

CHAIRMAN'S STATEMENT

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428 million
Rail Passenger Trips

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INTRODUCTION

SBS Transit was a hive of activity in the year under review. We commenced operations on two bus packages awarded under the Bus Contracting Model (BCM). We participated in trials for autonomous vehicles (AV), diesel electric hybrid buses, and on-demand bus services. We also transitioned to the New Rail Financing Framework for our North East Line (NEL) and our Sengkang-Punggol Light Rail Transit (LRT) systems joining the Downtown Line (DTL).

PUBLIC TRANSPORT SERVICES

Bus Services

2018 marked the third year of operations under the BCM where the provision of bus services and the corresponding delivery standards are determined by the Land Transport Authority (LTA). Bus operators are contracted and paid to operate public bus services through a competitive tendering process while the LTA retains the fare revenue. All bus infrastructure such as depots and operating assets like buses are owned by the LTA.

In March 2018, we successfully rolled out the Seletar Bus Package, which was awarded to us in 2017. It comprised 26

bus services, of which 12 used to be under another operator. As part of this Bus Package, we took over the operation of the new Seletar Bus Depot, a purpose-built facility that can house up to 530 buses in an area of 96,000 square metres.

Eight months later in November, we implemented our second successful BCM tendered package, the Bukit Merah Bus Package with 18 services. These have been services operated by us previously under the Negotiated Contract.

Under the Bukit Merah Bus Package, we introduced several new customer-centric initiatives including free Wi-Fi service on board. At the Bukit Merah and HarbourFront Bus Interchanges, we introduced free rental of umbrellas for 24 hours, interactive bus information touchscreen panels, electronic feedback panels for fault reporting and colourful die-cut messages to encourage positive travel behaviour.

As part of this package, we took over the newly-built Ulu Pandan Bus Depot. The 102,000 square metres facility, which can cater to 470 buses, has a modern workshop and is equipped with augmented reality (AR) smart goggles for maintenance works. With this, we now operate seven bus depots, one bus park, 17 bus interchanges and 14 bus terminals.

Lim Jit Poh
Chairman



The Ulu Pandan Bus Depot also houses the Public Transport industry's Bus Technical Specialist Certification Centre (BTSCC) which was set up to raise professional standards of bus engineering and technical staff. It is part of LTA's Singapore Bus Academy. SBS Transit helped to establish the BTSCC at a cost of \$2.3 million and our experienced engineering and training staff were involved in curriculum development, and are now conducting the certification assessment.

During the year under review, we rolled out two new services, and amended another 15 existing routes. We now operate 222 routes, maintaining our position as the largest public bus operator in Singapore with a market share of 61.2%.

We beefed up seven existing bus services that have higher ridership by adding more buses. We have a total fleet size of 3,471 buses with 57% of them being single deck and the rest double deck or articulated buses. Our Bus Captain (BC) strength in 2018 was 6,579, 9.7% more than 2017.

In December 2018, we were involved in a six-month trial to operate Singapore's first On-Demand Public Bus services. Using a mobile application, commuters could book a ride by requesting to be picked up and dropped off at any bus stop within the defined areas, even if the bus stops are currently not served by the same bus service. The trial will enable LTA to evaluate the feasibility of operating public bus services based on real-time commuter demand and along dynamic routes, instead of following fixed routes and pre-determined timetables.

SBS Transit also embarked on an AV trial with ST Engineering to operate such vehicles on Jurong Island and Sentosa. The trial is on-going and our intention is to gather experience to manage such type of vehicles.

RAIL SERVICES

Demand for rail services continued to increase with close to 428 million passenger trips made in 2018, representing a double-digit growth of 20.2% over the previous year. The increase can be attributed largely to the fully operational DTL in the year under review. With all its 34 stations opened for passenger service, average daily ridership on the DTL soared from 279,116 to 449,588 or 61.1% in 2018 compared to 2017. Average

daily ridership on the older NEL also grew but marginally by 2.7% to 591,203 while demand on the Sengkang-Punggol LRT (SPLRT) increased by 8.9% to 131,583 in 2018. The only unopened station – Teck Lee Station on the Punggol West Loop – will open in tandem with developments in the surrounding area.

Although the financial performance of our rail services continued to be weak, operationally our rail services continued to perform well. For 2018, our Mean Kilometre Between Failure (MKBF) for NEL was 1.37 million train-km, which more than doubled the 663,000 train-km clocked in 2017. It was the best performing rail network in Singapore. DTL clocked 928,000 train-km, which was also a vast improvement, compared to the 650,000 train-km recorded in 2017. It was ranked second out of five lines. Overall, the MRT network in Singapore clocked an average of 690,000 train-km. SPLRT achieved 216,000 train-km while the nationwide LRT network's average was 82,000 train-km. I commend and congratulate the Rail team for turning in a stellar set of performances.

Our team continued to strengthen our engineering and maintenance capabilities by entering into a Memorandum of Understanding with the Taipei Rapid Transit Corporation (TRTC) and Metro Consulting Service Ltd¹. TRTC manages Taipei Metro, which is reputed to be the most reliable MRT system in the world and I believe we can leverage on each other's skills and experiences.

During the year under review, we achieved a significant milestone with the move to the New Rail Financing Framework (NRFF) for our NEL and SPLRT, which took effect on 1 April 2018. DTL was the first to be under the Framework in 2011. Under this asset-light operating framework, LTA owns all the operating assets such as trains and signalling system and will pay for replacements and upgrades. SBS Transit, on the other hand, is responsible for the operations and maintenance of the lines until 31 March 2033 when the licence expires.

In asset renewal and upgrading, all 25 first-generation NEL trains are undergoing mid-life refurbishment and upgrading following the award of the tender to CRRC Nanjing Puzhen Co Ltd in December 2018. Funded by the LTA under the NRFF, works are expected to be completed by 2024.

OTHER COMMERCIAL SERVICES

Our sister company, Moove Media, continued to roll out innovative advertising campaigns to capture the attention of commuters and consumers at our stations and bus interchanges, and on board trains and buses.

In 2018, we leased 93% of the 8,527 square metres of commercial space at our bus interchanges and train stations.

SUSTAINABILITY

At our new Ulu Pandan Bus Depot, solar energy is used to power the facility during the day. It is the first depot in Singapore to install the Photovoltaic Solar Panel System where more than 2,000 solar panels are spread out on its rooftops.

We also scored another environmental first by piping NEWater into our Ulu Pandan Bus Depot for non-potable uses such as bus washing. NEWater is also used to irrigate the Depot's rooftop garden, which in turn helps to cool down the building and reduce energy consumption.

We are also participating in an LTA trial on the use of diesel hybrid buses to further reduce exhaust emission into the environment. They are also quieter compared to the regular diesel buses, which reduce noise pollution.

On safety, our accident rate dropped to 0.12 per 100,000 km for 2018. This is an improvement of 0.03 per 100,000 km over that of 2017.

We continued to invest in technology to help our BCs to be safer drivers and provide commuters with smoother and more comfortable rides. We implemented SAfe Green Eco System (SAGE), which records and monitors the BCs' driving behaviour such as speeding and harsh acceleration and gives feedback in real-time through audio and visual alerts so that corrective actions can be taken.

In addition to this system, we are putting on trial 30 sets of "Golden Eye", which is a monitoring system installed in the bus driving cabin, to detect fatigue and distraction through facial analysis of BCs.

On the security front, two security screening exercises were conducted at two of our

¹ Metro Consulting Service Ltd is a subsidiary of TRTC with years of consultancy expertise in railway operations, maintenance and management. It has also participated in rail consultation projects in Taiwan, China, Eastern Europe and Central Asia.

CHAIRMAN'S STATEMENT

MRT stations during passenger service hours. Commuters entering the stations had to pass through metal detectors while belongings and baggage were scanned by X-ray machines, similar to the checks conducted at the airports.

With the introduction of the Cybersecurity Act in 2018, the rail systems have been designated as Critical Information Infrastructure (CII) given that they provide an essential service in land transport. Accordingly, SBS Transit has been designated as a CII owner with the key responsibility to ensure that our information systems remain protected from and defended against cyber threats.

Our strict cybersecurity policy includes directions that no USB ports can be accessed from employees' work computers and laptops to minimise the entry of malware from such media. We have also appointed a Security Operations Centre to monitor our network and systems round the clock for anomalies.

We embarked on a programme to train our BCs to carry out simple repairs on buses. The pioneer batch of 25 BCs, who are known as Operator-Maintainers (OMers), are now able to minimise inconvenience for commuters with their new skills as minor faults can be quickly repaired instead of having to withdraw the buses on the road and disrupt the bus trips.

We also subscribe to the view that healthier workers contribute to higher productivity and hence, actively encourage our people towards leading healthy lifestyles. We were the first Public Transport Operator to support the National Transport Workers' Union (NTWU) in its brown rice campaign with a \$100,000 cash sponsorship. This enabled the NTWU canteens across all our interchanges and depots to offer healthy, economical meals of brown rice with two vegetables and a meat dish to our staff.

Besides this, we leased several Dr Carrot kiosks on a three-year term to empower our staff to take charge of their own health. Rotated among our staff premises, the kiosks conduct automated health checks and provide employees with information on their body fat, bone density, visceral fat, and metabolic age among other areas so that they can be more watchful of their diet and lifestyle.

Reaching out to the community we serve, we conducted 80 school talks, mini exhibitions and visits to our bus interchanges, train

stations and depots.

More details on sustainability activities appear on pages 24 to 29 in this annual report. A fuller sustainability report is also reflected in the ComfotDelGro Sustainability Report.

RECOGNITION AND AWARDS

In the Singapore Governance and Transparency Index 2018, we unfortunately slipped eight spots down to the 40th position against a field of 589 companies. Our score of 84 points is well above the national average of 56.3 but slightly lower than the 2017's score of 86 points. In the ASEAN Corporate Governance Scorecard for ranking among 100 largest Singapore listed companies, we were placed 29th when a year earlier we were unplaced.

At the LTA annual Safety Convention, we clinched top honours in both the public bus and rail categories. Our DTL was conferred the "Safe Rail Line of the Year Excellence Award" while our Bedok Bus Package received the "Safe Bus Operator of the Year Excellence Award". These awards recognised our efforts in promoting and ensuring workplace and commuter safety.

On the customer service front, five of our staff made us proud by being selected as outstanding winners of the National Kindness Award – Transport Gold 2018. The ceremony was held for the first time at the Istana, where they received their award from the President of the Republic of Singapore, together with another 136 staff who received the Commendation Award.

Notably, two station staff were presented with the Singapore Civil Defence Force's Community Lifesaver Awards for responding swiftly to help save the life of a commuter who had passed out at a station's platform and had no pulse. They performed cardiopulmonary resuscitation and used an automated external defibrillator to revive him until the paramedics arrived.

In the Public Transport Council's Annual Customer Satisfaction Survey for 2018, the overall satisfaction score for bus services remained at 7.9, similar to the previous year but the percentage of respondents satisfied with bus services increased to 98.0%, up from the 96.7% in 2017. The overall satisfaction score for rail services was 7.9, an improvement from 7.5 in

the previous year. The percentage of respondents satisfied with rail services also increased from 91.8% to 97.8%. Notably, our rail overall satisfaction score compared with the industry's was a tad higher at 8.0 and with the percentage of respondents satisfied with our rail services at 98.3%.

CODE OF CORPORATE GOVERNANCE ('CODE')

The revised Code or Code 2018 was announced in August 2018. As expected, the significant changes touch on shifting some of the guidance points from 'Comply or Explain' to 'Listing Rules'. In other words, these are now mandatory. I see no difficulty in us adopting them.

The other major issue is the Nine-Year Rule for independent directors in which I think we should also have no difficulty to comply.

Our female director participation rate is high at 20%. We have already achieved the target set by the Diversity Action Committee of 20% by 2020.

Our non-executive directors constitute a majority in the compositions of our boards. This contrasts with the 23.2% of listed firms that were not in compliance as disclosed by the Singapore Directorship Report 2018. While close to 51% of the surveyed companies have an Executive Chairman, we belong to the minority group. We also belong to the category of 33.2% of companies which release their directors' remuneration on a named basis. While more than three-quarters of directors attended 75% or more of board meetings, our percentage is 98%. On gender diversity, we are way ahead when 50% of the boards surveyed continued to not have any female representation and another 34.9% have one female director only.

FARE REVISION

As the provision of bus services now comes under the BCM, any fare revision implemented by the Public Transport Council (PTC) will have an effect only on our rail revenue.

For the third consecutive year in 2018, the fare revisions continued with fare reductions. From 29 December 2017, the decrease in fares was specifically just for rail travel with no adjustment to bus fares. To encourage off-peak travel and lower peak travel demand, fares were reduced

by up to 50 cents across the entire train network when commuters tapped in to any MRT station before 7.45am on weekdays. Prior to this, the pre-peak morning travel trial covered only 18 MRT stations within the city centre.

However, transport fares, as announced by the PTC increased by 4.3% from 29 December 2018. This is a follow up to the new fare formula for the 2018-2022 Fare Review Period. The new formula made revisions to the wage and price index weightages, productivity extract, and introduced a new network capacity factor component to track capacity provision in relation to passenger demands. The new formula is more reflective of changes in operating costs and network capacity.

FINANCIAL PERFORMANCE

Group Total Revenue for the year under review increased by 16.1% from \$1,191.7 million to \$1,383.6 million.

In Public Transport Services (bus and rail), revenue increased by 16.7% or \$189.6 million to \$1,325.3 million, which can be attributed mainly to higher fees earned with the start of the Seletar and Bukit Merah bus packages and higher rail ridership from the first full-year operation of the DTL

Revenue from Other Commercial Services increased by 4.0% or \$2.3 million to \$58.3 million. The increase came mainly from higher advertising revenue.

The increase in Group Total Revenue of \$191.9 million was offset by an increase in Group Operating Expenses of 13.6% or \$153.9 million due mainly to higher staff costs, higher repairs and maintenance costs and higher fuel and electricity costs. As a result, Group Operating Profit increased by \$38 million or 64.0% to \$97.3 million.

At the Group level, net profit attributable to shareholders increased by 70.0% from \$47.1 million to \$80.1 million.

Earnings per share was 25.72cents, 69.5% higher than the 15.17 cents earned previously. As at 31 December 2018, total equity for the Group increased by 10.9% to \$498.4 million due mainly to the profits generated from operations and partially offset by the payment of dividends.

Your Directors have proposed a tax-exempt one-tier final dividend of 7.10 cents per share in light of higher profits.

Together with the tax-exempt one-tier interim dividend of 5.80 cents per share paid earlier, the total tax-exempt one-tier dividend to be paid out in 2018 will be 12.90 cents per share, 69.7% higher than the previous year. The dividend payout of 50.2% is in line with our dividend policy of distributing at least half of our profits as dividend. Based on year-end closing price of \$2.70, the dividend yield is 4.8%.

THE YEAR AHEAD

NEL, which is the third oldest MRT line, will continue with its mid-life upgrade for the trains while intensified maintenance works will continue to be carried out on various parts and systems such as tracks and power system. Extended engineering works with early closures of some stations will continue to be effected in the months ahead. This is important to further improve the reliability of NEL's services.

DIRECTORS

Mr Yang Ban Seng has been appointed the Chief Executive Officer of SBS Transit on 15 January 2019 with the resignation of Mr Gan Juay Kiat. Concurrently, Mr Yang has also been redesignated as the Executive Deputy Chairman.

I would like to take this opportunity to thank Mr Gan who had done much for land transport in Singapore during his term at SBS Transit, which had spanned slightly more than a decade since April 2007. His valuable contributions to SBS Transit are highly appreciated.

In continuation with our Director renewal process, Mr Wee Siew Kim, appointed in 2003, will retire at the 2019 Annual General Meeting. On behalf of the Board, I wish to thank him whole-heartedly for his many years of committed service and significant contributions through his valuable insights, strategic advice and astute guidance.

I wish to welcome two new Directors – Mr Benny Lim Siang Hoe and Professor Yu Ching Man – who joined us in 2018. The former is a retired Permanent Secretary of the Singapore Civil Service while the latter was an engineering don in Sustainable Infrastructure Engineering from the Singapore Institute of Technology and is now Professor and Head of the Interdisciplinary Division in Aeronautical and Aviation Engineering at the Hong Kong Polytechnic University.

APPRECIATION

I would like to thank Management and Staff for their hard work and commitment in rising to the challenges of the evolving public transport industry.

To my fellow directors, thank you for your invaluable advice, continued guidance and unwavering support.

I would also like to thank the National Transport Workers' Union, the Authorities, Constituency Advisors and Grassroots Leaders for their cooperation, assistance, understanding and support.

To our Commuters, thank you for your support and patronage. We remain committed to improving our services and service standards in meeting your travel needs.

Last but not least, my deep appreciation to our loyal Shareholders. We will continue to work hard to give you a reasonable if not good return.

Lim Jit Poh
Chairman
March 2019