

A NEW MOMENTUM: Briefing by President and Group CEO SMRT, Desmond Kuek

Ladies and Gentlemen,
Thank you for joining us at our 15th Annual General Meeting.

INTRODUCTION

1. Last year, I outlined five Strategic Thrusts that define SMRT's collective efforts to overcome the current challenges and position ourselves for future opportunities. We have made significant progress on all these priority areas: to improve **Operational Performance**, enhance **Customer Experience**, strengthen **Workforce Health**, entrench **Organizational Excellence** and ensure **Sustainable Growth**.

IMPROVING OPERATIONAL PERFORMANCE

2. We have improved our reliability and availability, and maintained our focus on safety.
- The train withdrawal rate for every 100,000km, as a measure of *reliability*, has improved from 3.3 at the end of 2012, to 2.2 last year, and is now 1.2 for the first six months of 2014. The reliability standard is now at the equivalent level of 2007 despite the ageing of the network since then. We will further improve this with concerted efforts in preventive and predictive maintenance to stay amongst the best in the world.
 - Train delays will be reduced and total travel time continually improved over the next months, when we lift more of the speed restrictions that have been imposed for safety reasons after sleepers are changed out. The concrete sleeper replacement programme on the North-South tracks is now 35% completed, and we target to finish this by mid next year, and then continue with the East-West line from early next year. This is a massive effort requiring careful planning and supervision because it is a live network, and actual work on the tracks is limited to three hours a night even with earlier closure, and there is tremendous time pressure to resume commuter service by dawn each day.
 - In March this year, we completed the entire Circle Line power cable replacement, 10 months ahead of schedule, and expect that this will better assure system stability and reliability.
 - With 13 new trains delivered by this year for the North-South and East-West lines, *availability* rates will improve, and help relieve the strain on the existing fleet. The re-signalling project is making good progress, and when this is completed in 2016 for the North-South line and 2018 for the East-West line, capacity will be meaningfully increased, and waiting time between trains will come down to just 100 seconds at peak.
 - Our bus fleet has been renewed with the acquisition of single and double deck buses as well as articulated buses, while the taxi fleet has been refreshed with the eco-friendly hybrid Toyota Prius and wheel-chair accessible London cabs.
 - We met all regulatory standards for buses and taxis. We are confident about earning the new incentives under the Bus Service Reliability Framework, and also about meeting the Taxi Availability (TA) standards set as a condition for organic growth.
3. In line with our commitment to operational and engineering excellence, we set up a Technical Advisory Panel comprising distinguished local and international experts in various fields of rail engineering. They provide us with deeper insight into best professional practices and new technologies that can enable even greater operational performance and engineering capability. Last year, we also

partnered with academic institutes and research and development houses to explore innovative solutions for some of the more longstanding technical challenges.

ENHANCING CUSTOMER EXPERIENCE

4. While operational data and statistics are important for us to benchmark against past performance and global industry standards, we recognise that commuters' satisfaction is more substantively measured by the quality of their daily experience on our network. We partnered with Disney Institute and NTUC Learning Hub in a bold move to train and support all our staff in the quest for service excellence. As you saw in the video at the start, we framed a common purpose for all staff to *"build trust and bring on smiles every day and with everyone who journeys with us"*. We are encouraged by the results: the ratio of 18 compliments to every one complaint is double what it was before, and this is the result of dedication by our staff to service excellence. We will continue to review our processes and commuter touch-points to achieve a more consistent and positive travel experience - despite peak period congestion and occasional delays and disruptions.

5. The company achieved several national accolades for service excellence. SMRT won 4 individual awards out of 6 at the Land Transport Excellence Awards ceremony; and had 193 winners at the National Kindness Movement's Transport Gold ceremony.

STRENGTHENING WORKFORCE HEALTH

6. Good customer service comes from having a competent and committed work force, high in motivation and morale. Last year, an organisation-wide survey found that 9 out of 10 employees are proud to work in SMRT, and 82% are 'sustainably engaged', exceeding industry benchmarks and global companies similarly undergoing significant change. This is remarkable considering the public pressures and difficult work conditions that our people face daily. Last year, we worked with the National Transport Workers Union to introduce a progressive career and wage scheme for our Bus Captains, and this has been well received. Last week, together with the Union, we similarly launched a new Trains Career Scheme that deepens the specialist competencies and widens the career development opportunities for all our Trains operational and technical staff. This is a crucial initiative aimed at growing a core set of skilled professionals who can operate and maintain the high quality of essential public transportation services that our commuters want. Voluntary turnover has dropped by half last year to 5.5%, and we are recruiting many more engineers at all levels to meet our current and future needs.

7. At the national level, last Friday, SMRT was conferred three Singapore HR Awards for Leading Practices in Learning and Human Capital Development, Strategic HR and Corporate Social Responsibility; and was also the Gold Winner at the HR Excellence Awards for Compensation & Benefits Strategy.

ENTRECHING ORGANISATIONAL EXCELLENCE

8. We have also done well in corporate governance, coming in Runner-Up in the Most Transparent Company in our category at the SIAS Investors' Choice Awards, and winning Silver last night in the Best Annual Report category for companies above \$1B at the Singapore Corporate Awards. All these external endorsements are especially meaningful at this time, and suggest that our stakeholders have confidence that SMRT is on track and in winning form again.

9. Chairman Koh Yong Guan has highlighted the financial results of the Group. To recap, revenue grew 4.0% to \$1.16B in the past year, but operating expenses increased 7.3% from \$1.05B to \$1.12B, mostly due to the cost of adhering to heightened operational and service standards in our regulated fare businesses. Staff costs rose 17.0% due to increased headcount for Trains and Buses, as well as our market wage alignment exercise. Depreciation increased 12.4% mainly from the capitalization of operating assets taken over from the authorities. Yet, based on the latest international benchmarking

study done by the Imperial College in London, we are amongst the best in productivity and efficiency for manpower and cost efficiencies in both rail and bus operations, while train fares are in the bottom quartile in the world.

10. Without fare adjustments last year, our Rail and Bus businesses collectively incurred an overall loss of \$25M. Over the years, from FY2001-2014, fare levels have increased 6% against a possible 33% based on the approved fare formula, representing about \$1.3B in forgone revenue. Last year, concessions grew to \$91M. The new fare adjustments that were announced by the Public Transport Council which took effect from 6 Apr 2014 will only partially mitigate this in the coming year, as we will receive only a net 1.6% increase in the final allocation, less than the 3.2% adjustment that was announced.

11. Despite these fare revenue challenges last year, the Group achieved a PATMI of \$61.9M, primarily contributed by non-fare businesses in taxis, commercial and engineering services, as well as gains made through efficiency and productivity efforts.

12. As for our commitment to environmental sustainability, we improved on emission standards with our new vehicle choices and new energy conservation measures. The *Woodlands XChange*, which opened last year, received the BCA Green Mark (Gold) award; and with the Singapore Environment Council, we pioneered the Eco-shop label for our tenants. This year we will do the same at the newly refurbished *Ang Mo Kio XChange*.

ENSURING SUSTAINABLE GROWTH

13. We are optimistic about the prospects for the Group's sustainable growth going forward, with both Fare and non-Fare businesses, even though there remain critical uncertainties in the domestic regulatory environment and obvious investment risks associated with external ventures.

14. One of the key issues that we are in discussion with the authorities is the transition to a new Rail Financing Framework for our **Trains** business. We have received a response from the authorities to our proposals, and there remain a number of important issues that need to be converged on. However, we look forward to achieving a mutually agreeable outcome. The details of our discussions with the authorities are confidential as this point, but what I can say is that SMRT views this as not just achieving fair returns for the company against the possible risks that we face, but more importantly, deriving a viable framework and operating model that ensures efficiency and sustainability for both owner and operator for the longer term. This is especially pertinent given SMRT's intent to further contribute to Singapore's land transport system as the rail network doubles over the next 15 years.

15. Last month, we incorporated **Singapore Rail Engineering** as a subsidiary of SMRT Corporation, distinct from SMRT Trains as the rail operator, to grow an indigenous engineering capability that can support rail networks locally and in the region. *Sing Rail* will maintain an arms-length relation with SMRT Trains. It will progressively build on its competences in Engineering Services, Maintenance Repair and Overhaul (MRO) works, Asset Management and Risk Based Maintenance programmes. It will handle the mid-life refurbishment on our older rolling stock and contract for track renewal works. Our aim is to bid for rail engineering projects overseas in the medium term, and we expect *Sing Rail* to contribute to our bottom line fairly quickly.

16. As for **Buses**, we have stemmed the downward trend of losses that has plagued our bus operations since FY 2009, through productivity gains, which we will continue to work on in the coming year. Much has already been said publicly about the Government's plans for the eventual transition to a bus contracting model that is asset-light and fee-based. This is a timely and positive change. Over the next two years, 20% of our routes will be put up for tender in three phases, while the terms for the remaining 80% will be negotiated under a new contract when our current license expires in 2016. We are confident that our operational experience, service standards, cost efficiencies and strong community relations will place us in good stead in this more competitive landscape. While I expect our bus business

to improve financially over the next three years as we take further productivity measures, the financial challenges will not be fully resolved until the bus contracting model is fully implemented.

17. Our **Taxi** business has done well to increase its profit by 50% from \$6.4M last year to \$9.6M because of a higher hired-out rate, fleet optimisation and stronger taxi hirer engagement. We will be leveraging on new technology and partnerships to better match higher customer demand for our taxis, expand corporate sales and other revenue streams for future growth.

18. In **Commercial** property and media business, we continue to achieve steady growth. We are excited to open our first out-of-network *Kallang Wave* mall, at the doorstep of our Circle Line Stadium station. The official launch date is set for November 2014, and already more than 80% of the 41,000 sqm of retail space has been leased out. We look forward to full contribution to our bottom line next year. Our iMOB (or *I'm On Board*) ecommerce platform was also launched to favourable consumer reviews, leveraging our strength in transport, retail and advertising to drive business growth.

19. In-roads have been made into key **International** markets. We secured a renewal of our consultancy services in Mauritius, and won a contract in Manila to provide fare systems solutions. There are other new business opportunities that we are considering with various overseas partners who hold SMRT in high regard because of our strong international reputation and operational experience. Our aim is to steadily build up the capacity to provide transport-related solutions across the whole value chain, to meet the needs of an increasingly urbanised and inter-connected world.

CONCLUSION

20. To conclude, the past year has been most significant for SMRT in getting on track with operational performance, customer experience, workforce health, organisational excellence and sustainable growth. For this, I would like to express my appreciation to the Board, Management and all staff for their tremendous commitment, energy and accomplishment. There is an exciting momentum that we have gained, and we will gather speed and traction on all these thrusts in the coming year. I would like to thank you, our shareholders, for your continued support of SMRT. We will continue our mission focus to be the people's choice by delivering a world-class transport system and lifestyle experience that is safe, reliable and customer-centric; trusted and respected for our professionalism, operational prowess and service excellence - here at home and the world over.