

**KEPPEL-KBS US REIT
FINANCIAL STATEMENTS AND DISTRIBUTION ANNOUNCEMENT
UNAUDITED RESULTS FOR THE PERIOD FROM
9 NOVEMBER 2017 (LISTING DATE) TO 30 JUNE 2018**

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DBS Bank Ltd. is the sole financial adviser and issue manager for the initial public offering of Keppel-KBS US REIT (the "**Offering**"). DBS Bank Ltd., Citigroup Global Markets Singapore Pte. Ltd., Credit Suisse (Singapore) Limited and Merrill Lynch (Singapore) Pte. Ltd. were the Joint Bookrunners and Underwriters for the Offering (collectively, the "**Joint Bookrunners and Underwriters**").

INTRODUCTION

Keppel-KBS US REIT is a Singapore real estate investment trust constituted by the Trust Deed dated 22 September 2017 between Keppel-KBS US REIT Management Pte. Ltd., as the Manager of Keppel-KBS US REIT and Perpetual (Asia) Limited, as the Trustee of Keppel-KBS US REIT.

Keppel-KBS US REIT was listed on SGX-ST on 9 November 2017 (“Listing Date”) with the investment strategy of principally investing, directly or indirectly, in a diversified portfolio of income-producing commercial assets and real estate-related assets in the key growth markets of the United States.

Keppel-KBS US REIT’s key objectives are to provide Unitholders with attractive total returns primarily driven by regular and stable distributions, while maintaining an appropriate capital structure and striving for sustainable growth in distribution and net asset value per Unit.

The initial portfolio of Keppel-KBS US REIT (the “IPO Portfolio”) comprise 11 office properties in the United States, with an aggregate NLA of 3,225,739 sq ft. The IPO Portfolio consists of the following properties (the “Properties”):

West Coast

The Plaza Buildings

Bellevue Technology Center

Iron Point

Central

Westmoor Center

Great Hills Plaza

Westech 360

1800 West Loop South

West Loop I & II

East Coast

Powers Ferry Landing East

Northridge Center I & II

Maitland Promenade II

As disclosed in the Prospectus, SGX-ST granted Keppel-KBS US REIT a waiver from compliance with Rule 705(1) of the SGX-ST Listing Manual which requires the announcement of financial statements for the full financial year immediately after the figures are available. Accordingly, Keppel-KBS US REIT will be announcing its first full year results for the period from 9 November 2017 (“Listing Date”) to 31 December 2018.

**SUMMARY OF KEPPEL-KBS US REIT RESULTS
FOR THE PERIOD FROM 9 NOVEMBER 2017 (LISTING DATE) TO 30 June 2018**

	Group					
	2Q 2018 ⁽¹⁾			Listing Date to 30 June 2018 ⁽¹⁾		
	Actual	Forecast ⁽²⁾	+ / (-)	Actual	Forecast ⁽²⁾	+ / (-)
	US\$'000	US\$'000	%	US\$'000	US\$'000	%
Gross Revenue	22,641	23,127	(2.1)	58,743	58,646	0.2
Property Expenses	(8,847)	(9,534)	(7.2)	(22,621)	(23,832)	(5.1)
Net Property Income ⁽³⁾	13,794	13,593	1.5	36,122	34,814	3.8
Net Income for the period ⁽⁴⁾	10,049	7,986	25.8	29,190	21,633	34.9
Income available for distribution to Unitholders ⁽⁵⁾	9,453	9,447	0.1	24,069	24,054	0.1
Available distribution per Unit (DPU) (US cents) for the period ⁽⁵⁾	1.50	1.49	0.7	3.82	3.80	0.5
Annualised available for distribution yield (%) ⁽⁶⁾				6.77%	6.74%	3 bps

Notes:

- (1) No comparative figures have been presented as Keppel-KBS US REIT was constituted on 22 September 2017 and dormant since its constitution to the Listing Date.

2Q 2018 refer to the second quarter of 91 days from 1 April 2018 to 30 June 2018 and Listing Date to 30 June 2018 refers to the financial period of 234 days from 9 November 2017 to 30 June 2018.

- (2) Forecast for 2Q 2018 was derived from one quarter of the 2018 forecast.

There was no forecast figure for the period from Listing Date to 31 December 2017. Hence, forecast results for the period from Listing Date to 30 June 2018 comprise actual figures from Listing Date to 31 December 2017 and one half of the 2018 forecast.

The forecast figures were derived from the Forecast Year 2018 as disclosed in the Prospectus.

- (3) Net property income of US\$13.8 million for 2Q 2018 and US\$36.1 million for Listing Date to 30 June 2018 was higher than forecast by 1.5% and 3.8% respectively. For more details, please refer to Paragraph 9 – Variance from Forecast Statement.
- (4) Included in net income are derivative gains of US\$1.4 million and US\$6.2 million due to the change in fair value of the interest rate swaps for 2Q 2018 and for the period from Listing Date to 30 June 2018 respectively.

- (5) The income available for distribution to Unitholders is based on 100% of the taxable income available for distribution to Unitholders.

For the period from Listing Date to 31 December 2017, actual income available for distribution to Unitholders and available distribution per unit are US\$5.2 million and 0.82 US cents respectively.

Excluding the results for the period from Listing Date to 31 December 2017, actual income available for distribution to Unitholders and available distribution per Unit for first half of 2018 are:

	Group		+ / (-) %
	1 January 2018 to 30 June 2018		
	Actual	Forecast	
	US\$'000	US\$'000	
Income available for distribution to Unitholders	18,907	18,892	0.1
DPU (US cents)	3.00	2.98	0.7

- (6) The annualised available for distribution yield for Listing Date to 30 June 2018 is on a pro-rata basis of 234 days following the Listing Date and is based on the IPO and market closing price as at the last trading day of 2Q 2018 of US\$0.880.

1 UNAUDITED RESULTS FOR THE PERIOD FROM 9 NOVEMBER 2017 (LISTING DATE) TO 30 JUNE 2018

The Directors of Keppel-KBS US REIT Management Pte. Ltd., as the Manager of Keppel-KBS US REIT, advise the following unaudited results of the Group for the period from 9 November 2017 (Listing Date) to 30 June 2018:

1 (A)(i)(ii) CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND DISTRIBUTION STATEMENT

	Note	2Q 2018 ⁽¹⁾			Listing Date to 30 June 2018 ⁽¹⁾		
		Actual	Forecast ⁽²⁾	+/(-)%	Actual	Forecast ⁽²⁾	+/(-)%
<u>Consolidated Statement of Comprehensive Income</u>		US\$'000	US\$'000		US\$'000	US\$'000	
Rental income		17,236	17,504	(1.5)	45,294	44,744	1.2
Recoveries income		4,406	4,679	(5.8)	11,010	11,484	(4.1)
Other operating income		999	944	5.8	2,439	2,418	0.9
Gross Revenue		22,641	23,127	(2.1)	58,743	58,646	0.2
Utilities		(1,497)	(1,828)	(18.1)	(4,007)	(4,492)	(10.8)
Repairs and maintenance		(1,001)	(1,041)	(3.8)	(2,573)	(2,621)	(1.8)
Property management fees		(1,123)	(1,248)	(10.0)	(2,826)	(3,128)	(9.7)
Property taxes		(2,798)	(2,708)	3.3	(7,117)	(6,913)	3.0
Other property expenses		(2,428)	(2,709)	(10.4)	(6,098)	(6,678)	(8.7)
Property expenses		(8,847)	(9,534)	(7.2)	(22,621)	(23,832)	(5.1)
Net Property Income		13,794	13,593	1.5	36,122	34,814	3.8
Finance income		17	-	NM	41	12	>100
Finance expenses	3	(2,525)	(2,585)	(2.3)	(6,474)	(6,659)	(2.8)
Manager's base fee	4	(945)	(945)	-	(2,406)	(2,406)	-
Trustee's fee		(32)	(42)	(23.8)	(90)	(109)	(17.4)
Fair value change in derivatives	5	1,369	-	NM	6,168	989	>100
Other trust expenses	6	(624)	(649)	(3.9)	(1,821)	(1,825)	(0.2)
Net income for the period before tax		11,054	9,372	17.9	31,540	24,816	27.1
Tax expense	7	(1,005)	(1,386)	(27.5)	(2,350)	(3,183)	(26.2)
Net income for the period		10,049	7,986	25.8	29,190	21,633	34.9
<u>Distribution Statement</u>							
Net income for the period		10,049	7,986	25.8	29,190	21,633	34.9
Distribution adjustments	8	(596)	1,461	NM	(5,121)	2,421	NM
Income available for distribution to Unitholders	9	9,453	9,447	0.1	24,069	24,054	0.1
Available distribution per Unit (DPU) (US cents)	9	1.50	1.49	0.7	3.82	3.80	0.5

NM – Not meaningful

Notes:

- (1) No comparative figures have been presented as Keppel-KBS US REIT was constituted on 22 September 2017 and dormant since its constitution to the Listing Date.
- (2) There was no forecast figure for the period from Listing Date to 31 December 2017. Hence, forecast results for the period from Listing Date to 30 June 2018 comprise actual figures from Listing Date to 31 December 2017 and one half of the 2018 forecast. The forecast figures were derived from the Forecast Year 2018 as disclosed in the Prospectus.

- (3) Finance expenses comprise the following:

	2Q 2018			Listing Date to 30 June 2018		
	Actual US\$'000	Forecast US\$'000	+/(-)%	Actual US\$'000	Forecast US\$'000	+/(-)%
Interest expense on borrowings	2,343	2,369	(1.1)	5,940	6,054	(1.9)
Amortisation of upfront debt-related transaction costs	154	145	6.2	400	384	4.2
Dividends on preferred units	8	51	(84.3)	75	159	(52.8)
Commitment fees	20	20	-	59	62	(4.8)
	<u>2,525</u>	<u>2,585</u>	<u>(2.3)</u>	<u>6,474</u>	<u>6,659</u>	<u>(2.8)</u>

- (4) The Manager has elected to receive 100% of its base fee in the form of units for the period from Listing Date to 31 December 2018.
- (5) This relates to fair value gain of the interest rate swaps entered into by the Group for hedging purpose. During the period from 1 January 2018 to 30 June 2018, derivative gain from mark-to-market of the interest rate swaps amounted to US\$5.2 million as interest rates increased during the period. For the period from Listing Date to 31 December 2017, derivative gain was US\$1.0 million.
- (6) Other trust expenses comprise audit, tax compliance and other corporate expenses.
- (7) Tax expense comprise current and deferred tax expenses. Current tax expense comprise mainly income tax expense on the Barbados entities, Keppel-KBS US REIT B1 SRL and Keppel-KBS US REIT B2 SRL.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Tax expense mostly related to deferred tax expense arising from capital allowances claimed on the investment properties.

- (8) Included in distribution adjustments are the following:

	2Q 2018			Listing Date to 30 June 2018		
	Actual US\$'000	Forecast US\$'000	+/(-)%	Actual US\$'000	Forecast US\$'000	+/(-)%
Property related non-cash items ^(a)	(701)	(1,020)	(31.3)	(2,105)	(2,597)	(18.9)
Manager's base fee paid/payable in units	945	945	-	2,406	2,406	-
Trustee's fee	32	42	(23.8)	90	109	(17.4)
Amortisation of upfront debt-related transaction costs ^(b)	154	145	6.2	400	384	4.2
Deferred tax expense	882	1,349	(34.6)	2,117	3,108	(31.9)
Fair value change in derivatives	(1,369)	-	NM	(6,168)	(989)	>100.0
Others ^(c)	(539)	-	NM	(1,861)	-	NM
Net distribution adjustments	<u>(596)</u>	<u>1,461</u>	<u>NM</u>	<u>(5,121)</u>	<u>2,421</u>	<u>NM</u>

- (a) Property related non-cash items mainly comprise straight-line rent and amortisation of lease incentives.
- (b) Upfront debt-related transaction costs are amortised over the life of the borrowings.
- (c) Included in others are other non-tax deductible items and other adjustments.

- (9) The income available for distribution and DPU to Unitholders is based on 100% of the taxable income available for distribution to Unitholders. Keppel-KBS US REIT declares distribution on a half-yearly basis. Please refer to Paragraph 12 – Distribution for the distributions declared for the financial period from Listing Date to 30 June 2018.

1 (B)(i) STATEMENTS OF FINANCIAL POSITION

	Note	Group As at 30 June 2018 US\$'000	Trust As at 30 June 2018 US\$'000
Current assets			
Cash and cash equivalents		50,082	4,055
Trade and other receivables	1	2,317	25,205
Prepaid expenses		815	67
Total current assets		53,214	29,327
Non-current assets			
Derivative asset	2	6,168	6,168
Investment properties	3	816,107	-
Investment in subsidiaries		-	810,760
Total non-current assets		822,275	816,928
Total Assets		875,489	846,255
Current liabilities			
Trade and other payables		15,041	3,853
Rental security deposits		577	-
Rent received in advance		3,907	-
Total current liabilities		19,525	3,853
Non-current liabilities			
Borrowings		287,085	287,085
Rental security deposits		2,844	-
Preferred units		125	-
Deferred tax liabilities		2,116	-
Total non-current liabilities		292,170	287,085
Total liabilities		311,695	290,938
Net assets		563,794	555,317
Represented by:			
Unitholders' funds		563,794	555,317
Net asset value per Unit (US\$)		0.89	0.88

Notes:

- (1) Trust balance includes a receivable due from a subsidiary of US\$24.0 million.
- (2) This relates to fair value of the interest rate swaps entered into by the Group for hedging purpose.
- (3) All the investment properties held are freehold.

Investment Properties

	Carrying value US\$'000
The Plaza Buildings	242,302
Bellevue Technology Center	131,774
Iron Point	37,128
Westmoor Center	121,663
Great Hills Plaza	33,359
Westech 360	42,249
1800 West Loop South	80,556
West Loop I & II	46,519
Powers Ferry Landing East	18,938
Northridge Center I & II	21,114
Maitland Promenade II	40,505
	816,107

**Group
As at 30 June 2018
US\$'000**

As at 22 September 2017 (Date of constitution)	-
Acquisitions (including acquisition costs) ⁽¹⁾	796,894
Capital expenditure and straight-line rent capitalised	19,213
Investment properties	816,107

Notes:

- (1) The actual acquisition consideration was net of seller's portion of capital and leasing costs as at IPO date.

1 (B)(ii) AGGREGATE AMOUNT OF BORROWINGS AND DEBT SECURITIES

	Group As at 30 June 2018 US\$'000
<u>Unsecured borrowings</u>	
Amount repayable after one year	289,440
Less: Unamortised upfront debt-related transaction costs	(2,355)
Total unsecured loans and borrowings	287,085

Notes:

Keppel-KBS US REIT has obtained unsecured credit facilities comprising: (i) term loan facilities maturing in four to five years amounting to US\$289.4 million and (ii) revolving credit facilities, amounting to a total of US\$50.0 million.

As at 30 June 2018, the Group had total gross borrowings of US\$289.4 million and unutilised US\$50.0 million of facilities to meet its future obligations. 75% of the term loans had been hedged using floating-for-fixed interest rate swaps. The year-to-date all-in average interest rate for borrowings, including upfront debt-related transaction costs, was 3.43%. Aggregate leverage, as defined in the Property Funds Appendix, is 33.1%.

1 (C) CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Group	
		1 April 2018 to 30 June 2018	Listing Date to 30 June 2018
		US\$'000	US\$'000
Operating activities			
Net income before tax		11,054	31,540
Adjustments for:			
Property related non-cash items		(701)	(2,105)
Manager's fee paid/payable in Units		945	2,406
Interest income		(17)	(41)
Finance expenses		2,525	6,474
Fair value change in derivative		(1,369)	(6,168)
		12,437	32,106
Changes in working capital			
Trade and other receivables		550	(2,776)
Trade and other payables		2,059	5,622
Rental security deposits		210	196
Rent received in advance		30	1,379
Net cash generated from operations		15,286	36,527
Cash flows from investing activities			
Acquisition of investment properties and related assets and liabilities	1	-	(784,600)
Additions to investment properties		(6,533)	(17,108)
Interest received		17	41
Net cash used in investing activities		(6,516)	(801,667)
Cash flows from financing activities			
Proceeds from issuance of units	2	-	553,137
Payment for IPO related expenses		-	(19,995)
Proceeds from debt financing		-	289,440
Payment of debt related transaction costs		-	(2,755)
Proceeds from preferred units		-	1,625
Redemption of preferred units		-	(1,500)
Financing expense paid on loans and borrowings		(2,377)	(4,655)
Financing expense paid on preferred shares		(8)	(75)
Net cash (used in) /generated from financing activities		(2,385)	815,222
Net increase in cash and cash equivalents		6,385	50,082
Cash and cash equivalents at beginning of the period		43,697	-
Cash and cash equivalents at end of the period		50,082	50,082

Notes:

- (1) Acquisition of investment properties and related assets and liabilities based on the closing statement is set out below.

	Group Listing Date to 30 June 2018 US\$'000
Investment properties (see breakdown below)	796,894
Prepaid expenses and other receivables	356
Accrued expenses and other payables	(6,898)
Rental security deposits	(3,224)
Rent received in advance	(2,528)
Net assets acquired	<u>784,600</u>
Agreed purchase consideration for investment properties	804,000
Acquisition costs	622
Capital and leasing costs under seller's responsibility	(7,728)
Net cash consideration of investment properties	<u>796,894</u>

- (2) An aggregate of 628,565,000 units issued at US\$0.88 per unit and amounting to US\$553.1 million were issued on Listing Date.

The use of proceeds raised from the initial public offering, including proceeds from the IPO Loan Facilities, is in accordance with the stated uses as disclosed in the Prospectus, and is set out below.

	Actual US\$'000	Per Prospectus US\$'000	Variance US\$'000
Cash consideration of investment properties ^(a)	796,894	804,000	(7,106)
Transaction costs ^(b)	23,372	30,251	(6,879)
Working capital	9,951	9,951	-
	<u>830,217</u>	<u>844,202</u>	<u>(13,985)</u>

Notes:

- (a) Actual cash consideration was net of seller's portion of capital and leasing costs as at IPO date.
- (b) The favourable variances are mainly from capital and leasing costs under seller's responsibility lower than expected IPO related costs and GST refund on transaction costs. These savings will be used for general working capital purposes. The Manager will make the appropriate announcements on any material development on the use of proceeds in compliance with the listing requirement of the SGX-ST, as and when required.

1 (D)(i) STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS

Group	Units in issue US\$'000	Retained earnings US\$'000	Total US\$'000
At 22 September 2017 (Date of Constitution) ⁽¹⁾	-	-	-
Operations			
Net income for the period	-	19,141	19,141
Unitholders' transactions			
Issue of new units			
- Initial Public Offering	553,137	-	553,137
Issue costs ⁽²⁾	(19,995)	-	(19,995)
Net increase in net assets resulting from Unitholders' transactions	533,142	-	533,142
At 31 March 2018	533,142	19,141	552,283
Operations			
Net income for the period	-	10,049	10,049
Unitholders' transactions			
Issue of new units			
- Issue of Management fees in units ⁽³⁾	1,462	-	1,462
Net increase in net assets resulting from Unitholders' transactions	1,462	-	1,462
At 30 June 2018	534,604	29,190	563,794

	Units in issue US\$'000	Retained earnings US\$'000	Total US\$'000
Trust			
At 22 September 2017 (Date of Constitution) ⁽¹⁾	-	-	-
Operations			
Net loss for the period	-	(940)	(940)
Unitholders' transactions			
Issue of new units			
- Initial Public Offering	553,137	-	553,137
Issue costs ⁽²⁾	(19,995)	-	(19,995)
Net increase in net assets resulting from Unitholders' transactions	533,142	-	533,142
At 31 March 2018	533,142	(940)	532,202
Operations			
Net income for the period	-	21,653	21,653
Unitholders' transactions			
- Issue of management fees in units ⁽³⁾	1,462	-	1,462
Net increase in net assets resulting from Unitholders' transactions	1,462	-	1,462
At 30 June 2018	534,604	20,713	555,317

Notes:

- (1) Less than US\$1,000
- (2) Issue costs comprise underwriting and selling commissions, professionals and other fees, and other issue expenses.
- (3) This represents 1,655,767 units issued in 2Q 2018 as payment of management fees in units.

1 (D)(ii) DETAILS OF ANY CHANGES IN UNITS

	Group and Trust
	Units
Units in Issue:	
At 22 September 2017 (Date of constitution)	-
New Units issued:	
- at Initial Public Offering	628,565,000
Total issued Units as at 31 March 2018	628,565,000
New Units issued:	
- issue of Management base fees in units	1,655,767
Total issued Units as at 30 June 2018	630,220,767

1 (D)(iii) TOTAL NUMBER OF ISSUED UNITS

Keppel-KBS US REIT does not hold any treasury units as at 30 June 2018.

	As at 30 June 2018
Total number of issued units	630,220,767

1 (D)(iv) SALES, TRANSFER, DISPOSALS, CANCELLATION OR USE OF TREASURY UNITS

Not applicable.

2. AUDIT

The figures have neither been audited nor reviewed by the auditors.

3. AUDITORS' REPORT

Not applicable.

4. ACCOUNTING POLICIES

The Group has applied the same accounting policies and methods of computation as described in the Prospectus in the preparation of the consolidated financial statements for the current reporting period.

5. CHANGES IN ACCOUNTING POLICIES

Not applicable.

6. CONSOLIDATED EARNINGS PER UNIT ("EPU") AND DISTRIBUTION PER UNIT ("DPU")

	2Q 2018	Listing Date to 30 June 2018
EPU		
Weighted average number of Units in issue ⁽¹⁾	629,693,105	629,003,707
Net income for the period (US\$'000)	10,049	29,190
Basic and diluted EPU (US cents)	1.60	4.64
DPU		
Number of Units in issue at end of period	630,220,767	630,220,767
Income available for distribution to Unitholders (US\$'000)	9,453	24,069
DPU (US cents) ⁽²⁾	1.50	3.82

Notes:

- (1) The weighted average number of units was based on the number of units in issue during the period.
- (2) The DPU was computed and rounded based on the number of units entitled to distribution at the end of the period.

7. NET ASSET VALUE ("NAV") AND NET TANGIBLE ASSET ("NTA") PER UNIT

	As at 30 June 2018	
	Group	Trust
Number of Units in issue	630,220,767	630,220,767
Net assets (US\$'000)	563,794	555,317
NAV and NTA per Unit ⁽¹⁾ (US\$)	0.89	0.88
Adjusted NAV and NTA per Unit ⁽¹⁾ (US\$) (excluding Distributable Income)	0.86	0.84

Notes:

(1) The computation of NAV and NTA is based on number of units in issue at the end of the period. NAV and NTA is the same as there is no intangible asset as at the end of the period.

8. REVIEW OF PERFORMANCE

Please refer to Paragraph 9 on the review of the actual results for 2Q 2018 and for the period from Listing Date to 30 June 2018 against the forecast as disclosed in the Prospectus.

9. VARIANCE FROM FORECAST STATEMENT

Actual vs Forecast for the financial period from Listing Date to 30 June 2018

The gross revenue of US\$58.7 million was 0.2% or US\$0.1 million above forecast largely due to higher rental and compensation income but partially offset by lower recoveries income. Recoveries income is recognised from charging tenants for reimbursements of certain property expenses. Recoverable income was lower than forecast in line with the lower property expenses for the period.

Property expenses were lower than forecast by 5.1% or \$1.2 million, arising from lower net property management fees of \$0.3 million and lower actual property expenses such as forecast straight lined utilities and other property expenses. However, some expenses are projected to increase later in the year.

Accordingly, net property income of US\$36.1 million was higher than forecast by US\$1.3 million or 3.8%.

During the period from 1 January 2018 to 30 June 2018, derivative gain from mark-to-market of interest rate swaps amounted to US\$5.2 million as interest rates increased during the period. Derivative gain for the period from 9 November 2017 to 31 December 2017 was US\$1.0 million.

Finance expenses of US\$6.5 million were 2.8% lower than forecast as the revolving credit facilities had yet to be drawn down. The remaining other trust expenses were generally in line with forecast.

Consequently, profit before tax of US\$31.5 million was above forecast by 27.1%.

Tax expense of US\$2.4 million, mainly relating to deferred tax expenses, was below forecast as the US corporate tax rate in relation to distribution of capital gains was reduced from 35% to 21%. This was partially offset by higher current tax expense from tax provision for the Barbados entities as a result of the tax restructuring.

Due to the net effects of the above, net income for the period from 9 November 2017 to 30 June 2018 of US\$29.2 million was higher than forecast by 34.9%.

Overall, income available for distribution to Unitholders of US\$24.1 million was higher than forecast by 0.1%.

Actual vs Forecast for 2Q 2018

During the quarter, gross revenue of US\$22.6 million was 2.1% or US\$0.5 million below forecast largely due to drop in rental from a tenant at Westmoor Center which vacated the premises ahead of its lease expiry and paid a compensation fee in 1Q 2018. The compensation income received will be used to offset the drop in rental income and maintain distribution from 2Q 2018 to 4Q 2018 until the replacement tenant start contributing cash rental income.

Property expenses were lower than forecast by 7.2% or \$0.7 million, arising from lower net property management fees of \$0.2 million, and lower actual property expenses such as forecast straight lined utilities and other property expenses. However, some expenses are projected to increase later in the year.

Accordingly, net property income of US\$13.8 million was higher than forecast by US\$0.2 million or 1.5%.

Derivative gain from mark-to-market of interest rate swaps amounted to US\$1.4 million as interest rates increased during the quarter.

Finance expenses of US\$2.5 million were 2.3% lower than forecast as the revolving credit facilities had yet to be drawn down.

Tax expense of US\$1.0 million was below forecast mainly due to lower deferred taxes recognised.

Due to the net effects of the above, net income for the quarter of US\$10.0 million was 25.8% higher than forecast.

Overall, income available for distribution to Unitholders of US\$9.5 million was higher than forecast by 0.1%.

10. PROSPECTS

The International Monetary Fund (IMF) has raised its US GDP growth projection for 2018 from 2.7% to 2.9%, citing strong near-term outlook and robust job creation, supported by fiscal stimulus, recovery of private investment, and favourable financial conditions. Risks remain that the expansion in the federal deficit could trigger a rise in inflation, and recent moves to impose tariffs on imports could increase market volatility.

The US office market remains healthy. According to CoStar, the 12-month¹ office net absorption was 50.2 million sf as at end-June 2018. Deliveries were 67.2 million sf in the same period, with the majority of new supply coming from major cities' CBD.

National average occupancy rate for the same period remained stable at 89.7%. The 12-month overall rent growth improved from 1.5% as at end-March 2018 to 1.6% as at end-June 2018, with Seattle, Sacramento and Atlanta amongst the markets with highest rent growth.

The REIT, with assets located in key growth markets in the West Coast, Central, and East Coast, is well-placed to benefit from organic growth, largely from improved occupancies and built-in rental escalations in its portfolio. Office demand in these markets is underpinned by strong and defensive sectors such as technology, education and healthcare.

To capture value and further upsides, the Manager is actively pursuing accretive acquisitions in key growth markets where the REIT has a presence in, as well as other US cities with similar growth characteristics. The Manager remains committed to deliver sustainable distributions and strong total returns to Unitholders.

11. RISK FACTORS AND RISK MANAGEMENT

The Manager ascribes importance to risk management and constantly takes initiatives to systematically review the risks it faces and mitigates them. Some of the key risks that the Manager has identified are as follows:

Tax risk

Changes in taxation legislation, administrative guidance or regulations, and/or any disagreement as to the interpretation thereof, may adversely affect Keppel-KBS US REIT and its Subsidiaries.

Any change in the tax status of Keppel-KBS US REIT and/or any of its direct and indirect subsidiaries (the "Group"), or change in taxation legislation, administrative guidance, or regulation (or any disagreement as to the interpretation thereof) that applies to the Group, could adversely affect the distribution paid by the Group.

In addition, any such tax changes could adversely affect the value of the Group's investments, and/or increase the U.S. and non-U.S. tax liabilities of the Group and/or affect the Group's ability to achieve its investment objectives. Such changes could have a significant negative impact on Keppel-KBS US REIT and its unitholders.

¹ Refers to the period from July 2017 to June 2018.

For example, the U.S. tax legislation modifying the IRC enacted in late 2017 (“2017 Tax Legislation”) impacted the deductibility of certain interest expense for taxable years beginning after 31 December 2017. As a result, Keppel-KBS US REIT restructured certain subsidiaries (the “Barbados Restructuring”), which resulted in certain costs being incurred. In this regard, although the Manager believes that the Barbados Restructuring is responsive to the relevant provisions in the 2017 Tax Legislation, the Manager cannot predict whether such restructuring will remain viable in either the near or long term. The IRS has indicated that certain guidance with respect to the international provisions of the 2017 Tax Legislation is imminent. The Manager cannot predict when such regulations or other administrative guidance will be released, whether any such regulations or administrative guidance will adversely affect the deductibility of interest by Keppel-KBS US REIT’s U.S. subsidiaries, or whether any such regulations or administrative guidance will have retroactive effect, although the IRS has indicated that retroactivity is likely.

If regulations or administrative guidance result in the non-deductibility of any interest payments by Keppel-KBS US REIT’s subsidiaries, the Group may face material U.S. and/or non-U.S. tax payments and other costs, and may be required to engage in further restructuring at significant additional costs (including costs incurred on an on-going basis). Such regulations and/or administrative guidance may also potentially render restructuring to preserve the deductibility of interest payments by Keppel-KBS US REIT’s subsidiaries impossible, resulting in significant economic impairment to the structure. All such additional tax and/or costs would potentially have a material adverse effect on the Group’s financial condition, cash flows and results of operations.

The Manager will continue to monitor future changes and clarifications and will make future announcements, if and when appropriate.

Interest rate risk

The Manager constantly monitors its exposure to changes in interest rates for its interest-bearing financial liabilities. Interest rate risk is managed on an on-going basis with the primary objective of limiting the extent to which net interest expense can be affected by adverse movements in interest rates through financial instruments or other suitable financial products.

Liquidity risk

The Manager monitors and maintains the Group’s cash flow position and working capital to ensure that there are adequate liquid reserves in terms of cash and credit facilities to meet short-term obligations. Steps have been taken to plan for capital and expense requirements so as to manage the cash position at any point of time.

Credit risk

Credit risk assessments of tenants are carried out by way of evaluation of information from corporate searches conducted prior to the signing of lease arrangements. Tenants are generally required to pay a security deposit as a multiple of monthly rents and maintain sufficient deposits in their accounts. In addition, the Manager also monitors the tenant mix.

Currency risk

Currency risk arises from future commercial transactions, recognised assets and liabilities and net investments denominated in foreign currencies. The Group’s business is not exposed to significant currency risk as the portfolio of properties is located in the United States and the cash flows from the operations of the properties are denominated in US\$. The Group also borrows in the same currency as the assets in order to manage the foreign currency risk. Keppel-KBS US REIT will receive US\$ distributions from the investment properties which will be passed to the Unitholders, either in US\$ or converted to SG\$ at the spot foreign exchange rate at the time of distribution. Keppel-KBS US REIT is exposed to fluctuations in the cross currency rates of the US\$ and SG\$ for operating expenses incurred in Singapore, which are not material. If and when appropriate, based on the prevailing market conditions, the Group may adopt suitable hedging strategies to minimise any foreign exchange risk.

Operational risk

Measures have been put in place to manage expenses, actively monitor rental payments from tenants and evaluate the Group’s counter-parties on an ongoing basis. The Manager also performs an annual review of the adequacy and appropriateness of insurance coverage, reviews disaster and pandemic business continuity plans, and updates and modifies regularly.

12. DISTRIBUTIONS

(a) Current Financial Period reported on

Any distribution recommended for the current financial period reported on?

Yes

Name of Distribution	<u>1st</u> Distribution Distribution for the period from Listing Date to 30 June 2018
Distribution Type	a) Tax-exempt income distribution b) Capital distribution
Distribution Rate	a) Tax-exempt income distribution – 2.98 US cents per unit b) Capital distribution – 0.84 US cents per unit
Tax Rate	<u>Tax-exempt income distribution</u> Tax-exempt income distribution is exempt from tax in the hands of all Unitholders. Tax-exempt income relates to net taxed income and one-tier dividend income received by Keppel-KBS US REIT. <u>Capital distribution</u> Capital distribution represents a return of capital to Unitholders for Singapore income tax purposes and is therefore not subject to income tax. For Unitholders who are liable to Singapore income tax on profits from sale of Keppel-KBS US REIT units, the amount of capital distribution will be applied to reduce the cost base of their Keppel-KBS US REIT units for Singapore income tax purposes.

(a) Corresponding Period of the Immediately Preceding Financial Year

Any distribution declared for the corresponding period of the immediately preceding financial year?

Not applicable.

(b) Book closure date

27 July 2018

(c) Date payable

25 September 2018

13. DISTRIBUTION STATEMENT

Other than as disclosed in Paragraph 12(a), no distribution has been declared / recommended.

14. INTERESTED PERSON TRANSACTIONS

If the Group has obtained general mandate from unit holders for IPT, the aggregate value of such transactions are required under Rule 920(1)(a)(ii). If no interested party transactions mandate has been obtained, a statement to that effect.

The Group does not have any IPT and no general IPT mandate has been obtained for the period under review.

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

The Manager confirms that it has procured undertakings from all its directors and executive officers in the format set out in Appendix 7.7 under Rule 720(1) of the Listing Manual.

The past performance of Keppel-KBS US REIT is not necessarily indicative of its future performance. Certain statements made in this presentation may not be based on historical information or facts and may be “forward-looking” statements due to 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 property rental income, changes in operating expenses, including employee wages, benefits and training, property expenses and governmental and public policy changes, and the continued availability of financing in the amounts and terms necessary to support future business.

Prospective investors and unitholder of Keppel-KBS US REIT (“**Unitholders**”) are cautioned not to place undue reliance on these forward-looking statements, which are based on the current view of Keppel-KBS US REIT Management Pte. Ltd., as Manager of Keppel-KBS US REIT (the “**Manager**”) on future events. No representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of the information, or opinions contained in this presentation. None of the Manager, the trustee of Keppel-KBS US REIT or any of their respective advisors, representative or agents shall have any responsibility or liability whatsoever (for negligence or otherwise) for any loss howsoever arising from any use of this presentation or its contents or otherwise arising in connection with this presentation. The information set out herein may be subject to updating, completion, revision, verification and amendment and such information may change materially. The value of units in Keppel-KBS US 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 or any of its 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 the Manager to redeem their Units while the Units are listed. It is intended that Unitholders may only deal in their Units through trading on Singapore Exchange Securities Trading Limited (“**SGXST**”). Listing of the Units on SGX-ST does not guarantee a liquid market for the Units.

By Order of the Board
Keppel-KBS US REIT Management Pte. Ltd.
(Company Registration Number: 201719652G)
As Manager of Keppel-KBS US REIT

CHUA HUA YEOW KELVIN
Company Secretary
17 July 2018


CONFIRMATION BY THE BOARD

We, SOONG HEE SANG and PAUL THAM, being two Directors of Keppel-KBS US REIT Management Pte. Ltd. (the "Company"), as Manager of Keppel-KBS US REIT, do hereby confirm on behalf of the Directors of the Company that, to the best of our knowledge, nothing has come to the attention of the Board of Directors of the Company which may render the financial statements of Keppel-KBS US REIT for the financial period from 9 November 2017 to 30 June 2018 to be false or misleading in any material respect.

On behalf of the Board,


Soong Hee Sang
Director

17 July 2018


PAUL THAM
Director