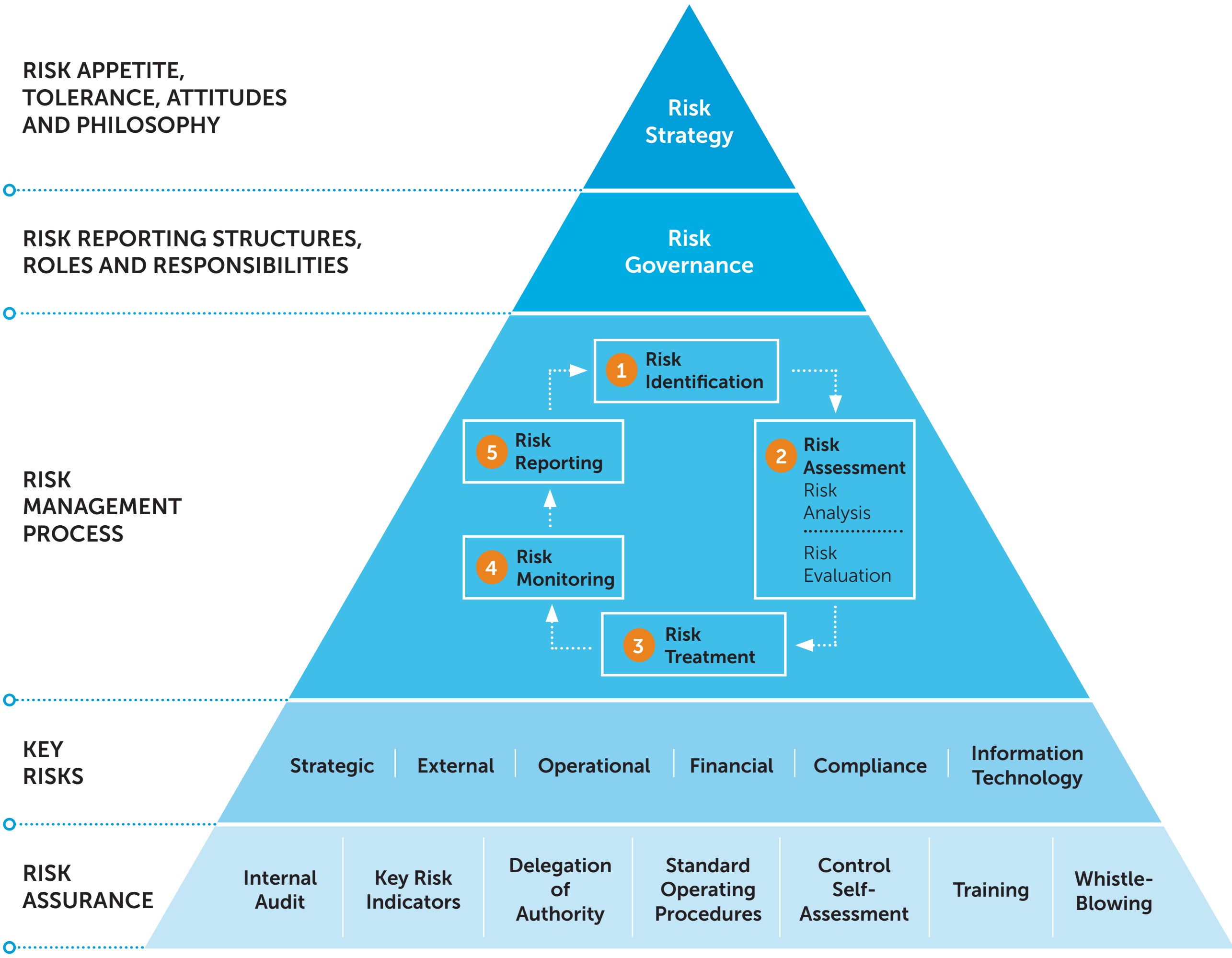
Risk Management



Risk Management continues to be an integral part of the Manager's business strategy of delivering sustainable and growing returns. To safeguard capital while creating value for Unitholders, the Manager proactively manages risks and embeds the risk management process as part of the planning and decision making process.

STRONG OVERSIGHT AND GOVERNANCE

The Board is responsible for determining the overall risk strategy and risk governance, and ensuring that the Manager implements sound risk management and internal control practices. The Board also approves the risk appetite and tolerance statements, which set out the nature and extent of risks involved to achieve the Manager's business objectives. The Board is assisted by the AC, which comprises independent directors whose collective experience and knowledge serve to guide Management and provide strategic insights. The AC has direct access to the Sponsor's Risk Management Department, which it engages with quarterly as part of its review of MIT's portfolio risks.

At the Manager, the risk management culture involves both top-down oversight and bottom-up engagement from all employees. Risk management practices are included in the roles and responsibilities of employees and system processes. This ensures a risk approach that is aligned with its business objectives and strategies, and is integrated with operational processes for effectiveness and accountability.

Risk Management

The Manager's ERM framework is dynamic and evolves with the business. It provides the Group with a holistic and consistent process for the identification, assessment, monitoring and reporting of risks. The Sponsor's Risk Management Department works closely with the Manager to review and enhance the risk management system, with the guidance and direction of the AC and the Board. A Control Self-Assessment framework further reinforces risk awareness by fostering accountability, control and risk ownership, and provides additional assurance to the Board and Management that operational risks are being effectively and adequately managed and controlled.

ROBUST MEASUREMENT AND ANALYSIS

The Manager's risk measurement framework is based on Value-at-Risk ("VaR"), a methodology which measures the volatilities of market and property risk drivers such as rental rates, occupancy rates, capital values, interest rates and foreign exchange rates. It takes into consideration changes in market environment and asset cash flows as they occur. To complement the VaR methodology, other risks such as refinancing, tenant-related and development risks are also assessed, monitored and measured as part of the framework where feasible.

With the VaR methodology, risks are measured consistently across the portfolio, enabling the Manager to quantify the benefits that arise from diversification across the portfolio and to assess risk by asset class, risk type and country. Recognising the limitations of any statistically-based system that relies on historical data, MIT's portfolio is subject to stress tests and scenario analysis to ensure that the business remains resilient in the event of unexpected market shocks.

RISK IDENTIFICATION AND ASSESSMENT

The Manager identifies key risks, assesses their likelihood and impact on the business, and establishes corresponding mitigating controls. The information is maintained in a risk register that is reviewed and updated regularly. The key risks identified include but are not limited to:

Strategic Risks
MIT's portfolio is subject to real estate market risks such as rental rate and occupancy volatilities in the countries where it operates and specific factors including competition, supply, demand and local regulations. Such risks are quantified, aggregated and monitored for existing assets and prospective acquisitions. Significant risk profile changes or emerging trends are reported for assessment and/or action.

The risks arising from investment activities are managed through a rigorous and disciplined investment approach, particularly in the area of asset evaluation and pricing. All acquisitions are aligned with MIT's investment strategy to achieve key objectives such as enhancing returns to Unitholders, improving income or capital growth. Sensitivity analysis is performed for each acquisition on all key project variables to test the robustness of the assumptions used. For material acquisitions, independent risk assessments are conducted by the Sponsor's Risk Management Department and included in the investment proposal submitted to the Manager's Board for approval. All investment proposals are subject to rigorous scrutiny by the Board (or delegated to the Management Committee).

On receiving the Board's or Management Committee's approval, the investment proposals are then submitted to the Trustee, who is the final approving authority for all investment decisions.

The Trustee also monitors the compliance of the Manager's executed investment transactions with the restrictions and requirements of the Listing Manual of the SGX-ST, MAS's Property Funds Appendix and the provisions in the Trust Deed.

New development projects usually take a few years to complete, depending on the project size and complexity. To mitigate the risk of development delays, cost overruns and lower than expected quality, the Manager has put in place stringent pre-qualifications of consultants and contractors, and continually reviews the project's progress.

External Risks
To manage country risks such as economic uncertainties or political turbulence in countries where it operates, the Manager conducts rigorous country and real estate market research and monitors economic and political developments closely.

Operational Risks
Comprehensive operating, reporting and monitoring guidelines enable the Manager to manage day-to-day activities and mitigate operational risks. To ensure relevance, the Manager regularly reviews its standard operating procedures and benchmarks them against industry practices where appropriate. Compliance with standard operating procedures is assessed under the Control Self-Assessment framework and reinforced through training of employees and regular reviews by the Sponsor's Internal Audit Department.

Loss of key management personnel and identified talents can cause disruptions to the Manager's business operations and hinder the achievement of its business objectives. The Manager has put in place succession planning, talent management and competitive compensation and benefits plans to reward and retain performing personnel.

The Manager has a business continuity plan and crisis communication plan that should enable it to resume operations with minimal disruption and loss in the event of unforeseen catastrophic events such as terrorism and natural disasters. MIT's properties are insured in accordance with industry norms in their respective jurisdictions and benchmarked against those in Singapore.

Credit risks are mitigated from the outset by conducting thorough tenant credit assessment as part of the investment due diligence process prior to an acquisition. For new and sizeable leases, credit assessments of prospective tenants are undertaken prior to signing of lease agreements. On an ongoing basis, tenant credit is closely monitored by the Manager's Asset Management Department and arrears are managed by the Manager's Credit Control Committee, which meets regularly to review debtor balances. To further mitigate risks, security deposits in the form of cash or banker's guarantees are collected from prospective tenants prior to commencement of leases, where applicable.

Financial Risks

Financial market risks and capital structure are closely monitored and actively managed by the Manager. The Board is kept abreast through quarterly reports. At the portfolio level, the risk impact of interest rate and currency volatilities on value is quantified, monitored and reported quarterly using the VaR methodology. Refinancing risk is also quantified, taking into account the concentration of the loan maturity profile and credit spread volatility.

MIT hedges its portfolio exposure to interest rate volatility arising from its borrowings by way of interest rate swaps and fixed rate borrowings.

Where feasible, after taking into account cost, tax and other relevant considerations, the Manager will borrow in the same currency as the underlying assets to provide some natural hedge. To mitigate foreign exchange rate risks and to provide investors with a degree of income stability, a large proportion of rental income received from overseas assets is hedged using forward contracts and secured in Singapore Dollar terms.

The Manager also actively monitors MIT's cash flow position and funding requirements to ensure significant liquid reserves to fund operations and meet short-term obligations (see Corporate Liquidity and Capital Resources section on pages 77 to 78). The Manager also maintains sufficient financial flexibility and adequate debt headroom for MIT to fund future acquisitions. In addition, the Manager monitors and mitigates bank concentration risks by having a well-diversified funding base. The limit on MIT's aggregate leverage ratio is observed and monitored to ensure compliance with MAS's Property Funds Appendix.

Compliance Risks

MIT is committed to comply with applicable laws and regulations of the various jurisdictions in which it operates. Non-compliance may result in litigation, penalties, fines or revocation of business licenses. The Manager identifies applicable laws and regulatory obligations and embeds compliance with these laws and regulations in day-to-day business processes.

Information Technology Risks

The threat of cyber security attacks continues to be a concern as such attacks become increasingly sophisticated. The Manager has in place comprehensive policies and procedures governing information availability, control and governance, and data security. An information technology disaster recovery plan is in place and tested annually to ensure business recovery objectives are met. In addition, network vulnerability assessment and penetration testing are also conducted regularly to check for potential security gaps.

RIGOROUS MONITORING AND CONTROL

The Manager has developed internal key risk indicators that serve as an early-warning system by highlighting risks that have escalated beyond established tolerance levels. The Manager has also established required actions to be taken when risk thresholds are breached.

Every quarter, the Sponsor's Risk Management Department presents to the Board and AC a comprehensive report highlighting key risk exposures, portfolio risk profile, results of stress testing scenarios and status of key risk indicators. The Board and AC are also kept abreast of any material changes to MIT's risk profiles and activities.