

# GCEO Review



## **RESILIENT FINANCIAL PERFORMANCE**

The SingTel Group reported strong growth in net profit and continued to make investments in the core telecommunications business and new digital businesses in FY2014. We achieved this performance against ongoing shifts in our broader industry and customer demand, as well as continuing foreign currency volatility. This showed the strength of our businesses.

Two-thirds of our earnings are derived from operations outside of Singapore. While this gives us earnings

diversification, the sharp declines in the Australian Dollar, Indian Rupee and Indonesian Rupiah against our reporting currency in Singapore Dollars impacted our results. Net profit rose 4% to S\$3.7 billion. On a constant currency basis, net profit increased 10%.

We are focused on delivering on our core business. We achieved cost improvements, increased productivity and launched new and innovative services and price plans. Our investments in the digital space are at an early growth phase and registered start-up losses.

## STAYING AHEAD

Our story continues to centre on the digital revolution that is dramatically changing our lives. Better technologies, as well as a wider range of devices and content, have fed customers' appetite for doing more over the internet, anytime, anywhere. The mobile internet in particular has brought about many over-the-top (OTT) services, some of which compete directly with our traditional communication services.

At the same time, the underlying connectivity provided by telcos remains the glue that binds OTT providers to their customers. To keep up with the growing data traffic, we continue to invest in our networks to improve the speed and capacity of this connectivity.

We recognised this profound industry shift early on and have responded with our dual transformation strategy.

### STRENGTHENING THE CORE

We are re-engineering and repositioning our core connectivity business, including our voice and data services, to thrive in the new mobile internet world. We are building new networks and IT functionalities, and making massive changes to lift customer experience. In addition, we are driving improvements in our cost structures and implementing new pricing and revenue models.

### CREATING NEXT-GENERATION GROWTH ENGINES IN THE DIGITAL SPACE

We are leveraging our unique telco assets to develop new digital businesses and services that take advantage of the industry changes underway. We are engaging our customers differently with new services for their work, play, social interaction and other needs.

We are now two years into our transformation journey and have made progress in both areas. Success in our digital business must be anchored by our strong core business – building on its unique capabilities, scale and strong cash flow generation. Concurrently, our digital initiatives help our core business maintain its relevance with our customers and differentiate our services from competitors'.

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## STRONG AND GROWING CORE BUSINESS

Our networks are what make the internet possible. To meet the insatiable demand for mobile data services, we have increased our investments in spectrum and mobile infrastructure, significantly boosting our network capacity, speeds and capabilities.

Across Singapore and Australia, we have invested S\$2.1 billion in our networks in FY2014 and expect to spend around S\$2.3 billion in the next financial year.

Our customers' feedback showed we have 4G network leadership in Singapore. In Australia, we will expand our 4G coverage and capacity with existing and newly acquired spectrum across multiple bands to drive growth in customer and data revenue.

The challenge our industry faces is not from any lack of demand for mobile data. The challenge is to put in place sustainable business and pricing models that enable telcos to continue to make the necessary investments in network capacity, speed and coverage. Revenue must keep pace with the cost of continued investment for better customer experience.

In our operations in Singapore and Australia, we have already introduced tiered data plans so that customers are charged fairly based on their data usage, while putting in place safeguards to remove bill shock. We will continue to refine our plans to achieve a more balanced distribution of scarce network and spectrum resources.

We are exploring various business models that will bring benefits to both OTT providers and end customers who use such OTT services. Our aim is to become the preferred network partner to customers and OTT providers alike.

Our efforts to lift customer experience have been rewarding. The positive results in our Net Promoter Scores across Singapore and Australia tell us that more customers are willing to recommend our services to their families and friends.

We are focused on extending our leadership in enterprise mobility, connectivity and managed network services. With strategic investments in data centres and international connectivity, we can better meet enterprise customers' increasing need for cloud computing and cyber security services.

## HELPING OUR REGIONAL MOBILE ASSOCIATES PREPARE FOR THE FUTURE

In the emerging markets, mobile data usage is expected to grow significantly. With limited fixed-line infrastructure in these countries, the majority of the people's first and main contact with the internet will be through the mobile networks.

As such, our regional mobile associates have been focused on acquiring spectrum resources and are aggressively rolling out data networks in their respective countries. By working together as part of the SingTel Group, our associates can move more quickly

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to build the necessary data-centric capabilities, and create better products and operating models.

The Group's billing capabilities in the largely prepaid markets and our combined reach of over half a billion mobile customers provide a great platform for our digital services to take off and gain scale. Not only will these services bring new revenue streams, they will also help our associates differentiate themselves in their local markets.

#### **DIGITAL SERVICES DIFFERENTIATE US**

We have made the decision to boldly venture into the digital space. As a telco, we have unique assets and capabilities to make our digital services better than many of the OTT players. Many customers prefer to do business with brands they know and trust. We hope our familiar brands and pervasive customer touchpoints, both physical and virtual, can contribute to a better digital customer experience.

We cannot do it alone, and have been actively partnering other providers in the digital ecosystem – OTT players, network vendors and handset manufacturers – to discover new technologies, share investment costs and accelerate take-up of our digital services.

Amobee, our major investment in mobile advertising, creates and delivers highly targeted mobile advertisements to help brands increase the efficiency and effectiveness of their advertising spend. It counts major global brands among its

clients. Amobee's revenue more than doubled during the year, with revenues from America, Europe and Asia.

We have announced plans to allocate up to S\$2 billion for investments in the digital business. However, we note that valuations of internet companies are at record-high levels, and we will remain disciplined about how we acquire new capabilities to build these digital businesses.

#### **GETTING THE BEST FROM OUR PEOPLE**

We have made good progress since we started on our transformation. To succeed, we need our people to put in their best.

To help achieve this, we have made key changes to our compensation structures and aligned our staff behind a common set of core values and leadership behaviours. These changes affect all our staff, whether they are from the traditional core business or are digital natives who have been hired or have joined the Group following recent acquisitions.

We strive to provide a working environment that fosters creativity and innovation. Our staff engagement scores showed positive improvements, and continue to be at healthy levels. For our digital talents, we also introduced a different risk-reward balance, with remuneration schemes not unlike those in the Silicon Valley, which are typically tied to the value of the business and involve shares in the investee company.

#### **A BRIGHT FUTURE**

There is no doubt that the future is a digital one, and those who are fast to adapt to the new reality stand to gain the most. We have been quick to recognise and respond to these changes – as we grow our core business and execute our strategy in the digital space.

We have come a long way. I am confident of our prospects. I look forward to updating you on the next leg of our exciting transformation journey.



**CHUA SOCK KOONG**  
GROUP CHIEF EXECUTIVE OFFICER