

Independent Auditors' Report

Members of Singapore Telecommunications Limited

For the financial year ended 31 March 2019

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Singapore Telecommunications Limited ('the Company') and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 March 2019 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group, and the statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 137 to 249.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 ('the Act') and Singapore Financial Reporting Standards (International) ('SFRS(I)s') so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 March 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and the changes in equity of the Company for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing ('SSAs'). Our responsibilities under those standards are further described in the 'Auditors' responsibilities for the audit of the financial statements' section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ('ACRA Code') together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter

How the matter was addressed in our audit

Revenue recognition

For the main Operating Revenues – Mobile Service, Data and Internet and Sale of Equipment, there is an inherent risk around the accuracy and timing of revenue recognition given the complexity of systems and the large volume of data processed, which are also impacted by changing pricing models and the introduction of new products and tariff arrangements.

Significant management judgements and estimates are required when accounting for revenue from long-term contracts with respect to the Group Enterprise Infocomm Technology ("ICT") Operating Revenues. For some of these ICT contracts, estimates are required in determining the completeness and valuation of provisions against contracts that are expected to be loss-making and the recoverability of the contract assets.

We obtained an understanding of the nature of the various revenue streams and the related revenue recording processes, systems and controls.

Our audit approach included controls testing as well as substantive procedures. For our procedures over the design and operating effectiveness of controls over significant IT systems, we involved our IT specialists.

In particular, our procedures included:

- *IT systems:* Testing of the design and implementation, and the operating effectiveness of automated controls over the capture of data at the network switches and interfaces between relevant IT applications, measurement and billing of revenue, and the recording of entries in the general ledger.

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The key audit matter

How the matter was addressed in our audit

Revenue recognition (Cont'd)

In addition, the initial application of SFRS(I) 15 *Revenue from Contracts with Customers* required the exercise of significant judgement regarding:

- Identification of performance obligations for each product and service offering;
- Estimation of stand-alone selling prices, variable consideration, future customer behaviour with respect to early contract renewals and terminations; and
- The timing of revenue recognition.

The accounting policies for revenue recognition are set out in Note 2.23 to the financial statements and the various revenue streams for the Group have been disclosed in Note 4 to the financial statements.

- **Manual controls:** Testing of the design and implementation, and the operating effectiveness of manual controls over the initiation, authorisation, recording, and processing of revenue transactions. This included evaluating process controls over authorising new price plans and rate changes and the adjustments to the relevant billing systems. We had also tested the access controls and change management controls over the relevant billing systems.
- Testing of contracts in the ICT business for appropriate revenue recognition and provisioning for contracts that were expected to be loss-making. We challenged management's underlying assumptions in making their judgements on the provisions required.
- Assessing the appropriateness of the revenue recognition policies for the products and services offered by the Group in adopting SFRS(I) 15, which included but was not limited to:
 - Assessing the appropriateness of the transaction price and its allocation to performance obligations identified within bundled contracts based on stand-alone selling prices;
 - Inspection of customer contracts to evaluate whether performance obligations were satisfied over time or at a point in time, and assessed the reasonableness of estimates used in respect to revenue recognition and deferral of revenue; and
 - Assessing the effects of the initial application of SFRS(I) 15 as at 1 April 2018.
- Testing of manual journal entries recorded in the general ledger relating to revenue recognition.

Findings

We found that the processes and controls to account for revenue were operating effectively.

We found that the key assumptions used and estimates made in regard to the policies for revenue recognition were reasonable.

Impairment assessment of goodwill

Goodwill is subject to an annual impairment test or more frequently if there are indications of impairment.

At 31 March 2019, the Group's statement of financial position includes goodwill amounting to S\$11.5 billion, primarily related to the following cash-generating units ("CGUs"):

Singtel Optus Pty Limited ("Optus"): S\$9.3 billion

Amobee, Inc. ("Amobee"): S\$1.1 billion

Global Cyber Security: S\$1.0 billion

We evaluated whether CGUs were appropriately identified by management based on our understanding of the current business structure of the Group.

We involved our valuation specialists in the overall assessment of the recoverable amounts of the respective CGUs.

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The key audit matter

How the matter was addressed in our audit

Impairment assessment of goodwill (Cont'd)

Global Cyber Security CGU

Subsequent to the reorganisation of the Group's cyber security business, with effect from 1 April 2018, management has assessed and considered the combined cyber security businesses of the Group, including Trustwave, to constitute one CGU.

The Group performed impairment assessments for each of the CGUs by estimating the recoverable amounts. The recoverable amount is the discounted sum of individually forecasted cash flows for each year and the value of the cash flows for the years thereafter using a long-term growth rate. As the recoverable amount for each of the CGUs was calculated to be in excess of the respective carrying amounts, no impairment was determined.

Forecasting of future cash flows is a highly judgmental process which requires estimation of revenue growth rates, profit margins, discount rates and future economic conditions.

Refer to Note 24 to the financial statements for the impairment assessments.

In particular, our procedures included:

Optus, Amobee and Global Cyber Security

We assessed the reasonableness of the key assumptions used by management in developing the cash flow forecasts and the discount rates used in computing the recoverable amounts, which included but are not limited to:

- Agreeing the cash flow forecasts used in the impairment model to Board approved forecasts and budgets;
- Considering management's expectations of the future business developments and corroborated certain information with market data; we also considered planned operational improvements to the businesses and how these plans would impact future cash flows and whether these were appropriately reflected in the cash flow forecasts used;
- Challenging the appropriateness of cash flow forecasts used by comparing against historical trends and recent performance and industry trends. Where relevant, assessing whether budgeted cash flows for prior years were achieved to assess forecasting accuracy;
- Comparing the discount rates and terminal growth rates to observable market data; and
- Performing a sensitivity analysis of the key assumptions used to determine which reasonable changes to assumptions would change the outcome of the impairment assessment.

Findings

We found the identification of CGUs to be reasonable and appropriate.

We found the key assumptions and estimates used in determining the recoverable amounts to be within a supportable range.

Share of joint ventures' reported contingent liabilities relating to regulatory litigations and tax disputes

The Group's significant joint ventures have a number of on-going disputes and litigations with their local regulators and tax authorities.

Significant judgement is required by management in assessing the likelihood of the outcome of each matter and whether the risk of loss is remote, possible or probable and whether the matter is considered a contingent liability to be disclosed.

Please refer to Note 41 to the financial statements for 'Significant Contingent Liabilities of Associates and Joint Ventures'.

Our audit procedures included:

- Inquiring with management and legal counsel of the joint ventures to understand the process and internal controls relating to the identification, assessment and recognition of the disputes and litigations.
- Reviewing the audit working papers of the auditors of the joint ventures ('Component Auditors'), in particular their assessment on the regulatory litigations and tax disputes that may have a material impact to the financial statements.
- Discussing with the Component Auditors on their evaluation of the probability and magnitude of losses relating to the disputes and litigations, and their conclusions reached in accordance with SFRS(I) 1-37 *Provisions, Contingent Liabilities and Contingent Assets*.

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The key audit matter

How the matter was addressed in our audit

Findings

We found management's assessment of the regulatory litigations and tax disputes to be reasonable, and the disclosure of contingent liabilities to be appropriate.

Taxation

The Group is exposed to tax disputes with local tax authorities in the jurisdiction it operates in on a regular basis. The assessment of the outcome of such disputes requires significant judgement and could have a material impact on the financial statements.

Australian Tax Office ("ATO") audit

The Group has been responding to an on-going specific issue audit by the ATO in connection with the acquisition financing of Optus.

The Group has engaged external specialists to advise on this matter and to assist in raising objections to the amended assessments. Significant judgement is required in assessing the probability and timing of the outlays necessary for the resolution of this matter.

Please refer to Note 40 to the financial statements.

Our audit procedures included:

- Inquiring with management on the tax issues raised by the tax authorities and assessing their impact to the financial statements;
- Involving our tax specialists in assessing the appropriateness of the accounting treatments of significant tax issues for the Group; and
- Assessing the reasonableness of management's position and the accounting impact to the Group's consolidated financial statements.

With respect to the ATO matter:

- Involving our tax specialists in assessing the appropriateness of management's judgements taken on this matter, and the disclosure as a contingent liability, and that the amount paid continues to represent a receivable as at 31 March 2019;
- Examining the advice that the Group had obtained from external specialists to support the position taken by management; and
- Inquiring with management and the external specialists to discuss the merits of the Group's position on the specific issue audit by ATO.

Findings

We found the position of management and the basis for it to be appropriate.

We found the disclosures to the consolidated financial statements to be adequate and appropriate in accordance to SFRS(I) 1-37 *Provisions, Contingent Liabilities and Contingent Assets*.

Other matter

The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company for the year ended 31 March 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 16 May 2018.

Other information

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon. We have not obtained any other information prior to the date of this auditors' report. The other information is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I)s, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless the law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Mr Ong Pang Thye.

KPMG LLP

KPMG LLP

Public Accountants and
Chartered Accountants

Singapore

14 May 2019