



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

**PROPOSED SALE OF OPERATING ASSETS IN CONNECTION WITH THE NEW RAIL
FINANCING FRAMEWORK**

Important Note: All statements other than statements of historical facts included in this announcement are or may be forward-looking statements. Forward-looking statements include but are not limited to those using words such as "seek", "expect", "anticipate", "estimate", "believe", "intend", "project", "plan", "strategy", "forecast" and similar expressions or future or conditional verbs such as "will", "would", "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. Such forward-looking statements are not guarantees of future performance or events and involve known and unknown risks and uncertainties. Accordingly, actual results may differ materially from those described in such forward-looking statements. Shareholders and investors should not place undue reliance on such forward-looking statements, and the Company does not undertake any obligation to update publicly or revise any forward-looking statements.

1. INTRODUCTION

- 1.1 The board of directors (the "**Board**") of SMRT Corporation Ltd (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce that its wholly-owned subsidiaries, SMRT Trains Ltd ("**SMRT Trains**") and SMRT Light Rail Pte. Ltd. ("**SMRT Light Rail**", and together with SMRT Trains, the "**SMRT Trains Entities**", and each an "**SMRT Trains Entity**"), have each entered into two sale and purchase agreements (collectively, the "**Sale and Purchase Agreements**") with the Land Transport Authority of Singapore ("**LTA**") on 15 July 2016.
- 1.2 Under and subject to the terms of the Sale and Purchase Agreements, the SMRT Trains Entities will sell and LTA will purchase the Operating Assets (as described in paragraph 2) (the "**Proposed Sale**").
- 1.3 The Proposed Sale is contemplated in conjunction with the Company's transition of the Existing Licences (as described in paragraph 3.3) to the new rail financing framework ("**NRFF**"). As further described in paragraph 3.9, under the NRFF, SMRT Trains will operate under an asset-light model as the LTA assumes ownership of operating assets and decides on capital expenditure.
- 1.4 In this announcement, references to "**paragraph**" are references to the paragraphs of this announcement.

2. INFORMATION ON THE OPERATING ASSETS

- 2.1 The operating assets to be sold by the SMRT Trains Entities to LTA (the "**Operating Assets**") comprise certain operating assets (including trains (rolling stock), permanent way vehicles, signaling and communication system, power supply, supervisory control system, escalators and lifts, platform screen doors, the environmental control system and automatic fare collection system) which are required for the operation of the North-South-East-West Mass Rapid Transit System (the "**NSEW Line**"), the Circle Line Mass Rapid Transit System (the

"**CCL Line**") and the Bukit Panjang Light Rapid Transit System (the "**BPLRT Line**", and together with the NSEW Line and CCL Line, the "**Lines**").

- 2.2 In general, two categories of Operating Assets are being sold, being (a) assets under construction or work-in-progress ("**WIP**"), and (b) assets categorised as "Property, Plant and Equipment" in the Company's financial statements, excluding any WIP ("**PPE**"). Only Operating Assets which fulfil certain prescribed criteria set out in the Sale and Purchase Agreements, including without limitation, that there are no encumbrances over or affecting the Operating Assets, and the relevant SMRT Trains Entity is the sole legal and beneficial owner of the Operating Assets and is able to transfer and vest in LTA clean legal and beneficial title free and clear of any encumbrance (such criteria collectively, the "**Relevant Criteria**"), shall be sold to LTA under the Sale and Purchase Agreements, though LTA may agree to purchase Operating Assets which do not fulfil one or more of the Relevant Criteria under the sale and purchase agreement (WIP Operating Assets) between LTA and SMRT Trains or the sale and purchase agreement (WIP Operating Assets) between LTA and SMRT Light Rail.
- 2.3 The WIP generally comprises new operating assets which the SMRT Trains Entities have agreed to purchase under certain contracts with suppliers, vendors or manufacturers of the said assets ("**Contracts**").

3. RATIONALE FOR AND BENEFITS OF THE PROPOSED SALE AND THE TRANSITION TO THE NRFF

The Existing Licences

- 3.1 SMRT Trains entered into a Licence and Operating Agreement dated 1 April 1998 with LTA which gave SMRT Trains the right to operate the NSEW Line for an initial period of 30 years from 1 April 1998 to 31 March 2028, with a possible extension for a further period of 30 years. SMRT Trains also subsequently obtained a licence from LTA to operate the CCL Line for a period of 10 years from 4 May 2009 to 3 May 2019, with a possible extension for a further period of 30 years.
- 3.2 SMRT Light Rail, a wholly-owned subsidiary of SMRT Trains, entered into a Licence and Operating Agreement dated 25 October 1999 with LTA which granted SMRT Light Rail the right to operate the BPLRT Line for an initial period of 29 years from 6 November 1999 to 31 March 2028, with a possible extension for a further period of 30 years.
- 3.3 Under the Licence and Operating Agreements and licence described in paragraphs 3.1 and 3.2 (collectively, the "**Existing Licences**"), which were issued under the current rail financing framework ("**CRFF**") structure, the SMRT Trains Entities operate on an asset-heavy business model. While most of the operating assets for the respective lines were initially funded by LTA, the licensed entities were required to acquire the operating assets in accordance to the dates specified in the Existing Licences. Infrastructure assets, on the other hand, are fully funded and owned by LTA.
- 3.4 In addition, under the CRFF, the SMRT Trains Entities are also expected to fund all additions, renewals and replacements relating to the operating assets and are also obliged to comply with changes made to the regulatory standards at their own costs during the tenure of the Existing Licences. All revenue, fare and non-fare¹, generated from the respective Lines is retained by the SMRT Trains Entities for the purpose of meeting their service obligations and sustaining the Lines.

¹ Non-fare revenue comprises revenue from transit advertising and rentals

Limitations and Key Challenges under the Existing Licences

- 3.5 Heavy capital expenditure requirements related to an expanded and ageing network: Under the Existing Licences, the SMRT Trains Entities' capital commitments and depreciation charges have increased significantly over the past few years due to the expanding train fleet size to cater for higher ridership demand and the increased need for renewal and upgrade of an ageing network. These obligations are likely to continue to grow in the next five years and could reach an aggregate estimated capital expenditure spend of about S\$2.8 billion 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 level reliability standards and to cater for an expanded network. These would collectively impose additional pressure on the SMRT Trains Entities' profitability. Assuming a useful life of 30 years was adopted for these assets, such capital expenditure would lead to additional depreciation charges of approximately S\$90 million per annum if S\$2.8 billion in operating assets were to be purchased.
- 3.6 Rising operational and maintenance-related costs to meet enhanced operating standards, with a widening fare gap: Costs relating to the maintenance and operation of the Lines have also risen as a result of the SMRT Trains Entities' commitment to ensure the reliability of the ageing rapid transit system network and provide a higher level of service to the commuting public. Additionally, in accordance with recommendations by the Public Transport Council established under the Public Transport Council Act, Chapter 259B of Singapore (the "**PTC Act**"), fares have been kept affordable for the commuting public through a series of measured fare adjustments since 2001. As a result, fares have not increased in accordance with the cumulative maximum fare allowable based on the prescribed fare adjustment formula².
- 3.7 Consistent decline in profitability for the SMRT Trains Entities: This fare gap and rising operating expenses together with the increased capital commitments and hefty depreciation charges as discussed in paragraphs 3.5 and 3.6, have resulted in the decline in profitability of the SMRT Trains Entities that has adversely impacted their ability to sustainably finance the renewal and replacement of operating assets while keeping up with the provision of enhanced service levels to the commuting public. This trend of declining profitability is expected to persist under the CRFF as the additional capital expenditures and increased depreciation will continue to have an adverse financial impact on the earnings of the rail business.
- 3.8 Although the Existing Licences have not expired, given the limitations and key challenges of the Existing Licences as described above, the Company and LTA have been in discussions since 2011 on the possibility of an early transition of the Existing Licences, which were issued under the CRFF, to the new licensing arrangement under the NRFF as described in this announcement.

The NRFF

- 3.9 The Government announced the NRFF in 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. The NRFF was first implemented in 2011 for the Downtown Line (DTL) MRT system. Key features of licences granted to operators of mass rapid transit systems under the NRFF include the following:
- (a) a licence period of about 15 years;

² The fare adjustment formula is presently set out in the Third Schedule to the PTC Act, as amended from time to time. The current fare adjustment formula is based on the formula as published in the 2013 Fare Review Mechanism Committee Report and accepted by the Singapore government.

- (b) capital investments in operating assets will be made by LTA rather than the operator. LTA will own the operating assets and thereby retain the ability and flexibility to make decisions on capital investments, undertake integrated and holistic long-term planning for the rapid transit system network, and effect the timely purchase of more assets, such as trains, to enhance carrying capacity, all in the interests of the commuting public;
- (c) the collection of a licence charge by LTA from the operators for the right to operate and maintain the rail line, and derive revenue from it; and
- (d) the licence charge paid to LTA will be set aside in the railway sinking fund established and managed by LTA to finance the addition, replacement and upgrades of operating assets.

NRFF Licence

- 3.10 Subject to approval of the shareholders of the Company ("**Shareholders**") being obtained for the Proposed Sale at an extraordinary general meeting of the Company to be convened ("**EGM**") and upon completion of the Proposed Sale and transition of the Existing Licences to the NRFF, LTA will own all the operating assets of the Lines, and will, upon the surrender of the Existing Licences, grant to SMRT Trains³ a single new licence (the "**NRFF Licence**"), commencing on 1 October 2016 (or such other date agreed between SMRT Trains and LTA) (the "**Effective Date**"), to operate the Lines for an initial term of 15 years. If SMRT Trains applies for an extension of the term in accordance with the terms of the NRFF Licence, the term may be extended at LTA's discretion for a further period of five years on such terms and conditions as LTA may determine and SMRT Trains may accept.

The Company has reviewed the terms of the draft NRFF Licence offered by LTA. The structure and terms of the NRFF Licence as described in this announcement are based on the draft NRFF Licence that has been offered by LTA to SMRT Trains. In brief, the NRFF Licence being offered to SMRT Trains, besides incorporating the characteristics set out in paragraph 3.9(a) to (d), will have a licence charge which consists of a revenue share charge and other variable charges, and risk sharing mechanisms to calibrate the earnings of SMRT Trains and the licence charge payable to LTA.

Key Benefits of transitioning to the NRFF

- 3.11 As mentioned above⁴, under the CRFF, the continuing heavy capital expenditure obligations related to the purchases of operating assets for the Lines, including new operating assets and all additions, renewals and replacements, reside with the SMRT Train Entities. With an ageing network and heightened operating standards, operating costs have increased significantly and are expected to increase further if the SMRT Trains Entities do not transition to the NRFF, resulting in negative earnings impact and greater fluctuations in earnings for the SMRT Trains Entities. Under the NRFF, on the other hand, as all operating assets of the Lines will be owned by LTA, the depreciation charges and the capital expenditure relating to purchases of operating assets will no longer be borne by the Group. Relieved of its heavy capital expenditure obligations (which could reach an aggregate estimated capital expenditure spend of about S\$2.8 billion over the next five years including the procurement of new trains and take-over of CCL Line operating assets where applicable), SMRT Trains will be better positioned to operate and maintain its rail services.

³ SMRT Light Rail will be amalgamated with SMRT Trains, with SMRT Trains remaining as the surviving entity on completion of the amalgamation. The Proposed Sale will not affect the other businesses and assets of the Group, apart from the business and assets of the SMRT Trains Entities.

⁴ In paragraphs 3.3, 3.4, 3.5 and 3.6.

Licence charge under the NRFF

- 3.12 Under the NRFF Licence, fare and non-fare revenue generated by SMRT Trains will be composited and be applied towards meeting SMRT Trains' operating and maintenance obligations under the NRFF Licence. SMRT Trains will pay LTA a licence charge for the right to use the operating assets and operate the Lines. The licence charge is structured to enable SMRT Trains to share with LTA the risks (and rewards) associated with uncertainties in relation to revenue from fare collection and fluctuations in operating costs. It is calibrated to take into account deviations from the projected revenue figures of SMRT Trains as determined by LTA under the NRFF Licence ("**Target Revenue**") as well as the overall earnings of SMRT Trains. Under the licence charge structure of the NRFF Licence, SMRT Trains expects to be better protected against risks relating to fluctuations in fares, ridership and operating costs. In order to ensure the long-term sustainability of the rapid transit system network, LTA is expected to undertake and share some of the operating risks with SMRT Trains, while ensuring that SMRT Trains remains incentivised to be cost-efficient and committed to meeting its service obligations.

Earnings (before interest and tax) ("**EBIT**") margin under the NRFF Licence

- 3.13 LTA has stated in its press release on 15 July 2016 entitled "SMRT Trains and SMRT Light Rail to Transit to New Rail Financing Framework: More Timely Capacity Expansion, Asset Replacement and Upgrade; New Maintenance Performance Standards to Improve Train Reliability" that the licence charge under the NRFF Licence, 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%, similar to the margins of comparable asset-light rail operators in other jurisdictions. However, **Shareholders should note that there is no certainty that SMRT Trains will earn an EBIT margin of about 5%** under the NRFF Licence. The licence charge structure provides a revenue shortfall sharing, and a profit sharing mechanism based on a tiered EBIT cap starting at 5% and an EBIT collar at 3.5%. Any EBIT deviations beyond the cap and collar would be shared with LTA, with LTA's sharing of downside risks limited to the licence charge payable for the financial year. The eventual profitability of SMRT Trains will be dependent on several factors. The circular to Shareholders referred to in paragraph 11 will highlight some of the key risk factors that are likely to, will or may affect the actual EBIT margin of SMRT Trains. Table B of the Appendix to this announcement sets out a sensitivity analysis of the impact of fluctuations in fare revenue and costs to the EBIT margin for FY2016 of SMRT Trains for illustrative purposes. As an illustration:

- assuming the total fare revenue of SMRT Trains remains the same as the total fare revenue of SMRT Trains for FY2016, and operating expenses (i.e. net of other operating income) of SMRT Trains were to vary between -10% and +10%, SMRT Trains' EBIT margin for FY2016 would range between 5.7% and 2.3% respectively;
- assuming that the operating expenses (i.e. net of other operating income) of SMRT Trains continues to grow at the historical compounded annual growth rate (CAGR) for the last five financial years (i.e. FY2012 to FY2016) of 8.1%, and total fare revenue of SMRT Trains were to vary between 0% and -2%, SMRT Trains' EBIT margin for FY2016 would range between 3.1% and 2.3% respectively.

In addition, to illustrate the impact on SMRT Trains if SMRT Trains were to remain under the CRFF and incur the additional depreciation charges for the capital expenditure obligations of about S\$2.8 billion (see paragraph 3.11) under the CRFF, Table A of the Appendix to this announcement sets out a sensitivity analysis of the impact of fluctuations in fare revenue and costs (including the depreciation charges) to the EBIT margin for FY2016 of SMRT Trains for illustrative purposes.

Revenue Collar

As ridership and fares are largely beyond the control of SMRT Trains, the licence charge structure has a revenue shortfall sharing mechanism (collar) that serves to mitigate the downside revenue impact to SMRT Trains beyond a certain threshold by adjusting the licence charge payable to LTA. If the actual revenue falls short of the Target Revenue, the shortfall between 2% and 6% will be shared equally (50% each) between SMRT Trains and LTA. LTA will bear 75% of any incremental revenue shortfall beyond 6%.

It is important to note that LTA's sharing of risks built into the licence charge formula is limited by the amount of the licence charge that SMRT Trains is required to pay to LTA. If, based on the formula, the licence charge payable is zero, LTA is not obliged to subsidise and bear a further share of the operating costs, except in the case where it has agreed to extend a grant (see paragraph 3.15).

Profit Cap and Collar

If SMRT Trains is able to generate profits above a certain threshold (EBIT margin in excess of 5%), LTA will share the upside via a tiered sharing arrangement (cap) incorporated in the licence charge, with a prescribed percentage of up to a maximum of 95% of the incremental EBIT margin exceeding 5%. Conversely, the risk-sharing features of the cap and collar also calibrate the licence charge payable to LTA (collar). When the overall EBIT margin falls below 3.5%, 50% of the shortfall will be borne by LTA. As mentioned in the immediately preceding sub-paragraph, LTA's sharing of these downside risks is limited to the quantum of the licence charge payable for the financial year.

Licence charge summary

In summary, the Company envisages that the licence charge structure under the NRFF will provide a more stable earnings stream for SMRT Trains as compared to its earnings stream under the CRFF in the future. Under the CRFF, the heavy capital expenditure obligations reside with the SMRT Trains Entities and with an ageing network, this has increased significantly and is expected to increase further if the SMRT Trains Entities do not transition to the NRFF, resulting in negative earnings impact and greater fluctuations in earnings for SMRT Trains.

Review of licence charge

Under the NRFF Licence, LTA may from time to time carry out a review of the licence charge, having regard to the relative viability of operating and maintaining each Line in the network of rapid transit systems and such other matters as LTA considers fit. SMRT Trains may submit written requests to LTA to undertake such review if it believes there are good reasons to do so, such as when the EBIT margin has fallen below a certain threshold, there are exogenous cost increases to SMRT Trains which are beyond the control of SMRT Trains and LTA, or there is a lag in fares relative to the maximum fare derived under the fare adjustment formula affecting the sustainability of SMRT Trains. Any review of the licence charge is subject to LTA's discretion.

In the event that the licence charge framework is assessed by the Company to be financially unsustainable for SMRT Trains in the course of the next two years after the Effective Date, SMRT Trains will apply to LTA for a review of the licence charge.

Summary of expected impact on EBIT margin of SMRT Trains

- 3.14 In summary, SMRT Trains' profitability is expected to be more stable under the NRFF as the licence charge structure and the in-built risk-sharing features moderate the income fluctuations that SMRT Trains is exposed to under the CRFF. While the comparable EBIT margin of SMRT Trains under the NRFF would be lower (see paragraph 3.13) than the historical EBIT margins under the CRFF, the Company expects its future EBIT margins under the CRFF to come under significant pressure and be severely impacted by the increased depreciation charges (as expressed in paragraphs 3.5 and 3.11) which would result from the escalating capital expenditures.

Grant from LTA

- 3.15 LTA may, at its discretion, make grants to SMRT Trains in response to grant requests from SMRT Trains, which may be made if SMRT Trains suffers a net reduction in operating revenue or net increase in operating costs as a result of certain specified events, such as modifications of Operating Performance Standards for the Lines ("**OPS**"), Maintenance Performance Standards for the operating assets of the Lines ("**MPS**"), Key Performance Indicators for the operating assets of the Lines ("**KPIs**") or codes of practice on or after the Effective Date, and reduction of rentable space from the amount made available as at the Effective Date for purposes of generating non-fare revenue.

However, SMRT Trains is similarly obliged, if it has a corresponding net reduction in operating costs or net increase in operating revenue, to inform LTA, in which case LTA may at its discretion adjust any grants made or require that SMRT Trains pay the amount of reduction or increase respectively to LTA.

4 SALIENT TERMS OF THE PROPOSED SALE

The key terms of the Proposed Sale, as set out in the Sale and Purchase Agreements, are as follows:

4.1 Condition Precedent and Completion Deliverables

The sale and purchase of the Operating Assets under the Sale and Purchase Agreements are conditional upon the following taking place on or before 30 September 2016, or such other date as may be agreed between the SMRT Trains Entities and LTA (the "**Completion Date**"):

- (a) Shareholders' approval of the sale of the Operating Assets to LTA under the Sale and Purchase Agreements being obtained;
- (b) the SMRT Trains Entities having surrendered the Existing Licences to LTA in such manner as LTA may reasonably require, with effect from the Effective Date, in exchange for the issuance of the NRFF Licence by LTA to SMRT Trains with effect from the Effective Date, on terms as accepted by SMRT Trains;
- (c) the execution of the following documents in connection with the implementation of the NRFF:
 - the Sale and Purchase Agreements;
 - the letter of agreement relating to the grant arrangement between LTA and SMRT Trains;

- the Lease and Maintenance Agreement between LTA and SMRT Trains (relating to the lease of land and premises (together with the structures over and under such land) in order for SMRT Trains to operate the Lines);
 - the SEP Software Licence Agreement between LTA and SMRT Trains (pursuant to which LTA will grant SMRT Trains a licence to use various automated fare collection software);
 - the Deeds of Surrender executed by SMRT Trains and SMRT Light Rail respectively in favour of LTA (relating to the surrender of the Existing Licences); and
 - the Termination Agreements between LTA on the one hand and SMRT Trains and SMRT Light Rail respectively on the other (relating to the termination of certain agreements entered into between the parties under the CRFF); and
- (d) the SMRT Trains Entities obtaining all the necessary corporate and shareholder approvals required for the transfer of the Operating Assets to LTA under the Sale and Purchase Agreements.

If any of the conditions set out in paragraphs 4.1(a) to (d) is not satisfied on or before the Completion Date, the Sale and Purchase Agreements, apart from limited specified surviving clauses, shall lapse and be of no effect, and none of the parties shall have any right or obligation pursuant to or arising from each such provision, or any claim against the other party in respect of such provision.

The sale of the PPE and WIP that the SMRT Trains Entities will sell and LTA will buy under the Sale and Purchase Agreements (collectively, "**Sale PPE**" and "**Sale WIP**" respectively) will be effected by the SMRT Trains Entities executing bills of sale in favour of LTA in respect of the Sale PPE and Sale WIP.

4.2 Consideration for the Proposed Sale

Sale PPE

The consideration payable by LTA for the acquisition of the Sale PPE from the SMRT Trains Entities under the Sale and Purchase Agreements (the "**PPE Consideration**") is the net book value of each of the Sale PPE as at the Completion Date⁵.

The SMRT Trains Entities shall, no later than 60 days after the Completion Date, provide LTA with an asset schedule listing, *inter alia*, each of the Sale PPE sold to LTA and the net book value of each of the Sale PPE as at the Completion Date as described in the immediately preceding sub-paragraph. The asset schedule shall be finalised by the SMRT Trains Entities and LTA and the PPE Consideration shall be derived therefrom.

The estimated PPE Consideration ("**Estimated PPE Consideration**"), being in aggregate approximately S\$577 million, comprises the sum of the estimated net book value of the:

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The net book values of each of the Sale PPE as at the Completion Date shall have been depreciated in accordance with the Singapore Financial Reporting Standards, and based on which the net book value of such Sale PPE, as incorporated into or taken into account in the preparation of the unaudited financial statements for the half year ending 30 September 2016 (i.e. from 1 April 2016 to 30 September 2016) of SMRT Trains or SMRT Light Rail, as the case may be, shall have been derived, less (in the case of the sale and purchase agreement (Operating Assets) entered into by SMRT Trains) any unamortised grants in respect of the Sale PPE (received when the relevant Sale PPE was purchased in 1998) as at the Completion Date.

- (a) Sale PPE included in the audited financial statements ("**FY2015 Audited Financial Statements**") for the financial year ended 31 March 2015 ("**FY2015**") of SMRT Trains or SMRT Light Rail, as the case may be (the "**Class A PPE**") of approximately S\$483 million; and
- (b) Sale PPE which fulfil the Relevant Criteria on the Completion Date (excluding the Class A PPE) (the "**Class B PPE**") of approximately S\$94 million.

The PPE Consideration is subject to finalisation by reference to the finalised asset schedule as described above. The PPE Consideration and the SMRT Trains Entities' entitlement to receive and retain the same are also subject to:

- LTA's condition survey of the Sale PPE sold to LTA against technical, functional standards and/or specifications (including any visual or physical specifications) with respect to each category of the Sale PPE, set out in a condition index formulated and/or determined by LTA after consultation with the SMRT Trains Entities, which takes into account the age (with fair wear and tear) of each of the Sale PPE; and
- repair or remedy of non-conforming Sale PPE to conform to the requirements of the condition index (taking into account the age (with fair wear and tear) and the replacement and/or renewal of such non-conforming operating asset by LTA (taking into account SMRT Trains' proposed forecast for the replacement and/or renewal of the operating assets required for the operation of the Lines prepared pursuant to the NRFF Licence)), or replacement of such non-conforming Sale PPE, in each case to LTA's reasonable satisfaction/acceptance, or payment of the net book value of the non-conforming Sale PPE, as specified in the relevant sale and purchase agreement (Operating Assets) by the relevant SMRT Trains Entity.

The PPE Consideration is payable entirely in cash in the following instalments:

- (a) approximately S\$384 million, comprising the sum of 60% of the Estimated PPE Consideration for the Class A PPE, and 100% of the Estimated PPE Consideration for the Class B PPE, shall be payable by LTA within 14 days of the Effective Date; and
- (b) the remaining PPE Consideration shall be payable by LTA based on the following payment schedule, or as and when the relevant phase of LTA's condition survey is completed, whichever is the earlier:
 - (i) 15% of the PPE Consideration for the Class A PPE on the first anniversary of the Effective Date (together with adjustment amounts to take into account the Estimated PPE Consideration previously paid (as referred to in paragraph 4.2(a)));
 - (ii) 15% of the PPE Consideration for the Class A PPE, on the second anniversary of the Effective Date; and
 - (iii) the remaining 10% of the PPE Consideration for the Class A PPE, on the third anniversary of the Effective Date,

provided that LTA shall be entitled to withhold certain payment amounts pending repair or replacement of non-conforming Sale PPE, as well as, in connection with the last payment referred to in paragraph 4.2(b)(iii), an amount equivalent to the highest of the following: 3% of the PPE Consideration for the Class A PPE, the sum of the net book value of any non-conforming Sale PPE and the net book value of any Sale PPE

which has not been surveyed by LTA, and a proportion based on a prescribed formula⁶ of the remaining unpaid PPE Consideration for the Class A PPE. The last payment (except for the net book value of any remaining non-conforming Sale PPE) shall be released by LTA on or before six months after the third anniversary of the Completion Date, even if LTA has not completed the last phase of its condition survey, save where such non-completion is caused by the relevant SMRT Trains Entity's act or omission.

Sale WIP

The consideration payable by LTA for the Sale WIP ("**WIP Consideration**") is also based on the net book value of the Sale WIP, or, where the Sale WIP has not yet been capitalised in the books of account of the SMRT Trains Entities, the price paid by the SMRT Trains Entities for the Sale WIP under the Contracts.

The WIP Consideration is payable entirely in cash, and the quantum and timing of payment thereof is not fixed, being subject to the SMRT Trains Entities finalising with LTA a schedule of the Sale WIP (which will include the re-signaling and trains upgrades) to be transferred to LTA on a six-monthly basis up to 30 September 2017 and three-monthly basis thereafter, with the first transfer to take place on the Effective Date, as and when the Relevant Criteria is met by the SMRT Trains Entities. The SMRT Trains Entities and LTA will finalise the list of Sale WIP to be transferred to LTA on the Effective Date, in consideration of which the SMRT Trains Entities will receive the sum of approximately S\$413 million (the "**Estimated Completion WIP Consideration**") within 14 days of the Effective Date.

The Sale and Purchase Agreements also provide for cases where not all of the Relevant Criteria is met, where LTA may, at its discretion, notwithstanding that the Relevant Criteria has not fully been met, accede to a request from the SMRT Trains Entities to purchase the Sale WIP and/or fund the SMRT Trains Entities' payment obligations relating thereto.

The aggregate of the WIP Consideration and the PPE Consideration (the "**Consideration**") payable by LTA to the SMRT Trains Entities (and reflected in this announcement) is exclusive of any goods and services tax which may be imposed on, or charged in connection with, the sale and purchase of the Operating Assets. LTA shall bear and pay all goods and services tax imposed or levied in respect of such sale.

Factors taken into consideration in arriving at the Consideration

The Consideration was arrived at between the SMRT Trains Entities and LTA, taking into account, amongst other things, (A) the acquisition of the Operating Assets of the NSEW Line by SMRT Trains from LTA in 1998 at the net book value of such Operating Assets, with five equal interest-free annual instalment payments, (B) the acquisition of subsequent additional Operating Assets in accordance with the specified dates in the Existing Licences at the net book value of such Operating Assets, and (C) the SMRT Trains Entities' obligation under the Existing Licences to transfer the operating assets of the Lines to LTA at the net book value of such operating assets upon the termination of the Existing Licence.

Table summarising schedule of payment of PPE Consideration and WIP Consideration

The following table summarises the timing and quantum of payment of the Consideration, and should be read together with the rest of paragraph 4, in particular, paragraph 4.2.

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The sum of the total number of non-conforming Sale PPE and the Sale PPE which have not yet been surveyed by LTA, divided by the total number of Sale PPE to be surveyed in the last phase of the condition survey, multiplied by 10% of the PPE Consideration for the Class A PPE.

	Within 14 days from the Effective Date	On first anniversary of Effective Date	On second anniversary of Effective Date	On third anniversary of Effective Date
PPE Consideration	Approximately S\$384 million, being 60% of the Estimated PPE Consideration for the Class A PPE and 100% of the Estimated PPE Consideration for the Class B PPE	15% of the PPE Consideration for the Class A PPE	15% of the PPE Consideration for the Class A PPE	10% of the PPE Consideration for the Class A PPE
WIP Consideration	Approximately S\$413 million being the Estimated Completion WIP Consideration	Subsequent payments of WIP Consideration dependent on transfer of Sale WIP (to be transferred to LTA on a six-monthly basis up to 30 September 2017 and three-monthly basis thereafter)		

4.3 Condition of the Operating Assets

Subject to paragraph 4.2 and to certain warranties set out in the Sale and Purchase Agreements, the Operating Assets will be transferred on an "as is, where is" basis. Title to the Sale PPE will pass from the SMRT Trains Entities to LTA on the Effective Date. Title to the Sale WIP will be transferred to LTA on a six-monthly or three-monthly basis, as set out in paragraph 4.2. All Operating Assets will be and remain in the possession and control of SMRT Trains to be deployed for operation under the NRFF Licence.

4.4 Licence of certain data and treatment of licence agreements

The sale and purchase agreements (WIP Operating Assets) between LTA on the one hand and SMRT Trains and SMRT Light Rail respectively on the other provide for a licence to LTA of certain data files created by or on behalf of the SMRT Trains Entities in connection with the operation, support and maintenance of the Lines. Where possible, the relevant SMRT Trains Entity (or its subsidiary) will also work with LTA to effect transfers of licence arrangements (relating to works previously licensed to the SMRT Trains Entities or their subsidiaries which are furnished by the original manufacturers of the Sale PPE and Sale WIP or which are necessary for their control or operation in day-to-day operational use, and for their maintenance) and for LTA to license the works back to SMRT Trains.

5. **INTENDED USE OF PROCEEDS**

As at 30 September 2016, the Group's total debt is expected to be approximately S\$762 million. The Company does not intend to use the proceeds from the Proposed Sale to pay a special dividend to Shareholders. The Company instead will exercise prudence by using part of the net proceeds from the Proposed Sale to retire part of its existing debt, a portion of which was used to fund investments in its rail operating assets, for better management of the Company's capital structure in order to meet its business objectives. The Company also plans to invest the remaining proceeds in the strengthening and further development of its rail

engineering core competencies which it sees as critical for the future growth of the Group, so as to enhance long-term shareholder value.

In addition, the Group will also be required to pay the Inland Revenue Authority of Singapore the amount of approximately S\$159 million as a tax payable on the difference between the sales proceeds and the residual capital allowances relating to the Operating Assets.

6. FINANCIAL EFFECTS OF THE PROPOSED SALE AND THE NRFF

As the Consideration is based on the net book value of the Operating Assets, there will be a negligible gain on disposal (less than 1% of the aggregate Consideration) arising as a result of the treatment under the Singapore Financial Reporting Standards of a Contract that was entered into by one of the other subsidiaries of the Company with SMRT Trains.

The net tangible asset value of the Sale PPE which is included in the audited financial statements ("**FY2016 Audited Financial Statements**") for the financial year ended 31 March 2016 ("**FY2016**") of SMRT Trains or SMRT Light Rail, as the case may be (the "**FY16 PPE**") and the Sale WIP which is included in the FY2016 Audited Financial Statements (the "**FY16 WIP**")*, as at 31 March 2016, based on the audited consolidated financial statements of the Group for FY2016, was S\$902.29 million.

* *The Company has made this disclosure with reference to the FY16 PPE and FY16 WIP as these are based on the FY2016 Audited Financial Statements, being the latest available audited financial statements of the Group. The Company would like to highlight that the Sale PPE and Sale WIP and the overall quantum of the Consideration are subject to finalisation. Please refer to paragraph 4.2 for more information.*

Earnings per ordinary share in the capital of the Company ("Share")

The Company considers that it is not meaningful to disclose the effect of the Proposed Sale on the earnings per Share ("**EPS**") for FY2016, being the most recently completed financial year of the Company for which consolidated audited accounts are available, assuming that the Proposed Sale had been effected on 1 April 2015, being the first day of that financial year, as provided under Rule 1010(9) of the Listing Manual. This is because it is not meaningful to take into account the EPS impact of the Proposed Sale without factoring in the effects of the NRFF Licence (for such effects, please refer to paragraphs 3.5 to 3.15). It is also not meaningful to factor in both the NRFF Licence and the Proposed Sale in the EPS impact on FY2016, because the Company's rail operating expenditure and cost structure during FY2016 was vastly different, both from the Company's rail operating expenditure and cost structure from the expected operating expenditure and cost structure thereafter under the Existing Licences.

Net tangible asset ("NTA")

Had the Proposed Sale been effected on 31 March 2016, being the last day of FY2016, 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 2016 (assuming the Proposed Sale had been effected on 31 March 2016)
59.21 cents ⁽¹⁾	59.44 cents ^{(2) (3)}

Notes:

- (1) Based on the Group's NTA as at 31 March 2016 of approximately S\$902.29 million, 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\$905.72 million, divided by 1,523,851,896 Shares.
- (3) The Company has made this disclosure with reference to the FY16 PPE and FY16 WIP as these are based on the FY2016 Audited Financial Statements, being the latest available audited financial statements of the Group. The Company would like to highlight that the Sale PPE and Sale WIP and the overall quantum of the Consideration are subject to finalisation. Please refer to paragraph 4.2 for more information.

7. RELATIVE FIGURES OF THE PROPOSED SALE UNDER CHAPTER 10 OF THE LISTING MANUAL

Under Chapter 10 of the Listing Manual (which governs acquisitions and realisations), where any of the relative figures of an asset purchase or asset sale transaction, computed on the bases in Rule 1006 of the Listing Manual exceeds 20%, that transaction is classified as a "Major Transaction" and shall be subject to shareholders' approval.

The relative figures for the Proposed Sale computed on the bases set out in Rule 1006 of the Listing Manual, based on the audited consolidated financial statements of the Group for FY2016, are set out below:

Rule 1006	Bases	Relative Figures (%)
(a)	Net asset value of the FY16 PPE and FY16 WIP, compared with the Group's net asset value, as at 31 March 2016 ⁽¹⁾	92.93%
(b)	Net profits before income tax, minority interests and extraordinary items (" Net Profits ") attributable to the Operating Assets compared with the Group's Net Profits, in each case for FY2016 ⁽²⁾	Not meaningful
(c)	Aggregate value of the Consideration compared with the market capitalisation of the Company as at 14 July 2016 ⁽³⁾	42.11%
(d)	Number of equity securities issued by the Company as consideration for the Proposed Sale, compared with the number of equity securities previously in issue	Not applicable
(e)	Aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Group's proved and probable reserves	Not applicable

Notes:

- (1) *Based on the net asset value of the FY16 PPE and FY16 WIP as at 31 March 2016 of approximately S\$851 million, divided by the Group's net asset value as at 31 March 2016 of approximately S\$915.90 million. The Company would like to highlight that the Sale PPE and Sale WIP are subject to finalisation. Please refer to paragraph 4.2 for more information.*
- (2) *Not meaningful because SMRT Trains as the operator under the NRFF Licence will continue to have possession and control of the Operating Assets even after the Proposed Sale, for purposes of the operation of the Lines, and will continue to derive revenue therefrom.*
- (3) *Based on the Estimated PPE Consideration and Estimated Completion WIP Consideration amounting to approximately S\$991 million, divided by the market capitalisation of the Company of approximately S\$2,351.94 million (based on the weighted average price of the Shares transacted on 14 July 2016, being the market day immediately preceding the date of the Sale and Purchase Agreements, and excluding treasury shares). Due to a technological issue, all shares (including the Shares) were halted from trading from 11.38am till the end of the day on 14 July 2016.*

Having regard to the above, the Proposed Sale constitutes a "Major Transaction" under Rule 1014 of the Listing Manual and accordingly, the Company will be convening an EGM to seek the approval of Shareholders for the Proposed Sale.

8. INDEPENDENT FINANCIAL ADVISER AND FINANCIAL ADVISER

The directors of the Company as at the date of the circular to Shareholders referred to in paragraph 11 (the "**Directors**") have appointed PrimePartners Corporate Finance Pte. Ltd. ("**PPCF**") as the independent financial adviser to provide an opinion on whether the terms of the Proposed Sale are fair and reasonable. Having carefully considered the information that has been made available to it, and on the basis of the considerations set out in the letter dated 15 July 2016 from PPCF to the Directors, PPCF is of the view that the terms of the Proposed Sale are fair and reasonable. A copy of the letter from PPCF to the Directors, setting out PPCF's opinion in full, will be reproduced in the circular to Shareholders referred to in paragraph 11.

9. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

As at the date of this announcement, none of the Directors, and to the best of the Directors' knowledge, none of the controlling shareholders of the Company, has any interest, direct or indirect, other than as Shareholders, in the Proposed Sale.

10. DIRECTORS' SERVICE CONTRACTS

No person is proposed to be appointed as a director of the Company or of the SMRT Trains Entities in connection with the Proposed Sale. Accordingly, no service contract is proposed to be entered into by the Company and the SMRT Trains Entities in connection with the Proposed Sale.

11. CIRCULAR AND DOCUMENTS FOR INSPECTION

The circular to Shareholders containing, *inter alia*, further information on the Proposed Sale and enclosing the notice of the EGM will be despatched to Shareholders in due course.

A copy of each of the following documents will be available for inspection at the Company's registered office at 251 North Bridge Road, Singapore 179102 by prior arrangement during normal business hours for a period of three months from the date of this announcement:

- (a) the Sale and Purchase Agreements;
- (b) the constitution of the Company; and
- (c) the annual report of the Company for FY2016.

By Order of the Board

Jacquelin Tay Gek Poh
Company Secretary

15 July 2016

APPENDIX

SENSITIVITY ANALYSIS ON EBIT MARGIN FOR FY2016 FOR ILLUSTRATIVE PURPOSES

The following sensitivity analyses are purely hypothetical and provided solely to illustrate the EBIT margins that SMRT Trains would have achieved in FY2016, were it to continue under the CRFF and bear the depreciation charges for capital expenditure obligations of S\$2.8 billion (see paragraph 3.11) (Table A), and were it to have performed within the ordinary course of its business under the NRFF (Table B).

As mentioned in paragraph 3.13, the EBIT margin of SMRT Trains is dependent on several factors, many of which are outside the control of SMRT Trains and/or which SMRT Trains is unable to project or predict with any certainty. These include (among others) what the PTC will decide in relation to future fare adjustments and the impact on ridership of the new lines in the network.

It should be noted that the analyses performed in Table A and Table B below do not in any way constitute any form of profit guidance or forecast or forward statement by SMRT Trains of its future EBIT margin.

Shareholders should also note that the revenue share charge assumed in Table B below is not fixed for the term of the NRFF Licence.

TABLE A

Table A illustrates the impact on EBIT margins that SMRT Trains would have achieved based on its financial performance in FY2016 if SMRT Trains were to continue under the CRFF and had to incur the additional depreciation charges for capital expenditure obligations of S\$2.8 billion (see paragraph 3.11) under the CRFF. Assuming a useful life of 30 years for these assets, such capital expenditure could lead to additional depreciation charges of up to approximately S\$90 million per annum.

Table A illustrates that should total revenue remain at the level applicable in FY2016 and operating expenses fluctuate between -10% and +10%, SMRT Trains' EBIT margin would have varied between 8.0% and -6.6%.

		Variation on Operating Expenses of SMRT Trains (Net of Other Operating Income (OOI) of SMRT Trains)				
		-10%	-5%	0%	+5%	+10%
Variation On Fare Revenue of SMRT Trains	+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%

Key Assumptions:

- i. Actual FY2016 Revenue and Operating Expenses used for illustration purposes
- ii. Additional S\$90 million depreciation cost included in Operating Expenses, assuming that new assets of S\$2.8 billion in value have been acquired and they have useful lives of 30 years

TABLE B

Table B illustrates the EBIT margins that SMRT Trains would have achieved based on its financial performance in FY2016 under the terms of the NRFF Licence. Sensitivity analysis has also been performed to provide the theoretical impact on the EBIT margin if SMRT Trains were to have achieved higher or lower fare revenue or incurred higher or lower operating expenses in FY2016.

Variation on Operating Expenses of SMRT Trains (Net of Other Operating Income (OOI) of SMRT Trains)						
		-10%	-5%	0%	+5%	+10%
Variation On Fare Revenue of SMRT Trains	+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%

Key Assumptions:

- i. Actual FY2016 Revenue and Operating Expenses adjusted for NRFF depreciation used for illustration purposes
- ii. NRFF revenue collar has been computed based on FY2016 Revenue as the Target Revenue stated in the NRFF Licence
- iii. NRFF revenue share charge of 10%

The ability to achieve an EBIT margin of about 5% is subject to the following factors: (a) SMRT Trains continuing to improve operational productivity to offset increases in operating expenses; (b) SMRT Trains meeting the KPIs, OPS and MPS prescribed under the NRFF Licence thereby not incurring any financial penalties for failure to do so; (c) LTA, while exercising its discretion, duly compensates SMRT Trains by way of grant(s) for the additional costs or reduced revenue that SMRT Trains will incur or suffer arising in the event of any changes made by LTA to the KPIs, OPS, MPS, codes of practice and other events; and (d) PTC adjusting fares in accordance with the fare adjustment formula (see paragraph 3.6).