



Date of Issue: 15 July 2016

SMRT Welcomes Move to New Rail Financing Framework for Its Current Lines

1. SMRT welcomes the transition of its North-South, East-West and Circle Lines (MRT), and the Bukit Panjang Light Rail Transit (LRT) to the New Rail Financing Framework (NRFF). This transition comes after extensive consultations with the Land Transport Authority (LTA) since 2011. As part of the transition to the NRFF, LTA will purchase the MRT and LRT operating assets held by SMRT. The NRFF is a more sustainable model that will allow SMRT to continue fulfilling its role to deliver high levels of service and reliability for commuters.

Focus on rail reliability and commuter experience

2. As a result of this change, SMRT Trains will operate under an asset-light model, focusing on two main operational areas: providing quality service to commuters and maintaining the trains to ensure smooth operations. The transition will not impact SMRT Trains' employees as the Company will continue to operate and maintain its rail services.
3. SMRT Trains remains committed to meeting the network's higher capacity needs and reliability requirements, in accordance with the Maintenance Performance Standards set out by LTA. To achieve this, SMRT Trains will continue to employ or allocate at least 700 additional maintenance headcount or equivalent to approximately 20% increase, over the next three years. This is in addition to the 30% increase in technical workforce that SMRT Trains had made in the last three years. SMRT Trains will also continue to make further investments in service quality enhancements.

Towards a sustainable rail business

4. The Current Rail Financing Framework (CRFF) has become unsustainable. SMRT's rail fare margins have been declining since Financial Year 2012 as operating expenses have increased significantly due to our rigorous maintenance regime and replacement programmes for the ageing network. On the other hand, actual fares over the years have not kept pace with the cumulative maximum allowable fare adjustments based on the prescribed fare adjustment formula by the Public Transport Council. Under the CRFF,

SMRT Trains as an operator is also obliged to comply with changes to regulatory standards at its own cost.

5. Over the next five years, the total estimated capital expenditure of SMRT Trains under the CRFF could reach about S\$2.8 billion. This includes the procurement of new trains and taking over of the operating assets of the Circle Line where applicable, while keeping up with the provision of enhanced service levels to the commuting public.

NRFF risk-sharing and EBIT margin

6. The NRFF will lower the business risks for SMRT Trains in the future as it will offer some protection in terms of fare revenue and profitability. LTA will take over the responsibility for the addition, replacement and renewal of operating assets for an expanded network. In return, SMRT Trains will pay a licence charge to LTA which will go into the Railway Sinking Fund¹ that has been set up.
7. As stated by LTA in its press release issued earlier today, under the NRFF, the licence charge has been structured by LTA to allow SMRT Trains to achieve a composite (fare and non-fare) Earnings before Interest and Taxes (EBIT) margin of about 5%, similar to the margins of comparable asset-light rail operators in other jurisdictions. The licence charge will be implemented through a cap and collar structure (please refer to Paragraph 9 below).
8. Additionally, LTA may reimburse SMRT Trains, or *vice-versa*, when regulatory changes lead to changes in SMRT Trains' operating costs or revenue. The reimbursement will be by way of a grant which SMRT Trains can apply for, and is given at LTA's discretion. Relieved of its capital expenditure obligations, coupled with LTA sharing certain revenue and operating risks, SMRT Trains will be better positioned to operate and maintain its rail services.
9. While the NRFF will provide a measure of risk mitigation and earnings stability that SMRT Trains presently does not have under the CRFF, there is no certainty that SMRT Trains will earn an EBIT margin of 5%. The licence charge structure provides a revenue shortfall sharing, and a profit sharing mechanism based on a tiered EBIT cap starting at 5% and collar set at 3.5%. Any EBIT deviations beyond the cap and collar would be shared with LTA. Going forward, SMRT Trains will do its best to mitigate the key operating risks under the NRFF Licence. However, the risks relating to fare adjustments, operating expenditure

¹ The Railway Sinking Fund, managed by LTA, is specifically established to meet future expenditures on operating assets.

increases, timing of asset renewal and regulatory changes that may impact SMRT Trains' profitability remain significant.

Asset Sale under NRFF

10. As part of the transition to the NRFF, LTA will purchase the operating assets of the North-South, East-West and Circle Lines held by SMRT Trains as well as the operating assets of the Bukit Panjang Light Rail Transit held by SMRT Trains' wholly-owned subsidiary, SMRT Light Rail Pte Ltd. The LTA will purchase these assets at an estimated total Net Book Value as at 30 September 2016 of S\$991 million (S\$1,060 million including GST), in accordance with the terms of the sale and purchase agreements signed between the parties. Payment for the assets will be made in tranches: S\$797 million will be made on the initial completion date, with the balance of the consideration payable over the next three anniversaries of the completion date. SMRT Trains has provided warranties on the conditions of the assets. LTA will also carry out an assessment of the condition of the assets and is entitled to withhold payment for assets requiring rectification or replacement.
11. SMRT has appointed PrimePartners as the Independent Financial Adviser to opine on whether the terms of the proposed sale of the operating assets to LTA 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 PrimePartners to the Directors, PrimePartners is of the view that the terms of the proposed sale are fair and reasonable. SMRT will convene an Extraordinary General Meeting to seek shareholders' approval for the proposed asset sale and the relevant notice of meeting and circular to shareholders will be despatched to shareholders soon. PrimePartners' opinion will be published in the circular to shareholders.
12. Subject to shareholders' approval for the proposed asset sale, SMRT Trains will transit into the NRFF and operate its current MRT and LRT lines under a single new licence for a period of 15 years commencing on 1 October 2016, with the possibility of an extension of 5 years subject to parties' mutual agreement.

Use of proceeds from the asset sale

13. SMRT does not intend to use the proceeds from the asset sale to pay any special dividend to shareholders of SMRT Corporation Ltd. SMRT group's total debt level is expected to be at S\$762 million on 30 September 2016. To be prudent, the Company intends to use part of the net proceeds from the Proposed Sale to retire some of its existing debt. A portion of

this debt was used to fund investments in its rail operating assets. The Company will also pay the IRAS approximately S\$159 million as a tax payable on the difference between the sale proceeds and the residual capital allowances relating to the operating assets. In addition, the Company will invest in the strengthening and further development of its rail engineering competencies for service reliability.

14. The NRFF is not expected to affect SMRT's other existing non-rail business areas. We will continue to develop our core competencies and seek new growth opportunities to deepen our rail engineering expertise, expand our road and rail transport operational footprint, and extend our commercial out-of-network reach.

15. SMRT's President and Group Chief Executive Officer, Mr Desmond Kuek, said, "We welcome the transition of our lines to the New Rail Financing Framework. This will allow SMRT Trains to better focus on fulfilling its role as a public transport operator to deliver high levels of operational reliability, safety, and service for the benefit of our commuters."

-- End --

For enquiries, please contact:

Media

Jessica Ann Thomas

Lead, Corporate Affairs

Tel: +65 6331 1135/ 9822 0902

Email: Jessicaannthomas@smrt.com.sg

Analysts/Investors

Jinny Goh

Treasurer

Tel: +65 6331 1211

Email: investors_r@smrt.com.sg

ANNEX

MRT and LRT lines operated by SMRT

