



SBS TRANSIT LTD
(Company Registration No. 199206653M)
(Incorporated in the Republic of Singapore)

COMPANY'S ENTRY INTO A FRAMEWORK AGREEMENT WITH THE LAND TRANSPORT AUTHORITY OF SINGAPORE AND SBS TRANSIT DTL PTE. LTD. IN CONNECTION WITH THE TRANSITION OF THE DOWNTOWN LINE TO THE NEW RAIL FINANCING FRAMEWORK VERSION 2

1. INTRODUCTION

In accordance with Rule 703(1) of the Listing Manual of the Singapore Exchange Securities Trading Limited ("**Listing Manual**"), the board of directors of SBS Transit Ltd ("**Company**") wishes to disclose that the Company has, on the date of this Announcement, entered into a framework agreement ("**FA**") with the Land Transport Authority of Singapore ("**LTA**") and SBS Transit DTL Pte. Ltd. in connection with *inter alia* the transition of the Downtown Line ("**DTL**") to the second version of the New Rail Financing Framework ("**NRFF (Version 2)**") ("**DTL Transition**").

2. RATIONALE FOR THE TRANSITION OF THE DOWNTOWN LINE TO THE SECOND VERSION OF THE NEW RAIL FINANCING FRAMEWORK

- 2.1 Since 2016, the North-South Line, East-West Line, Circle Line and the Bukit Panjang LRT Line have operated under the NRFF (Version 2). In 2018, the North-East Line ("**NEL**") and the Sengkang-Punggol LRT Line ("**SPLRT**") have also transited to operate under the NRFF (Version 2).
- 2.2 The NRFF (Version 2) is designed to reduce commercial volatility for rail operators in delivering a reliable and financially sustainable public rail service. Under the NRFF (Version 2), the Earnings Before Interest and Tax ("**EBIT**") margin of rail operators is effectively capped at approximately 5%. In turn, the NRFF (Version 2) allows operators to co-share with the LTA fare revenue shortfalls and when the EBIT margin falls below the collar of 3.5%¹.
- 2.3 The DTL currently operates under the first version of the New Rail Financing Framework ("**NRFF (Version 1)**"). Under the NRFF (Version 1), there is no mechanism for co-sharing with the LTA of fare revenue shortfalls and when the EBIT margin falls below the collar of 3.5%.
- 2.4 The sharp plunge in rail ridership due to the COVID-19 pandemic has also highlighted the pressing need to recalibrate the sharing of risks between the Singapore Government and rail operators, to reduce commercial volatility for the provision of public rail services. As the COVID-

¹ The licence charge structure under the NRFF (Version 2) will provide for some risk sharing with the LTA under the Fare Revenue Shortfall Sharing ("**FRSS**") mechanism and the EBIT cap and collar mechanism.

Under the FRSS mechanism, the LTA shares in some of the shortfall in revenue. If the shortfall between the actual revenue and the target revenue is between 2% and 6% (inclusive), the LTA will share 50% of the shortfall. If the shortfall between the actual revenue and the target revenue exceeds 6%, the LTA will bear 75% of the incremental revenue shortfall beyond 6%.

Under the EBIT cap and collar mechanism, through a tiered EBIT cap starting at 5% (inclusive) and the collar at 3.5%, the LTA will recover 85% of the upside of the EBIT above 5% and 95% of the upside of the EBIT above 6%, and co-share 50% of the downside risk where EBIT is below 3.5%, subject to a limit of the amount of licence charge payable for the year.

19 pandemic is still on-going, the timing of the recovery of travel and economic activities to pre-COVID-19 levels is uncertain and there could be significant shifts in ridership patterns as more businesses adopt work from home practices.

- 2.5 The NRFF (Version 2) licence framework is a more sustainable model for the Company's rail operations. It is now timely for the DTL to transition to operate under the NRFF (Version 2) licence framework. This will enable the Company to focus on the operations and maintenance of the rail systems so that SBS Transit DTL Pte. Ltd. (renamed SBS Transit Rail Pte. Ltd. ("**SBST Rail**")) can remain financially sustainable to continuously provide safe and reliable rail services to the public.
- 2.6 As part of the LTA's strategic review for the DTL Transition and to ensure that the FA achieves a balanced outcome taking into account public interest objectives such as, amongst others, providing safe and reliable rail services, and putting in place a financially sustainable licence framework for rail operators, the Company and SBST Rail ("**SBST Group**") will be making the contributions set out in paragraphs 4.2(b) to 4.2(e) below.

3. MATERIAL TERMS OF THE FA

3.1 Consolidated Rail Licence

Subject to the satisfaction or waiver of the conditions precedent under the FA, the LTA will issue to SBST Rail a consolidated rail licence to operate the DTL, NEL and SPLRT ("**Consolidated Rail Licence**"). The Consolidated Rail Licence will operate under the NRFF (Version 2) and the key terms of the Consolidated Rail Licence are set out as follows:

- (a) **Term.** The term of the Consolidated Rail Licence shall be 11 years commencing on 1 January 2022 and ending on 31 December 2032 ("**Term**").
- (b) **Performance Standards.** The Operating Performance Standards, Asset Management Requirements, Key Performance Indicators and Maintenance Performance Standards currently applicable in relation to the NEL and SPLRT under the NRFF (Version 2) shall be applicable to the Consolidated Rail Licence.
- (c) **Parent Company Guarantee and Performance Bond.** The Company shall deliver a parent company guarantee and SBST Rail shall deliver a performance bond in favour of the LTA as security for the performance of all the obligations of SBST Rail in connection with the Consolidated Rail Licence.
- (d) **Rail Advertising Business.** Under the Consolidated Rail Licence, SBST Rail shall continue to have the right to lease out the advertising spaces of the DTL, NEL and SPLRT ("**Rail Advertising Business**") until 31 December 2023. SBST Rail will have to surrender the Rail Advertising Business from 1 January 2024. LTA may allow SBST Rail to continue to operate all or any part of the Rail Advertising Business from 1 January 2024 until 31 December 2032 at a concession fee to be set by LTA in consultation with SBST Rail.
- (e) **Share Capital.** SBST Rail shall ensure that, during the Term, its paid-up share capital shall at all times be maintained at a sum not less than S\$100,000,000.
- (f) **Positive Net Asset Value.** The Company shall maintain a positive net asset value of not less than S\$300,000,000 at all times from 1 January 2022 until 31 December 2024.

3.2 Amendment of Relevant Bus Contracts

Pursuant to the FA, there are 5 contracts ("**Relevant Bus Contracts**") entered into between the Company and the LTA for the operation of certain bus packages identified under the FA which shall be amended to incorporate the following key terms:

- (a) **Service Term Extension.** The original service terms of the Relevant Bus Contracts shall be extended by an average of 3 years.
- (b) **Service Fee Amendment.** With effect from 1 September 2022, the formula of the service fee payable by the LTA to the Company under the Relevant Bus Contracts ("**Service Fee**") will be revised to a rate that is benchmarked against recent bus tenders and is lower than the current Service Fee.

3.3 Early Replacement of SBST Buses

Pursuant to the FA, with effect from 1 January 2022, SBST will replace 241 of its own buses (comprising 144 double-decker buses and 97-single-deck buses) ("**SBST Buses**") with newer government owned buses which are more cost efficient to maintain. These replacement buses will be leased from LTA.

3.4 Other Contributions

Pursuant to the FA, the SBST Group has agreed to forego certain claims previously made by the SBST Group in connection with its bus contracts and rail licences. In addition, the SBST Group has also agreed to conduct improvement works in bus depots and interchanges, which will enhance conditions for land transport workers as well as public commuters, without seeking reimbursement for such capital expenditure from the LTA.

4. FINANCIAL EFFECTS

4.1 Illustrative Financial Effects

The Company is not able to illustrate the financial effects on a holistic basis with certainty arising from the entering into of the FA and the carrying out of the transactions contemplated thereunder (including the DTL Transition) ("**Relevant Transactions**") on the SBST Group for the following reasons:

- (a) **Variables.** The following variables, which may affect the impact of the Relevant Transactions on the SBST Group, are beyond the control of the SBST Group:
 - (i) ridership levels on the DTL, NEL and SPLRT;
 - (ii) uncertainties as to if and when the SBST Group is able to successfully apply for fare adjustments in respect of the DTL, NEL and SPLRT; and
 - (iii) fluctuations in fuel and electricity prices.
- (b) **Effect of Relevant Transactions.** The Relevant Transactions are scheduled to come into effect at different times over the course of the period between 1 January 2022 until 31 December 2024 following the entry into the FA.

- (c) **Confidential Information.** Certain information is subject to confidentiality obligations which arise under applicable law, the disclosure of which will also compromise the ability of the SBST Group to compete effectively in the market or provide competitors with an unfair advantage against the SBST Group in competition.
- (d) **Long Term Impact of the FA.** It is difficult to assess the financial effect arising from the Relevant Transactions given the long-term nature of the Relevant Transactions, including that the Consolidated Rail Licence is intended to last until 31 December 2032.

4.2 Material Financial Impact

Notwithstanding the above, the material financial terms of the Relevant Transactions are set out in this paragraph 4.2.

In relation to the material financial terms of the Relevant Transactions set out at paragraphs 4.2(a), 4.2(b) and 4.2(c), the Company has sought to demonstrate the recurring financial effects of these terms by reference to their impact on the SBST Group for the financial year ended 31 December 2020, being the most recently completed financial year. In doing so, the Company is seeking to provide sufficient information to enable shareholders to independently assess the financial effects of the Relevant Transactions on the SBST Group. However, shareholders should note that the demonstration of such financial effects, as well as the other material financial terms of the Relevant Transactions as set out in this paragraph 4.2, are not necessarily indicative of the future financial position and earnings of the SBST Group, and remain subject to the impact of factors set out in paragraphs 4.1(a) and 4.1(b) above.

In relation to paragraphs 4.2(d) and 4.2(e), the Company has sought to demonstrate the one-off financial effects of these terms by reference to their impact on the SBST Group for the financial year ended 31 December 2021.

- (a) **Combined Rail Licence Charge Framework.** Pursuant to the DTL Transition, the DTL will transit from operating under the NRFF (Version 1) to operating under the consolidated licence charge framework under the NRFF (Version 2). Under the Consolidated Rail Licence, the EBIT cap and fare revenue shortfall adjustment will be computed against the consolidated revenue of the DTL, NEL and SPLRT and this would reduce commercial volatility for SBST Rail in delivering a reliable and financially sustainable public rail service.

Pursuant to the foregoing, the DTL Transition will result in savings arising from the amount of annual licence charge that would otherwise have been payable under the NRFF (Version 1). If the DTL Transition had completed on 1 January 2020, being the beginning of the most recently completed financial year ended 31 December 2020, it would have resulted in savings of licence charges of approximately S\$20,000,000 for the financial year ended 31 December 2020, for the SBST Group under NRFF (Version 2).

- (b) **Loss of Rail Advertising Business.** Under the terms of the FA, SBST Rail will surrender the Rail Advertising Business from 1 January 2024. The amount of operating profit earned from the Rail Advertising Business for the financial year ended 31 December 2020 is approximately S\$5,600,000.
- (c) **Service Fee for the Relevant Bus Contracts.** If the Service Fee for the Relevant Bus Contracts was revised to be effective from 1 January 2020, being the beginning of the most recently completed financial year ended 31 December 2020, then the operating profit of the Company for the financial year ended 31 December 2020 would have been reduced by approximately S\$34,000,000. However, this should be seen against the average extension

period of 3 years for the Relevant Bus Contracts (taking into account that the remaining existing terms of the Relevant Bus Contracts from 1 September 2022 until their original service term expiry date averages at 2.5 years).

- (d) **Early Replacement of SBST Buses.** The early replacement of the SBST Buses will result in a one-time write-off of approximately S\$15,800,000 in the financial year ending 31 December 2021. The SBST Buses have an average remaining useful lifespan of 3 years as at 31 December 2020.
- (e) **Other Contributions.** The SBST Group has agreed to forgo certain claims previously made by the SBST Group in connection with its bus contracts and rail licences. The financial impact relating to these claims for the year ending 31 December 2021 is S\$3,350,000. In addition, the SBST Group has also agreed not to seek reimbursement for capital expenditure relating to improvement works in bus depots and interchanges with an estimated value of S\$5,670,000, which will be incurred between 2021 to 2023. The associated depreciation for these capital expenditures will not have a material financial impact for the year ending 31 December 2021.

Other than as set out in paragraphs 4.2(d) and 4.2(e) above, the Relevant Transactions are not expected to have a material impact on the consolidated balance sheet and profit and loss statement of the SBST Group for the financial year ending 31 December 2021.

5. CHAPTER 10 OF THE LISTING MANUAL

The Relevant Transactions do not fall within the definition of “transaction” under Rule 1002(1) of the Listing Manual given that the Relevant Transactions do not contemplate:

- (a) any acquisition or disposal of assets by the Company or its unlisted subsidiaries, including any option to acquire or dispose of assets; and
- (b) any provision of financial assistance by the Company or its unlisted subsidiaries.

Accordingly, Chapter 10 of the Listing Manual is not applicable in the context of the Relevant Transactions.

6. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the directors or the controlling shareholders (as defined in the Listing Manual) of the Company has any interest, direct or indirect, in the Relevant Transactions, otherwise than through their interests in shares of the Company or the holding company of the Company.

BY ORDER OF THE BOARD
SBST TRANSIT LTD

Angeline Joyce Lee Siang Pohr
Company Secretary
11 November 2021