of our assets through the pursuit of asset enhancement opportunities.

We believe that SPH REIT's portfolio of properties is well-positioned to create greater value and underpin our long-term sustainability.

ACKNOWLEDGEMENTS

On behalf of the Board, we would like to thank Ms Rachel Eng, who has retired from the Board on 26 September 2018, for her invaluable contributions since she came on board in December 2015.

We would also like to welcome Ms Hoo Sheau Farn to the Board. Ms Hoo was appointed as an independent non-executive director to the Board with effect from 26 September 2018. She is also a member of the Audit & Risk Committee, as well as the Nominating and Remuneration Committee. Ms Hoo will offer a wealth of experience and expertise in REITs and property funds and complement the Board's composition.

On this note, we wish to acknowledge the dedication and commitment of the Board members, management team and staff in the past year.

Finally, on behalf of the Board and management, we would like to express our appreciation to our Unitholders, business partners, tenants and shoppers for their continued and unwavering support. We look forward to continued success and performance in the coming years.

DR LEONG HORN KEE

Chairman, Non-Executive and
Independent Director

MS SUSAN LENG MEE YIN

Chief Executive Officer

