

# FINAL TRANSCRIPT

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**CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call**

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Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

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**Neil Montefiore**

*StarHub Ltd - CEO*

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## CONFERENCE CALL PARTICIPANTS

**Lai Voon San**

*Standard Chartered - Analyst*

**Sachin Mittal**

*DBS Vickers - Analyst*

**Rama Maruvada**

*Macquarie - Analyst*

**Khoo Chen Hsung**

*Merrill Lynch - Analyst*

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## PRESENTATION

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

Good evening, ladies and gentlemen, and welcome to StarHub's Fourth Quarter and Full Year 2009 Results announcements briefing. My name is Jeannie, and it is my pleasure to welcome the analysts and media who have joined us here at our office at StarHub Green. We also have analysts and investors joining us on the audio conference, as well as the webcast.

Now let me introduce our panelists to you. We have our new CEO, Neil Montefiore; our COO, Tan Tong Hai; and our CFO, Kwek Buck Chye.

Before we begin the presentation, I would like to remind all that for our question and answer session, we will be taking questions from the floor, then the audio call, followed by the webcast in that order. (Operator Instructions).

Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

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

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

Thank you, Jeannie. First of all, I'd just like to bring your attention to the forward-looking statement, safe harbor statement in the results, and then I'll move on to the first slide.

Okay, just very briefly, because Buck Chye's going to go through these in some detail; basically, a fairly flat year, but with some growth. So the revenue increased around 1%, and EBITDA increased around 1%.

Operationally, we saw good growth in the Mobile Prepaid areas, and also the Fixed Network Data Service areas, and we did maintain low churn rates for both Pay TV and for Broadband services.

We have seen some cost increases, particularly in the area of content now there's more than one media player here in Singapore. And we have seen quite a lot of competition from both our main mobile competitors, so that has driven some costs up.

Just a quick look and, again, Buck Chye will go through these numbers in much more detail, but as you see, total revenue up around 3% there in the quarter, and then in the year up around 1%.

EBITDA down in the last quarter; that was driven, as Buck Chye will explain, by some pretty heavy promotions, particularly concerning the iPhone, but for the year, up slightly at 1%.

Profit after tax up around 3%; good cash flow, so we're able to meet our dividend predictions, and I think reasonable results given the economic situation here in Singapore with a sort of recession of around 2.1% so, yes, fairly flat.

Most areas of business grew, so we can see here Mobile grew in both areas; Pay TV grew. We had a bit of a contraction in revenue in the Cable Broadband. That was through competitive issues, but the customer base did actually grow in that area as well, and Fixed Network Services also grew.

And this is quite an interesting slide. This shows the total earnings per household has gone reasonably up to SGD139.3 per household, and we cover now just under 0.75 million households that have StarHub services.

So with that, I'll just sum up with looking at the households. So the growth in our hubbing households, in the households that have all three services from us, or more than three services, we've seen quite reasonable growth in the year of about -- just under 20,000 people -- households, sorry; so 18,000 additional households there.

So with that, I will hand over to Buck Chye. He'll go through some of the financials in a bit more detail.

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

Good evening. I'll cover the financials.

The fourth quarter '09 is an investment quarter. The last time we did that heavy investment was the quarter, in the second quarter of '08, leading up to number port.

EBITDA for the fourth quarter was lower at SGD152 million, due mainly to the higher customer acquisitions and retention costs.

The festive promotions in the traditional fourth quarter, and the iPhone in December launch, suddenly saw us picking up good take-ups and re-contracting activities. This investment in handsets has allowed us to reduce the marginal higher churn in Mobile

Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

in the period prior to us getting the iPhone. And in spite of the more competitive landscape, for the full year, EBITDA at SGD654 million is SGD10 million higher, 1% better for the full year against last year.

On the EBITDA margin, as guided, we reached 31.8%, marginally better than '08.

The next chart shows the EBITDA margins by platform, and you will see there on the left the Fixed Network platform margins improved to 35%, above that, and in a quarter driven by higher corporate data and Internet business. The Cable platform, however, came down 1.3 percentage points. This is due to the higher content cost on TV, as well as the discounts for the Broadband business.

Mobile platform for the fourth quarter, the margins were lower by 5.5 percentage points, reflecting the higher handset cost [and] subsidies this quarter. As you know, we expense 100% of the costs of the handset we give to our customers for their recontracting or acquisition, signing up for two years contract ahead. However, in spite our year-to-date Mobile margin tracks at 36% for the full year, reflecting the equally competitive landscape in 2008 where we had number port.

Next chart shows the cost efficiencies. The total cost of sales at SGD230 million for the quarter was 20% higher than the same period the previous year, mainly due to cost of equipment sold and cost of service sales. The cost of equipment at SGD18 million for the quarter was SGD32 million higher than the same period the previous year, and this is due to the festive promotion and iPhone, which we could only launch in December.

The cost of services, which is mainly the content cost, rose SGD5 million or 6% for the quarter. For the full year, the cost of sales was SGD48 million, or 6% higher at SGD830 million. The higher cost of service and traffic expenses were mitigated by the lower investment we make in this year in cost of equipment, if you compare against the previous year of number 14.

The total cost of sale ratio as a percentage of revenue trended higher at 42% for the quarter, and that quarter's higher trending has pulled the cost of sales to 39% for the full year.

The offsets; in the area of other operating expenses, we have managed successfully to contain costs. You will see that the other operating expenses for the quarter of SGD430 million was 4% lower year-on-year due to lower marketing and promotion expenses, which at SGD41 million for the quarter, was SGD7 million or 16% lower.

Other G&A also helped to offset the increase in depreciation. For the full year, total operate -- other operating expense was 3%, or SGD24 million lower, contributed by cost cutbacks in marketing and promotion coming out of a previous year where we had number four, we (inaudible) back these expenses for three quarters. Then came the fourth quarter where we cannot but expend our investment in customer retention and acquisition, especially with the iPhone.

The next chart shows the profits from operations. As we mentioned, the quarter's cost was higher for acquisitions and retention activities and the long awaited iPhone for December launch. Our Group profit operating consequently was lower by SGD15.9 million, or 15% to SGD89 million for the quarter, compared with SGD105 million the previous year. For the full year, this fourth quarter impact reduced profitability from operations. However, we ended only marginally SGD1 million lower than the year 2008 at SGD408 million operating profit before tax.

On the profit after tax, with the lower tax expense, we end up with the net profit after tax at SGD320 million. This is SGD9 million, or 3% improvement over 2008.

Next the CapEx. As we've guided, CapEx trend at 11% -- less than 11% of operating profit. The CapEx for the year spending was SGD231 million. The free cash flow we generated was SGD82 million for the quarter. This was at similar level to the previous year same quarter. For the full year, I'm proud to say we generated a strong free cash flow of SGD461 million, and this is SGD83 million or 22% better. And with that, Tong Hai, I'm going to hand over to you.



Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

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

Okay, I will now provide you with the business overview. Chart number 16 gives you the Mobile highlights. Year-on-year prepaid revenue increased by 6%. Prepaid customer base grew 12%, and the postpaid revenue remains stable.

Chart 17 shows you that we have healthy net adds for both postpaid as well as prepaid.

Chart 18 shows you the subscriber base. We have now 1.9 million subscribers. 51% of these are prepaid; 49% postpaid. In terms of revenue, you'll notice for fourth quarter prepaid revenue have dipped slightly to SGD64.5 million. That's because of the fourth quarter intense competition in the IDD segment and pricing discount. For postpaid revenue, it increased to SGD216 million.

Now if you take a look at chart number 19, you will notice that prepaid ARPU have remained stable at SGD23 per month. Postpaid have increased slightly by SGD1 to SGD70. Now this is contributed by increase in roaming. Correspondingly, you notice the bar chart below shows you the prepaid non-voice services, and you'll notice that for both prepaid as well as postpaid, the contribution of non-voice services, which is primarily data and SMS, has grown. This shows that we're able to increase the data take-up for our Mobile subscribers.

Chart 20 shows you the acquisition costs. You'll notice there for fourth quarter the costs have increased to -- acquisition costs have increased to SGD106, and that is because of the festive promotion as well as for the iPhone launch.

The churn have also increased to 1.3%. This is due to the aggressive promotional activities by incumbent iPhone operators in the two months prior in anticipation of our iPhone launch in December.

Next, Pay TV business, chart 22. Year-on-year revenue increased 2%, ARPU decreased SGD1 to SGD56, and we have added 15,000 subscribers year-on-year. Now for the fourth quarter, we have added 4,000 Pay TV subscribers.

If you notice in page -- chart 24, our subscriber base now stands at 539,000 fully digital. The Pay TV revenue has increased to SGD102.6 million, and the ARPU remains stable at SGD56.

If you look at the churn rate, we've kept it stable at 1%.

Next Broadband; chart 27 shows you the year-on-year highlights. Revenue decreased by 5%. ARPU decreased by SGD7 to SGD51, and we've added 27,000 subscribers for this year -- for year 2009.

For the fourth quarter, we've added 8,000 Broadband subscribers, and you'll notice in chart number 29, our subscriber base has now crossed the 400,000 mark. Revenue has increased to SGD59.1 million, and ARPU has dropped by SGD1 to SGD49. And we have actually previously guided that Broadband revenue, the ARPU would remain currently on the downward trend because of the NGNBN that's going to be launched this year.

But although the ARPU has dropped by SGD1, you'll notice we have increased subscribers, and that contributed to the revenue growth to SGD59.1 million.

In terms of churn rate, we have kept it low to 1.1%, using a combination of both discount as well as premium gifts.

Next, Fixed Network Services, page -- chart 32. Revenue year-on-year increased 6%. Data and Internet revenue improved by 9%, and the contribution by Data and Internet Services is 85% of the Fixed Network Services' revenue.

Chart 33 shows you that for the fourth quarter, Fixed Network revenue is SGD78.8 million. Of this SGD12.2 million is Voice. Now this Voice contribution is primarily for our internal consumption. So Data and Internet Services will be watched, you will like to



Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

look at, because that's what we provide for corporate customers primarily in terms of the Fixed Line Services as well as the Internet Services and Data Hosting Services.

So you'll notice there for fourth quarter it remained stable around SGD66.6 million. We do see some competitive pressures here because of the come-up to the NGNBN, but we are pleased to note that we have kept it relatively stable at around SGD66.6 million.

Okay, with this, I'll hand over back to Neil to give you the outlook for this year.

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

Thank you very much, Tong Hai. So I'll just very quickly run through the outlook that you'll see on the chart there.

So revenue, we do see some revenue growth, but we're going to give the outlook as low single digit, which is the same as we gave last year.

EBITDA margin on service revenue we say will fall slightly to around 30%, so that's the guidance we're giving there.

CapEx, we will see an increase in CapEx. We do have our Nucleus Connect investment, and we also have some internal systems that need refreshing. So we expect cash CapEx to grow, but not to exceed 14% of revenue.

And with the projections, we are happy to recommend our dividend. So for this year, the final dividend will be SGD0.05, and it's our intention to pay a minimum annual cash dividend of SGD0.05 per quarter for 2010, which will be SGD0.20 for the whole year.

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

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## QUESTIONS AND ANSWERS

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

Thank you, Neil. We will now begin to take questions, but a gentle reminder that we'll take questions first from the floor, then the audio call, followed by the webcast.

The first question comes from Voon, Standard Chartered. Can somebody please hand him a microphone?

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**Lai Voon San** - *Standard Chartered - Analyst*

Hi, thank you. Three questions for me. Neil, you've inherited a SGD0.20 dividend guidance. I'm wondering if you can share with us your thoughts on, what I would say, is quite an aggressive cash return in light of the pressure on margins and your CapEx going up, and you're defensive probably this year with the NBN and the other Pay TV operator.

Secondly, on the contents side, there was a joint bid for the World Cup, and I'm wondering, as you look at other content as it expires, etc., would you be more aggressive in retaining them on an exclusive basis, or is this something, with the sharing type agreement, something you'd prefer?

And then lastly, I'm wondering if you could share with us a little bit of specifics on the pressure on the margins. Where is that coming from in terms of costs, or iPhone, or the different businesses itself?

Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

Thank you.

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

Okay, thank you very much. Well, the first question really is saying, can we afford the dividends? Well, as I think Buck Chye pointed out, the free cash flow in '09 was very strong.

Our cash flow predictions for 2010 will support the dividends that we're intending to pay. So I'll leave it at that really.

The World Cup I can't really comment on. We are still in discussions, but we're not in a position to make any public comments on that.

Other content, well, surprisingly, everyone talks about the BPL, but in fact, we have some 20 sporting channels already, and we will look to maintain and grow all our content for 2010.

And I think I'll pass to Buck Chye on the margins.

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

I think the pressure on margins will be leading up to the commencement of NGNBN. We'll probably see pressure on Broadband. But for our business, as we move in to integrate it, I think we would be able to maintain the margins on a blended basis. We have put our guidance of 30% (inaudible).

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

Yes, you will notice (inaudible) our approach towards the content acquisition because that constitutes part the increasing costs. When it makes sense, we will team up, right? Of course, if we can take it exclusivity, well, so we will take it exclusively.

So we then, (inaudible), we look at this very carefully to ensure that it remains affordable to our customers; that's most important. But also, it makes financial sense to us.

In terms of some of the pricing margins pressure, we'll look at areas that we can invest. So iPhone, yes, it hit us on the fourth quarter, but we're investing in it so that we can actually enjoy the returns in subsequent months. So unlike others, we actually recognize the hit for the particular quarter.

So this is our investment decision, and we will, of course, not sacrifice long term gain. There's a short term impact, but we're looking at long term gain.

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

Right, Anthony, are you there? Our operator who --

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**Operator**

Yes, I'm here.

Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

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

Is there any questions from the audio?

**Operator**

Yes, there is. We've got one question coming from the line of Sachin Mittal. Please go ahead.

**Sachin Mittal** - *DBS Vickers - Analyst*

Hi, thank you for the call. I have a couple of questions. The first is, you have guided for single digit growth in top line, despite potential decline of EPL customers. So what I want to understand, is it due to OpCo contribution or something else?

And what kind of OpCo contribution should we expect, that's question number two, in 2010?

And my third question is again related to OpCo. How much CapEx is coming from OpCo; and the future trends for CapEx for OpCo?

And the last question is about the cash tax in 2011. 2010 it's -- I want to just recheck that there's no cash tax in 2011, and any guidance on that going forwards?

Yes, indeed, that is the fourth question, actually.

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

Sachin, can I get you to repeat the first question again, please.

**Sachin Mittal** - *DBS Vickers - Analyst*

The first question is on the guidance for single digit growth in top line.

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

The guidance for the low single digit for top line?

**Sachin Mittal** - *DBS Vickers - Analyst*

Yes, despite potential decline of EPL customers. Is it due to OpCo contribution, or is it something else?

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

Yes. Well, let me take the first question. Because StarHub, in terms of our business, 51% is contributed by Mobile, Pay TV about 19%, and Broadband 15%; Fixed Network the rest; we are not dependent on a single line of business.

So you will take our Pay TV business to decline by a lot before we can hit because its contribution is 19%.

Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

So, yes, we have said that there will be some impact because of the loss of the EPL, but we also stepping our retention activities to keep this customer. We have also announced that we will be launching a channel; two channels in fact, a free channel; two free channels. One is for sports news, Euro sports new, and the other one is really another channel which will be announcing shortly.

So this will make it more attractive for all our StarHub Cable TV subscribers to enjoy. And [one news] that even for sports right now, if we count the number of channels, we have 20 over channels.

So for the Pay TV business, yes, there is one portion called the sport, the EPL. But we have more comprehensive sports and we will find ways to retain this customer to ensure that we continue to grow the business. So the growth is coming from other parts of the business too.

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**Sachin Mittal** - DBS Vickers - Analyst

Okay.

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**Neil Montefiore** - StarHub Ltd - CEO

I think the second question was about -- was it the OpCo CapEx?

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**Sachin Mittal** - DBS Vickers - Analyst

Yes, that's right. OpCo contribution in terms of top line and CapEx.

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**Neil Montefiore** - StarHub Ltd - CEO

We'll let Buck Chye answer that one then, I think.

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

As far as 2010, that being the first year in which the NGNBN commenced, and it is not a full year, we don't expect much contribution in top line from Nucleus Connect at all.

Regards to CapEx we under confidentiality cannot tell you the amount of CapEx that is to be spent or to be payable in 2010 for Nucleus Connect, but you can infer from the CapEx to revenue guideline that effectively, without the Nucleus Connect in this year, we -- the CapEx is 11%.

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**Sachin Mittal** - DBS Vickers - Analyst

Okay.

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

Yes. So you have to draw that conclusion yourself, yes?

Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

**Sachin Mittal** - *DBS Vickers - Analyst*

How many years of CapEx; I mean in terms of Nucleus Connect?

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

Can you repeat that question?

**Sachin Mittal** - *DBS Vickers - Analyst*

How many years of CapEx should we expect because of Nucleus Connect? Will it be 2010/'11 and beyond that we should expect CapEx from Nucleus Connect?

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

Yes. The announcement made by Nucleus Connect is that it will spend SGD1 billion of capital expenditure over 25 years, but that is a very long timeline. But for the government rollout, I think we have guided that our investment over the three years is not likely to exceed SGD100 million. That's the best we can do right now, right? CapEx is a bit sensitive. We're still working with vendors to try to squeeze down the CapEx each year, so it's a bit sensitive right now. Sorry.

**Sachin Mittal** - *DBS Vickers - Analyst*

Okay.

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

Sachin, you also asked about cash tax, right?

**Sachin Mittal** - *DBS Vickers - Analyst*

Yes. The last question, yes.

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

Sachin, the cash tax, we have guided before that we may enter into a little bit of cash tax in the year 2010. You will find in the announcement that we are beginning to book a tax liability of SGD19.5 million, right? And that is probably the first exposure. Just watch that line and you can probably forecast better. Okay? But we don't expect any cash tax for at least another eight or nine months.

**Sachin Mittal** - *DBS Vickers - Analyst*

Okay. Thank you.

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

Yes.

Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

**Operator**

Okay, thank you. Our next question comes from the line of Rama Maruvada. Please go ahead.

**Rama Maruvada** - *Macquarie - Analyst*

Hi, good afternoon. Just a couple more questions just following up on what Sachin was talking about, which has to do with how the OpCo part of the contribution has been baked into the guidance. In particular, with regards to depreciation, how do you -- what is the bump in depreciation related to? And from a cash perspective, how does it translate?

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

Okay, thank you. I can't -- again, as we said, we can't give too many details about the OpCo investment. In terms of the depreciation, it will increase, and as we've given the guidance in terms of CapEx, which I think in '09 was around 11%, and we see that increasing, but up to a maximum of around 14%. So you can make your own deductions in depreciation.

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

I guess the second line that I can give you is that the infrastructure [plant] equipment of OpCo being more electronics, you will be averaging around five years to depreciate whatever number you come up with. Yes?

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

The other point I want to highlight is that the OpCo CapEx investment is success based. So it's based on take-up. It's not like we have to rollout and implement it across the whole Singapore, like the [NetCo]. NetCo obligation is nationwide. The OpCo is success based. And, of course, the bulk of the investment will be -- CapEx investment will be this year, beginning of this year, because when we roll it out and it will gradually taper down in the second half.

**Rama Maruvada** - *Macquarie - Analyst*

Maybe if I can follow up on the CapEx part of the OpCo. Is the guidance that is given -- all of CapEx guidance, is it gross of government grants or is it net of it?

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

Sorry, could you repeat? Gross of something?

**Rama Maruvada** - *Macquarie - Analyst*

There is a government subsidy for OpCo, right, which is around 100 -- I think 250 --? I can't remember the exact headline number, but when you talk about the new CapEx guidance, does it take into account the grants you'll be getting from the government on a cash basis?

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

Rama, that's gross for you.

Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

**Rama Maruvada** - *Macquarie - Analyst*

Okay. Thank you.

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

It's an accounting at gross. The cash flow, of course, is much lower when you receive the grant to offset your full CapEx.

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

Right. I'm going to turn this over to the webcast. There are two questions from the webcast, but they have already been answered. It's on World Cup as well as dividend payout.

So now let's open to the floor. Hsung, you have questions from Merrill Lynch?

**Khoo Chen Hsung** - *Merrill Lynch - Analyst*

Yes. Thanks, Jeannie. Two questions from me. I think firstly, I just want to focus on the service EBITDA margin again. I just want to understand in a little bit more granularity reason for that little drop that we saw quarter-on-quarter.

Second thing is about more on the guidance. Again, for your revenue, and you've seen EBITDA squeezed there and higher CapEx. I just wonder how you can sustain the dividend commitment in this kind of trend.

And finally, third point is really on the CapEx front. Two things on the CapEx. One is, what should be a reasonable sustainable CapEx to sales that we can expect from StarHub?

And I think -- and then, the second point is, of the SGD100 million CapEx for the OpCo, just to clarify if this is going to kick-start from this year, and whether it's going to be front-loaded or back-loaded.

And also about the government subsidy; is it tied to this first phase of the OpCo rollout CapEx, or are you going to be -- it will be spread over that 25 years period?

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

Okay. I think we've explained in a way already the EBITDA margins on service revenues. That has come down, and that's mainly been driven by a particular unit called the iPhone, which has increased the handset subsidies. And there's been a very strong take-up of the iPhone. But the iPhone does deliver good returns over time, so we should see that coming back into the business as we go through 2010. But certainly, you could see in the last quarter results the impact of that. And we'll see it probably in this first quarter as well.

The next question was --?

**Khoo Chen Hsung** - *Merrill Lynch - Analyst*

Actually, Neil, just to clarify, because the margins -- I'm here. Because we are talking about service EBITDA margin. And if I understand correctly, iPhone subsidies are excluded from that. Am I correct; because they'll go under your handset sales?

Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

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

No. They'll be included.

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

The way it is accounted is, whatever the customer pays is recorded as sale proceeds. So whatever we spend, the 100% cost is recorded as our cost of equipment sold. So we don't net the sale proceed against the cost, right? We expense the total in the period we give the phone to the customer. We do not amortize it over the period of the contract if it were a two-year contract. We don't. We just expense it conservatively because the cash is already out of the door.

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

Typically, with most phones sold in Singapore, we see a payback in somewhere between two to six months. And that is the case with the iPhone too. But it is a much more expensive phone than normal, and that's going to hit this year in many ways because the smartphones coming into the market, although they will drive our revenues upwards, they are more expensive.

**Khoo Chen Hsung** - *Merrill Lynch - Analyst*

So the point you're saying is that ARPUs will be picking up from here for the postpaid side?

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

It's too early to give a guidance on the actual ARPUs, but one always hopes, yes.

**Khoo Chen Hsung** - *Merrill Lynch - Analyst*

Okay. Thanks.

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

The second question?

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

Okay. The question I pick first is on dividends. And the question is hinting that, with higher accounting costs for CapEx and depreciation, and the possible drop in margins marginally, are you still able to be paying? Now we have -- if you look at the Company that pays the dividend, the -- firstly, the debt to equity is very low at 0.61. We have a reserve still in the parent co which pays the dividend of SGD984 million still. So even if the earnings per share is lower than the SGD0.20, it doesn't prohibit one from making a dividend of greater amounts than the current year's earnings. You can tap on the distributable reserves. So accounting-wise, no fear.

On a cash basis, our net debt to EBITDA is now only at 1.02 times, so if you look at it, that I have the borrowing capacity if it is necessary to deal with expenses, and I do not have to essentially reserve all earnings to meet dividends, right?

Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

And the third part of it is we are confident that the business of StarHub does generate a very sustainable cash flow. Varying situations where competitive pressure is irrational, you have seen it drop in a quarter down to a level of SGD140 million level. Otherwise, generally, with the sustained customers, we expect it to be far north of that SGD140 million EBITDA run-rate.

Working capital is always manageable, so you can see we that in the past, we have always guided that our dividend policy is measured against a free cash flow, and in the past, you have seen us pay out between 60% to 70% of free cash flow each year for the balance. The same with 2009; the payout as a percentage of free cash flow was 73% of our free cash flow generation, yes? I suppose that will answer the questions.

Now CapEx, somebody very quickly drew a number of SGD100 million as a supposition. I can't confirm that number, but actually, the CapEx of OpCo is in two parts. One part, which is the rollup obligation, and hence that portion is upfront because the electronics have to be built.

The other portion, as Tong Hai mentioned, is on the adoption when you put the equipment into the homes as you get in to connect them, and that part is demand driven. If there's no demand, you don't spend the CapEx. So there are two parts.

The government grant has milestones. The milestones are not tied to capital expenditure flow. It is tied on certain deliverables that we commit under OpCo. When those deliverables are met, the grants will be dispersed, yes? So regardless of the CapEx flow.

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**Khoo Chen Hsung** - Merrill Lynch - Analyst

Thanks, Kwek Chye, but the deliverables, are they relating more to the rollout on the upfront side, or more on the demand driven success base part of the CapEx?

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

Again, there are two parts. The rollup obligations has its own milestone deliverables. The adoption sponsorship, if you will, will be on demand. So there's some portion of that CapEx for OpCo that will be incurred over the next two to three years that we will get some claw-back from the government.

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**Khoo Chen Hsung** - Merrill Lynch - Analyst

Okay, thanks.

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

Right, thank you. Can we have one more question from the floor before we pass it over to the audio? Can somebody pass the microphone to Winston of Business Times? No, you have to speak into the mic so that people in the audio conference call as well as the webcast, can hear you. Thank you.

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**Winston Chai** - Business Times - Media

Winston from Business Times. Are there any big changes you intend to make to StarHub's operations?

Second question is, once the NGN kicks in, what do you intend to do with your existing coaxial network?

Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

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

I wouldn't obviously want to talk about any changes I'm making to StarHub. StarHub is a very well run company. We will be maintaining the hubbing strategy going forward, and the team that I'm working with I'm very pleased with at the moment, so I don't talk about any particular changes.

I think the network we have is quite advanced. It can be advanced more, but we will be looking in the future to move to the next generation network, but it will take some years I think. Do you want to speak on that, Tong Hai, on the actual --?

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

Currently, we are running -- of course, if you look at the mobile network, we are running at 21 meg, which is the HSPA Plus. We have mentioned that we are going to do some -- of course, we'll look at beyond HSPA Plus, so that is wireless network, okay.

Then if you look at the HFC network, this is running DOCSIS 3. DOCSIS can go up to 100 meg, right? And that's pretty fast. In fact, it can support many HD channels as well as the standard definition. ADSL can only go up to 25 meg, so there's still a lot of longevity for the cable -- the HFC network.

The fiber broadband gives you 100 meg to 1 gig, but it gives you higher upload speed up to 50 meg, right? So there is a bit of difference, but our plan is really to support both, because users will come onboard and as they -- of course, if the adoption rate grows, then we would, of course, put more resources. The way we look at our business is that we have both. I think that's the thing you should note is that StarHub has both the cable as well as the next generation broadband through our OpCo, right?

So we're going to look at the adoption rate, and there will not be any forced migration, and you will notice that for the cable, it still remains the most affordable for those value conscious, because it comes with 140 channels of program and, at the same time, you can still have up to 100 meg, right? So each has its own value proposition.

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

Right. Anthony, can we have the next caller from RBS? Arthur from RBS.

**Arthur Pineda** - *RBS - Analyst*

Thanks for the call. I have three questions. Firstly, with regard to your CapEx levels, could you please give us guidance on where do you think this will go post NGNBN build-up, as I understand you'll probably be able to source the capacity from there going forward, and when do you expect to see this actually?

Second question I had is with regards to the Mobile business. You've been seeing increasing churn levels going into the fourth quarter. I was actually wondering what's causing this given that you're now actually at parity with SingTel on the handsets, and you also have bundling advantages. What's driving this increase in churn?

Last question I had is with regard to revenues. I understand you're driving for low single digit revenue growth. Could you split this between Mobile, Pay TV and Broadband for 2010?

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

Well, the first question is quite difficult because we're obviously not going to give guidance for you beyond 2010, and that's what the question was, but I'll just talk about the industry in general.

Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

Telecoms in general, the CapEx runs somewhere between 8% to 11% typically of revenues, so that would be the normal operating revenue, but we are in a period of investment right now, so you have to be aware of that.

Mobile churn increase, I think that was in the last quarter we were talking about, and I think that was driven -- really, we've been focusing quite a lot rather on market share, but on the value of the customer, and I think that's there -- so we have lost some of the customers that we consider not to be of that high value, and we've been focusing on the higher value customers. Do you want to add to that?

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

Just kind of like, we have actually mentioned that our normal run rate, like if you look at 2009, our CapEx is about 11%. That is pretty normal. In fact, for this year, the CapEx guidance of not more than 14%, we have guided that the first half we may increase, then second half may gradually go down because the rollout is by the first half of this year, right? So that is important for us to get everything [on to] of the OpCo by this year. And, of course, it's not just the OpCo, it's also some IT investment that we have mentioned.

In terms of the Mobile churn for the fourth quarter, you know that in fact for third quarter I have shared that the churn rate increased to 1.2. I have attributed that to iPhone, right? So for the fourth quarter, we only got our iPhone in the month of December. Now the two months prior to that, an incumbent operator was very aggressive to make sure that they defend their turf, at the same time, of course, came out with a lot of promotions. So what we see is like a one-off aggressive promotion.

Other than that, of course, if you look at it, it's pretty stable, so we see that the churn rate, now that we've got iPhone, should be able to manage and bring it down to the normal level about 1% to 1.1%.

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

And I think the last question was, could we break down the low single digit figures?

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**Arthur Pineda** - *RBS - Analyst*

Yes.

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

I don't think we can do that, but I think you can see from one of the charts that I presented that the very competitive area is in fact the Fixed Broadband area that's -- and with the next generation network coming in, we may see some hit in that area. But the other areas we're expecting some growth.

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

Right I hope that answer your questions, Arthur.

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**Arthur Pineda** - *RBS - Analyst*

Thanks. Can you --? Sorry, if I can just follow up with one question on the first point I raised, on the CapEx levels. I understand that this target that you're looking at, or based on what Neil was saying, something like 8% to 11% CapEx of sales ratio. Just to

Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

get -- just to pick your brain on this one, given that you'd probably not have to spend on network capacity as much as before with NGNBN built out, should we actually look at this as a higher number already, when everything is built out?

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

I think we have mentioned that going forward, our CapEx would be less on the infrastructure, but more on system and apps area, especially to deliver integrated services and to be able to deal more holistically with our customers, the home as well as the corporate. So on a stable basis, we are expecting the trend, right?. And if we can leverage more of next generation broadband, we certainly would. It's an issue of whether when we as an RSP feel that we need to do an infrastructure because Nucleus Connect is not there yet. We might put in some, so you will probably see us spend a little also on infrastructure, but the trend would be quite quickly going down below the double digit.

**Arthur Pineda** - *RBS - Analyst*

Understood. Thank you.

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

Thank you. I have a question here from the webcast. He asks if we have any change to work with U Mobile.

Well, we just want to state categorically that we are not in discussion with U Mobile. StarHub remain focused in Singapore. Okay?

Now with that I'll turn to the floor again. Any takers? Oh, sorry. Joan from The Edge. Can somebody please hand her a mike? No, Joan asked for (inaudible).

**Joan Ng** - *The Edge - Media*

Hi, just a question on the iPhone. You've said that you expect it to eventually have good returns. Can you give a little bit more detail what kind of good returns you're talking about? Because although we've seen revenues go up for companies that have supplied the iPhone in the past, CapEx has also gone up because of higher data surfing?

And looking at the price plans for what you're charging customers now, it seems that the incremental revenue that you get might not be that much.

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

I think, again, we can't give you the details. The iPhone was only launched, I think, in the first week in December, was it?

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

Yes.

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

Yes so it's very difficult to give you details of where it will be. But certainly, in other markets, we've seen increased revenues from smartphones like the iPhone.

Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

In terms of network infrastructure, StarHub is very lucky that it has one of the most advanced infrastructures in the world. It has an all IP mobile data network, and it's at 21, I think, megabits per second now. So there won't be a huge amount of investment in capacity.

And I think also we're looking at all the ways, as they are in the rest of the world, of how we offload the mobile data usage as it grows. So there will be -- I think StarHub was one of the first to move out into the market with Femtocell, and that will offload some of the pressure from the actual Mobile part of the network. And there will be other systems coming into place over the next two or three years.

Would you like to add anything on that?

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

Yes. I think the key strategy for us was really to come up with the best smart surf plan, data plan, that caters to all smartphones, iPhone included. So prior to getting iPhone, in fact we got it in December last year, we were able to still continue to grow and the data revenue continue grow. That's because we have a comprehensive [street] of smartphones. And the design, the smart surf plans to cater for the smartphone users.

So we're looking at the whole rim of the smartphone users at large, introducing the best mobile entertainment that the StarHub TV mobile. I'm not sure whether you've seen the latest interface of picture-on-picture -- picture-in-picture on the hand phone. That is first of a kind that you can see. You can switch between channels and others, and focusing a lot of the user interface, introducing to them Twitter and all the social networking aspect of it to drive up the Mobile, the data usage.

You notice that for our prepaid subscribers the non -- what we call non-voice services, that's primarily SMS and Data, have also grown in terms of the percentage of the contribution to the ARPU. So as a whole, the Company is focusing on growing the Data business, because that's where the upside. The market is pretty saturated in terms of the subscribers, but there's still upside in terms of if you can -- nobody buys a smartphone and you don't buy a data plan.

If you use a smartphone, in theory a smartphone is usually just for voice call; it's really a misuse of the smartphone. So we see potential to attach a data plan. And if we can come up with the best data plan, there is still room to grow the data usage, and that will contribute the ARPU.

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

Right --

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

We have a question. In fact it's the second question from (inaudible).

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

No it's not.

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

Yes.

Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

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

It's not.

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

It's the same. Oh, and the question is, would you consider increasing leverage in order to maintain a stable dividend, let's say a flat SGD0.20 going forward?

Maybe I conveyed a misunderstanding. Let me give you the cash flow first. We generate SGD460 million of free cash flow. And the dividend that we pay, if it were to any sense, would be only requiring us to set aside SGD343 million of that SGD460 million level. I made a point that if we really had to go into borrowings we can, because mentally I was thinking of a worse scenario where there is a possibility of you having to use part of your free cash flow for a sudden strategic CapEx that comes in. And unless that CapEx is SGD100 million, it has no risk to the free cash flow required to service dividends of SGD340 million-ish a year.

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

Right, can we have the next caller from Nomura, Roshan?

**Roshan Broshan** - *Nomura - Analyst*

Two questions; one on wireless. The broadband ARPUs, where do you think we could see some stability there?

And the second question is on the acquisition of Datacraft; what is the plan there and would you be looking for other opportunities in that segment?

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

Sorry, we did not acquire Datacraft. It was a partnership with DataCraft.

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

I think you're thinking about (inaudible) --

**Roshan Broshan** - *Nomura - Analyst*

Yes, sorry, the (inaudible).

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

I think you're thinking about the South African company.

Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

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

Yes, let me take this. In terms of the Broadband ARPU, it has dropped by SGD1 to SGD49. We have guided that this may go from between SGD45 to the high end of SGD49 range. And so far, the drop has not been like first quarter to second quarter where the drop was pretty substantial in terms of ARPU effect. From quarter two to quarter three it's dropped by SGD1, and quarter three to quarter four it's dropped by SGD1. So it has dropped, but not a sharp drop. So we have guided that it will be in the range of between SGD45 to SGD49 range.

Our -- we don't of course see, a lot of upside to grow ARPU because we are coming to the launch of the next generation broadband so there'll be more competitive measure -- what we call pressures. But certainly, it is holding on pretty well. And we are also introducing value added services in the area of gaming in order to provide other services for our Broadband customers.

Broadband remains a very important and value proposition from StarHub's perspective, because we believe that it is the full street of being able to surf and then watch TV, enjoy digital voice, right? And all these other coming together for the household.

In terms of the strategy for us in going after the corporate segment, because we don't really have an SI arm, so our strategy is really to team up with the system integrators, proven system integrators, and Datacraft is one of the system integrators that we have signed up, especially when we announce our Asia/American gateway [submarine] cable. You don't just connect cable within Singapore, you're connecting Singapore to another country, right? And if you want to provide an end-to-end service, then you need somebody to go down to the country to install the switches and routers, etc.

So signing up a partner like Datacraft provides us with the regional implementation capability, because Datacraft have regional offices.

StarHub is very focused in Singapore, but if you can find partners like Datacraft with offices in the region, we can now provide end-to-end network services and leveraging on our strong capability, and our network in terms of Asia/American gateway submarine cable.

Now we will in due course be announcing more and more of such partnerships because our strategy really is to partner and not to own. We don't believe that there's a lot of successful stories of telco owning IT businesses. And we believe that the better mode for StarHub is to find very niche, very specialized system integrators that will provide a very focused solution to specific industry type of customers.

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

Right, can we have Victoria from ZDNet.

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**Victoria Ho** - *ZDNet - Media*

So with the NBN coming up, and you're just talking about Broadband ARPUs and stuff, do you expect that to be a more valuable segment for you eventually?

And if not, can I expect a lot of retention activities for your Broadband?

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

I think one area where it will definitely increase our activities is in the corporate sector because, at the moment, our reach to buildings is quite limited in Singapore. I think it's about 800 buildings. And we'll be going up to something between -- nearly 25,000 buildings. So that will enable us to compete with the previous monopoly in a much stronger way.



Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

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

Because currently for our Cable Broadband, it's limited to kind of like provided only for the home residential market, right?

So we look at the NGNBN as an opportunity for us to provide broadband services to the enterprise customer, in particular, the small and medium enterprises. These are the enterprises that will find that with the NGNBN, they can have 100 meg to 1 gig cable network and that will allow them to compete more effectively. So we do see that there's a lot of opportunity for StarHub to go after that particular segment.

I'm very sure that there are other operators who also mention that they're going after this same segment. Regardless the case, they will have to buy wholesale from Nucleus Connect. So we're happy that as all operators go after the [S&B] market, they will be buying more wholesale services from Nucleus Connect.

Of course, StarHub's perspective, we have our own fixed network, complemented with this NGNBN network, but we believe we can provide very resilient broadband services to any businesses in Singapore.

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

Can we give a chance to Josh of UBS? Josh Bae, you're on. No? Okay, Hsung, you can have a go again.

**Chen Hsung Khoo** - *Bank of America Merrill Lynch International - Analyst*

Okay, sure. Thanks. Actually two follow-up questions. Relates -- is really about concerns about a customer migration risk facing StarHub in second half.

Could you maybe just give us a little bit more comfort? What are you doing to give investors comfort that there won't be the kind of impact -- I mean, you're saying there's going to be very minimal impact, but it is -- the question is we do not know. So we would like to know what you're doing to minimize that risk.

Second question relates more to Pay TV content risk. What are you doing to manage that going forward? There's risk for it -- for you to lose more content. As EPL has shown, you can't defend all content over time, and how are you preparing yourself for some losses along the way? How are you managing the business for that?

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

In terms of for the -- I think you're referring to the Pay TV migration, right; the sports subscribers?

**Chen Hsung Khoo** - *Bank of America Merrill Lynch International - Analyst*

Yes, there's a potential on bundling that will happen in the long term. Thank you.

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

Yes, we have mentioned that 10% of our subscribers are at risk, of our 539,000. And we believe that these sports subscribers, if they look at us kind of like now we can offer, because StarHub is not just about soccer. We have basketball; we have badminton; we have tennis; we have golf. So it appeals to a wider range of customers who want sporting activities and know what's happening.

Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

So really, that this proposition remains pretty strong, that's provided we can price it affordably. We've announced that we have set or reduced the sports package by more than 50%. So that's something our subscribers will look out for.

So if you price it at the right price, customers will, of course, buy attractive.

Then we also think that it is good to introduce two free channels. One is on sport, Euro sports news, and the other one is a channel that we're going to announce shortly. And this is given to all subscribers so that they can have a taste of some of these sporting channels. Then that will also help them to go and upsize and take the sporting package at the reduced price, which will also be attractive.

So it is a combination of the right pricing strategy, and also adding on content. We've announced that we're still signing up the Brazilian League. We sign up the Brazilian League. We have La Liga.

So there will be more sporting programming that we'll be announcing. So we're not stopping at where we are now, right?

And, of course, we just announced that this quarter, we have added Fox to TV. We have also TVN, which is one of the most popular Korean channels in Korea. We'll make it available. We have also announced [banjo] music, something that you have not seen before, and also an Asia travel channel.

So our subscribers will be looking out for more of this, and we'll be giving them a preview this Chinese New Year so that they can enjoy and have a free preview, and then they know they can watch any channel and have the best preview.

So these are things that you can enjoy as cable subscribers, and I believe it is affordable and they will want to remain with us. So that is broadly the strategy.

In terms of the content risk, the cost, how we're going to manage the cost, we will have to look at each of the content carefully to see what are the take-up rate. Knowing the take-up rate, we will know what are those that we really have to go and get it exclusively and those that we are happy to share, right?

So that will be the approach and those that we want exclusively, then we will bid high and, of course, we manage those that we don't think it's essential; we just share it. So that is the general principle of how we're going to manage the content costs.

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

I think also it's worth saying that we do see the content going across all our platforms, not just the Pay TV part; more and more we see it moving on to the Mobile and to some extent on to Broadband.

So I mean the Mobile, I don't know if you've seen our 24 channels enabled on Smartphones; it is incredibly easy to use and it does get very good attention from the people who do use it. They average over 10 minutes viewing per time they view, and they watch channels that you wouldn't think they would be watching like the History Channel has been very popular. So it's not just sports and news; it's other channels that they're going for.

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

Right, ladies and gentlemen, in the interests of time, we will have to stop the drilling session now. For those of you whom we have not had a chance to address your questions, we have your name, and we will contact you very shortly.

Just so you know, a transcript of this question and answer session will also be posted on our website soon.

Feb. 04. 2010 / 10:00AM, CC3.SI - Q4 2009 STARHUB LTD Earnings Conference Call

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

Goodnight.

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

Thank you very much.

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

Thank you.

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