



SMRT CORPORATION LTD
(Incorporated in the Republic of Singapore)
(Company Registration Number 200001855H)

**CHAIRMAN'S OPENING REMARKS FOR EXTRAORDINARY GENERAL MEETING ("EGM")
HELD AT THE STAR THEATRE, LEVEL 5, THE STAR PERFORMING ARTS CENTRE,
1 VISTA EXCHANGE GREEN, SINGAPORE 138617
ON 29 SEPTEMBER 2016 AT 2.30 P.M.**

Ladies and Gentlemen,

Good afternoon and welcome to this Extraordinary General Meeting. As you all know we have convened two meetings today to vote on two separate motions.

The first meeting, which is starting now, has been called for shareholders to vote on the proposed sale of operating assets in connection with SMRT's transition to the new rail financing framework or NRFF as it is called. The second meeting, which will begin at 3:30pm or as soon thereafter following the conclusion of this first meeting, is to allow shareholders to vote on the proposed privatisation of SMRT by way of a scheme of arrangement. I request you to kindly wait for the second meeting to ask any questions about the privatisation and the Scheme as such questions will only be addressed during the second meeting.

The Board and the management will be happy to answer questions relating to the NRFF during this meeting. But before we open the floor to questions, I would like to invite our CEO, Desmond Kuek, to share details on the NRFF with the shareholders.

Thank you.

**CEO'S BRIEFING FOR EXTRAORDINARY GENERAL MEETING ("EGM")
HELD AT THE STAR THEATRE, LEVEL 5, THE STAR PERFORMING ARTS CENTRE,
1 VISTA EXCHANGE GREEN, SINGAPORE 138617
ON 29 SEPTEMBER 2016 AT 2.30 P.M.**

Good afternoon and welcome to our Extraordinary General Meeting on the proposed sale of our rail operating assets to the Land Transport Authority under the New Rail Financing Framework.

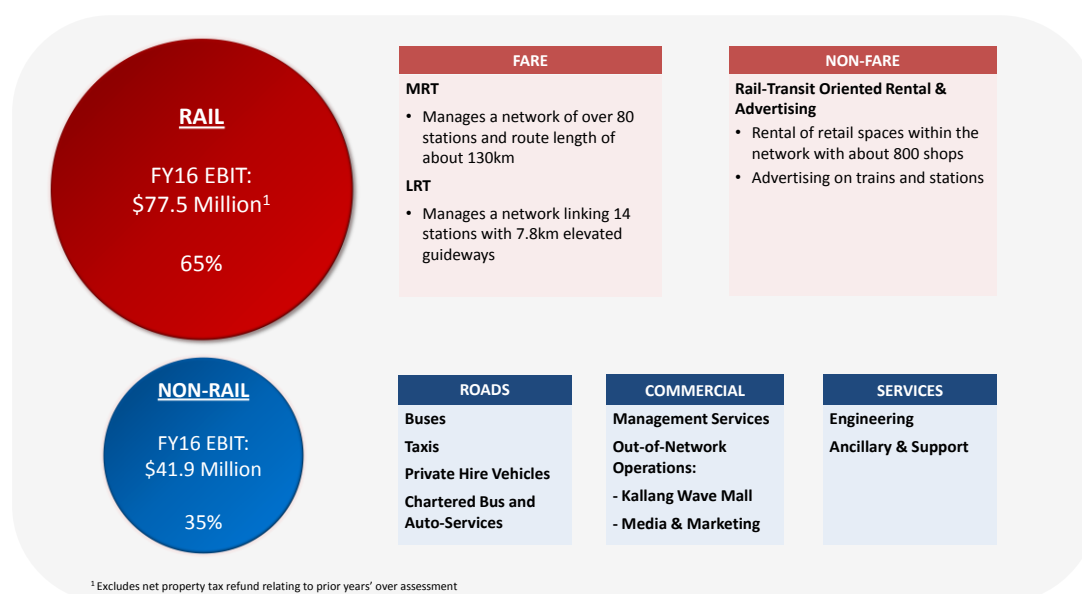
Introduction

On 15 July 2016, the Government announced the proposed transition of the licences to operate the North-South and East-West Lines, Circle Line and Bukit Panjang Light Rail Transit to the New Rail Financing Framework.

SMRT welcomes the transition as it will bring our current rail lines into a financing framework that is more sustainable.

It is useful to make clear that the New Rail Financing Framework concerns SMRT's rail public transport operations – which comprise fare and non-fare business lines. In FY2016, SMRT's rail business contributed about 65% of our total EBIT, after normalizing for property tax savings. The rail non-fare business includes the rental and advertising business related to the transit network.

The NRFF does not affect our other existing non-rail business areas (depicted in blue).



Challenges under Current Rail Financing Framework

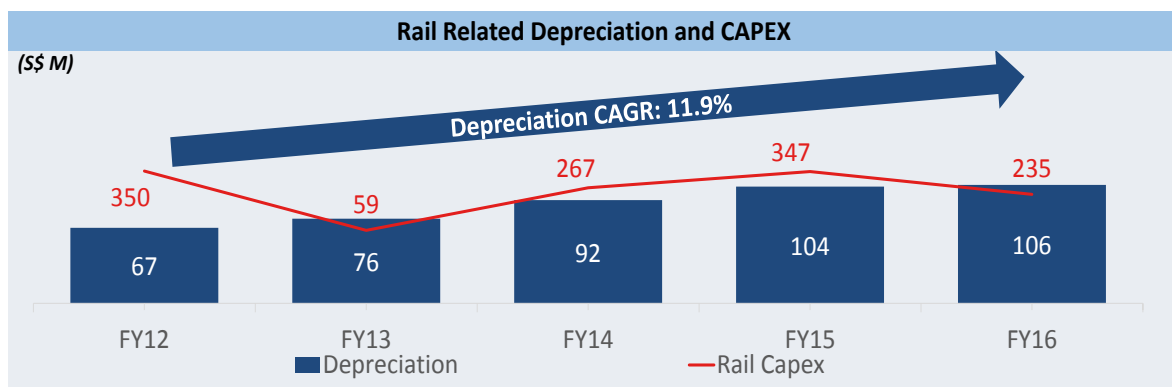


Under the existing licences, SMRT Trains operates on an asset-heavy business model. Operating assets were initially funded by LTA, but the operator has the obligation to buy over these assets on certain specified dates in the licences. SMRT Trains is expected to fund all additions, renewals and replacements relating to the operating assets during the licence tenure.

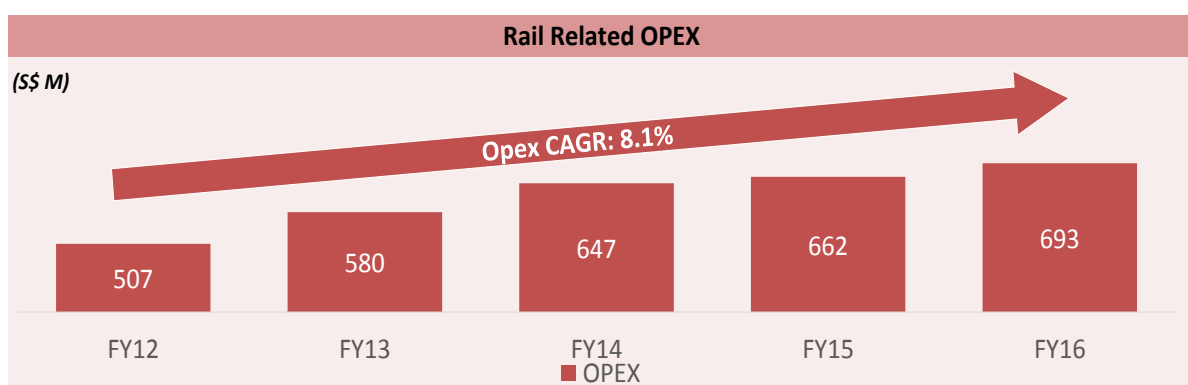
Infrastructure assets, on the other hand, such as stations, depots, track & power systems are owned by LTA, who is responsible for the renewal and replacement of those assets. All revenue generated from the lines is retained by SMRT Trains for the purpose of meeting our service obligations and sustaining the lines.

However, several key challenges faced by SMRT render the CRFF unsustainable.

First, rail-related capital expenditure is expected to significantly increase in the future. Over the past 5 years, rail-related capital expenditures have already amounted to about S\$1.3 billion, with depreciation charges increasing 11.9% year-on-year on average. Capital expenditure over the next 5 years is expected to reach about S\$2.8 billion, for the replacement of ageing assets in the system, procurement of new trains and take-over of Circle Line and Boon Lay Extension operating assets, as required under the current licence.

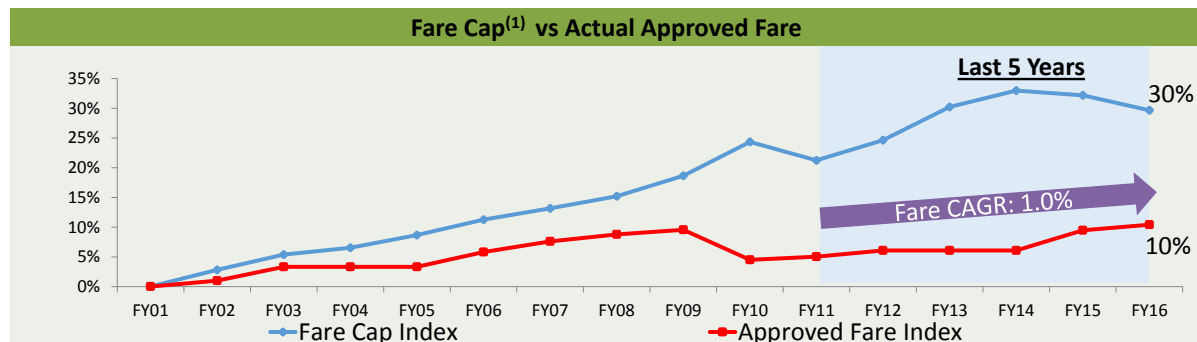


Second, costs associated with meeting heightened regulatory standards have increased. Enhanced security and operating standards have contributed to rail operating expenditures increasing by 8.1% year-on-year on average over the past 5 years. Maintenance-related expenditures over the same 5 year period increased 12.4% year-on-year to reach 45% of our rail fare revenue in the last Financial Year. As the operator, SMRT is obliged to comply with these regulatory standards at its own cost under the terms of the current licence.



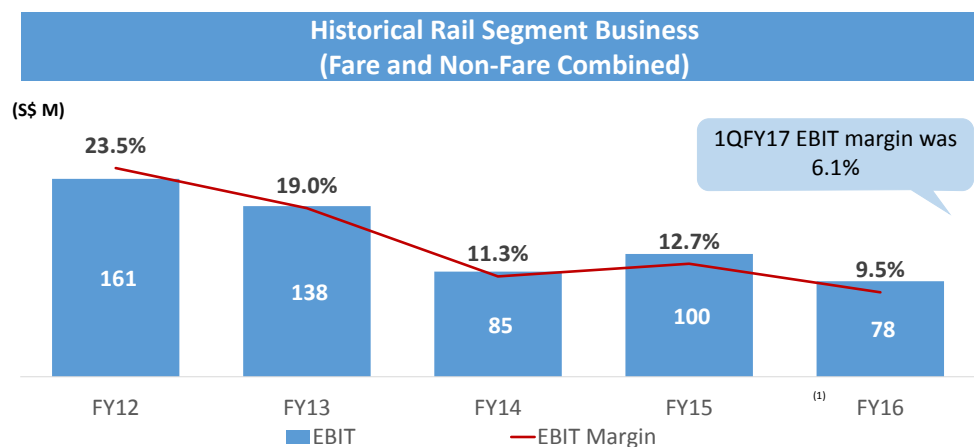


In comparison, over the past 5 years, actual fares only increased by 1.0% year-on-year on average. In keeping fares affordable, actual fare increments over the years have not kept pace with the prescribed fare formula used by the Public Transport Council, and the gap between actual fares and the formula has widened last year to about 20%.



As a result, the profitability for the Rail segment which includes both fare and non-fare businesses operated by SMRT Trains has declined over the past 5 years. Heavy capital expenditures, enhanced operating standards and stagnating fare revenue have all contributed to the steady decline in profitability for SMRT Trains from 23.5% in FY2012 to 9.5% in FY2016. In the first quarterly financial results for this year, SMRT Trains' EBIT margin further declined to 6.1%.

The CRFF has become unsustainable for SMRT Trains



¹ Excludes net property tax refund relating to prior years' over assessment

Sensitivity Analysis of FY2016 EBIT Margin Under CRFF

This chart illustrates the FY2016 CRFF earnings impact under various revenue and opex conditions. It includes an additional estimated S\$90 million in annual depreciation charges arising from the S\$2.8 billion capital expenditure obligation, assuming a useful life of 30 years is adopted for these assets.

Should total revenue remain at actual FY2016 level and operating expenses fluctuate between -10% and +10%, you can see that the Trains' EBIT margin would range from 8.0% to a loss of



-6.6%. . This sensitivity analysis is for illustrative purposes only and does not constitute any form of profit guidance or forecast

Illustrative FY2016 EBIT Margin Under CRFF (With Additional \$90M Depreciation per annum)⁽¹⁾						
Variations on Operating Expenses (Net 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%

¹ Assumes actual FY16 revenue and opex with additional \$90m depreciation assuming new assets of S\$2.8b in capital expenditure and useful lives of 30 years

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 its EBIT margin in the future.

The New Rail Financing Framework

Although our current licenses have not expired, as a result of the limitations of the Current Rail Financing Framework, SMRT and LTA have been in discussion since 2011 on the possibility of an early transition to a new licensing arrangement. Understandably, this is an intricate and complex process as we need to account for existing assets and upgrading works that are in progress, and to ensure that the new framework is sustainable for all parties involved.

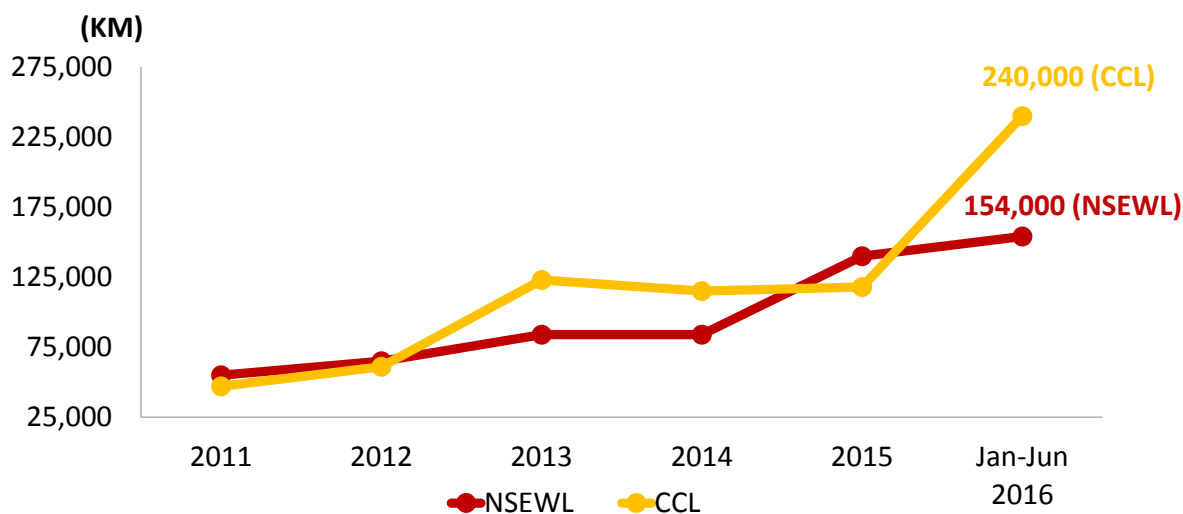
Final decision on all terms and conditions relating to the new licence structure lie with the Government, and the decision was duly announced on 15 July 2016.

As has been described in the NRFF Circular, capital investments in operating assets will now be made by LTA rather than the operator. SMRT Trains will operate on an asset-light model, focusing on two main areas: providing quality service to commuters and maintaining the trains to ensure smooth operations.

In accordance with the new Maintenance Performance Standards set out by LTA in the new licence, SMRT Trains will employ or allocate at least 700 additional maintenance headcount (which approximates to a 20% increase) over the next three years. This is in addition to the 30% increase in technical workforce that SMRT has already made in the last three years.

These efforts have already brought about steady improvement in rail reliability, as measured by the Mean Kilometres Between Failure (MKBF), which has improved about three-fold on the NSEW Lines, and five-fold on the Circle Line since 2011.

MKBF (2011 – 2016) with delays lasting >5 mins



SMRT Trains will have the right to operate its current MRT and LRT lines under a single new licence for a period of 15 years commencing on 1 October 2016, with the possibility of an extension of 5 years subject to parties' mutual agreement.

During the licence period, SMRT Trains will pay LTA a licence charge for the right to use the operating assets and operate the lines, which will go into a Railway Sinking Fund that has been set up. The licence charge payable is structured by LTA to allow SMRT Trains to achieve an Earnings Before Interest and Tax (EBIT) margin of about 5% on its fare and commercial revenue, similar to the margins of comparable asset-light rail operators in other jurisdictions.

Risk Sharing under NRFF

Another key feature of the NRFF is the risk (and reward) sharing mechanisms which comprise a Revenue Collar, Profit Cap and Collar, and grants or reimbursements from LTA.

In order to share revenue risk, there is a Revenue Collar based on a projected Target Revenue that is determined by LTA. If actual revenue deviates from this Target Revenue, the shortfall between 2% and 6% will be shared equally (50%) between SMRT Trains and LTA. LTA will bear 75% of any incremental revenue shortfall beyond 6%.

Further, actual overall earnings are calibrated through a Profit Cap and Collar mechanism. If the actual EBIT margin falls below 3.5%, 50% of the shortfall is borne by LTA. However, LTA's sharing of these downside risks is limited to the quantum of the licence charge payable for that financial year. Should the EBIT margin however exceed 5%, the excess will be shared with LTA via a tiered structure, up to a maximum of 95%.

Lastly, SMRT Trains may also apply to LTA for a grant if it suffers a net reduction in operating revenue or a net increase in operating costs as a result of certain specified events, such as enhancement of operating standards and reduction in rentable spaces. SMRT Trains is similarly obliged to inform LTA if it has a corresponding net reduction in operating costs or net increase in operating revenue and LTA may request SMRT Trains to pay the amount of



reduction or increase respectively to LTA. It should be noted that the grant quantum will be at LTA's full discretion.

If we apply these NRFF assumptions to the same FY16 earnings in a sensitivity analysis, where total revenue remains at its actual FY2016 level and operating expenses fluctuate between -10% and +10%, SMRT Trains' EBIT margin would now range from 5.7% to 2.3%. This compares favourably to the illustrative EBIT margin range of 8.0% to -6.6% under the CRFF that I had shown earlier. This table is also for illustrative purposes and does not constitute any form of profit guidance or forecast.

Illustrative FY2016 EBIT margin⁽¹⁾ under NRFF

		Variations on Operating Expenses (Net 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%

¹ Assumes (i) actual FY16 Revenue and OPEX adjusted for NRFF depreciation for illustrative purposes, (ii) NRFF revenue collar computed based on FY2016 revenue as the Target Revenue, and (iii) revenue share charge of 10%

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 its EBIT margin in the future.

You can also deduce from this table the earnings impact should fare revenue fall, such as in a scenario where the Public Transport Council decides to reduce fares by up to 5.7% as they had recently suggested is possible under the fare adjustment cycle in the coming year.

It is therefore important that we reiterate that while the New Rail Financing Framework provides a measure of risk mitigation and earnings stability that SMRT Trains presently does not have under the current framework, there is no certainty that SMRT Trains will earn an EBIT margin of 5%. While we will do our best to mitigate the key operating risks under the new licence, these risks relating to fare adjustments, ridership levels, operating expenditure increases, timing of asset renewal and regulatory changes, as well as the costs and uncertainties associated with an ageing and expanded network that may impact SMRT Trains' profitability, remain significant.

NRFF Asset Sale Proceeds

As part of the transition to the New Rail Financing Framework, LTA will purchase the operating assets held by SMRT Trains at their estimated Net Book Value of S\$991 million (or S\$1.06 billion including GST) as at 30 September 2016. This is payable over a period of three years.

Valuation of the assets for sale based on their Net Book Value is consistent with past rail transactions with LTA.

PrimePartners was appointed as the Independent Financial Adviser (IFA), and they are of the view that the terms of the proposed sale are fair and reasonable.



SMRT will not be using the net proceeds from the Asset Sale to pay any special dividend to our shareholders. We have to pay IRAS approximately S\$159 million as a balancing charge on the difference between the sale proceeds and the residual capital allowances relating to the operating assets. SMRT Group's total debt level is about S\$762 million on 30 September 2016, including existing bonds which were partially used in the past to fund investments in rail operating assets. Part of the proceeds from the sale of assets will thus be used to retire these bonds.

Going forward, SMRT Trains will adopt a lower gearing as it will not have the fixed assets to back future borrowings under an asset light model, and is expected to earn a relatively lower EBIT margin under the new rail financing framework.

In addition, we will use the net proceeds to invest in the strengthening and further development of our rail engineering competencies in line with our commitment to enhance the quality of service and reliability for our commuters.

Conclusion

In summary, while it has its risks, the New Rail Financing Framework is a more sustainable framework compared to the current one, as it will offer some protection in terms of fare revenue and earnings. It also relieves SMRT of our capital expenditure obligations and puts SMRT Trains in a better position to operate and maintain its rail services. The Board of Directors recommends that shareholders vote in favour of the sale of existing SMRT Trains' operating assets to LTA.

We would be pleased to take your questions. Thank you.



**CHAIRMAN'S CLOSING REMARKS FOR EXTRAORDINARY GENERAL MEETING ("EGM")
HELD AT THE STAR THEATRE, LEVEL 5, THE STAR PERFORMING ARTS CENTRE,
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ON 29 SEPTEMBER 2016 AT 2.30 P.M.**

The results of the poll that has been concluded is 98.84% FOR and 1.16% AGAINST.

Based on the results of the Poll, I declare the resolution carried.

Thank you all for your participation at this Meeting. The Company Secretary has informed me that no notice of any other business for discussion at this EGM has been received.

This brings the business of the EGM to a close. I now declare the meeting closed. Thank you.



FORWARD-LOOKING STATEMENTS

This transcript may contain statements regarding the business of SMRT Corporation Limited (the "Company") and its subsidiaries 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.