



FINANCIAL STATEMENTS ANNOUNCEMENT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018 ("2Q2018")

The Directors of ESR Funds Management (S) Limited ("ESR-FM"), as manager ("Manager") of ESR-REIT, are pleased to announce the unaudited results of ESR-REIT and its subsidiaries (the "Group") for the second quarter ended 30 June 2018 ("2Q2018").

ESR-REIT is a Singapore-based real estate investment trust constituted by the Trust Deed entered into on 31 March 2006 between ESR-FM as the Manager of ESR-REIT and RBC Investor Services Singapore Limited as the Trustee of ESR-REIT, as amended and restated. ESR-REIT was listed on the Singapore Exchange Securities Trading Limited ("SGX-ST") on 25 July 2006.

As at 30 June 2018, the Group has a diversified portfolio of 47 properties located across Singapore with a diversified tenant base of over 196 tenants across the following sub sectors: logistics/warehouse, hi-specs industrial, light industrial, general industrial and business park. The portfolio has a carrying value of approximately S\$1.65 billion* and a total gross floor area of approximately 9.7 million square feet.

ESR-REIT's distribution policy is to distribute at least 90% of its annual distributable income, comprising income from letting of its properties after deduction of allowable expenses. The actual level of distribution will be determined at the Manager's discretion.

The Group's results include the consolidation of its wholly-owned subsidiaries, ESR-MTN Pte. Ltd. ("ESR-MTN"), Cambridge SPV1 LLP, ESR-SPV2 and 80% owned 7000 AMK LLP. 7000 AMK LLP was converted from a private company structure to a limited liability partnership with effect from 1 February 2018. The commentaries below are based on Group results unless otherwise stated.

*Includes a 20% non-controlling interest in 7000 AMK valued at S\$60.6 million as at 30 June 2018.

Summary of the Group's Results

	2Q2018 S\$'000	2Q2017 S\$'000	Fav/ (Unfav) %	1H2018 S\$'000	1H2017 S\$'000	Fav/ (Unfav) %
Gross revenue	32,543	27,675	17.6	66,151	55,412	19.4
Net property income	23,440	19,220	22.0	47,225	38,912	21.4
Amount available for distribution	15,849	12,466	27.1	29,275	25,572	14.5
Distribution per unit ("DPU")	1.001	0.956	4.7	1.848	1.960	(5.7)

Distribution and Book Closure Date Details

Distribution period	1 April 2018 to 30 June 2018
Distribution rate	1.001 cents per unit comprising (a) taxable income 0.888 cents per unit (b) other gains 0.113 cents per unit
Books closure date	21 August 2018
Payment date	19 September 2018

The Manager has determined that the distribution reinvestment plan ("DRP") **will not apply** to the distribution for the period from 1 April 2018 to 30 June 2018.

1(a) Statement of Total Return together with comparative statements for the corresponding period of the immediate preceding financial year

Statement of Total Return

	Note	Group		
		2Q2018 S\$'000	2Q2017 S\$'000	Fav/ (Unfav) %
Gross revenue		32,543	27,675	17.6
Property manager's fees		(1,375)	(1,597)	13.9
Property tax		(2,468)	(1,457)	(69.4)
Land rental		(2,043)	(2,174)	6.0
Other property expenses		(3,217)	(3,227)	0.3
Property expenses		(9,103)	(8,455)	(7.7)
Net property income	(a)	23,440	19,220	22.0
Management fees	(b)	(2,039)	(1,691)	(20.6)
Trust expenses		(479)	(435)	(10.1)
Interest income		4	12	(66.7)
Borrowing costs	(c)	(5,206)	(5,068)	(2.7)
Non-property expenses		(7,720)	(7,182)	(7.5)
Net income		15,720	12,038	30.6
Change in fair value of financial derivatives	(d)	(1,202)	-	n.m.
Change in fair value of investment properties		-	(386)	100.0
Total return for the period before income tax and distribution		14,518	11,652	24.6
Less: Income tax expense		-	-	-
Total return for the period after income tax before distribution		14,518	11,652	24.6
Attributable to:				
Unitholders and perpetual securities holders		13,632	11,652	17.0
Non-controlling interest		886	-	n.m.
		14,518	11,652	24.6

n.m. – not meaningful

Distribution Statement

Note	Group		
	2Q2018 S\$'000	2Q2017 S\$'000	Fav/ (Unfav) %
Total return for the period after income tax before distribution attributable to Unitholders and perpetual securities holders	13,632	11,652	17.0
Net effect of non-tax deductible/(taxable) items	(e) 2,157	814	165.0
	15,789	12,466	26.7
Amount reserved for distribution to perpetual securities holders	(1,720)	-	n.m.
Net income available for distribution for the period	14,069	12,466	12.9
Distribution from other gains	(f) 1,780	-	n.m.
Total amount available for distribution for the period	15,849	12,466	27.1
DPU for the period (cents)	1.001	0.956	4.7

n.m. – Not meaningful

Notes:

- (a) ESR-REIT recorded gross revenue and net property income of S\$32.5 million and S\$23.4 million respectively in 2Q2018 and these were higher than the corresponding quarter last year by 17.6% and 22.0% respectively.

The revenue growth was ascribed to the full quarter contributions from two acquisitions at 8 Tuas South Lane and 7000 Ang Mo Kio Avenue 5 (“7000 AMK”) acquired in December 2017 and rent escalations from several properties, partially offset by revenue reduction from the master lease conversion of property at 16 Tai Seng (2Q2018), 21B Senoko Loop (1Q2018) and 3 Pioneer Sector 3 (3Q2017) to multi-tenancy, expiries and non-renewal of leases at three properties and the absence of revenue from four divestments completed since 2Q2017. Of the 3 non-renewal properties, one is currently being divested while another is undergoing AEI conversion into a high-specs building.

Property expenses increased by S\$0.6 million to S\$9.1 million in 2Q2018, which was 7.7% higher than the corresponding quarter last year. Property expenses increased largely due to property tax and other property expenses from the new acquisitions.

- (b) Management fees increased due to higher assets under management from the new acquisitions. The Manager has elected to receive its management fees wholly in cash for 2Q2018.
- (c) Borrowing costs were higher in 2Q2018 due to higher loan commitment fee after the loan repayment in late March 2018 with the preferential offering proceeds.

Please refer to 1(b)(ii) for more details on borrowings.

- (d) The change in fair value of financial derivatives represented the fair value change of interest rate swaps (notional value of S\$200 million), entered into to hedge interest rate risk on the floating rate loans. This fair value change is recognised in the Statement of Total Return. It is non-tax deductible and has no impact on the distributable income.
- (e) Non-tax deductible/(taxable) items (distribution adjustments)

	Group	
	2Q2018	2Q2017
	S\$'000	S\$'000
<u>Non-tax deductible/(taxable) items and other adjustments:</u>		
Trustee's fees	105	93
Debt related transaction and miscellaneous costs	964	387
Change in fair value of investment properties	-	386
Change in fair value of financial derivatives	1,202	-
Professional fees	25	7
Straight line rent and lease incentives	(313)	(227)
Miscellaneous expenses	174	168
Net effect of non-tax deductible/(taxable) items	2,157	814

- (f) Distribution from other gains represents part payout of total S\$6.3 million ex-gratia payments received from the Singapore Land Authority in connection to the compulsory acquisition of land from prior years.

- (g) The total distributable amount of S\$15.8 million, based on 1,583.7 million units which were entitled to the distribution for the quarter, translates to a DPU of 1.001 cents for 2Q2018 which is 4.7% higher than 2Q2017 DPU.

	Group		
	2Q2018 S\$'000	2Q2017 S\$'000	Fav/ (Unfav) %
Taxable income	14,069	12,466	12.9
Other gains ⁽¹⁾	1,780	-	n.m.
Total amount available for distribution for the period	15,849	12,466	27.1

Note:

- ⁽¹⁾ Represents part payout of ex-gratia payments received from the Singapore Land Authority in connection to the compulsory acquisition of land from prior years.

Statement of Total Return (1H2018 vs 1H2017)

	Note	Group		
		1H2018 S\$'000	1H2017 S\$'000	Fav/ (Unfav) %
Gross revenue		66,151	55,412	19.4
Property manager's fees		(2,971)	(3,028)	1.9
Property tax		(4,902)	(3,317)	(47.8)
Land rental		(4,084)	(4,400)	7.2
Other property expenses		(6,969)	(5,755)	(21.1)
Property expenses		(18,926)	(16,500)	(14.7)
Net property income	(a)	47,225	38,912	21.4
Management fees	(b)	(4,071)	(3,360)	(21.2)
Trust expenses	(c)	(1,119)	(817)	(37.0)
Interest income		27	23	17.4
Borrowing costs	(d)	(11,272)	(10,078)	(11.8)
Non-property expenses		(16,435)	(14,232)	(15.5)
Net income		30,790	24,680	24.8
Gain on disposal of investment property	(e)	128	-	n.m.
Change in fair value of financial derivatives	(f)	(1,202)	-	n.m.
Change in fair value of investment properties		-	(386)	100.0
Total return for the period before income tax and distribution		29,716	24,294	22.3
Less: Income tax expense	(g)	(81)	-	n.m.
Total return for the period after income tax before distribution		29,635	24,294	22.0
Attributable to:				
Unitholders and perpetual securities holders		27,851	24,294	14.6
Non-controlling interest		1,784	-	n.m.
		29,635	24,294	22.0

n.m. – not meaningful

Distribution Statement

Note	Group		
	1H2018 S\$'000	1H2017 S\$'000	Fav/ (Unfav) %
Total return for the period after income tax before distribution	27,851	24,294	14.6
Net effect of non-tax deductible/(taxable) items	(h) 3,066	1,278	139.9
	30,917	25,572	20.9
Amount reserved for distribution to perpetual securities holders	(3,422)	-	n.m.
Net income available for distribution for the period	27,495	25,572	7.5
Distribution from other gains	(i) 1,780	-	n.m.
Total amount available for distribution for the period	29,275	25,572	14.5
Distribution per unit for the period (cents)	1.848	1.960	(5.7)

n.m. – Not meaningful

Notes:

- (a) ESR-REIT recorded gross revenue and net property income of S\$66.2 million and S\$47.2 million respectively in 1H2018 and these were higher than the corresponding period last year by 19.4% and 21.4% respectively.

The revenue growth was ascribed to the full quarter contributions from two acquisitions at 8 Tuas South Lane and 7000 Ang Mo Kio Avenue 5 (“7000 AMK”) acquired in December 2017 and rent escalations from several properties, partially offset by revenue reduction from the lease conversion of property at 16 Tai Seng (2Q2018), 21B Senoko Loop (1Q2018) and 3 Pioneer Sector 3 (3Q2017) to multi-tenancy, expiries and non-renewal of leases at three properties and the absence of revenue from four divestments completed since 1H2017.

Property expenses increased by S\$2.4 million to S\$18.9 million in 1H2018, which was 14.7% higher than the corresponding period last year. Property expenses increased mainly due to property tax and other property expenses from acquisitions and lease conversions of properties at 21B Senoko Loop and 16 Tai Seng Street to multi-tenancy.

- (b) Management fees increased due to higher assets under management from new acquisitions. The Manager has elected to receive its management fees wholly in cash for 1H2018.
- (c) Trust expenses comprised statutory expenses, professional fees, compliance costs, listing fees and other non-property related expenses. Trust expenses for 1H2018 were higher mainly due to higher legal and consultancy fees incurred during the period.
- (d) Borrowing costs were higher for 1H2018 due to higher loan interest expense in 1Q2018, arising from incremental borrowings to partially fund the new acquisitions in December 2017. These borrowings were subsequently repaid from the proceeds of preferential offering and existing cash in late March 2018.

Please refer to 1(b)(ii) for more details on borrowings.

- (e) Gain arose from the disposal of the property at 9 Bukit Batok in March 2018.
- (f) The change in fair value of financial derivatives represented the fair value change of interest rate swaps (notional value of S\$200 million), entered into to hedge interest rate risk on future floating rate loans. This fair value change is recognised in the Statement of Total Return. It is non-tax deductible and has no impact on the distributable income.
- (g) Income tax expense related to tax on profits of 7000 AMK Pte. Ltd. for January 2018, prior to its conversion to a limited liability partnership from 1 February 2018.
- (h) Non-tax deductible/(taxable) items (distribution adjustments)

	Group	
	1H2018	1H2017
	S\$'000	S\$'000
<u>Non-tax deductible/(taxable) items and other adjustments:</u>		
Trustee's fees	209	184
Debt related transaction and miscellaneous costs	1,436	785
Change in fair value of investment properties	-	386
Change in fair value of financial derivatives	1,202	-
Professional fees	313	43
Straight line rent and lease incentives	(792)	(433)
Miscellaneous expenses	307	313
Income from subsidiary	519	-
	3,194	1,278
<u>Income not subject to tax:</u>		
Gain on disposal of investment property	(128)	-
Net effect of non-tax deductible/(taxable) items	3,066	1,278

- (i) Distribution from other gains represents part payout of total S\$6.3 million ex-gratia payments received from the Singapore Land Authority in connection to the compulsory acquisition of land from prior years.
- (j) The total amount available for distribution for the period comprised:

	Group		
	1H2018 S\$'000	1H2017 S\$'000	(Unfav) %
Taxable income	26,976	25,572	5.5
Tax exempt income ⁽¹⁾	519	-	n.m.
Other gains ⁽²⁾	1,780	-	n.m.
Total amount available for distribution for the period	29,275	25,572	14.5

Note:

- ⁽¹⁾ Tax exempt income relates to share of profits from 7000 AMK Pte. Ltd. prior to its conversion to limited liability partnership with effect from 1 February 2018.
- ⁽²⁾ Represents part payout of ex-gratia payments from the Singapore Land Authority in connection to the compulsory acquisition of land from prior years.

The total distributable amount of S\$29.3 million, based on 1,583.7 million units which were entitled to the distribution for the period, translates to a DPU of 1.848 cents for 1HQ2018 which is 5.7% lower than 1H2017 DPU.

1(b)(i) Statements of Financial Position, together with comparatives as at the end of the immediately preceding financial year

Note	Group		Trust	
	30-06-18 S\$'000	31-12-17 S\$'000	30-06-18 S\$'000	31-12-17 S\$'000
Assets				
Non-current assets				
Investment properties	(a) 1,653,802	1,652,200	1,350,802	1,349,200
Investments in subsidiaries	(b) -	-	215,570	215,463
Loan to a subsidiary	(c) -	-	50,500	50,500
	1,653,802	1,652,200	1,616,872	1,615,163
Current assets				
Investment property held for divestment	(a) -	23,600	-	23,600
Trade and other receivables	(d) 15,283	8,374	17,538	6,999
Cash and cash equivalents	12,729	11,651	2,562	8,156
	28,012	43,625	20,100	38,755
Total assets	1,681,814	1,695,825	1,636,972	1,653,918
Liabilities				
Current liabilities				
Trade and other payables	(e) 27,020	28,647	16,895	21,987
Interest-bearing borrowings	(f) 154,957	154,895	154,957	154,895
Amount due to non-controlling interest	(g) 60,600	60,600	-	-
	242,577	244,142	171,852	176,882
Non-current liabilities				
Trade and other payables	(e) 8,202	6,783	7,663	5,715
Amount due to a subsidiary	(h) -	-	40,247	40,247
Interest-bearing borrowings	(f) 356,299	514,896	356,299	514,896
Derivative financial instruments	(i) 1,202	-	1,202	-
	365,703	521,679	405,411	560,858
Total liabilities	608,280	765,821	577,263	737,740
Net assets	1,073,534	930,004	1,059,709	916,178
Represented by:				
Unitholders' funds	922,419	778,889	908,594	765,063
Perpetual securities holders' funds	(j) 151,115	151,115	151,115	151,115
	1,073,534	930,004	1,059,709	916,178

Notes:

- (a) The total carrying value of investment properties was S\$1,653.8 million as at 30 June 2018. The net decrease was attributed mainly to the divestment of non-core property at 9 Bukit Batok in March 2018, which was held for divestment as at 31 December 2017.
- (b) At the Trust level, the cost of investment in wholly-owned subsidiaries comprises Cambridge SPV1 LLP, ESR-MTN, ESR-SPV2 and 80% equity interest in 7000 AMK LLP, which are eliminated at the consolidated level.
- (c) At the Trust level, the shareholder's loan of \$50.5 million was provided to 7000 AMK to repay its existing bank loan at completion of the acquisition. The shareholder's loan is extended at ESR-REIT's all-in interest rate. Interest expense is payable in arrears in cash on a quarterly basis.
- (d) Trade and other receivables increased by S\$6.9 million mainly due to the inclusion of utilities receivables of 7000 AMK LLP, interest income receivable from shareholder's loan and capitalised project costs.
- (e) Trade and other payables decreased by S\$0.2 million mainly due to the payment of goods and services tax and rental deposit refunds, partially offset by accruals of property expenses.
- (f) Interest-bearing borrowings decreased due to loan repayments from the proceeds of preferential offering and existing cash in March 2018, net of unamortised loan transaction costs.

Included in the non-current portion of the interest-bearing borrowings are loans drawdown of S\$118.0 million due in June 2019. As at 30 June 2018, the Group has secured credit approved termsheets from new and existing lenders to refinance these bank loans. This gives the Group the right to defer the loan liability beyond the next 12 months.
- (g) The amount due to non-controlling interest represents 20% interest in 7000 AMK LLP that is not owned by the Trust.
- (h) The amount relates to the transfer of property at 3 Tuas South Avenue to the Trust from Cambridge LLP in 3Q2017.
- (i) Derivative financial instruments (notional value of S\$200 million) represent the fair value of interest rate swaps entered into to hedge the interest risk on the floating rate loans.
- (j) ESR-REIT has issued S\$150 million of subordinated perpetual securities ("Perps") under Series 006 of its S\$750 million Multicurrency Debt Issuance Programme ("Series 006 PS"). The Perps confer a right to receive distribution at a rate of 4.60% per annum, with the first distribution rate reset falling on 3 November 2022 and subsequent resets occurring every 5 years thereafter. The distribution will be payable semi-annually in arrears on a discretionary basis and will be non-cumulative in accordance with the terms and conditions of the Perps. Payment to ordinary unitholders can only be made if the payment to Perp holders has already been made.

The Series 006 PS may be redeemed at the option of ESR-REIT in whole, but not in part, on 3 November 2022 or on any distribution payment date thereafter and otherwise upon the occurrence of certain redemption events specified in the conditions of the issuance. The Series 006 PS is classified as equity instruments and recorded as equity in the financial statements.

- (k) MTN Series 003 of S\$155.0 million has been recorded as a current liability as it matures in November 2018.

This has led to a net current liabilities position in 2Q2018. The Manager believes that the Group's existing financial resources (comprising S\$302.0 million available from existing undrawn loan facilities as well as credit approved term sheets from existing and new lenders as at 30 June 2018 in addition to significant capacity under the Debt Issuance Programme), is sufficient.

1(b)(ii) Aggregate amount of borrowings

	Group and Trust	
	30-06-18 S\$'000	31-12-17 S\$'000
Unsecured borrowings		
Amount payable within one year	155,000	155,000
Less: Unamortised loan transaction costs	(43)	(105)
	154,957	154,895
Amount payable after one year	358,000	517,000
Less: Unamortised loan transaction costs	(1,701)	(2,104)
	356,299	514,896
Total unsecured borrowings	511,256	669,791
Total borrowings	511,256	669,791

Details of borrowings and collateral:

(a) Unsecured borrowings

The unsecured borrowings of the Group comprise:

- (i) the following notes issued under its S\$750 million Multicurrency Debt Issuance Programme:
- S\$30 million six-year Singapore Dollar MTN in series 002 (the “Series 002 Notes”) issued in April 2014 and maturing in April 2020. The Series 002 Notes have a fixed interest rate of 4.10% per annum payable semi-annually in arrears;
 - S\$155 million four-year Singapore Dollar MTN in series 003 comprising Tranche 1 S\$100 million Notes issued in November 2014 and Tranche 2 S\$55 million Notes issued in January 2015 respectively. These notes tranches, which were issued and consolidated to form a single series (the “Series 003 Notes”), have a fixed interest rate of 3.50% per annum payable semi-annually in arrears and mature in November 2018;
 - S\$130 million five-year Singapore Dollar MTN in series 004 (the “Series 004 Notes”) issued in May 2015 and maturing in May 2020. The Series 004 Notes have a fixed interest rate of 3.95% per annum payable semi-annually in arrears; and
 - S\$50 million seven-year Singapore Dollar MTN in series 005 (the “Series 005 Notes”) issued in May 2016 and maturing in May 2023. The Series 005 Notes have a fixed interest rate of 3.95% per annum payable semi-annually in arrears.
- (ii) 4-year unsecured loan facility maturing in June 2019 from CIMB (“TLF1”) consisting of:
- Facility A: S\$100 million term loan facility at a fixed interest rate of 3.60% per annum for 3.5 years from the date of loan drawn down; and
 - Facility B: S\$50 million revolving credit facility at an interest rate of margin plus swap offer rate.

A total of S\$118.0 million was drawn down on the TLF1 as at 30 June 2018.

(iii) 4.75-year unsecured loan facility maturing in June 2021 from HSBC (“TLF2”) consisting of:

- Facility A: S\$25 million term loan facility at an interest rate of margin plus swap offer rate, for 4.75 years from the date of loan drawn down; and
- Facility B: S\$175 million revolving credit facility at an interest rate of margin plus swap offer rate. Facility B was increased from S\$75 million to S\$175 million in December 2017.

A total of S\$30.0 million was drawn down on the TLF2 as at 30 June 2018.

(b) Unencumbered investment properties

As at 30 June 2018, the Group has 47 unencumbered investment properties with a combined carrying value of approximately S\$1.65 billion*, representing 100% of the investment properties by value.

*Includes a 20% non-controlling interest in 7000 AMK valued at S\$60.6 million as at 30 June 2018.

1 (c) Statements of Cash Flows

Note	Group			
	2Q2018 S\$'000	2Q2017 S\$'000	1H2018 S\$'000	1H2017 S\$'000
Cash flows from operating activities				
Total return for the period before income tax and distribution	14,518	11,652	29,716	24,294
Adjustments for:				
Interest income	(4)	(12)	(27)	(23)
Borrowing costs	5,206	5,068	11,272	10,078
Gain on disposal of investment property	-	-	(128)	-
Change in fair value of investment properties	-	386	-	386
Change in fair value of financial derivatives	1,202	-	1,202	-
Operating income before working capital changes	20,922	17,094	42,035	34,735
Changes in working capital				
Trade and other receivables	(2,669)	1,333	(7,749)	1,281
Trade and other payables	1,399	1,825	2,279	(688)
Income tax paid	-	-	(744)	-
Net cash generated from operating activities	19,652	20,252	35,821	35,328
Cash flows from investing activities				
Net cash outflow on purchase of investment properties	(122)	-	(1,285)	-
Capital expenditure on investment properties	(1,548)	(1,705)	(2,580)	(6,671)
Proceeds from disposal of investment properties	-	-	23,900	-
Payment for divestment costs	(27)	-	(194)	-
Interest received	4	12	27	23
Net cash (used in)/from investing activities	(1,693)	(1,693)	19,868	(6,648)
Cash flows from financing activities				
Proceeds from issuance of new units	-	-	141,939	-
Issue costs for perpetual securities paid	-	-	(271)	-
Equity issue costs paid	(1,045)	-	(1,151)	-
Proceeds from borrowings	17,000	8,000	17,000	17,000
Borrowing costs paid	(8,204)	(8,250)	(10,938)	(9,588)
Repayment of borrowings	(6,000)	(6,000)	(176,000)	(10,000)
Distributions paid to Unitholders	(13,414)	(13,096)	(21,587)	(26,089)
Distributions paid to perpetual securities holders	(3,421)	-	(3,421)	-
Distribution to non-controlling interest	-	-	(182)	-
Net cash used in financing activities	(15,084)	(19,346)	(54,611)	(28,677)
Net increase/(decrease) in cash and cash equivalents	2,875	(787)	1,078	3
Cash and cash equivalents at beginning of the period	9,854	4,489	11,651	3,699
Cash and cash equivalents at end of the period	12,729	3,702	12,729	3,702

Notes:

- (a) Net cash outflow on investment properties (including acquisition related costs)

These were payments for legal and professional fees related to the acquisitions of property and the special purpose vehicle, 7000 AMK Pte. Ltd., in December 2017.

- (b) Proceeds from borrowings

Net amount of S\$11.0 million was drawn down from the revolving credit facility in 2Q2018 to fund capital expenditure.

- (c) Non cash transactions

During 1H2018, the Group issued 7.2 million ESR-REIT units amounting to approximately S\$4.0 million (net of withholding tax) in 1Q2018 to unitholders who participated in the DRP, as part payment of the 4Q2017 distribution.

1(d)(i) Statements of Movements in Unitholders' funds (2Q2018 vs 2Q2017)

	Group		Trust	
	2Q2018 S\$'000	2Q2017 S\$'000	2Q2018 S\$'000	2Q2017 S\$'000
Unitholders' Funds				
Balance at beginning of period	924,098	826,678	910,231	811,411
<u>Operations</u>				
Total return for the period attributable to Unitholders and perpetual securities holders	13,632	11,652	13,674	11,843
Less: Amount reserved for distribution to perpetual securities	(1,720)	-	(1,720)	-
Net increase in net assets resulting from operations	11,912	11,652	11,954	11,843
<u>Unitholders' transactions</u>				
Payment of equity costs pursuant to:				
- Preferential Offering	(177)	-	(177)	-
Distributions to Unitholders	(13,414)	(13,096)	(13,414)	(13,096)
Net decrease in net assets resulting from Unitholders' transactions	(13,591)	(13,096)	(13,591)	(13,096)
Balance at end of period	922,419	825,234	908,594	810,158
Perpetual Securities Holders' Funds				
Balance at beginning of period	152,816	-	152,816	-
Amount reserved for distribution to perpetual securities holders	1,720	-	1,720	-
Distribution to perpetual securities holders	(3,421)	-	(3,421)	-
Balance at end of period	151,115	-	151,115	-
Total	1,073,534	825,234	1,059,709	810,158

Statements of Movements in Unitholders' funds (1H2018 vs 1H2017)

	Group		Trust	
	1H2018 S\$'000	1H2017 S\$'000	1H2018 S\$'000	1H2017 S\$'000
Unitholders' Funds				
Balance at beginning of period	778,889	827,029	765,063	811,952
<u>Operations</u>				
Total return for the period attributable to Unitholders and perpetual securities holders	27,851	24,294	27,852	24,295
Less: Amount reserved for distribution to perpetual securities	(3,422)	-	(3,422)	-
Net increase in net assets resulting from operations	24,429	24,294	24,430	24,295
<u>Unitholders' transactions</u>				
Issuance of units pursuant to:				
- Distribution Reinvestment Plan	4,031	-	4,031	-
- Preferential Offering	141,939	-	141,939	-
Equity costs pursuant to:				
- Distribution Reinvestment Plan	(74)	-	(74)	-
- Preferential Offering	(1,177)	-	(1,177)	-
Distributions to Unitholders	(25,618)	(26,089)	(25,618)	(26,089)
Net increase/(decrease) in net assets resulting from Unitholders' transactions	119,101	(26,089)	119,101	(26,089)
Balance at end of the period	922,419	825,234	908,594	810,158
Perpetual Securities Holders' Funds				
Balance at beginning of period	151,115	-	151,115	-
Amount reserved for distribution to perpetual securities holders	3,421	-	3,421	-
Distribution to perpetual securities holders	(3,421)	-	(3,421)	-
Balance at end of period	151,115	-	151,115	-
Total	1,073,534	825,234	1,059,709	810,158

1(d)(ii) Details of any changes in the units

	Trust			
	2Q2018 Units	2Q2017 Units	1H2018 Units	1H2017 Units
Issued units at the beginning of period	1,583,701,947	1,304,434,416	1,313,623,314	1,304,434,416
Issue of new units pursuant to:				
- Distribution Reinvestment Plan	-	-	7,229,019	-
- Preferential offering ⁽¹⁾	-	-	262,849,614	-
Total issued units at the end of the period	1,583,701,947	1,304,434,416	1,583,701,947	1,304,434,416

Note:

⁽¹⁾ Preferential Offering units issued on 28 March 2018 at an issue price of S\$0.54 per new unit.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period, and as at the end of the immediately preceding year.

The total number of issued units, excluding treasury units, as at the end of the current and the preceding financial periods are disclosed in 1(d)(ii). There were no treasury units acquired since the date of listing of ESR-REIT on 25 July 2006.

1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable.

2 Whether the figures have been audited or reviewed, and in accordance with which auditing standard or practice.

The figures have not been audited or reviewed by our auditors.

3 Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter).

Not applicable.

4 Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

The Group has applied the same accounting policies and methods of computation in the preparation of the financial statements for the current financial period, which are consistent with those described in the audited financial statements for the financial year ended 31 December 2017, except that in the financial period, the Group has adopted all the new and revised standards that are effective for annual periods beginning on or after 1 January 2018. The adoption of these standards did not have any effect on the financial performance or position of the Group.

5 If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

Please refer to item 4 above.

6 Earnings per unit ("EPU") and distribution per unit ("DPU") for the period

Note	Group			
	2Q2018	2Q2017	1H2018	1H2017
EPU				
Total return after income tax before distribution for the period (S\$'000)	11,912	11,652	24,429	24,294
Weighted average number of units ('000)	1,583,702	1,304,434	1,456,496	1,304,434
Basic and diluted EPU (cents)	(a) 0.752	0.893	1.677	1.862
DPU				
Total amount available for distribution for the period (S\$'000)	14,669	12,466	28,095	25,572
Applicable number of units for calculation of DPU ('000)	1,583,702	1,304,434	1,583,702	1,304,434
DPU (cents)	(b) 0.926	0.956	1.773	1.960

Notes:

- (a) The basic EPU was calculated using total return after income tax before distribution for the period, which included gain on disposal of investment property, fair value change of financial derivatives and the weighted average number of units in issue during the period. The basic and diluted EPU were the same as there were no dilutive instruments in issue during the period.

- (b) DPU was calculated using the total amount available for distribution and the number of units entitled to distribution during the period.

7 Net asset value (“NAV”) per unit based on units issued at the end of the period

	Group		Trust	
	30-06-18	31-12-17	30-06-18	31-12-17
NAV (cents)	(a) 58.2	59.3	57.4	58.2

Note:

- (a) NAV per unit was calculated based on the number of units issued as at the end of the respective periods.

The decrease was attributed to the impact of units issued during the period pursuant to the preferential offering in March 2018 and to DRP as part payment of the distribution for 4Q2017.

8 Review of the performance

The review of the performance is found in Section 1(a) – Statements of Total Return and Distribution Statement and Section 1(b)(i) – Statement of Financial Position.

9 Review of the performance against Forecast/Prospect Statement

The Group has not disclosed any forecast to the market.

10. Commentary on the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

Based on advance estimates on 13 July 2018 by Ministry of Trade and Industry (“MTI”), the Singapore economy grew by 3.8% on year-on-year basis in the 2Q2018, moderating from the 4.3% growth in the 1Q2018. On quarter-on-quarter seasonally-adjusted annualized basis, the economy expanded at a slower pace of 1.0%, a moderation from 1.5% growth in the previous quarter.

Although Singapore’s Purchasing Managers’ Index (“PMI”) for July 2018 posted a further dip of 0.2 points to 52.3, the PMI has now expanded for a record 23 straight months. The drop was mainly attributed to slower growth in new orders and new exports, and lower factory output. Manufacturing employment remains positive as the employment index has recorded 11 months of consecutive expansion. However, both imports and input prices posted slower expansion rates and the order backlog index has recorded the second straight month of contraction.

Notwithstanding the continuing strength of the PMI and the improved manufacturing outlook, the overall industrial property market remains soft. According to JTC’s market report for 2Q2018, the occupancy rate of overall industrial property market dropped marginally by 0.3% compared to the previous quarter. Prices and rental of industrial space remained relatively stable. Price index remained unchanged while rental index fell marginally by 0.1% compared to the previous quarter. As new supply is expected to taper in the next 1-2 years, prices and rental may start to stabilise in tandem with occupancy rates.

During the quarter, ESR-REIT successfully secured a lease with our existing master tenant at 9 Tuas View Crescent and also converted 16 Tai Seng Street into a multi-tenanted building (“MTB”) bringing down the FY2018 lease expiry concentration for single-tenanted buildings (“STB”) from 6.0% to only 0.9% of portfolio rental income.

On 18 May 2018, the Managers of both ESR-REIT and Viva Industrial Trust issued a joint statement on a proposed merger by way of a trust scheme of arrangement. The circular on the proposed merger was sent out to Unitholders on 7 August 2018 with an Extraordinary General Meeting to be convened on 31 August 2018.

Although an increase in enquiries have been noted recently, the Manager expects the leasing market to remain competitive notwithstanding that demand and supply dynamics appear to be improving as historically high supply levels look to taper off by late 2018. Following the confirmation by IRAS that the disposal gain from the sale of 63 Hillview Avenue would not be subject to income tax, distribution income in future will be underpinned by the ability to payout capital gains. This will help to offset the negative impact on ESR-REIT’s income due to its ongoing and/or future asset enhancement initiatives, from conversions from STB to MTB, and from divestments of non-core assets. The Manager will continue to focus on improving asset and tenant quality and maintaining occupancy given the challenging leasing market.

11 Distributions

(a) Current financial period

Any distributions declared for the current financial period: Yes

Name of distribution: **50th** distribution for the period from 1 April 2018 to 30 June 2018

Distribution Type: Taxable income

Distribution Rate: 1.001 cents per unit comprising:
(a) Taxable income 0.888 cents per unit
(b) Other gains 0.113 cents per unit

Par value of units: Not meaningful

Tax Rate: Taxable income distribution
The distribution is made out of ESR-REIT's taxable income. Unitholders receiving distributions will be subject to Singapore income tax on the distributions received except for individuals where the distribution is exempt from tax (unless they hold their units through partnership or as trading assets).

Other gains distribution
The distribution from other gains is not a taxable distribution to the Unitholders.

Books closure date: 21 August 2018

Date payable: 19 September 2018

The Manager has determined that the DRP **will not apply** to the distribution for the period from 1 April 2018 to 30 June 2018.

(b) Corresponding period of the immediately preceding year

Any distributions declared for
the previous corresponding
financial period:

Yes

Name of distribution:

46th distribution for the period from 1 April 2017 to 30 June 2017

Distribution Type:

Taxable income

Distribution Rate:

0.956 cents per unit

Par value of units:

Not meaningful

Tax Rate:

Taxable income distribution

The distribution is made out of ESR-REIT's taxable income. Unitholders receiving distributions will be subject to Singapore income tax on the distributions received except for individuals where the distribution is exempt from tax (unless they hold their units through partnership or as trading assets).

12 If no distribution has been declared/(recommended), a statement to that effect

Not applicable.

13 If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of each transaction as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

The Group has not obtained any IPT mandate from the Unitholders.

14 CONFIRMATION BY THE BOARD PURSUANT TO RULE 705(5) OF THE LISTING MANUAL

The Board of Directors of the Manager has confirmed that, to the best of their knowledge, nothing has come to their attention which may render these interim financial results to be false or misleading in any material respect.

15 CONFIRMATION PURSUANT TO RULE 720(1) OF THE LISTING MANUAL

The Manager confirms that it has procured undertakings from all Directors and Executive Officers (in the format set out in Appendix 7.7) pursuant to Rule 720(1) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

This release may contain forward-looking statements that involve assumptions, risks and uncertainties. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements as a result of a number of risks, uncertainties and assumptions. Representative examples of these factors include (without limitation) general industry and economic conditions, interest rate trends, cost of capital and capital availability, competition from similar developments, shifts in expected levels of occupancy or property rental income, changes in operating expenses (including employee wages, benefits and training costs), governmental and public policy changes and the continued availability of financing in amounts and on terms necessary to support future ESR-REIT business. You are cautioned not to place undue reliance on these forward-looking statements, which are based on the Manager's current view of future events.

Any discrepancies in the tables included in this announcement between the listed amounts and total thereof are due to rounding.

By Order of the Board
ESR Funds Management (S) Limited
(as Manager of ESR-REIT)
Company Registration No. 200512804G, Capital Markets Services Licence No. 100132-5

Adrian Chui
Chief Executive Officer
13 August 2018