

FINAL TRANSCRIPT

Thomson StreetEventsSM

CC3.SI - Q3 2011 Starhub Ltd Earnings Conference Call

Event Date/Time: Nov. 09. 2011 / 10:00AM GMT



Nov. 09. 2011 / 10:00AM, CC3.SI - Q3 2011 Starhub Ltd Earnings Conference Call

CORPORATE PARTICIPANTS

Eric Loh

StarHub Limited - Senior Manager IR

Neil Montefiore

StarHub Limited - CEO

Kwek Buck Chye

StarHub Limited - CFO

Tan Tong Hai

StarHub Limited - COO

CONFERENCE CALL PARTICIPANTS

Sachin Mittal

DBS Vickers Securities - Analyst

Luis Hilado

HSBC Global Research - Analyst

Chate Benchavitvilai

Credit Suisse - Analyst

Sachin Gupta

Nomura - Analyst

Arthur Pineda

Citi - Analyst

Kelvin Goh

CIMB Research - Analyst

Navin Killa

Morgan Stanley - Analyst

Prem Jearajasingam

Macquarie Research - Analyst

PRESENTATION

Eric Loh - *StarHub Limited - Senior Manager IR*

Good evening ladies and gentlemen and welcome to StarHub's third quarter 2011 results conference call. My name's Eric and I'll be your host for this call.

With me tonight, we've got the CEO of StarHub, Neil Montefiore; along with him the CFO, Kwek Buck Chye; as well as the COO, Tan Tong Hai. And assisting them this evening will be the Head of Products and Solutions, Chan Kin Hung; as well as the Head of Sales and Marketing, Ng Long Shyang.

Now before we go into the call proper, let's do a bit of housekeeping. (Operator Instructions).

Now with that, I'll hand the floor over to Neil, who'll do the highlights of the third quarter.

Nov. 09. 2011 / 10:00AM, CC3.SI - Q3 2011 Starhub Ltd Earnings Conference Call

Neil Montefiore - *StarHub Limited* - CEO

Thank you very much. I'll start on page 6 in the slide pack that should have been circulated to people; looking at the overview of the third quarter 2010 compared to the third quarter 2011.

In financial terms, just a quick summary; operating revenue was up about 4%; EBITDA margin pretty stable around 30.8%.

Operationally, we saw growth in most of our business areas, particularly all the consumer areas.

So Mobile growth, we saw post-paid revenue, which is the bulk of our Mobile revenue, growing around 6%. The customer base grew slightly there, about 2%. And churn was pretty stable at about 1.1%.

Pay TV revenue was up slightly, 1%; and residential Broadband revenue up 3%.

If we look at the numbers on page 7, we can just quickly run through the key numbers.

Operating revenue was, as I've said, up around 4%. For the nine months year to date, it's only about 1% rise, so fairly stable in terms of revenue going forward.

EBITDA on the nine months was up about 14% to SGD491 million; margin fairly stable about 30.4% for the nine months and about 30.8% for the quarter-on-quarter comparison.

Net profit after tax did, in fact, fall third quarter on third quarter, but for the year, for the nine months, it's up about 22% to SGD223 million.

CapEx, a bit lower than we've been predicting at around 8% of revenue; so we're hoping that will get closer to our guidance which we'll give at the end of the presentation, at somewhere below 12% of revenue. And then net debt to EBITDA, again, fairly stable at about 0.7 times.

If you go to slide 8, you can look at the various lines of businesses. And as I said, Mobile, Pay TV and Broadband all saw some increase in service revenue and customer base.

Our Fixed Network Services, which is our corporate business, saw some decline. A small part of that business is the voice and that's coming from less voice traffic being carried these days. People are actually speaking less on the phone.

And Data and Internet traffic, that fell, mainly driven by one of our wholesale customers and a change in how we were billing them. So that hit the revenues there.

And if you look at slide 9, you can see that our households with three services from us grew around 5% up to 793,000 households.

So with that, I'll hand over to Buck Chye, who will run through the more detailed financial overview. Thanks. Buck Chye?

Kwek Buck Chye - *StarHub Limited* - CFO

Good evening. I'll refer you down to page 11 or slide 11 and firstly I'll cover the EBITDA and EBITDA margin.

The Group EBITDA for the quarter was SGD5 million or 3% lower at SGD167 million. The EBITDA margin, at 30.8% of service revenue, was 1.5% lower than the same period last year.



Nov. 09. 2011 / 10:00AM, CC3.SI - Q3 2011 Starhub Ltd Earnings Conference Call

Margin was lower because of significantly higher costs of equipment expense in this quarter compared with the same period last year. This is for the smartphones which had higher volume this year, as well as a higher unit cost. And I'll cover that subsequently.

For the nine months year to date EBITDA profitability, at SGD491 million, was SGD59 million or 14% higher, due to the lower costs of services, mainly these are content costs being lower; and lower costs of traffic, which together offset the increase in cost of equipment expense for the nine months.

Consequently, the EBITDA margin, as a percentage of service revenue, for the nine months increased from 26.9% the previous year to 30.4% average for the nine months to date.

On slide 12, going to analysis of the cost of sales; and here, against the revenue growth of 4% in the quarter year over year, the cost of sales rose 9% or by SGD18 million to SGD220 million this quarter.

This increase is mainly due to the cost of equipment sold. You can see it in the black column. The cost of equipment increased by SGD23 million in the quarter compared to the previous year, at SGD84 million for the quarter. This is for the higher volume of smartphones and, as I mentioned, these are at higher unit cost.

The lower traffic costs of SGD61 million and the stable costs of service content costs, at SGD75 million in the quarter, both helped to keep the total cost of sales to 38% of revenue as a ratio in the quarter.

Moving to the right-hand side, for the year-to-date nine months, the cost of sales to revenue has also trended lower from 42% to 39%, due to reduced traffic costs and lower cost of service, i.e., content costs.

The year-to-date costs of equipment, the black bar, was SGD19 million higher at SGD256 million for more quantities of smartphones put out for the nine months this year compared with last year.

The year-to-date costs of services, content mostly, was lower by SGD48 million or 18% year on year at SGD218 million; and this is without the BPL and World Cup costs, which was in last year's 2010 numbers.

Year-to-date traffic costs, at SGD184 million was SGD17 million better or lower, due to lower connection rates negotiated with our carrier partners for our expanded business.

Consequently, year-to-date cost of sales at SGD658 million was SGD45 million improved or lower, which helped improved profitability for the nine months of this year.

Move on next to other operating expenses on slide 13. You'll see here that other operating expense rose 14% -- sorry SGD14 million or 6% year on year to SGD259 million for the quarter. The increase is mainly due to higher marketing and promotion expenses relating to our retention and acquisition activity, which continues throughout this year. And this increased by SGD7 million to SGD42 million in the quarter compared with the same period last year.

There is also higher depreciation and amortization, which increased by SGD5 million to SGD70 million for the quarter.

Other G&A increased by only SGD2 million, as the composite to SGD147 million for the quarter. Now within this category, staff costs did increase by SGD10 million, or 16% year on year, due to higher salaries, higher temp staff costs, and additional headcount for four new shops. These costs were mitigated by the lower cost of operating leases, lower bad debts, as well as savings in other expenses.



Nov. 09. 2011 / 10:00AM, CC3.SI - Q3 2011 Starhub Ltd Earnings Conference Call

For the year to date, on the right, other operating cost was SGD33 million or 5% higher year on year, at SGD770 million. And the major increase identified to marketing and promotion costs, at SGD128 million. This was SGD9 million or 7.5% higher, and we invested in this to drive acquisition and re-contract activities.

Depreciation and amortization for the nine months, at SGD207 million, was SGD18 million, or 9.5% higher. This is due to the expansion of network assets, to cater for the volume of expanded customer base.

Other G&A grew by SGD6 million, or only 1.4%, to SGD434 million. Included here are the increase for staff costs, which for the nine months grew by SGD19 million, or 10%. And this increase in staff costs is mitigated by lower leasing expenses, lower allowance for doubtful debts, due to improved collections, and lower repair and maintenance costs.

Consequently, go to slide 14, profit from operation for the quarter was stable at SGD97 million [run]. For the nine months year to date, profitability was SGD40 million, or 17% higher, mainly due to the higher revenue and the lower cost of sales, which together with other higher, other income, year on year, resulted in profits from operation, for the nine months period, reaching SGD283 million this year.

Net profit after tax for the quarter at SGD76 million was lower than last year, same quarter, by SGD6 million, or 7.6%. As I explained earlier, this is due to the lower EBITDA, due to a consequence of higher cost of equipment expense, touched in the quarter.

For the nine months to date, the net profit after tax, consequently was also SGD40 million higher, over the last year. This tracks the favorable year-on-year improvement in profit from operations and EBITDA.

The savings in interest expense for the nine months helped to offset the increase in tax expense, associated with the higher profit for the year to date.

CapEx, I must say that the CapEx for the quarter at SGD46 million is lower than expected. We expected a higher CapEx and some payments have slipped to the fourth quarter, due to timing.

The year-to-date CapEx of SGD130 million, represents 7.6% of revenue, and I mentioned, expect to continue that we'll meet the guidance that our CapEx to revenue, for the full year, will not exceed 12%.

Free cash flow. On account of the timing of the CapEx, the free cash flow for the quarter of SGD148 million is somewhat high, compared with the same period the previous year.

Year to date, free cash flow of SGD420 million for the nine months, translate to SGD0.244 per share at this point of time, 36% higher than last year. And with that I pass the call over to Tong Hai, to brief you on the businesses.

Tan Tong Hai - StarHub Limited - COO

Thanks Buck Chye. Let me cover firstly the business highlight on Mobile, chart number 19.

Year on year we have added 49,000 customers. Post-paid customer base expanded 3%, and post-paid ARPU increased SGD2 to SGD74.

Chart 20. We have positive net adds for both pre-paid and post-paid segments. Total Mobile subscriber base is now 2.17 million, split almost equally between pre-paid and post-paid.

Chart 21. Pre-paid revenue is lower this quarter, due to lower voice usage. We are increasing the distribution of lower denomination top-up cards, to drive usage in subsequent quarters.

Nov. 09. 2011 / 10:00AM, CC3.SI - Q3 2011 Starhub Ltd Earnings Conference Call

Post-paid revenue was higher, due to stronger take up of SmartSurf, which is our data voice bundling plans, together with higher smartphone sales. Correspondingly, ARPU increased by SGD1 to SGD74 per month.

Chart 22. Post-paid non-voice services, as a percentage of ARPU, has grown to 38.4%. Churn rate increased slightly, by 0.1%, due to a one-off termination of data subscription by a customer.

Next, business highlights, Pay TV. Year on year, we have added 5,000 customers. ARPU this quarter has increased to SGD50 per month.

Chart 25. Net adds this quarter was lower by 2,000, mainly due to the expiration of three months promotional offer. The SGD2 per month price increase in August to basic subscription has minimal impact to churn. Total Pay TV subscriber is now 542,000.

Chart 26. Revenue in third quarter was higher than a year ago, due to higher subscriber base, as well as the SGD2 increase in monthly subscription. ARPU is also higher by SGD1, if we net off the one-off contribution by World Cup event in 2010.

Chart 27. As mentioned earlier, churn is higher at 1.2%, due to the expiration of three months promotional offer.

Next, Broadband, chart 29. Year on year, we've added 26,000 customers. ARPU remains steady at SGD45 per month. Revenue increased 3%.

Chart 30. We've added 7,000 more Broadband customers. They are a combination of our cable, MaxOnline, as well as our fiber MaxInfinity plans. Total Broadband subscriber is now 438,000.

Chart 31. Total revenue is higher, at SGD60.2 million, as we have 26,000 more subscribers. However, ARPU is lower, due to a higher mix of customers on lower speed price plan, and hubbing promotional and discount offers. Churn rate remains stable at 1.1%.

Next, Fixed Network Services, chart 34. Year-on-year revenue decreased 4%, and with a stable revenue contribution from Data and Internet services.

Chart 35. Voice revenue was lower, due to lower IDD revenue, as a result of lower customer usage. Data & Internet revenue was lower, due to adjustment made for billing settlement with a wholesale customer, and competitive pricing pressure in local and international leased circuits, despite higher number of circuits sold.

Revenue contribution from business, Next Generation Broadband, is growing, but progress is still slow. I will hand over the time back to Neil, to provide this year's outlook.

Neil Montefiore - StarHub Limited - CEO

Thank you, Tong Hai. So the outlook has not changed since last quarter, so in revenue terms, we say we'll maintain our guidance on revenue growth at low single-digit range.

EBITDA again, we'll maintain at around 30%. CapEx will not exceed 12% of operating revenue, although, as Buck Chye mentioned, it came in a little bit lower than we expected in the third quarter, mainly due to payments on undersea cable infrastructure. And we will confirm that we -- interim dividend of SGD0.05 per share, and maintain our cash dividend at SGD0.05 per share, per quarter.

So with that, we'll --



Nov. 09. 2011 / 10:00AM, CC3.SI - Q3 2011 Starhub Ltd Earnings Conference Call

QUESTIONS AND ANSWERS

Eric Loh - *StarHub Limited - Senior Manager IR*

Yes, with that, we'll open to questions and answers. (Operator Instructions). Sachin Mittal, DBS.

Sachin Mittal - *DBS Vickers Securities - Analyst*

I've got three, four questions, over here. First is, it's rather surprising that you are expecting higher acquisition costs in 4Q '11 because of iPhone 4S. But we have not seen that decline in acquisition costs in 3Q, because again, I understand many people postponed the purchase to -- so if we are expecting a bump up in the acquisition costs, then why have not we seen a decline in 3Q? That's number one.

Now secondly, you mentioned that Pay TV subscribers' decline was due to expiry of promotional offers. Could you update us what kind of promotion offer expired in the quarter, and what are the plans, going forward, on that?

The third one is on Nucleus Connect. Now both of your competitors have launched their own OpCo, and they're citing cheaper cost of equipment as a key reason. Now my question is do you stand to benefit from cheaper equipment cost, being an OpCo? And how does it impact your economics in terms of milestones, that your competitors are having their own OpCos?

And the last question is what are the key factors to consider for you to decide on the dividend commitment for next year? And do you see a big change from what we have seen in this year?

Neil Montefiore - *StarHub Limited - CEO*

Okay, thank you for that. I didn't quite understand the first question on acquisition costs. Do you want to answer that, Tong Hai?

Tan Tong Hai - *StarHub Limited - COO*

Well, he's asking we are expecting higher acquisition costs in fourth quarter because of the iPhone 4S and the question is why is subscriber acquisition cost not -- it's low in third quarter.

Kwek Buck Chye - *StarHub Limited - CFO*

Not significantly.

Tan Tong Hai - *StarHub Limited - COO*

Not significantly lower. But we're selling more smartphones in third quarter. We're not seeing a reduction in the sales of smartphones. So there are still other smartphones, so it's that's why the acquisition cost remains at that level in third quarter.

Nov. 09. 2011 / 10:00AM, CC3.SI - Q3 2011 Starhub Ltd Earnings Conference Call

Neil Montefiore - *StarHub Limited - CEO*

Well it's also quite a lot of acquisition costs. We are doing a lot of retention spend as well to keep our existing customers who are coming towards the end of their contracts or have ended their contracts. If you can remember, the iPhone sort of revolution, the smartphone revolution started in December '09. It's coming up for the two-year period, so that's one of the reasons.

In terms of the three-month promotion, it was a three-month promotion that we offered customers and we then try and convert them to permanent subscribers. Some of those came to the end of their three months and didn't continue service, so that's what hit those.

In terms of Nucleus Connect, obviously that is the government-funded OpCo. When we actually put our business plan submission in, we assumed that StarHub would be the only customer although we were very happy to take other customers and that may well be the case going forward now. Because we are -- we still own 100% of Nucleus Connect.

So we planned our business on that. The take-up of the Next Generation network has been a bit disappointing, particularly in the corporate area, and we're hoping that those things, the things that are causing that will start to be addressed in this final quarter of this year.

And in terms of dividend. What we'll do is we'll confirm the dividend for this financial year and we'll give you the view on the dividends for 2012 when we announce our results full year.

Sachin Mittal - *DBS Vickers Securities - Analyst*

Okay. Just a couple of follow-up questions. When we have seen -- the point is when we have seen the acquisition costs go down, with the old models, but we have seen new model is launched, we see acquisition cost go up. Can we deduce that there's a perpetual pressure on the telcos, because iPhone and every single model new launch proves even more, I would say, brings more margin pressure. Is it a simple deduction we can make from the iPhone 4S launch?

Neil Montefiore - *StarHub Limited - CEO*

I think what we're saying is that we're not quite sure yet how the iPhone 4S is going to be received. It certainly got off to a very strong start in October. But it's only going to be there for two months, so we are expecting a strong demand, and we hope the supply continues in correct numbers, but we did see quite a lot of demand in the third quarter for people wanting to move to smartphones.

Sachin Mittal - *DBS Vickers Securities - Analyst*

Okay, and just on the Nucleus Connect, you're saying your business case is based on your own -- that your competitors are not OpCos for Nucleus Connect, is that what you said now?

Neil Montefiore - *StarHub Limited - CEO*

That's what we said, yes. And Nucleus Connect is going to be a full service OpCo with all the redundancy it requires. If other OpCos are being built more cheaply, they probably won't have the same level of service and QOS that Nucleus Connect has.

Sachin Mittal - *DBS Vickers Securities - Analyst*

But you stand to benefit from the declining equipment costs, the electronics costs.

Nov. 09. 2011 / 10:00AM, CC3.SI - Q3 2011 Starhub Ltd Earnings Conference Call

Neil Montefiore - *StarHub Limited - CEO*

Oh yes, definitely yes, yes. Because the take-up has been slower than we originally expected, we haven't rolled out as much equipment as we thought, but we have received the funding for the initial part of it.

Sachin Mittal - *DBS Vickers Securities - Analyst*

Okay, great, thank you.

Eric Loh - *StarHub Limited - Senior Manager IR*

Luis Hilado, HSBC.

Luis Hilado - *HSBC Global Research - Analyst*

I have three questions as well. Actually I just wanted to clarify, on the cost of the equipment, it's actually fallen 4% quarter on quarter, whereas revenues are actually slightly up 0.3%. That seems to imply that your acquisition cost has actually fallen during the quarter. Is that because of a mix of the phone, more android phones with lesser subsidy?

Second question is if you -- not sure if I caught it or not, the pre-paid revenue's down (inaudible) q-on-q, is that -- any particular reason for that or is it seasonal impact?

And last question is it was mentioned during the presentation that the opening up of the business customers to yourselves is still too slow. Do you think there's going to be any regulatory intervention or anything that will accelerate that please?

Kwek Buck Chye - *StarHub Limited - CFO*

Luis, can you repeat your first question. You said cost of acquisition, I have not discussed cost of acquisition.

Luis Hilado - *HSBC Global Research - Analyst*

No actually cost of equipment sold is down 4% q-on-q but the equipment revenues are flat or slightly up, so it seems to imply that your acquisition costs are lower.

Kwek Buck Chye - *StarHub Limited - CFO*

Okay, the q-on-q costs of equipment depends on the volume of the handset. So we did not see that many handsets in the third quarter compared with the second quarter, which had some other activity for promoting it. But fair to say that for the last few quarters the number of handsets taken is definitely higher than last year.

That's because two years ago, starting from December '09, when we got the iPhones and other models of smartphones coming up in the beginning of the period, we contracted customers and, as Neil has pointed out, these customers are coming out of their contracts' expiry period. So we engage them a bit earlier and then we get opportunity to re-contract them at our managed timing.

Nov. 09. 2011 / 10:00AM, CC3.SI - Q3 2011 Starhub Ltd Earnings Conference Call

Neil Montefiore - *StarHub Limited - CEO*

Okay, thanks Buck Chye. In terms of the pre-paid revenue, the drop in revenue on pre-paid was driven by the voice revenue coming down because people are calling less. To address that, what we're doing is we trying to widen the distribution of our low denomination top-up cards to try and get people to -- if they can't afford the top-up with the big denomination once a month or so, they can top-up maybe twice a month or at the end of the month with the lower denomination card. So we hope that will get some growth back into that area.

And in terms of Nucleus Connect, as far as we know there has been a paper put out to go into another round of consultation on the interconnect arrangement with OpenNet. So that has been issued and we received it yesterday and we're now looking at it. But I can't give you the details now.

Luis Hilado - *HSBC Global Research - Analyst*

Just one follow-up Neil, just on the pre-paid again, do you think that decline is because of spend -- more pressure on spending?

Neil Montefiore - *StarHub Limited - CEO*

It's partly driven by the fact that the foreign worker market has been under some pressure here; the big projects, the two casinos that were being built and the Resorts World and so forth. They've come to the end of their construction period so there are less foreign workers there.

There's also been a bit of pressure to actually reduce the number of foreign workers and it's slightly more difficult to get work permits. And the foreign workers are quite a large driver of our pre-paid revenue.

Tan Tong Hai - *StarHub Limited - COO*

I just want to add that for pre-paid revenue the distribution is very important. Initially when we launched this low denomination pre-paid card, we actually have certain selected distributors, so now we have open up to a larger pool. We believe that by opening up, we would be able to increase the sales of the lower denomination top-up card and that would subsequently help us to increase the pre-paid revenue in subsequent quarters. So these are the steps that we have taken to ensure that the pre-paid revenue will grow in subsequent quarters.

Luis Hilado - *HSBC Global Research - Analyst*

Okay, good, thanks.

Eric Loh - *StarHub Limited - Senior Manager IR*

Chate Benchavitvilai, Credit Suisse.

Chate Benchavitvilai - *Credit Suisse - Analyst*

The number one question is regarding the EBITDA. Given the expectation of an increase in the subsequent acquisition cost, is it sensible to actually assume an absolute decline in EBITDA into the last quarter?

The second question is on the fiber subscribers. How much subscribers you actually have on fiber, basically, on NGNBN right now?

Nov. 09. 2011 / 10:00AM, CC3.SI - Q3 2011 Starhub Ltd Earnings Conference Call

And the third question is regarding the Pay TV. I understand that the 2,000 decline in subscribers is because of the end of the free promotions, free three-month promotion. Is that done and dusted already and you start growing subscribers again into third quarter or we should expect some further impact out of that going forward? Thank you.

Neil Montefiore - *StarHub Limited - CEO*

In terms of the EBITDA, I think we don't give the guidance on the exact number but we are saying that the guidance is going to be around 30% on the EBITDA margin, so I think that's really all we can say now.

The second question was -- we don't describe that, we give our total Broadband subscribers, and quite a number of them now are moving from our cable to our fiber. But we don't disclose the numbers at this stage.

Tan Tong Hai - *StarHub Limited - COO*

We still see healthy growth in our Broadband customers; this quarter we added 7,000. And I mentioned in the call that is a combination of our existing cable MaxOnline, as well as the fiber broadband.

So we are managing this as an overall Broadband business, because our existing customers are with us on the MaxOnline. Of course, if they want to move to fiber broadband, we will help them.

So that's how we manage it, so we don't disclose the exact breakdown.

Neil Montefiore - *StarHub Limited - CEO*

And the final question was on the Pay TV. There will be some more Pay TV short-term promotion customers coming to the end of their three-month offer. But what we will be trying to do is to upgrade them to a permanent subscriber, rather than just let them fade away.

So that's the intention, so we can't give too much guidance on what the effect will be. It's not in very large numbers.

Tan Tong Hai - *StarHub Limited - COO*

I think the thing you need to know for the Pay TV is that we have actually grown the revenue. I think that's very important. Even though you note the subscriber loss of 2,000, but our revenue has grown, and we have grown the ARPU too.

Chate Benchavitvilai - *Credit Suisse - Analyst*

Yes, I note that. Thank you very much.

Eric Loh - *StarHub Limited - Senior Manager IR*

Sachin Gupta, Nomura.

Sachin Gupta - *Nomura - Analyst*

Just one question. Neil, you mentioned that the corporate customer take-up rate hasn't been very strong on NBN. I'm just wondering why is that the case? You guys are coming off a very low base, is it that SingTel is being aggressive there?



Nov. 09. 2011 / 10:00AM, CC3.SI - Q3 2011 Starhub Ltd Earnings Conference Call

Neil Montefiore - *StarHub Limited - CEO*

No, the actual corporate take-up on the Next Generation Network, there are some issues with the way the network has been rolled out. Everyone involved is trying to resolve those issues, so hopefully they will get resolved. At the moment, it's to do with the provisioning. We do get quite a strong demand from the customers, but in terms of provisioning, we've had some quite significant delays. So that's the main issue, yes.

Sachin Gupta - *Nomura - Analyst*

Neil, I know you guys don't give us the retail broadband, or retail NBN side, but the customer take-up rate seems pretty weak; it's been more than 12 months now. And I know they were attributing the provisioning, billing etc., but when can we expect this to change?

Neil Montefiore - *StarHub Limited - CEO*

Again, the regulator is now looking quite closely at how this is being done, and we want the Next Generation Network to be a success. We need to make sure that the OpenNet, and Nucleus Connect, and the other OpCos that have been launched, know how to provision in an efficient manner. So that is being worked on.

On the residential side, it's improved; on the corporate side, we've still got quite a few issues.

Sachin Gupta - *Nomura - Analyst*

Okay, thanks for that.

Eric Loh - *StarHub Limited - Senior Manager IR*

Arthur Pineda, Citi.

Arthur Pineda - *Citi - Analyst*

Three question from me. Firstly, point of clarification on the Fixed Network Service, what's been driving this down again? Where is the price competition coming from?

Second question I have is with regard to the next gen Broadband. In terms of your Broadband trends, what percent of your Broadband subs for fibers are coming from the existing cable Broadband business?

Lastly, could you elaborate on the problems on NBN provisioning? Is this a demand issue or a supply issue, in your view? Thanks.

Neil Montefiore - *StarHub Limited - CEO*

Okay. I think I covered -- the fixed decline is really coming from one of our wholesale customers where we have settled a correction on the billing. So that has been a provision for in that, so that's the reduction in the revenue, that's the bulk of that. We're also seeing a little bit of decline in voice usage on the corporate side.

In terms of percentage of fiber on our Broadband, we're not declaring that at this stage. We know that one of our competitors has, but we're quite happy with the fiber take-up. But we're not totally happy with the way the provisioning has been going

Nov. 09. 2011 / 10:00AM, CC3.SI - Q3 2011 Starhub Ltd Earnings Conference Call

on, both on the residential and the corporate side. But the residential has improved; corporate side still not so good. But again, we can't really give you too many details about what the issues are. I think we need to do it with all the parties involved.

Tan Tong Hai - *StarHub Limited - COO*

As to your first question on the pricing pressure, you know now, because with the next generation Broadband available, so all operators are, of course, trying to retain their existing Internet services and they are lowering prices to maintain the existing link. And I think that's the pricing competition that we are referring to.

Does that answer your question?

Arthur Pineda - *Citi - Analyst*

Yes. Sorry, if I can just follow up, Neil mentioned that there was a reversal on the wholesale business. Should we thus expect, in the fourth quarter, that things should change rather significantly?

Neil Montefiore - *StarHub Limited - CEO*

That's a non-recurring adjustment.

Arthur Pineda - *Citi - Analyst*

Any indication on how much that would be?

Neil Montefiore - *StarHub Limited - CEO*

No, we can't at this stage.

Tan Tong Hai - *StarHub Limited - COO*

I would just say today, with our wholesale customers, we do have what we call a bilateral arrangement. Because they are servicing their end customers, so we will take orders from them. And time and time there may be some billing disputes, and all those things. So we will adjust some of these disputes and say, look, until we are very clear, then we will resolve it, okay?

So at this moment, I think we are taking it on the conservative side. But until we settle this dispute, then we can decide whether there's opportunity for us to earn the revenue.

Arthur Pineda - *Citi - Analyst*

Thank you.

Eric Loh - *StarHub Limited - Senior Manager IR*

Kelvin Goh, CIMB.

Nov. 09. 2011 / 10:00AM, CC3.SI - Q3 2011 Starhub Ltd Earnings Conference Call

Kelvin Goh - *CIMB Research - Analyst*

Just quickly, Neil, the first question's on the corporate take-up in NGNBN; could you explain what the issues are?

The second question's on pre-paid voice. The fact that ARPU is down, it doesn't -- the fact that you've got perhaps fewer customers, fewer migrant workers out there, it doesn't explain why ARPU is down. Has that anything to do also perhaps with the change in the usage behavior towards more data messaging for example?

And lastly is on your arrangement with Vodafone. Could you give us some heads up on that, as to what the revenue impact is?

Neil Montefiore - *StarHub Limited - CEO*

Okay, I can't really give too much more details on the slowness of the corporate take-up on Next Generation Network. Because it is all in discussion among all the parties involved right now. So I really can't go public with what that is all about. But we do hope we can get some resolution quite soon.

In terms of pre-paid decline, I think mostly it was due to the migrant worker population and the change in the amount of voice they can afford and the reducing numbers of them.

We are seeing with certain markets, we are seeing -- on pre-paid, we're seeing some alternative ways of communicating. And we see that certainly with the Indonesian market in terms of the Blackberry messaging. So people are doing that more than calling now.

In terms of Vodafone, the Vodafone partnership will become active on January 1 next year. We see it as lots of benefits to us. One is that with the Conexus alliance and the Vodafone alliance then we will be the world's biggest alliance set-up. And we will have good access to the corporate market globally, as well as locally.

And we can offer improved roaming, both in terms of rates to our customers and also in terms of volume of roaming, in terms of inbound roaming.

And then also we have access to their knowledge bank, which is quite useful for us; so we can check on that. And we also have access to products from them, so where they do in bulk for the whole Vodafone Group, we can access certain products at slightly advantageous prices.

Anything else on that?

Tan Tong Hai - *StarHub Limited - COO*

I just want to, seeing as there are so many questions on the corporate take-up of NGNBN, I just want to provide some more visibility to that.

It seems like the demand is there. I just want to clarify, the demand is there. It's just that when we get down to the provisioning, certain building owners may make it difficult for you to gain access to the buildings etc.

And even so, after the link is provisioned, whether the link is running well or not; it's the quality of the link; and also, the time taken to provide those links.

So these are the issues that the corporate customers are very particular. They want it to be on the dot. They say if we say this day, you must get it done and I want the link to be up with the top quality. But I think today, we have not reached that stage.

Nov. 09. 2011 / 10:00AM, CC3.SI - Q3 2011 Starhub Ltd Earnings Conference Call

So if we haven't reached that stage, StarHub is not willing to go all out and push for this because it will affect the customer satisfaction. And once they have a bad experience, they may not come back and stick to the existing line.

So we are working together with various parties to see how to resolve this. And once we can resolve these issues, I think we will go all out and pursue and also drive more customer take-up. But we are a bit cautious right now, because we don't want to come and sell now, then to be faced with all these provisioning issues. And that causes customer dissatisfaction.

Kelvin Goh - *CIMB Research - Analyst*

Okay, thank you.

Eric Loh - *StarHub Limited - Senior Manager IR*

We've got time for two more questions. Navin Killa, Morgan Stanley.

Navin Killa - *Morgan Stanley - Analyst*

I had actually a couple of questions focusing on the smartphone side. If you could remind us what percentage of your customers today are on smartphones?

And if you could also share what is the average usage level that you are seeing in terms of megabytes per month etc? That would be helpful. And how have you seen that trending, again, very roughly?

Secondly, within the post-paid customer number that you report, is it possible for you to give an indication as to the number of customers on dongles and iPads?

And if you could shed any light on their average usage levels; is that materially different from smartphone customers? So that's my first set of questions.

The second question is on the free cash flow and the earnings differential that you have, which is pretty substantial and, obviously, partly because of CapEx timing and partly because of the tax cash payments.

I guess the question I have there is on the tax issue. When do you see your cash taxes become equal to the reporting income tax expense? And does that have any bearing on your dividend going forward?

Neil Montefiore - *StarHub Limited - CEO*

Okay. I've said before, if we look at the smartphone as a percentage of the total base, then the current penetration for us on our post-paid network is around 67%. If you just look at handsets, it's higher than that but if you're counting the dongles and the other data uses, that's the level.

The typical smartphone user uses just below 1 gigabyte of data per month. A dongle user is generally higher than that, a USB modem user I should say.

The third one was --?

Nov. 09. 2011 / 10:00AM, CC3.SI - Q3 2011 Starhub Ltd Earnings Conference Call

Eric Loh - *StarHub Limited - Senior Manager IR*

How many customers on dongles?

Neil Montefiore - *StarHub Limited - CEO*

We don't actually separate that out, I'm afraid. So we don't give the separate numbers in terms of USB modems compared to handsets.

Free cash flow, Buck Chye, do you want to --?

Kwek Buck Chye - *StarHub Limited - CFO*

Okay, Navin, let me take on the tax first. We will not be in cash tax paying for the year 2011. There will probably be some cash tax payment in 2012, but we don't expect that to be significant.

As I'm not allowed to give you forward forecasts too far in there, I'm not able to guide you when the cash tax payable is equal to the accounting tax charge.

We do have group loss offset capabilities and we do have capital allowances for our CapEx expenditures, not only in StarHub but also in the Group from Nucleus Connect. So it will be some time before they are totally equal. But we don't see much impact due to cash tax for the immediate.

For the earnings and free cash flow, our dividends have been monitored closely, based on more than one year's cash flow. And hence we can only guide this year.

It is somewhat -- earnings as a -- EPS is lower than cash flow per share. And that, as I explained, is not an issue because the dividend paying entity is a legal entity, the listed co is still sitting on significant reserves that can be used for distribution of dividends. So I hope that explains your concern.

Navin Killa - *Morgan Stanley - Analyst*

Yes, thank you.

Eric Loh - *StarHub Limited - Senior Manager IR*

Okay, we've got time for one last question. Prem Jearajasingam, Macquarie.

Prem Jearajasingam - *Macquarie Research - Analyst*

My question's actually really two. One, with the content non-exclusivity in place and your recent signing of the Fox on the new contract, what is your guidance or what are your thoughts with regards to content costs going forward?

Can we expect them to start coming down? Or are we stuck in this rut where the content providers want more and more money and even on the non-exclusivity it does impact our costs? That's number one.

And just to clarify that we expect a significant jump in the CapEx number in the fourth quarter. There's billing issues and that will actually bring us back closer to the 12% of revenues in terms of CapEx per sales. Is that right?

Nov. 09. 2011 / 10:00AM, CC3.SI - Q3 2011 Starhub Ltd Earnings Conference Call

Kwek Buck Chye - *StarHub Limited - CFO*

Yes.

Neil Montefiore - *StarHub Limited - CEO*

Okay, in terms of the content costs, we haven't seen any particular reduction in terms of content owners and distributors' costs coming down since the introduction of the cross-carriage regime.

Equally, we have no content at the moment subject to actual cross-carriage. We did renew with Fox but that was done a non-exclusive basis and so that is not subject to the cross-carriage provisions.

But at the moment, we're not seeing any major reductions in costs. We are going through an exercise of actually how we're going to value our content costs going forward, as the content starts to become available across all our platforms, across all the devices out there.

We need to work out exactly what customers -- how they're going to value the use of content going forward. And it does vary very much between the devices and also between the actual consumers, their age and propensity to actually use data on different devices.

I think that's it. CapEx, yes, we are expecting an increase in the CapEx in the fourth quarter. But the guidance we're giving is it will be below 12% of revenue.

Prem Jearajasingam - *Macquarie Research - Analyst*

Thank you. Just to re-clarify on that; so the re-contract with Fox didn't lead to any significant savings because it's gone non-exclusive?

Neil Montefiore - *StarHub Limited - CEO*

We can't give the details of that out. But obviously, if you look at what we've actually done on our channels, we've enhanced the content that we are delivering from Fox. Do you want to --?

Tan Tong Hai - *StarHub Limited - COO*

Yes, I just want to mention that, of course, every time that we renew, we will see what are the enhancements, like this time round we have more HD.

Anyway, if you look at Nat Geo, now it's available in four different languages, even in Bahasa. So we can offer Nat Geo now to our Malaysian subscribers.

So there are other values but all in all, we do see that content providers, whether it's exclusive or non-exclusive, they look at it and see if there's an increase in costs because they improve the quality, give more HD and different languages. So they expect to be paid for this.

So we are looking at all this and valuing it based whether our subscribers value this and are willing to pay. And if they are willing, then we can see, hey, we're prepared to even pay them a bit more because now we can cater to a larger group of customers.

Nov. 09. 2011 / 10:00AM, CC3.SI - Q3 2011 Starhub Ltd Earnings Conference Call

Eric Loh - *StarHub Limited - Senior Manager IR*

Does that answer your question, Prem?

Prem Jearajasingam - *Macquarie Research - Analyst*

Yes it does, thank you very much.

Eric Loh - *StarHub Limited - Senior Manager IR*

Thank you. Right, that's all the time we have for you this evening. Thank you so much for joining us. We look forward to speaking with you again in three months' time.

Just for your information, a copy of the replay for the conference call will be made available later this evening on our website. Goodnight.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2011, Thomson Reuters. All Rights Reserved.