

Corporate Governance

The board and management of SPH REIT Management Pte. Ltd., and the manager of SPH REIT (the “Board”; the “Management”; the “Manager”), are committed to good corporate governance as they firmly believe that it is essential to the sustainability of SPH REIT’s business and performance as well as in protecting the interests of the Unitholders of SPH REIT (“Unitholders”). Good corporate governance is also critical to the performance and success of the Manager.

The Manager adopts the Code of Corporate Governance 2012 issued by the Monetary Authority of Singapore (the “MAS”) on 2 May 2012 (the “2012 Code”) as its benchmark for corporate governance policies and practices and SPH REIT is pleased to confirm that it has adhered to the principles and guidelines of the 2012 Code in all material aspects. In so far as any guideline has not been complied with, the reason has been provided. The following describes the Manager’s main corporate governance policies and practices, with specific reference to the 2012 Code.

The Annual Report should be read in totality for the Manager’s full compliance.

THE MANAGER OF SPH REIT

The Manager has general powers of management over the assets of SPH REIT. The Manager’s main responsibility is to manage SPH REIT’s assets and liabilities for the benefit of Unitholders.

The Manager discharges its responsibility for the benefit of Unitholders, in accordance with applicable laws and regulations as well as the trust deed constituting SPH REIT dated 9 July 2013 (“Trust Deed”) and as amended from time to time. The Manager sets the strategic direction of SPH REIT and gives recommendations to DBS Trustee Limited, as trustee of SPH REIT (the “Trustee”) on the acquisition, divestment, development and/or enhancement of its assets in accordance with its stated investment strategy. As a REIT manager, the Manager is granted a Capital Market Services Licence (“CMS Licence”) by the MAS.

The Manager uses its best endeavours to ensure that SPH REIT conducts its business in a proper and efficient manner; and conducts all transactions with or for SPH REIT on an arm’s length basis and on normal commercial terms. The Manager’s other functions and responsibilities include:

1. preparing business plans on a regular basis, which may contain proposals and forecasts on gross revenue, capital expenditure, sales and valuations, explanations of major variances to previous forecasts, written commentary on key issues and any relevant assumptions;
2. ensuring compliance with the applicable provisions of the Securities and Futures Act and all other relevant legislation such as the SGX-ST Listing Manual of the Singapore Exchange Securities Trading Limited (“SGX-ST”), Appendix 6 of the Code on Collective Investment Schemes issued by the MAS (the “Property Funds Appendix”), the Trust Deed, the CMS Licence and any tax ruling and all relevant contracts;
3. attending to all regular communications with Unitholders; and
4. supervising SPH Retail Property Management Services Pte Ltd, the property manager that manages the day-to-day property management functions (including leasing, accounting, budgeting, marketing, promotion, property management, maintenance and administration) for SPH REIT’s properties, pursuant to the property management agreements signed for the respective properties.

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BOARD MATTERS

Board's Conduct of its Affairs

Principle 1: Board's Leadership and Control

The Board is responsible for the overall management and corporate governance of the Manager and SPH REIT including establishing goals for Management and monitoring the achievement of these goals. The Board also sets the values and ethical standards of SPH REIT as well as considers sustainability issues relevant to its business environment and stakeholders.

The key roles of the Board are to:

1. guide the corporate strategy and directions of the Manager;
2. ensure that senior management discharges business leadership and demonstrates the necessary management capability with integrity and enterprise;
3. oversee the proper conduct of the Manager; and
4. safeguard the interests of SPH REIT Unitholders and SPH REIT's assets.

To assist the Board in the discharge of its oversight function, the Audit and Risk Committee ("ARC") and the Nominating and Remuneration Committee ("NRC") have been constituted with written terms of reference.

The Board has put in place a set of internal controls containing approval limits for operational and capital expenditures, investments and divestments, bank borrowings and cheque signatory arrangements. In addition, sub-limits are also delegated to various management levels to facilitate operational efficiency.

Matters requiring the Board's decision and approval include:

1. Material transactions such as major funding proposals, investments, acquisitions and divestments including SPH REIT's commitment in terms of capital and other resources;
2. The annual budgets and financial plans;
3. Annual and quarterly financial reports;
4. Internal controls and risk management strategies and execution; and
5. Appointment of directors and key management staff including review of performance and remuneration packages.

The names of the members of the Board Committees are set out in the Corporate Directory page of this Annual Report.

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Board and Board Committee Attendance

The Board meets on a quarterly basis and as warranted by particular circumstances. Five Board meetings were held in the financial year ended 31 August 2018 ("FY2018") to discuss and review the Manager's and SPH REIT's key activities, including its business strategies and policies for SPH REIT, proposed acquisitions and disposals, the annual budget, the performance of the business and the financial performance of SPH REIT and the Manager. The Board also reviews and approves the release of the quarterly, half and full-year results. A Director who is unable to attend any meeting in person may participate via telephone or video conference. The attendance of the Directors at meetings of the Board, ARC and NRC, and the frequency of such meetings, is disclosed on page 94. A Director who fails to attend three Board meetings consecutively, without good reason, will not be nominated for re-appointment and will be deemed to have resigned.

Directors are expected to exercise independent judgment in the best interests of SPH REIT, and have discharged this duty consistently well.

Training for Directors

Upon the appointment of a Director, he is provided with a formal letter setting out his key responsibilities. New Directors will go through an orientation and induction programme, which includes site visits to the operational centres so as to familiarise them with SPH REIT's business, operations and organisation structure. Directors are updated on changes in relevant laws and regulations; industry developments; and analyst and media commentaries on matters related to SPH REIT.

Following their appointment, Directors are provided with opportunities for continuing education in areas such as Directors' duties and responsibilities, changes to laws, regulations, accounting standards and industry-related matters so as to be updated on matters that affect or may enhance their performance as Board or Board Committee members.

Directors are informed and encouraged to attend relevant training programmes conducted by the Singapore Institute of Directors, SGX-ST, and relevant business and financial institutions and consultants.

For FY2018, Directors were provided with briefing and training in the areas of corporate governance, regulatory compliance, essentials of audit and remuneration committee. Directors were also provided with training in the areas of design thinking, innovation, cybersecurity and insights into the REITs industry.

Directors may, at any time, request for further explanations, briefings or informal discussions on any aspect of SPH REIT's or the Manager's operations or business issues from Management.

Board Composition and Guidance

Principle 2: Strong and Independent Board

Currently, the Board comprises seven Directors, of whom four are independent Directors and three are non-independent non-executive Directors. Each Director has been appointed on the strength of his/her calibre and experience.

SPH REIT is committed to building an open, inclusive and collaborative culture, and recognises the benefits of having a Board with diverse backgrounds and experience. Such diversity will provide a wider range of perspectives, skills and experience, which will allow Board members to better identify possible risks, raise challenging questions, and contribute to problem-solving. The Board is of the view that the current composition of the Board encompasses an appropriate balance and diversity of skills, experience, gender, knowledge and core competencies such as accounting, law, finance, business or management experience, industry knowledge and strategic planning experience. The Board will continue to review its composition regularly to ensure that the Board has the appropriate balance and diversity to maximise its effectiveness.

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On 11 October 2018, the NRC adopted the Board Diversity Policy. Under this policy, NRC will review the relevant objectives for promoting and achieving diversity on the Board and make recommendations for approval by the Board. NRC will review this Policy as appropriate.

The Board considers that its present size is appropriate which facilitates effective decision making and allows for a balanced exchange of views, robust deliberations and debates among members, and effective oversight over Management.

The independence of each Director is assessed by the Board in accordance with Guideline 2.3 of the 2012 Code and the Securities and Futures (Licensing and Conduct of Business) Regulations.

Key information regarding the Directors, including directorship and chairmanship both present and those held over the preceding three years in other listed companies, and other principal commitments, are set out in the Board of Directors' section and on pages 17 to 18 which provide further information on them.

The Board and Management are given opportunities to engage in open and constructive debate for the furtherance of strategic objectives of the Manager and SPH REIT. All Board members are supplied with relevant, complete and accurate information on a timely basis and may challenge Management's assumptions and also extend guidance to Management, in the best interest of SPH REIT.

To facilitate open discussions and the review of the performance and effectiveness of Management, the Directors meet at least once annually without the presence of Management.

Chairman and Chief Executive Officer

Principle 3: Clear division of responsibilities between Chairman and Chief Executive Officer to ensure a balance of power and authority

The Chairman and CEO are separate persons and are not related, to maintain an effective check and balance. The Chairman is a non-executive and independent Director. The CEO bears executive responsibility for SPH REIT's business and implements the Board's strategic decisions. The roles of the Chairman and the CEO are kept separate to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making.

The Chairman sets the agenda for Board meetings, ensures that adequate time is available for discussion of all agenda items, in particular, strategic issues, and that complete, adequate and timely information is made available to the Board. He encourages constructive relations within the Board and between the Board and Management, facilitates the effective contribution of Directors, and facilitates effective communications with Unitholders. He takes a lead role in promoting high standards of corporate governance, with the full support of the Directors, the Company Secretary and Management.

The Manager does not have any lead Independent Director given that the Chairman and CEO are not the same person and are not immediate family members. The Chairman is not a part of the management team and is an independent Director.

Board Membership

Principle 4: Formal and transparent process for appointment of directors

The NRC administers nominations to the Board, reviews the structure, size and composition of the Board, and reviews the independence of Board members. In addition, as part of regulatory requirements, MAS also gives approval for any change of the CEO or of any appointment of Director. Directors of the Manager are not subject to periodic retirement by rotation.

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The composition of the Board, including the selection of candidates for new appointments to the Board as part of the Board's renewal process, is determined using the following principles:

- (a) the Board should comprise Directors with a broad range of commercial experience, including expertise in funds management, the property industry and in the banking and legal fields; and
- (b) at least one-third of the Board should comprise independent Directors. Where, among other things, the Chairman of the Board is not an independent Director, at least half of the Board should comprise independent Directors.

Guideline 4.4 of the 2012 Code recommends that the Board determine the maximum number of listed companies board representations which any director may hold and disclose this in the annual report. The Board is of the view that, the limit on the number of listed company directorships that an individual may hold should be six but this serves only as a guide. The Board has the discretion to decide whether to adhere to the guide on a case-by-case basis, as a person's available time and attention may be affected by many different factors such as whether they are in full-time employment and their other responsibilities.

A Director with multiple directorships is expected to ensure that sufficient attention is given to the affairs of the Manager in managing the assets and liabilities of SPH REIT for the benefit of Unitholders. In considering the nomination of Directors for appointment, the Board will take into account, amongst other things, the competing time commitments faced by Directors with multiple Board memberships. All Directors have confirmed that notwithstanding the number of their individual listed company board representations and other principal commitments, they were able to devote sufficient time and attention to the affairs of the Manager in managing the assets and liabilities of SPH REIT for the benefit of Unitholders. The Board is of the view that current commitments of each of its Directors are reasonable and each of the Directors is able to and has been able to carry out his/her duties satisfactorily.

The NRC will review the composition of the Board and ARC periodically, taking into account the need for progressive renewal of the Board and each Director's competencies, commitment, contribution and performance.

The NRC regularly reviews the balance and mix of expertise, skills and attributes of the Directors in order to meet the business and governance needs of the Manager, shortlists candidates with the appropriate profile for nomination or re-nomination and recommends them to the Board for approval. It looks out for suitable candidates to ensure continuity of Board talent. Some of the selection criteria used are integrity, independent mindedness, diversity of competencies, ability to commit time and effort to the Board, track record of good decision-making experience in high-performing companies and financial literacy.

The Board does not appoint alternate directors as recommended by Guideline 4.5 of the 2012 Code.

The Board may seek advice from external search consultants where necessary.

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Review of Directors' Independence

The NRC reviews annually whether a Director is considered an independent director based on the 2012 Code and the Securities and Futures (Licensing and Conduct of Business) Regulations. An independent director is one who is independent from (i) management or business relationships with the Manager and SPH REIT; and (ii) every substantial shareholder of the Manager and substantial unitholder of SPH REIT. The NRC and the Board have established a process for assessing the independence of Directors. As part of the process, each of the relevant non-executive Directors is required to confirm, upon appointment, as well as on an annual basis, that there are no material relationships which would render him or her non-independent. The confirmations are reviewed by the Board during which the Board also considers the Directors' respective contributions at Board meetings. The NRC has ascertained that for the period under review, four of the independent Directors, namely Dr Leong Horn Kee, Mr Soon Tit Koon, Mr David Chia and Ms Rachel Eng, are independent and that all Directors have devoted sufficient time and attention to the Manager's affairs. There are no relationships or circumstances which affect or would be likely to affect the judgment of the independent Directors, and their ability to discharge their responsibilities as independent Directors of the Board. None of the independent Directors have served on the Board for more than nine years from the date of first appointment.

Ms Eng stepped down on 26 September 2018 and Ms Hoo Sheau Farn was appointed as Director on 26 September 2018.

The NRC and the Board had evaluated the independence of Ms Hoo prior to her appointment, on the following grounds and mitigation factors:

- (a) Ms Hoo declared that Allen & Gledhill LLP ("A&G"), in which she is a partner, had received payments from SPH Group for legal services, which was not substantive in relation to A&G's total earnings. In light of Ms Hoo's declaration, the Board assessed Ms Hoo as being independent because she was not directly involved in any of the matters which were handled by A&G;
- (b) Ms Hoo has less than 5% share in A&G;
- (c) The Chairman of the NRC and the Board Chairman met up with Ms Hoo. The two Chairmen assessed Ms Hoo as possessing the integrity of character to be an independent director and would raise any issues and contribute her views for the sole benefit of the Manager and SPH REIT;
- (d) Ms Hoo acknowledged and confirmed that she would declare to the Board any potential conflicts of interest that she or A&G may have in any matter involving the Manager and SPH REIT; and
- (e) The NRC and the Board would review Ms Hoo's independence annually or as and when necessary.

Board Performance

Principle 5: Formal assessment of the effectiveness of the Board and contribution of each director

The Board's performance is reviewed on an annual basis, based on performance criteria as agreed by the Board.

The Board had implemented a process for assessing the effectiveness of the Board as a whole and its Board Committee as well as for assessing the contribution by Directors to the effectiveness of the Board.

The NRC reviews the Board's performance on an annual basis, based on the performance criteria as agreed by the Board from time to time, and decides how this may be evaluated.

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Board Evaluation Process

This process involves having Directors complete a Questionnaire seeking their views on various aspects of Board performance, such as Board composition, access to information, process and accountability.

The Company Secretary compiles Directors' responses to the Questionnaire into a consolidated report. The report is discussed at the NRC meeting.

For FY2018, the Questionnaire on the performance of the Board and Board Committees was reviewed in accordance with the best practices on board evaluation. The performance of the Board was reviewed as a whole, taking into account the Board's composition and size, the Board's access to information, Board processes, Board accountability, standard of conduct and performance of the Board's principal functions and fiduciary duties, and guidance to and communication with the Management.

Individual Director Evaluation

As of FY2018, the NRC also conducted a peer and self evaluation to assess the performance of individual Directors. The Board Chairman, together with the Chairman of NRC, assessed the performance of individual directors based on factors such as the Director's attendance, preparedness, candour, participation and contribution at Board meetings, industry and business knowledge, functional expertise, and commitment and dedication. The results of the peer and self evaluation are compiled by the Company Secretary and given to the Board Chairman, who assesses the performance of the individual Directors, and will discuss with each individual Director if needed.

The NRC is satisfied that all performance objectives have been achieved for FY2018 for the Board as a whole and for individual Directors.

Succession Planning

The NRC regards succession planning as an important part of corporate governance and follows an internal process of succession planning for the Directors and CEO to ensure the progressive and orderly renewal of the Board.

Access to Information

Principle 6: Provision of complete, adequate and timely information prior to board meetings and on an on-going basis

The Manager recognises that the provision of complete, adequate and timely information is critical for the Board to be effective in discharging its duties.

The Board is provided with monthly and quarterly reports encompassing management reports, financial statements, progress reports of SPH REIT's business operations, as well as analysts' reports. The quarterly results announcement and annual budget are presented to the Board for approval. Financial results are compared against prior year as well as budgets, together with explanations given for significant variances for the relevant period. The Board also receives regular updates regarding industry and technological developments. Such reports enable Directors to keep abreast of issues and developments in the industry, as well as challenges and opportunities for SPH REIT.

As a general rule, board papers are sent to Directors at least one week in advance in order for Directors to be adequately prepared for the meeting. Senior Management attends Board meetings to answer any queries from the Directors. The Directors also have unrestricted access to the Company Secretary and Management at all times. Directors are entitled to request from Management and provided with such additional information as needed to make informed and timely decisions.

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The Company Secretary works closely with the Chairman in setting the agenda for Board meetings. He attends all Board meetings and prepares minutes of the Board proceedings. He ensures that board procedures are followed and that applicable rules and regulations are complied with. Under the direction of the Chairman, the Company Secretary's responsibilities include ensuring good information flow within the Board and the Board Committees and between Management and Directors. The Company Secretary also organises orientation and training for Directors, as well as provides updates and advises Directors on all governance matters. The appointment and removal of the Company Secretary is subject to the approval of the Board.

Should Directors, whether as a group or individually, need independent professional advice relating to the Manager's affairs, the Company Secretary will appoint a professional advisor to render the relevant advice and keep the Board informed of such advice. The cost of such professional advice will be borne by the Manager.

Remuneration Matters

Principle 7: Formal and transparent procedure for fixing remuneration packages of directors

Level and Mix of Remuneration

Principle 8: Appropriate remuneration to attract, retain and motivate directors and key management

Principle 9: Clear disclosure on remuneration policy, level and mix

As SPH REIT has no personnel of its own, the Manager hires qualified staff to manage the operations of the Manager and SPH REIT. As such, the remuneration of Directors and staff of the Manager is paid by the Manager, and not by SPH REIT.

The NRC supports the Board in the remuneration matters of the Manager in accordance with the NRC's written terms of reference. As the NRC comprises all members of the Board, the majority of the NRC is independent. Chairman of the NRC is Mr David Chia who is an independent director.

The NRC's terms of reference set out the scope and authority, amongst others, in performing the functions of a remuneration committee, which include the following:

1. review and recommend to the Board a framework of remuneration for the Board, CEO and key executives;
2. review and recommend to the Board the specific remuneration packages for each director, the CEO and key executives;
3. review and administer the share and other incentive scheme(s) adopted by the Manager and to decide on the allocations to eligible participants under the said share scheme(s); and
4. review the Manager's obligations arising in the event of termination of the executive directors' and key executives' contracts of service, so as to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous.

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The NRC is responsible for the annual review of the Manager's remuneration policy, its implementation and ensuring compliance with relevant legislation and regulation. In particular, the remuneration policy should reflect these key objectives:

1. Unitholder alignment: to ensure that performance measures are aligned to Unitholders' interest;
2. Alignment with performance: variable compensation takes into account financial performance and achievement of non-financial goals; and
3. Competitiveness: Employees receive compensation and benefits packages, which are reviewed annually and benchmarked to the external market.

The NRC has considered the remuneration policies and practices of the Manager's holding company, Singapore Press Holdings Limited ("SPH"), and believes that these are transparent and suitable for adoption by the Manager taking into account the circumstances of the Manager and SPH and its subsidiaries as well as the benefits of tapping into SPH's compensation framework. In its decision to adopt the remuneration policies and practices of SPH, the NRC took into account that the framework of remuneration for the Board and key executives should not be taken in isolation; it should be linked to the building of management strength and the development of key executives. SPH has a remuneration committee ("SPHRC") that determines and recommends to the SPH board of directors the framework of remuneration, terms of engagement, compensation and benefits for senior executives of SPH and its subsidiaries, which include the CEO and Management of the Manager. SPHRC sets the remuneration guidelines of the SPH Group for each annual period, including the structuring of long-term incentive plans, annual salary increases and variable and other bonuses for distribution to its Group employees. Following the new directions and guidelines from the MAS on the remuneration of directors and key executive officers of REIT managers, the Board with the assistance of the NRC has reviewed the remuneration objectives, policies and procedures applicable to the Manager, with a view to aligning them with the substance and spirit of such directions and guidelines from the MAS.

Name	Board Member	Audit & Risk Committee	Nominating & Remuneration Committee	Total Fees
	S\$	S\$	S\$	S\$
Leong Horn Kee	70,000 (Chairman)	–	7,000	77,000
Soon Tit Koon	40,000	20,000 (Chairman)	7,000	67,000
David Chia Chay Poh	40,000	13,000	12,000 (Chairman)	65,000
Rachel Eng Yaag Ngee	40,000	13,000	7,000	60,000
Ng Yat Chung*	40,000	–	7,000	47,000
Anthony Mallek*	40,000	–	7,000	47,000
Ginney Lim May Ling*	40,000	–	7,000	47,000
Total Fees	310,000	46,000	54,000	410,000

* Directors who are full-time SPH management staff and consultant engaged by SPH. They do not receive Directors' fees. Fees are instead paid directly to SPH.

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Directors' fees comprise a basic retainer fee and fees in respect of service on Board Committees. The Directors' fees are appropriate to the level of contribution, taking into account factors such as effort and time spent, and the responsibilities of the Directors, such that the independence of the independent non-executive Directors is not compromised by their compensation. While there are no unit-based compensation schemes in place for non-executive Directors, the NRC will consider the introduction of unit-based compensation for non-executive Directors as and when appropriate.

There are no termination, retirement and post-employment benefits granted to Directors, the CEO or the CFO during FY2018.

No employee of the Manager was an immediate family member of a Director or the CEO and whose remuneration exceeded \$50,000 during FY2018. "Immediate family member" refers to the spouse, child, adopted child, step-child, brother, sister and parent.

In deciding on the remuneration of directors and key executive officers, the NRC will consider the level of remuneration that is appropriate to attract, retain and motivate the directors and key executive officers to run the Manager successfully. The NRC will, in setting the remuneration packages, take into account the pay and employment conditions within the industry and in comparable companies, the Manager's relative performance and the performance of the key executive officers.

The Manager adopts a remuneration policy for staff comprising a fixed component, a variable component, and benefits-in-kind. The fixed component is in the form of a base salary. The variable component is in the form of a variable bonus that is linked to the Manager's and each individual employee's performance. The NRC will approve the bonus for distribution to staff on that basis.

The NRC may seek expert advice inside and/or outside of the Manager on remuneration of Directors and staff. It ensures that in the event of such advice being sought, existing relationships, if any, between the Manager and its appointed remuneration consultants will not affect the independence and objectivity of the remuneration consultants.

The 2012 Code and the Notice to All Holders of a Capital Markets Service Licence for Real Estate Investment Trust Management (issued pursuant to Section 101 of the Securities and Futures Act) require (i) the disclosure of the remuneration of each individual Director and the CEO on a named basis with a breakdown (in percentage or dollar terms) of each Director's and the CEO's remuneration earned through base/fixed salary, variable or performance-related income/ bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives; (ii) the disclosure of the remuneration of at least the top five key executive officers (who are neither Directors nor the CEO) in bands of \$250,000, with a breakdown (in percentage or dollar terms) of each key executive officer's remuneration earned through base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives; and (iii) the aggregate total remuneration paid to the top five key executive officers (who are neither Directors nor the CEO). In the event of non-disclosure, the Manager is required to give reasons for such non-disclosure.

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The Board has reviewed, assessed and decided against such disclosure on the following grounds:

1. the remuneration of the Directors and employees of the Manager are not paid out of the deposited property of SPH REIT (listed issuer). Instead, they are remunerated directly by the Manager, which is a private company. The fees that the Manager gets from SPH REIT has been disclosed under the "Interested person/interested party transactions" section of the Annual Report;
2. remuneration matters for the CEO and each of the executive officers are highly confidential and sensitive matters;
3. there is no misalignment between the remuneration of the Directors and the key management personnel of the Manager and the interests of the Unitholders given that their remuneration is not linked to the gross revenue of SPH REIT and is paid out of the assets of the Manager and not out of SPH REIT; and
4. the negative impact which such disclosure may have on the Manager in attracting and retaining talent for the Manager on a long-term basis, taking into consideration factors such as the commercial sensitivity and confidential nature of remuneration matters, the competitive nature of the REIT management industry, the competitive business environment in which the Manager operates, the importance of ensuring stability and continuity of business operations with a competent and experienced management team in place.

For the Manager, long term incentive-based compensation is granted as part of an overall compensation programme. It is an extension of the Manager's pay-for-performance philosophy. Performance unit awards recognise the contributions and services of high performing employees, and motivate the incumbents to perform for the long-term success of SPH REIT as well as to enhance total returns for Unitholders of SPH REIT.

Accountability and Audit

Principle 10: Board presents the company's performance, position and prospects

The Board announces SPH REIT's quarterly and full-year financial results which present a balanced, clear and informed assessment of its performance, position and prospects through public announcements and through the SGXNET.

The Manager conforms to a set of guidelines to ensure full compliance with statutory and regulatory requirements as well as adopts best practices in SPH REIT's business processes. This is imperative to maintaining Unitholders' confidence and trust in SPH REIT.

The Management recognizes the importance of providing the Board with accurate and relevant information on a timely basis. Hence the Manager provides the Board on a regular basis, with management reports that contain financial, business and operational information and such explanation and information as the Board may require from time to time. This enables the Board to make a balanced and informed assessment of SPH REIT's performance and prospects.

Risk Management and Internal controls

Principle 11: Sound system of risk governance and internal controls

The ARC assists the Board in overseeing the risk governance of the Manager and SPH REIT to ensure that the Manager maintains a sound system of risk management and internal controls to safeguard SPH REIT's assets and Unitholders' interests.

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The ARC's objectives in relation to risk management include the following:

- (a) Oversee SPH REIT's and the Manager's risk exposure and risk management strategy;
- (b) Review and guide Management in the formulation of SPH REIT's and the Manager's risk policies and implementation of risk management assessment processes and mitigation strategies;
- (c) Review the report to the Board of risk management activities and performance, including whether key risks are managed within acceptable levels, breaches of any of key risk indicators and the corrective actions taken;
- (d) Review annually, or more often as required by the ARC, the adequacy and effectiveness of SPH REIT's and the Manager's risk management and internal control systems and processes, including those governing financial, operational, compliance and information technology risks, and
- (e) Report to the Board all significant risk matters and ARC's assessment of risk management performance on an annual basis.

The Manager has in place a risk management framework which has been established to ensure adequate and effective management of risks in the Manager and SPH REIT and facilitate the Board's assessment on the adequacy and effectiveness of the Manager's and SPH REIT's risk management system. The framework sets out the governing policies, processes and systems pertaining to each of the key risk areas to which the Manager and SPH REIT are exposed. The framework also facilitates the assessment by the Board in the effectiveness of the Manager in managing each of the key risk areas.

Under the risk management framework, the Manager has implemented a systematic risk assessment process to identify significant risks, set relevant risk appetite, monitor risk exposure, and take risk mitigating measures when necessary. The Manager's approach to risk management and internal control and the management of key business risks is set out in the "Risk Management Report" section on pages 76 to 77 of this Annual Report.

The ARC reviews periodically the implementation by the Management of the risk management framework, and the extent to which risk perspectives are used in achieving its strategic objectives of SPH REIT. Key risks, their likely impact and possible control measures and management actions have to be continually identified, analysed and understood by Management before any significant undertaking is embarked upon. In addition, the Manager also promptly submits monthly reports to the Board on business and financial performance and updates on operational matters.

The SPH's Internal Audit Division ("IAD") has an annual audit plan, which complements that of the external auditors. IAD's plan focuses on material internal control systems including financial, operational, IT and compliance controls, and risk management. IAD also assesses security and control in new systems development, recommends improvements on the effectiveness of operations, and contributes to risk management and corporate governance processes. Any material non-compliance with established processes or lapses in internal controls together with corrective measures are reported to the ARC. The ARC annually reviews the adequacy and effectiveness of IAD.

The CEO and CFO at each financial year-end will provide a letter of assurance to the Board on the integrity of the financial records/statements, as well as the adequacy and effectiveness of SPH REIT's risk management and internal control systems.

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Such assurance includes the following:

- internal controls were established and maintained;
- material information relating to the Manager is disclosed on a timely basis for the purposes of preparing financial statements; and
- the Manager's internal controls were effective as at the end of the financial year.

Based on the internal audit reports submitted and the management controls that are in place, the ARC is satisfied that the internal control systems provide reasonable assurance that SPH REIT's assets are safeguarded, that proper accounting records are maintained and financial statements are reliable. In addition, the Manager's external auditors will highlight any material internal control weaknesses which have come to their attention in the course of their annual audit, which is designed primarily to enable them to express their opinion on the financial statements. Such material internal control weaknesses and recommendations, if any, will be reported by the external auditors to the ARC.

Based on the internal controls established and maintained by the Manager, work performed by the internal and external auditors, and regular reviews performed by Management, CEO, CFO, the Board and ARC are of the opinion that the Manager's risk management systems and internal controls were adequate and effective as at 31 August 2018 to address financial, operational, compliance and information technology risks, which the Manager considers relevant and material to SPH REIT's operations.

The Board notes that the system of internal controls provides reasonable, but not absolute, assurance that the Manager will not be affected by any event whether or not the event could be reasonably foreseen as it strives to achieve its business objectives. In this regard, the Board also notes that no system can provide absolute assurance against the occurrence of unforeseen events, material errors, poor judgment in decision-making, human error, fraud or other irregularities.

CODE OF DEALINGS IN SECURITIES

The Manager has in place a Code of Dealings in SPH REIT units, which prohibits dealings in SPH REIT units by all Directors of the Manager, certain employees of the Manager, SPH and its subsidiaries, within certain trading "black-out" periods. The "black-out" periods are two weeks prior to the announcement of the Manager's financial statements for each of the first three quarters of its financial year and one month prior to the announcement of the Manager's full year financial statements. These persons are also reminded to observe insider trading laws at all times, and not to deal in SPH REIT units when in possession of any unpublished price-sensitive information regarding the Manager or SPH REIT, or on short-term considerations. In compliance with Rule 1207(19) of the SGX-ST Listing Manual, the Manager issues quarterly reminders to its Directors, relevant officers and employees on the restrictions in dealing in SPH REIT units as set out above.

Audit and Risk Committee

Principle 12: Establishment of an Audit and Risk Committee with written terms of reference

The ARC currently comprises three members, all of whom are non-executive and independent Directors. The Chairman is Mr Soon Tit Koon and its members are Mr David Chia and Ms Hoo Sheau Farn.

Corporate Governance

The Board is of the view that the members of the ARC have sufficient financial management expertise and experience to discharge the ARC's functions given their experience as directors and/or senior management in accounting, financial and industry areas. The ARC performs the functions as set out in the 2012 Code including the following:

- (a) reviewing the annual audit plans and audit reports of external and internal auditors;
- (b) reviewing the financial statements of SPH REIT before they are submitted to the Board for approval;
- (c) reviewing the significant financial reporting issues so as to ensure the integrity of the financial statements of SPH REIT and any announcements relating to SPH REIT's financial performance;
- (d) reviewing the auditors' evaluation of the system of internal accounting controls;
- (e) reviewing and reporting to the Board the adequacy and effectiveness of the Manager's internal controls, including financial, operational, compliance and information technology controls;
- (f) reviewing the scope, results and effectiveness of the internal audit function;
- (g) reviewing the scope, results and effectiveness of the external audit, and the independence and objectivity of the external auditors annually, and the nature and extent of non-audit services supplied by the external auditors so as to maintain objectivity;
- (h) making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors;
- (i) reviewing the Manager's whistle-blowing policy, and to ensure that channels are open for possible improprieties to be raised and independently investigated, and for appropriate follow-up action to be taken;
- (j) overseeing any internal investigation into cases of fraud and irregularities;
- (k) reviewing interested person transactions;
- (l) approving (or participating in) the hiring, removal, evaluation and compensation of the head of the internal audit function;
- (m) ensuring that the internal audit function is adequately resourced and has adequate support within the Company; and
- (n) overseeing the risk management function of the Manager to ensure the adequacy and effectiveness of risk management processes in safeguarding interest of SPH REIT.

The ARC has the authority to investigate any matter within its terms of reference, full access to and co-operation by management, full discretion to invite any Director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

The ARC has conducted an annual review of the performance of the external auditor and the volume of non-audit services to satisfy itself that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors, before confirming their re-nomination. The aggregate amount of fees paid to the external auditors for FY2018 was S\$246,000, comprising fees paid for audit and non-audit services of S\$181,000 and S\$65,000 respectively.

Corporate Governance

The ARC meets separately with the external and internal auditors, in each case without the presence of Management, at least once a year. The audit partner of the external auditors is required to be rotated every five years, in accordance with the requirements of the SGX-ST Listing Manual.

Quarterly financial statements and the accompanying announcements of SPH REIT are reviewed by the ARC before being submitted to the Board for approval, to ensure the integrity of information to be released.

During the financial year, the ARC reviewed the financial statements prior to endorsing and recommending their release to the Board. Management's assessment of fraud risks, adequacy of the whistle-blower arrangements and whistle-blower complaints are reviewed by the ARC.

The ARC takes measures to keep abreast of the changes to regulatory environment and accounting standards which have a direct impact on the business of SPH REIT and its financial statements, with training conducted by professionals or external consultants.

In the review of the financial statements, the ARC had discussed with Management the accounting principles that applied and their judgment of items that affect the financial statements. This included a review of valuation of investment properties, a key audit matter ("KAM") identified by the external auditor in the audit report for the financial year ended 31 August 2018.

The ARC considered the standing of the valuers and their independence, appropriateness of valuation methodologies, and underlying key assumptions applied in the valuation of investment properties. The ARC reviewed the outcome of the valuation process and discussed the details of the valuation with Management. They also assessed the findings of the external auditor and consulted with the external auditors. The ARC concluded that the accounting treatment and estimates in the KAM were appropriate.

External Auditors

Details of the aggregate amount of fees paid to the external auditors for FY2018, and a breakdown of the fees paid in total for audit and non-audit services respectively, can be found on page 91.

The Manager confirms that the appointment of the external auditors is in accordance with Rules 712 and 715 of the SGX-ST Listing Manual.

None of the ARC members is a former partner of the Manager's existing auditing firm.

CODE OF BUSINESS ETHICS AND EMPLOYEE CONDUCT POLICY

The Manager has an existing Code of Business Ethics and Employee Conduct Policy ("Ethics Code"), to regulate the ethical conduct of its employees.

Whistleblowing Policy

The Manager also has a Whistleblowing Policy & Procedure to allow staff and external parties such as suppliers, customers, contractors and other stakeholders, to raise concerns or observations in confidence to the Manager, about possible irregularities for independent investigation and appropriate follow up action to be taken. Such concerns include dishonesty, fraudulent acts, corruption, legal breaches and other serious improper conduct; unsafe work practices and any other conduct that may cause financial or non-financial loss to the Manager or damage to the Manager's reputation. The Whistleblowing Policy encourages staff and external parties to identify themselves whenever possible to facilitate investigations, but will also consider anonymous complaints, in certain circumstances. It makes available to staff and external parties the contact details of the Receiving Officer, who may also forward the concern to the respective superiors, CEO, ARC Chairman and/or Chairman.

Corporate Governance

Internal Audit

Principle 13: Establishment of an internal audit function that is independent of the functions it audits

The internal audit of the Manager is an outsourced function by SPH's IAD. Audit engagements for the Manager and SPH REIT form part of the audit workplan for SPH Group.

The role of the internal auditor is to provide reasonable assurance to the ARC that the risk management, system of internal controls and governance processes designed by the Management are adequate and effective.

SPH's IAD is staffed with eight audit executives, including the Head of Internal Audit. Most of the SPH's IAD staff have professional qualifications, and are members of the Institute of Singapore Chartered Accountants and/or Institute of Internal Auditors ("IIA"). Some are Certified Information Systems Auditor (CISA). All IAD staff have to adhere to a set of code of ethics adopted from the IIA. SPH's IAD is guided by the International Professional Practices Framework issued by the IIA and ensures staff competency through the recruitment of suitably qualified and experienced staff, provision of formal and on-the-job training, and appropriate resource allocation in engagement planning.

The Head of Internal Audit reports directly to the Chairman of the ARC on the Manager's and SPH REIT's audit matters. SPH's IAD has unrestricted direct access to all the Manager's and SPH REIT's documents, records, properties and personnel. SPH's IAD's reports are submitted to the ARC for deliberation with copies of these reports extended to the relevant senior management personnel. The ARC reviews and approves the annual IA plans and resources to ensure that SPH's IAD has the necessary resources to adequately perform its functions.

Unitholder Rights & Responsibilities

Principle 14: Fair and equitable treatment of Unitholders

Communication with Unitholders

Principle 15: Regular, effective and fair communication with Unitholders

Conduct of Unitholder Meetings

Principle 16: Greater Unitholder participation at AGMs

The Manager is committed to treating all Unitholders fairly and equitably and keeping all Unitholders and other stakeholders and analysts informed of the performance and changes in SPH REIT or its business which would be likely to materially affect the price or value of Units, on a timely and consistent basis, so as to assist Unitholders and investors in their investment decisions.

The Manager provides accurate and timely disclosure of material information on SGXNET. Unitholders are notified in advance of the date of release of SPH REIT's financial results through an announcement via SGXNET. The Manager also conducts regular briefings for analysts and media representatives, which will generally coincide with the release of SPH REIT's quarterly and full year results. During these briefings, Management will review SPH REIT's most recent performance as well as discuss the business outlook for SPH REIT. In line with the Manager's objective of transparent communication, briefing materials are simultaneously released through the SGX-ST via SGXNET and also made available at SPH REIT's website.

All Unitholders are entitled to attend general meetings and are accorded the opportunity to participate effectively and vote at general meetings. All Unitholders are also informed of the rules, including voting procedures, governing such meetings.

SPH REIT prepares minutes of general meetings, which incorporates comments or queries from Unitholders and responses from the Board and management. These minutes are available to Unitholders upon their request.

Corporate Governance

At general meetings, each distinct issue is proposed as a separate resolution. For greater efficiency and transparency, resolutions are put to the vote by electronic poll voting. Independent scrutineers are appointed to conduct the voting process, and verify and tabulate votes after each resolution. The results of the electronic poll voting will be announced immediately after each resolution has been put to a vote, and the number of votes cast for and against and the respective percentages are displayed in real-time at the general meeting. The outcome of the general meeting is promptly announced on SGXNET after the general meeting.

All Directors and senior management are in attendance at the AGM to allow Unitholders the opportunity to air their views and ask Directors or Management questions regarding SPH REIT. The external auditors also attend the AGM to assist the Directors in answering any queries relating to the conduct of the audit and the preparation and content of the auditors' report.

The Trust Deed does not allow a Unitholder to vote in absentia at general meetings, but allows any Unitholder to appoint proxies during his absence, to attend and vote on his behalf at the general meetings. In addition, Unitholders who hold shares through custodial institutions may attend the general meetings as observers.

SPH REIT targets to provide sustainable and progressive dividend payouts.

DIRECTORS' ATTENDANCE AT BOARD, AUDIT AND RISK COMMITTEE AND NOMINATING AND REMUNERATION COMMITTEE (for FY2018)

Directors' attendance at Board, Audit & Risk Committee and Nominating and Remuneration Committee meetings for the period from 01 September 2017 to 31 August 2018.

Name of Director	Board	Audit & Risk Committee	Nominating & Remuneration Committee
Leong Horn Kee (Board Chairman) (Appointed on 10 June 2013)	5 out of 5	–	2 out of 2
Soon Tit Koon (Audit & Risk Committee Chairman) (Appointed on 10 June 2013)	5 out of 5	4 out of 4	2 out of 2
David Chia Chay Poh (Nominating & Remuneration Committee Chairman) (Appointed on 10 June 2013)	5 out of 5	4 out of 4	2 out of 2
Rachel Eng Yaag Ngee (Appointed on 1 December 2015; stepped down on 26 September 2018)	5 out of 5	4 out of 4	2 out of 2
Ng Yat Chung (Appointed on 1 August 2017)	5 out of 5	–	2 out of 2
Anthony Mallek (Appointed on 1 March 2013)	5 out of 5	–	2 out of 2
Ginney Lim May Ling (Appointed on 10 June 2013)	5 out of 5	–	2 out of 2

Corporate Governance

Additional Information

Interested Person Transactions

All interested person transactions are undertaken only on normal commercial terms and the ARC regularly reviews all related party transactions to ensure compliance with the internal control system as well as with relevant provisions of the SGX-ST Listing Manual and Property Funds Appendix. In addition, the Trustee also has the right to review such transactions to ascertain that the Property Funds Appendix has been complied with.

In particular, the following procedures are in place:

1. transactions (either individually or as part of a series or if aggregated with other transactions involving the same interested person during the same financial year) equal to or exceeding S\$100,000 in value, but below 3.0% of SPH REIT's net tangible assets, will be subject to review and approval by the ARC;
2. transactions (either individually or as part of a series or if aggregated with other transactions involving the same interested person during the same financial year) equal to or exceeding 3.0% but below 5.0% of SPH REIT's net tangible assets, will be subject to the review and approval of the ARC, and SGX announcement requirements under the SGX-ST Listing Manual and Property Funds Appendix;
3. transactions (either individually or as part of a series or if aggregated with other transactions involving the same interested person during the same financial year) equal to or exceeding 5.0% of SPH REIT's net tangible assets will be subject to review and approval by the ARC which may, as it deems fit, request for advice on the transaction from independent sources or advisors, including the obtaining of valuations from professional valuers, as well as SGX announcement requirements under the SGX-ST Listing Manual and the Property Funds Appendix and such transactions would have to be approved by Unitholders at a meeting of Unitholders; and
4. the ARC's approval shall only be given if the transactions are on normal commercial terms and consistent with similar types of transactions undertaken by the Trustee with third parties which are unrelated to the Manager.

The interested person transactions undertaken by the Manager in FY2018 which are subject to disclosure requirements under the SGX-ST Listing Manual can be found on page 148 of this Annual Report.

CONFLICTS OF INTEREST

The Manager has instituted the following procedures to deal with potential conflicts of interest issues:

- (a) The Manager will not manage any other real estate investment trust ("REIT") which invests in the same types of properties as SPH REIT.
- (b) All key executive officers work exclusively for the Manager and do not hold executive positions in other entities.
- (c) At least one-third of the Board comprises independent directors. The Chairman of the Board is an independent director.
- (d) All resolutions in writing of the Directors in relation to matters concerning SPH REIT must be approved by at least a majority of the Directors, including at least one independent Director.

Corporate Governance

- (e) In respect of matters in which the Sponsor (SPH) and/or its subsidiaries have an interest, direct or indirect, any nominees appointed by the Sponsor and/or its subsidiaries to the Board to represent their interests will abstain from deliberation and voting on such matters. For such matters, the quorum must comprise a majority of the independent directors of the Manager and must exclude nominee directors of the Sponsor and/or its subsidiaries. The Manager and the Property Manager (SPH Retail Property Management Services Pte Ltd) are indirect wholly-owned subsidiaries of the Sponsor.
- (f) There is a separation of the roles of CEO and Chairman to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making.
- (g) Directors disclose promptly all interests in a transaction or proposed transaction to fellow Board members.
- (h) The independence of each Director is reviewed upon appointment, and thereafter annually. A Director who has no relationship with the Manager, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment is considered independent.
- (i) The ARC comprises three independent directors. Its Chairman is independent.
- (j) All matters relating to interested person transactions are conducted in accordance with the procedures set out in the section on 'Interested Person Transactions'.

The Trust Deed provides that if the Manager is required to decide whether or not to take any action against any person in relation to any breach of any agreement entered into by the Trustee for and on behalf of SPH REIT with a related party of the Manager, the Manager shall be obliged to consult with a reputable law firm (acceptable to the Trustee) which shall provide legal advice on the matter. If the said law firm is of the opinion that the Trustee, on behalf of SPH REIT, has a prima facie case against the party allegedly in breach under such agreement, the Manager is obliged to pursue the appropriate remedies under such agreement. The Directors of the Manager will have a duty to ensure that the Manager so complies. Notwithstanding the forgoing, the Manager shall inform the Trustee as soon as it becomes aware of any breach of any agreement entered into by the Trustee for and on behalf of SPH REIT with a related party of the Manager, and the Trustee may take such action as it deems necessary to protect the interests of the Unitholders. Any decision by the Manager not to take action against a related party of the Manager shall not constitute a waiver of the Trustee's right to take such action as it deems fit against such related party.

FEES PAYABLE TO THE MANAGER

Pursuant to the CIS Code issued by MAS, the Manager is to disclose the methodology and justifications of fees which are payable out of the deposited property of a property fund.

The Manager is entitled to the following fees:

Base Fee

The Base Fee, which is contained in Clause 15.1.1 of the Trust Deed, is recurring and enables the Manager to cover the operational and administrative expenses incurred in the management of the portfolio. The Base Fee is calculated at a percentage of asset value as the asset value provides an appropriate metric to determine the resources for managing the assets.

Corporate Governance

Performance Fee

The Performance Fee is contained in Clause 15.1.2 of the Trust Deed. It is based on NPI and measures the Manager's ongoing effort on the long-term sustainability of the properties through proactive leasing to retain existing tenants and attract new retailers to optimise tenant mix and rental income, as well as to improve operational efficiencies and manage cost prudently. This aligns the interests of the Manager with Unitholders as the Manager is motivated and incentivised to achieve income stability by ensuring the long-term sustainability of the assets through proactive asset management strategies and asset enhancement initiatives. The focus on sustainability of NPI performance addresses both revenue and cost drivers, and ensures the Manager take a long-term, holistic view in carrying out asset management and asset enhancement strategy, instead of taking excessive risks for short-term gains to the detriment of Unitholders.

Acquisition Fee

The Acquisition Fee, which is contained in Clause 15.2.1(i) of the Trust Deed, seeks to motivate the Manager to continually pursue quality, yield-accretive opportunities that will add value to the portfolio and deliver inorganic growth to Unitholders. These involve rigorous and disciplined assessment taking into consideration the valuation, yield-accretion, value creation opportunities and continued sustainability of each property. In addition, the Acquisition Fee allows the Manager to recover the additional costs and resources incurred by the Manager in the course of seeking out new acquisition opportunities, including but not limited to, due diligence efforts and man hours spent in evaluating the transaction. The Acquisition Fee for non-Related Parties acquisitions is higher than the Acquisition Fee for Related Parties because there is additional work required to be undertaken in terms of sourcing, evaluating and conducting due diligence on a non-Related Party acquisition.

As required by the Property Funds Appendix, where real estate assets are acquired from an interested party, the Acquisition Fee payable to the Manager will be in the form of units which shall not be sold within one year from the date of issuance of the units.

Divestment Fee

The Divestment Fee, which is contained in Clause 15.2.1(ii) of the Trust Deed, seeks to motivate the Manager to review the portfolio for opportunities to unlock the underlying value of its existing properties. The fee compensates the Manager for the time, effort and resources expended in identifying and maximizing the value from potential divestment. The Manager provides these services over and above ongoing management services to enhance the long-term sustainability of existing properties. In addition, the Divestment Fee allows the Manager to recover additional costs and resources incurred by the Manager for the divestment, including but not limited to due diligence efforts and man hours spent in marketing and maximising the divestment price. The divestment fee is lower than Acquisition Fee to ensure fees are commensurate with the resources utilised to complete the transaction. The acquisition process is generally more time consuming than the divestment process as there are many considerations in an acquisition process such as property specifications, price, underlying tenancies and financial strength of the master lessee which are more complex than carrying out a divestment.

As required by the Property Funds Appendix, where real estate assets are disposed of to an interested party, the Divestment Fee payable to the Manager will be in the form of units which shall not be sold within one year from the date of issuance of the units.