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This case was prepared by Dr Loizos Heracleous and Kulwant Singh of the National University of Singapore as a basis for classroom discussion rather than to illustrate effective or ineffective handling of an administration or business situation.

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SingTel: Venturing into the Region*

INTRODUCTION

In mid-2003, SingTel was at a key point in its history. The last decade had seen dramatic changes, as SingTel transformed itself from a Singapore based government owned telecommunications firm with no foreign operations and no domestic competition, to a credible regional competitor. By 2003, SingTel had invested more than $20 bn in substantial international operations in East and South Asia, Australia and Europe, and had survived perhaps the biggest collapse the telecommunications industry had ever suffered. SingTel was confident enough for its CEO, Lee Hsien Yang, to claim that the firm was "the leading communications company in Asia".

Yet there were many doubts about its performance. SingTel was accused of lacking a clear strategy in its overseas ventures, of having overpaid for several of its overseas acquisitions, and most significantly, of having destroyed shareholder wealth. When it was ranked the 18th greatest wealth destroyer in a study of 5,069 global firms[1], critics

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[1]Rankings based on Wealth Added Index computed by Stern Stewart, cited in *The Economist*, 3 December 2001. (http://www.economist.com/displayStory.cfm?Story_ID=886260). Wealth Added was computed as the difference between returns to investors (comprising dividends and rise in share prices) and the cost of equity (defined as the minimum return required by investors for investing in the firm). In broad terms, this could be viewed as the returns generated by the firm over the risk adjusted opportunity cost of the funds.

claimed that this was proof that SingTel had failed badly in dealing with the changes in the telecoms industry.

CHANGES IN THE TELECOMMUNICATIONS INDUSTRY

The 1990s was a period of major change for the telecommunications industry and for SingTel. The telecommunications industry had been transformed by privatization, deregulation, rapid technological change, movement towards mobile and digital technologies, increased integration with computer and communications industries, major investments in new telecommunications infrastructure, substantial increases in competition, and globalization. These changes put tremendous stress on firms in the industry, and on new entrants, requiring firms to restructure operations, develop new technologies and competencies, undertake heavy new investments in infrastructure, face major changes in regulatory requirements and increases in competition, and to expand into new markets. However, these changes were also accompanied by rapid growth in demand for traditional and new telecommunications products and services, which led to an explosion in the size of the global market. However, this growth stalled suddenly in 2000, as many markets reached saturation levels, consumers were un-enthusiastic about new technologies and products, and the world economy suffered a major economic slowdown. Another major problem for some firms was the high prices paid to governments for new "third generation" licenses which added major debt, but were not expected to give rise to actual revenue streams for several years. Telecommunications firms which had grown very rapidly in the 1990s faced a new and uncertain environment. Many firms, including prominent global leaders, suffered major collapses and bankruptcies.

Singapore had experienced similar trends. The telecommunications market had been fully liberalized in April 2000 and most markets had reached high levels of development and maturity. By 2002 mobile phone penetration in Singapore had reached high levels, soaring to 75%, up from 68% the previous year. SingTel had a 50% share of the mobile market in 2002, down from 56% the previous year. Meanwhile, paging penetration rate declined from 18% to 11% in 2002, and was expected to decline rapidly. Domestic fixed line penetration remained unchanged at 48%. SingTel had a share of around 87% of the international telephony market in 2002, down from 95% in 2001. Average revenue per minute for this important source of income declined from 70 cents in 2001 to 58 cents in 2002. SingTel attempted to compensate for the reduction of its market share in the international telephony and mobile sectors in Singapore by introducing new value added services for its mobile operations. The additional revenue from these newly introduced services was small relative to SingTel's annual turnover. The revenue was not expected to be significant in the near future. However, SingTel had to introduce these services to match competitors, and to meet customer expectations.

VENTURING INTO THE REGION

Despite liberalization and the entry of competitors, SingTel's performance in 2000/01 remained credible, with profits after tax of S$2bn as compared to S$1.8bn for the previous year. SingTel's CEO Lee Hsien Yang noted that "we are very pleased with the outcome. The planning and preparation and some of the strategies we have adopted clearly have been successful in helping us to adjust to the changes that were necessary … the outcome had far less impact on the company financially than some investors and market analysts thought."[2] However, performance began to slip in the following year. Profits after tax were down by 1%, and after goodwill amortization, down by 18.7% to S$1.63bn. The significant goodwill charges, that were to be borne for two decades, were due to the acquisition of Optus, an Australian mobile company, in April 2001.

[2] *Telecom Asia*, "Regional leader: Singapore Telecom", July 2001, p. 20. Interview of Lee Hsien Yang.

Faced with saturation in most of its markets and high competitive intensity at home, Singapore Telecom had long realized that its future as a competitive enterprise lay further afield. Starting from 1989, it had undertaken significant investments in Europe. However, these investments yielded mixed results, and starting from the mid-1990s, the firm refocused its efforts on Asia, making only one major investment in Europe after this point.

SingTel's CEO explained the firm's focus: "we are trying to create a strong presence in key growth markets in the region and in the telecom services arena, and that includes both fixed network data and wireless mobile services."[3] SingTel's COO, in addition, noted that "our vision is to become the leading Asia-Pacific regional player by investing more in the region. I think that has been consistently reflected in our investment strategy and actions. The time is right for us, there are more opportunities to invest in Asia and the price is right."[4] The CEO also recognized the need to maintain a healthy balance sheet, to retain strategic flexibility in the event opportunities appeared and to avoid the trap of over-commitment that many foreign telecoms firms had fallen into in Asia: "you never know what the future holds and if you don't give yourself some margin for error and safety, you could be forced into a situation where you lose your flexibility which is exactly what has happened to some of the European telcos, for example … Many of them are withdrawing not so much because their business in the region is doing badly but because of the pressure they face in having to sell their Asian assets to pay down debt."[5]

SingTel proceeded to realize its strategy of achieving revenue and profit growth by investing in countries and sectors with high growth potential. SingTel acquired stakes in Advanced Info Service Co in Thailand, in Bharti Tele-Ventures in India, and in Globe Telecom in the Philippines. Exhibit 1 shows SingTel's quoted investments in the region.

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[3]Telecom Asia, "Regional leader: Singapore Telecom", July 2001, p. 20. Interview of Lee Hsien Yang.
[4]*Telecom Asia*, "One-on-one: Lim Toon", April 2001, p. 46.
[5]Keylines, "Q&A with Lee Hsien Yang", December 2002, pp. 10–11.

Despite the successful expansion, there were some signs that not all was well. Stern Stewart rated SingTel poorly in terms of wealth creation, rating it 5,052 in a sample of 5,069 large firms.[6] Over a five-year period up to June 2001, it was estimated that SingTel destroyed US$29.9bn of wealth, and provided investors with an annual return of −10%. Although its defenders pointed out that six of the firms ranked below it were also telecoms firms, SingTel was ranked number fourteen out of seventeen of its industry peers in Asia in 2001, with a returns loss of 34.64%. Exhibit 2 provides a detailed industry returns table, while Exhibits 3 and 4 provide detailed financial information on SingTel's operating costs and performance.

OPTUS ACQUISITION

SingTel announced its offer to acquire Cable & Wireless Optus Limited of Australia in March 2001. Optus had a strong brand name in Australia; with 33% market share of the cellular market, it was the main challenger to the incumbent telecoms company, Telstra. Optus had also invested extensively in regional infrastructure with ownership stakes in 26 submarine cables and 3 satellites.

Exhibit 5 provides information on Optus' financial performance between 1998, when it was quoted on the Australian Stock Exchange, and 2001, when the SingTel offer was made. Optus had made an operating loss of A$581.1m (S$621.02m) in 1998, and an operating net loss of A$9.6m (S$10.51m) in 1999. It then reported net profits of A$264.5m (S$274.5m) in 2000; and A$423.8m (S$371.5m) in 2001. After the SingTel acquisition, however, negative performance was reported for 2001 (loss of A$149.7m or S$131.23m) and then for 2002 (A$402m or S$397m)[7] (Exhibit 6 provides information on exchange rates). This reversal was partly attributed to the stricter accounting standards applied to Optus's accounts by SingTel; and to stiff competition from Telstra, the market leader.

[6]Stern Stewart, cited in *The Economist*, 3 December 2001.
[7]SingTel Optus loss widens to A402m. *Business Times*, 10 May 2002.

According to SingTel's chairman, Koh Boon Hwee, "…this would be the largest ever foreign investment by a Singapore-listed company. SingTel is excited at Optus' growth prospects and its fit with our regional footprint. By combining with Optus, SingTel will create the leading regional telco, with a diversified portfolio of complementary assets in the region and a very strong management team … it will increase the Group's share of revenues and earnings from higher growth business such as wireless and data … the combined entity will have an extremely strong balance sheet, providing us with the financial strength to continue growing and expanding."[8] Some observers agreed: "This very much gets them on the map. It's a dramatic turning point from being a domestic, defensive, net cash, high-yielding stock to a geared, international telecom operator. They are now a very serious telecom company, a force to be reckoned with in global telecoms."[9]

SingTel paid A$16.14bn (S$14.45bn) for Optus, whose assets were valued at A$1.67bn (S$1.65bn) in March 2002 (down from a S$2.22bn valuation in Sept 2001). The acquisition was done via a cash and stock offer, where SingTel offered A$2.25 (S$2.01) per Optus share in addition to 0.8 SingTel share per Optus share. Optus had reported an acquisition cost per mobile subscriber of A$286 (S$313) in 1999, $290 (S$301) in 2000, and $265 (S$232) in 2001. It had 3.682m mobile subscribers. The average revenue per user was A$832 (S$911) in 1999, $783 (S$812.6) in 2000 and $671 (S$588) in 2001.

The goodwill for this transaction was estimated at S$11.4bn, to be amortized over a 20 year period. Given the heavy amortization charges on its operating profits, SingTel emphasized EBITDA (earnings before interest, tax, depreciation and amortization; and including contributions from associated companies) as its main financial measure of performance. This is a measure unaffected by choice of accounting methods for charges such as depreciation and amortization.

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[8]Singapore Telecom Annual Report 2000–1, Chairman's statement to shareholders, p. 1.
[9]*Financial Times*, "Singapore Inc goes on a spending spree", March 27, 2001, p. 20.

Despite the boldness of the move, SingTel's acquisition, received a poor response. Media reports announced that "SingTel investors appear hostile to the offering, wiping out S$9.56 bn of its market capitalization during the week of the announcement…"[10] SingTel's shares were sent on a persistent downward slide, declining 18% in the 5 days after the announcement of 26 March 2001 (see Exhibit 7). After rising initially, Optus' share price had also fallen 12% by May 2001 (see Exhibit 8). From having a healthy cash balance of $6.6 bn in early 2001, SingTel had become a debtor in 2002, with net debt of $10.1 bn. This weakened financial position was cited by both Standard & Poor's and Moody's for their downgrading of SingTel's rating from "stable to negative".

Analysts around the region had mixed opinions about the deal. Abhijit Attavar of Dresdner Kleinwort Wasserstein (Hong Kong), believed that "Optus is a fairly expensive acquisition. I don't see the synergies. If it had been a basket of small Asian companies, I could have seen from where SingTel derived synergies. There will be very little synergy because they're of different geographic markets and Australia is a mature competitive market. I don't think SingTel can add a lot of value in terms of management input."[11] On the other hand, others such as Paul Zaman from ING Baring Securities (Singapore) felt that SingTel was "definitely not" overpaying for Optus. "It's a buyer's market. There's only one bidder for the stock. Twelve months ago, Cable & Wireless Optus stock price was A$7.90. All round, it's a value proposition."[12]

Over the next year, SingTel worked hard to improve Optus' performance, reducing employment by about 1000 employees, cutting costs and capital expenditures, and restructuring the loss-making consumer and multimedia divisions. Optus praised SingTel's direction, leadership and strict financial discipline, with its CEO indicating that "The best thing that's ever happened to Optus — and I have been here six years — is SingTel's ownership. We see a lot

[10]Corporate Finance, "SingTel Optus gets investor pans but analyst raves", May 2001, 198, p. 3.
[11]*Bloomberg News*, 26 March 2001.
[12]*Bloomberg News*, 26 March 2001.

of Hsien Yang, who gives quite inspirational direction."[13] SingTel announced its intention to keep Optus' day-to-day operations autonomous, but also to exploit opportunities for synergies by combining divisions. In 2002 SingTel announced that it had integrated the two companies' international carrier services, network and satellite businesses, and that it expected cash savings of S$300m by the end of financial year 2002–3 from this integration. About 80% of this amount was expected to result from optimization of international cable networks, and increased bargaining power over the Group's equipment suppliers. SingTel's 2002–2003 annual report said that in the 18-month period to March 2003, $350m of savings were achieved. Exhibit 9 shows an extract from SingTel's 2002–3 annual report, describing some of the main actions taken to improve the integration of Optus and SingTel and cut costs.

SingTel noted that "the relationship between SingTel and Optus is a powerful differentiator for Optus business, bringing the scale, reach and scope of a leading Asia-Pacific service provider to Australian business."[14] However, the differences in the cultures of Optus and SingTel were thought to be a concern. Optus, whose staff had an average age of 32, had a freewheeling culture. SingTel, which was 78% owned by the government, was thought to not have "shaken off all vestiges of a civil-service mindset, while Optus is used to moving fast, taking risks, and being open with information. 'A speedboat can change direction almost immediately,' [said] a former SingTel employee who likens SingTel to a supertanker."[15] The acquisition added 8,283 Optus employees in Australia to SingTel's employee strength of about 13,500 at the time.

The Optus acquisition enabled SingTel to diversify its revenue streams geographically, leading to more than half of revenues coming from outside Singapore, and also propelling SingTel to the top 5 telecom firms in the region in terms of revenue. In terms of revenue mix, it helped SingTel reduce its dependence on international telephony, a declining source

[13] *The Straits Times*, "Hsien Yang makes good on Optus", February 8, 2003.
[14] Singapore Telecom Annual Report 2001–2, p. 9.
[15] *Asian Wall Street Journal*, "Can SingTel work with Optus?", April 16, 2001, p. N1.

of revenue, and to place proportionally more emphasis on growing mobile telephony and data services. Exhibit 10 provides a breakdown of SingTel's revenue by products and services, as well as by geographic segment.

OTHER INVESTMENTS

The challenge of integrating Optus did not deflect SingTel from its international expansion strategy. In early 2002, SingTel completed the acquisition of 35% of PT Telekomunikasi Selular (Telkomsel), Indonesia's biggest mobile phone company from Royal KPN, a Netherlands firm. The price of S$1.8bn provided it with a strategic stake in Indonesia, and access to a subscriber base of 3.7 million, which then represented about 47% of the market. One estimate was that SingTel paid an effective price of S$2,167 per subscriber, compared with the average price of $1,320 for other acquisitions in the region.[16] SingTel explained the acquisition as giving it a "strategic stake in Indonesia's mobile phone market and an increased penetration of the Asian market". The criticism that followed had a familiar tone: SingTel had paid too much for its stake. SingTel was merely buying subscribers, without clear strategies for how it would enhance its earnings from these acquisitions. In the process it was weakening its balance sheet precariously. Yet, the acquisitions converted SingTel into a large regional player, particularly in mobile phones, where it had about 32m subscribers at the end of 2002 (Exhibit 11 shows the geographic distribution of SingTel's mobile subscribers).

SingTel also invested significantly in infrastructure development, such as taking a 60% stake in the C2C project, a regional cable network costing US$2bn that was completed in January 2002, linking seven Asian territories including China and Japan. SingTel also invested in a 50:50 joint venture with Bharti to develop the i2i cable network linking Singapore to Chennai in India. When asked about the threat of a capacity surplus in the region, SingTel CEO Lee Hsien

[16]DBS TD Waterhouse, Singapore Equity Research 2 November 2001.

Yang was optimistic: "We do believe there will be growth in demand for more bandwidth, and that is why we are making the kind of commitment to infrastructure development … The analogy I would use is from the PC world. Who would even dream of needing a 20-30 Giga byte hard disk ten years ago."[17] SingTel's strategy was also praised for being forward looking: "SingTel's strategy of only going into developing markets was a very good strategy. The challenge for SingTel is to create synergies through these minority stakes and make them work as one company."[18]

OWNERSHIP AND REGIONALIZATION STRATEGY

Though SingTel had been made a corporation and had been listed on the Singapore Stock Exchange in the early 1990s, a majority of its ownership was held by the government through its investment arm, Temasek Holdings. Most of the non-executive directors on SingTel's board had strong current or previous links with the government, and the firm was largely viewed as a state-owned enterprise. The Optus acquisition diluted Temasek Holdings' stake in SingTel from 78% to 68%, something that market observers saw as a positive indication of the state's progressive withdrawal from business. Market observers had suspected that the Singapore government's ownership of SingTel may have been a factor inhibiting SingTel's earlier attempts to acquire stakes in some regional countries.

SingTel, for example, had attempted unsuccessfully in 2000 to acquire Hong Kong's Cable & Wireless HKT. PCCW, a company controlled by Richard Li, the son of Hong Kong's business tycoon Li Ka Shing, succeeded in acquiring PCCW with a surprise bid of US$36bn in PCCW shares, which many observers regarded as excessively inflated. Commentators suggested that the deal "might have gone through if SingTel were publicly held. Beijing simply doesn't want the Singapore

[17] *Telecom Asia*, "Regional leader: Singapore Telecom", July 2001, p. 21.
[18] *FinanceAsia*, "Diamonds in the Rough", October 2002, pp. 62–74, citing Francis Chueng.

government controlling Hong Kong's largest telephone utility, bankers and diplomats believe."[19]

Similarly, SingTel had unsuccessfully tried in 2000 to acquire a minority stake in Malaysia's Time Engineering, a telecoms and fiberoptics company in financial trouble. This was one of several attempts to buy stakes in Malaysian companies. SingTel had offered the best price, but just before the deal was to be sealed, Time Engineering rejected the offer. Observers believe that Malaysia's Prime Minister, Dr Mahathir Mohammad, had instructed Khazanah, the government's investment arm to rescue Time Engineering, rather than allow SingTel to buy a stake. "By any commercial logic, Singapore Telecom had made the best offer for Malaysia's Time Engineering … But Malaysia's prime minister, Mahathir Mohamad, does not like anybody linked to Singapore's government to wield influence in industries he sees as strategic."[20] Analysts again observed at a later date that "non-business interests revolving around matters of national security are likely to continue denying SingTel the missing Malaysian piece to its foothold in Asian countries."[21]

Even the Optus acquisition was not spared from such speculation. There were concerns by some in Australia that the Singapore government might try to spy by accessing confidential information of the Australian government carried by Optus satellites.[22] However, Optus shareholders and the Australian government dismissed such concerns and supported the transaction.

SingTel's CEO, Lee Hsian Yang, had an alternate perspective: "…there are times when it is convenient for people to use all kinds of bogeymen to serve their own purposes, and it is certainly convenient sometimes to suggest the Singapore government's hand behind certain things in order to suggest sinister motives or intentions … if really the

[19]*Business Week*, "Singapore should set its companies free", 13-3-2000, p. 52.
[20]*The Economist*, "Sing, tell, cry", 20-5-2000, vol. 355, issue 8171, p. 80.
[21]*Business Times*, "SingTel not likely to take part in telecom merger here", February 15, 2002.
[22]Lynch, G. 2001, Tricky times for telecom spies. *Telecom Asia*, June, p. 94.

government were interventionist and had all kinds of other hidden agenda behind it in directing the GLCs, how could SingTel been so successful to date both domestically as well as internationally, if we were always looking to the national agenda rather than our own commercial interests?"[23]

Yet questions about the national agenda were raised again in December 2002 when another government owned firm from Singapore, ST Telemedia, acquired 41.9% of PT Indostat for US$631m. PT Indostat was Indonesia's second largest mobile phone operator, with about 2.5m subscribers. The acquisition would pit SingTel and ST Telemedia into direct competition, as together they controlled about 75% of the wireless market in Indonesia. ST Telemedia paid a premium of 51%, and higher than the target price set by the Indonesian government. This price was justified on the belief that the country held large potential with a mobile penetration rate of less than 5% in early 2003.

LOOKING TO THE FUTURE

After substantial investments abroad, SingTel's revenue base was now diversified both geographically as well as in terms of sectors. Having carried out the Optus acquisition, and other substantial investments in the region, SingTel could now be seen as a credible regional player. SingTel's chairman noted that "from being a Singapore-centric telco with a small home market, SingTel is today a leading player in Asian telecommunications … Besides our two hubs in Singapore and Australia, we have established a presence in all the major business capitals of the Asia Pacific."[24]

CEO Lee Hsien Yang announced in mid-2002 that his firm's "focus has moved from M&A activities to execution, maximizing the value of existing businesses, which includes opportunities to increase our stake in our

[23] *Telecom Asia*, "Regional leader: Singapore Telecom", July 2001, p. 21. Interview of Lee Hsien Yang.

[24] Chairman's statement to shareholders, Singapore Telecom Annual Report 2001–2, p. 1.

regional associates."[25] Contributions from SingTel's overseas investments in 2002 helped to cushion a continuing decline in revenues from its Singapore operations, of 3.3%. SingTel's net debt also decreased to S$10.1 bn. Profitability figures (see Exhibit 12) also benefited from SingTel's decision to write off some excess capacity charges from Optus over 20 years, a departure from general practice in Singapore which would have required the full costs to be borne in a single year.[26]

In early 2003, CEO Lee Hsien Yang was "happy to report that our results today demonstrate the success of our regional expansion strategy. They show that we are on track to meet our targets and remain well positioned for above average growth, despite a slower than expected economic recovery in Singapore … Our results in Australia and the strong performance of our other overseas investments mean that we have significantly reduced our dependency on our Singapore operations to maintain earnings growth. We are particularly encouraged by the performance of Optus which has continued its strong turnaround and is now profitable. The economic outlook for Australia — our largest geographical market in terms of revenue — also remains robust."[27]

But there were still concerns about the future success of SingTel. Had it paid too much for Optus, perhaps influenced by its earlier failures in clinching large deals in the region? Would its association with the state prove a significant hindrance in its regional plans? Did it have the right competencies to achieve the high levels of efficiency necessary in this intensely competitive industry? Did it have the right strategic focus for future success? Did it have a strategy at all?

[25]*Telecom Asia*, "Staying ahead", July 2002, p. 20. Interview of Lee Hsien Yang.
[26]DBS TD Waterhouse, Singapore Equity Research, 8 February 2002.
[27]SingTel press release, on www.singtel.com.sg, February 2003.

Exhibit 1. Singapore Telecom's Major Quoted Investments in Asia

Company	Country	Equity interest %	Cost of investment S$m	Market value	Customers	Telecom services
Advanced Info Service Public Co Ltd	Thailand	21.5	869.8	1,192.6	6.55m mobile subscribers, 53,800 paging suscribers	Cellular and paging
Bharti Tele-Ventures Ltd	India	28.5	638.2	429.3	164,000 fixed lines, 1.35m mobile subscribers	Cellular and fixed line
Globe Telecom, Inc	Philippines	29.1	467.6	1,020.3	224,400 fixed lines, 5.0m mobile subscribers	Cellular, fixed line and international

Source: Singapore Telecom Annual Report 2001–2

Exhibit 2. 2000–2003 Telecoms Industry Price Returns — Pacific Basin

	Country	2000	2001	2002	2003
ADV INFO SVC-F	Thailand	−40.21	2.1	−15.5	152.51
ADVANCED INFO	Thailand	−28.02	19.16	−16.1	155.81
BHARTI	India	N.A.	N.A.	N.A.	380.4
CHINA MOBILE	China	−9.04	−31.45	−36.64	26.65
CHINA TELECOM	China	N.A.	N.A.	N.A.	130.47
CHINA UNICOM	China	N.A.	−23.41	−42.23	34.77
CHINA UNITED	China	N.A.	N.A.	N.A.	43.32
CHUNGHWA TELECOM	Taiwan	N.A.	−30.19	−6.06	-4.01
KDDI	Japan	−63.28	−58.98	63.75	73.42
KT CORPORATION	Japan	−64.88	−23.76	5.59	−14.26
NIPPON TELEGRAPH	Japan	−56.13	−52.11	5.05	30.34
NTT DATA CORP	Japan	−69.83	−43.38	−26.82	34.17
NTT DOCOMO	Japan	−53.24	−27.77	−26.07	20.54
SINGAPORE TELECOM	Singapore	−22.25	−34.65	−29.61	58.26
SK TELECOM	South Korea	−41.67	8.43	−11.15	−15.31
TELECOM NEW ZEALAND	New Zealand	−52.64	3.97	7.2	45.38
TELEKOM MALAYSIA	Malaysia	−19.97	−2.97	−28.03	4.22
TELEKOMUNIKASI	Indonesia	−60.59	56.01	31.37	82.94
TELSTRA	Australia	−31.27	−17.86	−16.17	43.48
VODAFONE HOLDING	UK	−46.53	−22.72	−2.57	−15.36

Source: Bloomberg

N.B. Price returns were calculated using:

Price appreciation formula = $(\text{Price}_t - \text{Price}_{t-1})/\text{Price}_{t-1}$

Exhibit 3. SingTel's Operating Costs

Singapore Telecom Operating Costs*

	2002 S$m Group	2002 %	2002 S$m Co	2002 %	2001 S$m Group	2001 %	2000 S$m Group	2000 %
Traffic expenses	1,317.7	30	669.2	28	665.4	28	700.8	31
Selling & administrative	1,202.1	28	519.4	22	591.5	24	525.8	24
Staff costs	976.5	23	727.6	31	666.6	28	595.3	27
Cost of sales	701.3	16	421.5	18	461.8	19	352.6	16
Repairs & Maintenance	181.5	4	89.4	4	Not avail	Not avail	Not avail	Not avail
Others	(56.1)	(1)	(57.0)	(3)	27.5	1	55.8	2
Operating costs	4,323.0	100	2,370.1	100	2,412.8	100	2,230.3	100

Source: Singapore Telecom Annual Reports, 2000/1, 2001/2.
*Excludes depreciation.

Exhibit 4. Singapore Telecom Group financial results 1996–2003[1]

	2003	2002	2001	2000	1999	1998	1997	1996
Turnover	10,258.70	7,269.2	4,925.50	4,865.80	4,883.50	4,942.20	4,240.90	3,999
Operating Expenses	−6,562.20	−4,254	−2,412.80	−3,013.10	2,910.40	2,738.10	2,337.90	2,029.60
Operating Profit	733.50	1,984.70	2,125.50	1,852.70	1,973.10	2,204.10	2,083	1,969.40
Profits & Losses of associated firms	1,031.80	240.5	348.9	367.5	291.70	180.80	47.6	−87.8
Restructuring costs						−154.00		
Net profit	1,400.50	1,631.30	2,006.30	2,539.90	2,042.40	1,886.10	1,687.50	1,501.40
Fixed assets	12,631.80	13,437.80	5,475.80	4,435.60	4,549.10	4,005.30	3,535	3,341.10
Cash and bank deposits	949.40	1,728.90	4,095.40	4,330.80	4905.1	4,112	3,987.5*	1,481.40
Net current assets	−920.30	621.4	5,431.40	3,865.40	4,438.70	3,998.60	2,97.90	441.40
Non current liabilities	13,332.40	15,172.00	4,465.60	2,281.40	503.60	418.00	255.70	468.40
Shareholders' funds	15,470.00	14,579.00	8,758.10	8,569.7	7,967.90	7,085.20	5,558.10	4,188.50
Turnover growth(%)	39.8	49	1.20	−0.36	−1.20	16.50	6.00	13.70
Net profit growth (%)	−14	−18.7	−21.00	29.9	3.70	11.80	12.40	12.60
Basic Earnings per share (cents)	7.86	9.76	13	16.58	13.11	11.7	11.07	9.85
Net tangible asset per share (cents)	16.80	10.56	56.75	59.43	53.68	46.41	36.45	27.47
Dividends (cents)	5.5	5.5	13	17.5	5.5	5	4.50	4.00
Return on shareholders funds (%)				21.9	26.4	30.3	34.60	36.10
Return on Equity (%)	9.3	14	22.3	29.2	26.2	27.8		
Return on total assets (%)	3.2	6.3	13.4	19.1	16.4	16.6	20.30	22.30
Operating return on turnover (%)	7.15	27.3	43.15	38.07	40.4	44.6	47.10	49.20
Operating return on net fixed assets (%)**	5.80	14.77	38.82	41.8	43.4	58.5	60.60	61.10
Turnover per employee ($,000)	472.4	340.8	366.4	385.1	390.8	434.6	414.10	359.50

Source: Singapore Telecom Annual Reports
Includes S$1.5bn compensation from the government for bringing forward the end of SingTel's exclusive license by seven years.
**For 1999 to 2003, value is based on operating profit upon fixed assets

[1]Figures are revised to take into account most recent consolidated statements of changes in equity due to changes in goodwill and the effects of accounting policy changes.

Exhibit 5. Optus Financial Results 1998–2001

	1998 $m	1999 $m	2000 $m	2001 $m	Change 00-01 %
Sales revenue:					
Optus Mobile	1,326.3	1,452.9	1,761.6	2,120.1	20
Data & Business Services	967.6	1,188.3	1,516.1	1,823.1	20
Consumer & Multimedia	855.0	559.2	867.3	998.0	15
Less inter-divisional revenue	–	–	(32.7)	(62.4)	(91)
Total sales revenue	2,878.9	3,200.4	4,112.2	4,878.8	19
Other operating revenue	32.0	35.3	46.4	68.1	47
Total operating revenue	2,910.9	3,235.7	4,158.7	4,946.9	19
Less: Interest income	(8.4)	(10.5)	(19.6)	(42.5)	(116)
Operating revenue excluding interest	2,902.5	3,225.2	4,139.0	4,904.4	18
Operating costs:					
Cost of sales	1,362.6	1,436.4	1,977.7	2,362.6	19
Selling, general and administrative expense	858.7	839.7	997.9	1,136.3	14
	2,221.3	2,276.1	2,975.6	3,498.9	18
Earning before depreciation, amortisation, interest, joint ventures and abnormal items and income tax (EBITDA)	681.2	949.1	1,163.4	1,405.5	21
Depreciation	(426.1)	(492.0)	(586.4)	(735.7)	(25)
Amortisation	(173.7)	(182.7)	(194.1)	(209.3)	(8)
Earnings before interest, joint venture entities, abnormal items and income tax (EBIT)	81.4	274.4	382.9	460.5	20
Net borrowing costs	(219.4)	(163.7)	(80.1)	(154.5)	(93)
Earnings before joint venture entities, abnormal items and income tax	(138.0)	110.7	302.8	306.0	1
Share of joint venture enities' profit (loss)	–	–	(7.9)	65.0	na
Operating profit (loss) before abnormal items and income tax	(138.0)	110.7	294.9	371.0	26
Abnormal items	(443.2)	(120.3)	(30.6)	55.0	na
Operating profit (loss) before income tax	(581.2)	(96)	264.3	426.0	61
Income tax benefit (expense)	0.1	–	–	(1.5)	na
Operating profit (loss) after income tax	(581.1)	(9.6)	264.3	424.5	61
Outside equity interests in operating profit	–	–	0.2	(0.7)	na
Operating profit (loss) after income tax attributable to members of the company	(581.1)	(9.6)	264.5	423.8	60

Source: Optus Annual Report 2000–1. Figures are in A$. Optus was listed on the Australian Stock Exchange on 17 November 1998, so the above figures represent its operating performance during its tenure as a public company until the acquisition offer by SingTel.

Exhibit 6. Exchange Rates as of 31 March (A$1 = S$xxx)

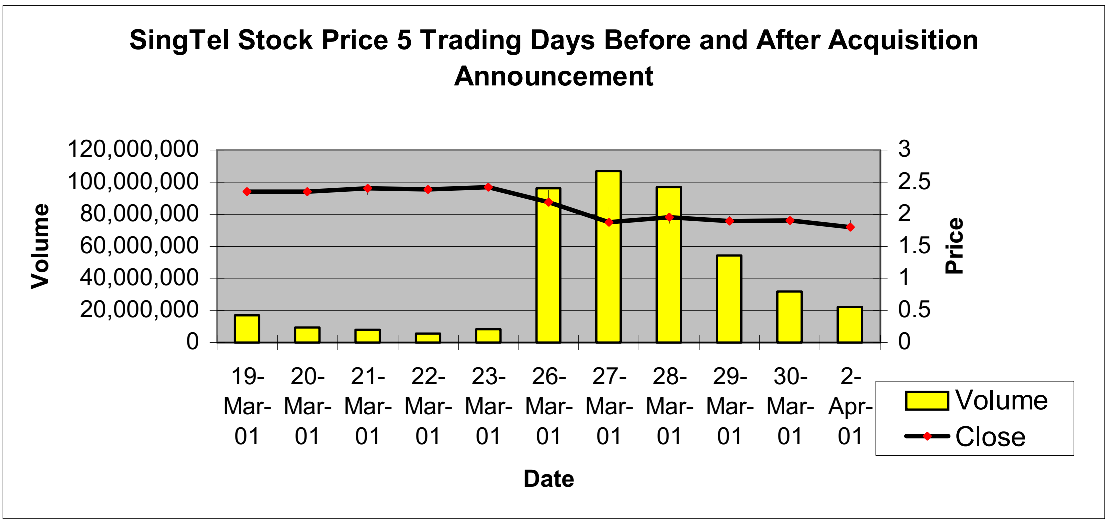
Year	S$
1998	1.0687
1999	1.0952
2000	1.0378
2001*	0.8766
2002*	0.9875

*As of next trading day

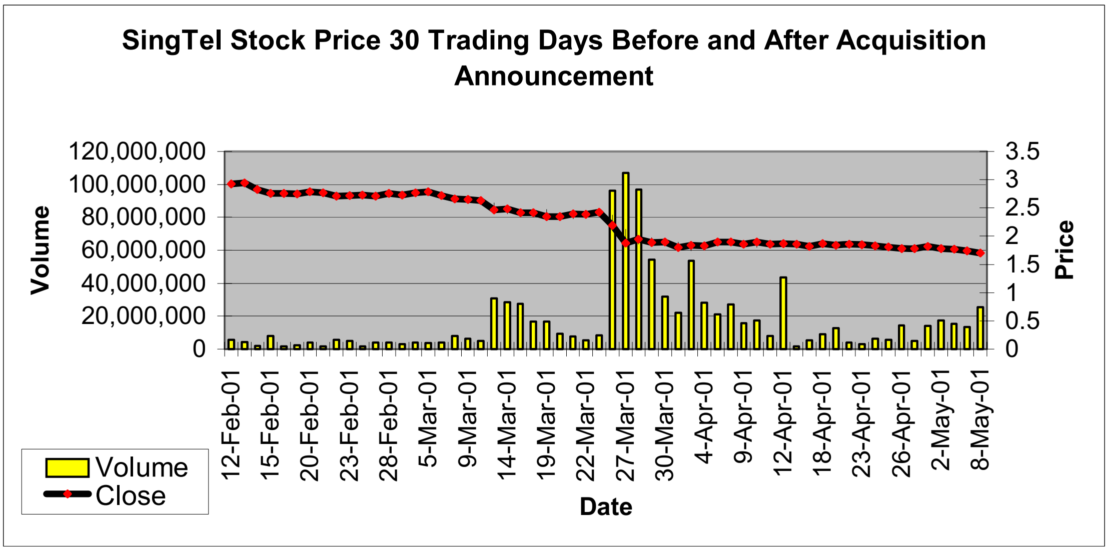
Exchange Rate on 26 March 2001 (acquisition announcement date): A$1 = S$0.895

Source: www.x-rates.com

Exhibit 7. SingTel's Stock Price

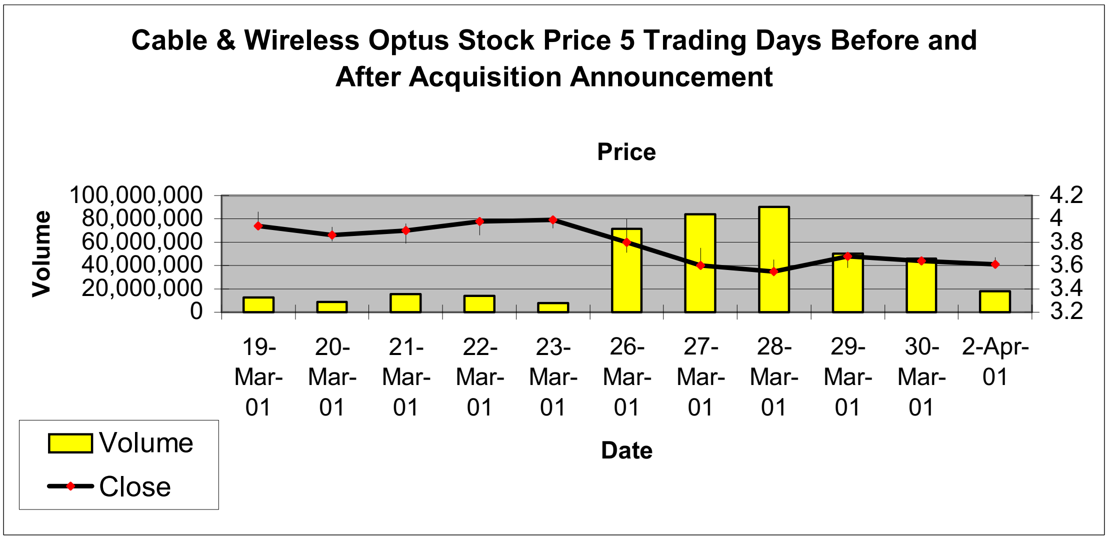


Pre-announcement mean price	2.382
Price on announcement day	2.19
Post-announcement mean price	1.884

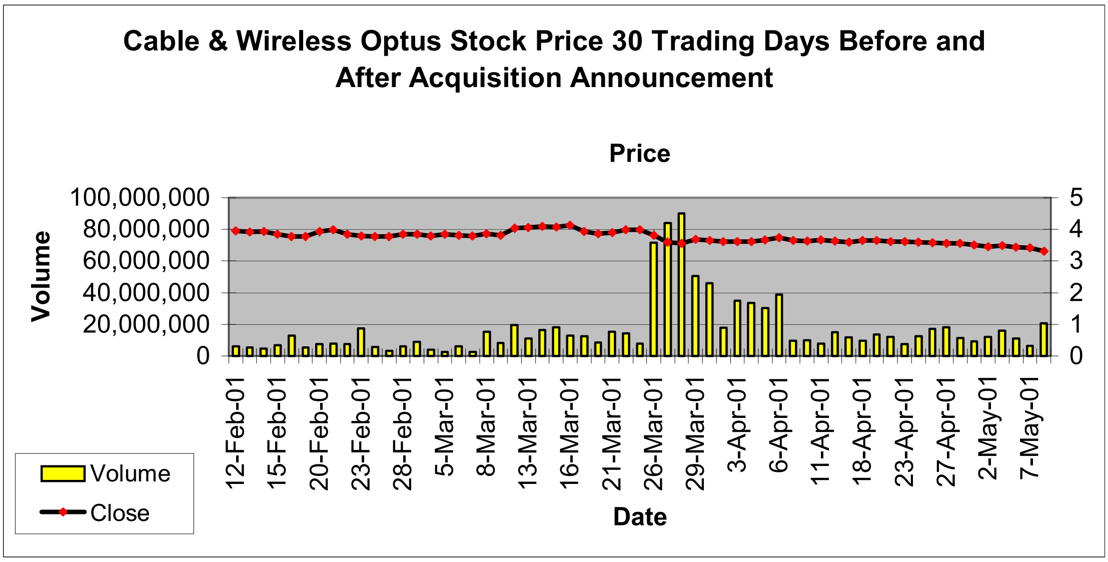


Pre-announcement mean price	2.647
Price on announcement day	2.19
Post-announcement mean price	1.839

Exhibit 8. Optus' Stock Price



Pre-announcement mean price	3.934
Price on announcement day	3.8
Post-announcement mean price	3.616



Pre-announcement mean price	3.899
Price on announcement day	3.8
Post-announcement mean price	3.583

Exhibit 9. Extract from SingTel's 2002–3 Annual Report

Working Together

Both SingTel and Optus have emerged as stronger companies as a result of learning, sharing and adopting best practices from each other. The key objective in integration was to create a 'one company' mindset so as to achieve greater operational efficiency. Since October 2001, several initiatives have been taken, including the centralisation of common functions within SingTel and Optus, and the exchange of staff between the two companies to leverage the talents and expertise of the Group's employees.

International Business Units (IBUs) have been established, merging the international network and satellite operations of SingTel and Optus. These units bring together the assets and people of the two companies while providing a more streamlined company structure to enable the Group to successfully grow business synergies across the Asia Pacific region. By optimising use of their shared resources, and capitalizing on each company's competitive advantage in the different markets, the IBUs have achieved savings of more than S$100 million. There has also been an increase in the Group's hubbing traffic and its wholesale business.

A Global Account Management team was set up to manage the cross-border needs of the Group's multinational corporate (MNC) customers. It is made up of account managers located in Singapore, Australia and SingTel Global Offices in other markets. The team manages SingTel's key global corporate accounts, and assures MNC customers of a common standard of service levels across the Group. This initiative has contributed to customer wins from global MNCs like Marsh, a leading risk and insurance company, and Nokia who are using SingTel and Optus services to connect their offices across the Asia Pacific. As part of the SingTel Group, Optus now has access to an extensive global network and can offer its customers a wider range of services. Throughout the year, Optus steadily won several large corporate and government accounts and extended its services to small and medium businesses across Australia. Management of SingTel's and Optus' mobile networks have also been integrated under one unit with the objective of reducing capital expenditure in the short term and achieving lower operating cost in the long term. Mobile services that are common to both SingTel and Optus will have the same platform across both countries, resulting in better economies of scale and lower operations and maintenance costs. More than 15 projects have been identified so far. The combined unit will also jointly develop new mobile, including 3G, applications.

The continued consolidation of the IT function resulted in S$170 million of savings in the Group's IT capital and operating costs for the year. Other corporate functions such as internal audit, investor relations and strategic investments were also integrated to improve information flow and reduce costs.

Exhibit 10. SingTel's Revenue

A) By Products and Services

	2002 S$m Group	2002 %	2002 S$m Co	2002 %	2001 S$m	2001 %	2000 S$m	2000 %
Mobile communications	2,041.8	28	903.3	18	885.5	18	851.3	17
Public data & Pte network	1,512.2	21	1,245.0	25	1,065.0	22	763.0	16
International Telephone	1,304.6	18	1,079.1	22	1,203.1	24	1,644.7	34
National Telephone	1,128.4	15	591.9	12	588.0	12	572.7	12
IT and Engineering	513.0	7	478.3	10	480.1	10	383.5	8
Postal Services	354.5	5	354.5	7	341.0	7	322.6	6
Sale of Equipment	170.8	2	113.7	2	166.7	3	149.9	3
Others (Directory Ads, Satellite, Cable TV etc)	312.9	4	156.9	3	196.1	4	178.1	4
Operating revenue	7,338.2	100	4,922.7	100	4,925.5	100	4,865.8	100

Source: Singapore Telecom Annual Reports, 2000/1, 2001/2.

B) By Geographic Segment

	2001	**2002**	**2003**
Australia	7.2	2356.7	5528.2
Singapore	4911.1	4873.4	4517.5
Others	7.2	39.1	213

Source: Bloomberg

Exhibit 11. SingTel's Mobile Subscribers

Country	Operator	Mobile Subcribers	Growth over 2001
Singapore	SingTel	1.56m	11%
Australia	Optus	4.54m	12%
India	Bharti	2.77m	150%
Indonesia	Telkomsel	6.01m	85%
Philippines	Globe Telecom	6.56	43%
Thailand	AIS	10.7m	105%

Source: *The Straits Times*, January 31, 2003, p. A15.

Exhibit 12. Annual Profitability Comparison

A) SingTel

(Numbers in %)	2003	2002	2001	2000
Gross Margin	89.31	91.05	90.7	92.75
Sales Year Change	39.8	49	1.20	–0.36
Net Income Growth	–14	–18.69	–21.01	29.9
Operating Margin	7.15	27.3	43.15	38.07
Pretax Margin	11.32	29.2	55.51	51.81
Effective Tax Rate	4.69	23.46	26.15	26.24
Profit Margin	13.65	22.44	40.73	52.2
Return on Assets	3.2	6.33	13.4	19.1
Return on Equity	9.32	13.98	22.3	29.2
Return on Capital	6.08	9.87	21.4	30.45

B) Optus

(Numbers in %)	2001	2000
Gross Margin	N.A.	N.A.
Sales Year Change	18.64	67.78
Net Income Growth	60.23	N.A.
Operating Margin	8.58	8.36
Pretax Margin	8.73	6.43
Effective Tax Rate	0.35	0
Profit Margin	8.69	6.43
Return on Assets	4.38	3.47
Return on Equity	8.2	5.48
Return on Capital	7.81	5.68