

CHAIRMAN'S MESSAGE



progress
is change + diversification

Steven Terrell Clontz
Chairman

Dear Shareholders, FY2019 was a transformative year as we deeply probed the “nooks and crannies” of our various businesses to chart a roadmap for operational efficiency and growth amidst sustained intense market competition.

As the market environment changes and as technology evolves, customers’ needs and preferences will adapt, naturally. We do not just try to react. We must transform and re-invigorate our “challenger” spirit, and we have done exactly that.

To recapitulate, the StarHub Executive Leadership Team put in place a clear action plan and unveiled the three-year DARE transformation programme in late-FY2018 that began by targeting approximately

\$210 million of cost savings, most of which will be reinvested in revenue diversification and growth opportunities, as well as enhanced customer care and engagement platforms.

One year on, of the four pillars we have defined, we are pleased to report broad-based progress:

Deliver market-leading customer experiences: We introduced our “Hello Change” brand promise to revamp mobile and TV propositions with simplicity and value, and completed the massive cable-to-fibre migration. Our customers enjoy significantly better experiences over the last 12 months based on NPS scores that improved by 130%, reflecting vast improvements in our dealings with customers across multiple channels whether face-to-face or digitally.



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Accelerate value creation from our core businesses: A cross-functional optimisation programme resulted in best-in-class capital expenditure investments, achieving 7.5% committed capex/revenue ratio. Our review of go-to-market strategies and contact centre functions brought about a workforce that is now at an optimised level for the size of our business. Coupled with other operational efficiencies, we achieved a 4.6% year-on-year decline in operating expenses, excluding our cybersecurity operations. Overall, 64% of our three-year \$210 million cost-optimisation programme was delivered in FY2019. Such initiatives also contributed to a 50.5% year-on-year improvement in free cash flow to \$218.6 million.

Realise growth from new opportunities: FY2019 was the first full year we consolidated contributions from Ensign InfoSecurity Pte. Ltd. (“Ensign”) and combined it with D’Crypt Pte Ltd (“D’Crypt”) under a single centre of excellence for cybersecurity and cryptography services, which generated 79.1% year-on-year revenue growth. Revenue from the growing Managed Services segment also crossed the \$100 million mark for the first time.

Enhance efforts to transform digitally: For our customers, we have enhanced our My StarHub app, which achieved high user ratings on both Apple App and Google Play stores of 4.5 out of 5 stars. Online sales have doubled as we continue to encourage greater adoption of our online services and sales channels. In FY2019, we also launched giga!, Singapore’s first all-digital mobile brand that continues to enjoy immense customer take-up rate at the highest industry net promoter score (“NPS”). On elevating operational efficiencies, we deployed RPA (Robotics

Process Automation) across our business, rolled out a new Knowledge Management System and chatbot capability in our Contact Centres. Meanwhile, our SmartHub Data Analytics and Artificial Intelligence solutions enabled smart business decisions and delivered enhanced benefits to enterprise clients in Advertising, Hospitality and many other industries.

BUSINESS REVIEW & OUTLOOK

Consumer

Our Consumer business remains challenging, facing competition from infrastructure based Mobile Network Operators (“MNO”) and Mobile Virtual Network Operators (“MVNOs”), while also having to navigate through changing consumer behaviour towards higher data usage. As the marketplace changes, we remain nimble, leaning in to customers’ feedback on the ground and modifying our offerings accordingly.

Even as more MVNOs launch in the Singapore market, we continue to win market share via our StarHub-branded services, our digital brand giga! and our wholesale MVNO channels. Including giga!, four out of 10 digital brands available in the market today are powered by StarHub’s advanced mobile network¹.

In FY2019, we completed the cable-to-fibre migration of our Pay TV business. While we expected near-term churn and negative ARPU impact, this was a necessary change to enable the transformation of our TV business – moving towards a variable cost structure and redefining the way our customers consume content in a world that is moving rapidly towards OTT video streaming

FY2019 Milestones



D.A.R.E. Progress

>\$210M cost programme 64% executed to date, savings to be reinvested for transformation and growth initiatives



Hello Change

Strong reception for the Hello Change campaign resulting in a 130% improvement in NPS



Completed Migration

Successfully migrated all Pay TV and Broadband customers to fibre in October 2019 to enable greater speeds and seamless entertainment



Integrated Cybersecurity Capabilities

Strategic integration of D’Crypt into Ensign that will sharpen its competitive edge as one of Asia’s largest integrated pure-play cybersecurity firms

¹ As at 31 December 2019.

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and download options. In fact, churn for Pay TV has reduced significantly in 4Q2019, signifying stabilisation as migrated customers are now on new two-year contracts. In FY2020, we have plans to offer more options to our customers, including new OTT services such as the Go Max offering. The cost of content will continue to receive a large amount of attention given that more of our content providers are going direct to consumers.

We expect our Broadband business to remain stable following the cable-to-fibre migration. We have launched a high-speed price plan targeted at the interactive video gamers who are showing significant interest. We plan to seek further growth in this niche segment through differentiated offers.

Enterprise

Our core Enterprise business enjoyed some growth this past year, thanks to new contracts from the large corporate customers for whom we provide Managed Services. Such customers tend to stay with their service providers over multiple years.



We believe the Enterprise business will be the main growth driver for StarHub, while the Consumer business will continue to generate healthy cash flow.

While we remain cautious on growth expectations for our Network Solutions business amidst pricing pressure from new market entrants offering fibre services, we expect higher take-up of emerging technologies, such as data analytics, Internet of Things ("IoT"), and data centre-related solutions. We are constantly reviewing and strengthening our portfolio of services and capabilities to provide a full suite of solutions to customers as we further position StarHub as a critical IT service provider.

For many enterprise customers, having top-notch cybersecurity capabilities has become a board-level agenda. According to the Infocomm Media Development Authority, Singapore's cybersecurity market was worth less than US\$500 million in 2017 but is seen to grow at a CAGR of 15%, to US\$889 million in 2022.

To this end, we have built very significant cybersecurity capabilities with our acquisitions over the past few years. This includes a deliberate decision to integrate D'Crypt into Ensign, allowing us to realise synergies from their complementary cybersecurity and cryptography capabilities that provide advanced digital security solutions to our enterprise customers. This strategic alignment will also sharpen our competitive edge and build scale to be one of the region's largest pure-play cybersecurity solution providers.

FY2019 is the first full year of consolidating the accounts from Ensign, from which we spearhead our cybersecurity offerings. While we expect Ensign's topline growth to continue its impressive growth trajectory, we are investing in the company's future growth through R&D investments and talent acquisition – both of which are critical components that will incur front-loaded operating expenses.

Having spent the first year laying strong foundations, Ensign seeks to maintain a delicate balance between growth and enhancing profitability by aggressively growing sales and reaping economies of scale.

Outlook

Overall, the Consumer business continues to navigate a tough market environment as we employ innovation and greater digitalisation to stabilise ARPUs and revenues. On the

Enterprise business front, we will build on the strong FY2019 momentum to sell more services to existing customers and create new revenue streams in adjacent verticals. We believe the Enterprise business will be the main growth driver for StarHub, while the Consumer business will continue to generate healthy cash flows.

Moving into FY2020, 5G will be a key focus as licences are expected to be awarded in the middle of the year. This next-generation high-speed mobile network is expected to spawn new services and support new use cases, benefiting not just consumers but also premised-based industrial applications and mobile data intensive business applications.

Machines, vehicles, equipment, smart devices, will all be connected as part of the IoT ecosystem. Usage patterns, volumes, customer needs will alter significantly. New business models will be created, and we plan to capture these new revenue streams.

While 5G's high speed, low latency, and ability to support network slicing and prioritisation holds good promise for the Enterprise business, it will take longer to build up momentum as compared to the Consumer business.

The possibilities 5G will bring are exciting, but we are fully mindful of the investments required. Our 5G investment strategy involves a joint venture agreement with another MNO, delivering significant savings over the life of the project without compromising network quality of service and brand positioning.

To accelerate growth and broaden our corporate competencies, we will seek strategic investments, which may also provide some geographic diversification.

Dividend

We have proposed a final dividend of 2.25 cents for 4Q2019, which will bring the full-year dividend payout to 9.0 cents, in line with prior guidance. We remain committed to our dividend policy to pay out at least 80% of net profit attributable to shareholders (adjusted for one-off, non-recurring items), payable on a semi-annual basis. However, to provide greater visibility to the investment community, we have guided our intention to maintain a dividend



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per share of 9.0 cents for FY2020 after taking into consideration short-to-mid term cash flow requirements, as well as results reaped from the ongoing transformation initiatives. We will continue taking a balanced and sustainable approach to paying dividends while remaining dedicated to rewarding shareholders for putting their faith in StarHub.

Sustainability

Despite business challenges, we have not lost sight of our wider mission to be a responsible corporate citizen. This is especially important as the ecosystem of investors and stakeholders place greater emphasis on ESG practices.

In terms of the way we conduct business, we bought 2,850 megawatts worth of Renewable Energy Certificates (REC), equivalent to about 2% of our electricity consumption in FY2019. We are also in the process of rolling out a Responsible Sourcing Policy in FY2020 that will form the governance structure for our supplier code of conduct.

We continue to play an active role in perpetuating good environmental practices. RENEW (REcycling the Nation's Electronic Waste), our flagship e-waste recycling programme, has seen a steady annual increase of over 36% in the amount of e-waste collected to reach 174 tonnes in FY2019. FY2019 also marks the sixth

consecutive year we have supported the School Green Awards (SGA) in partnership with the Singapore Environment Council (SEC), to engage, enable and encourage our youths to lead in addressing the problem of climate change more effectively.

We remain committed to ameliorating the lives of communities around us. In FY2019, we were conferred the PA Community Spirit Award for supporting the Central Singapore CDC's Nurture Programme, bridging disadvantaged children and youths with greater access and exposure to learning opportunities.

Corporate Governance

This year marks StarHub's 15th year as a company listed on the Singapore Exchange, and we continue to uphold best corporate governance standards, abiding by the recommendations of the Code of Corporate Governance, which includes board renewal.

In FY2019, we welcomed a new independent director, Lionel Yeo, to our board. Lionel brings with him years of top-level experience in the Civil Service. When he joined our board in early FY2019, he was providing strategic advice to Grab, one of the most prominent technology companies in our region. He has since taken on the role of CEO of the Singapore Sports Hub, with effect from February 2020. Lionel brings his unique

experience and perspectives to help guide StarHub in this rapidly evolving and exciting marketplace.

Looking Ahead

FY2020 will mark our 20th anniversary – over the years, technologies have improved dramatically, the industry has evolved, and business models have changed. What has stayed and will remain constant is StarHub's promise and passion to challenge the status quo and place customers at the heart of everything we do, which we believe will translate into long-term value for our shareholders who have supported us through our ups and downs.

While the operating environment is undeniably challenging, it is also an opportunity for us to sharpen our focus and raise the bar through innovation. We will maintain a long-term view on the business, working hard on our transformation and growth initiatives to emerge stronger and better. We look forward to your continued support as we embrace change and diversification to progress ahead on this exciting new journey.

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Chairman