

# FINAL TRANSCRIPT

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## CC3.SI - Q2 2010 STARHUB LTD Earnings Conference Call

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**Neil Montefiore**

*StarHub Ltd - CEO*

**Kwek Buck Chye**

*StarHub Ltd - CFO*

**Tan Tong Hai**

*StarHub Ltd - COO*

## CONFERENCE CALL PARTICIPANTS

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*DBS Vickers Securities Pte Ltd - Analyst*

**Sachin Gupta**

*Nomura - Analyst*

**Navin Killa**

*Morgan Stanley - Analyst*

**Luis Hilado**

*HSBC - Analyst*

**Sanford Chee**

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*BNP Paribas - Analyst*

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*OCBC - Analyst*

## PRESENTATION

**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Good evening, ladies and gentlemen, and welcome to StarHub's second quarter and first half 2010 results announcement briefing call. My name is Jeannie, and it is my pleasure to welcome both the media and the analyst community to join us at this call this evening.

Let me first introduce our panelists to you. We have Neil Montefiore, our CEO, Tan Tong Hai our COO and Kwek Buck Chye our CFO. Assisting them are also representatives from the senior management team, namely Chan Kin Hung our Head of Products & Solutions, plus Ng Long Shyang our Head of Sales & Marketing.

Before we begin the presentation, I would like to remind all participants that this call will last for an hour. During the presentation all participants will be in a listen-only mode, and we will conduct the question and answer session at the end of the presentation.

Let me now invite Neil to share some highlights from this set of results. Neil, please.

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**Neil Montefiore** - *StarHub Ltd* - CEO

Thank you, Jeannie. Good evening, everybody. I'll just do a quick overview, which is on page four of your slide pack, starting with the financial areas.

This is looking for the quarter, year-on-year. So we saw operating revenue increased around 7%, service revenue up about 6%, and EBITDA margin improved quarter-on-quarter -- this is not year-on-year -- quarter-on-quarter by about 3.4 percentage points, to 25.9%, and for the full half-year it's gone up to 24.2%. It was about 22.5% in the first quarter.

Operationally we did see good growth in the Mobile area. Postpaid revenue was up 10% year-on-year. Customer base up about 11%. Churn came back down to the normal levels, about 1.1%. And the smartphone-led acquisition retention costs did continue through the quarter, slightly less as we saw the iPhone in particular become slightly less popular towards the end of the quarter.

But the benefits of the investment in the smartphone revolution are beginning to come through, so we are seeing improvements in the EBITDA margin. And I will give you the guidance later, but we do expect to get back up to the level of EBITDA margin that I guided last time.

And also, despite the loss of the EPL and increased competition, we did see stability in the Pay TV business.

So if you turn to the next page you can see some more details on those results. So operating revenue, year-on-year, you can see the second quarter 2010 at SGD569 million, service revenue SGD544 million. EBITDA, I'm afraid down a bit year-on-year, but improving. Net profit after tax down again year-on-year, but we think it will continue to improve.

CapEx, a little bit lower than we've been giving guidance for, but we do still keep the guidance of about 14% of revenue for the full year, so we will see more CapEx coming through in the next two quarters. Free cash flow per share came through at about SGD0.0637, and the gearing was 1.13 times.

If you turn to page six, you can see most areas of the business did grow. Our main area, Mobile, grew quite strongly. Pay TV slightly, 9%, and customer base of about 2%. Broadband was a difficult area. Customer base up as we introduced some low-end plans to extend the customer base into more households, but also we have quite a lot of competition in that area and we've seen quite a lot of discounting of the price plans.

And I think, although the ARPU has stabilized, we think we'll continue to see some increased competition in that area, especially with the coming of the next generation network. Fixed Network Services continued to grow slightly.

If you turn to page seven, you can see our hubbing strategy. And you can see that our households with three or more services have increased by 6%. And if you turn to the following page you can see that the actual ARPU per household has gone up, as well, to about SGD143 per household.

So with that, I'll hand over to Buck Chye who will run through the financials in a bit more detail. Buck Chye?

**Kwek Buck Chye** - *StarHub Ltd* - CFO

Good evening. I turn you now to slide 10; that's a slide on EBITDA, EBITDA margin.

The EBITDA margin improved from 22.5% in the first quarter this year to 25.9% in this quarter. And that is because there were lower costs of equipment involved in this quarter than the previous one. EBITDA amounts increased by SGD23 million from first quarter to SGD141 million strong.

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Compared with last year, the Group EBITDA for the second quarter of SGD141 million was, unfortunately, SGD20 million, or 12%, lower. And for the half-year, SGD260 million was SGD70 million, or 21% lower. This is due to the higher investment in smartphones, as well as the higher costs of content you see this year compared with the last. The EBITDA margin for the half-year is at 24.2% average. This was 8 percentage points lower than last year.

Next chart, number 11, we talk about our cost of sales. Our total cost of sales for the quarter, at SGD251 million, was 26% or SGD50 million higher than the same period last year. This is due to increase in costs of equipment, namely the handsets involved in our operations, as well as cost of services.

Let me take you through the components. The cost of equipment sold for the quarter, the dark bottom bar, at SGD81 million, was SGD32 million higher than the same period last year, due to the higher quantities of handsets investment and a higher mix of iPhone and smartphones at higher unit costs this year when compared with last year, same quarter. It was then SGD49 million for cost of equipment.

Cost of services at SGD103 million for the quarter was SGD18 million higher, 21% higher than last year. This is due to higher costs of content for new channels, renewed channels, as well as, in this period, including the cost of the broadcast for World Cup for June matches.

The cost of sales for first half, at SGD501 million, was SGD102 million higher than the first half last year, (inaudible) component, the cost of equipment, was SGD77 million higher at SGD175 million for the half-year.

Cost of services for the first half was SGD23 million higher than last year as a result of higher cost for various content, renewed channels and, as I mentioned, the World Cup costs for the period of June.

Cost of sales as a percentage of total revenue is tracking at 44%, both for the quarter and for the half-year this year, compared with 40% in the first half of last year.

We expect to show some savings, of course, for not having the BPL in the second half of this year. But we do expect to use some of these savings to acquire new channels to enhance our offering of sports and non-sports for Pay TV.

The next chart, on 12, shows our other operating expense, well managed. Total other operating expense for the quarter stood at SGD241 million. This was 4% higher than the same period last year. The increase, as you can see, is mainly attributable to higher staff costs, marketing and promotions, and depreciation, and allowance for bad debts. But all these are mitigated by lower other expenses and operating lease in the network.

Year-on-year marketing and promotion expenses, the green bar, for the quarter was SGD5 million higher than last year, and for the half-year was SGD7 million, or 9% higher, at SGD85 million. These are mainly for marketing promotions for various new product bundles, road shows, as well as FIFA World Cup 2010 promotions. All the same, the marketing expenses for year-to-date were kept well within 8% of revenue.

For the half-year, total operating expense at SGD491 million was SGD35 million, or 8%, higher. I've explained that the increase is attributable to higher staff costs in the second quarter, as well as the non-recurring SGD12 million additional charge for the previous year bonus paid out to staff in March in my first quarter announcement. So as a percentage of total revenue, other operating expense tracks at 44% for the first half, as compared with 43% last year.

The growth in service revenue by 6% in the quarter over last year, yielded contribution margins to offset the higher cost of sales of SGD50 million in the quarter as discussed earlier. Consequently, the profit from operations at SGD78 million for the quarter was a reduced 22% decrease, compared with last year. On a sequential basis, we saw a climb back in profitability by some SGD20 million over the first quarter this year.

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For the half year, profit from operations closed at SGD136 million. Unfortunately this is SGD70 million or 35% lower than last year, against the backdrop of an increase of SGD102 million for cost of sales in the earlier slide.

The investment in handsets will pay back by way of increasing ARPU in the future for those that have signed fixed contracts for our services.

On page 14, you'll see the net profit after tax for the quarter amounts to SGD58 million. This shows an improvement over the first quarter, but still reflects the investment in smartphones and content for our integrated converged businesses in future.

For the half year, the net profit at SGD101 million is 37% or SGD59 million lower than last year, again due to the higher investment in cost of sales for our customers.

The CapEx payments for the second quarter at SGD45 million translate to 7.9% of total revenue in the quarter. At the half-year mark, total CapEx payments, at SGD93 million, is significantly below last year. This favorable variance is only due to timing. We expect CapEx payments to be higher in the second half of the year, particularly due to the coming on of Nucleus Connect payments in the third and the fourth quarter. And hence, we are still guiding that the ratio of total CapEx spending to revenue for the full year not to exceed 14%.

Free cash flow for the quarter amounted to SGD110 million. This is SGD39 million, or 26%, lower than the second quarter last year. And this is because of the expenditure on handsets and activities for customer retention and acquisition involving smartphones and iPhone. On a sequential quarter basis, the free cash flow continued to be healthy.

For the half year the free cash generated of SGD230 million translates to SGD0.133 per share, compared with a half year dividend of SGD0.10. By this, it means that we are declaring a dividend of SGD0.05 for this quarter.

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#### **Tan Tong Hai - StarHub Ltd - COO**

I will now cover the business segment of primarily the Mobile and Pay TV, Broadband as well as Fixed Network Services. Firstly, let me cover on Mobile, slide 18. Year-on-year, we have added 207,000 customers and have expanded the prepaid customer base by 13%. Postpaid ARPU also increased SGD1 to SGD70.

Slide 19; for quarter two alone, we have added 82,000 subscribers. Our total subscriber base has crossed the 2 million mark. And postpaid subscribers are also close to crossing the 1 million mark.

Next on Mobile revenue and ARPU. The revenue for prepaid decreased by SGD1 million to SGD65 million, due to lower usage as a result of competitive IDD pricing to selected destinations by our competitors. We chose not to lower IDD charges as this was uneconomical. So as a result, the ARPU for prepaid also dropped by SGD2 correspondingly.

Now postpaid revenue increased to SGD229 million, due to the increase in IDD and roaming charges. As a result, ARPU also increased by SGD1 to SGD70.

Next, Mobile Non-Voice Services; postpaid Non-Voice Services as a percentage of ARPU remains stable at 35%.

In terms of acquisition costs, the demand for smartphones slowed down in quarter two in anticipation for iPhone 4 launch. As a result, we spend less on acquisition costs quarter-on-quarter. We managed to keep churn rate low at 1.1%.

Pay TV; overall the Pay TV business is stable. We've added 11,000 customers, increased revenue by 9% and kept ARPU at SGD56.

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Slide 25, Pay TV net adds; despite Barclays Premier League (BPL) ending in May, we managed to keep the customer base stable at 541,000.

In terms of Pay TV revenue, it rose to SGD109.6 million, with the increased contribution from the FIFA World Cup. Correspondingly, the ARPU increased to SGD56. Now without the FIFA World Cup, Pay TV revenue will be stable and ARPU will be lower by SGD2 to SGD54.

Looking at the Pay TV churn; the churn rate for this quarter was higher, due to the end of the BPL season.

Next Broadband; year-on-year we added 19,000 Broadband customers. ARPU decreased by SGD3 to SGD48, and the churn rate increased to 1.6%. I'll share with you the reasons behind the increased churn rate later on.

Now, if you look at net adds, it is flat this quarter, but we have kept our customer base stable at 408,000. In terms of Broadband revenue and ARPU, both have remained stable at SGD59.2 million and SGD48 respectively.

Now if you turn to chart 32, it shows you the churn rate for Broadband. This quarter it was higher at 1.6%. Now this was because we chose not to offer the attractive premium bundling program which we gave to our high speed customers two years ago. We decided to provide premium bundling for selected out of contract customers. So as a result, the higher churn rate was expected.

Next, Fixed Network Services; we grew our Fixed Network Services revenue by 2% year-on-year, with Data and Internet Services contributing 84% to revenue. The Voice revenue increased this quarter, due to higher Digital Voice usage. Data and Internet Services remains stable, in spite of a competitive pre-NGNBN promotions.

Now NGNBN is expected to be launched commercially in the third quarter. We hope to capitalize on it to extend our reach to more business customers.

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**Neil Montefiore** - *StarHub Ltd - CEO*

Thank you, Tong Hai, it's Neil again. So I'll just do a quick summary of the guidance that we're going to give. We're actually maintaining the same guidance we gave for the last quarter. So I'll just summarize that.

We maintain a revenue growth at low single-digit range. EBITDA margin we will see growing up to around 28% of revenue. That's really because we think the investments in the iPhone and the other smartphones are beginning to come through now. But as I think I've said before, we do see higher ARPU from smartphones and we have increased the number of customers quite significantly in the first two quarters.

CapEx, there will be more CapEx to spend in the next two quarters relating to Nucleus Connect and also our billing system project, which is completing this year. We are saying it won't exceed 14% of operating revenue. And we're pleased to confirm we will maintain our cash dividend payout at SGD0.05 per ordinary share per quarter, totaling SGD0.20 for the full year 2010.

So with that, I'll hand back to Jeannie and questions.

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## QUESTIONS AND ANSWERS

**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Right, thank you Neil. We're now ready to take questions. (Operator Instructions) Questions will be answered in the order received.

The first question comes from Sachin Mittal from DBS. Sachin, are you there?

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**Sachin Mittal** - *DBS Vickers Securities Pte Ltd - Analyst*

Hi everyone, actually I have three questions. The first one, we have seen, both in the postpaid and the prepaid, some decline in voice usage, despite higher data usage. Is it data cannibalizing voice? Or what kind of trend is that, if you can comment on that?

Second is on working capital; working capital seems to be quite a bit positive. Could you throw some light -- what are the factors behind it? And to me it looks like it may not sustain, but what are your views on that?

And the third question is, what are your views on basically Group equity? Does the regulation in Singapore allow the equity to become negative if the need be? These are the three questions I have.

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**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Sachin, this is Jeannie. I'm sorry I need you to repeat the first question.

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**Sachin Mittal** - *DBS Vickers Securities Pte Ltd - Analyst*

Okay. My first question is, we have seen some decline in the voice usage, both in the postpaid and the prepaid; I guess I read that. So what is the reason behind the decline? Is it because of data cannibalizing voice, or is it some other factor behind it?

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**Tan Tong Hai** - *StarHub Ltd - COO*

Well Sachin, let me take -- COO here, let me take the first question. If you notice how we are using the phone right now, indeed we are sending out more SMSs, tweeting and the other messaging etc. So in a way, yes, it will cannibalize the voice and voice usage will be lower. I think this is expected.

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**Sachin Mittal** - *DBS Vickers Securities Pte Ltd - Analyst*

Okay.

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**Kwek Buck Chye** - *StarHub Ltd - CFO*

Can you repeat your second question. I think it is on working capital, is that right?

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**Sachin Mittal** - DBS Vickers Securities Pte Ltd - Analyst

Yes that's right. Working capital is quite a bit positive; the first half is SGD60 million plus in working capital. So my question is, what are the factors behind it, and is it sustainable, or have you changed some of your methods, the way you collect your revenue? How do you look at the whole thing?

**Kwek Buck Chye** - StarHub Ltd - CFO

Working capital change actually has a lot of moving parts. Firstly, on the asset side, the major elements are receivables and inventory, right. So as well as receivables our concern in the last quarter it has gone higher, partly because of corporate billings. But that is not a problem, because it will come down subsequently.

However, because, as Neil mentioned, we are coming out of a migration phase, soon, of our billing system and customer relation management system, while they are doing the migration there are some freeze of billing cycles. And when these are turned out the immediate impact of it is, in the third quarter, you will see the receivables go up. But those that have been billed in the second quarter are likely to reduce. So that's not an issue.

Inventory is slightly higher at this point because of the smartphones, the arrival of the smartphones. We have taken more shipments, so they go into inventory, but the turnaround is very fast. So on the payables side the CapEx that has not been paid is in payables. So when it is time to certify and pay them, then these will come down. So working capital change is actually not easy to predict, but fair to say that our free cash flow is after working capital consideration.

So we believe we have no major issue; maybe in one quarter where you have more payments you will see a lower positive change or negative change in working capital. As you can see for the quarter, the working capital changed, it is SGD13 million compared with the SGD16 million in the first half. So it's beginning to reflect that the payments have to be made.

**Sachin Mittal** - DBS Vickers Securities Pte Ltd - Analyst

So you think most of the payments relate to the CapEx?

**Kwek Buck Chye** - StarHub Ltd - CFO

Most of the payments would be related to CapEx as well as trade payables for handsets.

**Sachin Mittal** - DBS Vickers Securities Pte Ltd - Analyst

Okay, okay that answers, yes.

**Kwek Buck Chye** - StarHub Ltd - CFO

Now Group equity, Sachin; in Singapore the company that pays the dividend must have legal reserve. And hence, when you pay a dividend you're looking at the shareholders' funds of the company. The Group is actually a consolidated spreadsheet; it is not a legal entity that is being judged when you pay dividends.

So when you're looking at Group equity being negative, it because the Group equity bears the after effect of merger accounting when we brought over SCV in the year 2002, then it was an exchange of shares. If we look at the limited company, the valuation was for SGD1.1 billion, now on a consol it is already eliminated so the reserves has taken that back. So don't look at the consolidated shareholders' funds when you are trying to read dividend availability of reserves, okay.

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**Sachin Mittal** - DBS Vickers Securities Pte Ltd - Analyst

Okay. So legally is allowed and, if the need be, you will not hesitate from going into Group equity negative because you look at the company level?

**Kwek Buck Chye** - StarHub Ltd - CFO

Yes, we look at the parent co. that's paying the dividend. It still has SGD980 million of reserves, sorry SGD925 million of reserves, sufficient to handle about 13 quarters of dividend payment.

**Sachin Mittal** - DBS Vickers Securities Pte Ltd - Analyst

Okay, thank you very much.

**Jeannie Ong** - StarHub Ltd - Head of Corporate Communications and IR

Thank you, Sachin. From one Sachin to another Sachin. We have Sachin Gupta from Nomura.

**Sachin Gupta** - Nomura - Analyst

Yes, thanks very much, I've got quite a few questions now. Just a few things, firstly just on the revenue guidance you're targeting low single digit still, but the first half obviously is running at 6%. We are talking about the economic outlook improving, NBN etc., is it just you're being conservative because of the impact of EPL? That's my first question. Should I just ask my questions first or -- ?

**Neil Montefiore** - StarHub Ltd - CEO

Yes go ahead, yes please ask them.

**Sachin Gupta** - Nomura - Analyst

Second, I don't know if it's in the MD&A, I haven't had a chance to go through it, but your Mobile net adds, your postpaid net adds is still 27,000/28,000 --

**Jeannie Ong** - StarHub Ltd - Head of Corporate Communications and IR

29,000.

**Sachin Gupta** - Nomura - Analyst

Okay. But the subsidies have actually come down, does that mean a large proportion of the net adds is actually not the iPhone or the smartphone customers? That's my second question.

And thirdly, the increase in Pay TV churn, obviously you still have the EPL content with you until August I think, so are people starting to churn before the EPL goes over to SingTel?

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And this final question on the BPL; when was the last payment made for BPL, was that in the June quarter or is that something we can expect in the next three months?

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**Neil Montefiore** - *StarHub Ltd - CEO*

Okay, thanks very much. In terms of the revenue guidance it is slightly conservative, but we are going into a quarter with a few things happening. Next generation networks being launched, we have the start of the BPL in a competitor's network, so we may lose some further customers on the Pay TV, we're not sure yet.

As we've said, it's been pretty flat to date, even though the BPL has been off since May. So any keen BPL watcher probably would have cancelled their sports package by now, or moved on. But we still think it might happen after August 14, when BPL launches again, there may be a number of customers who want to move from us to our competitor. So that's really why we're being slightly conservative.

Second question, yes the smartphones have decreased a little bit in total volume and obviously, as we got towards the end of the quarter, there was an announcement that there would be a new iPhone 4 coming in. So a lot of customers that think they want to have an iPhone were thinking, maybe I better wait and see if the iPhone 4 was there. So we were seeing smartphones coming through.

The quarter's been very good, particularly for the Android phones, we've seen it grow quite significantly. It's up to around 15% of the phones sold in the second quarter. There are some analysts that have got numbers that, across the whole markets, it's gone up to about 20% of the phones on the market are now android. And in the States the number of Android phones exceeds the number of iPhone.

So we think this is a very, very positive thing for us, because the competition on Android platform means that, because it's of many phones and it's an open platform, it means that the handset cost and the subsidies start to come down.

I think I've answered the EPL one have I? Yes, EPL finished in May and we've seen some increased churn, but we've also had some adds as well. BPL payment --

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**Kwek Buck Chye** - *StarHub Ltd - CFO*

The BPL payment usually semi-annual, and all payments have been made.

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**Sachin Gupta** - *Nomura - Analyst*

Okay, thank you very much.

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**Neil Montefiore** - *StarHub Ltd - CEO*

Thank you.

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**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Thank you, Sachin. We move on to Luis from HSBC. Hi, Luis.

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**Neil Montefiore** - *StarHub Ltd - CEO*

No, no Vanessa.

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**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Sorry, Vanessa from Morgan Stanley.

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**Navin Killa** - *Morgan Stanley - Analyst*

Hello.

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**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Hi.

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**Navin Killa** - *Morgan Stanley - Analyst*

Hi, this is Navin Killa from Morgan Stanley.

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**Neil Montefiore** - *StarHub Ltd - CEO*

Okay.

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**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Hi Navin.

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**Navin Killa** - *Morgan Stanley - Analyst*

Hi, sorry for the confusion. Actually, I had three questions. First is with regards to the comment you made about iPhone activity slowing down towards second quarter because of iPhone 4, and yet your anticipation of margin improvement in the second half. Is there a risk that, with iPhone 4 coming back, you could see pressure on margins again, towards the latter part of the year? So how do you see that playing through?

Secondly, on Pay TV, you have reported, obviously, the increase in churn. But I was wondering if you could give a little bit more detail. Your net adds are flat, but if you could talk about how many subscribers you actually lost versus gross activations. Just to try and understand a little bit more detail on the BPL impact.

And then lastly, on NBN, obviously, the launch has been delayed; you're talking about third quarter launch. Can you quantify, if not for this year, at least for next year, how should we see that impacting your revenues and your margins, and your CapEx? Or at least if you can't quantify, can you tell us directionally, do you see that revenue accretive margin dilutive, and vice versa, or whatever? Any help there would be great. Thanks.

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**Neil Montefiore** - *StarHub Ltd - CEO*

Okay. Thanks, Navin. I think your first question on iPhone 4 is, we just don't know yet, to be honest. We've had one shipment sold out in about five days, a few days. We are now out of stock. So the delivery of iPhone 4 around the world is quite slow.

I'm not sure whether there'll be such a strong reaction, to be honest. Because the Android phones are definitely picking up, and they're more affordable. So I'm not sure there'll be that much margin pressure.

Why we see the margin improving is because we've added a large number of customers during the first two quarters. The benefit of those will start to come through, as the revenue goes past the actual subsidy that we had to put in to obtain the customers.

And I've said before, the smartphones is slightly longer than the normal phones; the five, six month level to get your payback. So the benefit of that comes through in the second half of the year. So that's why we see our margins going back up, to be honest.

Pay TV flat; we can't really give much more information on that. You can see the churn has increased a little bit, but it's not major. So I don't think we've had too much of an impact, to be honest, so far. But it's not August 14 yet; BPL hasn't started. So we're being a bit conservative in not saying that we're sure it'll stay that way.

The delay in the NGN is a bit sad for us, actually, because we were looking at the next generation network to help us move more aggressively into the corporate sector. Because there are some 20,000-odd buildings that we can't serve at the moment with our current hybrid network.

That will change with the next generation network, and it gives us ability to compete with SingTel on an equal basis. So we see that market as very important for us. And that's why it's a little bit disappointing, but we're pretty sure it will launch in the third quarter. And we think there'll be some announcements quite soon, on the actual dates when it will become available.

And we're carrying on with our trialing. We've completed most of our testing and we're ready to go. So as soon as it's ready to launch, I think it'll be good for us.

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**Navin Killa** - *Morgan Stanley - Analyst*

Thanks. Sorry, if I can, actually, follow up on the iPhone point you made. So if you see your activities shifting more towards Android phones, do you see a similar kind of ARPU pick-up on those phones? I know in the past, you have talked about a SGD10-odd ARPU uplift on iPhone. Is the same thing happening on Android phones as well?

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**Neil Montefiore** - *StarHub Ltd - CEO*

Yes, it is. All smartphones, on average, we see about a SGD10 uplift. It's slightly higher for an iPhone, and it's slightly higher for a BlackBerry. But it's about that sort of level. So we are pretty confident that the Android platform will start to become quite popular here.

And because it's open, I think, in time, we're going to get a lot more application developers producing the apps for the android platform.

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**Navin Killa** - *Morgan Stanley - Analyst*

Okay. Thanks a lot.

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**Neil Montefiore** - *StarHub Ltd - CEO*

Thanks.

**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Thank you, Navin. Luis from HSBC. Hi, Luis.

**Luis Hilado** - *HSBC - Analyst*

Hi, good evening. Thanks for the call. I just have two questions. I guess, on the point of voice cannibalizing data, one thing I noted, though, was Non-Voice, the percentage of ARPU is ever so slightly down this quarter, versus several quarters in the past where it just keeps going up and up. Is this because of the significant data bundle that goes with the new iPhone plans and the smartphone plans?

And the second question is related to the EBITDA margin guidance. I understand, yes, that the BPL content, you'll be partly replacing it with new content, but I guess, for the margins to improve, you won't be spending as much as BPL? Is that a fair assessment?

**Neil Montefiore** - *StarHub Ltd - CEO*

Okay. The first question, on the slight decline in the percentage of ARPU that comes from Non-Voice. I think that was actually driven by people learning quite what the iPhone and the other smartphones do when they're on the network. So people picking bundles that didn't have so much integrated data, and then having to pay for the data.

And then, I think, by the second quarter, customers become quite educated, and they were going for the bigger data packages. So that's really what's happened there, I think. So a lot of data integrated in the packages, and that gives them a slightly cheaper way of dealing with the smartphones.

**Kwek Buck Chye** - *StarHub Ltd - CFO*

Okay, Luis, your question is alluding to the fact, I would then, basically, say yes, I expect my second half of the year cost of services to be lower than the first half of the year. Is that sufficient answer for you?

**Luis Hilado** - *HSBC - Analyst*

Yes, that is. Thanks a lot.

**Neil Montefiore** - *StarHub Ltd - CEO*

Okay, thank you.

**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Right. Next, we have Sanford from Tiedemann.

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**Sanford Chee** - *Tiedemann - Investor*

Yes, hi. Thanks. Previously, you've guided that the EBITDA margin, if you had followed fair value accounting, was something like 32%, if I remember correctly, in the first quarter. I was just wondering whether any sort of guidance relative to that baseline, if you had used fair value accounting in this quarter, how would the trends look? Would it be higher, lower, or what?

And then -- yes, maybe I'll start with that question.

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**Neil Montefiore** - *StarHub Ltd - CEO*

Okay. It's tricky to answer that, because I know Buck Chye hasn't worked it out yet. You'd think, because the margins have gone up, that it would be higher. But, of course, with the fair value accounting, you're actually reducing some of the going forward benefit for the first quarter take-on of customers. Because you're reducing the monthly, because you're taking revenue up front, rather than --

So I'm really not sure, but I think it would be somewhere around the same sort of level, or slightly up.

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**Sanford Chee** - *Tiedemann - Investor*

Fine, thanks. Then on your comment about the churn that you're saying in Pay TV. The 11,000 that you lost in this quarter, that seems to be pretty much well within your expectation when you lost BPL, when you said it was less than 10% in the subscriber base. Would you care to comment on how this is tracking relative to your expectations, and what are you seeing, or the feedback you're getting from customers?

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**Tan Tong Hai** - *StarHub Ltd - COO*

I think, if you look at the overall Pay TV subscriber base, so we don't have EPL and yet, our competitors say that they have added like 200,000. And we're still having the same subscriber base at 541,000. It means that customers are adopting a dual box strategy. And I think that's good for us, because we still retain this customer and you know that the ARPU still remains relatively constant, at about SGD54, SGD55 range. Which means they are still keeping their spend with StarHub.

So I think that is what you should be seeing for the Pay TV business. It is stable, in our opinion. And, of course, we are watching third quarter to see truly with the launch of EPL, what will be the outcome. But as of now, we have managed to contain the situation very well.

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**Sanford Chee** - *Tiedemann - Investor*

Okay, great. Thanks.

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**Kwek Buck Chye** - *StarHub Ltd - CFO*

Maybe I would like to clarify something. You just gave me a number that we cannot understand.

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**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

No, he's saying net add. He said we added 11,000.

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**Sanford Chee** - *Tiedemann - Investor*

You added 11,000 that means you lost also 11,000, right? Because your net adds was flat.

**Kwek Buck Chye** - *StarHub Ltd - CFO*

No. If you look at the number of sub level, which is -- if you look at slide 25, you're comparing a year ago, where it was 530,000 and you're now 541,000.

**Sanford Chee** - *Tiedemann - Investor*

I see.

**Kwek Buck Chye** - *StarHub Ltd - CFO*

It's a year, but the churn is 1.6% -- no, 1.2%, you're talking about 5,000 absolute.

**Sanford Chee** - *Tiedemann - Investor*

Okay, right. And then --

**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

I guess we have just disclosed to you that we have not seen the churn of 11,000. You gave us a fright.

**Sanford Chee** - *Tiedemann - Investor*

All right. Even then, that was below what you add in the (inaudible - multiple speakers).

**Neil Montefiore** - *StarHub Ltd - CEO*

Yes, it was.

**Sanford Chee** - *Tiedemann - Investor*

Buck Chye, just one more follow-up on your previous comment with regards to the legal reserves. You said there were 13 more quarters of the SGD0.05 per share dividend that can be supportable by that. Just to frame it, when you first came out with the dividend policy, the guidance was in the foreseeable future, but nothing was defined as to what the foreseeable future was. Now these 13 quarters, does that (inaudible - multiple speakers) or how should I think about it?

**Kwek Buck Chye** - *StarHub Ltd - CFO*

Okay. Yes, maybe I should clarify. Now our dividend policy has always been a function of cash flow, and in the past, I've always guided that we pay about 60% to 70% of our free cash flow as a guide on annual dividend. Now when I made the statement that I have SGD925 million of legal reserve in the Company, I'm saying that even if we don't make a single incremental SGD1 of

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profit, and if dividend is like SGD70 million to SGD80 million a quarter, you can easily draw from the reserve that can sustain payment of dividends -- the reserves available to pay about another maybe 10 to 13 quarters.

But you will always have some earnings, so in any one awkward period in the quarter, if your accounting profit is less than your dividend rate, you dip into that reserve. But every time you dip in, it wouldn't be a significant -- like a SGD0.05 each dip in the quarter. So my calculation is that, if you don't make any more money, it would last you perhaps about 10 to 13 quarters, but we will be making profits.

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**Sanford Chee** - *Tiedemann - Investor*

All right, cool. Thanks.

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**Kwek Buck Chye** - *StarHub Ltd - CFO*

Okay.

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**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Thank you.

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**Neil Montefiore** - *StarHub Ltd - CEO*

Thank you.

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**Unidentified Participant**

Thanks for clarifying.

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**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Right. We next have Hian Hou. Hian Hou's a reporter with the Straits Times in Singapore. Hi, Hian Hou.

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**Chua Hian Hou** - *Straits Times - Media*

Hi. Can you hear me?

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**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Yes.

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**Chua Hian Hou** - *Straits Times - Media*

Hi. Okay, just regarding the -- during CommunicAsia, the Minister for Singapore and Minister for Malaysia said that there will be 30% lower IDD rates for between Singapore and Malaysia. Have discussions begun between StarHub and Malaysian telcos on this issue yet?

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**Neil Montefiore** - *StarHub Ltd - CEO*

Yes, discussions are underway between the regulators and the operators in both countries, and between the operators themselves in both countries.

**Chua Hian Hou** - *Straits Times - Media*

So this one, the discussions are between the regulators not between the operators.

**Neil Montefiore** - *StarHub Ltd - CEO*

No, the operators are also discussing with each other, yes.

**Chua Hian Hou** - *Straits Times - Media*

Okay, so discussions have already begun officially?

**Neil Montefiore** - *StarHub Ltd - CEO*

Yes, they're underway. Yes.

**Chua Hian Hou** - *Straits Times - Media*

Okay, great. One more thing. There were rumors that MDA had stopped the launch of your tennis channel. Can you comment on this? Is it true or why was it (inaudible - multiple speakers)?

**Neil Montefiore** - *StarHub Ltd - CEO*

No, that's not true.

**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Hian Hou, we have actually made an announcement already to announce that Racket TV is available.

**Chua Hian Hou** - *Straits Times - Media*

Okay. Okay, let me clarify one thing. So you are saying that the continued popularity of Android phones will be good for StarHub because it actually costs you less versus what you're paying for your iPhone. Is that right?

**Neil Montefiore** - *StarHub Ltd - CEO*

It will be good for mobile operators globally, because it means there'll be more competition for the smartphones and the Android phones come from many manufacturers. We have HTC, very popular. Samsung's been very successful for us here in Singapore. We're expecting companies like HuaWei to come up with very lower cost phones during the next quarter or two, and so it's good to have competition. It means lower handset pricing and lower handset subsidies for the operators.

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**Chua Hian Hou** - *Straits Times - Media*

Okay. How about -- you've mentioned a couple, but you haven't mentioned two brands like Nokia, Symbian and the Microsoft platform. How are they doing?

**Neil Montefiore** - *StarHub Ltd - CEO*

Symbian is still a very widely used smartphone in Singapore, and it is still selling as a smartphone platform. The one that's grown the most quickly, obviously the iPhone from December last year. And now in this quarter, we've seen the Android phones really make significant impact into the smartphone market.

**Chua Hian Hou** - *Straits Times - Media*

Okay. Microsoft, has that (inaudible)?

**Tan Tong Hai** - *StarHub Ltd - COO*

I think all of us are waiting for Windows 7, which is in quarter four. So in the meanwhile, I don't think -- the users are still waiting for the new version.

**Neil Montefiore** - *StarHub Ltd - CEO*

I think it's probably also the BlackBerry still, at the moment, very strong here in Singapore. And with StarHub, we do have the prepaid BlackBerry which is differentiated from the other operators.

**Chua Hian Hou** - *Straits Times - Media*

Okay. Okay, great. Thank you very much.

**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Thank you. Next we have Simeon from CIMB.

**Kelvin Goh** - *CIMB-GK Research - Analyst*

Hi, it's Kelvin and Simeon here, CIMB. We have three questions. I'm not sure if it was asked before, but does your margin guidance for this year include the iPhone 4?

Second question is on your Broadband churn. We just wanted to clarify just now what Tong Hai said about you not upgrading the speeds, and that caused a churn which was expected. Could you just clarify on that?

And lastly was on your postpaid ARPUs. Could you give us an idea if the uplift from the iPhone are starting to bite, and what was the contribution? Thanks.



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**Neil Montefiore** - *StarHub Ltd - CEO*

Okay. The margin guidance does include the iPhone 4 and the other smartphones, yes.

The Broadband churn, not upgrading speed, that's actually the opposite of what we've been doing. Maybe Tong Hai can explain.

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**Tan Tong Hai** - *StarHub Ltd - COO*

Actually, what I was trying to explain to you is that for our Broadband, we will bundle with a laptop or whatever for the high speed plan. And two years ago, we actually have a very attractive bundle. So it's two years later this quarter. So these are all out of contracts.

So we have a choice; either we come up with another very attractive plan to keep this spot; it may not be economical for us. So we decided to only come up with packages to service selected set of customers. So we actually were expecting the churn this quarter to be higher, and that's why the rate is higher.

But all in all, if you look at it, the Broadband business, we have guided that the ARPU actually this quarter remained pretty stable. It actually has not dropped. You've noticed the last few -- if you look at chart number 31, the ARPU has actually dropped per quarter, but this quarter it stabilized at SGD48 and revenue remains relatively stable.

So we still expect the whole broadband market to be pretty competitive prior to the NGNBN launch. But you will notice that we have come out higher speed broadband, because that is our key differentiator because the cable broadband today still offer at a higher speed of 100 meg. And that is what we will continue to provide. So I'm not sure whether that gives you more visibility as to why the churn is higher this quarter.

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**Kelvin Goh** - *CIMB-GK Research - Analyst*

Yes, it does. Thanks.

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**Neil Montefiore** - *StarHub Ltd - CEO*

And the postpaid ARPU we are hoping will improve. We saw SGD1 improvement in this quarter in the ARPU as the smartphones penetrate more and more of the base.

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**Kelvin Goh** - *CIMB-GK Research - Analyst*

Was that all entirely the smartphones, because I think there was mentioned as well it was due to IDD and roaming? So I'm just trying to see if you can -- hoping you can give us some color better color?

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**Neil Montefiore** - *StarHub Ltd - CEO*

Well we've certainly had -- I think because of the integrated resorts opening, we've seen an increase in IDD and roaming, inbound roaming in particular, and also outbound roaming I think. As the economy's recovered, people are traveling more. But we're also seeing an increase coming from the smartphone; a percentage of our base is moving over to the newer smartphones.

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**Kelvin Goh** - *CIMB-GK Research - Analyst*

All right, okay. Very lastly, I'm just trying my luck here, how are your Pay TV churns doing now that the World Cup is over?

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**Neil Montefiore** - *StarHub Ltd - CEO*

How are our what doing?

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**Kwek Buck Chye** - *StarHub Ltd - CFO*

Pay TV churns.

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**Neil Montefiore** - *StarHub Ltd - CEO*

It's pretty stable at the moment.

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**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Kelvin, you have to understand that the World Cup ended on July 12 for this part of the world, so you need to find out next quarter. We can't tell you.

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**Kelvin Goh** - *CIMB-GK Research - Analyst*

All right.

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**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Thank you. Next we have Foong from BNP Paribas.

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**Foong Choong Chen** - *BNP Paribas - Analyst*

Thanks for my call. I've got a few questions. Firstly, can you give some color on the take-up of the revised sport package from StarHub so far, have most of your sport subscribers taken that up?

And also, I want to ask whether you guys can provide information on the Pay TV subs base in terms of the contract duration? Generally, do Pay TV subscribers take on a one-year contract, or do they take up two-year contracts or more?

And then thirdly, could you give us an update on the MDA cross carriage issue? Where is it right now in terms of consultation process, and how about the lobbying from the content developers, and whether the cross carriage mandate is on track for implementation?

And then finally, on the smartphones, what percentage of the handsets on your network are smartphones and what percentage are handset data plans? That's it.

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**Neil Montefiore** - *StarHub Ltd - CEO*

Okay, so on the revised sports package, Tong Hai.

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**Tan Tong Hai** - *StarHub Ltd - COO*

I think when we revise the sports package it's primarily to retain our sport subscribers, because since we don't have the EPL we thought we would revise the price so that we can retain them. And so far you can see that, as a whole we look at the Pay TV business as a whole, and you notice the overall Pay TV subscriber has remained flat. So that means that this revised sports package actually has served its purpose of helping us to retain our customers.

**Foong Choong Chen** - *BNP Paribas - Analyst*

Okay, but have you seen new subs come on to the network?

**Tan Tong Hai** - *StarHub Ltd - COO*

There are some new subs that have gone in, but I don't think we share the details. But yes, there are some subscribers that in the past they felt that our sports package was too high, so they actually came in also.

Now in terms of your question about your Pay TV subs as to whether we have a one-year contract or two-year contract. We have some of these customers on contracts, but we don't share the details as to exactly how many of these subscribers.

**Foong Choong Chen** - *BNP Paribas - Analyst*

Okay.

**Neil Montefiore** - *StarHub Ltd - CEO*

And on the cross carriage I think you need to address your queries to MDA I think on that one. The cross carriage, the Media Code has been amended as of March 12, I think it was. So we have no further information at the moment.

**Foong Choong Chen** - *BNP Paribas - Analyst*

But in terms of the consultation with the players with you guys how it's going, in terms of ironing out the practical issues?

**Tan Tong Hai** - *StarHub Ltd - COO*

Yes we have actually provided our feedback and inputs to MDA. Of course, MDA also have gathered feedback from the content providers and operators and they will be sharing the outcome of the consultation. So as of now, what they have announced since March 12 is still the policy that we are aware of is that, if you sign any exclusive content then you are subjected to a mass carry regime, which will have to be effective by September 1. So we have not got any update; all of us have provided inputs to MDA and we're waiting for the final draft and the outcome of the consultation.

**Foong Choong Chen** - *BNP Paribas - Analyst*

Okay.

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**Neil Montefiore** - *StarHub Ltd - CEO*

In terms of smartphones, current base we're looking at around 40%-ish of smartphones. That does include all the smartphones that we mentioned earlier; it's not one particular smartphone. In general though in Singapore, I think I've said before, about 75% of the phones being sold at the moment are now smartphones, so we're going to see that percentage grow.

**Foong Choong Chen** - *BNP Paribas - Analyst*

Okay and the smartphones, do all of them take up data plans?

**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Yes.

**Neil Montefiore** - *StarHub Ltd - CEO*

Most of them do yes, various levels of data plan, but most of them do take up a data plan, yes.

**Foong Choong Chen** - *BNP Paribas - Analyst*

Okay, all right, thanks a lot.

**Neil Montefiore** - *StarHub Ltd - CEO*

Thanks.

**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Right, next we have Carey from OCBC.

**Carey Wong** - *OCBC - Analyst*

Hi, thanks Jeannie and Neil, Carey here, I've got three questions. I hope you can hear me?

**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Yes, thank you.

**Carey Wong** - *OCBC - Analyst*

The first one is on your World Cup cost. Have all the costs being captured in second quarter, or will there still be some cost in third quarter?

Second one is basically on your data usage. Most of the smartphone plans come with 12 gig, are many of the subscribers near the top band, or do you need to invest more in your data infrastructure? Because there was a report out recently in the papers that you guys did pump in money to beef up the infrastructure.

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And my third question is basically on Mio TV. There's also a report recently in the papers that they are toying with the idea of delivering their content through the cable network. How does this work, do you own the network, what would happen? Thanks a lot.

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**Neil Montefiore** - *StarHub Ltd - CEO*

Okay.

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**Kwek Buck Chye** - *StarHub Ltd - CFO*

Let me take the question of World Cup. The World Cup cost is taken up based on the ratio of the matches aired. So yes, there is a small tail end of that in July, but most of the costs were taken in June.

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**Neil Montefiore** - *StarHub Ltd - CEO*

In terms of the data infrastructure, as I think I've said before, we're very lucky at StarHub that our mobile network has an all IP backhaul, we have lots of capacity in that backhaul, and we're not being hit as mobile networks are in other countries with the increase in smartphones. Most of the data still on our network doesn't come from smartphones; it comes from USB modem devices.

What we have done, though, as you've correctly said, is upgraded our network because some of the smartphones do interfere with the signaling systems on networks, and that has become quite apparent in the US where the dropped call rates have gone up nearly four or five times over the normal levels.

So what we've done is, working with our supplier HuaWei, we've found a way of making our network handle smartphones in a much more efficient way and improve the signaling by around 80%, the amount of signaling capacity. So that's been implemented as it's a world's first, and I'm sure other HuaWei deploying operators will be talking to them about deploying it.

Now Mio over co-ax, that's an interesting one. What's actually happened is they're trialing it; it's a standard that hasn't been approved yet as far as we know, and I think there will be some trialing of it.

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**Tan Tong Hai** - *StarHub Ltd - COO*

So what happen is that I guess the Mio discover that the challenge is how to put that in front of the TV, because most of the phone sockets are near the sofa and the point where you're seated. So they're trying to use our cable infrastructure because they have tried different mode of transmission, tried through power line. And we were very glad to hear that they said that cable platform gives them the best performance. Which should again ascertain the superiority of the cable platform. As you can see during the World Cup, there were also a lot of comments about better viewing experience and real-time viewing.

So this again ascertain the superiority of the DOCSIS our cable platform, and we will be very happy to know that they consider our cable network as the best network to transmit Mio.

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**Neil Montefiore** - *StarHub Ltd - CEO*

So our concern with what was announced is that it's very possible that this technology can interfere with our existing network, not just in the house where it's been deployed, but across the whole network in the region. So we want to do some extensive testing, and we will be discussing with SingTel and the regulators about that.

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Ownership of the cable; we do own some of the cables, yes. Certainly those installed before '95.

**Tan Tong Hai** - *StarHub Ltd - COO*

So although they want to do that, what is clear in the trial is that it mustn't interfere with StarHub cable transmission. So they have to employ filter and, of course, if there is interference then they will be stopped from doing that. Also, some of this cable network belongs to us so they have to seek also our permission.

**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Carey, are you finished?

**Carey Wong** - *OCBC - Analyst*

If they need your permission they will also have to pay you, am I correct?

**Neil Montefiore** - *StarHub Ltd - CEO*

We haven't discussed it with them yet.

**Carey Wong** - *OCBC - Analyst*

Okay, thanks a lot, Neil.

**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Right, our last question, Sachin Gupta from Nomura is back again. Hi, Sachin.

**Sachin Gupta** - *Nomura - Analyst*

Sorry, I just had one question, i.e. you are talking about the NBN opportunities, we are getting close to the NBN as well. Just want to understand, from your perspective, are you expecting more opportunities in the SME space or the enterprise space? Because the reason I ask is obviously from what I understand the existing fiber SingTel has is actually not part of the NBN, and they have obviously been adjusting prices to lock in the customers. And in the SME space there's probably already enough players in the market. Just wondering what's your thinking, or what's your value proposition?

**Neil Montefiore** - *StarHub Ltd - CEO*

I think we see both as opportunities. The SMEs are definitely, obviously, attractive to us because we're going to be covering more and more buildings, and a lot of them are in the buildings we don't cover. But even the major corporates, we've just seen a front page of the papers today about DBS Bank and having been instructed to actually make sure you've got diversified supply. So I think we can now reach much more the -- say take a bank we can meet their requirements for all their branches. So we see both as opportunities.

Tong Hai, do you want to add anything?

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**Tan Tong Hai** - *StarHub Ltd - COO*

And also because the Government funded this NGNBN infrastructure, so most of the ministries will be looking at it and we will consider these Government accounts as large accounts, corporate accounts. And certainly we will be approaching them to see how we can use the NGNBN to service all the ministry needs, for example hospitals, you have the branches, national healthcare groups, SingHealth group, Ministry of Education, all the schools, Ministry of Defense, how you can use NGNBN to link up all the camps etc. So there are a lot of opportunities also in the corporate segment.

**Sachin Gupta** - *Nomura - Analyst*

Thank you very much for that.

**Jeannie Ong** - *StarHub Ltd - Head of Corporate Communications and IR*

Ladies and gentlemen, in the interests of time we will have to stop the interesting question and answer session. For those of you whom we have not had a chance to address in this session, you can always contact us, or if we have your name we will contact you very soon. The transcript of this call will also be posted on our website.

On behalf of the StarHub management team here we would like to thank you for joining us this evening, and we look forward to talking to you soon. Good night.

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