SBS TRANSIT LTD
(Company Reg. No. 199206653M)

SALE OF OPERATING ASSETS IN CONJUNCTION WITH TRANSITION TO THE NEW RAIL FINANCING FRAMEWORK

BACKGROUND

1. SBS Transit Ltd (the 'Company') wishes to announce that the Company has entered into two sale and purchase agreements (collectively, the "Sale and Purchase Agreements") with the Land Transport Authority (the "LTA") on 14 February 2018.

2. The Sale and Purchase Agreements are entered into in conjunction with the transition to the New Rail Financing Framework ('NRFF') scheduled to be effective from 1 April 2018.

TRANSITION TO THE NEW RAIL FINANCING FRAMEWORK

The Existing Licence

3. The Company was issued a licence ('Existing Licence') dated 15 January 2003 by the LTA under the Rapid Transit Systems Act to operate the North-East Mass Rapid Transit System and the Sengkang and Punggol Light Rapid Transit Systems (collectively the 'Licensed Systems') for an initial period of 30 years, with a possible extension of a further 30 years subject to the approval of the LTA.

4. Under the Existing Licence, the LTA funds the first set of the operating assets. The Company has the obligation, to acquire the first set of the operating assets at the net book values as recorded in the latest audited accounts of the LTA, at dates and times determined by the LTA during a joint review of the viability of the Licensed Systems by LTA and the Company. In addition, the Company has to fund all additions, renewals and replacement of operating assets required during the licence period.

Rationale For Transition

5. The Existing Licence is an asset-heavy model. The NRFF is an asset-light model whereby the LTA will make the capital investments in operating assets and thereby retain the ability and flexibility to decide on the additions, renewals and replacements and undertake long term planning for the rapid transit system network. It allows the Government to respond more promptly to commuter needs, while relieving the Company of the cost of asset renewal and upgrade, and of procuring additional operating assets when ridership demand increases, in order to meet service level and reliability standards set by the LTA. The NRFF was first implemented in 2011 when the Company was awarded the tender for the Downtown Line.

6. As the transition to the NRFF is a more sustainable model for the Licensed Systems and it is in the interest of the Company to transit, the Company and the LTA have concluded discussions on the transition from the Existing Licence to the NRFF. The transition is planned to take effect from 1 April 2018.

New Rail Financing Framework

7. The Company will surrender its Existing Licence and be given a new licence under the NRFF with a period of 15 years scheduled to commence on 1 April 2018. If the Company applies for an extension, LTA may extend the term for a further five years subject to terms and conditions as LTA may impose and the Company may accept.

8. With the transition to the NRFF, the Company will no longer need to buy over the first set of operating assets from the LTA. In addition, the LTA will buy over existing operating assets purchased by the Company prior to the transition via the Sale and Purchase Agreements referred to in paragraph 1. Going forward, LTA will also own and pay for the operating assets, including additions, renewals and replacements.

9. In exchange for the right to operate, maintain and derive revenue from the Licensed Systems, the Company will pay an annual licence charge to the LTA over the licence period. The licence charge structure under the NRFF provides for some sharing of revenue risks (see paragraph 10) as well as profit sharing between the Company and the LTA (see paragraph 11).

10. The licence charge structure has a Fare Revenue Shortfall Sharing ('FRSS') mechanism which will offer some level of protection against revenue risks arising from uncertainties in ridership and fares. Under this FRSS mechanism, if the actual revenue falls short of the target revenue by 2% to 6%, LTA will share 50% of the shortfall. If the shortfall between the actual revenue and the target revenue exceeds 6%, LTA will bear 75% of the incremental revenue shortfall beyond 6%. LTA's sharing the revenue shortfall is limited by the amount of licence charge payable by the Company for the year.

11. The structure also provides for profit sharing via an Earnings Before Interest and Tax ('EBIT') cap and collar mechanism whereby LTA shares in the upside of the EBIT above the cap as well as the downside risks below the collar. If the EBIT margin is lower than 3.50%, LTA will share 50% of the shortfall. LTA's sharing of the shortfall is limited by the amount of licence charge payable by the Company for the year. If the EBIT margin exceeds the cap of 5%, the excess will be shared via a tiered structure, whereby 85% to 95% of the incremental EBIT above the 5% cap will be shared with LTA.

12. In addition, the LTA may reimburse or be reimbursed by the Company when new regulatory changes initiated by LTA after the transition lead to changes in operating costs or revenue. Regulatory changes that may impact operating costs or revenue include modifications to operating performance standards for the rail lines, maintenance performance standards for the operating assets, key performance indicators or codes of practice and changes in rentable and advertising spaces available for generating non-fare revenue.

13. The Company expects to execute the relevant documents with the LTA by end of March 2018.

SALE AND PURCHASE AGREEMENTS

14. In conjunction with the transition to the NRFF, the Company entered into the Sale and Purchase Agreements with the LTA on 14 February 2018.

15. The Sale and Purchase Agreements set out the terms under which the Company will sell and the LTA will purchase the operating assets. The assets to be sold by the Company comprise operating assets (including signaling and communication, power supply, supervisory control, environmental control and automatic fare collection systems) which are required for the operation of the Licensed Systems ('Operating Assets').

16. The Sale and Purchase Agreements sets out the terms for sale of two categories of assets:

    (i) Operating Assets that are fixed assets as represented by 'Vehicles, Premises and Equipment' in the Company's financial statements; and

    (ii) Operating Assets purchased by the Company which are not yet ready for their intended use, referred to as Work-In-Progress ("WIP").

17. Only Operating Assets which fulfil certain prescribed criteria as set out in the Sale and Purchase Agreements shall be sold to the LTA. The sale of the Operating Assets by the Company to the LTA is conditional upon the transition of the Licensed Systems to the NRFF.

18. The consideration payable by the LTA for the acquisition of the Operating Assets under the Sale and Purchase Agreements is based on the Net Book Value of such Operating Assets as at 31 March 2018 ('Completion Date'). The consideration shall be payable in cash with 60% payable upfront and the remaining 40% to be paid over two years subject to a condition survey of the Operating Assets to be conducted within two years from the Completion Date by an independent professional assessor under the terms of the Sale and Purchase Agreements.

19. As the consideration is based on the Net Book Value of the Operating Assets, there will be no gain or loss arising from the disposal. Consequently, the disposal of the assets will not have any material impact on the Earnings Per Share or the Net Tangible Assets per share of the Company for the financial year ending 2018.

20. The Company intends to apply the proceeds to the repayment of borrowings.

21. The estimated aggregate consideration for the sale of the Operating Assets under the Sale and Purchase Agreements at $28.8 million represents:-

    (i) 6.4% of the Audited Consolidated Net Asset Value of $449.2 million of the Group as at 31 December 2017

    (ii) 3.7% of the Market Capitalisation of the Company of $780.8 million as at 31 December 2017

22. Under Chapter 10 of the Listing Manual (which governs acquisitions and realisations), the above disposal of assets computed on the bases in Rule 1006 constitutes a Discloseable Transaction (defined as a transaction where any of the relative figures computed on the bases set out in Rule 1006 exceeds 5% but does not exceed 20%). As it is not deemed as a Major Transaction (>20%), it does not require the approval of the shareholders of the Company.

23. A copy of the Sale and Purchase Agreements will be available for inspection at the Company's registered address at 205 Braddell Road, Singapore 579701 by prior engagement during normal business hours for a period of three months from the date of this announcement.

24. None of the Directors of the Company has an interest, direct or indirect, in the above. No controlling shareholder of the Company has an interest, direct or indirect, in the above.

BY ORDER OF THE BOARD

Chan Wan Tak, Wendy / Yeo Tee Yeok, Edwin
Joint Company Secretaries

14 February 2018