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FIRST QUARTER FY2017
FINANCIAL RESULTS ENDED 30 JUNE 2016

SPEECH BY DESMOND KUEK, PRESIDENT AND GROUP CEO AND MANFRED SEAH, GROUP CFO ON 8 AUGUST 2016

Notice: This address should be read in conjunction with SMRT's 1Q FY2017 Financial Results statement lodged on SGXNet on 8 August 2016.

Good evening. Thank you for joining us today for our First Quarter FY2017 results presentation.

In 1Q FY2017, SMRT registered lower profit at $15.5 million, as losses in our Rail business continue to deepen. Our **Rail** operations recorded a higher operating loss of $9.4 million in 1Q FY2017 compared to a loss of $5.3 million in 1Q FY2016 primarily from higher loss in Train operations. Overall operating profit from the Group's **Non-Rail** business decreased 12.3% to $29.0 million in 1Q FY2017, due largely to lower profitability recorded in the Bus and Taxi segments.

SMRT announced on 15 July 2016 that the Land Transport Authority or LTA and SMRT Trains have agreed to transit the North-South, East-West and Circle MRT Lines, and the Bukit Panjang Light Rail Transit or LRT to the New Rail Financing Framework or "NRFF" in short. This transition comes after extensive consultations with the LTA since 2011. As part of the transition to the NRFF, LTA will purchase the MRT and LRT operating assets held by SMRT Trains and SMRT Trains will operate under an asset light model, focusing on providing quality service to commuters and maintaining the trains to ensure smooth operation. SMRT has dispatched a circular to shareholders on 1 August 2016 and will hold an Extraordinary General Meeting on 29 September 2016 to seek shareholders' approval for the proposed asset sale as part of the transition to the NRFF.

We welcome the proposed transition of our lines to the NRFF, which is an improvement to the current framework. However, we are also cognizant that SMRT Trains will continue to face significant business risks associated with an ageing and expanded network and regulatory challenges which are outside the control of the company.

Subsequently, SMRT and Belford Investments Pte. Ltd., a wholly-owned subsidiary of Temasek Holdings, jointly announced the proposed acquisition by Belford of all the issued ordinary shares in SMRT (other than those already held by Temasek), which we call "Scheme Shares" by way of a scheme of arrangement. Under the Scheme, all Scheme Shares as at a book closure date to be announced by SMRT will be acquired by Belford for a cash consideration of S$1.68 per share.

The proposed Scheme will allow SMRT to better fulfil its role as a public transport operator to deliver higher quality services and operational reliability for the benefits of our commuters, without the pressure of short-term market expectations. It also provides the opportunity for minority shareholders to monetise their holdings for cash. A Scheme document will be sent to shareholders upon SGX and the court approvals of the Scheme. SMRT will be convening a Scheme meeting which provides the opportunity for shareholders to consider the Scheme and decide on its outcome.

I shall now ask Manfred, our Group CFO, to take you through the details of our financial results.

Good evening. Let me take you through the financial highlights for the First Quarter FY2017. For reference, we have uploaded a slide deck onto to the SGX and SMRT websites this evening, and you may wish to refer to them as I walk you through the presentation.

[Slide 2] Group revenue decreased 2.0% to $313.9 million in 1Q FY2017 compared to 1Q FY2016. Opex increased 0.8% to $311.5 million. As a result, Operating profit fell 20.3% to $22.1 million in 1Q FY2017 and PATMI came in lower by 22.9% at $15.5 million.

The table on the right is a summary of our Balance Sheet and Key Financial Indicators:

- Our equity position increased by $14.6 million to $928.8 million.
- Cash position fell to $135.2 million and the Group registered a negative Free Cash Flow for 1Q FY2017 of $38.1 million.

For Key Indicators:

- Our EBIT and PAT margins fell to 7.0% and 4.9% respectively.
- ROE declined to 6.7%.
- Correspondingly, EPS decreased by 0.3 cents to 1.02 cents while NTA per share increased by 1.0 cent to 60.2 cents.
- Lastly, Group Net Gearing increased slightly from 64% to 67%.

[Slide 3] Slide 3 is a tabulation of our 1st QoQ P&L highlights, which I shall leave for your own reading.

[Slide 4] Slide 4 summarizes the results of our Rail and Non-Rail businesses for 1Q FY2017 vs 1Q FY2016. The Group's **Rail** revenue fell 2.0% to $166.8 million in 1Q FY2017, while operating loss deepened to $9.4 million compared to a loss of $5.3 million in 1Q FY2016 primarily due to higher losses recorded in Train operations, comprising the MRT and CCL lines. The Group's **Non-Rail** revenue fell 2.0% to $147.0 million in 1Q FY2017, while operating profit decreased 12.3% to $29.0 million in 1Q FY2017, due largely to lower profitability recorded in the Bus and Taxi segments.

[Slide 5] Slide 5 gives a more detailed breakdown of our financial performance by business segment. **Rail** revenue from Train and LRT operations fell 2.0% (or $3.4 million) to $166.8 million in 1Q FY2017 due to lower average fare resulting from the 1.9% fare reduction effected in December 2015 and cannibalisation impact of Downtown Line 2, partially offset by higher ridership. The Rail segment recorded an operating loss of $9.4 million in 1Q FY2017, compared to a loss of $5.3 million in the previous corresponding period. **Bus** revenue fell by 4.4% (or $2.7 million) to $58.6 million in 1Q FY2017 due to lower average fare from the 1.9% fare reduction and cannibalisation impact of DTL2 operations, partially offset by higher ridership. Operating profit for the Bus segment fell 86.3% (or $1.3 million) to $0.2 million in 1Q FY2017. This was mainly attributable to higher staff costs and lower revenue, which were partially offset by higher training grants and lower diesel costs.

Taxi revenue fell 7.0% (or $2.7 million) to $35.2 million due mainly to a smaller hired-out fleet. Operating profit for the Taxi segment fell by 17.9% (or $1.0 million) to $4.5 million in 1Q FY2017 due mainly to lower revenue, higher repairs and maintenance and depreciation, partially offset by lower accident claim expense and lower special tax on diesel vehicles arising from replacement of diesel taxis with hybrid taxis. **Rental** revenue decreased by 1.3 % (or $0.4 million) to $32.4 million in 1Q FY2017, while operating profit for the rental segment decreased by 2.4% (or $0.5 million) to $20.6 million. **Advertising** revenue and operating profit in 1Q FY2017 remained flat at $8.8 million and $4.9 million respectively compared to 1Q FY2016. **Engineering Services** revenue increased 62.2% (or $1.5 million) to $3.9 million in 1Q FY2017 due mainly to higher consultancy revenue. Higher operating loss of $2.7 million was recorded in 1Q FY2017 due mainly to Singapore Rail Engineering's provision for costs associated with the suspension of works relating to the end-of-life refurbishment of trains pending decision by the authorities. Revenue from **Other Services** increased 17.6% (or $1.2 million) to $8.0 million in 1Q FY2017 primarily from higher charter revenue and external fleet maintenance. As a result, operating profit increased by 164.2% (or $0.9 million) to $1.4 million in 1Q FY2017.

[Slide 6] Slide 6 shows our Group results and the various categories of operating expenses**.** Group Revenue fell by $6.5 million (or 2.0%) to $313.9 million. Other operating income increased by $3.4 million (or 20.8%) to $19.7 million in 1Q FY2017 due mainly to higher grants and maintenance income. Total Opex rose by $2.5 million (or 0.8%) to $311.5 million in 1Q FY2017. EBIT fell by $5.6 million (or 20.3%) to $22.1 million, while PATMI fell by $4.6 million (or 22.9%) to $15.5 million.

For Opex, other than staff and R&M costs, the other 3 items in the operating cost categories have decreased. **Staff costs** increased due mainly to higher headcount engaged in Rail and Bus operations to support a larger train and bus fleet as well as to meet heightened operational requirements. **Depreciation net amortisation** was lower due mainly to fully depreciated assets in Train operations. **Repairs and maintenance** costs increased due mainly to the rigorous maintenance regime in Train and LRT operations in view of the ageing systems and more trains undergoing scheduled overhaul, a larger bus fleet as well as maintenance work in line with the taxi life cycle. **Energy costs** decreased due mainly to lower diesel cost and electricity tariff, partially offset by higher consumption arising from a larger train and bus fleet, and increased train runs. **Other operating expenses** decreased due mainly to absence of contribution to the Public Transport Fund, lower property tax expense and cost of diesel sold to taxi hirers.

[Slide 7] Slide 7 provides more details on the Rail segment results. For clarity, the results shown on this slide refer to the Rail Fare business only.

Rail operations suffered a larger operating loss of $9.4 million in 1Q FY2017, a decline of 76.8% (or $4.1 million) compared to a loss of $5.3 million in 1Q FY2016. Staff costs in the Rail segment increased 9.9% (or $6.8 million) to $75.6 million in 1Q FY2017, compared to $68.8 million in 1Q FY2016. Repairs and maintenance costs increased 13.3% (or $2.9 million) to $24.6 million in 1Q FY2017, compared to $21.7 million in 1Q FY2016.

[Slide 8] Slide 8 shows the Rail Composite (Fare and Non-Fare) results. On a composite (Fare and Non-Fare) basis, Rail EBIT declined 17.4% (or $2.5 million) to $12.1 million in 1Q FY2017, compared to $14.6 million in 1Q FY2016. This translates to a Rail EBIT margin of 6.1% in 1Q FY2017, compared to 7.2% registered in 1Q FY2016.

Please note that under the proposed NRFF license, Fare and Non-Fare revenue generated by SMRT Trains will be composited and the license charge structure provides a profit/risk sharing based on a tiered EBIT cap and collar starting at 5% and 3.5% respectively.

[Slide 9] Slide 9 shows how profitability for the Rail segment has declined over the past 5 years under the Current Rail Financing Framework. Heavy capital expenditures, enhanced operating standards and stagnating fare revenue have all contributed to the steady decline in profitability for the Rail segment from 23.5% in FY2012 to 9.5% in FY2016. As mentioned, the composite EBIT margin for 1Q FY2017 further declined to 6.1%.

The trend of declining profitability is expected to persist under the Current Rail Financing Framework as the additional capital expenditure and increased depreciation would exert additional pressure on the future cash flows and profitability of the SMRT Trains entities.

[Slide 10] Slide 10 compares the financial effects of CRFF (blue bars) vis-à-vis NRFF (brown bars) on SMRT Rail Business (Fare and Non-Fare) under 3 simulated scenarios using SMRT's FY2016 as Base financials.

- Scenario A. Add $90M depreciation to Base CRFF (attributed to the $2.8B Capex)
- Scenario B. Increase 5% Net Opex to Scenario A
- Scenario C. Increase 10% Net Opex to Scenario A

The graphs in the upper half represent the EBIT margin for the Trains Entities business, while the graphs in the lower half represent percentage of fare increase needed to achieve a 5% composite

EBIT margin. Our base case for the Trains Entities business shows that the CRFF, which has been normalized for FY16 property tax savings (relating to prior years' over assessment), yield better results than the NRFF. However, after we factor in the estimated annual depreciation charges relating to the $2.8 billion capital expenditure obligations over the next 5 years under the CRFF (as shown in Scenario A) we can see that the NRFF scenario will yield better results compared to the CRFF.

Scenarios B and C are simulated outcomes after factoring in potential increase in Opex by 5% and 10% respectively, for the purpose of improving rail reliability and achieving standards set forth by the authorities. With a 5% increase in Net Opex, the Trains Entities Business is expected to make a loss of about 5.3% under the CRFF but could still achieve a 5% EBIT margin under the NRFF. However, if Opex were to increase by 10%, the EBIT margin expected under the NRFF is only 2.3% This illustration demonstrates that while the NRFF is a more sustainable model than the CRFF in view of the Capex relief and rising Rail Opex, the Trains Entities business is by no means guaranteed a 5% EBIT margin and will continue to face significant operating and regulatory risks, as can be seen from the 2.3% EBIT margin in Scenario C.

In the bottom right of this slide, we illustrate the impact on fares should we desire to achieve an EBIT margin of 5% under the conditions in Scenario C. In order to achieve an EBIT margin of 5% under Scenario C, fares would have to increase by 5.5% from the present levels so that the cost pressures could be sufficiently covered.

[Slide 11] Slide 11 shows the re-categorised operating expenses of the Group to reflect maintenance-related expenses (or MRE), which consists of maintenance staff costs, depreciation of maintenance assets and other maintenance-related operating expenses. MRE increased 7% (or $6.4 million) to $101.8 million in 1Q FY2017 compared to $95.4 million in 1Q FY2016. The Group MRE also accounted for 33% of Group Opex in 1Q FY2017, an increase from 31% in 1Q FY2016.

[Slide 12] Slide 12 tracks Rail MRE with respect to Rail Revenue for the last 5 quarters. You will see that 49% of every dollar collected in Rail fare revenue was channelled to Rail MRE in 1Q FY2017, an increase from 45% in 1Q FY2016. Going forward, we expect Rail MRE to remain in the range of 45% to 50% of Rail revenue in the near term. In relation to Group Opex, Rail MRE increased slightly to 26% in 1Q FY2017, compared to 25% 1Q FY2016.

[Slide 13] Slide 13 shows the highlights of our balance sheet. Total assets decreased by $101.7 million (or 3.7%) to $2.6 billion as at 30 Jun 2016, due mainly to lower cash and cash equivalents and property, plant and equipment, partially offset by higher trade and other receivables. The Group's total borrowings stood at $755.5 million, of which $750.0 million are non-current. This translates to a net gearing of 67%.

[Slide 14] The Group ended 1Q FY2017 with a cash balance of $135.2 million, compared to $232.2 million at the start of the quarter. The Group recorded a cash outflow of $7.6 million from operations, invested $30.2 million mainly in property, plant and equipment, and utilised $59.2 million in financing activities.

[Slide 15] The last 2 slides summarizes the outlook for SMRT. SMRT announced on 15 July 2016 that, subject to the satisfaction or waiver of conditions precedent including SMRT shareholders' approval for the proposed asset sale, SMRT Trains will transit to the new rail financing framework ("NRFF") on 1 October 2016. Under the NRFF, SMRT Trains will operate under an asset-light model, focusing on providing quality service to commuters and maintaining the trains to ensure smooth operation. During the 15-year licence period, SMRT Trains will pay a licence charge to LTA for the right to use the operating assets and operate the North-South, East-West and Circle Lines and Bukit Panjang Light Rail Transit. The licence charge has been structured by LTA to enable SMRT Trains to achieve a composite (fare and non-fare) Earnings before Interest and Tax ("EBIT") margin of about 5%. While the NRFF will provide a measure of risk mitigation and earnings stability that SMRT Trains presently does not have under the Current Rail Financing Framework ("CRFF"), there is no certainty that SMRT Trains will earn an EBIT margin of 5% as the risks relating to fare adjustments, operating expenditure increases, timing of asset renewal and regulatory changes, all of which may impact SMRT Trains' profitability remain significant. SMRT has dispatched a circular to shareholders on 1 August 2016 and will hold an Extraordinary General Meeting on 29 September 2016 to seek shareholders' approval for the proposed asset sale as part of the transition to the NRFF.

Subsequently, SMRT, together with Belford Investments Pte. Ltd. ("Belford"), a wholly-owned subsidiary of Temasek Holdings (Private) Limited ("Temasek"), jointly announced on 20 July 2016, the proposed acquisition by Belford of all the issued ordinary shares in SMRT (other than those already held by Temasek) by way of a scheme of arrangement (the "Scheme") in accordance with the Company's Act (Chapter 50 of Singapore) and the Singapore Code on Take-overs and

Mergers. The proposed privatisation will better enable Temasek to closely support the Group as it retools and reinforces its core skillsets in operations, engineering and maintenance, and allow minority shareholders to monetise their holdings through this Scheme and avoid the uncertainties of the transition. A Scheme document will be sent to shareholders in due course. Subject to regulatory and court approvals, SMRT expects to convene a Scheme meeting by September/October 2016.

[Slide 16] The Group remains committed to deliver higher service quality to meet the needs of our commuters and to deliver higher rail reliability in accordance with the Maintenance Performance Standards set out by LTA. The Group is expected to incur higher operating expenses, particularly in staff costs, to meet the network's higher capacity needs and reliability requirements as well as additional headcount required for the commencement of the Tuas West Extension in FY2017.

SMRT Buses will transit to the new Government Contracting Model from 1 September 2016. The Group is finalising the contracting terms with the authorities. The new model is fee-based, and has safeguards against inflation, wage and energy cost increases. SMRT Buses will also participate in the competitive bid for the next tender package in Seletar.

The Group will continue to explore growth anchored on our core strengths in public transport operations and adjacent capabilities to develop our rail engineering expertise, expand our road and rail transport operational footprint, and extend our commercial out-of-network reach.

With that, I shall now open the call to questions. Thank you.

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