# Management Discussion and Analysis

## GROUP

| | Financial Year Ended 31 March | | | |
|---|---|---|---|---|
| | 2016 (S$ million) | 2015 (S$ million) | Change (%) | Change in constant currency [1] (%) |
| **Operating revenue** | **16,961** | 17,223 | -1.5 | 4.1 |
| *(exclude mobile termination rates decline)* [2] | ***17,149*** | *17,223* | *-0.4* | *5.2* |
| **EBITDA** | **5,013** | 5,091 | -1.5 | 4.1 |
| ***EBITDA margin*** | ***29.6%*** | *29.6%* | | |
| **Share of associates' pre-tax profits** | **2,791** | 2,579 | 8.2 | 9.7 |
| **EBITDA and share of associates' pre-tax profits** | **7,804** | 7,670 | 1.7 | 6.0 |
| **EBIT** | **5,655** | 5,508 | 2.7 | 6.0 |
| *(exclude share of associates' pre-tax profits)* | ***2,864*** | *2,929* | *-2.2* | *2.8* |
| Net finance expense | **(265)** | (216) | 22.4 | 28.6 |
| Taxation | **(1,597)** | (1,510) | 5.8 | 8.8 |
| *(exclude tax credit on transfer of assets to associate)* | ***(1,597)*** | *(1,549)* | *3.1* | *6.1* |
| **Underlying net profit** [3] | **3,805** | 3,779 | 0.7 | 4.0 |
| *(exclude one-off tax credit and Trustwave)* [4] | ***3,832*** | *3,740* | *2.4* | *5.8* |
| *Underlying earnings per share (S cents)* | ***23.9*** | *23.7* | *0.7* | *4.0* |
| Exceptional items (post-tax) | **66** | 3 | @ | @ |
| **Net profit** | **3,871** | 3,782 | 2.4 | 5.5 |
| *(exclude one-off tax credit and Trustwave)* [4] | ***3,898*** | *3,743* | *4.1* | *7.3* |
| *Basic earnings per share (S cents)* | ***24.3*** | *23.7* | *2.4* | *5.5* |
| **Share of associates' post-tax profits** | **1,930** | 1,763 | 9.5 | 11.2 |

"Associate" refers to either an associate or a joint venture as defined under Singapore Financial Reporting Standards.

"@" denotes more than 500%.

**Notes:**

(1) Assuming constant exchange rates for the Australian Dollar and/or regional currencies (Indian Rupee, Indonesian Rupiah, Philippine Peso and Thai Baht) from the previous year ended 31 March 2015 (FY 2015).

(2) Mobile termination rates in Australia declined effective from 1 January 2016. The decline reduced the Group's operating revenue by S$188 million (A$186 million), with minimal impact on profitability.

(3) Underlying net profit refers to net profit before exceptional items.

(4) Adjusted to exclude Trustwave, Inc. (acquired in September 2015) and a one-off tax credit of S$39 million arising from certain property, plant and equipment transferred to an associate recorded in FY 2015.

For the year ended 31 March 2016, the Group performed in line with the guidance issued during the year. Net profit grew 5.5% in constant currency terms. The strong underlying performance was underpinned by its core business driven mainly by higher mobile data usage and improved contributions from the associates. With the Singapore Dollar strengthening against the Australian Dollar and the Indonesian Rupiah, net profit increased 2.4% to S$3.87 billion. Foreign currency movements negatively impacted net profit by S$119 million or 3.1 percentage points.

Trustwave, Inc. ("**Trustwave**"), a newly acquired cyber security company consolidated from 30 September 2015, contributed S$147 million in operating revenue, S$5 million in EBITDA and S$27 million in net loss [(1)].

The Group's operating revenue declined by 1.5% to S$16.96 billion, impacted by the steep decline of 9% of the Australian Dollar against the Singapore Dollar and the reduction in mobile termination rates [(2)] in Australia from 1 January 2016 ("**rates change**"). In constant currency terms, operating revenue would have grown 4.1% with growth across all the business units. The rates change reduced operating revenue by S$188 million but had minimal impact on profitability. EBITDA declined by 1.5% to S$5.01 billion but in constant currency terms would have increased by 4.1%.

Group Consumer, the largest business segment, recorded lower operating revenue of 4.6%. In constant currency terms, operating revenue would have grown 3.0% (up 4.8% excluding the rates change). EBITDA declined 1.2% but in constant currency terms would have increased strongly by 6.5% on strong cost management, and lower mobile customer acquisition and retention costs in Australia as penetration of device repayment plans increased.

Group Enterprise saw operating revenue grew 1.3% while EBITDA declined 3.9%. Excluding fibre rollout and Trustwave, both revenue and EBITDA were stable. On the same basis and in constant currency terms, operating revenue grew 2.8% and EBITDA remained stable. The higher operating revenue, despite the slowing global economy, was driven mainly by higher ICT and cloud services.

Group Digital Life, which is focused on digital marketing, regional premium OTT video and data analytics, saw a 45% rise in operating revenue with full year's contributions from Kontera and Adconion acquired in September 2014 quarter. Negative EBITDA fell 24% reflecting increased scale at Amobee and effective cost management, partially offset by HOOQ's start-up losses.

The Group and its associates continued to record strong customer growth. The combined mobile customer base reached 605 million [(3)] in 25 countries as at 31 March 2016, up 8.8% or 49 million from a year ago.

The associates' post-tax contributions rose 9.5% to S$1.93 billion, and would have increased 11% excluding the currency translation impact with higher earnings at Telkomsel and NetLink Trust.

Telkomsel registered strong double-digit growth in revenue and EBITDA, boosted by higher voice and data usage. Airtel delivered higher revenue and EBITDA on strong data growth, improved operating margins in India as well as lower fair value losses in Africa but was offset by higher depreciation and spectrum related costs in India. AIS reported stable service revenue while earnings were impacted by 2G to 3G/4G handset migration costs. Globe saw higher profits from growth in mobile data and customer base, as well as one-off gains. NetLink Trust recorded higher revenue and EBITDA boosted by increased fibre penetration in Singapore.

Depreciation and amortisation charges were stable and would have increased 5.9% in constant currency terms. The higher depreciation charges was due to increased investments in mobile networks including LTE deployment in Singapore and Australia, while amortisation charges increased due mainly to acquired intangibles of Trustwave and investments in spectrums. Consequently, the Group's EBIT rose 2.7% to S$5.66 billion, and would have been up 6.0% in constant currency terms.

Net finance expense increased 22% on higher interest expense from higher average borrowings as well as an increase in interest rates.

Excluding the one-off tax credit last year, the increase in tax expense of 6.1% in constant currency terms reflected higher profits and higher withholding taxes on increased dividends from the associates.

Underlying net profit was stable at S$3.81 billion and in constant currency terms would have increased 4.0% from last year. Excluding Trustwave and the one-off tax credit last year, underlying net profit was up 2.4%, and would have increased 5.8% in constant currency terms.

The Group's net exceptional gain of S$66 million mainly comprised gains on sale of venture investments of S$96 million and share of Airtel's net exceptional gains of S$65 million, partially offset by the currency translation loss of S$56 million reclassified from equity upon loss of joint control of PBTL, and various one-off charges.

The Group has successfully diversified its earnings base through its expansion and investments in overseas markets. Hence, the Group is exposed to currency movements. On a proportionate basis if the associates are consolidated line-by-line, operations outside Singapore accounted for three-quarters of both the Group's proportionate revenue and EBITDA.

**Notes:**

(1) Include amortisation of acquired intangibles and acquisition financing cost.

(2) Mobile termination rates are the fees charged by mobile operators for receiving calls and messages on their networks.

(3) Excluding Pacific Bangladesh Telecom Limited ("**PBTL**") (45%-owned joint venture) which the Group has ceased to exercise joint control.

# Management Discussion and Analysis

## BUSINESS SEGMENT

| | Financial Year Ended 31 March 2016 (S$ million) | Financial Year Ended 31 March 2015 [1] (S$ million) | Change (%) | Change in constant currency [2] (%) |
|---|---|---|---|---|
| **Operating revenue** | | | | |
| - Group Consumer | **10,110** | 10,593 | -4.6 | 3.0 |
| - Group Enterprise | **6,397** | 6,318 | 1.3 | 3.9 |
| Core Business | **16,507** | 16,910 | -2.4 | 3.3 |
| - Group Digital Life | **454** | 313 | 45.3 | 45.6 |
| **Group** | **16,961** | 17,223 | -1.5 | 4.1 |
| **EBITDA** | | | | |
| - Group Consumer | **3,266** | 3,304 | -1.2 | 6.5 |
| - Group Enterprise | **1,959** | 2,039 | -3.9 | -2.4 |
| Core Business | **5,225** | 5,343 | -2.2 | 3.1 |
| - Group Digital Life | **(137)** | (180) | -24.0 | -24.6 |
| - Corporate | **(76)** | (73) | 4.3 | 4.3 |
| **Group** | **5,013** | 5,091 | -1.5 | 4.1 |
| ***EBITDA margin*** | | | | |
| *- Group Consumer* | ***32.3%*** | *31.2%* | | |
| *- Group Enterprise* | ***30.6%*** | *32.3%* | | |
| ***- Group*** | ***29.6%*** | *29.6%* | | |
| **EBIT (exclude share of associates' pre-tax profits)** | | | | |
| - Group Consumer | **1,811** | 1,816 | -0.3 | 6.9 |
| - Group Enterprise | **1,337** | 1,426 | -6.2 | -5.2 |
| Core Business | **3,148** | 3,242 | -2.9 | 1.6 |
| - Group Digital Life | **(206)** | (237) | -13.4 | -13.9 |
| - Corporate | **(79)** | (75) | 4.9 | 4.9 |
| **Group** | **2,864** | 2,929 | -2.2 | 2.8 |
| **Group Enterprise (exclude fibre rollout and maintenance and Trustwave)** | | | | |
| - Operating revenue | **6,250** | 6,237 | 0.2 | 2.8 |
| - EBITDA | **1,954** | 1,971 | -0.9 | 0.7 |
| - EBIT | **1,353** | 1,359 | -0.4 | 0.6 |

**Notes:**

(1) From 1 April 2015, certain businesses which were previously within Group Digital Life were transferred to Singapore Consumer. To better reflect the underlying performance, the results for FY 2015 have been restated on the basis that the businesses were transferred from 1 April 2014 (instead of 1 April 2015). The comparatives have also included changes arising from refinement of revenue/ cost allocation methodologies between the various business units in Singapore.

(2) Assuming constant exchange rate for the Australian Dollar from FY 2015.

## GROUP CONSUMER

Group Consumer contributed 60% (FY 2015: 61%) and 65% (FY 2015: 65%) to the Group's operating revenue and EBITDA respectively.

Operating revenue in Singapore Consumer declined 1.7% mainly from lower Equipment sales and International Telephone, partially mitigated by higher Mobile Communications and Fixed Broadband. Equipment sales fell 8.8% on lower volume of handset sales, while International Telephone fell 8.9% due to lower call traffic on continued data substitution and increased popularity of OTT apps. Mobile Communications, which contributed 54% of Singapore Consumer's revenue, rose 1.6% in a highly competitive market with robust data growth offsetting continued declines in roaming, voice and SMS usage. Consumer Home revenue, comprising fixed broadband and voice, as well as Singtel TV, was stable. With strong cost management, both EBITDA and EBIT increased 6.7%.

Australia Consumer's operating revenue gained 4.2% (up 6.7% excluding the rates change) on growth in both mobile and fixed services. EBITDA rose 6.1% with lower customer acquisition and retention costs as penetration of device repayment plans increased. Including higher depreciation and amortisation charges, EBIT grew 6.5%. Mobile service revenue declined 2.1% but would have been up 2.0% excluding the rates change with postpaid handset customer gains. Mass Market Fixed revenue grew 4.4% with increase in National Broadband Network (NBN) revenue and higher take-up of Pay TV.

## GROUP ENTERPRISE

Group Enterprise contributed 38% (FY 2015: 37%) and 39% (FY 2015: 40%) to the Group's operating revenue and EBITDA respectively.

Trustwave contributed S$147 million in operating revenue, S$5 million in EBITDA and S$16 million in negative EBIT including the amortisation of acquired intangibles.

In constant currency terms, operating revenue grew 3.9%, due in part to contribution from Trustwave, while EBITDA was down 2.4%.

In Singapore [4], excluding fibre rollout and Trustwave, operating revenue increased 3.1% driven by strong growth in ICT and Data and Internet services, partly offset by decline in International Telephone revenue. ICT services, which contributed 42% of operating revenue, grew 13% driven by increased provision of infrastructure services, greater G-cloud adoption by Singapore government agencies and higher application development and maintenance projects.

In Australia, operating revenue was up 2.0%. Strong growth from ICT services mitigated the decline in Data and IP due to continued price erosion, migration of legacy data services to IP-based solutions, and customer-led rationalisation of services.

## GROUP DIGITAL LIFE

With contributions from Kontera and Adconion acquired in September 2014 quarter, Group Digital Life's operating revenue increased strongly by 45%.

Negative EBITDA decreased 24%, reflecting Amobee's improved gross margin and effective cost management, as well as the benefits of business rationalisation, partially offset by HOOQ's higher start-up costs. HOOQ, which offers regional premium OTT video, has been launched in Indonesia, India, Thailand and the Philippines to capitalise on Asia's growing demand for online entertainment. Negative EBIT declined 13% after accounting for higher depreciation and amortisation of acquired intangibles for Amobee.

**Note:**

[4] Includes all geographies other than Australia.

# Management Discussion and Analysis

## ASSOCIATES

| | Financial Year Ended 31 March | | | |
|---|---|---|---|---|
| | 2016 (S$ million) | 2015 (S$ million) | Change (%) | Change in constant currency [1] (%) |
| **Group share of associates' pre-tax profits** | **2,791** | 2,579 | 8.2 | 9.7 |
| *(excluding fair value losses)* | ***2,919*** | *2,730* | *6.9* | *8.2* |
| **Share of post-tax profits** | | | | |
| Regional mobile associates | | | | |
| Telkomsel | **857** | 741 | 15.8 | 20.8 |
| AIS [2] | **370** | 338 | 9.4 | 9.9 |
| Airtel [2] | | | | |
| - ordinary results (India and South Asia) | **535** | 657 | -18.6 | -19.0 |
| - ordinary results (Africa) | **(203)** | (243) | -16.4 | -16.8 |
| - exceptional items [3] | **(15)** | (42) | -63.5 | -62.9 |
| | **316** | 372 | -15.0 | -15.5 |
| Globe | | | | |
| - ordinary results | **215** | 212 | 1.5 | -1.4 |
| - exceptional items [4] | **20** | – | nm | nm |
| | **235** | 212 | 11.0 | 7.8 |
| | **1,779** | 1,663 | 7.0 | 8.9 |
| NetLink Trust [5] | | | | |
| - operating results | **39** | (14) | nm | nm |
| - amortisation of deferred gain | **56** | 51 | 10.0 | 10.0 |
| | **95** | 37 | 158.9 | 158.9 |
| Other associates | **57** | 64 | -11.1 | -11.1 |
| **Group share of associates' post-tax profits** | **1,930** | 1,763 | 9.5 | 11.2 |

"nm" denotes not meaningful.

**Notes:**

(1) Assuming constant exchange rates for the regional currencies (Indian Rupee, Indonesian Rupiah, Philippine Peso and Thai Baht) from FY 2015.

(2) Share of results of the associates as shown in the table above excluded the Group's share of certain Airtel's exceptional items and AIS' 2G to 3G/4G handset subsidy costs which have been classified as exceptional items of the Group in view of their materiality.

(3) Exceptional items of Airtel for FY 2016 comprised various non-operational expenses such as termination and restructuring costs, and network re-farming and upgrading costs. The exceptional items in FY 2015 mainly comprised fair value losses from translation of liabilities in Nigeria, restructuring costs, and various provisions and charges.

(4) Exceptional items of Globe relate to its disposal of 51% equity interest in Yondu, Inc. (a former 100% owned subsidiary) and fair valuation of its previously held equity interest of 38.3% in Bayan Telecommunications, Inc.

(5) NetLink Trust is 100% owned by Singtel and is equity accounted as an associate in the Group as Singtel does not control it. The amortisation of deferred gain arose from Singtel's gain on disposal of assets and business to NetLink Trust in prior years, which was deferred in the Group's balance sheet and amortised over the useful lives of the transferred assets.

| | Telkomsel | AIS | Airtel [1] | Globe |
|---|---|---|---|---|
| Country mobile penetration rate | 126% | 126% | 81% | 116% |
| Market share, 31 March 2016 [2] | 47.6% | 45.9% | 24.2% | 45.8% |
| Market share, 31 March 2015 [2] | 46.0% | 45.7% | 23.3% | 40.0% |
| Market position [2] | #1 | #1 | #1 | #2 |
| Mobile customers ('000) | | | | |
| - Aggregate | 153,613 | 38,928 | 342,039 | 57,266 |
| - Proportionate | 53,764 | 9,078 | 111,127 | 27,024 |
| Growth in mobile customers (%) [3] | 8.6% | -7.2% | 10% | 18% |

**Notes:**

(1) Mobile penetration rate, market share and market position pertained to India market only.

(2) Based on number of mobile customers.

(3) Compared against 31 March 2015 and based on aggregate mobile customers. Globe has classified mobile broadband customers as part of its mobile customers with effect from March 2016. The comparative data as at 31 March 2015 has been restated accordingly.

The associates' pre-tax and post-tax contributions grew 8.2% and 9.5% respectively, on higher profits from Telkomsel and NetLink Trust. If the regional currencies had remained stable from a year ago, the pre-tax and post-tax contributions from the associates would have increased by 9.7% and 11% respectively.

During the year, the regional mobile associates continued to transition from mobile telephony to mobile Internet and harness the benefits of their extensive investments in 3G and 4G networks and services.

Excluding PBTL which Singtel has ceased to exercise joint control, the Group's combined mobile customer base reached 605 million in 25 countries, a growth of 8.8% or 49 million from a year ago. Telkomsel registered 8.6% increase in its customer base to 154 million, including 72 million of data customers as at end of March 2016. Airtel's total mobile customer base covering India, Bangladesh, Sri Lanka and across Africa, reached 342 million as at 31 March 2016, up 10% from a year ago.

**Telkomsel** delivered strong double-digit growth in operating revenue and EBITDA of 16% and 19% respectively. The growth was fuelled by strong growth in voice, data and digital businesses as smartphone penetration increased. Mobile revenue market share improved from a year ago. Including higher depreciation charges on the accelerated network rollout, the Group's share of Telkomsel's post-tax profit grew 21% in Indonesian Rupiah terms. With the Indonesian Rupiah depreciating 4% against the Singapore Dollar, Telkomsel's post-tax contribution grew 16% to S$857 million.

**AIS'** service revenue (excluding interconnect revenue) was stable with strong mobile data usage offset by decline in voice in a highly competitive market. AIS continues to maintain its mobile market leadership position as well as the largest network coverage operator in Thailand. EBITDA grew 2% [5] largely due to regulatory costs savings from 3G migration. With lower depreciation charges on fully depreciated 2G assets, AIS' post-tax contribution rose 9.4% to S$370 million.

**Airtel** saw strong revenue growth of 10% in India with a higher mobile revenue market share driven by growth in data usage and robust customer gains. EBITDA in India grew 14% and operational margin expanded despite higher costs from intensified network expansion. The growth was however offset by higher depreciation, spectrum amortisation charges and related finance costs. In Africa, operating revenue rose 3% in constant currency terms, underpinned by continued growth in mobile data and 'Airtel Money' services. However, the depreciation of several African currencies had negatively impacted Africa's reported results in US Dollar terms resulting in the declines in revenue and EBITDA by 13% and 19% respectively. Consequently, the Group's share of Airtel's total post-tax profit fell 15% to S$316 million, despite lower fair value losses and exceptional losses.

**Globe** recorded 15% increase in service revenue driven by higher customer base for both mobile and broadband, and growth in mobile revenue market share. EBITDA rose 15% with revenue growth partly offset by higher service and network costs. Despite higher depreciation charges from a larger asset base, Globe's post-tax profit increased 7.8% in Philippine Peso terms boosted by one-off gains. With the 3% strengthening of the Philippine Peso against the Singapore Dollar, Globe's post-tax contribution grew 11% to S$235 million.

**NetLink Trust's** revenue grew 18% driven by a 30% increase in residential fibre customer base, while EBITDA increased with improved margins. Consequently, NetLink Trust recorded a net profit of S$39 million (before the Group's amortisation of deferred gain), compared to a net loss of S$14 million last year.

**Note:**

[5] Including 2G to 3G/4G handset subsidy costs classified as an exceptional item of the Group, EBITDA would have declined by 3% while post-tax profit grew 2% in Thai Baht terms from last year.

# Management Discussion and Analysis

## CASH FLOW

| | Financial Year Ended 31 March | | |
|---|---|---|---|
| | **2016 (S$ million)** | **2015 (S$ million)** | **Change (%)** |
| Net cash inflow from operating activities | **4,648** | 5,787 | -19.7 |
| Net cash outflow for investing activities | **(2,740)** | (3,557) | -23.0 |
| Net cash outflow for financing activities | **(2,044)** | (2,311) | -11.6 |
| **Net decrease in cash balance** | **(136)** | (81) | 67.9 |
| Exchange effects on cash balance | **35** | 21 | 64.2 |
| Cash balance at beginning of year | **563** | 623 | -9.6 |
| **Cash balance at end of year** | **462** | 563 | -17.9 |
| Singtel [1] | **869** | 1,379 | -37.0 |
| Optus | **631** | 1,070 | -41.0 |
| Associates (net dividends after withholding tax) | **1,218** | 1,100 | 10.7 |
| **Group free cash flow** | **2,718** | 3,549 | -23.4 |
| *Optus (in A$)* | ***617*** | *976* | *-36.8* |
| *Cash capital expenditure as a percentage of operating revenue* | **11%** | 13% | |

**Note:**
[1] Refers to Singtel Group excluding Optus.

The Group's net cash inflow from operating activities for the year fell 20% to S$4.65 billion. The decrease was due to unfavourable working capital movements and higher cash tax payments partly offset by higher associates' dividends. The negative working capital movements reflected higher vendor payments, increased investments in mobile acquisitions and retentions in Australia, as well as approximately S$280 million received from OpenNet last year on fibre rollout completion. The dividends from associates grew 11% due mainly to a one-off special dividend paid by Telkomsel during the year.

The investing cash outflow was S$2.74 billion. Capital expenditure totalled S$1.93 billion, comprising S$825 million for Singtel and S$1.11 billion (A$1.08 billion) for Optus. In Singtel, major capital investments in the year included S$324 million for fixed and data infrastructure, S$211 million for mobile networks and S$149 million for information systems. In Optus, capital investments in mobile networks amounted to A$536 million with the balance in fixed and other investments. Other investing cash flows included S$1.05 billion for the acquisition of Trustwave, S$214 million for Bharti Telecom Limited's rights issue, and a partial loan repayment of S$510 million from NetLink Trust.

With lower operating cash partially offset by lower cash capital expenditure, free cash flow amounted to S$2.72 billion, down 23% from last year.

Net cash outflow of S$2.04 billion for financing activities comprised mainly the payments of S$1.71 billion for final dividends in respect of the previous financial year ended 31 March 2015, and S$1.08 billion for interim dividends in respect of the current financial year. Other major financing cash flows included net increase in borrowings of S$1.13 billion and interest payments of S$336 million.

## SUMMARY STATEMENTS OF FINANCIAL POSITION

| | As at 31 March | |
|---|---|---|
| | **2016 (S$ million)** | **2015 (S$ million)** |
| Current assets | **5,165** | 4,768 |
| Non-current assets | **38,400** | 37,299 |
| **Total assets** | **43,566** | 42,067 |
| Current liabilities | **6,540** | 5,757 |
| Non-current liabilities | **12,023** | 11,542 |
| **Total liabilities** | **18,563** | 17,299 |
| **Net assets** | **25,003** | 24,768 |
| Share capital | **2,634** | 2,634 |
| Retained earnings | **28,457** | 27,471 |
| Currency translation reserves [1] | **(4,940)** | (4,213) |
| Other reserves | **(1,161)** | (1,159) |
| **Equity attributable to shareholders** | **24,989** | 24,733 |
| Non-controlling interests and other reserve | **13** | 35 |
| **Total equity** | **25,003** | 24,768 |

**Note:**

(1) 'Currency translation reserves' relate mainly to the translation of the net assets of foreign subsidiaries, associates and joint ventures of the Group denominated mainly in Australian Dollar, Indian Rupee, Indonesian Rupiah, Philippine Peso, Thai Baht and United States Dollar.

The Group is in a strong financial position as at 31 March 2016. Singtel is rated Aa3 by Moody's and A+ by Standard & Poor's.

The net increase in total assets of S$1.50 billion from a year ago was mainly due to the addition of the acquired intangibles of Trustwave. The net increase in total liabilities of S$1.26 billion from a year ago was mainly due to increased borrowings for funding needs as well as for the acquisition of Trustwave.

The currency translation losses increased by S$727 million to S$4.94 billion from a year ago. This increase arose mainly from the translation of the Group's investments in Airtel and Telkomsel with the weaker Indian Rupee and Indonesian Rupiah against the Singapore Dollar from a year ago.

# Management Discussion and Analysis

## CAPITAL MANAGEMENT

| GROUP | Financial Year Ended 31 March 2016 | 2015 |
|---|---|---|
| Gross debt (S$ million) | **9,604** | 8,526 |
| Net debt [1] (S$ million) | **9,142** | 7,963 |
| Net debt gearing ratio [2] (%) | **26.8** | 24.3 |
| Net debt to EBITDA and share of associates' pre-tax profits (number of times) | **1.2** | 1.0 |
| Net debt to EBITDA and cash dividends from associates (number of times) | **1.4** | 1.3 |
| Interest cover [3] (number of times) | **25.3** | 29.2 |

As at 31 March 2016, the Group's net debt was S$9.14 billion, 15% higher than a year ago.

The Group has one of the strongest credit ratings among telecommunication companies in the Asia Pacific region. Singtel is currently rated Aa3 by Moody's and A+ by Standard & Poor's. The Group continues to maintain a healthy capital structure.

Singtel maintained its dividend payout ratio at between 60% and 75% of underlying net profit. For the financial year ended 31 March 2016, the total dividend payout, including the proposed final dividend, was 17.5 cents per share or 73% of underlying net profit. The dividend payout is influenced by the Group's cash flow generation, including dividends from associates.

The Group remains committed to an optimal capital structure and investment grade credit ratings, while maintaining financial flexibility to pursue growth.

**Notes:**

(1) Net debt is defined as gross debt less cash and bank balances adjusted for related hedging balances.

(2) Net debt gearing ratio is defined as the ratio of net debt to net capitalisation. Net capitalisation is the aggregate of net debt, shareholders' funds and non-controlling interests.

(3) Interest cover refers to the ratio of EBITDA and share of associates' pre-tax profits to net interest expense.

## SENSITIVITY ANALYSIS FOR CURRENCY TRANSLATION

If the relevant foreign currency changes against the Singapore Dollar by 10% with all other variables held constant, the currency translation impact on the Group's net profit is as follows:

| | Change in Group's Net Profit FY 2016 S$ million | FY 2015 S$ million |
|---|---|---|
| **Optus' net profit** | | |
| ***AUD/ S$*** | | |
| - strengthened 10% | **92** | 94 |
| - weakened 10% | **(92)** | (94) |
| **Share of Telkomsel's net profit** | | |
| ***IDR/ S$*** | | |
| - strengthened 10% | **86** | 74 |
| - weakened 10% | **(86)** | (74) |
| **Share of Airtel's net profit** | | |
| ***INR/ S$*** | | |
| - strengthened 10% | **37** | 34 |
| - weakened 10% | **(37)** | (34) |