

NETLINK NBN TRUST

(a business trust constituted on 19 June 2017 under the laws of the Republic of Singapore
and registered under the Business Trusts Act, Chapter 31A of Singapore
(Registration Number: 2017002))
(Managed by NetLink NBN Management Pte. Ltd.)

**RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION
(SINGAPORE)**

The Board of Directors of NetLink NBN Management Pte. Ltd. ("**Board**"), as Trustee-Manager of NetLink NBN Trust, ("**NetLink**"), would like to thank the Securities Investors Association (Singapore) ("**SIAS**") for submitting questions ahead of NetLink's Annual General Meeting to be held on 28 September 2020.

The Board's responses are set out in Appendix 1, which can also be found on NetLink's website at <https://www.netlinknbn.com/agm.html> and SIAS's website at <https://sias.org.sg/qa-on-annual-reports/>.

Please also refer to the following documents which can be found on NetLink's website at <https://www.netlinknbn.com/agm.html>:-

- (a) NetLink's Annual Report 2020;
- (b) NetLink's Notice of Annual General Meeting ("**AGM**") dated 25 August 2020; and
- (c) the accompanying announcement released via SGXNet on 25 August 2020 setting out, inter alia, the alternative arrangements relating to attendance at the AGM via electronic means.

By Order of the Board

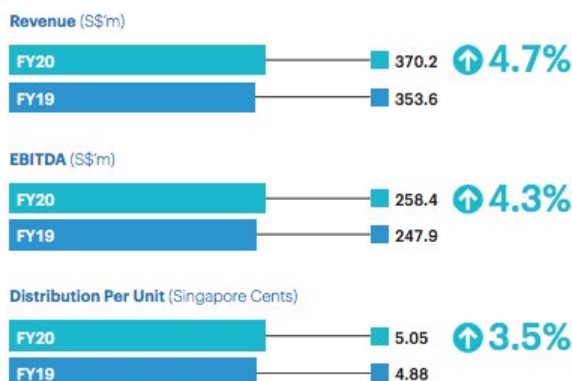
NetLink NBN Management Pte. Ltd.
(Registration Number: 201704783K)
(as trustee-manager of NetLink NBN Trust)

Tan Lay Hong
Albert Lim Aik Seng
Company Secretaries
16 September 2020

APPENDIX 1

1. As shown in the annual report (page 8; reproduced below), the group's revenue increased by 4.7% in the financial year to \$370.2 million while distribution per unit increased by 3.5% to 5.05 cents.

STABLE GROWTH



Source: Annual Report

In the section titled “In conversation with the C-Suite” (page 14), it was stated that the increase in residential connections in the past 3 years was driven by a telco’s migration exercise from coaxial to fibre. The number of residential connections at the end of the financial year was 1.427 million, a 94% penetration rate.

- (i) **With the migration exercise completed, can management elaborate further on the strategy to further increase the number of residential connections?**

NetLink’s Response:

Fibre broadband has become a “necessity” and is no longer “discretionary” as many end-users are reliant on fibre broadband services for their day-to-day activities. The importance of fibre broadband as an essential service to people’s way of life, be it for home-based learning, working from home, entertainment or simply keeping in touch with one another has been highlighted by the current COVID-19 situation. NetLink will continue to invest in its network to serve new housing estates, and new developments in mature estates.

Our expectation is that residential connections will continue to grow. We are also optimistic about the long term. We expect growth in fibre broadband adoption from: (i) low-income households due to the Government’s push for digital inclusion; (ii) the over 20,000 new housing units every year; and (iii) potentially some end-users taking up a second fibre connection.

- (ii) **In particular, how much visibility does management have on the number of new residential units each year? What is that additional “addressable market” for the next 1-2 years?**

NetLink’s Response:

Based on historical data, over 20,000 new housing units are added every year in Singapore. Today, with a penetration rate of 94%, there are still some 90,000 existing homes that have yet to use fibre broadband. Our expectation is that the end-users from this untapped segment would be connected to use fibre broadband over the next few years.

- (iii) **In view of the current pandemic, can management help unitholders understand the precautionary measures it has put in place when activating the residential connections? Has the activation “capacity” of the trust been significantly affected by the pandemic?**

NetLink’s Response:

The well-being of the public, our employees and business partners remains our top priority.

NetLink and its contractors have adopted COVID-19 safety measures and complied with all relevant advisories issued by the Ministry of Health and the Ministry of Manpower. As an essential service provider, NetLink regularly reminds its contractors’ workers to sanitise their hands before and after jobs, maintain safe distance and minimise interaction time as well as take extra care in cleaning up their work sites. To provide additional assurance to the public, NetLink also requires its employees and its contractors’ workers to wear face shields where practical, in addition to face masks.

NetLink will continue to monitor the situation and implement additional precautionary measures where necessary to ensure safety of all during this COVID-19 situation, as well as the continued availability of essential services.

The availability of foreign workers employed by our contractors was greatly reduced during the circuit breaker period from April to July 2020. Today, the number of workers who have resumed work is close to our pre-COVID-19 level. Our service provisioning capacity is therefore back to normal.

- (iv) **Similarly, in the Non-Building Address Point (“NBAP”) segment, following the roll-out of the 4G outdoor coverage of a new telco in Singapore, the number of NBAP connections grew by 5.8% to reach 1,679 connections as at 31 March 2020. Can management help unitholders understand the key growth drivers in the NBAP segment in the next 18-24 months? What is the schedule for the roll-out for the 5G network?**

NetLink's Response:

NBAP services involve the provision of fibre connectivity to any location in Singapore that does not have a physical address or assigned postal code, such as roadside points, lamp posts, bus stops, multi-storey carparks and traffic lights.

NetLink anticipates that the demand for NBAP services will continue to grow with the progressive roll-out of Singapore's Smart Nation programme and initiatives. Due to the extensive reach of NetLink's network, and the fact that fibre is the most suitable medium for high-speed data transmission, NetLink is well-positioned to support an extensive system of sensors, meters and other connected devices deployed by Singapore government agencies. The rollout of 5G mobile network will also require an extensive fibre backhaul network and is expected to contribute to increased demand for NBAP connections.

NetLink is not a Mobile Network Operator ("MNO") and is solely involved in providing fibre connections to meet demand from MNOs. The pace of 5G rollout is determined by these MNOs. IMDA's requirements for these MNOs are coverage for at least half of Singapore by end-2022, scaling up to nationwide coverage by end 2025.

- (v) At the last annual general meeting, in response to queries from unitholders, the chairman has explained that the trust will likely connect more 5G base stations for telcos as a denser network of 5G base stations is required to support the bandwidth and delivery speed of 5G. However, the trust still earns more than two-thirds of its revenue from residential connections. **Has management evaluated the risk that consumers will give up their residential fibre connections and switch to using 5G connections at home? In the worst-case scenario, is the trust anticipating that it will lose more customers than new sign-ups, resulting in a net decrease in the number of residential connections as a result of consumers switching to 5G even at home?**

NetLink's Response:

The rollout of 5G networks should provide us with more opportunities to offer our fibre connections to the MNOs rolling out 5G. On the whole, we expect the rollout of 5G to be an income-accretive business for NetLink.

We believe 5G will be complementary to fibre broadband and not a substitute for fibre broadband. Users today already consume internet data via mobile broadband, mostly when they are outside homes or offices, and via fibre broadband when they are at home or in office. The amount of data consumed by users is expected to grow exponentially over time as consumption habits evolve in tandem with greater reliance on technology (e.g. AI, smart homes). Fibre broadband has two main advantages: (i) a much higher data speed is achievable; and (ii) no cap on the amount of data transmitted using fibre broadband connections. Compared to mobile broadband, fibre broadband is widely acknowledged to be more economically efficient and effective in providing unlimited data access to homes and businesses.

2. In the financial year, the trust has had to write-off capitalised project costs to the tune of \$15.4 million in relation to the discontinuation of an IT contract. For comparison, the group's total expenses for FY20 were \$305.9 million and the total distribution for the year was \$196.8 million.

As disclosed in the announcement dated 27 February 2020, the majority of costs incurred under the above-mentioned project were paid and capitalised in prior years.

After taking into account the ability of NLT to continue with the use of certain software licences, capitalised project costs amounting to approximately \$15.4 million as at 31 December 2019 (consisting of capitalised internal staff cost of \$6.1 million and third party costs of \$9.3 million) are expected to be written off. The trust will continue to explore options for the upgrade and/or enhancement of NLT's business support systems and operation support systems.

- (i) **Would management elaborate further on the reasons to terminate the IT development project?**

NetLink's response:

The IT project implementation was not in line with NetLink's expectations. Both the vendor and NetLink had decided to terminate the project rather than to engage in a prolonged legal dispute over the project. As the terms of the agreement to terminate the project are confidential, we regret that we are not able to elaborate further on this subject.

- (ii) **With the benefit of hindsight, what changes will management make to its project management framework? What guidance did the board provide to management in the trust's key operational and strategic projects?**

NetLink's response:

A new Project Governance Committee comprising two Board members and the COO has been established to advise the management on overall IT project strategy and governance. The Committee will also review the adequacy and effectiveness of the project plan and project execution, and advise the Board on the progress of future IT projects.

The Board is responsible for the long-term success of NetLink and its value creation, and exercises close oversight over key areas in corporate governance, strategy and key operational projects. For key operational and strategic projects, the Board sets the direction and goals for the management team, monitors the achievement of these goals and holds management accountable for its performance.

- (iii) **How has the termination of the project affected the group's strategic objectives, including operational efficiency and cost structure?**

NetLink's response:

NetLink's operations are not affected as NetLink's existing system continues to perform reliably and meet current operational needs. In fact, NetLink has improved its service

provisioning performance despite the IT Project not progressing in line with its expectations. The majority of the material costs incurred by NetLink for the discontinued project were capitalised in periods prior to and during the financial year ended 31 March 2019. Hence there has been no impact on the cost structure for the financial year ended 31 March 2020.

(iv) With the termination, what are the trust's plans to upgrade/enhance its business support systems and operation support systems?

NetLink's response:

NetLink is exploring and carefully considering all options for the upgrade and/or enhancement of NetLink's business support systems and operation support systems.

3. At the annual general meeting scheduled to be held on 28 September 2020 at 4.00 p.m., the trust has proposed an extraordinary resolution which relates to the Proposed amendment and restatement of Trust Deed (Extraordinary resolution 4).

In the explanatory notes in the Notice of annual general meeting, it is not exactly clear what the amendments to the trust deeds are although it was stated that the proposed amendments will expand the investment mandate of the trust by broadening the scope of authorised businesses that the trust may engage in under the Trust Deed, without specifying the new business.

From the appendix, it would appear that the trust is proposing to, inter alia, expand the current investment mandate to include "Infrastructure Business" as one of the authorised businesses. The trust has also disclosed the following:

"Infrastructure Business" means the ownership, design, construction, installation, operation and/or maintenance outside of Singapore of any infrastructure networks, systems and/or facilities to support telecommunications service providers and others in their provision of telecommunications services.

The inclusion of the Infrastructure Business within the scope of Authorised Businesses will allow the Trust to own, design, construct, install, operate and/or maintain outside of Singapore any infrastructure networks, systems and/or facilities to support telecommunications service providers and others in their provision of telecommunications services. Examples of such infrastructure networks, systems and/or facilities would be fibre networks to support internet service providers and telecommunications towers to support wireless mobile operators.

Due to the pandemic, the AGM will be convened and held by way of electronic means and unitholders would not be able to attend the AGM in person. In addition, the trust has only made arrangements for unitholders to observe and/or listen to the proceedings at the AGMs via "live" audio-visual webcast or "live" audio-only stream with no ability for unitholders to interact with the board/management.

Proxy votes have to be sent before 26 September. In particular, SRS unitholders have to send in their votes by 16 September 2020. While the trust has stated that it will endeavour to post

the answers to unitholders' queries one day before the Proxy Deadline, this arrangement is sub-optimal for such an important decision.

- (i) **Given that this is a major decision for unitholders that would significantly alter the risk profile of the trust, is there a reason for the board to propose the extraordinary resolution to amend the trust deed under the current circumstances? Would the board consider delaying the resolution until physical meetings are permitted (and held safely under guidelines provided by the relevant authorities)?**

NetLink's response:

Today, the Authorised Businesses under NetLink's Trust Deed essentially allows NetLink to operate its nationwide broadband infrastructure business in Singapore only. In other words, without a change in the definition of Authorised Businesses under the Trust Deed, NetLink is not able to start or acquire a new business overseas.

While we are seeking this change to the Authorised Businesses now, we do not have any immediate plans to start or acquire a business overseas. Nevertheless, NetLink believes that it is in the interests of its stakeholders that NetLink seeks approval for this change in Authorised Businesses now so that it is in a better position to consider such investment when the opportunity presents itself.

NetLink believes that the infrastructure industry may present significant investment opportunities for the future growth and sustainability of the business. The proposed amendments will allow NetLink to act upon and benefit from such appropriate investment opportunities that may arise. An early change to the Authorised Businesses will provide NetLink with greater flexibility and agility.

As the AGM will be conducted via a webcast format, we have decided to publish our response to SIAS' questions on 16 September 2020 so that unitholders will have a chance to consider this matter. We would also be publishing our response to unitholders' questions on 25 September 2020, one day before the cut-off date for the submission of proxy forms. We would also like to thank SIAS for arranging a pre-AGM meeting on 21 September 2020, which will allow management to answer any questions that unitholders attending the session may have.

- (ii) **If the board decides to continue with the proposed agenda, would the board also consider making the AGM interactive and not just a "broadcast" where unitholders have no way to interact with the board and management?**

NetLink's response:

Given all the proxy voting would have already been cast before the AGM, an interactive session may not be useful. We encourage unitholders to post their questions early and we will endeavour to respond to them and give unitholders a chance to review and consider our replies before casting their proxy votes. We understand the impact of the proposed change to the Authorised Businesses and will endeavour to answer all substantial and relevant questions submitted on this topic.

As stated in the appendix, the risk factors associated with the proposed expansion of investment mandate and authorised businesses are:

- Limited/no prior record and operating history in the Infrastructure Business outside Singapore
- The expansion into the Infrastructure Business outside Singapore may be costly and could present unforeseen integration difficulties or costs or may not enhance the Trust Group's business as expected
- The Trust Group is subject to general risks associated with operating businesses outside Singapore
- The Trust Group cannot guarantee the performance of its investments in the infrastructure industry outside Singapore
- The financial and reputational consequences of non-compliance with laws and regulations may be significant

- (iii) **Would the board clarify why it is not seeking a mandate to expand into the infrastructure business in Singapore?** Venturing into a new business in a new geography might be considered a high-risk move by a more conservative board/management.

NetLink's response:

As the appointed Network Company ("NetCo") of the Nationwide Broadband Network ("NBN"), NetLink is already a leading telecommunications infrastructure operator in Singapore and will continue to invest in and expand its network in Singapore. This does not require a change to the Authorised Businesses. Given NetLink's role as the independent passive fibre network infrastructure provider of the NBN in Singapore, providing equal and open access to all other telecommunications operators, NetLink could be conflicted if it wishes to enter into other telecommunications infrastructure businesses in Singapore.

NetLink believes that the infrastructure industry overseas may present significant investment opportunities for the future growth and sustainability of the business. The proposed amendments will allow NetLink to act upon and benefit from such appropriate investment opportunities that may arise, which will in turn bring about portfolio growth and business diversification.

- (iv) **How much of the group's experience and skills are transferable to the new proposed infrastructure business?**

NetLink's response:

NetLink is involved in the operation, maintenance and leasing of its infrastructure assets in Singapore to telecommunications service providers. Management of NetLink therefore has significant experience in the operations, service maintenance and the business of providing infrastructure services to telecommunications service providers. NetLink would leverage on its existing experience and invest in similar infrastructure assets overseas that will support telecommunications service providers in those locations.

- (v) **Has management already identified the potential key markets?**

NetLink's response:

No. At present, NetLink has not identified any opportunities to venture overseas.

- (vi) **As the infrastructure business is highly capital intensive, has the board set a limit to the amount that the group will allocate to this new business?** For instance, an established infrastructure business consisting of telecommunication towers owned by a mobile network operator in a developed economy can cost more than \$2 billion.

NetLink's response:

NetLink is not looking at setting aside a specific amount or a limit for overseas investment. When considering new investment opportunities, we will focus on the quality of the business on a long-term perspective. Factors that will be taken in consideration in evaluating the investments shall include the stability of the relevant market, the long-term prospects of the business or investment, and whether the income of the business or investment is regulated to provide a predictable revenue stream. These new investments would likely be funded by a combination of debt, cash and/or new equity.

NetLink currently has a gross debt/EBITDA of 2.6 times. Other listed infrastructure/utility assets globally are typically levered between 4.0 - 6.0 times net debt/EBITDA. Therefore, NetLink has a comparatively more conservative and stronger balance sheet, which it could utilise to fund Capex in our existing fibre network or overseas investments.

- (vii) **Can the board elaborate further on the trust's ability to value-add to a foreign infrastructure business?** Firstly, incumbent infrastructure operators/owners would have an advantage over a new operator. Secondly, as a foreign owner, the trust is possibly at a disadvantage due to its lack of familiarity in a new jurisdiction, difference in working culture and a new business network.

NetLink's response:

Please refer to our response to Q3 (iv).

NetLink will be disciplined in its investment approach. NetLink only intends to invest and/or otherwise participate in new businesses which are likely to generate a stable cashflow and is income-accretive.