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SMRT reports lower profit of \$15.5 million in 1Q FY2017 as losses in the Rail business deepen

GROUP PERFORMANCE HIGHLIGHTS

Financial Highlights For the First Quarter Ended 30 June 2016 ¹			
	1QFY17	1QFY16	% Chg
Revenue (\$'M)	313.9	320.3	(2.0)
Other Operating Income (\$'M)	19.7	16.3	20.8
Total Operating Expenses (\$'M)	311.5	308.9	0.8
Operating Profit (\$'M)	22.1	27.7	(20.3)
PATMI (\$'M)	15.5	20.1	(22.9)
EBITDA (\$'M)	72.3	78.8	(8.2)
Basic EPS (cents)	1.02	1.32	(22.9)
	As at 30 Jun 16	As at 31 Mar 16	% Chg
NTA Per Share ² (cents)	60.19	59.21	1.7
Net Gearing (%)	67	64	3

Group revenue decreased 2.0% to \$313.9 million in 1Q FY2017 compared to 1Q FY2016. Operating profit fell 20.3% to \$22.1 million in 1Q FY2017 while PATMI was lower by 22.9% at \$15.5 million.

Operating expenses rose 0.8% to \$311.5 million due mainly to higher staff costs and repairs and maintenance costs, partially offset by lower energy expenditure and other operating expenses.

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. Repairs and maintenance costs rose 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. In tandem with our commitment to enhance rail reliability, the Group's Rail maintenance-related expenditure³ in 1Q FY2017 accounted for 49% of Rail fare revenue.

Energy costs fell 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 fell due mainly to the absence of contribution to the Public Transport Fund ("PTF"), lower property tax expense and lower cost of diesel sold to taxi hirers.

¹ All figures are quoted in Singapore dollars.

² Excludes intangible assets.

³ Rail maintenance-related expenses refers to rail maintenance staff costs, depreciation of rail maintenance assets and other rail maintenance-related operating expenses.

Total assets decreased 3.7% and stood at \$2.6 billion as at 30 June 2016, due mainly to lower cash and cash equivalents and property, plant and equipment, partially offset by higher trade and other receivables. Total liabilities decreased by 6.4% to \$1.7 billion due mainly to lower borrowings and trade and other payables, partially offset by higher tax liabilities. Total equity stood at \$0.9 billion.

The Group ended the quarter with a cash balance of \$135.2 million, compared to \$232.2 million at the start of the quarter. It recorded a cash outflow of \$7.6 million from operations, utilised \$59.2 million in financing activities, and invested \$30.2 million mainly in property, plant and equipment. The Group's total borrowings stood at \$755.5 million, translating to a net gearing of 67%.

Business Performance⁴

Revenue and Operating Profit by Business For the First Quarter Ended 30 June 2016						
	Revenue			Operating Profit		
\$'M	1QFY17	1QFY16	% Chg	1QFY17	1QFY16	% Chg
Train	163.9	167.6	(2.2)	(7.7)	(3.7)	(110.1)
LRT	2.9	2.6	10.0	(1.6)	(1.6)	(0.5)
Rail Subtotal	166.8	170.2	(2.0)	(9.4)	(5.3)	(76.8)
Bus	58.6	61.4	(4.4)	0.2	1.5	(86.3)
Taxi	35.2	37.8	(7.0)	4.5	5.5	(17.9)
Rental ⁵	32.4	32.9	(1.3)	20.6	21.1	(2.4)
Advertising ⁶	8.8	8.8	0.7	4.9	4.9	0.3
Engineering Services	3.9	2.4	62.2	(2.7)	(0.5)	(439.8)
Other Services	8.0	6.8	17.6	1.4	0.5	164.2
Non-Rail Subtotal	147.0	150.1	(2.0)	29.0	33.0	(12.3)
Investment Holding/ Group Elimination	-	-	n.m.	2.5	(0.05)	5,331.9
Total	313.9	320.3	(2.0)	22.1	27.7	(20.3)

Rail Business

Rail operations reported 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 as a result of lower revenue due to lower average fare resulting from the 1.9% fare reduction effected in December 2015 and cannibalisation impact of Downtown Line 2 operations, higher staff costs and repairs and maintenance related expenditure partially offset by absence of contribution to PTF, lower electricity, depreciation and property tax.

Non-Rail Business

The overall operating profit from the Group's Non-Rail businesses decreased 12.3% to \$29.0 million in 1Q FY2017, due largely to lower profitability recorded in the Bus and Taxi segments.

⁴ Details of the operating metrics are shown in the Annex on page 5.

⁵ Rental – the operating profit comprises EBIT attributed to Transit-oriented Rental business, and Other Property and Retail Management businesses.

⁶ Advertising – the operating profit comprises EBIT attributed to Transit-oriented Advertising business, and Other Media and Advertising businesses.

Bus operations posted a lower operating profit of \$0.2 million in 1Q FY2017 mainly attributable to higher staff costs and lower revenue due to lower average fare resulting from the 1.9% fare reduction effected in December 2015 and cannibalisation impact of Downtown Line 2 operations which were partially offset by higher training grants and lower diesel costs. **Taxi** operating profit decreased by 17.9% to \$4.5 million in 1Q FY2017 due mainly to lower revenue from a smaller hired-out fleet, higher repairs and maintenance and depreciation, partially offset by lower accident claim expenses and lower special tax on diesel vehicles.

Rental and Advertising recorded an operating profit of \$20.6 million and \$4.9 million respectively in 1Q FY2017, a decrease of 2.4% and an increase of 0.3% respectively compared to 1Q FY2016. **Engineering Services** recorded an operating loss of \$2.7 million 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. Operating profit from **Other Services** increased 164.2% to \$1.4 million, mainly due to higher contribution from charter services and external fleet maintenance.

OUTLOOK AND PROSPECTS

SMRT Corporation Ltd ("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.

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.

SMRT's President and Group Chief Executive Officer, Mr Desmond Kuek, said:

"SMRT is fully committed to delivering safe and reliable public transport services in Singapore. We welcome the proposed transition of our lines to the new rail financing framework, 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."

The proposed Scheme will allow SMRT to better fulfil its role as a public transport operator to deliver high 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. We will be convening a Scheme meeting which provides the opportunity for shareholders to consider the Scheme and decide on its outcome."

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Enclosures:

- 1) Unaudited Financial Statements for First Quarter Financial Year 2017 ended 30 June 2016
- 2) Presentation for Results Briefing: 1Q FY2017 Financial Results

ANNEX

OPERATING METRICS

	1QFY17	1QFY16	4QFY16	1Q17 vs 1Q16 (%)	1Q17 vs 4Q16 (%)
<u>Train</u>					
Total Ridership ('000)	191,754	185,641	189,931	3.3	1.0
Average Daily Ridership ('000)	2,107	2,040	2,087	3.3	1.0
Average No. of Passengers/Car Operated	61.5	64.4	61.4	(4.5)	0.2
Average Peak Period Passenger Load/Car (No. of passengers) ¹	175.5	198.4	172.0	(11.6)	2.0
Average Fare (cents)	85.5	90.0	85.9	(5.0)	(0.5)
<u>LRT</u>					
Total Ridership ('000)	5,655	4,805	5,701	17.7	(0.8)
Average Daily Ridership ('000)	62.1	52.8	62.7	17.7	(0.9)
Average No. of Passengers/Train Operated	17.9	17.6	17.5	1.4	1.9
Average Fare (cents)	51.0	54.2	50.9	(5.9)	0.3
<u>Bus</u>					
Total Ridership ('000)	94,236	93,608	96,644	0.7	(2.5)
Average Daily Ridership ('000)	1,035.6	1,028.7	1,062.0	0.7	(2.5)
Load Factor ² (%)	20.6	21.9	21.8	(1.3)	(1.2)
Average Fare (cents)	61.4	64.9	62.4	(5.4)	(1.5)
<u>Taxi</u>					
Average Holding Fleet	3,549	3,566	3,522	(0.5)	0.8
<u>Rental</u> ³					
Average Lettable Space (sqm)	37,364	37,235	37,364	0.3	-
No. of Shops/Units (as of end-period)	786	784	786	0.3	-
Average Occupancy Rate (%)	95.7	98.2	97.9	(2.6)	(2.3)

¹ An average of estimated maximum half-hour pax load per car during peak hours for selected stations along North-South East-West Line and Circle Line.

² As different vehicle types have different capacities, the average occupancy rate of buses is expressed as load factor.

³ Figures relate to spaces at MRT stations only.