



**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 2004 of Singapore (Registration Number: 2017002))

(Managed by NetLink NBN Management Pte. Ltd.)

**NETLINK NBN TRUST ANNUAL GENERAL MEETING TO BE HELD ON 20 JULY 2022  
RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS**

The Board of Directors of NetLink NBN Management Pte. Ltd. ("**Board**"), as Trustee-Manager of NetLink NBN Trust ("**NetLink**"), would like to thank Unitholders and the Securities Investors Association (Singapore) ("**SIAS**") for submitting questions ahead of NetLink's Annual General Meeting to be held on 20 July 2022.

The Board's responses to these questions are set out in Appendix 1 and also published on NetLink's website at <https://netlinknbn.com/agm2022.html>. The Board's responses to the questions from SIAS can also be found on SIAS' 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://netlinknbn.com/agm2022.html>:-

- (a) NetLink's Annual Report 2022;
- (b) NetLink's Notice of Annual General Meeting ("**AGM**") dated 24 June 2022; and
- (c) the accompanying announcement released via SGXNet on 24 June 2022 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)

Chester Leong  
Company Secretary  
14 July 2022

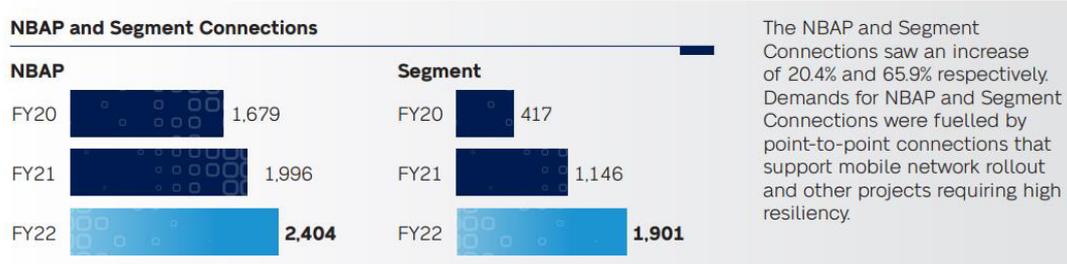
**NetLink NBN Management Pte. Ltd.**

Company Registration No.: 201704783K  
(as Trustee-Manager of NetLink NBN Trust)  
Business Trust Registration No.: 2017002

**APPENDIX 1**

Question	Answer
<p>1) Why does Unitholders receive notification to vote at two AGMs – under NetLink NBN Trust and Singapore NBN Trust?</p>	<p>Each Unitholder of NetLink NBN Trust also has an undivided interest in the shares of the Trustee-Manager, NetLink NBN Management Pte Ltd, in proportion to his/her percentage of Units held or owned in NetLink NBN Trust. Please refer to page 4 of the Annual Report 2022 which describes the Trust Structure.</p> <p>The shares of NetLink NBN Management Pte Ltd are held on trust by Singapore NBN Trust.</p> <p>The Trustee of Singapore NBN Trust, DBS Trustee Limited, is required to act in accordance with the resolutions passed by the Unitholders of NetLink NBN Trust (who are beneficiaries of Singapore NBN Trust). This means that at the NetLink NBN Management Pte Ltd AGM, DBS Trustee Limited (who is the sole shareholder) will vote in accordance with the resolutions passed by the Unitholders of NetLink NBN Trust at the Singapore NBN Trust AGM.</p> <p>Hence, we need to hold two AGMs: NetLink NBN Trust and Singapore NBN Trust for Unitholders of NetLink NBN Trust.</p>

- For FY2022, revenue increased 2.5% to \$377.6 million, mainly driven by higher revenue from the residential, non-building address point (“NBAP”) and segment connections segments. The number of residential connections increased by 1.2% to 1.464 million and segment revenue increased by 2.5%.



## REVENUE

	Group		
	FY22 S\$'000	FY21 S\$'000	Variance (%)
Fibre business revenue:			
Residential connections	240,730	237,963	1.2
Non-residential connections	30,923	30,395	1.7
NBAP and Segment connections	12,994	8,876	46.4
Installation-related revenue	19,277	16,624	16.0
Ancillary project revenue	10,059	8,775	14.6
Co-location and Other revenue	19,376	19,024	1.9
<b>Total Fibre Business Revenue</b>	<b>333,359</b>	<b>321,657</b>	<b>3.6</b>

(Source: Annual Report)

Revenue for the non-residential connections segment increased by 1.7% despite an increase in the number of connections by 4.5% during the year to 50,278 end-users.

- Could management provide unitholders with some clarity on the less-than-proportionate increase in non-residential connections revenue given that number of connections increased strongly?

### NetLink's Response

This is mainly due to our promotional pricing plan targeting SMEs who are not using fibre broadband. This plan provides SMEs a rebate on the monthly recurring charge for 12 months. This promotional pricing plan has led to a significant increase in new sign-up of non-residential connection by SMEs. Such non-residential connections will contribute to our revenue after the first twelve months.

- b. How competitive is the non-residential connections segment? Does the trustee-manager have an estimate of the trust's market share? Will the trust be competing on pricing to gain market share? Will the promotional pricing lead to an industry-wide decline in prices for non-residential connections?**

*NetLink's Response*

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 telecommunications service providers 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 primary competitive advantage in the non-residential business is its extensive network coverage.

As at 31 March 2022, we have more than 50,000 non-residential end-users, and a sizeable estimated market share of around 35%.

NetLink's prices in the non-residential segment are regulated by the IMDA, and hence NetLink does not compete with other telecommunications service providers on price. The promotional pricing by NetLink targeting SMEs is an initiative by NetLink to encourage smaller SMEs that are not using fibre broadband to use such a service. It is not meant to compete with other telecommunications service providers but to enlarge the non-residential broadband market by attracting new end-users.

**The trust achieved strong increases in NBAP and Segment connections of 20.4% and 65.9% in the financial year, albeit from a low base.**

- c. How sustainable is the growth? How much of the increases can be attributed to COVID-induced demand?**

*NetLink's Response*

NetLink sees a healthy demand for NBAP and Segment connections going forward as these types of connections serve the needs of mobile operators and other end-users deploying mobile base stations, sensors, and other devices across Singapore. The COVID pandemic was not a significant factor affecting the rate of growth of these types of connections in FY22.

- d. How will the NBAP and Segment connections segment be impacted with the gradual relaxation of COVID restrictions and the further opening up of the economy?**

*NetLink's Response*

The COVID pandemic was not a significant factor affecting the rate of growth of these types of connections in FY22. NetLink anticipates that the demand for NBAP connections will continue to grow with the roll-out of Singapore's Smart Nation programme. Due to the extensive reach and the fact that fibre is the most suitable medium for high-speed data transmission, we believe that NetLink's fibre network is well-suited to support an extensive system of sensors, meters and other connected devices deployed by the Singapore government agencies.

Segment connections will continue to be driven by point-to-point connections that support mobile network rollout and other projects that require high resiliency.

- e. What is management's approach and the progress made in identifying new businesses since the expansion of the investment mandate to include the infrastructure business in 2020?**

*NetLink's Response*

NetLink only intends to invest and/or otherwise participate in new businesses which are likely to generate stable long-term cash flows for Unitholders. 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.

At present, NetLink has not yet identified the suitable opportunity to invest in overseas. Management has reviewed a number of opportunities within Asia Pacific and Europe. However, management is not in a hurry to invest and will only do so where it is confident that the investment could generate attractive returns and long-term stable cash flows for Unitholders.

- f. Will the 2020 changes and the proposed changes lead to the lowering of the investment criteria for the trust? What is the impact on the trust from a risk management perspective if it is venturing further away from its core competence as it further expands its investment mandate?**

*NetLink's Response*

The proposed amendments to the Trust Deed will widen the range of investment opportunities in overseas infrastructure markets which the Trust is authorised to participate in, including allowing the Trust to potentially invest and/or otherwise participate in digital infrastructure projects and infrastructure projects outside Singapore where retail services comprise a segment of the business of the target organisation.

NetLink only intends to invest and/or otherwise participate in new businesses which are likely to generate stable long-term cash flows for Unitholders. 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 is involved in the operation, maintenance, and leasing of its infrastructure assets in Singapore to telecommunications service providers. Management therefore has significant experience in the operations, maintenance, and the business of providing infrastructure services to telecommunications service providers. NetLink is looking to invest in similar infrastructure assets overseas that will support telecommunications service providers and others.

Separately, the group has awarded Accenture Pte Ltd a contract in the region of \$40 million to design and implement new generation business support systems and operation support systems.

**g. What is the level of involvement by the board/Project Governance Committee?**

*NetLink's Response*

NetLink has set up a Project Management team led by a Project Director to manage the project. A Project Governance Committee comprising two Board members, CEO and Executive Director (Projects) was also set up to oversee and advise the senior management on overall project strategy, project leadership and project governance. The Project Director provides regular updates to the Project Governance Committee, the Risk and Regulatory Committee and the Board.

**h. What are the targeted efficiency and productivity gains from these new IT systems when they become operational in ~2 years' time?**

*NetLink's Response*

The new IT systems are to replace existing systems that had been in service for more than 10 years. This replacement will not only improve many of our IT processes and raise efficiency but will also bring about enhanced system reliability and security. The key driver of this project is to replace certain aging systems and at the same time, incorporated process automation of various manual processes. The specific level of productivity gains is difficult to quantify as the project also covers expanded operational and business requirements.

**2. The trust was listed on the Main Board of the Singapore Exchange Securities Trading Limited on 19 July 2017 and will be marking its 5th year of listing in July 2022.**

**a. What is the total return for unitholders who had invested in the trust and had reinvested the distributions since the IPO 5 years ago?**

*NetLink's Response*

We have performed reasonably well. From IPO till end June 2022, our total return is about 50%; and our annualised return is close to 9%.

**b. What areas has the trust delivered beyond initial expectations and in what areas had remain work-in-progress?**

*NetLink's Response*

NetLink has generated a healthy level of cashflow each year since IPO to support a stable distribution, investment in its fibre network, and a low level of gearing. Operation-wise, NetLink has also improved significantly and met the Quality-of-Service standards set by the IMDA. Going forward, NetLink will continue to focus on investing in its fibre network to serve new buildings and housing estates as well as requirements of any smart nation initiatives and mobile operators.

- c. **Will future growth of the trust be mainly driven by acquisitions? How much more runway is there to grow the trust organically?**

*NetLink's Response*

There is considerable scope for NetLink to continue to invest in its fibre network to serve new buildings and housing estates as well as requirements of any smart nation initiatives and mobile operators well into the future. As NetLink is regulated under a Regulatory Asset Base ("RAB") framework, the continual investments make for a sustainable business model which benefits long-term Unitholders, as it is able to grow its RAB, generate additional returns and stable long-term revenue and cash flow growth. Therefore, there is organic growth even while NetLink seeks to grow inorganically through suitable investments overseas.

The trust operates under the regulatory framework of the Infocomm Media Development Authority (IMDA) and the pricing of the trust's services is prescribed in the NetCo Interconnection Code and the Interconnection Offer ("ICO"). The last price review by IMDA was completed in May 2017.

Currently, a review of the trust's services (including prices) is being carried out under the ICO with the IMDA and the regulatory review is expected to be completed by early 2023.

In the ICO framework, prices are determined using the Regulatory Asset Base ("RAB") model. The RAB model provides for the recovery of the (a) return of capital deployed (i.e. depreciation), (b) return on capital employed and (c) operating expenditure. Details of the RAB model can be found on page 19 of the annual report.

- d. **What is the progress of the current RAB review? What is the trustee-manager's level of involvement in the review?**

*NetLink's Response*

NetLink has been engaging with IMDA on the price review since last year. NetLink has provided its inputs on capex, opex as well as the regulated rate of return to the IMDA. The regulatory review is currently ongoing and is expected to be completed by early 2023.

- e. **Is each RAB review/new pricing schedule fixed at a 5-year period, i.e. a new five-year cycle from January 2023 until December 2027? Is there flexibility in the ICO framework for a mid-term step-up/adjustment?**

*NetLink's Response*

The outcome of each RAB review will be applicable for a 5-year period. IMDA may exercise its discretion or NetLink may propose to conduct a mid-term adjustment in the third year, in the event that there is any significant change in cost inputs or if any changes to cost or demand forecasts are required due to unforeseen circumstances.

- f. **How does the inflationary environment affect the pre-tax weighted average cost of capital (“WACC”) derived using the Capital Asset Pricing Model (“CAPM”) approach in the RAB model?**

*NetLink’s Response*

In the determination of WACC, the historical and current interest rate environment will be taken into account in the calculation of cost of debt and cost of equity. There are other factors that will affect the cost of equity and cost of debt calculations, viz., the market risk premium, the asset betas of the comparator firms selected, the gearing and the debt risk premium. These factors are also influenced by the market conditions, including inflation. The regulatory review, which includes the determination of the WACC, is currently ongoing and is expected to be completed by early 2023.

- g. **What is the impact of high inflation on the group’s operating expenditure, its revenue and, ultimately, the distributable income to unitholders?**

*NetLink’s Response*

NetLink is compensated for its investment in the fibre network under the RAB framework. The RAB framework will allow us to recover the following components:

- Return of capital deployed
- Return on capital
- Operating expenditure

NetLink submits forecast capex and operating cost as part of the data submitted to IMDA for the price review. Increasing capex and operating cost impacted by inflationary pressures are included in the data submitted for review.

NetLink’s continual investments makes for a sustainable business model which benefits Unitholders, as it is able to grow its RAB, generate additional returns and stable long-term revenue and cash flow growth

- h. **Separately, how is the quantum of the capital expenditure reserve fund (“Capex Reserve Fund”) determined? What is the projected amount for FY2023?**

*NetLink’s Response*

NetLink is required by IMDA to set aside monies amounting to \$40 million in total over the five-year period from 1 January 2018 to 31 December 2022, to meet regulatory requirements from IMDA for any new network infrastructure projects that improve the capacity, technology, capability or resilience of NetLink’s network infrastructure.

As at 31 March 2022, NetLink had incurred \$35.3 million of the Capex Reserve to improve network resiliency and expand capacity, which is \$1.3 million more than the prevailing Capex Reserve required of \$34 million.

The funds can only be utilised for Capex projects that meet the criteria as stipulated by IMDA.

3. As shown in the performance highlight (page 9 of the annual report), the effective average interest rate in FY2022 was 1.11% (FY2021: 2.48%).

Key Financial Indicators			
Interest cover	29.8x	14.8x	13.4x
Gross debt/EBITDA <sup>2</sup>	2.5x	2.5x	2.6x
Effective average interest rate <sup>4</sup>	1.11%	2.48%	2.83%

(Source: Annual Report)

The trust uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. The trust had entered a series of pay-fixed-receive-floating interest rate swaps to convert the variable interest rate swaps on its bank loan into fixed interest rates, for a total notional principal amount of S\$510.0 million (FY21: Nil). Accordingly, interest on 76.6% (FY21: Nil) of the group's existing bank loans had been hedged.

- a. Can the trustee-manager help unitholders better understand the reasons for the significantly lower effective average interest rate of 1.11% for FY2022? What were the nominal average interest rates (before interest rate swaps) and what was the impact on the effective interest rates due to the swaps in the past 3 FYs?

#### NetLink's Response

The Group had put in place a Five-Year \$510 million Singapore Overnight Rate Average ("SORA")-based term loan on 21 May 2021 to refinance its \$510 million Swap Offer Rate ("SOR")-based term loan.

Following the refinancing, the Group entered into a series of SORA-based interest rate swaps ("IRS") to convert the variable interest rate on its \$510 million SORA-based term loan (which accounts for 76.6% of the Group's total outstanding loans) into fixed interest rates averaging approximately 1%.

The Group continued to pay variable SOR-based interest rates on its \$156 million revolving credit facility ("RCF"), which accounted for 23.4% of the Group's total outstanding loans, during the year.

Prior to the refinancing, the fixed interest rate for the S\$510 million SOR-based term loan from the series of IRS entered into in the past financial years, averaged approximately 2%. These IRS expired in March 2021.

- b. How effective has the trust's interest rates hedging been over the years?

#### NetLink's Response

For FY20, 95.5% of the Group's interest rate exposure was hedged. The effective average interest rate for FY20 was 2.83% per annum.

For FY21, the effective average interest rate was 2.48% per annum. The fixed interest rate for the S\$510 million SOR-based term loan from the series of IRS entered into in the past financial years, averaged approximately 2%. These IRS expired in March 2021.

On 21 May 2021, NetLink entered into a new S\$510 million Five-Year SORA-based term loan maturing in May 2026. The Group subsequently hedged its interest rate exposure for a total notional principal amount of S\$510 million following the refinancing. Accordingly, interest on 76.6% of the Group's existing bank loans has been hedged. The effective average interest rate for FY22 was 1.11% per annum.

- c. **What is the trustee-manager's view of the interest rate trend going forward?**
- d. **Given the rising interest rates and hence higher financing costs, what are the trust's plans and strategies to mitigate rising borrowing costs?**
- e. **Will the trust be hedging the remaining loan amount of \$156 million?**

*NetLink's response*

As at 31 March 2022, 76.6% of the Group's interest rate exposure from its existing bank loans had been hedged. Hence, a significant majority of the Group's exposure to rising interest rates has been mitigated.

Currently, the interest rate exposure from the RCF with an outstanding amount of \$156 million, remains unhedged. The Group intends to refinance this RCF before its maturity in March 2023. Management believes that that the RCF would be successfully refinanced before the maturity date.

Management will monitor the market and intends to hedge the interest rate exposure from the new loan at the appropriate juncture.

- f. **Is the trust in the process of refinancing the existing loan amount under the RCF?**

*NetLink's response*

Management is currently in discussion with lenders to refinance the existing RCF and is of the view that it will be successfully refinanced before its maturity in March 2023.