

The Discipline of Temasek

Temasek's primary sources of regular income are dividends and distributions received from its investments, and proceeds from divesting assets.

We do not need to be credit-rated or to borrow in order to invest.

We choose to be credit-rated as a tripwire discipline. Any changes in credit ratings are public signals of our financial stance.

Temasek Bonds

From time to time, we issue bonds – borrowing money directly from investors via the bond markets. In return, we pay our bondholders a 'coupon', like an interest rate on the money they have invested in our bonds.

When the tenor or borrowing period ends, bond investors expect to be repaid the principal sum of the bond value that they had invested upfront.

Temasek's maiden 10-year bond matured in September 2015, and was repaid in full.

Our dividend income and divestment proceeds are used to operate our business, pay interest to bond investors, pay a dividend to our shareholder and make new investments, as well as repay bonds which come due.

Bonds may be rated by rating agencies. All Temasek Bonds have been top-rated AAA/Aaa by S&P Global Ratings (S&P) and Moody's Investors Service (Moody's) respectively.

In addition, information on pages 17-19 on our Credit Profile may help our stakeholders judge for themselves our ability to service or repay our debt.

What Does Temasek's Credit Profile Show?

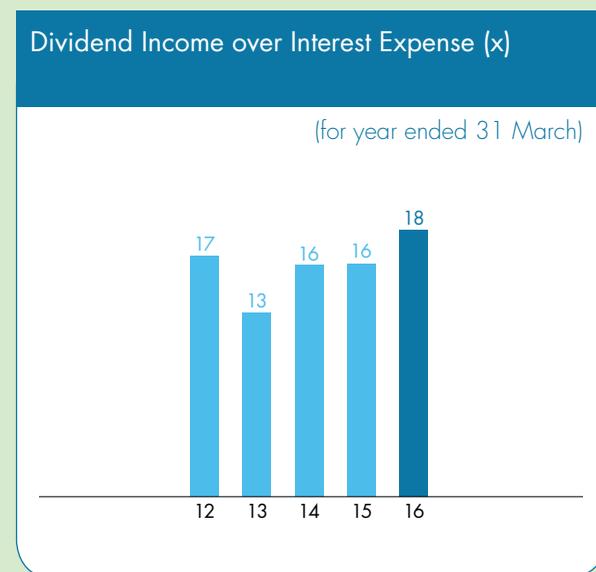
Our Credit Profile is designed as a basic snapshot of our credit quality.

Last year, Temasek earned S\$8 billion in dividend income and made S\$28 billion of divestments.

Our dividend income was sufficient to cover our interest expenses 18 times over for the year ended 31 March 2016.

The chart on page 17 shows Temasek had S\$13 billion of debt outstanding as at 31 March 2016, with S\$8 billion due within the next 10 years. This means our S\$8 billion dividend income for the year ended 31 March 2016 is also enough to repay the S\$8 billion debt due over the next decade.

Using another Credit Profile parameter based on Temasek's cash and cash equivalents, plus short term investments, as at 31 March 2016, Temasek would be able to cover all its short and long term debt obligations due over the next 10 years three times over.



What Does a Credit Rating Mean?

Rating agencies have their own proprietary criteria and analytical judgement, including both qualitative assessments and quantitative measures, to determine the ability of an organisation to service its debt obligations. Rating agencies assign ratings on a scale, e.g. starting at AAA for S&P and Fitch Ratings, and Aaa for Moody's as their top credit ratings.

Bonds may or may not be rated.

If bond investors are seeking a higher probability of principal repayment upon maturity of the bond, they may invest in a bond rated towards the top end of the ratings spectrum, which will typically pay a lower coupon.

Bonds of lower credit quality, such as those in the speculative grade band, theoretically have a higher risk of default, and therefore may pay a higher coupon.

What Does it Mean for Investors?

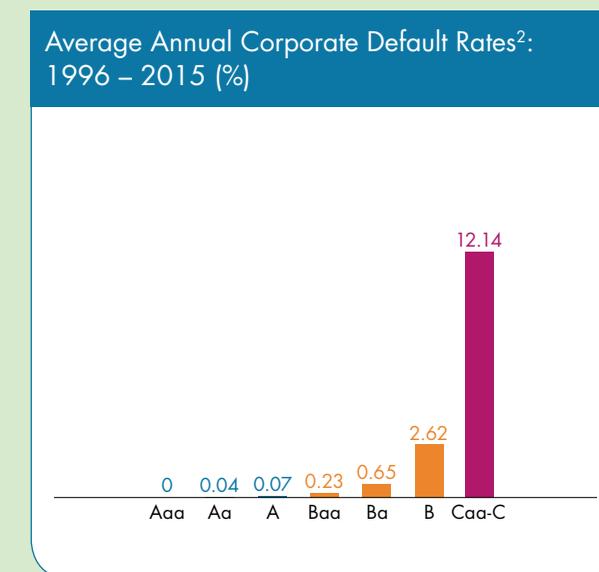
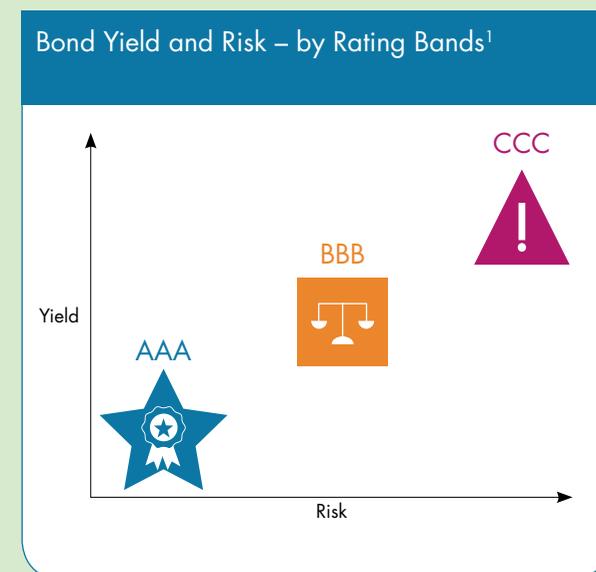
All investments carry risk. Investors need to understand the risks and balance them against their desire to earn higher returns.

Buying or investing in a bond is akin to lending money to a company. Hence, bond investors will need to assess the company's ability to service its debt or repay its debt.

Data shows that the higher the rating, the lower the observed frequency of default, and vice versa. The chart below shows the average annual corporate default rates in the last 20 years.

A credit rating is one data point; it is a statement of opinion and is not an investment recommendation.

Likewise, information in our Credit Profile is a basic snapshot to facilitate understanding of our credit quality, and is not a recommendation to buy or sell our Temasek Bonds or Euro-commercial Paper.



¹ Rating bands have been simplified for illustration.

² Derived from data in Moody's Investors Service, *Annual Default Study: Corporate Default and Recovery Rates, 1920 – 2015*, February 29, 2016.