STARHUB LTD
3Q-2008 RESULTS CONFERENCE CALL
5 NOVEMBER 2008
QUESTIONS & ANSWERS

The Straits Times

1) What impact do you see from SingTel's deal of bringing in the iPhone and when will you be bringing in your set? You did say earlier that it'll be before the end of the year.
2) Fair to say that the biggest impact that resulted in the 2.1% fall of net profit was the rise in cost of services for pay TV content?

StarHub

We did see an impact of iPhone which was launched by our competitor; I think it was in late August this year. And as expected, there was some pent-up demand which had an impact on us for about three to four weeks. Following that, things seemed to return to normal so it was a fairly short duration of impact on us. In terms of our ability to market the phone, it appears that it will not take place this year. We of course continue to have dialogue with Apple. They have the priority of signing on distributors and of course we'll continue to talk to them and work with them. The deal in Singapore is non-exclusive so there is no impediment with respect to that. But at this particular point in time, I cannot be specific about when we will have the iPhone product in our stores. But we are continuing to have dialogues with the right parties.

On your question on the cost, yes, against the 2.2% of cost increase in cost of sales. If you look at slide 12 on the bar on the left, you'll see very clearly that the middle bar has increased from S$60 to S$73 million and that's an S$13 million increase. Basically that's the 20% increase and principally most of it is due to the higher content. Now, bear in mind that last year, the content for sports and all the rest were at the old contract rate before the competitive bid that was done for programmes like the BPL. If you look on a YoY basis, each quarters you'll probably see this kind of 20% negative increase. But if you look from Q2 to Q3, you'll see that content cost is stabled. It was S$79 million because we had Euro in Q2, and without the Euro now, it's trending at S$73 million. So content cost is managed, most of the content has been nailed and basically this year the increase is managed.

Morgan Stanley

1) If I look at your subscriber acquisition cost, they are down quite significantly on a sequential basis. Do you think these levels are sustainable or do you think this is a one-off, as part of a post-MNP cooling down?
2) On post-paid revenue, you mentioned S$6 million adjustment. If you could clarify a little bit more on the source of that and is it fair to assume that the S$6 million probably should also be added to the EBITDA when one is trying to look at the normal EBITDA for the quarter.
3) On Q4 outlook, normally the Q4 is extremely competitive and the margins tend to come down but this year we had the exceptional Q2 because of MNP activities. So are you seeing any easing off in competition in the market in Q4? Normally you also have a one-off tax adjustment in Q4. Is it something that will recur again this year?

StarHub

We would like to see the subscriber acquisition costs return to more normal levels that we were experiencing prior to the first of this year so if you sort of look back historically that's in the S$90 to S$100 range. So we were very close to that in Q2 and I think that will be sustainable as long as all the players in the market are acting rationally. The MNP as you pointed out created a little of a bizarre behaviour for a while but we think that has subsided. There would be episodes of high promotion outside the typical seasonal periods when that happens. For example, I mentioned earlier that the iPhone created for a period of about four weeks some consternation but we resisted the urge to come to the market with big offers because we knew that it would sort of run its course and it did. But I think you can expect that there would be some elevated promotional activity in Q4 as there always are but I somehow believe that this year as all operators are all looking ahead and not been able to predict how deep and long a recession might be will tend to put the brakes on a bit. It'll be interesting to see how Q4 sort of shakes up. But as I've said earlier, we always take a hard look at Q4 his time of the year before we sort of reiterate, confirm guidance and we're holding onto the guidance at this juncture.

In terms of the post-paid, this adjustment is one that is not easy to get your mind around but let me do my best. There are actually two adjustments. One adjustment is on the top line and one adjustment is on the expense line. So the adjustment on the top line is a decrease of S$6 million but there is also a decrease of S$9 million on the expense line. So the net is about a S$3 million positive impact to EBITDA. As you might have assumed, the S$6 million flow directly to the EBITDA and you have to take into account the adjustment on the costs side. When the smoke clears on this settlement adjustment, we actually net it out positive.

On tax, if you are referring to the group tax relief, yes you're right, we only take it in Q4 and that's a quarter where we try to make use of group credit for group tax loss offset. It's not true that it's negative every year, it depends on the timing. It is going to be positive adjustment but we can't determine it until Q4. My comment on tax is that we're still looking at Q3, the effective tax if you work it as a percentage of the pre-tax profit, it's still running at 21% due to the fact that we do have a subsidiary that has losses and we have not yet taken up deferred tax accounting for that unit because there is no visibility that the losses, although they are not that huge, there is no visibility on a standalone for that subsidiary, that it has earnings yet to offset or to make use of its losses. So we can't do DTA accounting for that subsidiary. In conclusion, there is no tax adjustment impact for the third quarter; it's just the effective tax on a consolidated profit that is effectively 21% of pre-tax.

Citigroup

1) On cost and revenue adjustments, can we just conclude and say that net of all this EBITDA should have been 162 instead of 165? I guess that's what you meant?
2) If you can throw some colour to what's happening in Mobile minutes of use. It peaked at 560 and over the last four quarters it has gone down to 490 now?
3) If I look at the Q4 revenue growth and I work that off your full year revenue growth, we're talking about some pretty stiff jump QoQ in revenues and that's versus three consecutive quarters of revenue declines now. So I'm wondering if you could provide some colour on what probably changes in this particular quarter.
4) Your household ARPU has come off a little this quarter. Is it because of the mobile accounting issues?
5) On your capital management, what are your intentions? If you don't file for OpCo by 15 November, should we be expecting something soon?

StarHub

There is a slight decline for the Mobile minutes of use. If you go back to Q1 this year, there is an S$5 decline in post-paid ARPU. When we investigated that, we find that half of that decline is related to usage. The usage is partly IDD, domestic minutes and roaming. So I suspect that while some of the minutes of use could be inbound and that's not revenue-generating. Some of that also may be outbound which would be. As I've said earlier, we're obviously very sensitive to any changes in the business volume that might suggest that there's a slowing down or pulling back. I'm not ready to make that call yet but obviously that's something now that we've observed for one or two quarters.

With respect to the revenue, bear in mind that in Q4 you typically have the largest revenue take-up for CPE. So while you would tend to see a smoother curve for service revenue, you get a little bit of a bubble for CPE sales because of the promotional activity. So you're correct in that if we don't get that sort of pop on the CPE side, then revenue may not hit that level but then of course on the flip side that would suggest EBITDA margins would probably be higher than normal. So it's kind of a good news story.

You are correct in assuming that EBITDA would be S$3 million less had it not been for the adjustment. But there was another non-operating impact and that's foreign exchange, which is negative S$3 million, so EBITDA is exactly where it is. The foreign exchange is a one-off.

On household ARPU, you have to adjust Q2 for the Euro event. That was a one-off in the quarter. The subscriptions we got for Euro are included in ARPU. When you make that adjustment, which is about S$1.50 across households that will take you down to roughly the same level as Q3. That's still down from Q1 and the drop is entirely due to the discounting of the mobile and broadband subscriptions. In reality, the discounting had more impact because the real ARPU was actually higher but the discounting dropped it down. As we work through the completion of discounting terms, you will begin to see normalising of household ARPU.

On capital management, there are not any covenants we have for the debt-equity ratio. What banks look at is our capacity to service the debt, that's why we continue to target 1.5-2 times net debt to EBITDA. We're currently sitting at 1.2 or 1.22 times, so compared to our target, we're still under-levered. That doesn't mean we'll rush out into the market and borrow money tomorrow. I think that would not be wise given the current state of the capital markets. The good news is banks still return our phone calls because they know we have strong cash flows and the capacity. When the financial market returns to a normal situation, we certainly want to look at increasing the efficiency of our capital structure. It will be hard to tell when we're going through that exercise.

Credit Suisse

1) On the adjustment, what was the driver behind this?
2) There is pretty soft post-paid revenue growth, whether or not we include this adjustment. And I suppose that the six-month subscription offer that you offer for MNP has to be a contributor to that. Now everybody else seems to have joined you in offering that sort of thing to the market so I guess everybody is reporting weak revenues. In a free-play market, would you have expected any of the results from offering something like that?
3) Did you really think other players weren't also going to offer it? Did you think that would result in higher revenue for you? Why did you offer something like that, and do you regret offering it? Would you be slightly more hesitant about offering something like that again in the future?

StarHub

We were operating prior to true MNP with a form of MNP which involved a call forwarding mechanism. We also had a yet to be finalised agreement on the way we would settle the port-in and port-out among operators. Once MNP took effect, what we were also given was the precise rate that would then apply to all the past traffic of port-in, port-out arrangements. So when we applied that new rate, that's when we had to make the one-off adjustment for prior period to take into account the new rate versus the old rate.

Credit Suisse

1) So it's basically an accumulation of slightly different rating used in the last couple of years?

StarHub

Exactly, there was no way prior to that to know what direction it was headed in, how it would come out. We were not in control of deciding that rate.

On the discount on subscriptions and the free offers, you can't isolate a single promotion and decide if it's a good or a bad idea. You have to look at the entire promotional campaign, what was on offer, what kind of handset subsidies were given, what sort of giveaways were done at that time to really get a good sense of whether you made a smart move or a dumb one in the type of promotions you put in place. The best way to measure that is two to three quarters later, how you ended up when the smoke clears and after things settle down. I would not pretend that the behaviour by any of the three operators in the lead up to MNP and during that was entirely smart in every respect. So whilst we may or may not have done some things differently, I would be willing to bet you that all three were honest, they would have a simpler combat.

With respect to discounting subscriptions, consumers have come to expect promotions and offers. That's the nature of the market. You've got a choice. If a consumer sees a value of S$1, you can pay an equipment vendor S$1 or you can give them S$1 of service. S$1 of service costs us a lot less. We'd much rather discount subscriptions for some period of time assuming that the consumer would put the same value on that as they would on a handset offer. You really have to take a look at the entire picture before you pick one particular promotion and say it's a good or bad idea.

CIMB

1) Could you give us some colour on the issues on OpCo that you're clarifying with IDA?
2) Can you tell us the debts that are due in the next 12 months and what you plan to do?
3) What is the interest rate on this debt due and based on the current rates, what would the facility cost you?

StarHub

With respect to OpCo, we really can't talk about the type of issues that are critical to us in deciding whether or not we will bid for it. It's competitively sensitive at this juncture. I suspect that it won't be long before we'll all know, when those issues have been clarified, whether or not we will be bidding.

On the debt due in the next 12 months, there is S$218 million in our accounts. We have adequate banking facilities to refinance that portion. It's not a problem.

We basically hedge about 50% of our S$900 million facility to fixed rates and that is averaging between 3-4%. For the others, we don't expect the cost to be significantly higher.

RBS

1) On your marketing costs, it has not really soared compared to your competitors. What are you doing differently and how did you reduce this relative to your competitors?
2) On pay TV, now that your competitor has actually launched a full-fledged IPTV service, are you seeing any changes with regard to spending patterns for your pay TV business in Sep/Oct?
3) With regard to the competitive environment, can you characterise 4Q08 trends versus 3Q08?

StarHub

With respect to marketing and selling costs in Q3, you may remember that I indicated in the 2Q08 call that we expect the competitive environment for post-paid mobile will subside a bit while the competitive environment for prepaid will continue to be intense. That's basically what happened. I would still characterise the competitive environment as being more intense than it was a year or so ago but it's clearly down from Q2.

On the sensibility of offering discounts, we used a combination of subsidies and discounts not necessarily to attract new customers but certainly with respect to retention costs. So when you start looking at our marketing and sales costs, you bear in mind that only part of that is for acquiring new customers, the other part is retaining existing customers. We try to be very careful and effective in using those types of tools in Q3. We would like to continue doing that. We're not the type of organisation to buy market share, we tend to look at subsidies as investments in quality customers. We'll continue to manage business that way.

With respect to pay TV, if you look at the fundamentals sequentially and YoY, both in terms of customer base and ARPU, you'll see that adjusting for the Euro football event in Q2, we haven't seen any impact with respect to competitive activity. We obviously have also added a lot of content to our own platform, we have introduced a true VOD service with quality content, we introduced interactivity in the pay TV platform so we certainly lifted our game with respect to the capability and the content on the platform and we expect to
Continue to compete well going forward.

On spending patterns, we really haven't seen any impact whatsoever. With respect to Q4 looking ahead, that typically is marked by heavier spend in promotional activity. I'm guessing that it'll happen again this year, what's different this year is that all of us are facing a lot of uncertainty and the inability in predicting how the economy will turn out in the immediate future. That may dampen some of the enthusiasm in throwing handset subsidies, but we're only one-third of the equation so it's hard to know what the others are thinking.

Merrill Lynch

1) How many of your subscriber base is currently on the 'six months for free' deal? What are you going to be earning from that?
2) For the cable platform, the margins have improved from last quarter, but it's still below historical levels. What should we be expecting on this front going forward?
3) Can you give some colour on the revenue growth or potential growth for the wireless broadband?

StarHub

I certainly don't have the percentage of our customer base that is enjoying any form of discount subscription, I don't have that on my fingertips and I don't believe we included any of that in the filing. But in the case that we offered partial discount or discounted subscription, it relates only to the subscription part. We will be billing them for usage, so it's not necessarily a zero ARPU customer. The lift-off once the subscription begins to kick in will be equivalent to an average ARPU, it would be incremental. The cable platform margins, we're aiming to be in the mid-20s. If we had a precise way of splitting out the pay TV margin versus the broadband margin, I think you'd see that the pay TV is relatively stable now that we've adjusted for some of the higher content cost items like BPL. We believe that going forward we should generally be able to keep our margins steady even in situations of increasing costs because we don't expect increasing content cost to outstrip our ability to pass those costs on in the future. The variability on the platform margin has a lot more to do with broadband rather than pay TV, because broadband, like mobile, has bouts and fits of promotional activity which can drive down the EBITDA margin. I don't know of any particular reason why we couldn't aim in the long term to be in the mid-20s for the cable platform margins.

On wireless broadband growth, we have enjoyed incredible growth and new customers who want the data only package, they use the USB stick for their laptops to roam around the city. We've seen a very healthy growth in that month on month. It has been relatively steady. What we're expecting to see though is more handset users signing up for broadband packages as the new handphones come into the market that give a user experience in using the Internet. So we're beginning to see phones coming out of Nokia, Samsung and others that have very similar user interfaces that we think will cause customers to want to sign up and add a data package to their handsets. The growth in that area really has not taken off yet but it's just beginning. That's the next area of growth we'll see in wireless data.

Merrill Lynch

1) If you didn't have that S$6 million adjustment, what would be the post-paid ARPU for this quarter? The ARPU decline that we see QoQ, how do I interpret that?

StarHub

That S$6 million was not used in the ARPU calculation. We look pretty closely at the moving parts of the drop, not just from Q2 but from the first quarter, from S$79 to S$74. Roughly half of that was due to two things - a growing mix of data-only subscriptions, and of course the three and six months discounts we gave for subscriptions. The other half of the S$5 decline is related to usage made up of domestic minutes, IDD and roaming.

Dow Jones

1) Can you give us some color on the impact of SingTel's launch of the iPhone?
2) On the economic conditions, your competitors were pretty cautious on their guidance. What kind of expectations do you guys have? What kind of impact on market conditions might the economic slowdown have?
3) Are there any thoughts about cost-cutting measures?

StarHub

On the iPhone, we knew that there was a pent-up demand for the iPhone. In fact, we had the ability to look out on our network and know exactly what types of phones are connected to the network and already there was a growing number of iPhones connected to our network. We were extremely pleased when there was an independent analysis done on the three networks using the new iPhone and our 3G network came out much better than the other two. We knew that all things being equal, customers would enjoy using it on our network. The problem is that the priority Apple places on signing up distributors has a lot to do with the size of the operator and the number of countries covered by the operator. That didn't out us on the top of the list for Singapore but Apple made it clear that there were no exclusive deals in Singapore and that they would get around to signing up the rest as soon as possible. But I think they're going to work through all the countries first to be sure that there's at least one operator in every country that would have a distributorship.

With respect to our expectations, we knew there would be a number of our customers who would be looking to migrate over just for the iPhone. We just didn't believe it would be something that causes consternation for a long period of time, and it did not. There was an initial pop for the first few weeks but it began to fall off very rapidly and now there seems to be very little impact on us.

On the economic climate and our expectations for the impact on our business volumes next year, we know what to look for. What we've done is put together a dashboard of demand indicators that give us an early warning if there are any business parts beginning to weaken or soften so we can make adjustments as quickly as possible. We're also taking a very hard look at every single dollar of CAPEX just to be sure we don't get out in front of our headlights in terms of committing CAPEX. The intense focus on FCF calls for us to adjust to varying levels of demand that may take place next year. In terms of expectations, of course we're setting our budget targets now and we're trying to put targets that are realistic but challenging. We think it's probably smart at this juncture to think not of a number but a range so we can quickly adjust to any changes in demand or volume. We don't expect a change in market share, we think that operators will focus in the similar way on cash flow and managing the business smartly. It's quite possible that there could be some softening of the economy next year, but there will also be rational behaviour on the competitive front.

We do not believe that our industry is recession-proof. We do know that customers will begin to cut back at a certain stage if things get back. Generally speaking, they don't disconnect because they've come to depend on those things. In fact, pay TV is one of the cheaper way of entertainment, a lot cheaper than going to the movies or going to a restaurant. But what they might do is to cut down, downsize to a smaller package or maybe use the mobile phone a little bit less. So those are the ones we'll be looking out for.

I'd like to think that we don't have to cut back on unnecessary expenditures because we don't make any unnecessary expenditure. We're pretty efficient anyway. If you look at our headcount over the past six years, we've not increased headcount at all even during the growth cycle. We think we've grown into a pretty lean organisation as it is. What we don't want to do is get into a position that we have to start cutting. We want to turn over every rock to make sure we're operating efficiently. The biggest area of possible reduction would be in trying to retain and acquire customers. There will probably be a change in the competitive level and that's the best place to find cash. We acquired a lot of customers in Q2 and we paid the price. Everyone knows how that formula works.

Bloomberg

1) Do you have funding secured for a potential OpCo bid, and what kind of funding will that be?

StarHub

We think it's probably not proper to talk about levels of funding yet for OpCo. We've got that nailed in terms of what the worst case will be. Considering that and our cash flow, we are very comfortable that we can finance that, so it's not an issue.

Nomura Securities

1) Your guidance for 2008, does it include the launch of iPhone? Do you expect to have that sometime next year?
2) From what you have seen from SingTel's announcement yesterday and what AT&T has announced as well, what are your expectations on the cost?
3) And some of the numbers that have been flagging are 1.5 times incremental ARPU to post-paid sub and maybe 2-3 times NVP as well. Is that reasonable?
4) On slide 21, you have post-paid non-voice services that have relatively large increases. How much of that are SMS and non-SMS?

StarHub

No, it does not assume the launch of iPhone. Yes. Look, three or four months ago I expected it to happen this year but it depends a lot on how successful they are in wrapping up deals in a couple of other markets.

I don't really know what to expect on the cost. I think it's probably better to ask them because I don't know how they run their customer acquisition models with respect to iPhone. While I can sort of assume that the deals are roughly the same among operators on a non-exclusive basis but I don't know that for sure. For the non-voice piece, most of that is SMS traffic.

The Edge

1) Did you change your view on refinancing debt?

StarHub

No, there's no change. We said we will not go to new banks to refinance our existing loans which we have contracted way back in 2006, 2007. Those loans we've contracted, we still have available non-drawn portion. We could draw on those committed facilities to refinance. Our cash flow in the last year and a half has been good, better than originally expected so we were effectively drawing down less than what we expected. So there is enough facility to basically draw on to replace those that you've got to repay.

== END ==