STARHUB LTD
1Q-2008 RESULTS CONFERENCE CALL
7 MAY 2008
QUESTIONS & ANSWERS

Questions

1. On mobile, it seems like your ARPU from postpaid is pretty constant. Is this something you expect to continue because it is probably because of roaming and it could come down?
2. In the fourth quarter, we already had the cost of services being factored because of the sports content cost but now if I compare sequentially; probably cost of services have gone up substantially? So is there something that is missing in the fourth quarter that has come in the first quarter?
3. Data Internet margins are quite high about 35%, do you think this is sustainable or is this one time?
4. What gives you confidence that 33% of EBITDA margins are achievable given that first quarter typically has higher margins than the whole of the year, going by the last two, three years of records? Do you expect competitor intensity to come down; is that the basis of your guidance?

StarHub

The 33% guidance, we have decided not to change that for the year but you are correct in that historically the first quarter has been, not necessarily the best quarter but typically, well we get last year was around 35% and it does put the guidance in jeopardy. We would tell you that the competitive intensity has heated up quite a bit, certainly since this time last year, and as we have mentioned in previous results announcements, the guidance in EBITDA margin is very much proportionate to how competitive the market becomes.

It is quite clear that there has been one competitor in the market that seems to be aiming at market share targets and you know buying market shares is very expensive and the big question that you have to ask is are you making an investment in a profitable growth initiative or are you simply raising the cost of doing business.

So we do our very best to be sure that when we pay for customer, we are investing in the future but we are not entirely certain that everybody is playing by the same rules. But that's sort of a long way of saying yes, this year could be challenging and if there are any particular areas of guidance that we are watching very closely, it would be the EBITDA margin due to that fact. So we want to be very direct in that regard.

I will get back to your first question on the post-paid ARPU. Certainly we are pleased with the holding at $79. To some extent, your specific comment about roaming is right. That is a little bit out of our complete control and certainly, roaming is affected by business travel and the like and these could be affected by economic factors. We certainly don't see any signs of that abating, it has continued strong, as have the other components of ARPU. We are very pleased with the progress so far. Will there potentially be fluctuations and there certainly is a seasonality that comes into play. But we don't see any major factors that would have a significant impact on that going forward.

On your question on cost of services comparing sequential quarters - fourth quarter last year versus this quarter, firstly, if you remember Mike has presented on the page 24 slide, there are new programmes that have been launched. There are programming costs as well as new content that started in this quarter and also, we have begun the pre-sales advertising and cost for the UEFA EURO 2008. So that is in this quarter but there were none in the fourth quarter last year.

Question
That means cost of services can come down in subsequent quarters?

StarHub
No, we begin to amortise these new channels over the period in which their licenses are being purchased. So you see them come in and they will continue until the season cost is amortised at the last month of their screening.

Question
And last question on Internet and data margins.

StarHub
We are very pleased with that sector as you saw the very strong growth in the data Internet services which are good margin services. We think we can maintain the EBITDA margin at those kinds of levels.

Questions
1. Is there some potential for your revenues to exceed the 10% given that it is already 13% growth in the first quarter?
2. With regard to future capital management measures, do you think you will evaluate your policy after the awarding or the decision over the NetCo? Or would you rather evaluate it after the OpCo decision?
3. Could you give us an indication where your re-contract level is right now for postpaid now?

StarHub
The revenue growth let me reassure you that if we continue to do as well in the subsequent quarters as we did in the first quarter and we will make sure that we don't stop at 10%. But I would tell you that we had good growth in the third and fourth quarters last year so we would be measured against the higher yardstick as we approach the second half of this year. So I am still going to hold that figure of around 10% but we think that's fairly secure. As

I've said just three minutes ago, we feel pretty good about that, we feel good about being able to manage the CAPEX stream. The margin is the area where we have to watch very closely due to the competitive intensity.

In terms of capital management, we did mention during the results announcement for the full year that we would hold off on making any decision about capital management until after the NGNBN process has sort of worked its way through. Specifically NetCo, because we felt we would be submitting a bid for NetCo. With respect to OpCo, as I've said earlier, we are not sure yet but I think we would know by the time we make our second quarter results announcement whether or not we are going to participate in OpCo. The only other factor that we have been watching, it's not a big factor for us but is something to keep an eye on, and that's the credit markets. We kind of feel that will work out its way out this year but in any sense I think by the time we address the same crowd after the second quarter results, we will be able to talk perhaps more specifically about capital management plans.

Question
If you could disclose the information on re-contracts?

StarHub
We typically don't give that information out but what I will tell you is that the retention activity has picked up very much this past quarter as you can tell from some of the costs of equipment, line items in our results announcement. We are currently setting at one of the highest percentages of customers under contract that we've ever been. It is well north of 80%.

Questions
1. Can you give us your view on competitive intensity and your outlook for acquisition and retention costs going forward given true MNP will be implemented in June?
2. How can StarHub take advantage of true MNP given that you have been quite successful with bundling your services?

StarHub
In terms of the competitive intensity, Terry has touched on that a bit earlier. We certainly expect that to continue, as he said we're pleased with our retention activities. We certainly expect that to continue to be intense certainly for the next couple of quarters at least.

MNP, as we've said in previous sessions, we don't see it as an event. It's changing, it's a process, and it is a leveling of the field after certain period of time which is upcoming. But the impact of that has been seen for some time now, with the retention activities and the slightly higher competitive intensity out there.

If you look at it broadly, with the hubbing strategy, with our focus on the households, we have a relationship with a very high percentage of the households in Singapore and that would include some of these customers that might now be open to changing service providers now that the inhibitor of not being able to take the number on a full number portability will have changed after mid-year. So evolving an existing relationship is always less difficult than building a new one, so because of the relationships that we have through TV, through broadband as well as through MaxMobile, through other members of the family, that certainly puts us in a reasonable position to be successful in that space. So we think that plays very well in general into the hubbing strategy.

Questions

1. Firstly just want to understand a little bit more on the wireless broadband and the MaxMobile plans that were launched sometime in the middle of last year, where does it show up exactly and where can we see evidence of its contribution in the relevant segment and its impact on the margins?
2. Second question is on the fixed network; help me understand what actually drives the margins there. We saw a nice spike in the margin, how should we think about it in terms of forecasting margins going forward?

StarHub

On the MaxMobile, you are actually giving in to an interesting discussion when you think about how we keep scores in the industry and how it reflects on ours. It is a mobile service; it is a broadband service as well. It shows up as a mobile subscriber in the context of adding to the base of post-paid on mobile subscription. The associated revenue would then also be factored into the revenue in the ARPU calculation so it will be reflected within there. So there is no differentiation between a voice plan and a normal plan etc, so that's where it's captured.

How is the impact on margin? I think at this stage it won't have a material effect on the margin at this early stage. I don't think there is any real impact there.

On the margin for Fixed Networks, as I mentioned, the data Internet services which are a combination of services, both direct to the corporate customer as well as on a wholesale basis to other carriers and to those on sale to corporate. As the name implies, data Internet services is working off our fixed network so the margins are relatively high for those services so the incremental revenue has a high margin component to it. That is why I mentioned earlier the sustainability would be there, going forward, should be there.

Question

A follow-up question on the network side, so it's quite tied more to the data Internet, as in the data internet revenue starts to pick up, we should start to see more margin increase, am I correct to think that way?

StarHub

Keep in mind that the data and Internet service is provisioned over an existing fibre optic network system. All the CAPEX is laid in, most of the capacity is laid in, so when we sell a bit of bandwidth on that fibre optic system, it delivers very high margins. You're talking about gross margins that are in excess of 80%. Ironically, when the voice component of fixed networks increases, it lowers our blended margin because the margin in voice is very low. That is why we frankly don't compare with voice calls. It is used to strategically position some of the other services like mobile. The encouraging thing is, as Mike pointed out, there has been a very steady growth in the very high margin in the data internet business. In fact now the revenue for that part of the business almost equals to the revenue in prepaid, so it has become a very meaningful part of our business.

Questions

How should I start to think about it with the fact that you are now starting to give the wireless broadband as a free service to the MaxOnline bundle. When you issue a new dongle, does it still show up as a new subscriber in the post-paid side and is there relevant revenue that comes along with that?

StarHub

You are entering into a very interesting discussion. You are right in the context of the services that I was mentioning. It is effectively the broadband that's the revenue generating part but it's a package of fixed and wireless home and out of home. We are positioning it as when you buy one service, you will get the other one at no incremental charge so it's a bit of both. Both services are generating the overall revenue.

I think this is going to become more and more an issue for all of us. Convergence is making life a little more complicated. For example, Mike mentioned we're launching the femtocells trial. We even kicked around a dialogue about how you count revenue that you collect from a mobile phone that wonders into the home zone that is now being backhauled through your broadband network. So you know, I think we are all going to be challenged a little bit to try to keep some traditional measures. We will do our best to try to explain to you how we are keeping score.

Questions

1. Can I ask what do you think about your rival consortium?
2. And can I confirm that you will decide and announce whether you will put up a bid for the OpCo by the second quarter of this year?

StarHub
Well, we have not decided about OpCo. Like all other interested parties, we have the initial material but there are a number of complex matters that we are working through. Honestly, we have not decided yet.

With respect to NetCo, we have a formidable competitor. We recognise that. We think that they have some attributes which bring merit to their proposals, based on what we've read. We certainly know that we have a lot of attributes that will work in our favour. So it really will just come down to who is the best group and we think there are a lot of issues that iDA will have to consider as they weigh in both sides. I guess we've got a couple of months here to present our case, so we are all looking forward to do that.

Questions
You mentioned a lot about competition, competition resulting in increased acquisition cost, competition for content resulting in increased content cost, is that likely to be your main problem going forward?

StarHub
I'm not sure I've thought of it as a problem going forward, it's just a fact of life. I think the impact that you are seeing is precisely what we prognosticated and said would happen. Competition drives different things in different sectors.

As Terry talked about earlier, if someone is competing and very focused in market share, that drives a certain particular behaviour. We don't think investors particularly like to see that but customers sure like to see that sort of things because it does drive certain behaviours in the market.

We certainly believe in good healthy competition but we try to keep a proper balance and compete strongly but rationally. But when you think about things like mobile, competition particularly fierce competition tends to have a lowering effect on the pricing in the market.

When we move on the content sector, that is a different animal together. The competition for content simply benefits the content owners not the customers because that raises our cost and everyone's cost to doing business in the market. At the end of the day, there is only one place that it can inevitably go and that ends up going to the customers in some form or fashion.

Competition is often used too generically I think, that you expect competition to yield particular result. It is quite different from one sector of the business to another. This is just the way life is and we see ourselves as a very good, very strong competitor and we will continue to do so.

Questions

1. To some extent, are you disappointed with the performance in pre-paid with just 2% revenue growth? You have been the leader in that segment for that market for quite a long period of time and you have consistently said you like to focus on the higher quality pre-paid account and your strategies are designed to attract that sort of users. Can you comment on that please?
2. Is it possible to comment on the potential technical challenges of laying a fiber to the home network over a DOCSIS 3.0 cable backbone?

StarHub
It was a very good question. We would tell you that as we said earlier, because of the competitive environment, it clearly has been a challenge to hold market share and margins, particularly when one player seems to be aiming at higher market share.

The point is that anybody can buy market share. On a month-by-month basis, even a weekend-by-weekend basis, if you want to pump up your market share, it's pretty easy. As it's well known, you just simply throw a lot of money at the market either it's handset subsidy or you give away more minutes for the top-up card. We have tried not to be drawn into that type of battle and you can see the results of that. So it comes to a point where you simply have to sort of pony up and take the competitor on with the game that they're playing and obviously that's a decision that we'll have to come around to it at some stage. But it certainly didn't catch us by surprise, we had been, as you know, warning from quarter to quarter that the competitive intensity continue to heat up. I think that heading into MNP, we probably have not seen the last of tricks so they're probably coming and we would be alert to that as well. Again as I've said earlier, I think the benefit that we have of the diversified revenue mix, for example the Fixed Networks side with the robust business and Internet data, certainly helps to boost or offset the lower revenue we saw in the pre-paid.

Question
I take it in your opinion that the competitor that is being very tough is the incumbent.

StarHub
I'll let you form your own observation. A quick ride around town on a Saturday or picking up the Saturday paper would pretty much point to who is doing what.

With regard to the technical challenges of the NGNBN over DOCSIS, let me just clarify something. We are operating what we consider to be a very good broadband network with the DOCSIS 3.0 technology. But that is not necessarily the way we would approach NetCo. So NetCo is more likely to be a pure fiber facility that is provided end-to-end right into the home, while the DOCSIS technology is over hybrid fiber coaxial so the backbone piece is fiber and the distribution piece in the residential area is a coaxial cable.

Question
Does that imply that you'll be lowering a separate fiber through your existing ducts?

StarHub
We would be constructing separate fibers, yes.

Questions
1. With regard to tax rate, what do you think would be the appropriate tax rate to use going forward in the next couple of quarters?
2. For pre-paid in particular, do you think we are actually towards the end or at the beginning of the price competition?

StarHub
You may have to direct that question elsewhere to get the answer to that. It has been going on for sometime, the customers are certainly enjoying it and I suspect that the price competition will continue.

On tax, my guidance is still the same. As you model, we suggest you take 20 per cent as the effective tax rate and apply it on your profit before tax line. As you can see for the first quarter, the rate is near that average effective rate. The tax is 20.4 or 20.5 on the pre-tax number of hundred million.

Questions
If I can just follow up on the pre-paid side, in terms of the margins on post-paid versus pre-paid, qualitatively where do you reckon is the margin of pre-paid at the moment, is it more than what you made for the post-paid segment, is it at the same level or is it way below?

StarHub
That is a tough question. Obviously we have to give you a set of assumptions to give you an answer, but let me try to explain it. What has effectively happened since the second half of last year, the practice in the market now has been to offer a face value at a discounted rate. So the top-up card will carry a certain face value of top-up and what the customer would pay for that is substantially less. That has the effect of lowering the yield, and of course the cost to operators is the same so obviously margins contract under that situation. The sort of nominal price that's indicated for a minute of use hasn't changed, so at any given time if the market were to return to the way it used to be, where you pay the face value of the top-up card, then instantly the yield will return to normal levels. So it is not quite as devaluing as in the post-paid market where if one were to reduce the unit pricing, it's always hard to raise the price back up. We've not seen a price decline in the post-paid side. That has been really more about promotion-drive competitive environment where there are larger handset subsidies and various acquisition initiatives. So the

pre-paid is a market that currently is yielding for all three operators I would say, lower margins. But it could return to normality when the deep discounting were to be discontinued.

Questions
On the mobile acquisition costs that were discussed earlier, the jump was fairly significant YoY for the first quarter this year. $124 from $92, that's about 35 per cent jump. Is that the kind of level of annual increases you expect for the year?

StarHub
Well, there are a couple of moving parts in there. One, as I mentioned earlier, it does reflect the intensified competition in the handset subsidies in the post-paid space. But remember this is a blended number so it also has to do with the mix of post-paid versus pre-paid. So it's a bit tough to assume. If the mix changes, even if the intensity of competition doesn't change, if the mix changes you could see the numbers shift. So it's a bit difficult to project how that would track without looking at the different variables.

Questions
You're talking about increased competition on the content side, basically on the cable TV side, can you give us a little bit more colour on how much of a difference are you seeing now that SingTel is in the market?

StarHub
This is actually going on for sometime. It's really just a case of having multiple bidders seeking the same content. It varies from a particular piece of content or a particular supplier to the next. It's not something that has just occurred since SingTel launched their mio TV services. It has actually been going on for quite some time.

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