

Financial Review

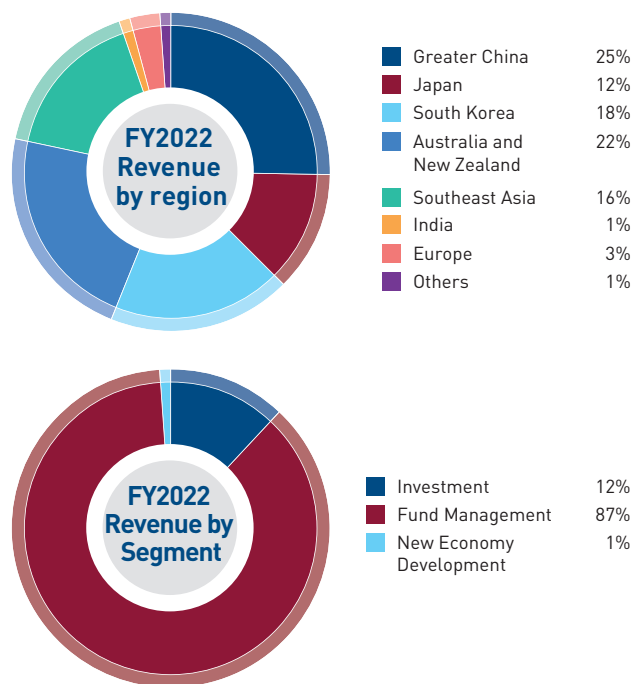
The Group has delivered solid earnings growth and a strong set of operational results for the year ended 31 December 2022, against a challenging market environment and continued macroeconomic challenges. ESR's performance demonstrates the Group's remarkable resilience in its business fundamentals, and unmatched scale as APAC's leading real assets manager, following the acquisition and integration of ARA Asset Management ("ARA") and LOGOS.

As of 31 December 2022, the Group had a robust and well-capitalised balance sheet with US\$1.8 billion in cash and net debt over total assets of 22.8%.

Key Financial Highlights:

- Revenue increased by 103.0% from US\$404.4 million in FY2021 to US\$821.2 million in FY2022;
- Profit for the year increased by 64.9% from US\$382.7 million in FY2021 to US\$631.1 million in FY2022;
- EBITDA¹ increased by 60.9% from US\$664.2 million in FY2021 to US\$1,068.5 million in FY2022;
- Adjusted EBITDA¹ increased by 63.0% from US\$706.8 million in FY2021 to US\$1,151.9 million in FY2022;
- Adjusted PATMI¹ increased by 73.5% from US\$377.3 million in FY2021 to US\$654.6 million in FY2022;
- Profit for the year increased by 64.9% from US\$382.7 million in FY2021 to US\$631.1 million in FY2022; and
- Full year dividend of HK\$25 cents per share (approximately 3.2 US cents per share), implying a 1.9%² dividend yield.

REVENUE



The Group's revenue grew 103.0% from US\$404.4 million in FY2021 to US\$821.2 million in FY2022. Total group revenue (ex-CIP construction revenue) increased by 127.7% from US\$360.6 million in FY2021 to US\$821.2 million in FY2022, driven by higher management fee.

Management fee increased by 192.3% from US\$244.0 million in FY2021 to US\$713.3 million in FY2022. The increase was driven by high fee revenue from higher AUM as well as benefitting from ARA's recurring and stable fee revenue.

Overall construction revenue decreased by 75.5% from US\$43.8 million in FY2021 to US\$10.7 million in FY2022. Higher construction revenue in FY2021 contributed by outstanding projects executed after the disposal of construction arm by ESR Australia in September 2020. In line with decrease in overall construction revenue, cost of sales also dropped correspondingly from US\$54.0 million in FY2021 to US\$29.2 million in FY2022.

Notes:

1. EBITDA, Adjusted EBITDA and Adjusted PATMI are non-IFRS measures. EBITDA is calculated as profit before tax, adding back depreciation and amortisation and finance costs (net). Refer to non-IFRS measure on page 241 for calculations of Adjusted EBITDA and Adjusted PATMI.
2. Based on closing share price of HK\$13.26 on 21 March 2023.

Rental income decreased by 17.1% from US\$110.5 million in FY2021 to US\$91.6 million in FY2022. The decrease in rental income in FY2022 was mainly due to the sell-down of nine China balance sheet assets into a core fund with a leading global investor during the year.

Geographically, the Group’s top markets in Greater China, Japan, South Korea, Southeast Asia and Australia and New Zealand accounted for 94.5% of the Group’s revenue for FY2022. The other markets, including India and Europe, made up the remaining 5.5% of revenue for FY2022.

PATMI AND EBITDA

PATMI increased by 64.3% from US\$349.4 million in FY2021 to US\$574.1 million in FY2022. EBITDA³ increased by 60.9% from US\$664.2 million in FY2021 to US\$1,068.5 million in FY2022. Higher PATMI and EBITDA³, backed by the strength in the underlying fundamental of the Group’s New Economy business, were boosted by the increase in fee income, share of profits of co-investments in associates and joint ventures; and gains on divestment from balance sheet to ESR-managed funds in Australia and China.

The Group recorded fair value gain on investment properties of US\$195.4 million for FY2022 (FY2021: US\$274.5 million), contributed mainly from the Group’s assets in China and Japan.

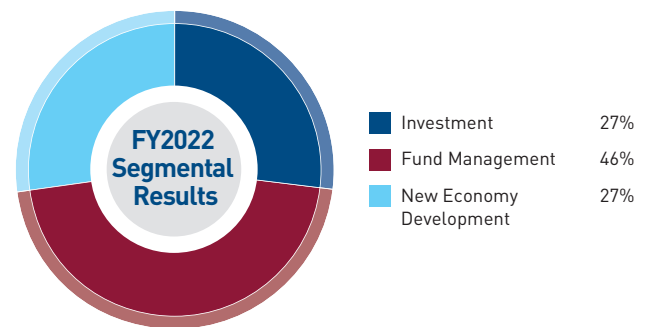
The Group’s share of profits from joint ventures and associates increased by 34.9% from US\$168.1 million in FY2021 to US\$226.7 million in FY2022. The increase was mainly due to higher share of profits from the Group’s investments in China, as well as joint ventures and associates held by ARA which contributed to the Group’s results post-acquisition.

Despite the ongoing rates hike at the macroeconomic level, the Group has managed to keep its weighted average interest rate cost for the year ended 31 December 2022 at 4.2% (FY2021: 4.1%) leveraging on its growth and access to well diversified funding sources.

Overall finance cost increased by 36.0% from US\$163.5 million in FY2021 to US\$222.4 million in FY2022 in line with the increase in total borrowings from US\$4.2 billion as at 31 December 2021 to US\$5.5 billion as at 31 December 2022, mainly from consolidation of ARA.

Administrative expenses increased by 103.2% from US\$241.8 million in FY2021 to US\$491.3 million in FY2022. The increase was primarily from the full year effect of ARA’s administrative expenses; as well as one-off costs relating to the acquisition of ARA of US\$22.5 million and amortisation of intangible assets arising from acquisition of ARA of US\$23.3 million.

SEGMENT RESULTS



Investment segment results decreased by 2.6% from US\$342.5 million in FY2021 to US\$333.6 million in FY2022, reflecting ESR’s success in pursuit of its asset light strategy as assets sold from balance sheet into funds to generate fee income under the fund management segment. The decrease was mainly contributed by reduced share of co-investment income due to sell down of South Korea assets into ESR KendallSquare REIT (in 2021), sell-down of China balance sheet assets and lower relative fair value gains from existing balance sheet assets. The decrease was partially offset by higher dividend income.

Fund Management segment results increased by 188.4% from US\$199.0 million in FY2021 to US\$573.7 million in FY2022. The increase was driven by higher recurring fee revenue from higher AUM, record development starts, leasing fees and solid promotes. In addition, the segment also benefitted from ARA’s recurring and stable fee revenue; as well as disciplined cost management and economies of scale, and was able to manage increasing AUM by keeping operating expenses stable.

Note:

3. EBITDA is calculated as profit before tax, adding back depreciation and amortisation and finance costs (net).

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New Economy Development segment results increased by 45.6% from US\$235.3 million in FY2021 to US\$342.7 million in FY2022. This is due to significant contributions from fair value gains on projects under development, share of development profits of joint ventures and associates and substantial completions (US\$5.5 billion). This was further enhanced by gains on disposal of subsidiaries and assets from balance sheet to ESR managed funds in Australia and China.

ASSETS AND LIABILITIES

The Group had a robust and well-capitalised balance sheet with US\$1.8 billion in cash and bank balances. As of 31 December 2022, the Group had cash and bank balances that were primarily denominated in USD, HKD, SGD, RMB, JPY, AUD and KRW. Total assets increased from US\$9.3 billion as of 31 December 2021 to US\$16.2 billion as of 31 December 2022, driven mainly by the acquisition of ARA in January 2022.

Investment properties decreased by 10.3% to US\$3.3 billion as of 31 December 2022 (31 December 2021: US\$3.7 billion), contributed by the disposal of the Group's China properties, in line with the asset light strategy. The decrease was offset by development of the Group's China and Japan assets such as ESR Shanghai Qingpu Yurun Phase II; as well as asset appreciation across the Group's portfolio.

Investment in joint ventures and associates increased by 122.1% to US\$3.0 billion as of 31 December 2022 (31 December 2021: US\$1.3 billion). The increase was mainly contributed by the Group's acquisition of the investments in joint ventures and associates held by ARA, as well as additional investments in China joint ventures, such as GIC JV and Victory Lane JV, during the year. In addition, the Group also recorded a higher share of results from its China joint ventures and associates in 2022.

Increase in goodwill from US\$0.5 billion as of 31 December 2021 to US\$3.5 billion as of 31 December 2022 was mainly attributed to the goodwill arising from the acquisition of ARA.

Financial assets at fair value through other comprehensive income ("FVOCI") increased by 25.3% to US\$1.0 billion as of 31 December 2022 (31 December 2021: US\$0.8 billion). The increase was mainly from ARA's investments, offset by the disposal of shares in China Logistics Property Holdings Co., Ltd. in May 2022.

Total bank and other borrowings as of 31 December 2022 were US\$5.5 billion compared to US\$4.2 billion as of 31 December 2021. With cash and bank balance of US\$1.8 billion, the net debt to total assets as at 31 December 2022 were 22.8% (31 December 2021: 27.9%).

TOTAL EQUITY

Total equity increased from US\$4.4 billion as of 31 December 2021 to US\$9.1 billion as of 31 December 2022. This was primarily due to the increase in share premium by US\$4.3 billion from the issuance of new shares for ARA acquisition, consolidation of perpetual securities issued by ARA, and net profits for the year ended 31 December 2022 of US\$631.1 million. The above increases are partially offset by unrealised currency translation losses of US\$311.0 million mainly from the Group's operations in Japan, China and Australia during the year due to the strengthening of US dollars against the respective local currencies; as well as unrealised fair value losses arising from financial assets through other comprehensive income ("FVOCI") of US\$186.0 million, redemption of perpetual securities of US\$218.8 million and dividend distribution to shareholders of US\$70.8 million.