



SABANA INDUSTRIAL REAL ESTATE INVESTMENT TRUST

(a real estate investment trust constituted on 29 October 2010 under the laws of the Republic of Singapore)

ANNOUNCEMENT

RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS") ON FY 2022 ANNUAL REPORT

Sabana Real Estate Investment Management Pte. Ltd., as manager of Sabana Industrial Real Estate Investment Trust ("**Sabana Industrial REIT**", and the manager of Sabana Industrial REIT, the "**Manager**"), wishes to respond to the questions raised by SIAS in relation to the annual report issued by Sabana Industrial REIT in respect of the financial year ended 31 December 2022 (the "**Annual Report 2022**"). The Manager's responses to the questions can be found in Appendix A to this announcement.

By Order of the Board
Sabana Real Estate Investment Management Pte. Ltd.
(Company Registration No: 201005493K, Capital Markets Services Licence No: CMS100169)
As Manager of Sabana Industrial Real Estate Investment Trust

Han Yong Lee (Donald)
Chief Executive Officer
19 April 2023

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Appendix A

Q1. On 20 January 2023, Volare Group AG announced a voluntary conditional cash partial offer to acquire ten percent of the issued units in the REIT. Volare Group AG is a Swiss company that was founded on 7 October 1975 and operates in various lines of business. The partial offer is an investment move by the offeror to diversify its business lines by reducing its reliance on fossil fuels and increasing its real estate portfolio.

By the close of the offer, the offeror received valid acceptances of 303.3 million units, representing 27.7% of the issued units. However, since the offeror is only allowed to acquire a maximum of 109,612,132 units, there will be a scale-down of the acceptances tendered.

On 28 March 2023, it was announced that the offeror held a total of 169,105,358 units, which represents approximately 15.4% of the total number of units issued (based on 1,096,121,325 units).

Given that the partial offer has successfully concluded, Volare is likely the second largest unitholder with 15.4%, behind ESR Group who holds 226.8 million units as at 8 March 2023 (page 186 – Statistics of unitholdings).

- (i) **Could the board provide an overview of the communication and interaction it has had with Volare, in order to provide unitholders with a better understanding of the working relationship?**

We engage all Unitholders, including substantial Unitholders, on a regular basis. Since Volare became a substantial Unitholder, we have updated them on the performance of, and publicly announced developments at, the REIT. There is currently no working relationship between Volare and the Manager.

- (ii) **Has the new controlling unitholder made any requests or provided any feedback to the REIT, such as nominating directors or proposing changes to the REIT's strategy (see Q2)?**

No, Volare has not made any requests nor provided any feedback to the REIT for the matters cited above as of the date of this announcement. We value feedback from all Unitholders, substantial or minority, on how we can improve the performance of the REIT.

- (iii) **How does the manager envision working with all unitholders (including major unitholders) to create long-term, sustainable value?**

As Manager, we engage our Unitholders regularly to help them better understand the REIT's performance, strategic focus and priorities.

Such engagements also allow the Manager to obtain feedback from Unitholders and understand their views. Through open and regular communication, it helps the Manager to strengthen the alignment of the REIT's strategy with the interests of all Unitholders.

Our commitment to delivering long-term, sustainable value is reflected in our track record. The Edge Singapore named our REIT as the top performer in total unitholder returns in the REITs

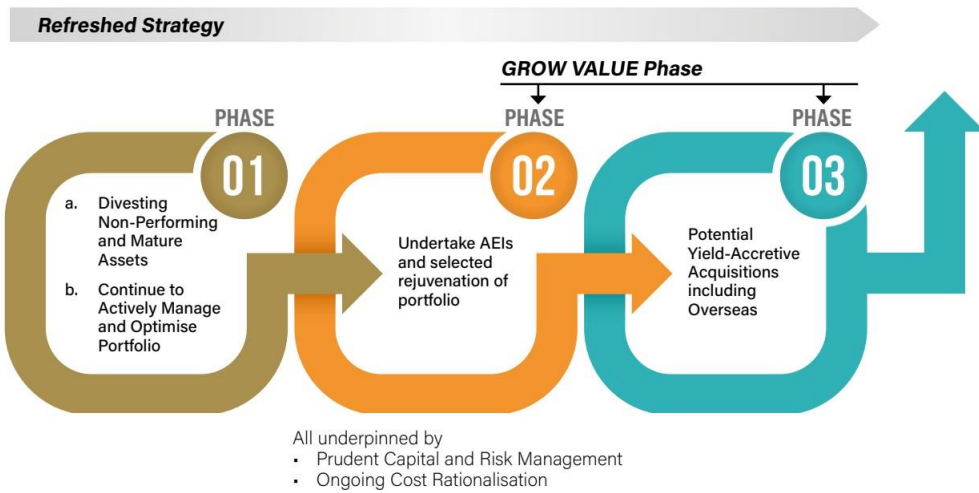
sector from 31 March 2019 to 31 March 2022 for the Centurion Club 2022 – a category for listed companies with market capitalisation under \$1 billion.

We also made significant improvements in the Governance Index for Trusts (“GIFT”) 2022 report. Our overall GIFT score improved to 71.5 points in 2022 from 54 points a year ago. Our 17.5-point improvement was the largest among all trusts in the study. Our ranking improved from 38th to 14th position, which was an improvement of 24 positions.

Additionally, we also achieved progress in the Singapore Governance and Transparency Index (“SGTI”) ranking with a score of 74.4 points in 2022 from 61.1 points a year ago, reflecting an improvement of 13.3 points. Our ranking rose from 43rd to 35th position, an improvement of eight positions.

Q2. During FY2022, the REIT recorded a 15.9% year-on-year increase in gross revenue, amounting to \$94.9 million. However, its net property income (NPI) only improved by 2.6% to reach \$53.3 million due to the impact of global energy inflation. As part of its refreshed strategy, the manager is focusing on executing the "Grow value" phase to drive the REIT's growth and enhance its value proposition.

On the GROW VALUE phase of Refreshed Strategy with five strategic priorities



(Source: annual report)

(i) **Energy costs: Utilities increased from \$13.0 million in 2021 to \$24.0 million in 2022 (Note 14 Property expenses; page 171). What percentage of energy costs is passed through to the tenants? What measures has the manager implemented to mitigate the impact of high energy costs on the REIT's operations and financial performance?**

The bulk of the increase in total utility costs of \$11.0 million relates to electricity costs and this increase in electricity costs was largely passed through to tenants. The REIT is responsible for a portion of utility costs that relate to electricity consumption of common areas (including chillers, corridors and centralised building facilities). Additionally, we hedge our electricity contracts to mitigate the impact of price volatility.

For long-term sustainability, we are committed to mitigating and reducing energy costs and will continue to look into this aspect. We have embarked on a number of initiatives that will improve our energy efficiency, namely:

- the recently announced installation of solar energy systems across four of our properties i.e. 10 Changi South Street 2, 34 Penjuru Lane, 3A Joo Koon Circle and 1 Tuas Avenue 4;
- we have completed the upgrading of passenger lift lobbies and carpark LED relamping at New Tech Park in FY 2022; and
- we completed an energy audit of 508 Chai Chee Lane in 2022 and works are now ongoing to improve energy efficiency, with the completion target in 2H 2023;

In addition to major equipment upgrading, we are installing more green equipment and fittings at our properties, for more efficient water and energy management. Among our sustainability targets for FY 2023 is the reduction of energy and water intensity by 2% year-on-year from FY 2022 (detailed information on our sustainability targets is set out on page 75 of Annual Report 2022).

- (ii) **Other trust expenses: Professional fees have increased from \$36,000 in 2021 to \$630,000 in 2022. Could the board elaborate on the reasons for this significant increase in expenses, and whether it is a one-off or recurring item?**

Excluding an accounting reversal, the professional fees in FY 2021 would have been \$616,000, which is comparable to FY 2022's \$630,000. The increase in professional fees in FY2022 (over FY2021) is \$14,000.

The accounting reversal of professional fees in FY2021 was in relation to the reduction of merger cost from the original merger cost provision of \$2.7 million in FY 2020, which was subsequently negotiated down to \$2.1 million (reduced by \$580,000) and the reduction recognised in FY 2021 (please refer to FY 2020 AGM presentation at https://sabana.listedcompany.com/newsroom/20210427_173840_M1GU_TTCBC4Q0S7OGTV_OV.5.pdf)

- (iii) **1 Tuas Avenue 4: The asset has been non-income generating for years. The manager has announced that it has obtained the landlord's consent for additions and alterations ("A&A") to transform the asset into a modern warehouse-cum- production facility. The planning approval from other regulatory authorities was announced on 4 April 2023. The REIT is targeting for Temporary Occupational Permit to be obtained by 1H 2024. Is \$20 million the upper limit of redevelopment cost? What was the level of involvement by the independent directors in ensuring that the redevelopment is carried out cost-efficiently? Has the manager secured any tenants for the property yet?**

The development cost of approximately \$20 million announced on 4 April 2023 comprises construction costs, professional fees, forward works, contingency costs (as advised by consultants for prudence) and government fees, amongst others. The development cost is based on the current design, which comprises an approximate 156,000 square foot warehouse, production and ancillary office on an ambient basis. As the property is currently being marketed, this estimated cost may be subject to change, depending on the need to further enhance its market attractiveness and rental levels, or any further modifications relating to prospective tenants' requirements.

In determining the project budget, we obtained multiple bids from vendors, architects and

contractors for the various components of the A&A including architectural design and construction, which enabled us to compare costs and select the most competitive bid and terms.

Our Board, which comprises all non-executive Independent Directors, is involved in the review and approval of the project budget, which encapsulates the scope of the project, the target timeline, track record and quality standards of the architect, project management team and main contractor. This is in line with our internal Standard Operating Procedures, for which the process has been reviewed and approved by our Board and also periodically reviewed by our auditors.

The Manager is currently in discussions with prospective tenants including companies in the logistics and manufacturing trade sectors, among others.

- (iv) **New Tech Park: The manager is also embarking on a Phase 3 AEI for New Tech Park which will involve gross floor intensification. The REIT has engaged an “award-winning architect” firm to envision another iconic design similar to that of the NTP+ mall, which in 2022, was shortlisted for a couple of architectural design awards in Singapore and overseas. There has been feedback that the REIT’s AEI of NTP+ was on the high end, with costs reaching \$465 per square feet. Given that New Tech Park is not seeking to attract walk-in customers, how does the manager balance the need for a simple, efficient, comfortable, and cost- effective design with the desire to create an iconic "trophy asset"?**

As explained during our AGM 2022 (please refer to AGM 2022 presentation on SGXNet and corporate website on 26 April 2022), final development cost for NTP+ mall was \$20 million. This amount comprises construction costs, fees to authorities and professional fees. NTP+ mall comprises about 43,000 sq ft of commercial gross floor area. It also has additional bonus floor area comprising a ground floor open plaza with lush landscape and a second floor open deck to provide more outdoor circulation space to shoppers, thus increasing total construction floor area to about 90,000 sq ft. The mall also comprises fifteen numbers of 25-metre high columns to support extended roof trellis to give NTP a contemporary, “cutting-edge” exterior.

With its successful transformation on the back of the NTP+ mall completion, NTP was shortlisted for architectural awards honouring best projects that exemplify excellence in architectural design, both in Singapore and on the global stage.

On the back of the completion of NTP+ mall in March 2021, the FY 2021 annualised NPI yield for NTP was 11.3%, and this further increased to 16.5% in FY 2022.

- (v) **What financial projections have been carried out by management on the rental uplift?**

In line with SGX Listing Rules and the Corporate Disclosure Policy, we are not in the position to provide financial projections on the rental uplift for NTP. However, in our portfolio updates, we have announced our achievement of positive 13.6% rental reversion as at 31 March 2023, which continues our positive quarterly rental reversion track record since 1Q 2021. Our positive rental reversions are consistently among the highest within the Singapore industrial REIT sector.

- (vi) **What is the planned extent of the gross floor intensification for the Phase 3 AEI at New Tech Park?**

The Phase 3 AEI of NTP is underway, and the Manager in discussion with multi-government

agencies for the proposed gross floor intensification plan. We will update unitholders when there are any material developments.

- (vii) **Auditor: For the benefit of unitholders, could the manager kindly clarify the reasons for the REIT's decision to change its auditor? Please provide an overview of the selection process for the incoming auditor, including the criteria used.**

As set out in our Notice of AGM 2023 under Explanatory Notes for Ordinary Resolution 2, KPMG LLP, the retiring Auditors, have served as external Auditors of Sabana Industrial REIT since the constitution of Sabana Industrial REIT in 2010. In line with best corporate governance practices, the Directors have decided that it would be timely to effect a change of external auditors with effect from the current financial year ending 31 December 2023.

The Audit and Risk Committee of the Manager has reviewed and deliberated on the proposed change of Auditors and has recommended that Ernst & Young LLP be appointed in place of the retiring Auditors.

This follows a selection process that was conducted via Request for Proposals by Singapore's Big Four, with governance, costs and quality among some of the key considerations as part of the selection criteria.

The audit quality indicators listed in the Audit Quality Indicators Disclosure Framework issued by the Accounting and Corporate Regulatory Authority ("ACRA") were also considered in assessing the suitability of Ernst & Young LLP and the requirements of Rule 712(1), Rule 712(2) and Rule 715 of the Listing Manual of the SGX-ST.

The Directors of the Manager have taken into account the Audit and Risk Committee's recommendation, and considered factors such as the adequacy of the resources and experience of Ernst & Young LLP and the persons to be assigned to the audit, nature of business, the size and complexity of the operations of Sabana Industrial REIT and its subsidiaries, and the number and experience of Ernst & Young LLP's supervisory and professional staff to be assigned to the audit, and are satisfied that Ernst & Young LLP will be able to meet the audit requirements of Sabana Industrial REIT and its subsidiaries.

Q3. Some observations on the REIT's ESG approach include:

In an environment of high energy prices, we have identified and begun to implement energy-efficient measures in some of the REIT's high specification buildings with high energy consumption to mitigate the impact of elevated energy costs.

As a start, we have initiated energy-saving initiatives at 508 Chai Chee Lane following an energy audit of the building in early 2022.

The manager also engaged consultants to review its entire portfolio to identify sustainable options such as the deployment of solar energy and electric vehicle charging stations.

Collectively, all these efforts are directed towards improving our buildings' operational efficiency over the medium term.

(Source: annual report; emphasis added)

While the REIT manager has listed "advancing ESG" as one of its strategic values, it seems that the main focus is currently on improving operational efficiency in response to high energy costs.

- (i) **Could the manager provide clarification on whether the implementation of ESG initiatives was primarily motivated by the increase in energy prices?**

Our ESG initiatives are in line with our sustainability goal as announced on 30 March 2023 (reference: news release "Sabana Industrial REIT Partners Keppel EaaS To Jointly Execute Decarbonisation Solutions With The Aim Of Creating One Of Singapore's First Carbon Neutral Industrial REITs") to work towards becoming carbon neutral by 2040.

To this end, we are taking tangible steps to align our business objectives with sustainability by integrating green initiatives across selected portfolio assets. We are committed to doing our part in reducing the carbon footprint in Singapore and contributing to sustainable development.

To recap, the focus on ESG is also one of the five key strategic VALUE priorities of the REIT for the GROW VALUE phase of the REIT's Refreshed Strategy (as disclosed on page 21 of Annual Report 2022) in growing value for Unitholders. These five strategic priorities guide the Manager in achieving a target portfolio valuation of more than \$1 billion between 2025 and 2027.

After the publication of the annual report, on 30 March 2023, the REIT announced that it will partner Keppel EaaS to jointly execute decarbonisation solutions. The announcement can be found here:

<https://links.sgx.com/FileOpen/SABANA%20INDUSTRIAL%20REIT%20KEPPEL%20Media%20Release.ashx?App=Announcement&FileID=751767>

- (ii) **Can the manager clarify if photovoltaic solar panels will be installed in all of the REIT's properties?**

As announced on 30 March 2023, the REIT is partnering Keppel EaaS to install Solar PVs across four of the REIT's properties at 10 Changi South Street 2, 34 Penjuru Lane, 3A Joo Koon Circle and 1 Tuas Avenue 4. The target completion for the first three properties is end 3Q 2023, and 1H 2024 for 1 Tuas Avenue 4.

We will announce our plans for the other REIT properties as and when there are material developments.

In addition, the manager has disclosed its intention to attain a minimum Green Mark Super Low Energy certification upon the AEI of 1 Tuas Avenue 4.

- (iii) **Has the manager evaluated the potential benefits of achieving higher levels of certification, such as a Green Mark Zero Energy or Green Mark Positive Energy certification, for 1 Tuas Avenue 4? This could enable the REIT to differentiate itself in terms of its sustainability efforts and potentially attract tenants who place a high value on environmental responsibility.**

We are targeting to attain a minimum Green Mark Super Low Energy certification, which will be the first in our portfolio. This is subject to the identification of the prospective tenant/s. In working towards this target, we are taking into consideration the expected energy consumption of potential requirements by prospective tenants that we are targeting versus the renewable energy that can be generated by the planned number of solar panels to be installed.

Based on our evaluation on an ambient basis, we expect to generate energy savings and reduce our carbon footprint even by achieving minimally Green Mark Super Low Energy certification, which meets our objectives.

- Ends -

Sabana Industrial REIT

Sabana Industrial REIT was listed on the SGX-ST on 26 November 2010. As at 31 December 2022, Sabana Industrial REIT has a diversified portfolio of 18 quality properties in Singapore, in the high-tech industrial, warehouse and logistics, chemical warehouse and logistics, as well as general industrial sectors. The total assets of the Group amount to more than S\$0.9 billion as at 31 December 2022.

Sabana Industrial REIT is managed by Sabana Real Estate Investment Management Pte. Ltd. (in its capacity as the Manager of Sabana Industrial REIT) in accordance with the terms of the trust deed dated 29 October 2010 (as amended, varied or supplemented from time to time). Sabana Industrial REIT is a real estate investment trust constituted on 29 October 2010 under the laws of Singapore.

For further information on Sabana Industrial REIT, please visit www.sabana-reit.com.

Important Notice

The value of units in Sabana Industrial REIT (“Units”) and the income derived from them may fall as well as rise. Units are not obligations of, deposits in, or guaranteed by, the Manager, HSBC Institutional Trust Services (Singapore) Limited, as trustee of Sabana Industrial REIT, or any of their respective affiliates.

An investment in Units is subject to investment risks, including the possible loss of the principal amount invested. Investors have no right to request that the Manager redeem or purchase their Units while the Units are listed. It is intended that unitholders may only deal in their Units through trading on the SGXST. Listing of the Units on the SGX-ST does not guarantee a liquid market for the Units.