

4 August 2023

Sabana Real Estate Investment Management Pte. Ltd.

151 Lorong Chuan
#02-03 New Tech Park
Singapore 556741

Attention: Mr Tan Cheong Hin, Chairman
Mr Donald Han, Chief Executive Officer

Dear Sirs,

OPEN LETTER FROM ESR GROUP – REPLY TO SIAS

1. We have prepared a short open letter to unitholders on our reply to SIAS.
2. We would be grateful if you could publish a copy of the enclosed letter as an announcement via SGXNET.

Yours faithfully



ESR GROUP LIMITED

ESR Group Limited

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1. How would ESR respond to Sabana unitholders who believe that a stronger and larger Sabana REIT could potentially become a credible competitor to ESR-LOGOS, and thus it might be in the interest of ESR Group to maintain the status quo?

ESR Group's interest in maintaining the current externally-managed structure of Sabana REIT is simply because the resolutions proposed by Quarz will lead to significant value destruction for unitholders and a long period of uncertainty that may compromise the future of Sabana REIT.

It is wrong to claim that ESR Group prioritises one REIT over another. Each REIT has its own Board (which comprises majority independent directors with diversified expertise), as well as its own strategic direction and investment rationale.

For example, E-LOG has stated that their strategy is to rejuvenate their portfolio and to venture overseas given the maturity and size of their portfolio, with a focus on New Economy assets, in particular logistics assets. It is also targeting an investor base and profile that is more institutional led.

The current Sabana REIT Manager has free rein to grow the REIT and ESR has been supportive of their plans for growth, e.g. by voting at Sabana REIT's AGMs to approve the general mandate for unit issuance, and will continue to be supportive as needed.

It is also important to note that the Monetary Authority of Singapore has laid down safeguards to ensure good corporate governance at the current manager. ESR's interest in the manager is held through an independent trustee with full discretion to make all decisions, and ESR is not involved in the day-to-day management of Sabana REIT.

2. In addition, ESR Group does not seem to play an active role in the management of Sabana REIT, nor does it actively contribute to Sabana's growth, despite identifying as the "sponsor of Sabana REIT." Given the current circumstances, why is ESR Group not supporting the internalisation of Sabana REIT? This move would eliminate any operational and governance constraints and establish an internal manager to drive the REIT's growth for the benefit of all unitholders, especially minority shareholders who find themselves caught between the clash of substantial unitholders?

ESR Group is opposing the resolutions tabled by Quarz because they are flawed and threaten to cause significant value destruction for unitholders. Our view is that the external manager in place today has delivered strong performance for unitholders and as such should not be replaced on the whim of groups who are putting their own interests first and disregarding the very real risks of pursuing internalisation without first laying any groundwork. Quarz's projected upside, operating margin and cost savings under the internalised model are based on unsubstantiated assumptions, and they have not presented any credible evidence to show that internalisation would be more advantageous than the external management model for Sabana REIT and its unitholders.

It is important to remember that internalisation in Singapore is unprecedented, and that independent proxy advisors have recommended that unitholders vote against internalisation.

Another important factor is financing. Fundamentally, REITs do NOT retain cash – they pay out all their cashflows (for tax transparency reasons). Hence access to, and cost of capital (debt and equity), are vitally important.

Being linked to a large sponsor group allows a REIT to benefit from preferential credit terms (e.g., in terms of interest coverage ratio and unsecured lending) and greater access to capital for growth. This is also the case when it comes to equity capital raising, where the sponsor can provide an important backstop. In contrast, Quarz does not have the track record or the financial strength to provide similar support to Sabana REIT and as such runs the risk of eroding Sabana REIT's ability to raise capital on favourable terms.

3. Can ESR Group explain how it might have directly or indirectly helped Sabana REIT lower its finance costs? Has ESR Group been in contact with Sabana's borrowers to confirm whether borrowing costs will increase and if existing interest rate hedges will be unwound if the manager is removed? Could ESR Group confirm that it will not take any active steps to undermine Sabana REIT if unitholders vote for the internalisation?

ESR Group is fully supportive of Sabana REIT and its current manager and we will continue to be supportive as needed. We have a substantial investment in the Sabana REIT and our interests are fully aligned with other unitholders – we do not want to see value destruction.

Regarding the question of financing, there is no doubt that being linked to a larger sponsor group allows a REIT to benefit from more preferential credit terms and greater access to capital for growth. This is also the case when it comes to equity capital raising, where the sponsor can provide an important backstop.

As we stated in our open letter to unitholders on 2 August 2023, it would be foolhardy to think that, while unitholders prepare to make critical decisions on the future of the manager, Sabana REIT's lenders are not at the same time preparing to safeguard their own interests. The lenders may take any action permitted under their loan agreements to protect their rights and interests, including demanding immediate repayment of any outstanding loans or increasing the interest rate on their loans.

As highlighted in our letter dated 28 July 2023, each increase of one percentage point (100 basis points) could cost unitholders up to S\$8.3 million in interest each year, which will reduce DPU by up to 0.75 Singapore cents¹

^[1] Based on 1,102,156,128 units outstanding and if an unwinding of the existing interest rate hedges that have been put in place is triggered.