

Financial Statements 2016

Financials

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Directors' Statement

Year ended 31 December 2016

We are pleased to submit this statement to the members of the Company together with the audited financial statements for the financial year ended 31 December 2016.

In our opinion:

- (a) the financial statements set out on pages 147 to 202 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and the financial performance and the cash flows of the Group, and changes in equity of the Group and of the Company for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

The directors in office at the date of this statement are as follows:

Steven Terrell Clontz	(Chairman)
Tan Tong Hai	(Chief Executive Officer)
Ma Kah Woh	
Nihal Vijaya Devadas Kaviratne CBE	
Rachel Eng Yaag Ngee	
Teo Ek Tor	
Stephen Geoffrey Miller	(Appointed on 1 January 2017)
Lim Ming Seong	
Liu Chee Ming	
Nasser Marafih	
Takeshi Kazami	

Directors' Interests

According to the register kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Chapter 50, particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares, debentures, warrants, share options and share awards in the Company and in related corporations (other than wholly-owned subsidiaries) are as follows:

Names of director and corporation in which interests are held	Holdings at beginning of the year	Holdings at end of the year
The Company		
<i>Ordinary Shares</i>		
Steven Terrell Clontz	62,900	80,700

Directors' Interests (continued)

Names of director and corporation in which interests are held	Holdings at beginning of the year	Holdings at end of the year
The Company		
<i>Ordinary Shares</i>		
Tan Tong Hai	1,049,830	1,343,530
Ma Kah Woh	78,580	81,780
Nihal Vijaya Devadas Kaviratne CBE	21,000	19,000
Rachel Eng Yaag Ngee	–	6,900
Teo Ek Tor	153,838	168,738
Lim Ming Seong	222,036	237,136
Liu Chee Ming	180,184 ⁺	191,584 ⁺
Nasser Marafih	59,930	66,330
Peter Seah Lim Huat*	578,092	592,092
Sio Tat Hiang*	25,600	39,300
Related Corporations		
Olam International Limited		
<i>Euro Medium Term Note Programme</i>		
Nihal Vijaya Devadas Kaviratne CBE	US\$200,000 ⁽¹⁾	US\$200,000 ⁽¹⁾
Singapore Technologies Engineering Ltd		
<i>Ordinary Shares</i>		
Lim Ming Seong	98,336	98,336
Peter Seah Lim Huat*	545,325	545,325
Singapore Telecommunications Limited		
<i>Ordinary Shares</i>		
Ma Kah Woh	380	380
Peter Seah Lim Huat*	3,217	3,217
TeleChoice International Limited		
<i>Ordinary Shares</i>		
Lim Ming Seong	60,000	60,000
Peter Seah Lim Huat*	50,000	50,000
Sio Tat Hiang*	253,000	325,000

⁺ Held (partly or wholly) by a nominee.

^{*} Peter Seah Lim Huat and Sio Tat Hiang resigned as directors on 1 January 2017.

⁽¹⁾ US\$200,000 of the US\$300,000,000 in principal amount of 4.5% fixed rate notes due 2020 under Olam International Limited's Euro Medium Term Note Programme.

Directors' Statement

Year ended 31 December 2016

Directors' Interests (continued)

Names of director and corporation in which interests are held	Holdings at beginning of the year	Holdings at end of the year
The Company		
<i>Conditional awards of shares under StarHub Performance Share Plan</i>		
Tan Tong Hai	210,000 ⁽²⁾ 278,600 ⁽³⁾	– 278,600 ⁽³⁾
<i>Conditional awards of shares under StarHub Performance Share Plan 2014</i>		
Tan Tong Hai	261,200 ⁽⁴⁾ –	261,200 ⁽⁴⁾ 261,200 ⁽⁵⁾
<i>Conditional awards of shares under StarHub Restricted Stock Plan</i>		
Tan Tong Hai	87,200 ⁽⁶⁾ 195,400 ⁽⁷⁾	– 64,464 ⁽⁷⁾
<i>Conditional awards of shares under StarHub Restricted Stock Plan 2014</i>		
Tan Tong Hai	156,200 ⁽⁸⁾ –	156,200 ⁽⁸⁾ 156,200 ⁽⁹⁾

⁽²⁾ A conditional award was granted in May 2013. The performance period was from 2013 to 2015. The final award was granted in March 2016 based on the actual level of achievement of the pre-determined targets. The shares under the final award were delivered in April 2016.

⁽³⁾ A conditional award was granted in March 2014. The performance period was from 2014 to 2016. No shares will be delivered if the threshold performance targets are not achieved while up to 1.825 times the number of shares that are the subject of the award will be delivered if the stretched performance targets are met or exceeded.

⁽⁴⁾ A conditional award was granted in March 2015. The performance period is from 2015 to 2017. No shares will be delivered if the threshold performance targets are not achieved while up to 1.825 times the number of shares that are the subject of the award will be delivered if the stretched performance targets are met or exceeded.

⁽⁵⁾ A conditional award was granted in March 2016. The performance period is from 2016 to 2018. No shares will be delivered if the threshold performance targets are not achieved while up to 1.825 times the number of shares that are the subject of the award will be delivered if the stretched performance targets are met or exceeded.

⁽⁶⁾ A conditional award was granted in May 2013. The performance period was from 2013 to 2014. The final award was granted in March 2015 based on the actual level of achievement of the pre-determined performance targets. The shares under the final award were partially delivered in 2015, and the balance was delivered in 2016.

⁽⁷⁾ A conditional award was granted in March 2014. The performance period was from 2014 to 2015. The final award was granted in March 2016 based on the actual level of achievement of the pre-determined performance targets. The shares under the final award were partially delivered in 2016, and the balance will be delivered in 2017.

⁽⁸⁾ A conditional award was granted in March 2015. The performance period was from 2015 to 2016. No shares will be delivered if the threshold performance targets are not achieved while up to 1.5 times the number of shares that are the subject of the award will be delivered if the stretched performance targets are met or exceeded. Shares will be delivered in phases according to the stipulated vesting periods.

⁽⁹⁾ A conditional award was granted in March 2016. The performance period is from 2016 to 2017. No shares will be delivered if the threshold performance targets are not achieved while up to 1.5 times the number of shares that are the subject of the award will be delivered if the stretched performance targets are met or exceeded. Shares will be delivered in phases according to the stipulated vesting periods.

Directors' Interests *(continued)*

Except as disclosed in this statement, no director who held office at the end of the financial year had interests in shares, debentures, warrants, share options or share awards of the Company, or of its related corporations, either at the beginning of the financial year or at the end of the financial year.

There were no changes in the above-mentioned directors' interests in the Company between the end of the financial year and 21 January 2017.

Except as disclosed under the "Share-based Payments" section of this statement, neither at the end of nor at any time during the financial year, was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Share-based Payments

The Company has in place the StarHub Performance Share Plan 2014 and the StarHub Restricted Stock Plan 2014 (collectively, "StarHub Share Plans 2014", and each, "StarHub PSP 2014" and "StarHub RSP 2014" respectively).

The StarHub Share Plans 2014 were approved and adopted at the Extraordinary General Meeting ("EGM") of the Company held on 14 April 2014, in replacement of the then existing StarHub Performance Share Plan and the StarHub Restricted Stock Plan which were adopted by the Company on 16 August 2004 (collectively, "StarHub Share Plans 2004", and each, "StarHub PSP 2004" and "StarHub RSP 2004" respectively).

The StarHub Share Plans 2004 together with the StarHub Share Option Plan 2004 were terminated at the EGM of the Company held on 14 April 2014. The Company had also in 2000 adopted the StarHub Pte Ltd Share Option Plan ("StarHub Share Option Plan 2000") and terminated the same in 2004. Since 31 May 2015, there were no outstanding or unexercised options under the StarHub Share Option Plans.

The StarHub Share Plans 2014, the StarHub Share Plans 2004, the StarHub Share Option Plan 2004 and the StarHub Share Option Plan 2000 (collectively, "Plans") are administered by the Company's Executive Resource and Compensation Committee ("ERCC") comprising three directors, namely Teo Ek Tor, Stephen Geoffrey Miller and Lim Ming Seong.

The Company designates Singapore Technologies Telemedia Pte Ltd as its parent company ("Parent Company") for purposes of the Plans.

StarHub Share Plans 2014 and StarHub Share Plans 2004 (collectively, the "StarHub Share Plans")

- (i) The StarHub Share Plans were implemented with the objectives of motivating key executives to strive for superior performance and sustaining long-term growth for the Group.
- (ii) The termination of the StarHub Share Plans 2004 was without prejudice to the rights of holders of awards accepted and outstanding under the StarHub Share Plans 2004 as at the date of termination. The outstanding awards under the StarHub Share Plans 2004 were vested according to the terms of the StarHub Share Plans 2004 and the respective grants.

Directors' Statement

Year ended 31 December 2016

Share-based Payments *(continued)*

- (iii) The following persons were/shall be eligible to participate in the StarHub Share Plans, respectively at the absolute discretion of the ERCC:
- (1) employees (including executive directors) and non-executive directors of the Group;
 - (2) employees (including executive directors) and non-executive directors of the Parent Group who meet the relevant age and rank criteria and whose services have been seconded to a company within the Group and who shall be regarded as an employee of the Group for the purposes of the StarHub Share Plans; and
 - (3) employees and non-executive directors of the Company's associated companies, who in the opinion of the ERCC, have contributed or will contribute to the success of the Group.
- (iv) Under the StarHub PSP 2004 and the StarHub PSP 2014, awards of shares are granted on an annual basis, conditional on targets set for a performance period, currently prescribed to be a three-year period. Awards represent the right of a participant to receive fully paid shares, their equivalent cash value or combinations thereof, free of charge, upon the participant achieving prescribed performance targets set based on medium-term corporate objectives.

Awards are released once the ERCC is satisfied that the prescribed performance targets have been achieved. The actual number of shares given will depend on the level of achievement of the prescribed performance targets over the performance period.

Since the commencement of the StarHub PSP 2004 to the financial year ended 31 December 2016, conditional awards aggregating 9,050,250 shares have been granted under the aforesaid plan. For share awards granted prior to and during the financial year ended 31 December 2013, no shares will be delivered if the threshold performance targets are not achieved, while up to twice the number of shares that are the subject of the award will be delivered if the stretched performance targets are met or exceeded. For share awards granted during and after the financial year ended 31 December 2014, no shares will be delivered if the threshold performance targets are not achieved, while up to 1.825 times the number of shares that are the subject of the award will be delivered if the stretched performance targets are met or exceeded. The performance targets benchmark (a) the performance of the Company's Total Shareholders' Return ("TSR") measured against the MSCI Asia-Pacific Telecommunications Index (including Japan) over the performance period, and (b) the Wealth Added which measures investment performance in terms of the Company's TSR against shareholders' expected returns using cost of equity as a benchmark.

Since the commencement of the StarHub PSP 2014 to the financial year ended 31 December 2016, conditional awards aggregating 1,191,000 shares have been granted under the aforesaid plan. For share awards granted during and after the financial year ended 31 December 2015, no shares will be delivered if the threshold performance targets are not achieved, while up to 1.825 times the number of shares that are the subject of the award will be delivered if the stretched performance targets are met or exceeded. The performance targets benchmark (a) the performance of the Company's Total Shareholders' Return ("TSR") measured against the MSCI Asia-Pacific Telecommunications Index (including Japan) over the performance period, and (b) the Wealth Added which measures investment performance in terms of the Company's TSR against shareholders' expected returns using cost of equity as a benchmark.

Share-based Payments (continued)

Details of share awards granted under the StarHub PSP 2004 and StarHub PSP 2014 (collectively, the "StarHub PSP Share Plans") are as follows:

Participants	Share awards granted during the financial year	Aggregate share awards granted since commencement of the StarHub PSP Share Plans to 31 December 2016	Share awards vested during the financial year	Aggregate share awards outstanding as at 31 December 2016
StarHub PSP 2004				
Executive director:				
Tan Tong Hai	–	960,400	42,000	278,600
Key executives	–	7,178,650	37,800	291,500
Total	–	8,139,050	79,800	570,100
StarHub PSP 2014				
Executive director:				
Tan Tong Hai	261,200	522,400	–	522,400
Key executives	395,100	668,600	–	668,600
Total	656,300	1,191,000	–	1,191,000

- (v) Under the StarHub RSP 2004 and the StarHub RSP 2014, awards granted vest only after the satisfactory completion of time-based service conditions (time-based restricted awards) or where the award is performance-related, after a further period of service beyond the performance period (performance-based restricted awards).

No minimum vesting periods are prescribed under the StarHub RSP 2004 and the StarHub RSP 2014 and the length of the vesting period in respect of each award will be determined on a case-by-case basis. Performance-based restricted awards differ from awards granted under the StarHub PSP 2004 and the StarHub PSP 2014 in that an extended vesting period is imposed beyond the performance period.

The performance-based restricted awards represent the right of a participant to receive fully paid shares, their equivalent cash value or combinations thereof, free of charge, upon the participant achieving prescribed performance targets. The actual number of shares to be released depends on the level of attainment of the performance targets over the performance period.

For performance-based restricted awards granted prior to and during the financial year ended 31 December 2007, (a) the first performance target benchmarks the performance of the Company's TSR measured against the Straits Times Index ("STI") over the performance period; and (b) the second performance target used is measured against Free Cash Flow ("FCF").

For performance-based restricted awards granted during and from financial year ended 31 December 2008 to financial year ended 31 December 2013, the performance targets used are measured against the Return on Invested Capital ("ROIC") and the FCF respectively.

For performance-based restricted awards granted during and from financial year ended 31 December 2014 onwards, the performance targets used are measured against the Return on Invested Capital ("ROIC") and the Earnings Before Interest, Taxation, Depreciation and Amortisation ("EBITDA").

Directors' Statement

Year ended 31 December 2016

Share-based Payments *(continued)*

Since the commencement of the StarHub RSP 2004 to the financial year ended 31 December 2016:

- (1) performance-based restricted awards aggregating 17,413,000 shares have been granted under the aforesaid Plan. No shares will be delivered if the threshold performance targets are not achieved, while up to 1.3 times or as the case may be 1.5 times, the number of shares that are the subject of the award, will be delivered if stretched performance targets are met or exceeded;
- (2) a time-based restricted award of 100,000 shares has been granted on 15 January 2009. The shares under this award were vested in three equal tranches over a 3-year period from 1 January 2009 to 31 December 2011 according to a specified vesting schedule;
- (3) a time-based restricted award of 213,000 shares has been granted on 17 May 2010. The shares under this award were vested in May 2011 upon the participants' continued tenure as non-executive directors of the Company for a full one-year period from the date of grant;
- (4) a restricted award of 155,900 shares has been granted on 7 June 2012. The shares under this award formed 30% of the non-executive directors' remuneration for the financial year ended 31 December 2011 and were vested immediately without any further vesting period;
- (5) a restricted award of 99,400 shares has been granted on 10 May 2013. The shares under this award formed 30% of the non-executive directors' remuneration for the financial year ended 31 December 2012 and were vested immediately without any further vesting period; and
- (6) a time-based restricted award of 30,000 shares has been granted on 10 March 2014. The shares under this award were vested in two equal tranches over a 2-year period from 1 January 2015 to 31 December 2016 according to a specified vesting schedule.

Since the commencement of the StarHub RSP 2014 to the financial year ended 31 December 2016:

- (1) performance-based restricted awards aggregating 4,758,100 shares have been granted under the aforesaid Plan. No shares will be delivered if the threshold performance targets are not achieved, while up to 1.5 times, the number of shares that are the subject of the award, will be delivered if stretched performance targets are met or exceeded;
- (2) restricted awards aggregating 365,300 shares have been vested to non-executive directors of the Company as part of their directors' remuneration, and were vested immediately upon grant;
- (3) a time-based restricted award of 32,500 shares has been granted on 8 July 2015. The shares under this award will vest in two equal tranches over a 2-year period from 8 July 2015 to 7 July 2017 according to a specified vesting schedule; and
- (4) a time-based restricted award of 240,000 shares has been granted on 20 May 2016. The shares under this award will vest in two equal tranches over a period from 20 May 2016 to 7 July 2017 according to a specified vesting schedule.

Share-based Payments (continued)

Details of share awards granted under the StarHub RSP 2004 and the StarHub RSP 2014 (collectively, the "StarHub RSP Plans") are as follows:

Participants	Share awards granted during the financial year	Aggregate share awards granted since commencement of the StarHub RSP Share Plans to 31 December 2016	Share awards vested during the financial year	Aggregate share awards outstanding as at 31 December 2016
StarHub RSP 2004				
Non-executive directors:				
Steven Terrell Clontz	–	40,100	–	–
Nihal Vijaya Devadas Kaviratne CBE	–	103,700	–	–
Teo Ek Tor	–	91,100	–	–
Lim Ming Seong	–	106,900	–	–
Liu Chee Ming	–	76,100	–	–
Nasser Marafih	–	50,400	–	–
Peter Seah Lim Huat*	–	98,700	–	–
Sio Tat Hiang*	–	4,400	–	–
Executive director:				
Tan Tong Hai	–	739,400	151,700	64,464
Key employees	–	15,143,700	1,296,995	628,880
StarHub RSP 2014				
Non-executive directors:				
Steven Terrell Clontz	17,800	40,600	17,800	–
Ma Kah Woh	3,200	3,200	3,200	–
Nihal Vijaya Devadas Kaviratne CBE	16,900	42,000	16,900	–
Rachel Eng Yaag Ngee	6,900	6,900	6,900	–
Teo Ek Tor	14,900	38,100	14,900	–
Lim Ming Seong	15,100	38,900	15,100	–
Liu Chee Ming	11,400	29,900	11,400	–
Nasser Marafih	6,400	23,300	6,400	–
Peter Seah Lim Huat*	14,000	35,900	14,000	–
Sio Tat Hiang*	13,700	34,900	13,700	–
Executive director:				
Tan Tong Hai	156,200	312,400	–	312,400
Key employees	2,571,100	4,718,200	136,300	4,337,400

* Peter Seah Lim Huat and Sio Tat Hiang resigned as directors on 1 January 2017.

Directors' Statement

Year ended 31 December 2016

Share-based Payments *(continued)*

During the financial year, a total of 1,856,315 ordinary shares fully paid in the Company were issued pursuant to the StarHub Share Plans.

As at 31 December 2016, no participant has been granted and/or received shares pursuant to the release of awards granted under the StarHub Share Plans, which, in aggregate, represents 5% or more of the aggregate of:

- (a) the total number of new shares available under the StarHub Share Option Plans and the StarHub Share Plans collectively; and
- (b) the total number of existing shares delivered pursuant to options exercised under the StarHub Share Option Plans and awards released under the StarHub Share Plans collectively.

Audit Committee

The members of the Audit Committee as at the date of this statement are as follows:

Ma Kah Woh, independent non-executive director (Chairman)
Nihal Vijaya Devadas Kaviratne CBE, independent non-executive director
Rachel Eng Yaag Ngee, independent non-executive director
Lim Ming Seong, non-executive director

The Audit Committee has held four meetings since the last directors' statement. In performing its functions in accordance with Section 201B of the Singapore Companies Act, Chapter 50, the Audit Committee met with the Company's external and internal auditors to discuss the scope of their work, the results of their examination and evaluation of the Company's internal accounting control system.

The Audit Committee has also reviewed the following:

- (1) assistance provided by the Company's officers to the internal and external auditors;
- (2) financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption; and
- (3) interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited) of the Company and its subsidiaries and the Company's compliance with the review procedures of such transactions.

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

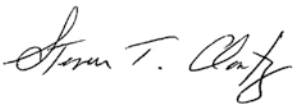
The Audit Committee has undertaken a review of all non-audit services provided by the external auditors, and is satisfied that the independence, objectivity and effectiveness of the external auditors are not compromised as a result thereof, and has recommended to the Board of Directors that KPMG LLP be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

Auditors

The auditors, KPMG LLP, have expressed their willingness to accept re-appointment.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

On behalf of the Board of Directors



Steven Terrell Clontz
Director



Tan Tong Hai
Director

Singapore
3 February 2017

Independent Auditors' Report

Members of the Company

StarHub Ltd

Report on the audit of the financial statements

Opinion

We have audited the financial statements of StarHub Ltd (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 December 2016, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement 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 147 to 202.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") 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 December 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and 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 ("ACRA") *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.

Revenue recognition (\$2,396.7 million) <i>(Refer to note 3.11 'Significant accounting policies' and note 20 'Revenue')</i>	
The key audit matter	How the matter was addressed in our audit
<p>The Group's five largest revenue streams are derived from the provision of Mobile, Pay TV, Broadband, Enterprise Fixed services and sales of equipment.</p> <p>The Group provides its services from its integrated fixed, mobile, cable and broadband operations through its fixed and wireless networks.</p> <p>Information used to recognise revenue is based on data captured in the network switches which are interfaced with management IT reporting system. Complexities in the telecommunication systems and the related configurations of the system generated information give rise to the risk that revenue may not be accurately recognised.</p> <p>In addition, products and services offered with promotional rates and discounts, adds to the complexities in the calculation of revenue to be recognised.</p>	<p>Our audit was performed with a high reliance on the Group's IT systems and key manual internal controls.</p> <p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Testing the design and implementation, and operating effectiveness of the IT environment over systems in which billings, ratings and other relevant support activities reside. • Evaluating the relevant IT systems and the design and operating effectiveness of controls over the capture and recording of revenue transactions from network switches to the billing system, and subsequently to the accounting system. In doing so, we involved our IT specialists to assist in the test of automated controls, including interface controls between different IT applications. • Testing the design and implementation, and effectiveness of controls over initiation, authorisation, recording, and processing of revenue transactions. • Testing key reconciliations used by management to assess the completeness and accuracy of revenue including testing the period in which it is recorded. • Assessing the suitability of revenue recognition policy for the products and services offered by the Group. • Performing analytical procedures on revenue by corroborating with non-financial data and test of details.
<p>Findings</p> <p>Based on our procedures, we noted no significant issues on the completeness, existence and accuracy of revenue recorded in the year, except for the recognition of revenue from sales and usage of pre-paid phone cards.</p> <p>Management identified errors in the data in the pre-paid mobile rating and accounting systems that are used for the recognition of revenue from the sales and usage of pre-paid phone cards. Management is in the process of reconciling the differences between pre-paid and accounting systems. The effects of the errors and the unreconciled differences is not significant to the income statement for the year.</p> <p>We noted that the revenue recognition policies relating to recognition for some of the pre-paid card programmes were not in accordance with the requirements of financial reporting standards. The effect of these deviations is not material to the income statement for the year.</p>	

Independent Auditors' Report

Members of the Company

StarHub Ltd

Accruals (\$472.1 million)

(Refer to note 3.6(i) 'Significant accounting policies' and note 14 'Trade and other payables')

<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group incurs significant costs in its operations. Accounting for certain costs at year end is considered a significant audit risk due to the judgement and complexities involved.</p> <p>Judgement is required in determining the level of accrual needed for costs that span the year end where settlement has not been fully and finally made.</p> <p>Judgement is also required where there are invoices under negotiation because agreement on amounts payable to suppliers may take a significant amount of time due to the complexities in the telecommunication industry.</p> <p>Management performed a detailed review of each of its significant accrual accounts relying on historical trend of observable claims and actual costs to assess the sufficiency of these accruals.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Reading contracts of certain significant accruals and considering the accounting treatment and timing of recognition. • Understanding and assessing management's process and basis of accruals for each significant accruals category. • Testing the accruals utilised during the year to actual invoices received and checking that the utilisation of accruals have been correctly accounted for. • Testing key reconciliations used by management to assess the completeness and accuracy of liabilities and accruals. • Assessing management's basis of reversal of significant accruals resulting from changes in management's assessment of the likelihood of economic outflows. • Performing search for unrecorded liabilities to assess the completeness of liabilities.
<p>Findings</p> <p>We have identified certain over accruals made in the financial statements. The effects of these over-accruals were not found to be significant to the income statement for the year.</p> <p>Based on our assessment of historical utilisation patterns, we found that the estimates used by management to determine the accruals were conservative. Management is continually refining its processes to improve the accuracy of the estimates used to determine these accruals.</p>	

Impairment assessment of goodwill (\$220.3 million)

(Refer to note 3.7 (ii) 'Significant accounting policies' and note 5 'Intangible assets')

<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>Goodwill is subject to an annual impairment test or more frequently if there are indications of impairment. The determination of the recoverable amount of the cash generating unit ("CGU") requires judgement on the part of management in both identifying and valuing the CGU.</p> <p>The Group recorded goodwill of \$220.3 million arising from the acquisition of StarHub Cable Vision Ltd ("SCV") in 2002. Management considers SCV to be an essential part of the Group's fully integrated info-communications business. Hence, for impairment testing purposes, management has allocated the goodwill to the CGU comprising the Group's integrated fixed, mobile, cable and broadband operations.</p> <p>Management applies the value-in-use (discounted cash flow) method to determine the recoverable amount of the CGU. Any shortfall of the recoverable amount against the carrying amount would be recognised as an impairment loss.</p> <p>Key assumptions and estimates used in the value-in-use calculations include revenue growth rates, expected changes in profit margins, and the applicable discount rate. These estimates require judgement and the determination of the recoverable amount is a key focus area for our audit.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Evaluating management's basis of determination and identification of the CGU within the Group. • Challenging management's estimates applied in the value-in-use model based on our knowledge of the CGU's operations, by: <ul style="list-style-type: none"> - Comparing historical forecasts against historical performance to assess management's forecast ability; and - Comparing current forecasts against historical performance to assess the reasonableness of the forecasts. • Obtaining an understanding of management's revenue growth forecasts and capital expenditure on network assets, and independently deriving applicable discount rates and comparing these to those used by management. • Stress testing management's value-in-use calculations through applying and analysing the impact to the headroom when possible but unlikely key assumptions or discount rates were applied. • Assessing the sufficiency of related disclosures in Note 5 to the financial statements including those in respect of the sensitivities of the recoverable amount to variations in assumptions.
<p>Findings</p> <p>In view of the Group's "Hubbing" strategy whereby the majority of its customers are on a suite of services using an integrated network, we agree with management on the allocation of the goodwill to the CGU.</p> <p>Based on our procedures, we consider management's assumptions to be within the range of likely market trends and our stress tests showed sufficient headroom for the carrying value of the CGU. We therefore agree with management that there is no impairment in the goodwill allocated to the CGU. We found the Group's disclosure in the financial statements to be compliant with financial reporting standards.</p>	

Independent Auditors' Report

Members of the Company
StarHub Ltd

Valuation of trade receivables (\$172.2 million) <i>(Refer to note 3.7 (i) 'Significant accounting policies' and note 11 'Trade receivables')</i>	
<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group has a policy to provide allowances for trade receivables on specific individual balances and on its receivables portfolio collectively.</p> <p>Determining the amount of allowance requires management's judgement on overdue debts and the amount of collection default based on past collection trends.</p> <p>There is a risk that the allowance of doubtful debts recognised may be insufficient.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Performing tests of controls over the Group's collection procedures, and the Group's assessment of the provision required at every period end. • Assessing the suitability of its policy for the allowance of doubtful debts. • Evaluating the ageing profile of trade receivables and critically assessing the Group's provision levels by considering the historical cash collection trends. • Discussing with management on the recoverability of past due debts to assess the sufficiency of allowance for trade receivables through specific and collective provisioning. • Reviewing the adequacy of the Group's disclosures in relation to the degree of estimation involved in arriving at the provision.
<p>Findings</p> <p>We found that the level of allowance of doubtful debts as at 31 December 2016 to be adequate. We have considered the adequacy of the Group's disclosures about the degree of estimation involved in deriving the allowance is sufficient.</p>	

Other Information

Management is responsible for the other information. The other information comprises the Annual Report, but does not include the financial statements and our auditors' report thereon. Other than the Directors' Statement, which we obtained prior to the date of this auditor's report, the other sections included in the Annual Report are 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 will not express any form of assurance conclusion thereon.

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 Annual Report, 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. We have nothing to report in this regard with respect to the Directors' Statement.

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 FRSs, 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.
- 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.

Independent Auditors' Report

Members of the Company

StarHub Ltd

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 to 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 Ong Chai Yan.



KPMG LLP

Public Accountants and
Chartered Accountants

Singapore

3 February 2017

Statements of Financial Position

As at 31 December 2016

	Note	Group		Company	
		2016 \$m	2015 \$m	2016 \$m	2015 \$m
Non-current assets					
Property, plant and equipment	4	918.0	890.0	431.0	411.4
Intangible assets	5	463.8	388.1	78.3	70.6
Subsidiaries	6	–	–	2,472.8	1,758.1
Associate	7	25.9	27.5	27.8	27.8
Available-for-sale financial assets	8	40.0	–	40.0	–
Amounts due from related parties	9	7.6	–	7.6	344.2
		1,455.3	1,305.6	3,057.5	2,612.1
Current assets					
Inventories	10	49.6	54.3	0.7	50.1
Trade receivables	11	172.2	153.3	141.7	137.5
Other receivables, deposits and prepayments	12	212.2	196.8	43.6	34.1
Amounts due from related parties	9	21.8	26.0	19.4	110.8
Cash and cash equivalents	13	285.2	173.4	236.0	154.2
		741.0	603.8	441.4	486.7
Current liabilities					
Trade and other payables	14	(707.9)	(687.3)	(309.4)	(297.7)
Amounts due to related parties	9	(67.1)	(122.5)	(356.5)	(404.4)
Borrowings	15	(10.0)	(137.5)	(10.0)	(137.5)
Provision for taxation		(70.5)	(80.6)	(15.4)	(49.1)
		(855.5)	(1,027.9)	(691.3)	(888.7)
Net current liabilities					
		(114.5)	(424.1)	(249.9)	(402.0)
Non-current liabilities					
Trade and other payables	14	(21.6)	(22.7)	(21.6)	(22.7)
Borrowings	15	(977.5)	(550.0)	(977.5)	(550.0)
Deferred income	16	(1.4)	(1.1)	(1.4)	(1.1)
Deferred tax liabilities	17	(145.4)	(120.1)	(73.5)	(61.3)
		(1,145.9)	(693.9)	(1,074.0)	(635.1)
Net assets					
		194.9	187.6	1,733.6	1,575.0
Equity attributable to equity holders of the Company					
Share capital	18	299.7	293.5	299.7	293.5
Reserves	19	(104.8)	(105.9)	1,433.9	1,281.5
Total equity		194.9	187.6	1,733.6	1,575.0

The accompanying notes form an integral part of these financial statements.

Income Statement

Year ended 31 December 2016

	Note	Group	
		2016 \$m	2015 \$m
Revenue	20	2,396.7	2,444.3
Operating expenses	21	(2,003.8)	(2,048.6)
Other income	22	32.2	45.6
Profit from operations		425.1	441.3
Finance income	23	3.5	2.0
Finance expense	23	(26.2)	(17.8)
Net finance costs		(22.7)	(15.8)
Non-operating income	24	9.5	15.0
Share of loss of associate, net of tax	7	(1.6)	(0.3)
Profit before taxation		410.3	440.2
Taxation	25	(68.9)	(67.9)
Profit for the year attributable to equity holders of the Company		341.4	372.3
Earnings per share (in cents)			
- Basic	26	19.8	21.5
- Diluted	26	19.7	21.4
EBITDA	27	690.1	712.7

The accompanying notes form an integral part of these financial statements.

Statement of Comprehensive Income

Year ended 31 December 2016

	Group	
	2016 \$m	2015 \$m
Profit for the year	341.4	372.3
Other comprehensive income		
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Change in fair value of available-for-sale financial assets, net of taxation	12.5	–
Foreign currency translation differences	–	0.5
Effective portion of changes in fair value of cash flow hedges, net of taxation	3.9	1.9
Other comprehensive income for the year, net of taxation	16.4	2.4
Total comprehensive income for the year attributable to equity holders of the Company	357.8	374.7

Statements of Changes in Equity

Year ended 31 December 2016

Group	Share capital \$m	Goodwill written off \$m	Share-based payments reserve \$m	Hedging reserve \$m	Translation reserve \$m	Retained profits \$m	Total reserves \$m	Total equity \$m
At January 2015	282.6	(276.3)	13.4	(1.4)	0.8	129.9	(133.6)	149.0
Total comprehensive income for the year								
Profit for the year	–	–	–	–	–	372.3	372.3	372.3
Other comprehensive income								
Foreign currency translation differences	–	–	–	–	0.5	–	0.5	0.5
Effective portion of changes in fair value of cash flow hedges, net of taxation	–	–	–	1.9	–	–	1.9	1.9
Total comprehensive income for the year	–	–	–	1.9	0.5	372.3	374.7	374.7
Transactions with equity holders of the Company, recognised directly in equity								
<i>Contributions by and distributions to equity holders of the Company</i>								
Issue of shares pursuant to share plans	10.9	–	(10.6)	–	–	–	(10.6)	0.3
Share-based payment expenses	–	–	9.5	–	–	–	9.5	9.5
Dividends paid (Note 29)	–	–	–	–	–	(345.9)	(345.9)	(345.9)
Total transactions with equity holders of the Company	10.9	–	(1.1)	–	–	(345.9)	(347.0)	(336.1)
At 31 December 2015	293.5	(276.3)	12.3	0.5	1.3	156.3	(105.9)	187.6

The accompanying notes form an integral part of these financial statements.

Group	Share capital \$m	Treasury shares \$m	Goodwill written off \$m	Share-based payments reserve \$m	Fair value reserve \$m	Hedging reserve \$m	Translation reserve \$m	Retained profits \$m	Total reserves \$m	Total equity \$m
At 1 January 2016	293.5	–	(276.3)	12.3	–	0.5	1.3	156.3	(105.9)	187.6
Total comprehensive income for the year										
Profit for the year	–	–	–	–	–	–	–	341.4	341.4	341.4
Other comprehensive income										
Net change in fair value of available-for-sale financial assets	–	–	–	–	12.5	–	–	–	12.5	12.5
Effective portion of changes in fair value of cash flow hedges, net of taxation	–	–	–	–	–	3.9	–	–	3.9	3.9
Total comprehensive income for the year	–	–	–	–	12.5	3.9	–	341.4	357.8	357.8
Transactions with equity holders of the Company, recognised directly in equity										
<i>Contributions by and distributions to equity holders of the Company</i>										
Treasury shares purchased by the Company	–	(12.3)	–	–	–	–	–	–	(12.3)	(12.3)
Issue of shares pursuant to share plans	6.2	–	–	(6.2)	–	–	–	–	(6.2)	–
Share-based payment expenses	–	–	–	7.2	–	–	–	–	7.2	7.2
Tax impact on transfer of treasury shares	–	–	–	0.8	–	–	–	–	0.8	0.8
Dividends paid (Note 29)	–	–	–	–	–	–	–	(346.2)	(346.2)	(346.2)
Total transactions with equity holders of the Company	6.2	(12.3)	–	1.8	–	–	–	(346.2)	(356.7)	(350.5)
At 31 December 2016	299.7	(12.3)	(276.3)	14.1	12.5	4.4	1.3	151.5	(104.8)	194.9

The accompanying notes form an integral part of these financial statements.

Statements of Changes in Equity

Year ended 31 December 2016

Company	Share capital \$m	Merger/ capital reserve \$m	Share-based payments reserve \$m	Hedging reserve \$m	Retained profits \$m	Total reserves \$m	Total equity \$m
At 1 January 2015	282.6	276.5	13.4	(1.4)	823.2	1,111.7	1,394.3
Total comprehensive income for the year							
Profit for the year	-	-	-	-	514.9	514.9	514.9
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges, net of taxation	-	-	-	1.9	-	1.9	1.9
Total comprehensive income for the year	-	-	-	1.9	514.9	516.8	516.8
Transactions with equity holders of the Company, recognised directly in equity							
<i>Contributions by and distributions to equity holders of the Company</i>							
Issue of shares pursuant to share plans	10.9	-	(10.6)	-	-	(10.6)	0.3
Share-based payment expenses	-	-	9.5	-	-	9.5	9.5
Dividends paid (Note 29)	-	-	-	-	(345.9)	(345.9)	(345.9)
Total transactions with equity holders of the Company	10.9	-	(1.1)	-	(345.9)	(347.0)	(336.1)
At 31 December 2015	293.5	276.5	12.3	0.5	992.2	1,281.5	1,575.0

The accompanying notes form an integral part of these financial statements.

Company	Share capital \$m	Treasury shares \$m	Merger/ capital reserve \$m	Share-based payments reserve \$m	Fair value reserve \$m	Hedging reserve \$m	Retained profits \$m	Total reserves \$m	Total equity \$m
At 1 January 2016	293.5	–	276.5	12.3	–	0.5	992.2	1,281.5	1,575.0
Total comprehensive income for the year									
Profit for the year	–	–	–	–	–	–	497.1	497.1	497.1
Other comprehensive income									
Net change in fair value of available-for-sale financial assets	–	–	–	–	12.5	–	–	12.5	12.5
Effective portion of changes in fair value of cash flow hedges, net of taxation	–	–	–	–	–	(0.5)	–	(0.5)	(0.5)
Total comprehensive income for the year	–	–	–	–	12.5	(0.5)	497.1	509.1	509.1
Transactions with equity holders of the Company, recognised directly in equity									
<i>Contributions by and distributions to equity holders of the Company</i>									
Treasury shares purchased by the Company	–	(12.3)	–	–	–	–	–	(12.3)	(12.3)
Issue of shares pursuant to share plans	6.2	–	–	(6.2)	–	–	–	(6.2)	–
Share-based payment expenses	–	–	–	7.2	–	–	–	7.2	7.2
Tax impact on transfer of treasury shares	–	–	–	0.8	–	–	–	0.8	0.8
Dividends paid (Note 29)	–	–	–	–	–	–	(346.2)	(346.2)	(346.2)
Total transactions with equity holders of the Company	6.2	(12.3)	–	1.8	–	–	(346.2)	(356.7)	(350.5)
At 31 December 2016	299.7	(12.3)	276.5	14.1	12.5	–	1,143.1	1,433.9	1,733.6

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2016

	2016 \$m	2015 \$m
Operating activities		
Profit before taxation	410.3	440.2
Adjustments for:		
Depreciation and amortisation, net of asset grants	265.0	271.4
Income related grants	(32.0)	(45.4)
Share-based payments	7.2	9.5
Changes in fair value of financial instruments	1.2	(1.0)
Net finance costs	22.7	15.8
Non-operating income	(9.5)	(15.0)
Share of loss of associate, net of tax	1.6	0.3
Others	1.6	(1.9)
	668.1	673.9
Changes in:		
Inventories	4.7	(11.9)
Trade receivables	(18.9)	7.6
Other receivables, deposits and prepayments	(19.3)	(2.9)
Trade and other payables	19.9	(55.8)
Amounts due from related parties	5.3	(8.9)
Amounts due to related parties	(55.4)	35.2
Cash generated from operations	604.4	637.2
Income tax paid	(53.7)	(92.7)
Net cash from operating activities	550.7	544.5
Investing activities		
Interest received	3.3	2.0
Proceeds from disposal of property, plant and equipment and intangible assets	0.8	1.6
Purchase of property, plant and equipment and intangible assets	(366.7)	(328.8)
Purchase of available-for-sale financial assets	(18.0)	–
(Loan to)/Repayment of loan from an associate	(8.7)	36.9
Investment in an associate	–	(12.0)
Net cash used in investing activities	(389.3)	(300.3)
Financing activities		
Proceeds from exercise of share options	–	0.3
Treasury shares purchased by the Company	(12.3)	–
Grants received	34.0	30.0
Proceeds from issue of medium term notes	300.0	–
Dividends paid	(346.2)	(345.9)
Interest paid	(25.1)	(19.7)
Net cash used in financing activities	(49.6)	(335.3)
Net change in cash and cash equivalents	111.8	(91.1)
Exchange difference on cash and cash equivalents	–	0.3
Cash and cash equivalents at beginning of year	173.4	264.2
Cash and cash equivalents at end of year (Note 13)	285.2	173.4

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

Year ended 31 December 2016

These notes form an integral part of the financial statements.

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors of StarHub Ltd on 3 February 2017.

1 Domicile and Activities

StarHub Ltd ("StarHub" or the "Company") is incorporated in the Republic of Singapore and has its registered office at 67 Ubi Avenue 1, #05-01 StarHub Green, Singapore 408942.

The principal activities of the Company are those relating to the operation and provision of telecommunications services and other businesses relating to the info-communications industry. The principal activities of the subsidiaries are set out in Note 6 to the financial statements.

The consolidated financial statements relate to the Company and its subsidiaries (together the "Group" and individually as "Group entities"), and the Group's interest in its equity-accounted investee.

2 Basis of Preparation

2.1 Statement of compliance

The financial statements are prepared in accordance with the Singapore Financial Reporting Standards ("FRS").

2.2 Basis of measurement

The financial statements are prepared on a historical cost basis except for certain financial assets and liabilities which are measured at fair value as disclosed in the accounting policies below.

2.3 Functional and presentation currency

The financial statements are presented in Singapore dollars, which is the Company's functional currency. All financial information presented in Singapore dollars has been rounded to the nearest million, unless otherwise stated.

2.4 Significant accounting estimates and judgements

The preparation of financial statements in conformity with FRSs requires management to make judgements in the application of accounting policies. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported income and expenses during the financial year. These estimates are based on management's best knowledge and judgement of current events and environment. Actual results may ultimately differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Notes to the Financial Statements

Year ended 31 December 2016

2 Basis of Preparation *(continued)*

2.4 Significant accounting estimates and judgements *(continued)*

In the application of the Group's accounting policies, which are described in Note 3, management is of the opinion that there is no instance of application of judgement which is expected to have a significant effect on the amounts recognised in the financial statements, apart from those involving estimations described below.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- Measurement of recoverable amounts relating to goodwill impairment

The carrying value of the Group's goodwill is assessed for impairment annually or more frequently if there are indications that the goodwill might be impaired. The impairment assessment requires an estimation of the value-in-use of the cash generating unit ("CGU") to which the goodwill is allocated.

Assessing the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGU and apply an appropriate discount rate in order to calculate the present value of those cash flows. Actual cash flows will differ from these estimates as a result of differences between assumptions used and actual operations (see Note 5).

- Measurement of impairment losses on investments in subsidiaries and recoverable amounts of loan receivables to subsidiaries

The carrying values of investments in subsidiaries are reviewed for impairment whenever there is any indication that the investment is impaired. This determination requires significant judgement. As the Group's fixed, mobile, cable and broadband operations are integrated and generate interdependent cash flows, the assessment is performed on the same CGU determined for purposes of assessment of impairment of goodwill (see Note 5).

- Measurement of recoverable amounts of trade receivables

The Group evaluates whether there is any objective evidence that trade receivables are impaired, and determine the amount of impairment loss as a result of the inability of the debtors to make the required payments. The Group bases the estimates on the ageing of the trade receivables balance, credit worthiness of the debtors and historical write-off experience. The Group has a policy to provide allowance for trade receivables on specific individual balances and on its receivables portfolio collectively. If financial conditions of the debtors were to deteriorate, actual write-offs would be higher than that estimated.

- Adequacy of accruals

Assessing the adequacy of accruals made at the reporting date requires the Group to make judgements in determining the level of accruals needed for costs that span the year end where settlement has not been fully and finally made. Due to the complexities in the telecommunication industry, agreement on amounts payable to suppliers may take a significant amount of time. The Group determines the sufficiency of these accruals based on historical trend of observable claims and actual costs. Actual payments may differ from these estimates when the final settlements are reached between the parties.

2 Basis of Preparation *(continued)*

2.5 Adoption of new and revised standards

In the current financial year, the Group has adopted all the new and revised FRSs and Interpretations of FRSs ("INT FRSs") that are relevant to its operations and effective for annual periods beginning on 1 January 2016. The adoption of these new/revised FRSs and INT FRSs does not result in substantial changes to the Group's accounting policies and has no material effect on the amounts reported for the current or prior years.

2.6 New accounting standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the Group has not early applied the following new or amended standards in preparing these statements.

For those new standards and amendments to standards that are expected to have an effect on the financial statements of the Group and the Company in future financial periods, the Group has set up project teams to assess the transition options and the potential impact on its financial statements, and to implement these standards. The Group does not plan to adopt these standards early.

Applicable to 2018 financial statements

New standards

Summary of the requirements

Potential impact on the financial statements

Convergence with International Financial Reporting Standards (IFRS)

The Accounting Standards Council (ASC) announced on 29 May 2014 that Singapore-incorporated companies listed on the Singapore Exchange (SGX) will apply a new financial reporting framework identical to the International Financial Reporting Standards (referred to as SG-IFRS in these financial statements) for the financial year ending 31 December 2018 onwards.

The Group has performed a preliminary assessment of the impact of SG-IFRS 1 *First-time adoption of International Financial Reporting Standards* for the transition to the new reporting framework. Based on the Group's preliminary assessment, the Group expects that the impact on adoption of SG-IFRS 15 *Revenue from Contracts with Customers* and SG-IFRS 9 *Financial Instruments* will be similar to adopting FRS 115 and FRS 109 as described in this Note.

Other than arising from the adoption of new and revised standards, the Group does not expect to change its existing accounting policies on adoption of the new framework.

The Group is currently performing a detailed analysis of the available policy choices, transitional optional exemptions and transitional mandatory exceptions under SG-IFRS 1 and the preliminary assessment may be subject to changes arising from the detailed analyses.

Notes to the Financial Statements

Year ended 31 December 2016

2 Basis of Preparation *(continued)*

2.6 New accounting standards and interpretations not yet adopted *(continued)*

Applicable to 2018 financial statements *(continued)*

New standards

Summary of the requirements

Potential impact on the financial statements

FRS 115 Revenue from Contracts with Customers

FRS 115 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It also introduces new cost guidance which requires certain costs of obtaining and fulfilling contracts to be recognised as separate assets when specified criteria are met.

When effective, FRS 115 replaces existing revenue recognition guidance, including FRS 18 *Revenue*, FRS 11 *Construction Contracts*, INT FRS 113 *Customer Loyalty Programmes*, INT FRS 115 *Agreement for the Construction of Real Estate*, INT FRS 118 *Transfers of Assets from Customers* and INT FRS 31 *Revenue – Barter Transactions Involving Advertising Services*.

FRS 115 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. FRS 115 offers a range of transition options including full retrospective adoption where an entity can choose to apply the standard to its historical transactions and retrospectively adjust each comparative period presented in its 2018 financial statements. When applying the full retrospective method, an entity may also elect to use a series of practical expedients to ease transition.

During 2016, the Group performed an initial assessment of the impact on the Group's financial statements.

Based on its initial assessment, the Group expects the following key changes:

FRS 115 will require the Group to identify deliverables in contracts with customers that qualify as performance obligations taking into consideration the estimated value of material rights and variable considerations offered.

Currently, revenue from bundled products and services are recognised based on values allocated to the individual elements of the bundled products and services in accordance to the earning process of each element. Under FRS 115, revenue will be allocated to these individual elements within bundled products and services based on their relative stand-alone selling prices.

The Group expects an increase in the revenue allocated to sales of equipment and a corresponding reduction in the revenue allocated to services under FRS 115. In addition, the Group expects to defer the recognition of the cost of acquiring customers over the contract duration.

Transition – The Group intends to adopt the standard when it becomes effective in 2018 using the full retrospective approach. The Group intends to elect all the practical expedients under FRS 115 and is currently performing the detailed analysis to quantify the transition adjustments on its financial statements.

2 Basis of Preparation *(continued)*

2.6 New accounting standards and interpretations not yet adopted *(continued)*

Applicable to 2018 financial statements *(continued)*

New standards

Summary of the requirements

Potential impact on the financial statements

FRS 109 *Financial Instruments*

FRS 109 replaces most of the existing guidance in FRS 39 *Financial Instruments: Recognition and Measurement*. It includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from FRS 39.

FRS 109 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Retrospective application is generally required, except for hedge accounting. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Restatement of comparative information is not mandatory. If comparative information is not restated, the cumulative effect is recorded in opening equity as at 1 January 2018.

During 2016, the Group completed its initial assessment of the impact on the Group's financial statements.

The Group's initial assessment of the three elements of FRS 109 is as described below.

Classification and measurement – The Group does not expect a significant change to the measurement basis arising from adopting the new classification and measurement model under FRS 109.

Loans and receivables that are currently accounted for at amortised cost will continue to be accounted for using amortised cost model under FRS 109.

For financial assets currently held at fair value, the Group expects to continue measuring most of these assets at fair value under FRS 109. The expected classification and measurement of these financial assets under FRS 109 is summarised below:

Available-for-sale equity securities are held as long-term investments. For these, the Group expects to elect to present subsequent changes in fair value in other comprehensive income. Under FRS 109, only dividend income is recognised in the income statement. Any subsequent fair value changes are recognised in other comprehensive income and will not be reclassified to the income statement even upon divestment.

Impairment – The Group intends to adopt the simplified approach and is currently assessing the impact of impairment loss allowance under the new standard.

Hedge accounting – The Group intends to adopt the general hedge accounting model under the new standards, using prospective application of hedge accounting requirements in the standards. The Group is currently assessing the impact of adopting the new standard.

Transition – The Group intends to adopt the standard when it becomes effective in 2018 without restating comparative information. The Group is currently gathering data to quantify the potential impact arising from the adoption.

Notes to the Financial Statements

Year ended 31 December 2016

2 Basis of Preparation *(continued)*

2.6 New accounting standards and interpretations not yet adopted *(continued)*

Applicable to 2019 financial statements

New standards

Summary of the requirements

Potential impact on the financial statements

FRS 116 Leases

FRS 116 eliminates the lessee's classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. Applying the new model, a lessee is required to recognise right-of-use (ROU) assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

FRS 116 substantially carries forward the lessor accounting requirements in FRS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases using the FRS 17 operating lease and finance lease accounting models respectively. However, FRS 116 requires more extensive disclosures to be provided by a lessor.

When effective, FRS 116 replaces existing lease accounting guidance, including FRS 17, INT FRS 104 *Determining whether an Arrangement contains a Lease*; INT FRS 15 *Operating Leases—Incentives*; and INT FRS 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

FRS 116 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted if FRS 115 is also applied.

The Group has performed a preliminary high-level assessment of the new standard on its existing operating lease arrangements as a lessee. Based on the preliminary assessment, the Group expects these operating leases to be recognised as ROU assets with corresponding lease liabilities under the new standard. The Group is currently assessing the quantitative impact on the financial statements.

The Group plans to adopt the standard when it becomes effective in 2019. The Group will perform a detailed analysis of the standard, including the transition options and practical expedients in 2018.

The Group expects that the impact on adoption of IFRS 16 *Leases* to be similar to adopting SG-FRS 116, after the transition to SG-IFRS in 2018 as described above.

3 Significant Accounting Policies

The accounting policies set out below have been applied consistently by the Group to all periods presented in these financial statements.

3.1 Basis of consolidation

(i) *Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are stated in the Company's statement of financial position at cost less impairment losses. Subsidiaries are consolidated with the Company in the Group's financial statements.

Acquisitions of subsidiaries from related corporations controlled by the ultimate holding company, Temasek Holdings (Private) Limited ("Temasek"), are accounted for as reconstructions of businesses under common control using the historical cost method similar to the "pooling of interest" method.

Under the historical cost method, the acquired assets and liabilities were recorded at their existing carrying amounts. The consolidated financial statements included the results of operations, and the assets and liabilities, of the pooled enterprises as part of the Group for the whole of the current and preceding periods.

To the extent that the par value of the shares issued in consideration for these transactions exceeded the par value of the shares held by the related corporations, the difference was recognised as a merger reserve in the Group's financial statements.

(ii) *Loss of control*

When control over a subsidiary is lost as a result of a transaction, event or other circumstances, the Group derecognises all assets and liabilities of the subsidiary, any non-controlling interest and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the income statement. Any remaining interest in the previous subsidiary is recognised at its fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iii) *Associates*

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds 20% or more of the voting power of another entity.

Investment in associates is accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the income statement and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, together with any long-term interests that form part thereof is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation to fund the investee's operations or has made payments on behalf of the investee.

Notes to the Financial Statements

Year ended 31 December 2016

3 Significant Accounting Policies *(continued)*

3.1 Basis of consolidation *(continued)*

(iv) **Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currencies

(i) **Foreign currencies transactions**

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognised in the income statement, except for the following differences which are recognised in other comprehensive income arising on the translation of:

- available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to the income statement); or
- qualifying cash flow hedges to the extent the hedge is effective.

(ii) **Foreign operations**

The assets and liabilities of foreign operations are translated to Singapore dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Singapore dollars at average rates during the year.

Foreign currency translation differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the foreign operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign subsidiary is disposed of such that control is lost, the cumulative amount in the foreign currency translation reserve related to that foreign subsidiary is transferred to the income statement as an adjustment to profit or loss arising on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

3 Significant Accounting Policies *(continued)*

3.3 Property, plant and equipment

(i) **Recognition and measurement**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets include the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, and when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the assets and restoring the site on which they are located and capitalised borrowing costs.

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(ii) **Subsequent costs**

Subsequent expenditure relating to existing property, plant and equipment is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) **Depreciation**

Depreciation is provided on a straight-line basis over the estimated useful lives (or lease term, if shorter) of each part of an item of property, plant and equipment as follows:

Leasehold buildings	-	30 years to 42 years
Leasehold improvements	-	Shorter of lease term or 5 years
Network equipment	-	2 years to 15 years
Office equipment, computers and furniture and fittings	-	2 years to 5 years
Motor vehicles	-	5 years

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at the end of each reporting date.

No depreciation is provided on freehold property or in respect of property, plant and equipment under construction.

3.4 Intangible assets

(i) **Goodwill**

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Goodwill arising on the acquisition of associates is presented together with investments in associates.

Acquisitions prior to 1 January 2010

Goodwill arising on acquisitions prior to 1 January 2010 represents the excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Notes to the Financial Statements

Year ended 31 December 2016

3 Significant Accounting Policies *(continued)*

3.4 Intangible assets *(continued)*

(i) Goodwill *(continued)*

Acquisition on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree,

over the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. Any goodwill that arises is tested annually for impairment.

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement.

Goodwill is measured at cost less accumulated impairment losses. Goodwill is tested for impairment on an annual basis as described in Note 3.7(ii).

Goodwill arising on acquisitions of subsidiaries that occurred prior to 1 January 2001 was written off against reserves in the year of acquisition and has not been retrospectively capitalised and amortised.

Goodwill that has previously been taken to the reserves is not taken to the income statement when the business is disposed of or the goodwill is impaired. Similarly, negative goodwill that has previously been taken to reserves is not taken to the income statement when the business is disposed.

In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the associates.

(ii) Telecommunications and spectrum licences

Telecommunications and spectrum licences costs incurred are measured at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to the income statement using the straight-line method over the period of the licence, being 10 years to 21 years, commencing from the effective date of the licence.

(iii) Computer software

Computer software comprises software purchased from third parties, and also the cost of internally developed software. Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to the income statement using the straight-line method over their estimated useful lives of 2 years to 5 years.

Subsequent expenditure on capitalised intangible assets is added to the carrying value only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the income statement as incurred.

Computer software integral to a related item of equipment is accounted for as property, plant and equipment.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

3 Significant Accounting Policies *(continued)*

3.5 Inventories

Inventories comprise goods held for resale and reserved telephone numbers. Inventories are valued at the lower of cost and net realisable value. The cost of goods held for resale is determined on the weighted average basis. Reserved telephone numbers are stated at cost and accounted for using the specific identification basis.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Allowance for obsolescence is made for all deteriorated, damaged, obsolete and slow-moving inventories.

3.6 Financial instruments

(i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables (including amounts due from related parties), cash and bank balances, trade and other payables (including amounts due to related parties), and borrowings.

Cash and cash equivalents comprise cash balances, deposits with financial institutions with maturities of three months or less, and bank overdrafts. For the purpose of presentation in the consolidated cash flow statement, cash and cash equivalents are presented net of bank overdrafts which are repayable on demand and which form an integral part of the Group's cash management.

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or transfers substantially all the risks and rewards of ownership of the asset. On disposal of a financial asset, the difference between the sale proceeds and the carrying amount is recognised in the income statement. Any amount in the fair value reserve relating to that asset is reclassified to the income statement. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset.

Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, and trade and other receivables (including amounts due from related parties).

Notes to the Financial Statements

Year ended 31 December 2016

3 Significant Accounting Policies *(continued)*

3.6 Financial instruments *(continued)*

(i) **Non-derivative financial instruments** *(continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are initially measured at fair value (normally the transaction price) plus any directly attributable transaction costs.

When the fair value at initial recognition differs from the transaction price, for fair value evidenced by a quoted price in an active market, the difference will be recognised as a gain or loss in the income statement. For all other cases, the difference would be recognised to other comprehensive income.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to the income statement.

Available-for-sale financial assets comprise equity securities.

Trade and other payables

Trade and other payables (including amounts due to related parties) are carried at amortised cost using the effective interest method.

Borrowings

Borrowings are carried at amortised cost using the effective interest method. Any difference between the proceeds (net of transactions costs) and the settlement or redemption of borrowings is recognised in the income statement over the period of the borrowings.

(ii) **Share capital**

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new equity shares are recognised as a deduction from equity, net of any tax effects.

Repurchase, disposal and reissue of share capital (treasury shares)

Where share capital recognised as equity is repurchased and held as treasury shares, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is presented as a deduction from equity. Where such shares are subsequently reissued, sold or cancelled, the consideration received is recognised as a change in equity. No gain or loss is recognised in the income statement.

3 Significant Accounting Policies *(continued)*

3.6 Financial instruments *(continued)*

(iii) **Derivative financial instruments, including hedge accounting**

The Group uses interest rate swaps and forward foreign exchange contracts to hedge its exposure to interest rate risks and foreign exchange risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are remeasured at fair value prevailing at reporting date. The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged as described in below.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the reporting date, being the present value of the quoted forward price.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income and presented in the hedging reserve in equity.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the associated cumulative gain or loss is removed from other comprehensive income and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains and losses that were recognised in other comprehensive income are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

For other cash flow hedges, the associated cumulative gain or loss that was recognised in other comprehensive income is removed and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects the income statement. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in other comprehensive income and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in other comprehensive income is recognised immediately in the income statement.

Other non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in the income statement.

Notes to the Financial Statements

Year ended 31 December 2016

3 Significant Accounting Policies *(continued)*

3.7 Impairment

(i) *Non-derivative financial assets*

A financial asset not carried at fair value through profit or loss, including an interest in an associate, is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the estimated future cash flows of that asset that can be estimated reliably.

Loans and receivables

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and receivables at both specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment, the Group uses historical write-off patterns and ageing of receivables. Bad debts are written off when incurred.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to the income statement. An impairment loss in respect of on the cumulative loss that is reclassified from equity to the income statement is the difference between the acquisition cost, and the current fair value, less any impairment loss recognised previously in the income statement. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income and presented in the fair value reserve in equity.

Associates

An impairment loss in respect of an associate is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 3.7(ii). An impairment loss is recognised in the income statement. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

3 Significant Accounting Policies *(continued)*

3.7 Impairment *(continued)*

(ii) **Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash generating unit ("CGU") exceeds its estimated recoverable amounts.

The recoverable amount of an asset or its CGU is the greater of its value-in-use and its fair value less costs to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the CGU to which the asset belongs. For the purpose of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level within the Group at which goodwill is monitored for internal reporting purposes.

Impairment losses recognised in the income statement in respect of CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of units) and then, to reduce the carrying amount of other assets in the CGU (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. All reversals of impairment are recognised in the income statement.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

3.8 Employee benefits

(i) **Share-based payment**

Share Option Plans

The Share Option Plans allow the Group employees and directors to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees and directors become unconditionally entitled to the options. At each reporting date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates in employee expense and in a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

Performance Share Plans and Restricted Stock Plans

The Performance Share Plans and the Restricted Stock Plans are accounted as equity-settled share-based payments. Equity-settled share-based payments are measured at fair value at the date of grant. The share-based expense is amortised and recognised in the income statement on a straight line basis over the vesting period. At each reporting date, the Company revises its estimates of the number of shares that the participating employees and directors are expected to receive based on non-market vesting conditions. The difference is charged or credited to the income statement, with a corresponding adjustment to equity.

Notes to the Financial Statements

Year ended 31 December 2016

3 Significant Accounting Policies *(continued)*

3.8 Employee benefits *(continued)*

(ii) **Defined contribution plans**

Contributions to defined contribution plans are recognised as an expense in the income statement when incurred.

(iii) **Other short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(iv) **Other long-term benefits**

Long-term employee benefit obligations are measured on performance conditions over a period of three years.

The Group adopts an incentive compensation plan, which is tied to the creation of Economic Value Added ("EVA") for its management personnel executives. An EVA bank is used to hold incentive compensation credited in any year. Typically one-third of the accumulated EVA-based bonus, comprising the EVA declared in the financial year and the balance of such bonus brought forward from preceding years is paid out in cash each year, with the balance being carried forward to the following year. The balances of the EVA bank in future will be adjusted by the yearly EVA performance of the Group and the payouts made from the EVA bank.

3.9 Customer loyalty programmes

For customer loyalty programmes, the fair value of the consideration received or receivable from a sales transaction which attracts customer loyalty credits or points is allocated between the customer loyalty points and the other component of the sale. The amount allocated to the customer loyalty points is estimated by reference to the fair value of the customer loyalty points for which they could be redeemed. The fair value of the customer loyalty points is estimated by taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and recorded as unearned revenue until the customer loyalty points are redeemed. At this juncture, the cost of fulfilling the customer loyalty credits is also recognised.

3.10 Provisions

Provisions are recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3 Significant Accounting Policies *(continued)*

3.11 Revenue recognition

Revenue comprises fees earned from telecommunications services, broadband access, Pay TV, related advertising space and sales of equipment. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recognised in the income statement as follows:

- Revenue from telecommunications, broadband and cable television services and advertising space is recognised at the time such services are rendered. Revenue billed in advance of the rendering of services is deferred and presented in the statement of financial position as unearned revenue.
- Revenue from managed services is recognised at the time such services are rendered.
- Revenue from sales of pre-paid phone cards for which services have not been rendered is deferred and presented in the statement of financial position as unearned revenue. Upon the expiry of pre-paid phone cards, any unutilised value of the cards is taken to the income statement.
- Revenue from sales of equipment is recognised upon delivery and acceptance of the equipment sold.
- Revenue from bundled products and services is recognised based on values allocated to the individual elements of the bundled products and services in accordance to the earning process of each element.

3.12 Finance income and costs

Finance income comprises interest income on bank deposits. Interest income is recognised on a time-apportioned basis taking into account the principal outstanding at the applicable rate.

Finance costs comprise interest expense and similar charges. They are recognised in the income statement using the effective interest method, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to prepare for its intended use or sale.

3.13 Government grants

Government grants received, which are designated for the purchase of property, plant and equipment, are accreted to the income statement on a straight-line basis over the estimated useful lives of the related assets, so as to match the related depreciation expense.

Government grants received, which are designated for operating expenditure, are recognised on a systematic basis in the income statement over the periods necessary to match the related cost which they are intended to compensate.

3.14 Marketing and promotions

Advertising costs are expensed when incurred. The direct costs of acquiring customers, including commission and promotion expenses, are recognised in the income statement when incurred.

3.15 Operating leases

Where the Group has the use of assets under operating leases, payments made under the leases are recognised in the income statement on a straight-line basis over the terms of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

Notes to the Financial Statements

Year ended 31 December 2016

3 Significant Accounting Policies *(continued)*

3.16 Income taxes

Income taxes comprise current tax and deferred tax. Income taxes are recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case such tax is recognised in equity, or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is provided based on the expected realisation or settlement of the temporary differences, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences relating to investments in subsidiaries and associate to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences on the initial recognition of goodwill.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.17 Dividends

Interim dividends to the Company's shareholders are recognised in the financial year in which they are declared payable. Final dividends to the Company's shareholders are recognised in the financial year in which the dividends are approved by the shareholders.

3.18 Segment reporting

Segment information is presented based on the information reviewed by chief operating decision maker ("CODM") for performance assessment and resource allocation.

The Group operates primarily in Singapore and delivers its Mobile, Pay TV, Broadband, Enterprise Fixed revenue and equipment sales on an operationally integrated network, and has a centralised customer service, sales, marketing and administration support. Based on the financial information regularly reviewed by the CODM, the Group has one operating and reporting segment.

4 Property, Plant and Equipment

Group	Leasehold land \$m	Leasehold buildings \$m	Leasehold improvements \$m	Freehold property \$m	Network equipment \$m	Office equipment, computers and furniture and fittings \$m	Motor vehicles \$m	Construction in progress \$m	Total \$m
Cost									
At 1 January 2015	34.3	9.1	49.2	1.7	3,209.2	160.3	6.6	89.9	3,560.3
Additions	–	–	–	–	4.2	19.3	0.4	228.6	252.5
Transfers	–	0.1	1.8	–	236.5	–	–	(238.4)	–
Disposals/Write-offs	–	–	(2.8)	–	(103.2)	(8.5)	(0.5)	–	(115.0)
Disposal of subsidiary	(34.3)	–	–	–	–	–	–	(19.6)	(53.9)
At 31 December 2015	–	9.2	48.2	1.7	3,346.7	171.1	6.5	60.5	3,643.9
At 1 January 2016	–	9.2	48.2	1.7	3,346.7	171.1	6.5	60.5	3,643.9
Additions	–	–	–	–	6.8	16.4	0.7	231.6	255.5
Transfers	–	–	1.3	–	234.4	–	–	(235.7)	–
Disposals/Write-offs	–	–	(3.2)	–	(117.0)	(10.9)	(0.3)	–	(131.4)
At 31 December 2016	–	9.2	46.3	1.7	3,470.9	176.6	6.9	56.4	3,768.0
Accumulated depreciation and impairment losses									
At 1 January 2015	1.0	1.7	45.7	–	2,459.8	135.4	5.6	–	2,649.2
Charge for the year	0.3	0.3	1.8	–	203.2	13.7	0.5	–	219.8
Impairment losses	–	–	–	–	0.6	–	–	–	0.6
Disposals/Write-offs	–	–	(2.8)	–	(102.7)	(8.4)	(0.5)	–	(114.4)
Disposal of subsidiary	(1.3)	–	–	–	–	–	–	–	(1.3)
At 31 December 2015	–	2.0	44.7	–	2,560.9	140.7	5.6	–	2,753.9
At 1 January 2016	–	2.0	44.7	–	2,560.9	140.7	5.6	–	2,753.9
Charge for the year	–	0.3	1.5	–	209.9	13.9	0.4	–	226.0
Disposals/Write-offs	–	–	(2.3)	–	(116.5)	(10.8)	(0.3)	–	(129.9)
At 31 December 2016	–	2.3	43.9	–	2,654.3	143.8	5.7	–	2,850.0
Carrying amount									
At 31 December 2015	–	7.2	3.5	1.7	785.8	30.4	0.9	60.5	890.0
At 31 December 2016	–	6.9	2.4	1.7	816.6	32.8	1.2	56.4	918.0

Staff costs capitalised in construction in progress for the Group during the year amounted to \$3.4 million (2015: \$3.3 million).

Notes to the Financial Statements

Year ended 31 December 2016

4 Property, Plant and Equipment (continued)

Company	Leasehold buildings \$m	Leasehold improvements \$m	Network equipment \$m	Office equipment, computers and furniture and fittings \$m	Motor vehicles \$m	Construction in progress \$m	Total \$m
Cost							
At 1 January 2015	9.1	40.9	1,236.7	113.9	2.1	48.9	1,451.6
Additions	–	–	–	10.1	0.1	86.7	96.9
Transfers	0.1	1.7	92.4	–	–	(94.2)	–
Disposals/Write-offs	–	(2.8)	(3.4)	(7.7)	(0.2)	–	(14.1)
At 31 December 2015	9.2	39.8	1,325.7	116.3	2.0	41.4	1,534.4
At 1 January 2016	9.2	39.8	1,325.7	116.3	2.0	41.4	1,534.4
Additions	–	–	–	12.5	–	100.1	112.6
Transfers	–	1.3	117.9	–	–	(119.2)	–
Disposals/Write-offs	–	(3.2)	(24.2)	(2.0)	–	–	(29.4)
At 31 December 2016	9.2	37.9	1,419.4	126.8	2.0	22.3	1,617.6
Accumulated depreciation							
At 1 January 2015	1.7	38.8	909.3	99.6	1.7	–	1,051.1
Charge for the year	0.3	1.0	76.1	7.9	0.2	–	85.5
Disposals/Write-offs	–	(2.8)	(3.0)	(7.6)	(0.2)	–	(13.6)
At 31 December 2015	2.0	37.0	982.4	99.9	1.7	–	1,123.0
At 1 January 2016	2.0	37.0	982.4	99.9	1.7	–	1,123.0
Charge for the year	0.3	1.1	81.8	8.4	0.1	–	91.7
Disposals/Write-offs	–	(2.3)	(23.8)	(2.0)	–	–	(28.1)
At 31 December 2016	2.3	35.8	1,040.4	106.3	1.8	–	1,186.6
Carrying amount							
At 31 December 2015	7.2	2.8	343.3	16.4	0.3	41.4	411.4
At 31 December 2016	6.9	2.1	379.0	20.5	0.2	22.3	431.0

5 Intangible Assets

Group	Telecommunications and spectrum licences \$m	Software \$m	Software in development \$m	Goodwill \$m	Total \$m
Cost					
At 1 January 2015	156.8	489.9	12.6	220.3	879.6
Additions	–	0.2	36.3	–	36.5
Transfers	–	32.2	(32.2)	–	–
Disposals/Write-offs	(1.0)	(4.2)	–	–	(5.2)
At 31 December 2015	155.8	518.1	16.7	220.3	910.9
At 1 January 2016	155.8	518.1	16.7	220.3	910.9
Additions	80.3	0.3	35.1	–	115.7
Transfers	–	34.9	(34.9)	–	–
Disposals/Write-offs	–	(3.6)	–	–	(3.6)
At 31 December 2016	236.1	549.7	16.9	220.3	1,023.0
Accumulated amortisation					
At 1 January 2015	72.0	403.1	–	–	475.1
Charge for the year	7.8	44.8	–	–	52.6
Disposals/Write-offs	(1.0)	(3.9)	–	–	(4.9)
At 31 December 2015	78.8	444.0	–	–	522.8
At 1 January 2016	78.8	444.0	–	–	522.8
Charge for the year	9.1	30.9	–	–	40.0
Disposals/Write-offs	–	(3.6)	–	–	(3.6)
At 31 December 2016	87.9	471.3	–	–	559.2
Carrying amount					
At 31 December 2015	77.0	74.1	16.7	220.3	388.1
At 31 December 2016	148.2	78.4	16.9	220.3	463.8

Impairment testing of goodwill

The Group, through its “Hubbing” strategy, operates and delivers its Mobile, Pay TV, Broadband and Enterprise Fixed services on an operationally integrated network, customer service, sales, marketing and administration support. For the purposes of impairment testing, goodwill is allocated to the cash generating unit (“CGU”) comprising the Group’s integrated fixed, mobile, cable and broadband operations. This represents the lowest level within the Group at which goodwill is monitored for impairment for internal management purposes.

The recoverable amount of the CGU is determined based on value-in-use calculations. The key assumptions for the value-in-use calculations are the discount rates, growth rates and expected changes to profit margins.

Notes to the Financial Statements

Year ended 31 December 2016

5 Intangible Assets (continued)

Impairment testing of goodwill (continued)

The cash flow projections include the financial budget for the Group for the year ending 31 December 2017, which were approved by the board, and management's forecast for a further two years ending 31 December 2019. The forecast cash flows of 3 years (2015: 3 years) were extrapolated using an estimated growth rate of 1.1% (2015: 3.8%), taking into consideration the competitive pressures on EBITDA margins. The pre-tax discount rate applied to cash flow projections is at 6.6% (2015: 6.3%) and the forecast long-term growth rate used to extrapolate the cash flow projections beyond the third year is Nil (2015: Nil).

No impairment charge was required for the carrying amount of goodwill assessed as at 31 December 2016 and 31 December 2015 as the recoverable value was in excess of the carrying value. A reasonable change to the key assumptions applied was not likely to cause the recoverable value to be below the carrying value.

Company	Telecommunications licences \$m	Software \$m	Software in development \$m	Total \$m
Cost				
At 1 January 2015	1.0	418.0	10.5	429.5
Additions	–	–	28.4	28.4
Transfers	–	24.4	(24.4)	–
Disposals	(1.0)	–	–	(1.0)
At 31 December 2015	–	442.4	14.5	456.9
At 1 January 2016				
	–	442.4	14.5	456.9
Additions	0.3	–	31.0	31.3
Transfers	–	30.7	(30.7)	–
Disposals	–	(0.1)	–	(0.1)
At 31 December 2016	0.3	473.0	14.8	488.1
Accumulated amortisation				
At 1 January 2015	0.9	349.3	–	350.2
Charge for the year	0.1	37.0	–	37.1
Disposals	(1.0)	–	–	(1.0)
At 31 December 2015	–	386.3	–	386.3
At 1 January 2016				
	–	386.3	–	386.3
Charge for the year	0.1	23.5	–	23.6
Disposals	–	(0.1)	–	(0.1)
At 31 December 2016	0.1	409.7	–	409.8
Carrying amount				
At 31 December 2015	–	56.1	14.5	70.6
At 31 December 2016	0.2	63.3	14.8	78.3

Staff costs capitalised in software in development for the Group and Company during the year amounted to \$2.4 million (2015: \$1.8 million).

6 Subsidiaries

	Company	
	2016 \$m	2015 \$m
Investments in subsidiaries, at cost	1,209.1	1,209.1
Loans to subsidiaries	1,270.7	556.0
Discount implicit in the interest-free loan to a subsidiary	21.9	21.9
	2,501.7	1,787.0
Allowance for impairment losses	(28.9)	(28.9)
	2,472.8	1,758.1

At 31 December 2016, the loans to the subsidiaries are unsecured, not repayable within the next 12 months and bore interest ranging from 2.86% to 3.04% (2015: 2.72% to 3.48%) per annum.

During the year, loans to subsidiaries of \$714.7 million (2015: \$66.0 million) were reclassified from amounts due from related parties to form part of the Company's interest in subsidiaries.

Name of company	Principal activities	Country of incorporation/ business	Effective equity interest held by the Group	
			2016 %	2015 %
The subsidiaries directly held by the Company are as follows:				
StarHub Cable Vision Ltd. ⁽¹⁾	Provision of subscription television and television broadcasting services	Singapore	100	100
StarHub Mobile Pte Ltd ⁽¹⁾	Provision of mobile telecommunications services	Singapore	100	100
StarHub Internet Pte Ltd ⁽¹⁾	Provision and operation of internet services	Singapore	100	100
StarHub Online Pte Ltd ⁽¹⁾	Provision of broadband access services	Singapore	100	100
Nucleus Connect Pte. Ltd. ⁽¹⁾	Provision of high speed wholesale broadband services	Singapore	100	100
StarHub (Mauritius) Ltd ⁽²⁾	Investment holding company and for acquisition of info-communication and infotainment services	Mauritius	100	100
StarHub (Hong Kong) Limited ⁽³⁾	Provision of telecommunication services	Hong Kong	100	100
StarHub Shop Pte Ltd ⁽⁴⁾	Dormant	Singapore	100	100
StarHub, Inc. ⁽⁴⁾	Dormant	United States	100	100
Other subsidiary indirectly held by the Company is as follows:				
Foosti Pte. Ltd. ⁽⁵⁾	Dormant	Singapore	–	100

⁽¹⁾ Audited by KPMG LLP Singapore

⁽²⁾ Audited by KPMG Mauritius, a member firm of KPMG International

⁽³⁾ Audited by another firm

⁽⁴⁾ Not required to be audited by laws of the country of incorporation

⁽⁵⁾ The company had been fully dissolved on 11 August 2016

Notes to the Financial Statements

Year ended 31 December 2016

7 Associate

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Investment in associate	27.8	27.8	27.8	27.8
Share of post-acquisition reserves	(1.9)	(0.3)	–	–
	25.9	27.5	27.8	27.8

Name of company	Principal activities	Country of incorporation/ business	Effective equity interest held by the Group	
			2016 %	2015 %
SHINE Systems Assets Pte. Ltd. ⁽¹⁾	Investment in, ownership or lease of infrastructure assets and provision of data centre services	Singapore	30	30

⁽¹⁾ Audited by KPMG LLP Singapore

The following summarises the financial information of the associate, based on its financial statements prepared in accordance with FRS, amended for fair value adjustments on acquisition:

	2016 \$m	2015 \$m
Summarised Statement of Financial Position		
Non-current assets	202.5	93.2
Current assets	23.6	14.4
Current liabilities	(16.9)	(15.9)
Non-current liabilities	(122.9)	–
Net assets	86.3	91.7
Reconciliation to carrying amount:		
Opening net assets	91.7	93.4
Loss for the year	(5.4)	(1.7)
Closing net assets	86.3	91.7
Summarised Statement of Comprehensive Income		
Total revenue	4.2	–
Loss for the year	(5.4)	(1.7)
Other comprehensive loss	–	–
Total comprehensive loss for the year	(5.4)	(1.7)
Group's share in %	30%	30%
Group's share of loss of associate (net of tax) for the year	(1.6)	(0.3)
Carrying amount of interest in associate at end of the year	25.9	27.5

8 Available-for-sale Financial Assets

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Quoted equity securities	40.0	–	40.0	–

Included in available-for-sale financial assets was a day one fair value gain arising on initial acquisition of \$9.5 million (2015: Nil) (see Note 24).

9 Balance with Related Parties

The immediate and ultimate holding companies are Asia Mobile Holdings Pte. Ltd. and Temasek Holdings (Private) Limited respectively. These companies are incorporated in the Republic of Singapore.

9.1 Amounts due from related parties

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Current				
Amounts due from (trade):				
– Ultimate holding company	0.1	0.1	0.1	–
– Subsidiaries	–	–	2.1	97.2
– Related corporations	20.6	25.9	16.1	13.6
– Loan to associate	1.1	–	1.1	–
	21.8	26.0	19.4	110.8
Non-current				
Amount due from (trade):				
– Subsidiary	–	–	–	344.2
– Loan to associate	7.6	–	7.6	–
	7.6	–	7.6	344.2

All outstanding current trade balances with ultimate holding company, subsidiaries and related corporations are unsecured, interest-free and repayable on demand. These outstanding balances with ultimate holding company, subsidiaries and related corporations are not impaired as at the financial year end.

The non-current trade amount due from a subsidiary was unsecured, interest free and is not repayable within the next 12 months.

The current loan to associate is unsecured, bear interest rate of 2.86% and 2.96% (2015: Nil) and is repayable in October 2017 and December 2017 respectively.

The non-current loan to associate is unsecured, bear interest rate of 3.53% (2015: Nil) and is repayable in June 2021.

Notes to the Financial Statements

Year ended 31 December 2016

9 Balance with Related Parties *(continued)*

9.2 Amounts due to related parties

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Current				
Amounts due to (trade):				
– Subsidiaries	–	–	338.5	373.8
– Related corporations	67.1	122.5	18.0	30.6
	67.1	122.5	356.5	404.4

The amounts due to subsidiaries include unsecured interest bearing amounts of \$178.7 million (2015: \$167.9 million) at interest rates ranging from 0.95% to 1.73% (2015: 0.93% to 1.25%) per annum and are repayable on demand. The remaining amounts due to subsidiaries and related corporations have trade terms.

9.3 The Company's balances with subsidiaries included amounts netted under agreed master netting arrangements. The amounts before netting are as follows:

Company	Gross amounts \$m	Gross amounts offset \$m	Net amounts \$m
2016			
Current			
Amounts due from subsidiaries	458.5	(456.4)	2.1
Amounts due to subsidiaries	794.9	(456.4)	338.5
2015			
Current			
Amounts due from subsidiaries	565.5	(468.3)	97.2
Amounts due to subsidiaries	842.1	(468.3)	373.8
Non-current			
Amounts due from subsidiaries	344.2	–	344.2

10 Inventories

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Equipment held for resale	47.7	52.6	0.7	50.1
Maintenance and project inventories	1.9	1.7	–	–
	49.6	54.3	0.7	50.1
Allowance made/(written back) during the year	0.5	(0.5)	(0.4)	(0.7)

In 2016, inventories of \$447.8 million (2015: \$487.1 million) were recognised as an expense during the period and included in 'cost of sales'.

During the year, the Company transferred its equipment held for resale amounting to \$36.9 million to one of its subsidiaries.

11 Trade Receivables

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Trade receivables	213.0	186.4	181.6	168.8
Allowance for doubtful receivables	(40.8)	(33.1)	(39.9)	(31.3)
	172.2	153.3	141.7	137.5

The trade receivables of the Company include amounts billed under a combined billing arrangement to customers for services provided by certain subsidiaries.

The Group's and the Company's primary credit risk exposure arises through its trade receivables, which include corporate and retail customers. There is no concentration of credit risk with respect to trade receivables as the Group and the Company have a large number of customers. The recorded allowances for doubtful receivables have been made based on the Group's and the Company's historical collections experience. Due to these factors, management believes that no additional credit risk beyond the amounts provided for collection losses is inherent in the Group and the Company's trade receivables.

The age analysis of trade receivables past due but not impaired at the reporting date is as follows:

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Past due 1 – 15 days	33.3	40.9	30.3	37.7
Past due above 15 days	69.1	50.5	49.3	41.9
	102.4	91.4	79.6	79.6

The movements in allowance for doubtful receivables in respect of trade receivables during the year are as follows:

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
At beginning of year	33.1	29.5	31.3	27.8
Allowance for doubtful receivables	21.0	18.4	7.5	5.4
Recharged to subsidiaries	–	–	14.4	12.9
Allowance utilised	(13.3)	(14.8)	(13.3)	(14.8)
At end of year	40.8	33.1	39.9	31.3

12 Other Receivables, Deposits and Prepayments

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Grant receivables	6.2	10.7	–	–
Accrued revenue	115.4	113.9	8.0	11.1
Deposits	4.2	4.0	1.1	0.9
Prepayments	65.4	57.2	17.5	18.4
Other receivables	15.6	9.0	11.6	1.7
Mark-to-market financial instruments				
– Forward exchange contracts	5.4	1.2	5.4	1.2
– Interest rate swaps	–	0.8	–	0.8
	212.2	196.8	43.6	34.1

Notes to the Financial Statements

Year ended 31 December 2016

13 Cash and Cash Equivalents

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Fixed deposits	214.3	111.8	214.3	111.8
Cash at bank and in hand	70.9	61.6	21.7	42.4
	285.2	173.4	236.0	154.2

Fixed deposits relates to deposits with financial institutions with maturities of three months or less (2015: six months or less) with effective interest rates ranging from 0.80% to 1.25% (2015: 0.75% to 1.2%).

14 Trade and Other Payables

	Note	Group		Company	
		2016 \$m	2015 \$m	2016 \$m	2015 \$m
Current					
Trade payables		91.3	98.9	72.1	77.4
Accruals		472.1	433.2	201.1	184.6
Unearned revenue		129.4	131.1	21.3	19.1
Deferred income	16	0.8	7.8	0.8	0.5
Deposits from customers		14.3	16.3	14.1	16.1
		707.9	687.3	309.4	297.7
Non-current					
Unearned revenue		21.6	22.7	21.6	22.7

15 Borrowings

	Note	Group and Company	
		2016 \$m	2015 \$m
Current			
Bank loans	15.1	10.0	137.5
Non-current			
Bank loans	15.1	457.5	330.0
Medium term notes	15.2	520.0	220.0
		977.5	550.0

15 Borrowings (continued)

15.1 Bank loans

	Group and Company	
	2016 \$m	2015 \$m
Repayable:		
– Within 1 year	10.0	137.5
– After 1 year but within 5 years	457.5	330.0
	467.5	467.5

At 31 December 2016, the unsecured bank loans bear interest at rates ranging from 1.67% to 2.98% (2015: 1.47% to 2.98%) per annum.

There is no material difference between the carrying amount and fair value of the bank loans.

15.2 Medium term notes

The Company has established a multicurrency medium term note programme with a maximum aggregate principal amount of \$1,000.0 million in September 2011. In September 2012, the Company issued a \$220.0 million 10-year medium term note which bears interest rate of 3.08% per annum and is repayable in September 2022.

In June 2016, the Company issued a \$300.0 million 10-year medium term note which bears interest of 3.55% per annum and is repayable in June 2026.

The fair value of the medium term note is \$525.0 million (2015: \$218.8 million).

16 Deferred Income

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Deferred grants				
At beginning of year	8.9	21.3	1.6	–
Grants receivable	1.7	2.3	1.7	2.3
Amount accreted to the income statement	(8.4)	(14.7)	(1.1)	(0.7)
At end of year	2.2	8.9	2.2	1.6
Deferred grants to be accreted:				
Current (within 1 year)	0.8	7.8	0.8	0.5
Non-current (after 1 year but within 5 years)	1.4	1.1	1.4	1.1
Total	2.2	8.9	2.2	1.6

Deferred income refers to government grants received. Assets related grants are recognised over the estimated useful lives of the related assets. Income related grants are recognised on a systematic basis over the periods to match the related cost.

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Year ended 31 December 2016

17 Deferred Tax Liabilities

Movements in deferred tax liabilities during the year are as follows:

Group 2016	At 1 January 2016 \$m	Recognised in income statement (Note 25) \$m	Recognised in other comprehensive income \$m	Recognised in equity \$m	At 31 December 2016 \$m
Deferred tax liabilities					
Property, plant and equipment and intangible assets	(134.3)	(14.6)	–	–	(148.9)
Other payables and accruals	1.8	0.5	–	–	2.3
Derivatives	(0.1)	–	(0.8)	–	(0.9)
Share-based payment transactions	–	1.3	–	0.8	2.1
Unutilised capital allowances	8.4	(8.4)	–	–	–
Unutilised tax losses	4.1	(4.1)	–	–	–
Total	(120.1)	(25.3)	(0.8)	0.8	(145.4)

Group 2015	At 1 January 2015 \$m	Recognised in income statement (Note 25) \$m	Recognised in other comprehensive income \$m	Recognised in equity \$m	At 31 December 2015 \$m
Deferred tax liabilities					
Property, plant and equipment and intangible assets	(143.9)	9.6	–	–	(134.3)
Other payables and accruals	3.8	(2.0)	–	–	1.8
Derivatives	0.3	–	(0.4)	–	(0.1)
Unutilised capital allowances	8.5	(0.1)	–	–	8.4
Unutilised tax losses	4.1	–	–	–	4.1
Total	(127.2)	7.5	(0.4)	–	(120.1)

Deferred tax assets are recognised to the extent that realisation of the related tax benefits through future taxable profits is probable.

Deferred tax assets have not been recognised in respect of the following items:

	2016 \$m	2015 \$m
Tax losses	3.7	3.5
Deferred tax assets	0.6	0.6

The Group has not recognised deferred tax assets in respect of the above tax losses and capital allowances as the Group does not expect to recover these potential deferred tax assets in the foreseeable future. The Group reassesses the recovery of these potential deferred tax assets annually.

17 Deferred Tax Liabilities (continued)

Company 2016	At 1 January 2016 \$m	Recognised in income statement \$m	Recognised in other comprehensive income \$m	Recognised in equity \$m	At 31 December 2016 \$m
Deferred tax liabilities					
Property, plant and equipment and intangible assets	(61.8)	(16.1)	–	–	(77.9)
Other payables and accruals	0.6	1.7	–	–	2.3
Derivatives	(0.1)	–	0.1	–	–
Share-based payment transactions	–	1.3	–	0.8	2.1
Total	(61.3)	(13.1)	0.1	0.8	(73.5)

Company 2015	At 1 January 2015 \$m	Recognised in income statement \$m	Recognised in other comprehensive income \$m	Recognised in equity \$m	At 31 December 2015 \$m
Deferred tax liabilities					
Property, plant and equipment and intangible assets	(76.8)	15.0	–	–	(61.8)
Other payables and accruals	0.6	–	–	–	0.6
Derivatives	0.3	–	(0.4)	–	(0.1)
Total	(75.9)	15.0	(0.4)	–	(61.3)

18 Share Capital

Company	2016		2015	
	Number of shares '000	\$m	Number of shares '000	\$m
Issued and fully paid ordinary shares:				
At beginning of year	1,729,795	293.5	1,726,322	282.6
Issue of ordinary shares under the StarHub Performance Share Plans and StarHub Restricted Stock Plans	1,856	6.2	3,297	10.6
Issue of ordinary shares for cash pursuant to the exercise of options under the StarHub Share Option Plans	–	–	176	0.3
At end of year	1,731,651	299.7	1,729,795	293.5

The holders of ordinary shares (excluding treasury shares) are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares (excluding treasury shares) rank equally with regard to the Company's residual assets.

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Year ended 31 December 2016

19 Reserves

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Treasury shares	(12.3)	–	(12.3)	–
Merger/Capital reserve	–	–	276.5	276.5
Fair Value Reserve	12.5	–	12.5	–
Goodwill written off	(276.3)	(276.3)	–	–
Share-based payments reserve	14.1	12.3	14.1	12.3
Hedging reserve	4.4	0.5	–	0.5
Translation reserve	1.3	1.3	–	–
Retained profits	151.5	156.3	1,143.1	992.2
	(104.8)	(105.9)	1,433.9	1,281.5

Treasury shares comprise the cost of the Company's shares held by the Group. The Company bought 3,894,100 ordinary shares from the market at a consideration of \$12.3 million. There was no transfer of treasury shares during the year (2015: Nil).

The merger/capital reserve comprises reserve arising from the acquisition of a subsidiary, StarHub Cable Vision Ltd. ("SCV"), on 2 July 2002 and the excess of the fair value of the Company's shares issued as consideration for the acquisition of SCV over its par value.

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the assets are derecognised or impaired.

The goodwill written off represents the excess of consideration paid on the acquisition of subsidiaries prior to 1 January 2001 over the Group's share of the fair value of net assets acquired.

The share-based payments reserve comprises the cumulative value of services received from employees and directors recorded in respect of the grant of share options and share awards.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

The translation reserve comprises all foreign currency translation differences arising from the translation of the financial statements of foreign operations.

20 Revenue

	Group	
	2016 \$m	2015 \$m
Mobile revenue	1,214.6	1,239.8
Pay TV revenue	377.8	391.0
Broadband revenue	216.8	200.3
Enterprise Fixed revenue	400.0	384.9
Sales of equipment	187.5	228.3
	2,396.7	2,444.3

21 Operating Expenses

	Group	
	2016 \$m	2015 \$m
Cost of equipment sold	447.8	487.1
Cost of services	409.5	415.8
Traffic expenses	117.3	150.2
Depreciation and amortisation (net of asset grants)	265.0	271.4
Marketing and promotions	133.7	144.6
Staff costs	281.4	270.7
Allowance for doubtful receivables	21.0	18.4
Repairs and maintenance	96.9	86.0
Operating leases	116.1	121.7
Other expenses	115.1	82.7
	2,003.8	2,048.6

Included in the Group's cost of services is government grant amounting to \$3.2 million (2015: \$3.4 million).

21.1 Depreciation and amortisation (net of asset grants)

Depreciation and amortisation expenses comprise the following:

	Group	
	2016 \$m	2015 \$m
Depreciation of property, plant and equipment	226.0	219.8
Accretion of asset grants to the income statement	(1.0)	(1.0)
	225.0	218.8
Amortisation of intangible assets	40.0	52.6
Total	265.0	271.4

21.2 Staff costs

The following are included in staff costs:

	Group	
	2016 \$m	2015 \$m
Defined contribution plans	27.4	25.1
Share-based payments	7.2	9.5
Government grants - Wage Credit Scheme	(4.7)	(3.7)

Notes to the Financial Statements

Year ended 31 December 2016

21 Operating Expenses *(continued)*

21.2.1 Key management personnel compensation

The key management personnel compensation is as follows:

	Group	
	2016 \$m	2015 \$m
Short-term employee benefits	10.4	10.2
Share-based payments	4.4	4.3
	14.8	14.5

Included in the above is the total compensation to directors of the Company which amounted to \$4.7 million (2015: \$5.0 million).

Key management personnel also participate in the StarHub Performance Share Plans and the StarHub Restricted Stock Plans. The short term benefits include the Company balanced scorecard incentive programme to reward employees for achieving or exceeding performance target.

Conditional awards of shares of 656,300 (2015: 534,700 shares) under the StarHub Performance Share Plans and conditional awards of shares of 557,800 (2015: 435,800 shares) under the StarHub Restricted Stock Plans were granted to the key management personnel of the Company during the year.

Awards of 120,300 shares (2015: 95,800 shares) under the StarHub Restricted Stock Plans were vested and delivered to certain non-executive directors of the company as part of their non-executive directors' remuneration, without any performance or vesting conditions attached, during the year.

Based on the actual level of achievement of the pre-determined performance targets over the 2013 to 2015 performance period, final awards comprising 79,800 (2015: 629,300) shares were delivered to the key management personnel of the Company during the year under the 2013 conditional awards granted to key management personnel of the Company in May 2013 pursuant to the StarHub Performance Share Plans.

Based on the actual level of achievement of the pre-determined performance targets over the 2014 to 2015 performance period, final awards comprising 359,634 (2015: 372,780) shares were delivered to the key management personnel of the Company during the year under the 2014 conditional awards granted to the key management personnel of the Company in May 2014 pursuant to the StarHub Restricted Stock Plans. 180,000 shares under the final awards were delivered during the year, with the balance of 179,634 shares to be delivered in phases according to the stipulated vesting periods.

All conditional share awards (except for the time-based restricted share awards) granted to the key management personnel of the Company were on the same terms and conditions as those offered to other employees of the Company.

As at 31 December 2016, 1,761,100 (2015: 1,503,800) of the conditional awards of shares under the StarHub Performance Share Plans, and 1,309,434 (2015: 1,199,380) of the conditional awards of shares under the StarHub Restricted Stock Plans granted to the key management personnel were outstanding.

21 Operating Expenses (continued)

21.2.2 Share-based Payments

StarHub Performance Share Plans

Under the StarHub PSP and the StarHub PSP 2014 (collectively the "StarHub Performance Share Plans"), conditional awards of shares are granted. Awards represent the right of a participant to receive fully paid shares, their equivalent cash value or combinations thereof, free of charge, upon the participant achieving prescribed performance targets set based on medium-term corporate objectives. Awards are released once the Company's Executive Resource and Compensation Committee is satisfied that the prescribed performance targets have been achieved. There is no vesting periods beyond the performance achievement periods.

During the financial year ended 31 December 2016, the conditional grants of 656,300 (2015: 534,700) shares under the StarHub Performance Share Plans were made to the key employees of the Group. These represent the number of shares to be delivered when performance targets at "on-target" level are achieved, or as the case may be when the time-based service conditions are completed.

The movements of the number of shares under the StarHub Performance Share Plans, the fair values of the grant at measurement date and the assumptions of the fair value model for the grants of the Company are as follows:

2016 Date of grant	Balance outstanding at 1 January 2016 '000	Number of performance shares granted '000	Number of performance shares vested '000	Number of performance shares forfeited '000	Balance outstanding at 31 December 2016 '000
31 May 2013	429	–	(86)	(343)	–
10 March 2014	570	–	–	–	570
16 March 2015	535	–	–	–	535
22 March 2016	–	656	–	–	656
Total	1,534	656	(86)	(343)	1,761

2015 Date of grant	Balance outstanding at 1 January 2015 '000	Number of performance shares granted '000	Number of performance shares vested '000	Number of performance shares forfeited '000	Balance outstanding at 31 December 2015 '000
25 May 2012	872	–	(872)	–	–
31 May 2013	432	–	–	(3)	429
10 March 2014	645	–	–	(75)	570
16 March 2015	–	535	–	–	535
Total	1,949	535	(872)	(78)	1,534

The fair value of the shares is estimated using a Monte-Carlo simulation methodology at the measurement dates, which are grant dates of the share awards. The assumptions under the model used for the grant in 2016 and 2015 are as follows:

	Year of grant	
	2016	2015
Fair value	\$1.46	\$2.94
Share price	\$3.32	\$4.25
Expected volatility of the Company's shares	15.28%	16.23%
Expected volatility of MSCI Asia-Pacific Telecommunications Component Stock	14.14%	12.42%
Expected dividend yield	5.70%	4.48%
Risk-free interest rates	1.16%	1.39%

Notes to the Financial Statements

Year ended 31 December 2016

21 Operating Expenses (continued)

21.2.2 Share-based Payments (continued)

StarHub Restricted Stock Plans

Under the StarHub RSP and StarHub RSP Plan 2014 (collectively the “StarHub Restricted Stock Plans”), awards granted vest only after the satisfactory completion of time-based service conditions (time-based restricted awards) or where the award is performance-related after a further period of service beyond the performance targets completion date (performance-based restricted awards).

During the financial year ended 31 December 2016, the conditional grants of 2,884,800 (2015: 2,432,200) shares under the StarHub Restricted Stock Plans were made to non-executive directors and key employees of the Group. These represent the number of shares to be delivered when performance targets at “on-target” level are achieved, or as the case may be when the time-based service conditions are completed.

During the financial year ended 31 December 2016, 141,300 (2015: 128,900) shares under the StarHub Restricted Stock Plans were vested and delivered to certain non-executive directors of the Company as part of their non-executive directors’ remuneration, without any performance or vesting conditions attached.

The movements of the number of shares under the StarHub Restricted Stock Plans, the fair values of the grant at measurement date and the assumptions of the fair value model for the grants of the Company are as follows:

2016 Date of grant	Balance outstanding at 1 January 2016 '000	Number of restricted shares granted '000	Number of restricted shares vested '000	Number of restricted shares forfeited '000	Balance outstanding at 31 December 2016 '000
31 May 2013	692	–	(672)	(20)	–
10 March 2014	2,340	–	(764)	(863)	713
16 March 2015	2,266	–	–	(160)	2,106
8 July 2015	32	–	(16)	–	16
22 March 2016	–	2,460	–	(80)	2,380
20 May 2016	–	267	(120)	–	147
23 May 2016	–	157	(141)	(16)	–
Total	5,330	2,884	(1,713)	(1,139)	5,362

2015 Date of grant	Balance outstanding at 1 January 2015 '000	Number of restricted shares granted '000	Number of restricted shares vested '000	Number of restricted shares forfeited '000	Balance outstanding at 31 December 2015 '000
25 May 2012	912	–	(912)	–	–
31 May 2013	1,407	–	(699)	(16)	692
10 March 2014	2,454	–	(15)	(99)	2,340
16 March 2015	–	2,271	–	(5)	2,266
3 June 2015	–	129	(113)	(16)	–
8 July 2015	–	32	–	–	32
Total	4,773	2,432	(1,739)	(136)	5,330

The fair value of the share awards is estimated using a Monte-Carlo simulation methodology at the measurement dates, which are grant dates of the share awards.

21 Operating Expenses (continued)

21.2.2 Share-based Payments (continued)

StarHub Restricted Stock Plans (continued)

The assumptions under the model used for the grant in 2016 and 2015 are as follows:

	Year of grant	
	2016	2015
Fair value	\$2.91 - \$3.33	\$3.65 - \$3.82
Share price	\$3.32 - \$3.45	\$3.98 - \$4.25
Expected volatility of the Company's shares	10.79% - 15.28%	16.23%
Expected dividend yield	5.46% - 5.70%	4.48% - 5.15%
Risk-free interest rates	0.70% - 1.14%	0.70% - 1.36%

21.3 Other expenses

Included in other expenses are the following:

	Group	
	2016 \$m	2015 \$m
Fees paid to auditors of the Company:		
– Audit	0.4	0.4
– Non-audit	0.4	0.3
Foreign currency exchange loss/(gain), net	3.7	(1.4)
Changes in fair value of financial instruments	1.2	(1.0)

22 Other Income

	Group	
	2016 \$m	2015 \$m
Corporate recharges to related parties	0.2	0.2
Income related grants	32.0	45.4
	32.2	45.6

23 Net Finance Costs

	Group	
	2016 \$m	2015 \$m
Interest income:		
– Bank deposits	3.4	2.0
– Associate	0.1	–
Finance income	3.5	2.0
Interest expense:		
– Bank loans	13.4	11.0
– Medium term note	12.8	6.8
Finance costs	26.2	17.8

Notes to the Financial Statements

Year ended 31 December 2016

24 Non-operating Income

	Group	
	2016 \$m	2015 \$m
Gain on deconsolidation of a subsidiary	–	15.0
Fair value gain on initial recognition of available-for-sale (“AFS”) financial assets	9.5	–
	9.5	15.0

The fair value gain on initial recognition of AFS financial assets arose from the difference between the transaction price and the fair value of the quoted investment at the point when the transaction was concluded.

25 Taxation

	Group	
	2016 \$m	2015 \$m
Current tax		
Current income tax	52.5	62.9
Utilisation of previously unrecognised deferred tax assets	–	(9.6)
(Over)/Under provision in prior year	(8.9)	22.1
	43.6	75.4
Deferred tax		
Reversal and origination of temporary differences	17.2	12.8
Under/(Over) provision in prior year	8.7	(20.3)
Utilisation of previously unrecognised deferred tax assets	(0.6)	–
	25.3	(7.5)
Total income tax in the income statement	68.9	67.9

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December is as follows:

	Group	
	2016 \$m	2015 \$m
Profit before taxation	410.3	440.2
Income tax using Singapore tax rate of 17%	69.8	74.8
Income not subject to tax	(3.4)	(2.7)
Non-deductible expenses	4.4	3.7
Utilisation of previously unrecognised deferred tax assets	(0.6)	(9.6)
(Over)/Under provision in prior year, net	(0.2)	1.8
Tax benefit	(1.3)	–
Others	0.2	(0.1)
Total income tax in the income statement	68.9	67.9

25 Taxation (continued)

The Group's utilisation of previously unrecognised deferred tax assets in prior year relate to unutilised tax losses and unutilised capital allowances transferred from its subsidiaries under the group tax relief system in the Republic of Singapore.

Income tax recognised in other comprehensive income for the years ended 31 December are as follows:

	Group	
	2016	2015
	\$m	\$m
Cash flow hedge, before taxation	4.7	2.3
Taxation	(0.8)	(0.4)
Effective portion of changes in fair value of cash flow hedge	3.9	1.9

26 Earnings Per Share

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding (excluding treasury shares) during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding (excluding treasury shares), for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees under the StarHub share plans.

	Group	
	2016	2015
	\$m	\$m
Profit attributable to equity holders	341.4	372.3

	Number of shares	
	2016	2015
	'000	'000
Weighted average number of ordinary shares (basic) during the year [#]	1,727,348	1,729,101
Adjustment for dilutive effect of share plans	7,123	6,864
Weighted average number of ordinary shares (diluted) during the year	1,734,471	1,735,965

[#] Excludes treasury shares.

27 Earnings Before Interest, Taxation, Depreciation and Amortisation

The earnings before interest, taxation, depreciation and amortisation ("EBITDA") is a supplementary indicator of performance used by the Group. The measurement of EBITDA is not covered by FRS.

The Group defines EBITDA as follows:

	Group	
	2016	2015
	\$m	\$m
Profit before taxation	410.3	440.2
Adjustments for:		
Depreciation and amortisation (net of asset grants)	265.0	271.4
Finance income	(3.5)	(2.0)
Finance expense	26.2	17.8
Non-operating income	(9.5)	(15.0)
Share of loss of associate (net of tax)	1.6	0.3
EBITDA	690.1	712.7

Notes to the Financial Statements

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28 Related Party Transactions

The Company has entered into contractual agreements on behalf of its subsidiaries, and recharges its subsidiaries based on terms agreed between the parties involved.

In the normal course of business, the Group purchases and sells info-communications services to related companies. The related party transactions are carried out on terms negotiated between the parties which are intended to reflect competitive terms.

Other than disclosed above and elsewhere in the financial statements, significant transactions of the Group and the Company with related parties during the financial year were as follows:

	Group	
	2016 \$m	2015 \$m
Ultimate holding company		
Sales	0.4	0.5
Associate		
Purchase of property, plant and equipment	5.0	–
Rental expenses	1.9	–
Purchase of services	0.2	–
Related corporations		
Sales	60.7	70.0
Purchase of property, plant and equipment	13.3	19.5
Rental expenses	77.7	81.7
Purchase of services	142.3	183.7
Purchase of inventories	147.0	166.1

29 Dividends

	Group and Company	
	2016 \$m	2015 \$m
Final dividend of \$0.05 (2015: \$0.05) per share (1-tier tax exempt) paid in respect of the previous financial year	86.5	86.5
Interim dividends of \$0.15 (2015: \$0.15) per share (1-tier tax exempt) paid in respect of the current financial year	259.7	259.4
	346.2	345.9

30 Segment Reporting

Segment information is presented based on the information reviewed by the chief operating decision maker ("CODM") for performance assessment and resource allocation.

The CODM assess the Group's financial performance using performance indicators which include revenue, EBITDA, capital expenditure and cash flow of the Group.

The Group operates primarily in Singapore in one segment. The Group delivers its Mobile, Pay TV, Broadband, Enterprise Fixed services and equipment sales on a fully integrated network, and has a centralised customer service, sales, marketing and administration support.

The Group has a large and diversified customer base which consists of individuals and corporations. There was no single customer that contributed to 10% or more of the Group's revenue.

The Group's reportable segment information is as follows:

	Group	
	2016 \$m	2015 \$m
Mobile revenue	1,214.6	1,239.8
Pay TV revenue	377.8	391.0
Broadband revenue	216.8	200.3
Enterprise Fixed revenue	400.0	384.9
Sales of equipment	187.5	228.3
Total revenue	2,396.7	2,444.3
EBITDA	690.1	712.7
Depreciation and amortisation (net of asset grants)	(265.0)	(271.4)
Finance income	3.5	2.0
Finance expense	(26.2)	(17.8)
Non-operating income	9.5	15.0
Share of loss of associate (net of tax)	(1.6)	(0.3)
Profit before taxation	410.3	440.2
Taxation	(68.9)	(67.9)
Profit for the year	341.4	372.3
Assets and liabilities		
Non-current assets	1,455.3	1,305.6
Current assets	741.0	603.8
Total assets	2,196.3	1,909.4
Borrowings	987.5	687.5
Other non-current liabilities	168.4	143.9
Other current liabilities	845.5	890.4
Total liabilities	2,001.4	1,721.8
Other information		
Capital expenditure	371.2	289.0
Free cash flow*	184.0	215.7

* Free cash flow refers to net cash from operating activities less purchase of property, plant and equipment and intangible assets in the consolidated cash flow statement.

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31 Financial Risk Management

Financial risk management objectives and policies

Exposure to credit, liquidity, interest risk, foreign exchange and market risks arises in the normal course of the Group's business. The Group has written risk management policies and guidelines which set out its overall business strategies, its tolerance of risk and its general risk management philosophy, and has established processes to monitor and control the hedging of transactions in a timely and accurate manner.

Derivative financial instruments are used to reduce exposure to fluctuations in foreign exchange rates and interest rates. While these are subject to the risk of market rates changing subsequent to acquisition, such changes are generally offset by opposite effects on the items being hedged.

The Group's accounting policy in relation to derivative financial instruments is set out in Note 3.6(iii).

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Periodic frequent credit review and counterparty credit limits are practised.

The Group has no significant concentration of credit risk from trade receivables due to its large diversified customer base. Credit evaluations are performed on corporate customers requiring credit. Identification documents are obtained from retail customers. Deposits are obtained for certain categories of higher-risk customers.

The Group places its cash and cash equivalents and enters into treasury transactions only with creditworthy banks and financial institutions.

The maximum credit risk exposure is represented by the carrying value of each financial asset in the statement of financial position.

Liquidity risk

The Group actively monitors its liquidity risk and manages its operating cash flows, debt maturity profile and availability of funding. The Group maintains sufficient level of cash and cash equivalents, expects to generate sufficient cash flows from its operation, and has available funding through diverse sources of committed and uncommitted credit facilities from banks and the capital market through its medium term note programme to ensure that there are adequate credit facilities which may be utilised when the need arises to meet its working capital requirements.

At the end of the reporting period, assets held by the Group and the Company for managing liquidity risk included cash and short-term deposits, as well as available credit from its medium term note programme. In addition, the Group also reviews compliance with loan covenants.

31 Financial Risk Management (continued)

Liquidity risk (continued)

The following are the expected contractual undiscounted cash outflows (including interest payments) of financial liabilities:

	Carrying amount \$m	Contractual cash flows			
		Total \$m	Within 1 year \$m	After 1 year but within 5 years \$m	After 5 years but within 10 years \$m
Group					
2016					
Non-derivative financial liabilities					
Borrowings	987.5	1,169.3	34.3	560.3	574.7
Trade and other payables [^]	577.7	577.7	577.7	–	–
Amounts due to related parties	67.1	67.1	67.1	–	–
	1,632.3	1,814.1	679.1	560.3	574.7
2015					
Non-derivative financial liabilities					
Borrowings	687.5	773.7	152.3	387.8	233.6
Trade and other payables [^]	548.3	548.3	548.3	–	–
Amounts due to related parties	122.5	122.5	122.5	–	–
	1,358.3	1,444.5	823.1	387.8	233.6
Company					
2016					
Non-derivative financial liabilities					
Borrowings	987.5	1,169.3	34.3	560.3	574.7
Trade and other payables [^]	287.3	287.3	287.3	–	–
Amounts due to related parties	356.5	356.5	356.5	–	–
	1,631.3	1,813.1	678.1	560.3	574.7
2015					
Non-derivative financial liabilities					
Borrowings	687.5	773.7	152.3	387.8	233.6
Trade and other payables [^]	278.0	278.0	278.0	–	–
Amounts due to related parties	404.4	404.4	404.4	–	–
	1,369.9	1,456.1	834.7	387.8	233.6

[^] The carrying amount of trade and other payables disclosed in the table excludes deferred income and unearned revenue.

Notes to the Financial Statements

Year ended 31 December 2016

31 Financial Risk Management (continued)

Liquidity risk (continued)

The following table indicates the periods in which the cash flow hedges are expected to affect profit or loss:

Group and Company	Carrying amount \$m	Contractual cash flows		
		Total \$m	Within 1 year \$m	After 1 year but within 5 years \$m
2016				
Derivative financial assets				
Forward exchange contracts used for hedging (gross-settled)	5.4			
– Outflow		(117.5)	(117.5)	–
– Inflow		122.9	122.9	–
	5.4	5.4	5.4	–
2015				
Derivative financial assets				
Interest rate swaps used for hedging (net-settled)	0.8	0.8	0.5	0.3

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's debt obligations.

The Group adopts a policy of ensuring that at least 50 percent of its exposure to changes in interest rates on bank loans is on a fixed rate basis. Interest rate swaps, denominated in Singapore dollars, have been entered into to achieve this purpose.

At 31 December 2016, the Group had outstanding interest rate swap agreements with notional principal amounts totalling \$20.0 million (2015: \$145.0 million) in cash flow hedges against borrowings. These interest rate swaps will mature over the remaining term of 0.5 years (2015: 0.6 year to 1.4 years) to hedge the floating semi-annual interest payments on borrowings. The fixed interest payable has interest rates at 0.86% per annum (2015: 0.86% to 1.45% per annum).

Sensitivity analysis

The Group's and the Company's borrowings are denominated in Singapore dollars. An increase/decrease in the floating interest rates by 100 basis points, with all other variables remaining constant, does not have a material impact in the Group's and the Company's profit before taxation.

31 Financial Risk Management *(continued)*

Foreign currency risk

The Group incurs foreign exchange risk on sales and purchases that are denominated in currencies other than the respective functional currencies of Group entities. The currency giving rise to this risk is primarily the United States Dollar.

The Group's and the Company's exposures to United States Dollar are as follows:

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Trade and other receivables	72.9	63.1	11.9	9.3
Cash and cash equivalents	55.3	108.0	43.9	104.1
Trade and other payables	(156.8)	(132.2)	(49.0)	(35.7)
	(28.6)	38.9	6.8	77.7

For operations with significant expenditure denominated in foreign currencies, forward exchange contracts are entered into to hedge the foreign currency risk on forecasted payment obligations. At 31 December 2016, the Group and the Company have outstanding forward exchange contracts with notional principal amounts of approximately \$117.5 million (2015: \$105.1 million). The current year forward exchange contracts are entered into by the Company on behalf of a subsidiary.

In respect of other monetary liabilities held in foreign currencies, the Group ensures that the net exposure is kept to an acceptable level by buying foreign currencies at spot rates where necessary to address any shortfalls.

Sensitivity analysis

The Group and Company had assessed that a reasonable change in the exchange rate would not result in a material impact on the Group's and Company's results.

Market risk

The Group has investments in quoted equity shares. The market value of these investments will fluctuate with market conditions.

The Group and Company had assessed that a reasonable change in the share price would not result in a material impact on the Group's and Company's equity.

Notes to the Financial Statements

Year ended 31 December 2016

31 Financial Risk Management *(continued)*

Estimation of fair values

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments of the Group and Company:

Derivatives

Marked to market valuations of the forward exchange contracts are provided by the banks. For interest rate swaps, valuations are also provided by the banks. Those quotes are tested using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the reporting date. Where other pricing models are used, inputs are based on market related data at the reporting date.

Borrowings

The fair values of borrowings which reprice within one year of reporting date were assumed to equate the carrying value. All other borrowings are calculated using discounted cash flow models based on the present value of future principal and interest cash flows, discounted at the market rate at the reporting date.

Amounts due from subsidiaries (non-current)

Non-current amounts due from subsidiaries are calculated using discounted cash flow model based on the present value of future principal and interest cash flows, discounted at the market rate at the reporting date.

Available-for-sale quoted equity securities

The carrying amount of the available-for-sale financial assets approximates its fair value.

Other financial assets and liabilities

The carrying amounts of financial assets and liabilities with maturity of less than one year (including trade and other receivables, cash and cash equivalents, and trade and other payables) are assumed to approximate their fair values.

Interest rates used in determining fair values

The Group and the Company use the interbank swap yield as of year end plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

	2016	2015
	% per annum	% per annum
Derivatives	0.86	0.86 – 1.45

31 Financial Risk Management *(continued)*

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table represents the assets and liabilities measured at fair value, using Level 1 and Level 2 valuation methods, at reporting date:

	Fair value level	Group and Company	
		2016 \$m	2015 \$m
Financial assets			
Mark-to-market financial instruments			
– Forward exchange contracts	2	5.4	1.2
– Interest rate swaps	2	–	0.8
Available-for-sale financial assets	1	40.0	–

There were no transfers between level 1 and 2 in 2016 and 2015.

32 Capital Management

The Group regularly reviews its financial position, capital structure and use of capital, with the objective of achieving long-term capital efficiency, optimum shareholders' total returns, including the level of dividends, and appropriate strategic positioning.

From time to time, the Group may purchase its own shares on the market; the timing of these purchases depends on market prices. Such share purchases are intended to be used for issuing shares under the StarHub Performance Share Plan and StarHub Restricted Stock Plan programmes. Other than for such specific purposes, the Group does not have a defined share buy-back plan.

The Group manages the use of capital centrally and all borrowings to fund the operations of the subsidiaries are managed by the Company. The capital employed by the Company consists of equity attributable to shareholders, bank borrowings from financial institutions and medium term note issued.

The Group is not subject to any externally imposed capital requirement.

There were no changes in the Group's approach to capital management during the year.

Notes to the Financial Statements

Year ended 31 December 2016

33 Commitments

(a) Capital and other financial commitments

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Contracted and not provided for in the financial statements:				
– Capital expenditures	182.8	285.4	95.7	103.5
– Other operating expenditures	450.2	279.0	–	–
	633.0	564.4	95.7	103.5

As at 31 December 2016, the Group has outstanding capital and other financial commitments with related companies amounting to \$12.5 million (2015: \$10.2 million), which has been included above.

Included in the capital expenditures contracted by the Company is an amount of approximately \$0.2 million (2015: \$1.5 million) which has been entered into on behalf of its subsidiaries.

(b) Operating leases

Future minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Payable				
– Within 1 year	60.1	98.8	44.3	60.9
– Within 2 to 5 years	90.4	106.1	80.1	83.1
– After 5 years	190.7	210.5	190.7	210.4
	341.2	415.4	315.1	354.5

As at 31 December 2016, the Group has outstanding operating lease commitments with related companies amounting to \$219.4 million (2015: \$277.6 million), which has been included above.

Included in the operating lease commitment of the Company is \$7.0 million (2015: \$7.0 million) which is contracted on behalf of a subsidiary.

The operating leases include lease of premises and network infrastructure. The leases have varying terms and renewal rights.

34 Subsequent Event

The directors have proposed a final dividend of \$0.05 (2015: \$0.05) per share, tax exempt (one tier), totalling \$86.4 million (2015: \$86.5 million) in respect of the financial year ended 31 December 2016. This proposed final tax exempt dividend has not been recognised as at year end and will be submitted for shareholders' approval at the forthcoming Annual General Meeting of the Company in 2017.