
STATEMENT BY CHAIRMAN AND CEO



From left: Ms Susan Leng Mee Yin, Dr Leong Horn Kee

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 the SPH REIT's Annual Report for the period from 1 September 2015 to 31 August 2016 ("FY2016").

COUNTERPARTS FOR SUCCESS

Despite facing a challenging retail climate in the last financial year, SPH REIT continued to achieve steady operating and financial performance for FY2016. In the last three years since its IPO in July 2013, SPH REIT has delivered consistent distribution growth to Unitholders.

OUR SUCCESS IS FUELLED BY THE VISION TO DELIVER A TRUSTED AND WIDELY RECOGNISED BRAND OF PROPERTIES IN SINGAPORE. THE MANAGER CONTINUES TO SEEK ASSET ENHANCEMENT OPPORTUNITIES TO ADD VALUE TO ITS ASSETS.

Total income available for distribution to Unitholders was S\$141.1 million, an increase of S\$2.5 million (1.8%) compared to last financial year.

The aggregate distribution per unit ("DPU") for FY2016 of 5.50 cents translated to the distribution yield of 5.73% based on the closing price of S\$0.96 as at 31 August 2016.

Gross revenue grew by 2.2% to S\$209.6 million and with proactive management of expenditure, we turned in a net property income ("NPI") of S\$160.9 million for FY2016 which was S\$5.3 million (3.4%) higher than last financial year.

PARTNERS FOR GROWTH

The Manager's key strategy is to strive for sustainable financial returns. To achieve this, we treat the relationship with our tenants as a partnership. A multi prong approach is adopted to create opportunities to drive sales for our tenants. In addition to strengthening our properties' brand position through the traditional print media, we also invested in digital equipment and technologies to enhance the reach to potential shoppers. Through mall coordinated

5.50 cents
Distribution
Per Unit

100.0 %
Committed
Occupancy

25.7 %
Gearing



activities, we provided a platform for cross marketing opportunities for tenants and also created a unique retail experience for shoppers.

As one of Orchard Road's iconic shopping malls, Paragon helped to enhance the street's festive mood by taking part in the annual Christmas light up and its efforts bagged a Merit Award in the Orchard Road Business Association's (ORBA) Best Dressed Building Contest 2015.

To entrench Paragon's position as a premier upscale retail mall in a highly competitive market space, we welcomed Loewe, Marc Jacobs and Mulberry to our suite of international luxury brands. Existing luxury tenant, Givenchy, took up additional area to expand its flagship store presence at Paragon.

By adopting a proactive leasing strategy, both Paragon and The Clementi Mall maintained their track record of 100.0% committed occupancy. The mall's management efforts were recognised and Paragon was honoured with the Outstanding Efforts in Centre Management award at the Singapore Retailers Association (SRA) Shopping Centre Awards 2015.

The portfolio achieved positive rental uplift of 5.4% for new or renewed leases in FY2016. Paragon's rental reversion was 5.2% and The Clementi Mall achieved 7.8%. Paragon continued to attract steady visitorship of 18.3 million, compared to 18.8 million in the last financial year. Tenants sales



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WE OWE OUR SUCCESS TO ALL OUR STAKEHOLDERS AND WOULD LIKE TO THANK THEM FOR WORKING ALONGSIDE WITH US TO RIDE THROUGH A CHALLENGING YEAR.

was maintained at S\$661 million. The Clementi Mall continued to attract residents in its catchment and achieved visitor traffic of 30.0 million. This was 2.4% lower than the year before and tenant sales were also down marginally by 1.4% to S\$239 million.

IMPARTING GREATER VALUE

Our success is fuelled by the vision to deliver a trusted and widely recognised brand of properties in Singapore. The Manager continues to seek asset enhancement opportunities to add value to its assets.

During the year, it embarked on a project to decant areas occupied by air handling units at Paragon, which were due for replacement. This multi-phased project is scheduled to be completed by 2018 and will yield approximately 7,000 sq ft of additional lettable area and generate S\$0.9 million incremental gross rental revenue per year.

Tenancies for all the newly created units for phase one of this project were secured ahead of their opening at the end of this year. These new equipment will also improve operational efficiencies.



Over the same period, The Clementi Mall has undergone enhancement works at its basement to create additional food kiosks, offering shoppers with more exciting F&B choices. The revamped eatery cluster introduces four new market concepts and is fully committed ahead of its opening in November 2016. This basement reconfiguration when completed is expected to yield S\$0.6 million incremental gross rental revenue per year.

As at 31 August 2016, the SPH REIT portfolio was valued at S\$3.23 billion, as against last year's valuation of S\$3.21 billion.

In line with SPH REIT's prudent capital management strategy, we achieved a strong balance sheet with gearing maintained at 25.7% as at 31 August 2016. The debt profile for the total borrowing of S\$850 million is well staggered with a weighted average term to maturity of 3.1 years at an average cost of 2.82% per annum. To mitigate interest rate fluctuation, 85.9% of the loan is on fixed rate basis.

LOOKING AHEAD

The retail environment remains challenging amid the economic slowdown in Singapore and the uncertainties of the global environment. Against this backdrop, consumer sentiments are muted. Retailers are also facing structural impediments such as labour constraints and competition from e-commerce. This has provided the impetus for landlords and retailers to partner each other to provide

new experiential and engaging retail experience for shoppers.

Similarly, the Singapore Tourism Board has partnered ORBA to re-energise Orchard Road, transforming it into a more vibrant shopping street to offer unique events for both locals and tourists. Such proactive plans are expected to benefit Paragon.

With the well-established positioning of our malls and firm partnerships with our tenants, SPH REIT is poised to meet the challenges ahead.

Moving forward, we will continue to seek opportunities to create value and strengthen long-term sustainability of the properties.

ACKNOWLEDGEMENTS

We owe our success to all our stakeholders and would like to thank them for working alongside with us to ride through a challenging year.

We wish to express our utmost appreciation to our Unitholders, business partners, tenants and shoppers for their strong and continuous support.

On the same note, we also want to acknowledge the dedication and hard work of the Board members, management team and staff in the past year. We would like to welcome Ms Rachel Eng on board too.

Together, we look forward to another promising year of sustained growth and steady performance.



DR LEONG HORN KEE

CHAIRMAN, NON-EXECUTIVE AND INDEPENDENT DIRECTOR

MS SUSAN LENG MEE YIN

CHIEF EXECUTIVE OFFICER