

# FINAL TRANSCRIPT

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## CC3.SI - Q4 2010 STARHUB LTD Earnings Conference Call

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Feb. 11. 2011 / 10:00AM, CC3.SI - Q4 2010 STARHUB LTD Earnings Conference Call

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**Tan Tong Hai**

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## PRESENTATION

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

Good evening, ladies and gentlemen, and welcome to StarHub's fourth quarter and full year 2010 results announcements briefing. It is my pleasure to welcome the media and analysts, who have joined us here at our office at StarHub Green, as well as those who are connected to us via the conference call and webcast.

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

Before we begin our presentation, I would like to remind all participants that we will conduct a question and answer session at the end of the presentation. For our question and answer session, we will be taking questions from the floor, then the audio call, followed by the webcast. (Operator Instructions)

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

Feb. 11. 2011 / 10:00AM, CC3.SI - Q4 2010 STARHUB LTD Earnings Conference Call

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

Thank you very much, Jeannie. We'll look at the highlights, and then we'll run through the financial overview, and then, Tong Hai will talk a little bit about the business highlights. Then, I'll finish up with an outlook of where we think we're going. So I'll start off with the quick overview.

On the financial side, the operating revenue increased around 4%; service revenue also around 4%. EBITDA margin improved steadily through the year, and finished the whole year at 28.1%, which is in line with the guidance that we gave, I think, it was around January, February time last year.

Operationally, we saw some strong growth in Mobile. We saw Mobile customer base grow about 12%, and total revenue went up about 8%.

We were very pleased that our TV business remained stable, despite the loss of the BPL. Broadband customer base continued to grow, about 6%. Strangely enough, with the new next generation network, we've had quite a lot of growth at the lower speed end of the market. And the Fixed Network Services did quite well, and grew quite strongly, around 4%.

Just looking at the actual numbers, I'll focus mainly on the quarter, to start with. The quarter, we saw some growth, year on year, so the last quarter of the year. We saw about 2% growth in revenues; service revenue up about 3%. EBITDA quite strong growth, around 12%. EBITDA margin up about 2.4%, to 31.5% for the last quarter.

We're still, quite [lightly], moving forward in terms of profit. Profit was up around 8% on the quarter.

If you look to the full year, we saw operating revenue up around 4%, at SGD2,238 million, EBITDA SGD602 million, and EBITDA margin, as I mentioned, finished at around 28% for the year. So net profit after tax was SGD263 million.

Looking at the lines of business, Mobile, which is now 53% of our revenue mix, which has grown a little bit, we saw significant growth in both prepaid and postpaid. So the customer bases went up 12% and 13%; that's postpaid and prepaid. And the actual revenue, 10% and 2%.

Pay TV we saw flat in terms of customer numbers, but we did see a small fall in the revenue. That's mainly come about from the reduction of our sports package pricing.

Cable Broadband, we saw a growth in customers, but a slight drop in the revenues. And that really came about from two things. One is that we are targeting households that have no actual broadband at the moment, so trying to extend the reach of the broadband service into households, so we're offering quite low-end packages, and low speed packages. And also, there's quite a lot of price pressure in that market at the moment.

Fixed Network Services grew quite strongly. So it's about 15% of our revenue, and it grew around 4%.

Hubbing is still a key part of our strategy, and we saw some significant growth there; about 8% in the number of households that take three or more services from us.

And the ARPU from the households varied a little bit through the year, with the Pay TV part of the packaging, but ended the year quite strongly, at SGD142 per household.

So with that, I'll hand over to Buck Chye, to run you through a bit more details on the financials. Buck Chye?



Feb. 11. 2011 / 10:00AM, CC3.SI - Q4 2010 STARHUB LTD Earnings Conference Call

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

For those that are not with us, I refer you to slide 12, on the financial overview.

For the fourth quarter in 2010, our Group EBITDA, at SGD170 million, was SGD18 million better than the same period the previous year. This is the 12% improvement. The EBITDA margin, at 31.5%, is up 2.3 percentage points, compared with the previous year.

We have invested more significantly in smartphones and content in the first half of 2010. And consequently, even with the better second half EBITDA performance, the full year EBITDA, at SGD602 million, was SGD52 million lower, due to the higher investment in cost of sales and, also, some increase in staff costs.

The improved EBITDA in the last two quarters has, indeed, lifted the full year EBITDA average to 28.1%. The running rate of EBITDA margin should see us well into the year, however, we do have challenges ahead.

The next chart is on cost of sales. As I mentioned, the good news is that, in the fourth quarter of 2010, we actually saw a reduction in cost of sales which, at SGD210 million, was SGD20 million lower than the same period in '09.

The cost of equipment sold, at SGD76 million, was a marginal SGD4 million, or 5%, lower than the previous year. The smartphones were more expensive in the same period. However, the quantity put through in that quarter is much lower than what we had in the first half of the year, when it was a more aggressive period of promotion for smartphones.

Traffic costs, at SGD61 million, is lower than the previous year. This is well managed, in spite of the increase in the data usage.

The cost of service, which principally reflect the cost of content, is lower, at SGD73 million. This is SGD10 million than the previous year. Granted, we have no longer BPL cost in that quarter. However, part of that saving is invested in the higher cost for the renewal of content, as well as new content.

For the full year 2010, the cost of sales trended higher, at 41% (Company corrected after the conference call) of revenue. And if you look to the right, you will see that the big increase is really in the cost of equipment investment. This is a full 12 months of iPhone. We only started having the iPhone promotion only for three weeks in 2009, and a full year in 2010. And hence, you see there that cost of equipment investment has gone up, from SGD230 million, to SGD312 million. This is a whopping SGD83 million higher expense to invest for our future.

The next chart is on Other Operating Expenses. For the fourth quarter, it did increase by SGD22 million, or 10%. Of this total, you'll see that the black bar at the bottom, depreciation accounted for SGD7 million of this SGD22 million increase. It increased by 11%. However, to offset that, marketing expenses reduced by SGD4 million, or 10%, to SGD37 million in the quarter.

Other G&A increased from SGD127 million to SGD145 million for the quarter. And of this, basically, staff costs accounted for SGD15 million of the increase. This is in respect of the increased staff required in our new shops we opened this year, as well as the new service centers, to serve our expanded customer base.

For the full year, Other Operating costs trend higher, 44%. This is SGD77 million higher, or 8% higher, compared with the full year '09. Depreciation accounts for SGD14 million, or 6% of that increase. And the middle bar shows Other G&A increased by SGD61 million. And that is a 12% increase.

Included in this increase, the bulk of it is staff costs increase, which increased by SGD48 million. If you recall, we had, in our first quarter announcement, mentioned a charge of SGD12 million that was needed to meet the kind of bonus that the industry was seeing in the year 2010. And that SGD12 million was in the first quarter.

Feb. 11. 2011 / 10:00AM, CC3.SI - Q4 2010 STARHUB LTD Earnings Conference Call

Putting that aside, we exclude that, staff costs have also increased by 18%. And the 18%, part of this is due to the fact that, in 2010, there is hardly any job credit. But at the same time, the new hires were more expensive.

The ratio of the Other Operating Expenses, as I mentioned, trended up 2 percentage points to 44%.

Profit from operations, in the next slide on page 15. Good news is that we are getting rewarded with a higher service revenue, not only from our Mobile, but also, from our Fixed Network. And we're getting steady revenue from both the Broadband and Pay TV as well.

This higher revenue has actually contributed to margins, that help to offset partly the investment we continue to invest in smartphones, as well as in our other businesses.

Hence, the SGD100 million profit from operations for the quarter is still higher than the same period '09. However, for the full year, the SGD342 million of operating profit is still bearing the brunt of the full 12 months' investment in iPhones and smartphones. And as I mentioned, there was only three weeks of that activity in the previous year.

The next chart is on net profit after tax. The reduction of the SGD66 million at the profit before tax and operating, reduced somewhat, by less tax being paid this year. And hence, as a result, the Group full year profit of SGD263 million, this is actually reduced SGD57 million against our investment, or 18% lower than the full year, the previous year.

I would like to emphasize, it is a very important investment year for our Mobile business, and hence, it's all worth it. However, we have not seen content cost come significantly lower, in spite of no BPL.

CapEx, on the next slide, on slide 17. The quarter CapEx is higher at SGD107 million, and this is because of our CRM customer management information system, as well as our network central office expansion for the NGNBN.

These are mostly completed and, consequently, the higher CapEx for the quarter. All the same for the full year at SGD272 million, this is coming up to 12.1% of our revenue. We have guided that it would not exceed 14%; we are well within that guidance. I would like to say that part of the CapEx for the rollout of the NGNBN, due to the slower rollout, it is actually carried over to this current year, 2011. Hence, we are still projecting that our 2011 full year CapEx spending will be about 13% of revenue. We have included this carryover of CapEx, as well as new investments for our submarine cable consortium expansion.

On free cash flow, in spite of the higher CapEx we actually end the quarter with a higher free cash flow of SGD89 million. This compares well with the fourth quarter the previous year of SGD82 million. For the full year, unfortunately, the free cash flow is still good, but it's not as good as the previous year. And it is lower due to the higher CapEx year on year by SGD41 million. The higher investment in cost of equipment sold, which was SGD83 million higher year on year, and the positive contribution from the higher top line helped somewhat to offset the increase in Other expenses.

And with that, I'll hand over to Tong Hai.

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

I would like to cover now the business highlights. Firstly, let me cover the Mobile highlights. We've added 227,000 customers, postpaid ARPU now increased to SGD72, and non-voice services as a percentage of postpaid ARPU at 35.5%. Now for this quarter, we added 13,000 prepaid customers and 12,000 postpaid customers. So our total mobile subscriber base is now at 2.1 million and compared to 1.9 million a year ago.

Prepaid revenue and ARPU were lower, due to decrease in voice usage and SMS usage. We chose not to further discount rates for certain IDD destinations that were already not profitable, and I think that account for the slight drop in the prepaid revenue.



Feb. 11, 2011 / 10:00AM, CC3.SI - Q4 2010 STARHUB LTD Earnings Conference Call

Now if you notice that, for the postpaid ARPU, notice the remark there; we have restated to exclude the promotional bundled dongles, as we think dongles are not adding any revenue, so we decide to take it out. And the ARPU now for fourth quarter is SGD74. This is higher because, if you compare it to a year ago at SGD72, we have now higher take-up of our SmartSurf plans for smartphones.

Next, postpaid non-voice services as a percentage of ARPU is now at 35.8%. That is because of the increase in data usage with our SmartSurf plans. And, even though the ARPU has increased, we have managed to still keep the non-voice services percentage of ARPU high at 35.8%.

The subscriber acquisition cost was higher, this compared to a year ago. That's due to a higher mix of costlier iPhones and other smartphones in the blended cost. Churn rate was 1.1%, lower than 1.3% a year ago.

Now let's take a look at our Pay TV. The customer base is maintained, and ARPU decreased to SGD52. Revenue decreased by 2%. Now looking at our subscriber base as of end of fourth quarter 2010, it is 538,000. So compared to a year ago we have lost 1,000 customers, despite us not having BPL. In fact, if you look at fourth quarter this year we have added 1,000 new Pay TV subscribers.

The Pay TV revenue is lower at SGD91.8 million, compared to a year ago. That is primarily due to a revision of our sports package pricing, so correspondingly, the ARPU decreased to SGD48, if you compare that with SGD56 a year ago. Now if you look at quarter-on-quarter comparison, there is a slight decrease in the ARPU, as well as the revenue. That's because in third quarter there is World Cup contribution. If you take away the World Cup contribution, both revenue and ARPU will register a slight increase. The churn rate is kept stable at 1.2% quarter on quarter.

Now let's take a look at our Residential Broadband. We have added 22,000 customers, ARPU decreased to SGD47, and revenue decreased 2%. We have been very successful in selling our hubbing packs, and that result in 10,000 net adds, and our subscriber base is now 422,000.

With the increase in new subscriber base, the revenue has increased to SGD59 million, even though that the ARPU has dropped to SGD46. That's primarily due to the discount that we gave to our lower price plans. The average monthly churn rate is kept low at 1.1%.

Next, Fixed Network Services. Revenue increased by 4%, and Data & Internet services maintained a 84% contribution to revenue. The Fixed Network revenue is now at SGD85 million, the voice revenue have grown to SGD14.4 million, as expected, because of the increase in mobile users. And as a result, correspondingly, there is also an increase in Voice revenue.

But more important to note is our Data & Internet revenue; it remains at about SGD70 million range, in spite of the intense pricing pressure. So we were still able to keep it at SGD70.6 million.

I think that's all for my business highlights. I will pass over to Neil for the outlook for 2011.

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**Neil Montefiore** - StarHub Ltd - CEO

Thank you, Tong Hai, thank you very much. Okay, a very quick summary on the outlook. We expect some growth, so we're giving the outlook of single digit growth in the revenue. EBITDA we're saying will be around 30%, EBITDA margins. CapEx, as you heard, we do have some CapEx from last year that'll be running into this year; we also have some investments in undersea cable. So we're saying it won't exceed 13% of our operating revenue in 2011. And as usual, we're recommending a final dividend of SGD0.5 per share per quarter, and we intent to maintain that cash dividend.

Okay, so thank you, and back to Jeannie, and we'll go into questions.



Feb. 11. 2011 / 10:00AM, CC3.SI - Q4 2010 STARHUB LTD Earnings Conference Call

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## QUESTIONS AND ANSWERS

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

Thank you, Neil. We shall begin to take the questions now, but a reminder that we'll take the questions from the floor here first, followed by those on the conference call. (Operator Instructions)

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**Jonathan Koh** - *Uob Kay Hian - Analyst*

My question relates to the Mobile business. Minutes of usage actually declined on a sequential basis; normally I would have thought that in the Christmas season, or in the fourth quarter, that would normally be seasonally stronger, so could I have some info on that?

And also how do you reconcile that with your postpaid ARPU? It actually increased, which is a good sign, so how do reconcile the fact that MOU is lower, but ARPU is higher?

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

I think there's a couple of driver there. In the prepaid market it's probably because, as Tong Hai said, we haven't lowered our rates significantly to certain destinations, so certain people are not making the international calls that they used to.

And then, in the postpaid market, we're seeing a general trend to reduction in voice usage. It's driven by a couple of things. One is that people are using data more and more to communicate with each other through social networking sites like Facebook, and the other thing, I think, is that people are carrying more than one phone. So they might talk the same amount of minutes, but it will be on two devices.

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**Jonathan Koh** - *Uob Kay Hian - Analyst*

And the increase in ARPU is due to --?

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

It's due to the data packages.

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**Jonathan Koh** - *Uob Kay Hian - Analyst*

Is there any increase in roaming?

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

Roaming certainly did increase, we actually thanked the integrated resorts; we've seen quite a reasonable increase in roaming year on year, yes.

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

Sachin Mittal, DBS.

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Feb. 11. 2011 / 10:00AM, CC3.SI - Q4 2010 STARHUB LTD Earnings Conference Call

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

I have a couple of questions. Can you throw some light on the traffic expenses? It was lower significantly by more than SGD5 million. You have mentioned some interconnection arrangement, is it with local Telcos, or what kind of players are these? That's number one.

Number two, while you had incurred a CapEx of about SGD270 million there are some grants of SGD60 million, is it some kind of Government grant for NBN? And how much work has been done, and how much grant has been received. Can you throw some light over there?

And third one is, what are the key factors in upside or downside for your guidance for 13% margins? Thanks.

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

Sorry, I didn't hear the third question, Sachin?

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

My question is, what are the key factors in the upside or downside to your margin guidance of 13%, if you can throw some broad light on those factors?

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

Okay, traffic expenses more increasingly so other than minutes, actually the data pack handling. So we have been continually reducing and negotiating with other vendors to get better cost per minute, and we have succeeded in many of these cases. If it is not profitable, we would rather not lower our pricing and, hence, on that basis, we have kept our cost low, because we got a few consortiums that are already supplying us the capacity.

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

These vendors are like international vendors?

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

International mostly, yes.

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

Yes, international carriers and operators. Okay, I think the second question was the grant. You can see the grant in the accounts actually, it was SGD60 million.

And the last question was three areas that might change our guidance. I guess the three main areas that are affecting the business at the moment are the smartphone, cross carriage, possibly, and the next generation network. Smartphone, we think, is going to be fairly positive, but we yet don't know what the next iPhone will look like, or the next iPad will look like, and how that's going to affect our bottom line.

Feb. 11. 2011 / 10:00AM, CC3.SI - Q4 2010 STARHUB LTD Earnings Conference Call

Cross carriage is not quite finalized yet, so we're just going into the third round of dialog on cross carriage, and we'll know how it's going to be finalized sometime in the next few months. That could affect how we approach our acquisition of new content, and renewal of existing content.

Finally, the next generation network is a bit slower than we thought, but we're hoping that we'll be able to see that as a positive thing, particularly in the corporate sector. But it is moving more slowly than we thought and, hopefully, we'll see that pick up in the second half of this year.

Anything else, Tong Hai?

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

No.

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

Just a follow-up question? How much are the total grants to be received from the Government? I know you have mentioned SGD60 million, but how much is the total magnitude, and how much are still to be received?

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

The total grant for both parts of the next generation network is SGD1 billion. SGD750 million will go to the OpenNet and SGD250 million will go to Nucleus Connect.

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

Okay, great, thank you.

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

Arthur, Citigroup.

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**Arthur Pineda** - *Citigroup - Analyst*

Several questions from me. Firstly, Broadband ARPUs have been declining; where do you see that as further going, and do you think the NBN will impact you, having seen your competitors' plans?

Second question is with regards to CapEx. CapEx of sales is now at 13% versus the 10% to 11% previously guided as a long run CapEx rate. Is it possible to break down this 13% and would we be seeing a reversal to the lower levels by next year already?

And lastly, on the [turnaround] with regard to your Media business, how do you expect the MDA to change the media model here in Singapore? Is there room for direct to home via broadband to develop, and how could that affect your traditional cable business? Thank you.

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

Sorry Arthur, can I get you to repeat your last question again? You said something about MDA?



Feb. 11. 2011 / 10:00AM, CC3.SI - Q4 2010 STARHUB LTD Earnings Conference Call

**Arthur Pineda** - Citigroup - Analyst

Yes sorry, with regard to the MDA, how do you expect them to develop the media model in Singapore? Is there room to introduce direct to home via broadband content, and how would that affect the traditional media model?

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

Can you rephrase your question again please? Sorry, Arthur.

**Arthur Pineda** - Citigroup - Analyst

I just wanted to enquire, how do you expect the MDA to develop the media model here in Singapore, and would we be seeing direct to home via broadband content develop here, and how could that affect your business model?

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

TV to the home through broadband, okay I'll take that.

**Neil Montefiore** - StarHub Ltd - CEO

Okay, the first one, I think, was how far do we think the broadband will decline? I think we said, in previous meetings, that we see it coming down to around the SGD45 per month mark, in terms of ARPU. So I think that's still going to be the case, so we expect it to be around that level.

We think, as people get to understand the next generation network, people that are quite happy with the slower speeds will start to upgrade, once they understand what they can do with it. It's taking some time for the general population to see the benefits of higher broadband speeds, but I think that will start to happen.

CapEx, I think I've explained a little bit. The 13% is because we had a rollover of CapEx, particularly from Nucleus Connect, which developed a little more slowly into this year, so that's why it's a bit high. And we've also decided to make an investment in undersea cables. So we've always said if normality of our sort of business, we see the general CapEx around the 10% level it would be. But obviously, with the next generation network, over time, and I'm merely talking five years or more, we'll see that CapEx moving from CapEx to OpEx, because it will be delivered by OpenNet and Nucleus Connect.

And then, Tong Hai, can you take the last one?

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

Yes. The Media Development Authority has been actively trying to encourage new players to come in, and make use of the next generation broadband to deliver Pay TV content. From StarHub perspective, right now the take up is still strong; I can see we still register 1,000 new subscribers. The traditional TV value proposition of having, like in our case more than 150 channels, that remains a very compelling value proposition. And advertisers are still choosing the TV as their primary means to advertise.

So there's the new media; StarHub is also getting into this new media space. We have announced that we will be introducing IPTV as well as Internet TV. Basically, our strategy is TV everywhere. We would like the user to have a choice, to make their own selection, or whether they prefer our cable TV, or they want Internet TV, IPTV, or even mobile TV. Because even for mobile TV, StarHub offers the largest number of channels now, 32 channels for mobile TV.



Feb. 11. 2011 / 10:00AM, CC3.SI - Q4 2010 STARHUB LTD Earnings Conference Call

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**Arthur Pineda** - Citigroup - Analyst

If I could just follow up with regard to the first question? How confident are you in keeping your market share, based on the current price plans of broadband, assuming even if it goes down to SGD45?

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**Neil Montefiore** - StarHub Ltd - CEO

How confident on the market share? Well, I think obviously, more players are coming in, so I expect market shares will change. I'm fairly sure they will change. What we're more interested in the viability and profitability of the business. So we're looking for the value of the customer, and make sure our customer service is the best. And as Tong Hai as said, we want to own the home environment, and deliver all our content and all our services and applications over all our platforms.

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**Arthur Pineda** - Citigroup - Analyst

Thank you.

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

Sachin Gupta, Nomura.

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**Sachin Gupta** - Nomura - Analyst

Just a couple of points. Firstly, in your guidance, are you assuming iPhone5 will be launched this year?

And also, you've talked about uncertainties on NGN, content, etc., and I think you just alluded to that market share may change. Can you talk about what are the expectations for each business? What's the market share change you expect, what are the ARPU's that you expect, so we can just get a better sense of how you see the competitive environment evolving?

And last, just a couple of small issues to clear. G&A's actually gone up to about SGD70 million, is that the run rate we could assume for next year? And can we expect tax to be paid this year as well?

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

Sorry, Sachin, I didn't get your last question.

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**Sachin Gupta** - Nomura - Analyst

For tax payment, did you state that something like will pay tax this year?

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**Neil Montefiore** - StarHub Ltd - CEO

Yes, okay. We'll go backwards on it, because the line was a bit difficult. Tax payment, yes, we will start paying real tax, probably this year, but we're not sure of the total amount yet. Buck Chye, maybe you can fill in a bit there?

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Feb. 11. 2011 / 10:00AM, CC3.SI - Q4 2010 STARHUB LTD Earnings Conference Call

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

We expect to have some tax payments, not significant, to commence in the later part of this year. However, if you are doing your modeling, I think it's quite safe to assume, for your modeling, you can take a tax charge, assuming it is 17% to 18% of your profit before tax in your models.

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

Okay. Thanks, Buck Chye. I think the first question was about the guidance on the dividend. I think, as we've always said, our gearing is quite low.

Our net debt to EBITDA is around 0.94 at the moment and we've always said that our optimal range will be about 1.5. So we do review it every quarter with the Board, and it has been our history and our intention to return surplus cash to shareholders.

I don't think there will be any special things done in the next couple of months, or probably this year, because we're still uncertain with the three things that we outlined in an earlier question, exactly how the year's going to develop. But yes, we will, at some point, move to a gearing that's more near our optimal gearing.

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

I'm sorry, Neil, that wasn't my question. My question was in your guidance, are you assuming iPhone5 will be launched this year?

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

iPhone5, you know the name of it already (laughter). We're going to fifth generation networks are we? We don't know. The whole thing about Apple and the iPhones is that it's released very late in the development. We understand that manufacturing of the next iPad is under way in China. We don't know about the next iPhone.

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

I think in our guidance, we have actually taken into consideration that, going ahead, there'll be more smartphones. So as smartphone comes in, then costs of equipment will go up, so we have taken that into consideration that there will be more and more of these smart devices, including tablet devices.

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

And I think you probably saw in the news there, the new CEO of Nokia leaked memo has noticed that the android phones have now exceeded the Nokia smartphones. And what I'm hoping for is that, because the android phones come from competitive suppliers, we may see some reduction in handset pricing. Also announced today is that Nokia has teamed up with Microsoft and the next phones from Nokia in the future will have a Microsoft platform.

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

Right, Sachin, have we answered your questions?

Feb. 11. 2011 / 10:00AM, CC3.SI - Q4 2010 STARHUB LTD Earnings Conference Call

**Sachin Gupta** - Nomura - Analyst

Sorry, I had a couple more. I apologize if the line is really bad, but I just wanted to get your thoughts on -- I think you alluded to that there will be market share changes, but is it possible to talk about how do you see the market share evolving in the Mobile segment, the Pay TV segment and the Broadband segment? Also, do you expect ARPUs to actually go up from here onwards, be flat? Anything on that would be good.

And the last question was on D&A. Your D&A is up to, I think, it's SGD70 million for the last three months. Is that the run rate we should assume for the 2011 fiscal year as well?

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

Sachin, this last question is on G&A?

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**Sachin Gupta** - Nomura - Analyst

The depreciation.

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

Depreciation, okay. And your question is? Could you please repeat that?

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**Sachin Gupta** - Nomura - Analyst

Okay, let me come back to you on that, because I thought it has picked up once again. It's up SGD5 million, sequentially. Is that the run rate which is reasonable for the rest of the year?

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

Okay. If you take the capital expenditures each year, and you assume that that level of SGD200 over million is invested, taking an average of five years, you will have to increase your depreciation by about SGD20 million a year. However, there are some assets that might come to be fully depreciated, and that would be offset. So I do think that the depreciation increase at 10% is fair for the next one to two years.

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**Neil Montefiore** - StarHub Ltd - CEO

I can't give too much detail about the market shares and the ARPU predictions that we have in our own plans, but just on Mobile, we think we should remain pretty stable there. We hope we will see some continuing increase in the ARPUs as smartphones get more and more adopted in Singapore.

Most of the phones we sell on the postpaid network now are smartphones. I think it's approaching 90-ish% of the phones sold in the last couple of months have been smartphones on the postpaid network. So they do deliver typically a higher ARPU, and in the past few months, it's been at about SGD10 a month higher. So we expect to see that starting to come through.

In terms of Pay TV, there's a lot of changes going on. However, the market in general is pretty stable. But as Tong Hai has explained, we are moving into Internet TV and IPTV, and looking at how we can deliver all our content over all the platforms.

Feb. 11. 2011 / 10:00AM, CC3.SI - Q4 2010 STARHUB LTD Earnings Conference Call

We still have the strongest set of content in Singapore. We have over 150 channels. We may have a little bit of a gap in the sports area since BPL went, but we do have Bundesliga and Spanish Leagues, and we'll be announcing new content shortly in the sports area.

In terms of Broadband, yes, it's going to get more competitive. We hope what we'll see is that customer will want to upgrade their services to higher speeds, and that will help maintain the ARPU. But we have said we will guide that ARPU a little bit down to around the SGD45 a month level.

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

What we see is that the market will evolve into more what we call multiple service provider. You cannot just provide single service, and this is why hubbing still remains as our most important strategy. We have been looking at the hubbing household and increasing the multiple services we can give to them. And the other area that we'll be competing on is really, there'll be many people coming along who says, we can do NGNBN, broadband, etc., but I think customers will be looking for quality service provider with proven track record.

So what we are doing, you know recently we announced we're going to invest in the Asia Submarine Express. Previously, we invested in Asia-American Gateway. This is to make sure that the quality of the Internet is there. We are really at the consortium level that will give us the best value, the best economy of scale.

So yes, the market will be more competitive, but it's going to be gravitating towards those service providers that can deliver quality service at good price and, of course, a trusted party too.

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

Right. Thank you very much.

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

Before we go to the floor, I do have a question from the webcast. Melissa Chua has asked a question about content costs. Her question was, content costs for Pay TV were not significantly lower, despite the lack of BPL. Which channel, or aspects of content, contributes most to cost?

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

Very good question. There's been a general increase in content costs over the last five years. The content owners are seeing the value of their content higher and higher. But normally we deal with them in a very confidential way. So we can't actually disclose who we've been negotiating with, and who we paid more to. But most of them that did renew, or have renewed over the last year or two, have looked for quite significant increases in pricing.

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

I think the increase was, after we lost BPL, we had mentioned that we would go out to renew our content, and we have successfully renewed many of our contents, but we can't reveal which are these. That has resulted in the increase in the costs, but that also assures us that, in the next few years, StarHub will have still the widest variety of channel.

Feb. 11. 2011 / 10:00AM, CC3.SI - Q4 2010 STARHUB LTD Earnings Conference Call

The studies have shown it's not just sports alone. Dramas are very important, and you know our value proposition in TVB. We still have the best TVB content, and the other dramas, and there's a whole school of content, including education, that makes the difference.

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

Calvin, Daiwa.

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**Calvin Neo** - Daiwa - Analyst

I have two questions. Basically, can you review how many postpaid is on smartphones?

And the second one is, on slide 22, your ARPU is adjusted. It's restated for fourth quarter. Is the third quarter and fourth quarter comparable?

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**Neil Montefiore** - StarHub Ltd - CEO

All the quarters, yes. We don't give the exact numbers, but we're above 60% now of our postpaid base who are using smartphones.

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**Calvin Neo** - Daiwa - Analyst

Yes, okay. Thanks.

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

Rama, Daiwa.

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**Ramakrishna Maruvada** - Daiwa - Analyst

I remember Sachin was asking about it, but I couldn't really hear the answer properly, if we could know whether you expect to pay any cash taxes in 2011, this year and next year, that would be helpful?

The second thing is to do with your guidance for 2011. What is the assumption in terms of equipment sales this year? Do we expect a high single-digit growth in equipment sales, or are they expected to be stable on a year-on-year basis?

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**Neil Montefiore** - StarHub Ltd - CEO

First of all, on the tax, I think we did say earlier that we expect to pay actual tax this year; yes, we do, but the amount we're not clear on yet. It'll be towards the end of the year I think.

What could affect the guidance? Well, I think I mentioned three key areas; smartphones are probably the main one to be honest, and then cross-carriage, and the next generation network developments. We think most of them will be positive, but we just will have to see how they work out during the year.

Feb. 11. 2011 / 10:00AM, CC3.SI - Q4 2010 STARHUB LTD Earnings Conference Call

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

Rama, does that answer your question?

**Ramakrishna Maruvada** - *Daiwa - Analyst*

Yes, thank you.

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

Lewis, ZaoBao.

**Lewis Ong** - *LianHe ZaoBao - Analyst*

Yes, CapEx guidance of 13%, that's including the carryover of NGNBN. Excluding that carryover, if fact would still be the same, or lower, or what's the main item in the CapEx? Thanks.

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

Our normal CapEx, without the special investment, the carryover, is usually between 10% to 11% ongoing. We have factored that we have invested in undersea cable consortium as well. So there will be some CapEx spending that will flow from there, along with the carryover CapEx.

If you remember, we guided 14% of the revenue in 2010. It's only 12.1%. So about 2% has been carried over. So you take that, and then you add the undersea cable, which we cannot talk about it. So we have given you the total guidance that our CapEx for this year will not exceed 13%.

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

Kelvin, CIMB.

**Kelvin Goh** - *CIMB - Analyst*

We can barely hear you, but we'll try to ask anyway. Firstly, could you repeat your answer to the question on the content cost? We missed that entirely.

And secondly, is that I'd like to ask you about your guidance for the FY '11 EBITDA margins of about 30%, and trying to understand why is that lower than, say, the fourth quarter EBITDA margin, which I would imagine would be a run rate for you? Thanks.

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

Okay, with the content cost, we can't reveal which areas of the content that actually increased in price. But as Tong Hai said earlier, we did announce, after the BPL was lost the year before last, that we would seek to renew our content deals, and we did do that. In general, the content owners have been increasing their costs quite significantly, globally, in the past five years. So that's really what's happened.

Feb. 11. 2011 / 10:00AM, CC3.SI - Q4 2010 STARHUB LTD Earnings Conference Call

We also acquired new content as well, so that's really what's happened there. We had to defend our position. We were very pleased with the result, because we thought the loss of BPL could be quite serious. In fact, year on year we've only lost about 1,000 customers.

And the second question was?

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

Guidance on the EBITDA margin, why 30%?

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

We're saying about 30%, so it could vary up and down and I think, again, the three areas. The smartphone may reduce in price or, as Tong Hai said earlier, it may retain very high pricing and need for high subsidies. I think that would be the main driver of that margin.

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**Kelvin Goh** - *CIMB - Analyst*

Thanks.

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

Calvin, Daiwa.

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**Calvin Neo** - *Daiwa - Analyst*

Just one last one. You have 60% of your postpaid on smartphones, and so you expect subsidies to continue to increase? Because that would be the greatest downside for your EBITDA margins. But we won't have a iPhone5, so unless you're going to discount more on your current iPhones.

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

The good news is that it's not just iPhone. The android phones are all coming up and with Nokia adding their range with Windows phones, so there'll be more options. More choices means you revise down the cost of the handsets, and we believe that, as the user now moves towards more and more smartphones, in the past, beginning the smartphone cost were very high; now they are getting lower. So that, in a way, will control the cost of the subsidies.

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**Calvin Neo** - *Daiwa - Analyst*

But that would mean that you should be more optimistic about your EBITDA margins.

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

Well, it's the beginning of the year, and I believe we are the only Company that is giving you guidance on the full year. Usually, guidance would be given after first quarter, but we thought we would give you some form of guidance.

Feb. 11. 2011 / 10:00AM, CC3.SI - Q4 2010 STARHUB LTD Earnings Conference Call

Yes, we had to see how the regulatory regime, how the smartphones and what the NGNBN, all this take up. So bearing in mind that these are the factors, we thought we would still give you a guidance of about 30%.

**Calvin Neo** - *Daiwa - Analyst*

Right. Then in the first two months for the year, do you see increasing sales for android phones, relative to iPhones?

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

You will have to find out when we announce our first quarter results.

**Calvin Neo** - *Daiwa - Analyst*

All right, thank you.

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

We will have to bring this to a stop. For those of you who we have not had a chance to address your questions, or you could not hear some parts of the answer earlier on, please drop me an email. You have our contact, so feel free to drop us an email. In any case, a transcript of this call will be posted onto our website very soon.

On behalf of the StarHub management team here, we'd like to thank you for joining us this evening, and we look forward to talking to you again on a one-on-one basis soon.

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