

Briefing to Analysts & Media

New Rail Financing Framework

15 July 2016

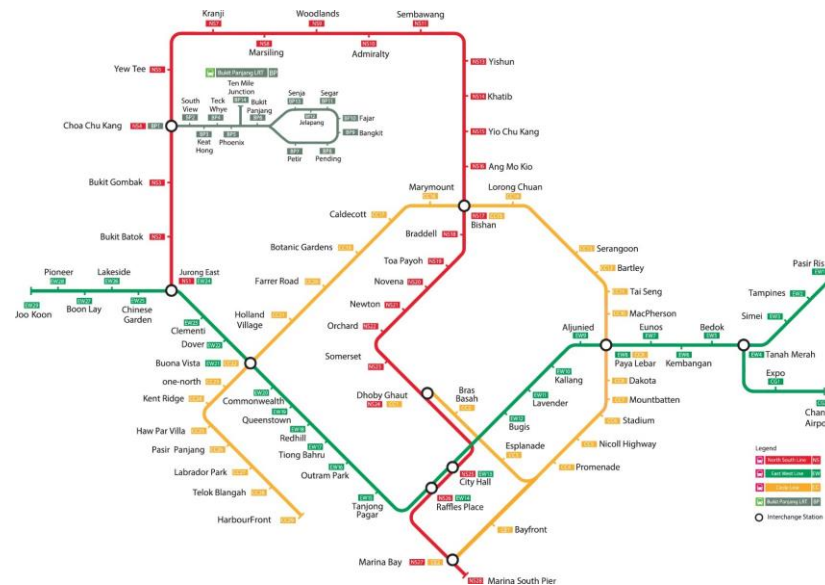
Cautionary note – Forward-Looking Statements

This presentation may contain statements regarding the business of SMRT Corporation Limited (the “Company” or “SMRT”) and its subsidiaries (the “Group”) that are forward-looking in nature . Forward-looking statements include but are not limited to those using words such as "seek", "expect", "anticipate", "estimate", "believe", "intend", "project", "plan", "strategy" and similar expressions or future or conditional verbs such as "will", "would", "shall", "should", "could", "may" and "might".

These statements reflect the Company's current expectations, beliefs, hopes, intentions or strategies regarding the future and assumptions in light of currently available information. They are not guarantees of future performance or events and involve known and unknown risks and uncertainties. Potential risks and uncertainties includes such factors as general economic conditions, foreign exchange fluctuations, interest rate changes and regulatory developments. Accordingly, actual results may differ materially from those targeted, expected, projected or described in such forward-looking statements. Shareholders, investors and others should not place undue reliance on such forward-looking statements, and neither the Company nor its management undertakes any obligation to update publicly or revise any forward-looking statements.

Transition to the New Rail Financing Framework (NRFF)

“SMRT welcomes the transition of our North-South, East-West and Circle Lines, and the Bukit Panjang Light Rail Transit to the New Rail Financing Framework. ”



- This transition comes after extensive consultation with the Land Transport Authority (LTA) since 2011 and will bring SMRT's current rail lines into a more sustainable financing framework.

Briefing Outline

1

Current Rail Financing Framework (CRFF) and its challenges

2

New Rail Financing Framework (NRFF), including the proposed sale of the Rail Operating Assets

3

Ensuring Sustainable Growth

Overview of Current Rail Financing Framework (CRFF)

	North-South & East-West Lines (NSEWL) 	Circle Line (CCL) 	Bukit Panjang LRT (BPLRT) 
Licence Tenure	30 + 30 years	10 + 30 years	29 + 30 years
Licence Term	1998 – 2028/2058	2009 – 2019/2049	1999 – 2028/2058
Remaining Term	12/42 ¹ years	3/33 ¹ years	12/42 ¹ years
Licence Obligations	Under the existing Licence, the Operator's responsibilities include the following: • Buy over the rail operating assets by the specific dates set out in the respective licences. • Fund all additions, renewals and replacements relating to the operating assets during the tenure of the existing licences. • Meet the service obligations and sustaining the operations of the Working Network with revenue generated from the Lines.		

¹ Extension is subject to LTA's discretion

Note: Infrastructure assets relating to the working network are owned by LTA

Key Challenges of CRFF

1

Heavy capital expenditures related to an expanded and ageing network



2

Rising operational & maintenance related costs to meet enhanced operating standards



3

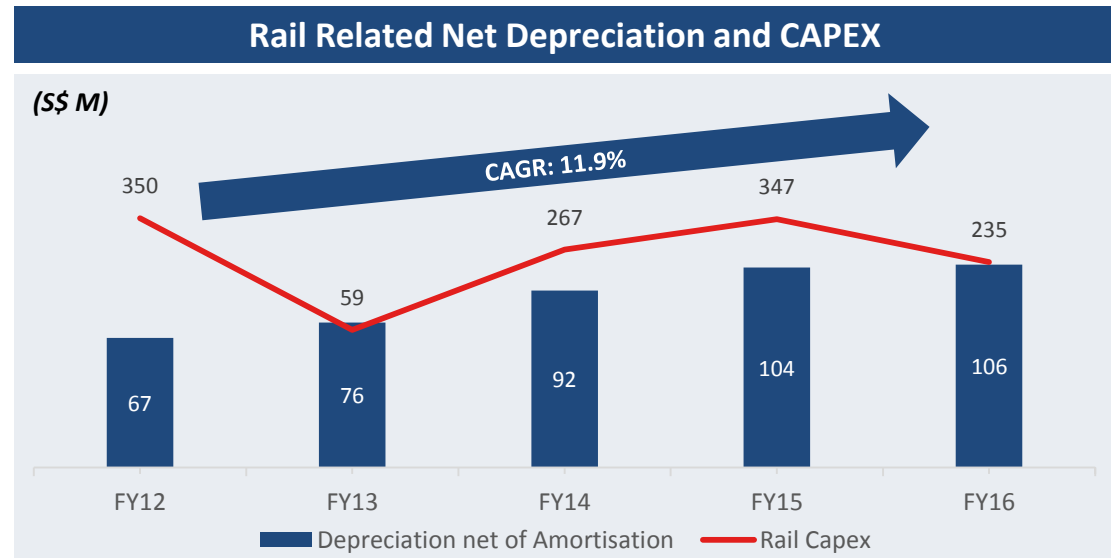
Fares have not kept pace in accordance with the prescribed fare adjustment formula



Key Challenges of CRFF

1

Heavy capital expenditures (about S\$2.8B) related to an expanded and ageing network.



- SMRT Trains' capital commitments and depreciation charges have risen significantly in recent years.
- Capital expenditures will continue to increase in the next 5 years and is estimated to reach an aggregate spend of about **S\$2.8B** for the replacement of ageing assets in the system, takeover of CCL Line and Boon Lay extension operating assets where applicable, and procurement of new trains to meet service reliability standards and to cater for an expanded network.

Note: FY refers to the financial year ended 31st March.

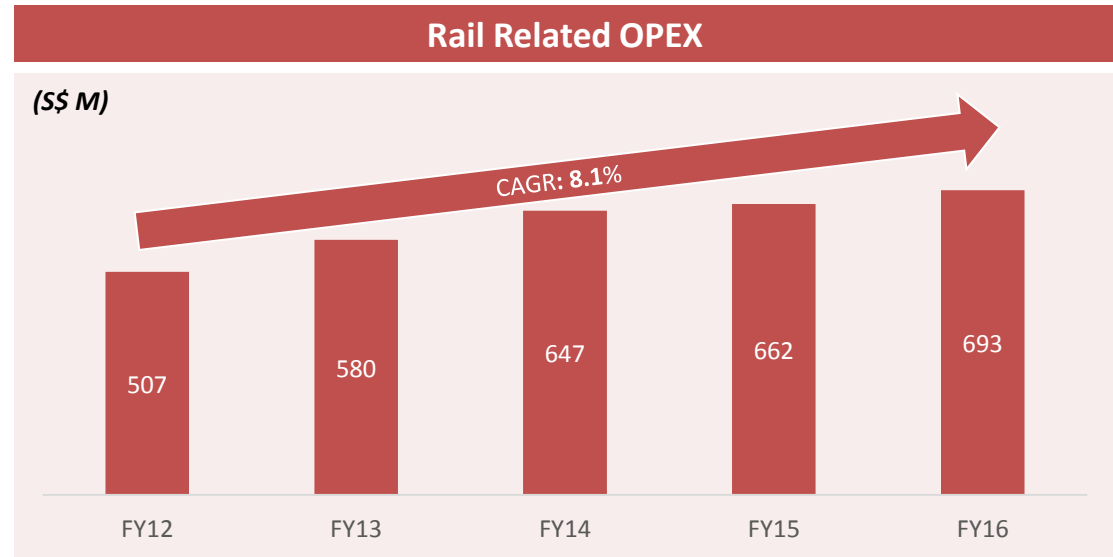
Key Challenges of CRFF

2

Rising operational & maintenance related costs to meet enhanced operating standards.

Muhammad Farhan Bin
Technical Officer, Rail
Punggol resident

Our track maintenance
place mainly at night. We do our
best to make sure you have a
smooth and safe journey.

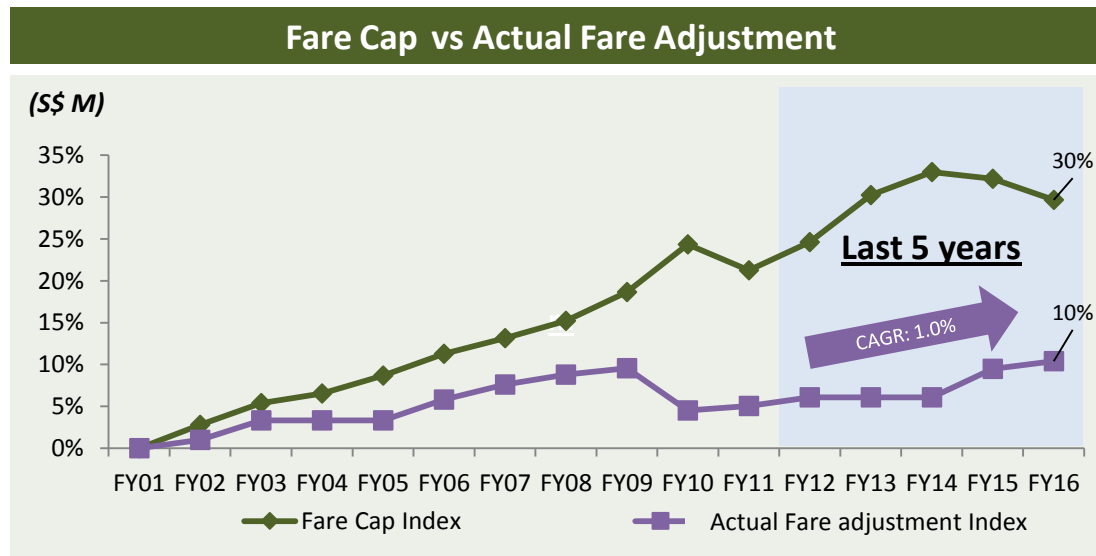


- Enhanced security and operating standards contributed to rail OPEX increase.
- Maintenance-related expenses increased to reach 45% of rail fare revenue in FY16.

Key Challenges of CRFF

3

Fares have not kept pace in accordance with the prescribed fare adjustment formula.

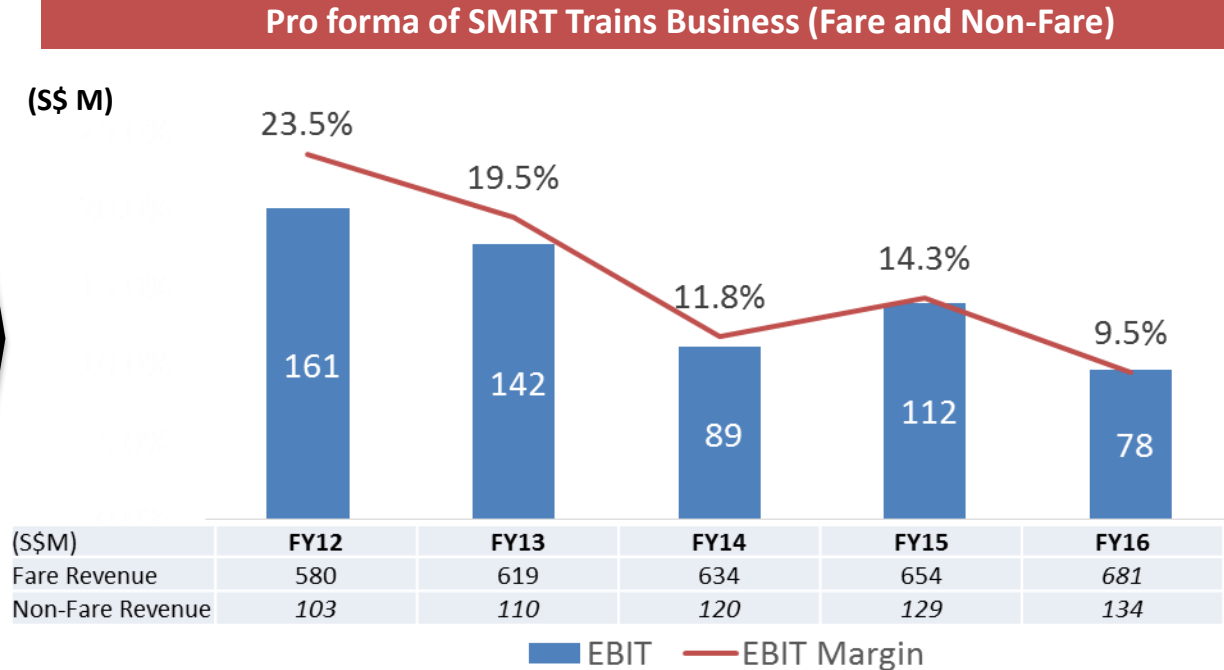
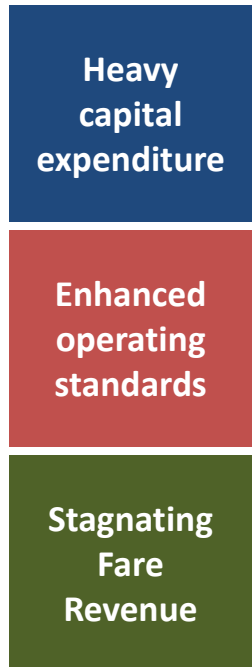


- Fares have not increased in accordance with prescribed Fare Cap¹ – widening fare gap.
- Aggregate rail fare shortfall and commuter concessions absorbed since FY2001 amounts to approximately S\$1.2B and S\$0.7B, respectively.**
- Had fares increased in accordance with the prescribed fare adjustment formula since 2001, CRFF would have been a viable framework.

¹ Fare Cap is based on the cumulative maximum allowable under the prescribed fare adjustment formula.

Declining Rail Profitability under CRFF

As a result, SMRT rail related profitability has declined since FY12.



- This trend of declining profitability is expected to persist under the CRFF as the additional capital expenditures and increased depreciation would exert additional pressure on the future cash flows and profits of the SMRT Trains Entities.

Note: Property tax savings relating to prior years have been excluded in FY16 and attributed back to respective years.

Sensitivity Analysis - CRFF

Illustrations of how FY2016 EBIT margin under CRFF may be impacted in different market conditions with the additional depreciation charges

		Variations on Operating Expenses (Net of OOI)				
		-10%	-5%	0%	+5%	+10%
Variation on Fare Revenue	+5%	12.4%	8.9%	5.4%	1.9%	-1.6%
	+2%	9.8%	6.2%	2.7%	-0.9%	-4.5%
	0%	8.0%	4.4%	0.7%	-3.0%	-6.6%
	-2%	6.2%	2.4%	-1.3%	-5.1%	-8.8%
	-5%	3.2%	-0.7%	-4.5%	-8.4%	-12.2%

Assumptions:

- Actual FY16 Revenue and OPEX used for illustration purposes
- Additional S\$90M depreciation cost included in OPEX, assuming that new assets of S\$2.8 B in capital expenditure and useful lives of 30 years

- For illustrative purposes, the table shows the impact if SMRT Trains had to incur the additional depreciation charges of approximately S\$90M for the S\$2.8B capital expenditure obligations, assuming a useful life of 30 years was adopted for these assets.
- Should total revenue remain at actual FY2016 level and operating expenses fluctuate between -10% and +10%, SMRT Trains' EBIT margin would range from 8.0% to -6.6%.

Note: The above sensitivity analysis is purely hypothetical and provided solely for illustration only. This does not in any way constitute any form of profit guidance or forecast or forward statement by SMRT Trains of future EBIT margins.

Rationale and Key Features of NRFF

Rationale

- Key challenges faced in Existing Licences adversely impacted SMRT Trains' ability to finance renewal and replacement of operating assets while maintaining enhanced service levels.
- The Government announced the NRFF in the 2008 to facilitate the future expansion of the rapid transit system network in a financially sustainable manner and to inject greater contestability into the rail industry.

Roles and Responsibilities

Government: Asset Owner

- a. Addition and renewal of the operating and infrastructure assets
- b. Provide timely asset procurement and capacity enhancement

SMRT Trains: Asset-Light Operator

- a. Operation of network including commercial activities
- b. Repair and maintenance
- c. Ensure safety, efficiency, reliability of the working network

Key Features

- **Licence Period:** 15 years, commencing on 1 Oct 2016, with the possibility of an extension of 5 years¹
- **Licence Charge:** SMRT Trains (comprising its rail Fare and Non-Fare business) will pay LTA a licence charge for the right to operate its current MRT and LRT lines
- **Risk Sharing Mechanisms:** Licence charge payable to LTA calibrated to take into account fare and ridership deviations as well as fluctuations in SMRT Trains' operating costs

¹ Subject to parties' mutual agreement

Risk Sharing Mechanisms

Revenue Collar

- **To mitigate downside revenue impact to the operator beyond certain threshold by adjusting the licence charge payable to LTA**
 - 50% sharing from LTA for shortfall between 2% and 6% from Target Revenue¹.
 - 75% sharing from LTA for shortfall beyond 6% from Target Revenue.

Profit Cap and Collar

- **To calibrate earnings of the operator and licence charge payable to LTA**
 - Profit Collar – For EBIT margin below 3.5%, 50% of the shortfall is borne by LTA.
 - Profit Cap – For EBIT margin above 5%, excess will be shared via a tiered structure, up to a maximum of 95%, to LTA.

¹Target Revenue refers to the projected revenue figures (as determined by LTA under the NRFF Licence).

Note: LTA's sharing of these downside risks is limited to the quantum of the licence charge payable for the financial year.

Reimbursement for Specific Unanticipated Events

LTA Grant / Reimbursement

- **SMRT Trains may apply to LTA for a grant if the rail business suffers a net reduction in operating revenue or a net increase in operating costs attributed to certain triggers due to specified unanticipated regulatory events, such as:**
 - Enhancements/modification of
 - Operating Performance Standards (OPS)
 - Key Performance Indicators (KPI) including Mean Km Between Failure (MKBF)
 - Maintenance Performance Standards (MPS)
 - Code of Practices (COP)
 - Reduction in rentable spaces
- SMRT Trains is similarly obliged to reimburse LTA if it has a corresponding net reduction in operating costs or net increase in operating revenue.
- **Grant quantum for reimbursement will be at LTA's discretion after taking into consideration the information provided by SMRT Trains to LTA for deliberation.**

Comparison of NRFF and CRFF

	CRFF	NRFF
Operating model	Asset-heavy operator.	Asset-light operator.
Infrastructure assets	Owned by LTA and maintained by the operator.	Owned by LTA and maintained by the operator
Operating assets	After the initial period, the operating assets will be owned and maintained by the operator. The operator as the asset owner bears all costs associated with the ownership and maintenance of the operating assets.	LTA will retain ownership over the operating assets for the term of the licence; however, the operator will be responsible for maintenance.
Licence charge	The operator does not pay a licence charge to LTA.	The operator pays a licence charge to LTA which will go into the Railway Sinking Fund.
Fare revenue risk	Fare revenue risk is borne by the operator.	- Under the NRFF licence, the fare revenue risk will be shared between SMRT Trains and LTA via revenue sharing mechanism (collar) 50% sharing from LTA for revenue shortfall between 2% and 6% 75% sharing from LTA for incremental revenue shortfall beyond 6%

Note: Target Revenue refers to the projected revenue figures (as determined by LTA under the NRFF Licence).

Comparison of NRFF and CRFF

	CRFF	NRFF
Fares and concessions	- Fares and concessions are dependent on the decisions and policies of the Public Transport Council and the Singapore government. - As approved by the Public Transport Council, SMRT Trains has borne and continues to bear the cost of travel concessions for trains and buses for senior citizens, undergraduates, students, children and full time National Servicemen. The cost of concessions borne by SMRT Trains has increased over the years and amounted to about S\$60M in FY2016.	- Fares and concessions continue to be dependent on the decisions and policies of the Public Transport Council and the Singapore government. - SMRT Trains will have to continue to bear the cost of existing concessions as well as new travel concessions, if so approved by the Public Transport Council.
Profitability risk	No risk sharing.	- Under the NRFF Licence, overall earnings will be calibrated through a Profit Cap and Collar mechanism. - Should EBIT margin exceed 5%, excess will be shared via a tiered structure with a prescribed percentage of up to a maximum of 95% of the incremental being shared with LTA 50% sharing of the shortfall for EBIT margin below 3.5%

Comparison of NRFF and CRFF

	CRFF	NRFF
Tenure	- Existing Licence for the NSEW Line: initial term of 30 years expiring in 2028 with possible renewal term of 30 years expiring in 2058. - Existing Licence for the CCL Line: initial term of 10 years expiring in 2019, with possible renewal term of 30 years expiring in 2049. - Existing Licence for the BPLRT Line: initial term of 29 years expiring in 2028 with possible renewal term of 30 years expiring in 2058.	- The NRFF Licence is a single licence which covers the NSEWL Line, CCL Line and BPLRT Line. - It will have an initial term of 15 years expiring in 2031, with the possibility of extension at LTA's discretion until 2036.

Key Outcomes of the NRFF

The NRFF will reduce the business risks for SMRT Trains by addressing the following key challenges of the CRFF

***Under
CRFF***

**Heavy capital
expenditure**

**Enhanced operating
standards**

**Stagnating Fare
Revenue**

***Under
NRFF***

**Borne
by LTA**

**Possible
Reimbursement by
LTA**

Risk-Sharing by LTA

- The licence charge, which comprises fixed and variable components, has been structured by LTA to allow SMRT Trains to achieve a composite (fare and non-fare) EBIT margin of about 5%. This is similar to the historical EBIT margins of comparable asset-light rail operators in other jurisdictions.

Sensitivity Analysis - NRFF

- It is important to understand that the EBIT margin of SMRT Trains under the NRFF is not a certainty. It is dependent on a myriad of factors that are primarily beyond the control of SMRT Trains and/or which SMRT Trains is unable to project or predict with accuracy.

Illustrations of how FY2016 EBIT margin under NRFF may be impacted in different market conditions

		Variations on Operating Expenses (Net of OOI)				
		-10%	-5%	0%	+5%	+10%
Variation on Fare Revenue	+5%	5.9%	5.7%	5.5%	5.3%	4.7%
	+2%	5.8%	5.6%	5.4%	5.2%	3.0%
	0%	5.7%	5.5%	5.3%	5.0%	2.3%
	-2%	5.7%	5.4%	5.2%	3.7%	1.6%
	-5%	5.0%	5.0%	5.0%	3.0%	0.9%

Assumptions:

- Actual FY16 Revenue and OPEX adjusted for NRFF depreciation used for illustrative purposes
- NRFF revenue collar computed based on FY16 Revenue as the Target Revenue
- Revenue Share Charge of 10%

The ability to achieve an EBIT margin of about 5% is subject to the following factors:

- SMRT Trains continuing to improve operational productivity to offset increase in operating expenses (e.g. addition of at least 700 maintenance headcount).
- SMRT Trains meeting the KPIs, OPS and MPS prescribed under the NRFF Licence thereby not incurring any financial penalties for failure to do so.
- LTA, while exercising its discretion, duly compensates SMRT Trains for the additional costs or reduced revenue as a result of certain specified events.
- Public Transport Council adjusting fares in accordance with the prescribed fare adjustment formula.

Note: The above sensitivity analysis is purely hypothetical and provided solely for illustration only. This does not in any way constitute any form of profit guidance or forecast or forward statement by SMRT Trains of future EBIT margins.



Commitment to Strengthen Rail Reliability

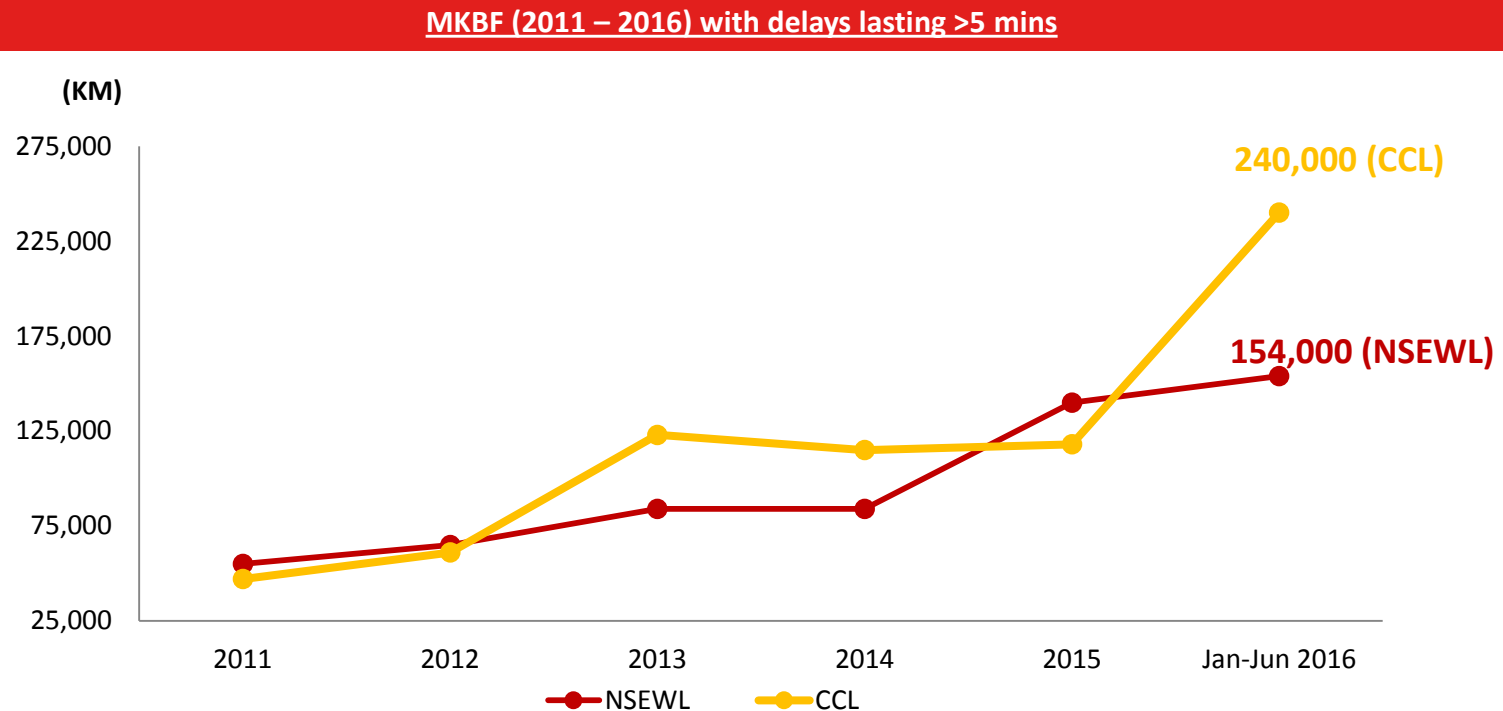


- We remain committed to meeting the network's higher capacity and reliability requirements, in accordance with the Maintenance Performance Standards (MPS) set out by LTA.
- Some of these requirements include: Mean KM Between Failures (MKBF) KPI for trains, availability of systems, and number of overdue works.
- Over the last 3 years, SMRT Trains increased its technical workforce significantly by 30%

SMRT Trains will continue to employ or allocate at least 700 additional maintenance headcount or equivalent to approximately 20% increase, over the next three years.

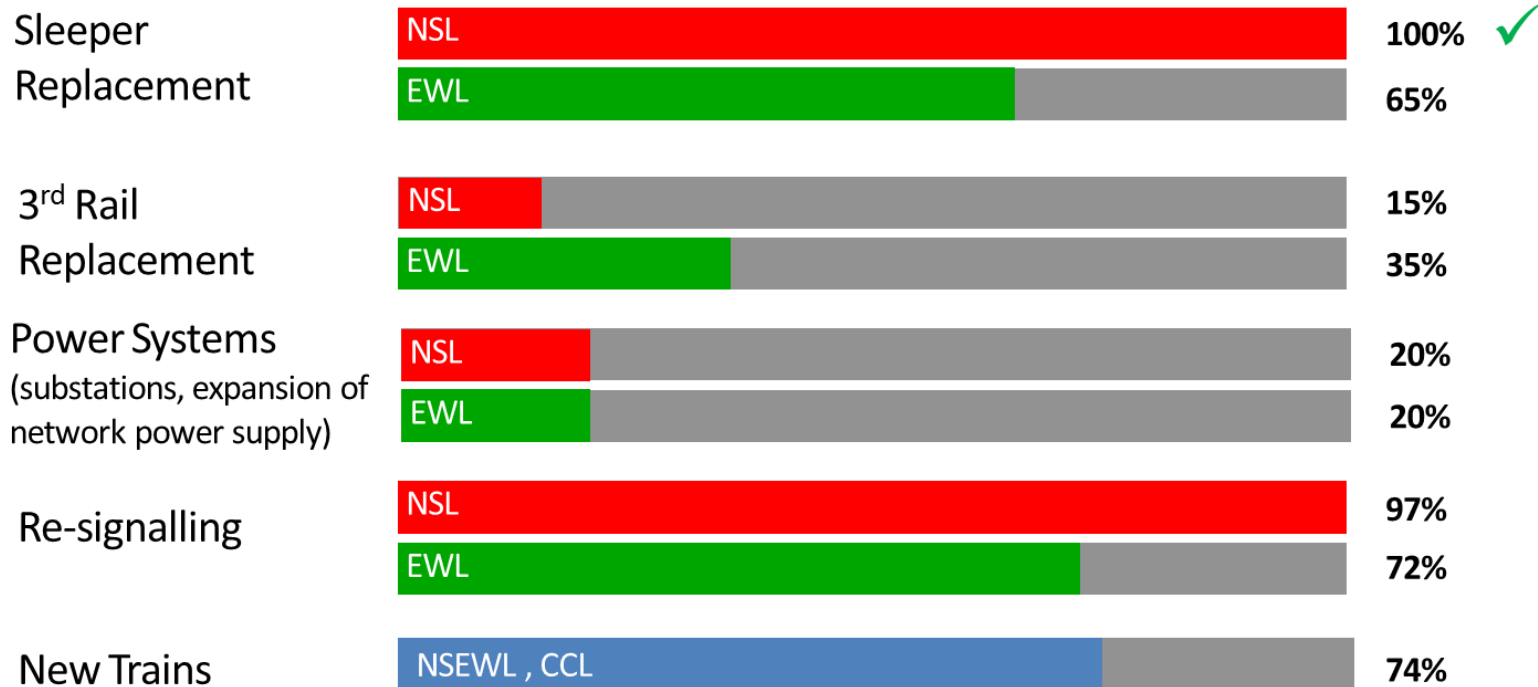
NSEWL: Mean KM Between Failures

- Under the NRFF, LTA will also introduce new Maintenance Performance Standards (MPS), including the MKBF, to improve maintenance performance, and consequently the reliability of the rail system. SMRT has already been ramping up to achieve this.



Multi-Year Renewal Programmes

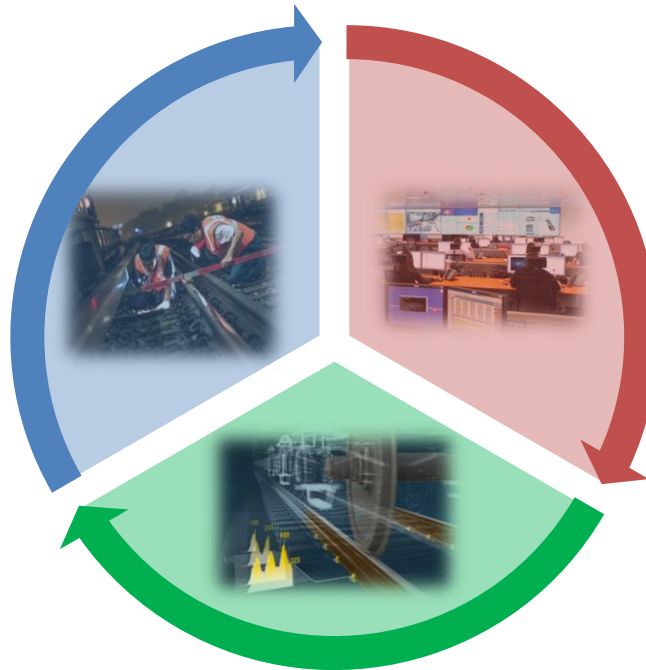
- Works in progress – Since 2012, we have focused on our multi-year programmes to renew and upgrade the ageing rail network while keeping trains running and managing the increased ridership.



Achieving Rail Excellence

People

- Technical workforce increased by 30%
- Train Engineer Professionalization



Process

- Asset Management System (ISO 55001)
- Maintenance Operations Centre
- Mobile Operations and Maintenance Systems

Technology

- Condition Monitoring across functions
- Institutional collaboration

Sale of Rail Operating Assets to LTA

As part of the NRFF transition, SMRT Trains will transfer the ownership of its rail operating assets at NBV amounting to S\$991M (S\$1,060M including GST) to LTA¹. Thereafter, SMRT Trains will operate its current MRT and LRT lines on an asset light model.

Valuation of the assets for sale based on NBV is consistent with past rail transactions with LTA

1. At the commencement of the NSEW Licence, SMRT Trains acquired the rail operating assets at net book value, with five equal interest-free annual instalment payments;
2. SMRT Trains acquired subsequent additional rail operating assets at their 10th year at net book value; and
3. SMRT Trains has a contractual obligation under the existing Licences to transfer the operating assets of the Lines back to LTA at the net book value upon the termination of these Licences.

¹ Estimated as at 30 Sep 2016, subject to terms of sale and purchase agreements.

Payment and Use of Proceeds

- Payment for the assets will be made in tranches: S\$797M will be made on the initial completion date, with the balance of the consideration payable over the next 3 anniversaries of the completion date.
- SMRT Trains has provided warranties on the conditions of the assets. LTA will also carry out an assessment of the condition of the assets and is entitled to withhold payment for assets requiring rectification or replacement.

S\$'M	1 Oct 2017 <i>Year 1</i>	1 Oct 2018 <i>Year 2</i>	1 Oct 2019 <i>Year 3</i>
Amount receivable	72	72	48

- SMRT's total debt level is expected to be at \$762M on 30 Sep 2016. The Company intends to use the net proceeds from the asset sale to:
 - Retiring part of the existing debt, a portion of which was used to fund investments in rail operating assets for prudence
 - Pay the IRAS the amount of approximately S\$159M as a tax payable on the difference between the sales proceeds and the residual capital allowances relating to the operating assets
 - Invest in the strengthening and further development of our rail engineering competencies for service reliability.

SMRT does not intend to use the proceeds from the asset sale to pay any special dividend to shareholders

Note: Amounts stated excludes GST.



Financial Impact and Directors' Position

- Had the Proposed Sale been effected on 31 March 2016, the Group's NTA per Share would see a change of less than 1% as at 31 March 2016, as shown below:

NTA per Share as at 31 March 2016 (audited)	NTA per Share as at 31 March 2016¹ (Assuming the Proposed Sale had been effected on 31 March 2016)
59.21 cents ¹	59.44 cents ²

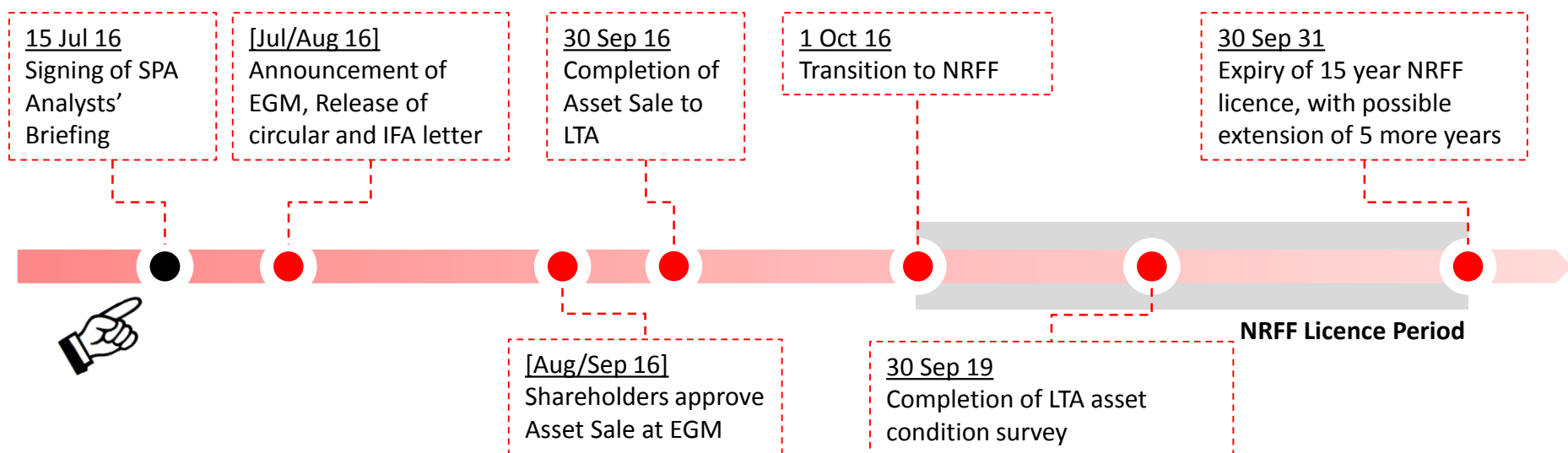
IFA and Other Advisors

- PrimePartners has been engaged as the Independent Financial Adviser to the Board of Directors, and they have opined that the terms of the Proposed Sale are fair and reasonable.

¹ Based on the Group's NTA as at 31 March 2016 of approximately S\$902.29M, divided by 1,523,851,896 Shares.

² Based on the Group's NTA as at 31 March 2016 (assuming the Proposed Sale had been effected on 31 March 2016) of approximately S\$905.72M, divided by 1,523,851,896 Shares.

Timeline of EGM and NRFF Transition



Ensuring Sustainable Growth

- The NRFF will not affect SMRT's other existing non-rail business areas and the Group will continue to pursue business growth in line with our core competencies.
- It will also not affect the terms and conditions of employment of our workers.



NRFF

SMRT Trains
NSEWL

SMRT Trains
CCL

SMRT Trains
BPLRT

Singapore Rail
Engineering

SMRT Services

SMRT Buses

SMRT Taxis, Bus-Plus
& Automotive
Services

SMRT
Commercial

SMRT
International

Ensuring Sustainable Growth

1

Develop our rail engineering expertise

Singapore Rail Engineering

- Engineering Procurement Contracting (EPC)
- Maintenance Repair and Overhaul (MRO)

SMRT Services

- Rail-related technical service and support capabilities
- Autonomous Vehicles
- Facilities Mgmt
- Logistics Supply Chain Mgmt

2

Expand our road & rail transport operational footprint

SMRT Taxis, Bus-Plus & Automotive Services

- Taxis
- Private Hire Vehicles
- Limousine Services
- Bus chartering
- Automotive Services

SMRT Buses

- Bus contracting - 12 packages in phases by 2022 for competitive bids

3

Extend our commercial out-of-network reach

SMRT Commercial

- Transit agent for advertising activities and real estate activities within public transport network
- Out of network: marketing, leasing, and digital and e-commerce

SMRT International

- Consultancy and technical services
- Overseas O&M

THANK YOU

