STARHUB LTD
FY-2008 RESULTS CONFERENCE CALL
10 FEBRUARY 2009
QUESTIONS & ANSWERS

Your revenue target is a low single-digit, could you give us more color on the issues in the individual business? Is there any iPhone launch? Can you give us some color on OpCo?

We challenge every line of business, so we expect opportunities in every single one. For the past six years, we've used our sound fundamental strategy - Hubbing. You will continue to see that. In terms of economic cushioning, that brings value to customers. That particular initiative will continue to yield results for us.

We're pretty saturated in mobile. We do run the risk in prepaid if there is any downturn in the construction industry. That segment is predominantly made up of foreign workers, so it could hit quickly and directly. We do see continued growth in mobile data, so not just the iPhone, the HTC phone with the Android operating system and the Samsung phones, all these phones are better devices to access the Internet. What people are going to want is a data package to go with that. There lies the opportunity to grow that segment of the market.

The macro economics was pretty tough in the Q4 but we still saw a steady growth in pay TV customers. Broadband ARPU have levelled out, but we do see continued growth in subscribers. We added 7,000 customers in Q4 so I don't think it's going to hit a brick wall. For fixed, that is very dependent on the enterprise segment but again, we grew faster than the market so there's growth there too. Obviously everything I say is caveat, no one knows how deep the recession is going to go or how long, so obviously we're not recession proof, but we think we can manage through.

For OpCo, we don't know if we're going to be selected. We're one of four bidders. We think we put in a very competitive bid and we should know by the next results what the outcome is. We do have the capacity to invest in it. It will not have an impact on us in 2009 and will only commence in 2010.

If we look at Q4 numbers, your mobile ARPUs are down but revenues are up? 2008 was obviously a very tough year with a lot of MNP-related costs kicking in. Why aren't you guiding for better margins in 2009? With the corporate tax coming down, should we be thinking about that? Should we expect some cash tax payments in 2009?

We had a good lift-off in Q2 and Q3 for net additions. We had the full benefit of that in Q4. What's offsetting the decline in ARPU is the increase in customer base. That gave us $2 million dollar lift in revenue on sequential quarters. In 2008, we only had one down quarter which is Q2. When you look at the EBITDA margins for Q4, it was a little north of 32%, admittedly, we know we're going into a rough year so we're giving ourselves a little buffer with the margins. This is assuming there would be some impact on the business because of the economic slowdown. We haven't factored in the corporate tax coming down. On cash taxes, there might be some of that towards the end of 2009. Otherwise our tax assets are still enough to carry one more year. You can use about 17% tax rate going forward.

How do you view content costs going forward and how will competition affect that? How about EPL?

There's no question that EPL will be an event this year, certainly one where all of us will be watching, including investors, but it'll have no impact on this year's cost because the option that will take place on the second half of this year is for the season that will begin August 2010, but apart from that, we're not aware of any particular content cost that should be escalating in 2009. Having said that, you'll probably note that 2 parties in the city have been buying quite a bit of movie rights and that sort of thing from studios, so I'm sure we'll see that type of activities on an ad-hoc basis.

Can you give some details on your marketing and acquisition costs, especially on your sequential quarters? Your data and Internet segment has done very well in 2008, do you expect this to continue going forward?

Marketing costs for the full year were slightly higher than the previous year. This was because of MNP and the anticipation of the growth in broadband customers. We were promoting our products more in 2008. For Q4, it's traditionally a festive quarter so there was a little bit more promotion than the usual quarters. For acquisition costs, it's sensitive to the volume of prepaid gross additions, which tend to drive down blended acquisition costs. On data and Internet, this particular revenue item is made up of direct sales to enterprises and wholesale services to our competitors. It's about half and half. It's sensitive to the enterprise market and the margins there are quite good.

You increased your customer base for pay TV this year, but based on some US studies, do you see a drop-off this year as recession bites and customers cut back on discretionary spending? Can you give a take on the broadband penetration numbers? Where do you see the remaining customers to come from?

Some of the US studies actually go the other way. They see more people staying at home instead of going out and spending more on pay TV. There will probably be some households that will downgrade and probably just get the basic packages. So far, we haven't seen any downturn with regard to this particular service. The only evidence we've seen so far has been the reduction in usage, primarily outbound roaming.

On broadband penetration, we have always felt that if you were to isolate the residential wired broadband market share, we probably have half of that. As a practical matter, you can't have more broadband households than PC households. The last time I looked, there was about 70% to 75% penetration of PC households. But you can't account for the fact that people have multiple connections. That's probably why the way IDA reports broadband penetration makes sense. You can't talk about broadband without mentioning NGN. Given that the industry framework is going to change radically over the next 3 to 5 years, the playing field is going to change from competing on infrastructure to competing on value-added services. We know as much as anybody else on those. The person in the home doesn't care whether you getting to them with hybrid fibre co-axial cable or a fibre optic cable or twisted pair or a piece of string, you know it's all about price, performance and reliability and of course on top of that, services.

How do you want us to think about forex going ahead in 2009? On operating leases, under other operating expenses, do you expect to trim down going forward?

The opportunity to manage based on economies of scale is now much better, with the exception of leases for base stations. That is going to be more reasonable with the reduction in property taxes as well as commercial property rentals going down. It's good to assume that we'll manage within 5% of sales. On forex, the USD strengthening in the last quarter is not really easy to comprehend right now. We're watching that closely and if there's opportunity to hedge, we'll certainly do that to limit the risks.

On other operating expenses, there is a restoration cost of $3.5m as we're moving premises. There's also a translation of FX losses as we revalued our foreign currency net payables that was $5.1m versus a previous year's exchange gain of $1.2m. We've begun to outsource some of the services which we believe are not our core areas. We'll do more of that going forward. You don't see savings yet in the first year.

At this point in time, if you were to win the OpCo bid, would that create additional funding requirements?

We've thought through almost every scenario. Based on our current view, we believe we have the capacity and the facilities to handle all of that.

On the pay TV margins, you said they might improve going forward. Why is this? How do you plan to manage margins given that part of it is out of your control?

The costs of content have been bid up over the past few years. It comes in lumps, for instance, EPL. We don't really see the prospect of any significant margin improvement for pay TV in 2009. We will continue to add content and find ways to recover those costs through various offers. Over the course of the next 3 - 4 years, certain types of content costs might be possibly lowered. The opportunities do exist, EPL not withstanding, for ways to decrease content costs going forward.

How is your digital voice product going? Is it part of your revenue guidance?

We've had the digital voice on offer for some time. In September last year, we became much more aggressive through Hubbing. It's been a huge success even more than we imagined. We prefer not to talk about market share. We're pleased with the results. If I thought there is any material impact to cost or revenue, I'll certainly give you more visibility to it. It's more strategic in terms of the bundling strategy and it will probably stay that way.

On capex, you're guiding for about 11% of sales. How much of it is truly necessary and how much is discretionary? What are the triggers for capex?

We have not really broken the capex down in that way for public consumption. We do look at what is truly maintenance capex, well inside the single digit in terms of capex intensity, but that includes part of the network and equipment that need to be replaced. We consider that to be maintenance even though the timing of that may be discretionary. For growth capex, clearly at a time when you're forecasting lower demand, you shouldn't be spending as much on increasing capacity. It's an area we're definitely watching carefully. Growth capex is triggered on 'success-based' as much as we can. We feel confident to give you the guidance of not more than 11% as we pretty much know what we'd be spending on this year. We do have a three-year project that involves upgrading our customer care billing system. That was launched 20 months ago and it's something we've to follow through. That will wind down in 2009.

On broadband, could wireless broadband growth actually cannibalized wireline broadband? Given that competitive intensity should drop in 2009, shouldn't your margins recover to the 2007 levels of 33-34%?

We are not seeing a trend that if you use wireless broadband, you'll throw away your wireline broadband. It's in fact complementary. They're using both. We're monitoring very closely if users are downgrading or switching and so far we haven't seen any of that happening. On margins, the one part of the business that might experience price pressure is broadband.

Fortunately, we've been able to hold ARPU at about $58 for the past three quarters. However, you need to think about the international bandwidth costs. In Singapore, roughly 70% of the sites visited are outside Singapore. So we have to buy the bandwidth to get you there and back. With NBN, the expectation for speed is going to be higher. Even though we've taken some deliberate steps to gain efficiencies on international bandwidths, we're seeing some inching up of costs in providing the service. It's an issue that all broadband operators in the world are dealing with. We've invested in an undersea cable to try to manage those costs.

On mobile, what percentage of your revenues is based on international roaming? Among your businesses, which one would be most susceptible to an economic slowdown? Do you think there might be room for broadband retention costs to go up as you try to lock in customers before NGN kicks in?

The postpaid ARPU declined about 7%. About 1-1.5% of that is related to a change in mix to more data cards. It's not a bad thing because it comes at a very high margin. There was also some impact as more people are using Hubbing, which increases the discounts we give. That accounts for 1.5%. 3% is related to outbound roaming. The remainder is related to domestic usage and a little bit of IDD.

You'd have to imagine which sectors of the economy are going to get hit the hardest. The prepaid market is going to be highly sensitive to the population of foreign workers. To the extent that there's an exodus of foreign workers, that will have an impact on the prepaid service. For other consumer services, we don't expect that people will turn off the service. We do expect, depending on how deep the recession is, some down trading so people might choose to use the services less. In the expat community, we do have a high penetration of pay TV. If that sector gets hit, then we will see some impact on terminations. But we do not have a high penetration of expat mobile users. On broadband retention costs, I don't think it'll follow the trend of MNP on mobile retention costs, it should be a fairly standard behavior throughout 2009. We're probably going to be impacted more by the economy than by retention strategies.

== END ==