

TWIN TRACKS TO OPERATIONAL EXCELLENCE AND SUSTAINABLE GROWTH

*Briefing by Desmond Kuek, President & Group CEO
5 July 2016, SMRT Corporation Annual General Meeting 2016*

Ladies and Gentlemen,
Good afternoon and welcome to SMRT Corporation's 17th Annual General Meeting.

INTRODUCTION

1. Last year, we continued on the twin tracks of delivering higher rail and bus operational performance, while sustaining growth on our other business fronts. As we enter next year into 30 years of operations, we are confident that our ongoing efforts to transform the Group will place us in good stead to continue improving on rail service and reliability, transit smoothly into a new rail financing framework and bus contracting model, seize new business growth opportunities at home and overseas, as well as engage our people, customers and the community meaningfully. I would like to brief you on each of these areas.

DELIVERING HIGHER RAIL OPERATIONAL PERFORMANCE

2. Central to SMRT's business is our rail public transport operations. In this area, we have made steady progress in operational reliability and availability, and with our renewal works on the North South and East West Lines (NSEWL).

3. The Mean Kilometres between Failure (MKBF) for delays lasting more than 5 minutes, a key international metric used to measure rail reliability, has improved from 65,000 km in 2012 on the NSEWL to 140,000 km at the end of last year. With our ongoing efforts, this has further improved to 154,000 km as at end-June 2016. It is the best performance rate on record in our history, despite ageing and intensified usage. To understand the tremendous effort in achieving this level of reliability, imagine that our trains today cumulatively travel nearly 4 times around the Equator, or about 1700 times along our NSEW lines, before clocking a single delay of more than 5 minutes. On the Circle Line, our MKBF improved nearly 4-fold from 61,000 km in 2012 to 240,000 km as at June 2016.

4. These are encouraging improvements, but there is much more to be done to be best in class in the world. In reliability terms, we already rank amongst the top metros in the world. But Hong Kong MTR has exceeded 300,000 km in MKBF, while Taipei Metro tops it at 800,000 km. We have been in touch with them and are grateful for the technical and information exchanges. We are learning from their best practices, and from others in the 33-member community of metro operators in the world. To achieve similarly outstanding performance standards, we need to strengthen staff competency and discipline, and continue with efforts to grow our operations and maintenance headcount, adding to the technical workforce that had already grown by more than 30% in the past 3 years. Together with the authorities, we must also address issues of design capacity, system resilience and asset replacement.

5. Of great concern to us are the incidents that last longer than 30 minutes which severely inconvenience our commuters especially when they occur during peak periods. We had 7 such incidents in 2015, mostly caused by power-related faults and human error. Most prominent of these was the disruption on 7 July 2015 when service on the NSEWL had to be stopped for safety reasons because of power trips across the network. These faults are being addressed jointly with the authorities. As for the Bukit Panjang Light Rail Transit (BPLRT), we are in discussion with the authorities on a timely solution to the problem of spares obsolescence as the system is approaching its design end-of-life.

6. Recognising the age of the NSEWL, we embarked on a massive multi-year renewal effort a few years ago, and expect to see higher levels of rail reliability in the coming years when completed:

- a. **New concrete sleepers.** We have completely replaced the ageing wooden sleepers with new concrete ones on the NSL, and commuters now enjoy shorter and smoother journeys with speed restrictions lifted. On the EWL, about 2/3 of the 91,000 sleepers have been replaced and the remaining will be completed by the end of this year. We appreciate the patience and understanding of residents and commuters as they bear with the temporary inconveniences for better train services in the years to come.
- b. **Power and 3rd Rail systems.** We started upgrading works on the ageing power substations in early 2015, and the expansion of network power supply to meet the higher loading requirement is now underway. The 3rd rail system, which supplies power to the trains, is currently being changed out at a rate of 150 metres every night. To complete all 82,000 metres will take us through to early 2017.
- c. **Re-signalling.** In parallel, a new signalling system is being installed, based on Communication-Based Train Control (CBTC) technology, which will reduce the headway between trains during peak periods from 120 to 100 seconds. Together with more trains injected to the network, we expect capacity to improve by as much as 20%. Re-signalling works will be completed by the end of this year on the NSL, and 2018 on the EWL. The implementation is complex, and we are taking time to test and commission the new system carefully to ensure a smooth and safe roll-out.
- d. **Trains.** New trains on all our lines have been procured to increase capacity and availability. 24 of the 45 new trains for the NSEWL, and 24 more for the Circle Line and 13 more for the Bukit Panjang LRT have been delivered. At the same time, we are addressing the end-of-life reliability of our oldest Kawasaki trains, and refurbishing our second generation Siemens trains which have been in service since the mid-90s. Our train service availability remains consistently high at 99.82% and 99.98% for NSEWL and CCL respectively.

7. Completing these maintenance and renewal activities safely and on time depends on having sufficient track access and manpower resources each night. To allow more time for track renewal and maintenance, the extra minutes gained from early closure of certain segments in the past year have been most helpful, as will slightly later opening on Sundays from now till the end of the year.

TRANSITING TO A NEW RAIL FINANCING FRAMEWORK

8. It is evident that all these efforts coming together at this time in the asset life-cycles require heavy capital expenditure. Over the past 5 years, rail-related capital expenditures have already amounted to about \$1.3B, with depreciation charges increasing 11.9% year-on-year. More capital expenditure would be required over the next 5 years for the procurement of new trains and take-over of Circle Line and Boon Lay Extension operating assets, as required under the current license.

9. Enhanced security and operating standards have also contributed to rail operating expenditures increasing 8.1% year-on-year over the past 5 years. Maintenance-related expenditures over the same 5 year period have increased 12.4% year-on-year to reach 45% of our rail fare revenue last Financial Year. Under current license terms, SMRT Trains as the operator is obliged to comply with heightened regulatory standards at its own cost.

10. This is however no longer tenable as actual fares have not increased in accordance with what is allowable under the prescribed fare adjustment formula. Over the same 5 year period, actual fares approved by the Public Transport Council only increased 1.0% year-on-year. Using FY2001 as the base year, the gap between the allowable fare cap and actual approved fare is now as much as 20% of revenue, amounting to an estimated \$100 million last year. This is a significant amount that is forgone annually which could have been used to offset capital and operating expenditures. Going forward, even with composited non-fare revenue rising steadily, it will not be possible to meet our financial obligations under the existing licence terms for the heavy capital and operating expenditures related

to an expanded and ageing network. Already, our Rail fare business has suffered an operating loss (before net property tax refund of \$17.1 million) of \$9.6 million last Financial Year.

11. It is therefore crucial that SMRT moves to a new rail financing framework that is asset-light, so that we can focus on providing quality service to commuters and maintenance of trains to ensure smooth operations without the encumbrances of capital investment for asset replacement. Shareholders have asked when this will take place, and why it is taking so long. We have had earnest and extensive discussions with the authorities over the past few years. It is an intricate and complex process as we need to account for existing assets and upgrading works that are in progress. There are also issues to address such as the risk sharing mechanisms, earnings margin, level of license charge payable, and measures to be put in place for the sustainability of the lines over the entire license period in anticipation of increasing operational demands. Final decision on all terms and conditions as well as when we move to the new framework lie with Government. We will seek the appropriate approval from shareholders when this happens.

SUSTAINING BUSINESS GROWTH INTO THE FUTURE

12. Despite the structural challenges in our Rail business, we did well as a Group last year to grow revenue by 4.9% to \$1.3 billion, and increase operating profit by 14.6% to \$138.5 million. This was primarily contributed by growth of 22.6% in operating profits for our Non-Rail businesses, particularly in Bus, Rental, and Taxis segments. The Group ended the year with \$109.3 million in Profit after Tax and Minority Interest (PATMI), an improvement of 20.1% over the previous year.

13. We have restructured the Group with distinct business entities to better engender growth, anchored on the strengths of our core public transport operations. We will continue to explore new growth opportunities locally and overseas along three broad trajectories as briefed to shareholders last year to: (a) develop our expertise in rail engineering and services; (b) expand our road and rail transport operational footprint; and (c) extend our commercial reach.

Developing our expertise in rail engineering and services.

14. When we incorporated Singapore Rail Engineering in 2014, the intention was to build up an indigenous capability in rail engineering. This will take time to seed and nurture. We are making progress with engineering, procurement and construction activities related to the mid-life upgrade of our older trains, and we will reach an important milestone when the first train prototype is ready for testing at the end of this year. Our partnership with Toshiba to market and supply energy efficient propulsion systems in Permanent Magnet Synchronous Motors has attracted the interest of a number of other rail operators. With our joint venture with Faiveley Transport, we will market and supply Maintenance, Repair and Overhaul (MRO) services for specific rolling stock components in Asia excluding Thailand, Hong Kong and Taiwan.

15. We have established SMRT Services to actively manage and market rail-related services and capabilities, including Automated Fare Collection (AFC) and Route Map Information systems (STARiS). As a licensed Facility Based Operator, we also provide fibre-optics leasing services. Most recently, we moved to capitalize on the growing demand for autonomous transport solutions through a joint venture with Dutch company 2getthere to market, install, operate and maintain these systems for customers in Singapore and the Asia-Pacific. We have begun our first consultancy for a major Singapore client, and expect more orders to come in from other prospective local and overseas projects.

Expanding our road and rail transport operational footprint.

16. Our bus business turned around from losses over the past 7 years to achieve an operating profit of \$5.9 million last Financial Year. We are pleased to have met all the regulatory standards set, and earn \$1.4 million in

incentives under the Bus Service Reliability Framework for service quality in bus regularity and waiting time. From 1 September this year, we will transition to a new Bus Contracting Model. We have completed our negotiations and await finalisation of the contracting terms with the authorities. The new model is fee-based, and has safeguards against inflation, wage and energy cost increases. Our current public bus market share is 20%, and we look forward to increasing this with a competitive bid to win the next tender package in Seletar.

17. Our taxi business achieved its highest operating profit ever of \$17 million despite industry challenges with hirers, stringent regulations on taxi availability, and disruptive business models such as Uber. Still, to provide more choice for both our hirers and public commuters, and capture the growing demand for point-to-point transportation beyond traditional taxis, we launched Strides Transportation with its offer of limousine and chauffeured services. We are starting with a modest fleet of 300 sedans and luxury vehicles this year, and have set up a partnership with Grab for bookings exclusively via their mobile application.

18. With our strong international reputation and operational expertise, we have already been shortlisted for a number of road and rail O&M opportunities in the Asia-Pacific region, and are in active discussion with business partners to expand our operational footprint to these regional cities.

Extending our Commercial Reach.

19. Despite the uncertain economy, our Commercial business continued to deliver on its rental and media targets, with revenue growing by 11.5%. Kallang Wave Mall added some new anchor tenants, despite a softer retail market. We also enhanced the vibrancy of the commuting experience with exciting consumer lifestyle offerings through strategic partnerships with Disney and Citibank.

20. A new subsidiary called The X Collective was set up last year to expand out-of-network, and we launched our first *Pop In* retail store to engage and reward transit shoppers at Raffles Xchange. We also successfully delivered an overseas transit retail consultancy in the Middle East. In the outdoor advertising space, we expanded our media assets to include large billboards along Orchard Road and Bugis. A new loyalty mobile application called WINK+ was also launched earlier this year, a first-ever app in Singapore that rewards commuters with free redemptions at retailers and merchants – simply by travelling with SMRT and scanning on WINK+ icons found on advertisements across the network. This is a first step to an exciting future digital eco-system where travel information, e-commerce, lifestyle services and entertainment will fuse and transform the way consumers travel, shop and live.

ENGAGING OUR PEOPLE, CUSTOMERS AND THE COMMUNITY

21. I would like to round off my brief this afternoon with a few remarks about our people; and our service to commuters and the community.

22. Our commuters are central to our vision of *Moving People, Enhancing Lives*. We carry 3 million passenger journeys each day on our public transport network. It is heartening that commuters have continued to show a high level of satisfaction with our public transport services – at 94.8% last year as shown in the annual Customer Satisfaction Survey conducted by the Land Transport Authority.

23. We made community engagement an essential part of our corporate social responsibility efforts. Our ‘Adopt-a-Station’ initiative was well received by student participants and has expanded to over 20 schools. We launched Singapore’s first Mobility Park at Jurong Community Hospital to help patients with their rehabilitation on our public transport system. In partnership with Temasek Cares Foundation, we installed Automatic External Defibrillators in 100 of our taxis to provide a mobile network for first aid response across the country. And last year, we launched two inclusive playgrounds at Bishan-Ang Mo Kio and Ghim Moh to cater to children with special and mobility needs.

24. People remain at the heart of all we do at SMRT. We launched our Chartered Rail Engineer accreditation programme in 2015. Fourteen staff were accredited as Chartered Rail Engineers by the Institution of Engineers Singapore, with another 70 more engineers targeted to be accredited by year-end. Over the past few years, we have progressively developed programmes with educational institutes to sustain the talent pipeline for the public transport industry. To date, we have partnerships with the Institute of Technical Education, Republic Polytechnic, Singapore Polytechnic, Singapore Institute of Technology and University of Birmingham in the United Kingdom, as well as a new \$60 million corporate laboratory supported by the Nanyang Technological University and the National Research Foundation. We have also successfully launched new career development schemes for all land transport vocations in tandem with the Union's progressive career model and the Government's SkillsFuture initiative.

25. We continue to place great emphasis on union and industrial relations, and are proud to be awarded the 2015 May Day Plaque of Commendation (Gold) and May Day Model Partnership Award by the National Trades Union Congress. In recognition of our focus on engaging, developing and nurturing our people, we were recognised nationally with awards in the fields of talent management, strategic human resource, performance management, and employee relations. We also won numerous awards for corporate governance, risk management and service quality, and these are an important acknowledgment of our commitment to organizational excellence.

26. We are however deeply saddened as an SMRT family to have lost two of our own in a tragic accident on 22 March this year. Our hearts go out to their families, and we continue to do all we can to support them in their bereavement. Investigations by the authorities are ongoing, but internally, we have commissioned a complete review of all safety procedures and practices for high-risk activities, with the help of an international team of safety experts. Firm measures have been taken to strengthen the clarity of existing instructions, and most critically to step up compliance and competency of staff on the ground. The safety of our people who work on our transportation network as well as our commuters continues to be of paramount importance, and we will do our utmost to ensure that this never happens again.

CONCLUSION

27. We are confident that we will rise to overcome every challenge before us. SMRT is a national institution, an international icon of operational efficiency, and a home-grown company that our people are proud to belong to. Our people remain integral to our quest for excellence; and we are committed in working hard to regain some of the shine that has come off because of recent troubles. In all areas, we have turned around, and are firmly on the twin tracks of achieving operational excellence and sustaining growth for the future.

28. It is an exciting time for SMRT into the next year and beyond, as we commemorate our 30th anniversary. We are well-positioned to fulfil our mission to be *"the People's Choice by delivering a World-Class transport service and lifestyle experience that is Safe, Reliable and Customer-centric"*. We have also planted the seeds for future growth across existing and new business lines, and will leverage on our existing core competencies to develop new market adjacencies in the next chapter of our growth story.

29. On behalf of the Board, Management and staff of SMRT, I would like to thank you, our shareholders, for your continued strong support on our journey together.