

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.)

ANNUAL GENERAL MEETING TO BE HELD ON 28 SEPTEMBER 2020

RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS

NetLink NBN Trust (“**NetLink**”) would like to thank all Unitholders for submitting their questions in advance of our Annual General Meeting (“**AGM**”) which will be held on 28 September 2020.

Due to a number of overlapping questions received, we have grouped the questions received into the following key themes:

- A. COVID-19
- B. Distribution
- C. Business
- D. Financial
- E. Sustainability (ESG)
- F. Special Resolution
- G. Others

Please refer to our responses as set out in Appendix 1.

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. Responses to questions from Securities Investors Association (Singapore);
- c. NetLink’s Notice of Annual General Meeting dated 25 August 2020; and
- d. 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.

NetLink would also like to advise Unitholders that in the unlikely but possible event of a disruption to the webcast and/or audio-streaming, both AGMs will continue to conclusion. If only the webcast is interrupted, Unitholders may call the telephone number which have been provided to Unitholders. The voting results of the AGM will be uploaded on SGXNet and NetLink’s website after the close of trading hours on 28 September 2020.

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
25 September 2020

APPENDIX 1

A. COVID-19	
<p>1) How has COVID-19 impacted NetLink's business?</p>	<p>More than 90% of NetLink's revenue today comes from recurring charges earned from providing residential, non-residential and other fibre connections as well as the leasing of space in our ducts and manholes network and Central Offices. These revenue streams remain stable and have not been significantly affected by the COVID-19 pandemic.</p> <p>Nevertheless, the COVID-19 pandemic had presented some temporary operational issues for NetLink. The reduced availability of contractors' manpower resources had affected NetLink's capacity to fulfil service requests for new installations from April. Since July, these new service requests were progressively fulfilled with the increase in available manpower to undertake such work. Currently, NetLink's capacity to fulfil new service requests is back to the normal level.</p> <p>In Q1 FY21, NetLink received lower installation-related revenue and diversion revenue as compared to Q1 FY20, mainly due to lower level of installation work and cable diversion work resulting from the manpower challenges mentioned above. Details on NetLink's Q1 FY21 results can be found in our media release dated 5 August 2020.</p>
<p>2) Was there an increase in operational cost due to COVID-19 and what cost control measures have been put in place?</p>	<p>There was no significant increase in overall operational costs because of the COVID-19 pandemic. NetLink will continue to exercise prudence in the management of its operational costs. As a show of solidarity and togetherness with our stakeholders, NetLink's Board members will take a 5% reduction in their Directors' fees for FY21, subject to Unitholders' approval. The CEO, CFO and COO had, with effect from 1 May 2020, taken an 8% reduction in base salary, which will be reviewed after six months or when the COVID-19 situation has stabilised.</p>

B. Distribution	
3) Is the current level of distribution to unitholders sustainable?	<p>We have a resilient business model that generates stable cashflow.</p> <p>FY20 DPU of 5.05 Singapore cents was an increase of 3.5% over the FY19 DPU of 4.88 Singapore cents. For this financial year FY21, we expect cashflow generated will continue to support a stable distribution to unitholders.</p> <p>Our distribution policy is to distribute 100% of cash available for distribution, which represents the cash flows received from NetLink Trust after setting aside cash required for working capital requirements and future Capex opportunities.</p>
4) The next regulatory review of the Regulatory Asset Base (“RAB”) is due in 2022/2023, should Unitholders be concerned that the DPU will be lowered due to a lower regulated rate of return in line with a lower interest rate environment?	<p>The RAB framework seeks to strike a balance between a reasonable compensation and keeping an incentive for the operator (in this case NetLink) to continue to invest Capex over the long term (and not just the next 5 years) to expand as well as maintain a reliable network. Both the regulator and NetLink will have to keep this objective in mind at each review.</p> <p>In the determination of the regulated rate of return, IMDA would utilise both historical and prevailing interest rates in the calculation of cost of debt and cost of equity. Therefore, if the trend of lower interest rate continues, it would have some impact on this calculation.</p> <p>However, there are other factors that will affect the cost of debt and cost of equity calculations, viz the market risk premium and the debt risk premium. These factors would also change when market conditions and interest rate change.</p> <p>An impact analysis would be based on the many varied assumptions that have to be made for the different input factors described above. It would not be meaningful for us to speculate on the impact as these factors continue to evolve.</p> <p>With the strength of the Group’s balance sheet and the stability of the operating cashflow, NetLink aims to provide a predictable and sustainable distribution to its unitholders over the long-term.</p>

C. Business	
5) What is the impact of the rollout of 5G mobile networks on NetLink?	NetLink is in the business of providing fibre connections. The rollout of 5G networks should provide NetLink with more opportunities to offer its fibre connections to the Mobile Network Operators (“ MNOs ”) rolling out 5G networks. On the whole, we expect the rollout of 5G to be a positive for NetLink.
6) Is there a risk that consumers will give up their residential fibre connections and switch to using 5G connections at home?	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.
7) Who are NetLink’s competitors?	<p>Today, NetLink is the only provider with an island-wide fibre network coverage. Building another nationwide fibre network infrastructure to achieve the same extent of coverage to that of NetLink would be both logistically and financially challenging. There are high barriers to entry in the creation of a similar network. While there are high barriers to entry, NetLink is not a monopoly.</p> <p>In the non-residential segment, NetLink faces competition with respect to areas where there is higher concentration of non-residential or mixed development buildings such as buildings in the CBD and business parks, and in shopping malls with high concentration of businesses. Other telcos have established and will continue to build on their fibre networks to compete with NetLink and serve their customers in these locations. NetLink believes that its competitive advantage in the non-residential business is its more extensive network coverage as compared to the coverage of its competitors.</p>

<p>8) How does NetLink plan to grow its revenue?</p>	<p>Today, more than 90% of NetLink's revenue comes from recurring charges earned from providing residential, non-residential and other fibre connections as well as the leasing of space in our ducts and manholes network and Central Offices. NetLink therefore remains focused on increasing its revenues from these segments, and in particular, on the revenue from providing fibre connections.</p> <p>At present, we have a residential fibre penetration of about 94% or 1.43 million active end-user connections. This should continue to grow as broadband access is becoming a necessity, as demonstrated during the COVID-19 circuit breaker period. Our expectation is that the end-users from this untapped segment would be connected to use fibre broadband over the next few years. In addition, there are approximately 20,000 new homes constructed each year, which will require new fibre connections. We also have about 48,000 non-residential fibre connections. This should continue to grow with higher adoption of fibre connections by SMEs in Singapore. With the rollout of 5G and the wider adoption of IoT and other smart nation applications, the demand for fibre connections to support these deployments is also expected to increase.</p>
<p>D. Financial</p>	
<p>9) NetLink's NAV decreases yearly. Is this a concern?</p>	<p>Operating cash flows are higher than net profits mainly due to the large depreciation and amortisation component which is non-cash in nature (S\$167.8 million in FY20).</p> <p>One of the key advantages of the business trust structure is that it allows NetLink to pay distributions from its cash flow and is not limited by retained earnings. Investors should focus on NetLink's ability to generate cash flow to make distribution payment.</p> <p>A declining NAV is a concern only if this affects the ability of the entity to continue to generate a healthy level of cashflow going forward. This is not the case for NetLink as: (1) our business is expected to continue to generate a stable level of cashflow to support distribution; and (2) we will use part of our cashflow as well as our balance sheet strength to borrow and continue to invest into our network to support growth.</p>

<p>10) Is the practice of funding Capex using debt sustainable? What is NetLink's target optimal capital structure? Would the funding of Capex lead to a decrease in distribution to unitholders?</p>	<p>Businesses that generate a healthy level of cashflow are able to sustain higher leverage to attain a lower cost of capital. NetLink currently has a gross debt / EBITDA of 2.6 times. Other listed infrastructure/utility assets globally are typically levered between 4.0 - 6.0x net debt/EBITDA. Therefore, NetLink has a comparatively more conservative and stronger balance sheet, which it could utilise to fund Capex on a sustainable basis going forward. NetLink targets to maintain a strong balance sheet with a conservative debt/EBITDA ratio that will provide it with sufficient debt headroom to utilise debt financing, in combination with operating cash flow, to fund future Capex. Given our strong balance sheet and a resilient business model that generate stable cash flow, NetLink expects distribution to be stable.</p>
<p>E. Sustainability (ESG)</p>	
<p>11) How is NetLink adopting its ESG strategies amidst the pandemic disruption?</p>	<p>NetLink considers sustainability to be an important part of its business strategy. The COVID-19 pandemic has brought into focus the importance of driving our sustainability efforts to ensure NetLink is a responsible corporate citizen.</p> <p>During the early stages of the COVID-19 pandemic and as early as late-January 2020, NetLink activated its Pandemic Plan. The Pandemic Steering Committee met regularly (moving to virtual meetings as the need for safe distancing measures became clear) to discuss safety issues and measures that are needed to be put in place to ensure the safety of the public, our employees and our business partners (including our contractors and their workers).</p> <p>NetLink supported the IMDA's initiative to ensure everyone, especially vulnerable segments including seniors and school-going children from low-income households, can go online for daily tasks and social activities. NetLink has prioritised the provisioning of services to these households, and also sponsored \$600,000 towards the Home Access Programme administered by IMDA for the next three years.</p> <p>To further support home broadband access to everyone during the COVID-19 pandemic, NetLink has also offered fee waivers to telcos who needed to reconfigure their broadband networks to cope with the changing internet traffic patterns of consumers brought on by the work-from-home situation.</p>

F. Special Resolution	
<p>12) Is NetLink looking to expand overseas? What investments is NetLink likely to make? How will these investments be funded?</p>	<p>NetLink has proposed to expand its investment mandate to broaden the current scope of Authorised Businesses to allow NetLink to engage in Infrastructure Business outside of Singapore.</p> <p>We believe that the infrastructure industry may present significant investment opportunities for the future growth and sustainability of the business of NetLink.</p> <p>NetLink has not identified any opportunities to venture overseas and will be disciplined in its approach to making any such investments. NetLink only intends to invest in telecommunications infrastructure businesses which are likely to generate a stable cashflow. In making its assessment of each potential business or investment, NetLink will take into consideration factors such as 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. NetLink will fund such new investments through a combination of cash, debt and/or new equity.</p>
G. Others	
<p>13) Is NetLink affected by the recent changes to Employment Pass and S Pass requirements?</p>	<p>NetLink complies with all relevant Employment Pass and S Pass requirements stipulated by the Ministry of Manpower. These recent changes do not affect NetLink.</p>