FINAL TRANSCRIPT

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PRESENTATION

Eric Loh - *StarHub Limited - Senior Manager, IR*

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

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

And with that, I'll hand over the floor to Neil to talk through our second quarter results.

Neil Montefiore - *StarHub Limited - CEO*

Okay, good evening, everybody. We'll run through a few areas, the highlights; we'll then go into detail into the financial overview; and Tong Hai will summarize the business highlights; and I'll finish with the outlook for 2011.

If you turn to slide 6 then we'll do a quick overview of where our results for the first half came out. So comparing the second quarter 2011 to the second quarter 2010, we saw an increase in EBITDA of about 16%. We saw the margin also improve about 4.4 percentage points to 30.4%. And the profit after tax rose 34% from the second quarter 2010 to second quarter 2011.

We saw Mobile growth. We saw postpaid revenue growth; a little bit of decline in prepaid revenue, and we'll cover that in a bit more details later; total customer base grew in Mobile; and the churn came down a little bit to about 1%.

Our pay TV business remained pretty stable.

And we saw some growth in the residential broadband customer base, although we saw some decline over the whole of the first half in the actual ARPUs in that area.

So now if you turn to slide 7, I'll just run through the half-year results rather than the quarter on quarter ones. Operating revenue pretty flat. And you've got to bear in mind there that the operating revenue in the first half in 2010 included the one-off revenue from the World Cup, and also in June we reduced the price of our sports package by 50%, from SGD25 down to SGD12, that's really what's making it look very flat there.

EBITDA we did see come up in the first half, up 25%.

The EBITDA margin increased about 6 percentage points to 30.2% for the half year.

Net profit after tax up 46% half year on half year.

CapEx quite low, well, lower than we expected, it's about 7% of revenue, so we are going to revise our projected CapEx for this year, downwards slightly.

If we turn to slide 8, a quick summary of the business areas. Mobile, we saw growth in service revenue of about 3% and about 5% in the customer base growth.

Pay TV was down in revenue; again, that's because we reduced the price of our sports package by 50%. But the customer base remained pretty stable; in fact, grew about 1%.

Broadband, we saw service revenue up around 3% and the number of customers up about 6%.

And Fixed Network, we saw some "smallish" growth, around 2%.

Slide 9, there we are looking at our hubbing strategy. And the households with three or more services from us grew by about 8% year-on-year, so we're quite pleased with that.

And now what I'll do is I'll hand over to Buck Chye, who will go to slide 11 and the financial overview.

Kwek Buck Chye - *StarHub Limited - CFO*

Yes, good evening. I'll now cover the financial overview. We are on slide 11, which is the EBITDA and EBITDA margin slide.

The Group's EBITDA for the second quarter, at SGD164 million, was SGD23 million, or 16%, higher than the same period last year; it was then SGD141 million for the quarter. The improvement was primarily due to lower costs of sales coming from lower content cost and traffic cost.

For the half year, EBITDA, at SGD323 million, was higher by SGD63 million, or 25%, better than last year.

The EBITDA margin for the quarter, at 30.4%, was 4.4 percentage points improvement over the same quarter last year. And that brings the average up for the half year at 30.2%, above our guidance for the full year at this point; 6% higher than this time last year.

The improvements come mainly from the following. Total cost of sales at SGD221 million, was SGD30 million, or 12% lower in the quarter for cost of sales. Mostly coming from cost of services, the blue bar, at SGD72 million for the quarter; this was SGD31 million lower than the second quarter the previous year.

Note that in the previous year there was the World Cup event cost. In addition, content cost for the six months this year was without the BPL content, which we have previously told that it would be reflected in savings this year, although we did have to spend a little more on other content to improve our pay TV proposition to our subscribers.

However, cost of equipment from handsets and devices did increase to SGD88 million for the quarter, or 8% higher, reflecting the higher mix of smartphones for our customer retentions and acquisitions, which yielded a higher revenue from Mobile, as you can see, reflected in our revenue numbers.

Traffic costs reduced to SGD61 million in the quarter; a 9% improvement. This arises from better rates negotiated with our carrier partners.

For the half year, cost of sales, at SGD438 million, was SGD63 million lower. Of this improvement, cost of services improvements amounted to SGD48 million; traffic cost improvements amounted to SGD11 million. These helped offset the cost of equipment, although the cost of equipment for the half year is contained at the same level as last year, reflecting the competitive re-contracting and acquisitions still going on in the Mobile business, especially for smartphone plans.

Other operating expenses, on slide 13. This quarter, total other operating expense was SGD15 million, or 6% higher, with the increase mainly attributable to higher staff costs, which itself increased by SGD11 million, or 19.8%, year-on-year; and higher depreciation expenses, which increased by SGD5 million, or 8%, in the quarter, compared with the same period previous year.

These increases have been moderated by savings in operating expenses -- operating leases, and M&P is maintained at the same level as the previous year in the second quarter.

For the half-year period, total operating expenses increased by SGD19 million, or 4%, year-on-year to SGD510 million. The higher other operating expense was contributed by higher staff costs increase, which increased by SGD10 million, or 7%; depreciation by SGD13 million, or 11%; and some increase for marketing and promotion no doubt of SGD2 million; and also, we took a higher allowance for bad debts by SGD1 million versus same period last year. And all these offset by lower operating lease and other expenses.

But as a percentage of operating revenue, other operating expense ratio, consequently, trended a slightly higher 45% rate, compared with 44% the previous year. But this is within expectation in view of the higher staff costs this year.

On chart 14 is the profit from operations for the quarter; it grew by 23% over the previous year same period to SGD96 million. And for the half year, profitability improved by 37% to SGD186 million.

Next chart, on page 15. After tax, Group profits for the period was up SGD20 million, or 34% higher year-on-year, at SGD78 million for the quarter.

For the half year, the net profit after tax, at SGD147 million, is an improvement of SGD46 million, 46%, over the last year.

CapEx. The CapEx for the quarter at SGD42 million, and SGD84 million for the half year. As a percentage of sales, the CapEx ratio is trending at 7.5%.

Where, as we have guided, the second half of the year will see higher CapEx, our outstanding commitment for CapEx at the half-year mark is at SGD165 million, compared with SGD190 million the previous year. Hence, we are revising downwards our full-year CapEx payment guidance from 13% to 12%; not exceeding 12%, even with the higher outflow expected for second half this year.

Free cash flow, on chart 17, for the quarter rose 27% year-on-year to SGD140 million, partly due to an improved profits, the lower CapEx outflow at this stage in the year, and also positive change in working capital.

For the six months year to date, free cash flow reached SGD272 million. This is SGD42 million, or 18%, year-on-year better; again, fuelled by the improved cash generated from operations, a lower CapEx, and some improvements in working capital.

Now, in terms of share, we generate at the half-year mark SGD0.15 (Company corrected after the conference call) per share of free cash flow, compared with SGD0.13 the previous year. And you know our dividend for the half year is at SGD0.05 per quarter; hence, the half year is at SGD0.10 per share.

And, with that, I'll hand you over to Tong Hai for the operations.

Tan Tong Hai - *StarHub Limited - COO*

Thanks, Buck Chye. I'll now cover the business highlights, firstly, Mobile, chart number 19. We've added 97,000 customers. Postpaid customer base expanded by 6%, and postpaid ARPU increased SGD1 to SGD73.

If you turn to chart 20 you notice that this quarter we have added 20,000 postpaid subscribers, reversing the negative net adds in the previous quarter. This is due to a stronger pickup of our SmartSurf and data SIM plan as more smart devices, phones, and tablets, the iPad, becomes commercially available.

We have negative net adds for our prepaid segment due to the expiration of promotional cards and the clean-up of the registered base to conform to the prescribed regulatory requirements.

Our total mobile subscriber is now 2.153 million, split almost equally between postpaid and prepaid.

Next chart, 21, you'll notice that prepaid revenue was lower this quarter as we have revised our IDD rates downwards to be competitive.

Postpaid revenue was higher because of the stronger take-up of SmartSurf plans. Correspondingly, postpaid ARPU went up by SGD1 to SGD73.

On chart 22, you'll notice that we continue to see strong data usage. Non-voice service as a percentage of ARPU is down 37.5%. With better customer retention efforts, we were able to lower our churn rate to 1%.

Next, I would like to cover the highlights for pay TV, chart 24. We've added 3,000 customers, and ARPU is now at SGD49.

Chart 25. You'll notice that we continue to add more pay TV subscribers quarter on quarter, even without BPL. This quarter, we added another 1,000 subscribers, bringing our total subscriber base to 544,000.

Next, chart 26. Revenue in this quarter was lower at SGD92.3 million, compared to SGD109.6 million a year ago. This was due to one-off FIFA World Cup event last year and lowering of our sports pricing since June 2010.

ARPU remains stable at SGD49. With our SGD2 price increase in August this year, we should see an increase in ARPU in subsequent quarters.

In chart 27 you'll notice that, for the churn rate, we managed to keep it low, at 1.1%.

Next residential Broadband, chart 29. We have added 24,000 customers, ARPU remains stable at SGD45, and revenue increased by 3%.

Chart 30 shows that we have added 7,000 more subscribers to our broadband subscriber base so total broadband subscriber base is now 431,000. We continue to see stronger pick up in both fibre and cable broadband services.

Next, chart 31. Broadband revenue has increased to SGD61 million, from SGD59.2 million a year ago, with the added subscribers; and ARPU remains stable at SGD45, in spite of intense competition.

Chart 32 shows that our churn rate is kept low at 1.1%.

Next, Fixed Network Services, chart 34. Revenue increased 2%; stable contribution from Data & Internet services to revenues.

You'll notice, in chart 35, that Fixed Network revenue has grown to SGD83.4 million, compared to SGD81.6 million a year ago. Voice revenue is higher, at SGD14.6 million, due to a higher subscription of voice services and higher interconnection revenue from international carriers.

Data & Internet grew slightly year-on-year. Quarter on quarter, there's a slight drop, due to competitive pricing pressure with lower NGN prices.

I will now pass the mic back to Neil, to give you the outlook for this year.

Neil Montefiore - *StarHub Limited - CEO*

Thank you very much, Tong Hai. So I'll just, very quickly, run through what our outlook is, what our guidance is going to be. There are two slight changes; one to revenue, and one to CapEx.

So, I'll start with the revenue. We are revising the revenue guidance to low single-digit range for this year, I think we've seen pretty flat for the first half year-on-year. We do expect some growth to come through in the second half of the year, though.

And the CapEx, we're saying, as I think Buck Chye mentioned, we will not exceed 12% of our operating revenue now.

We'll maintain our guidance on EBITDA margin on service revenue to be around the 30% level, and declare a SGD0.05 per share dividend. And we will maintain our cash dividend at SGD0.05 per share per quarter.

So, with that, I'll hand back and see if there's any question.

QUESTIONS AND ANSWERS

Eric Loh - *StarHub Limited - Senior Manager, IR*

We're going to open now to Q&A. (Operator Instructions). Luis Hilado, HSBC.

Luis Hilado - *HSBC - Analyst*

Thanks for the call, and congrats on the results. Just three questions from me. I just wanted to double-check that for this second quarter there's no impact at all from the increase in pay TV fees as the billing is still this coming quarter. And just wondering whether you think there will be any impact on churn as a result of the increase.

Second question is with regards to pay TV net adds. Still rising, just wondering what you believe is driving that. Are you winning back some subscribers that churned out before? Or is there some programming you have that is leading to a continued demand?

And last question, I guess with regards to the net debt-to-EBITDA continuing to fall, how do you intend to address it? And how quickly do you intend to address it?

Neil Montefiore - *StarHub Limited - CEO*

Okay, thank you very much. First question was the SGD2 increase. The actual reaction from Singapore's been quite low to the price increase. I think we've only really had about 30 calls from anybody. It's a bit early to say whether it will affect churn. Our current position is we don't think it will affect churn very much at all.

Why we're getting net adds, I think, is because we've still got -- we differentiate ourselves quite significantly with the type of content we have across all genres of content, very wide, over 170 channels now, so I think that's really why we're getting more customers coming in.

And I'll let -- Buck Chye, do you want to talk about the --?

Kwek Buck Chye - *StarHub Limited - CFO*

Net debt-to-EBITDA ratio, as it runs now, is at 0.8 times. It does look like we have a strong reserve for dividends. However, in view of the mainly strategic initiatives that are still going on, and with the regulatory uncertainty right now, we feel that it is better to be cautious; and also because of the economic environment globally.

We want it to be played out before we relook. But, nonetheless, we still continue to look at our dividend policies, taking three-year cash flows into consideration. Thank you.

Luis Hilado - *HSBC - Analyst*

Sorry, just one follow-up question from me. On the tax rate, seems to be 15% this quarter, should we assume it will be the same for the second half?

Kwek Buck Chye - *StarHub Limited - CFO*

No, I've always guided that the tax rate that you should use for your modeling is still at 17%. The 15% that you see in the quarter is because in this quarter we did adjust for Group tax relief credits. But you see the year to date, the averaging as a percentage of pre-tax is 17%.

Luis Hilado - *HSBC - Analyst*

Okay, great, thanks.

Eric Loh - *StarHub Limited - Senior Manager, IR*

Sachin, Nomura.

Sachin Gupta - *Nomura - Analyst*

Just a few things. Firstly, Neil, you talked about the revenues, you do expect to pick up in the second half, just wondering, is it possible to give a bit more color on where exactly do you see that coming from?

I guess the reason that the Mobile business has been relatively flat, in terms of you have been losing some subscriber share and the ARPUs have been roughly flat at SGD72/SGD73 for postpaids, I'm just wondering how do you see that evolving for the rest of the year, as well.

And the last question is for Buck Chye. Just on the OpCo, just wondering how many -- how much have you received so far from the government as part of a subsidy? And also, M1's talking about launching the OpCo as well, so just wondering any thoughts there? What does that mean for your -- for Nucleus Connect? Thank you.

Neil Montefiore - *StarHub Limited - CEO*

Okay, thanks for that. What we're saying, revenue flat for the first half year-on-year, really driven by the additional revenues that we saw coming in last year. So we've grown that much; to replace those one-off type revenues. And also, we've taken into account the revenue loss because we reduced our sports package pricing.

We see the potential growth areas, really quite a few areas, but predominantly it's the Mobile area. And we hope with the Fixed Network we might get some growth in the corporate sector as the NGN starts to kick in. But it won't be -- it's not kicking in as quickly as we wanted. It won't affect the results much this year, so that's why we've changed our guidance on revenue to low single-digits.

Kwek Buck Chye - *StarHub Limited - CFO*

With regards to your question on government grant from Nucleus Connect, we have received, as at the end of last year, SGD60 million. And in our results, we have amortized the grant when received over 5-year period, so you will see in the line called other income, it is in there. And the year to date is in there at SGD7.2 million, the amortized revenue.

Neil Montefiore - *StarHub Limited - CEO*

I think you also mentioned the fact that M1 has announced that they will be having an OpCo for the corporate sector. When we actually went for the Nucleus Connect bid process we assumed that in the end we would be the only operator using Nucleus Connect, so we don't see that as affecting our current planning.

Sachin Gupta - *Nomura - Analyst*

Okay. Can I just check two things on that? Firstly, on this guidance again, are you noticing -- because I think one of the comments you made in the release is that a lot of the re-contract customers are choosing lower speed plans. I'm not sure why that would be the case, given everyone's talking about faster speeds. If that does happen, does it mean the fibre take-up rates could remain quite dismal?

Neil Montefiore - *StarHub Limited - CEO*

I think what we have in Singapore is that there's a fair number of households that don't actually have the fixed broadband, so we've been offering some very good attractive, sometimes free, broadband rates to get them hooked into broadband, fixed broadband at home.

What we've also found is, with the next generation network, many of the households don't really see the need to go up to 100 megabits per second. We have been offering 100 megabits per second for many years now on our cable network and a few percentages of customers take it. There are some gamers and some other users that really do need that speed, but the majority of households haven't really seen the need for it yet. So we expect that to develop more over the next two years or so.

Tan Tong Hai - *StarHub Limited - COO*

I wanted to add that if you look at our new Broadband subscribers that we've added I mentioned that it comes from both cable, as well as fibre.

In fact, fibre, we're seeing a lot of switches from ADSL, partly because ADSL in the past couldn't offer the 100 meg. Cable, all the while we can offer 100 meg, so for customers wanting 100 meg, they already have it with our cable, so a lot of them actually were looking at it to in fact using cable as a triple, what we call, hubbing household device. They like to use our cable together with our TV and mobile.

The hubbing proposition remains very strong. And they will of course renew it and in fact take this cable because it gives them the full flexibility. And, interestingly, we are seeing a lot of switches from ADSL, so that's the good news because this is coming from the expanded pie that we can go after.

Sachin Gupta - *Nomura - Analyst*

Okay, thank you very much for that.

Eric Loh - *StarHub Limited - Senior Manager, IR*

Sachin, DBS.

Sachin Mittal - *DBS Vickers Securities - Analyst*

Congratulations on a good set of numbers. Couple of questions. First is on actually equipment cost. Logically speaking, I thought you would be selling less and growing more as -- but what we are seeing is that equipment costs have still gone up, so could you shed some light?

Last year, you were more promoting your Android phones, but this year looks like more iPhone, so is this a sustainable trend that you are more focused on iPhones now, if I am guessing from your high equipment costs?

Number two; your staff costs have been literally increasing significantly over the last three or four quarters, SGD2 million/SGD3 million each quarter I have seen increase. Just trying to figure out is there a way that these costs can be contained, given that if you look at some of your peers their staff costs now look like more contained than yours?

Of course, you have done some other good job in terms of your interconnection costs, and other stuff, but just to know what is your thinking on how can these costs be contained given inflation and all these pressures? These are my two basic questions.

Neil Montefiore - *StarHub Limited - CEO*

The iPhone sales, yes, they're staying pretty high in Singapore. We have been promoting Android quite actively. But unlike nearly every other market in the world, in Singapore, the consumers themselves prefer the iPhone at the moment. We hope that the Android phones will get more attachment.

The number of Android phones in the market has grown, but it's not grown anything like as quickly as the iPhone. So it is still very dominated by the iPhone. So that's really why we are seeing quite significant acquisition costs still.

In terms of staff costs, yes, we have got quite a few increases in staff. A lot of has come from when we cut over our billing system and the new shops that we've opened, yes. So we've -- as a -- to the cut-over period we've had to employ quite a few temporary staff; those will start to disappear off our books probably during the first half of next year.

Sachin Mittal - *DBS Vickers Securities - Analyst*

Temporary staff came in because of billing system, is it?

Neil Montefiore - *StarHub Limited - CEO*

Yes, because when we cut -- we took our three billing systems and merged them into a single billing system. And during the cut-over process we had to freeze a lot of things, then we had to do a lot of catch up, and then we had to do a lot of work around, which has all stabilised now and so we'll start to see improvements coming through.

Sachin Mittal - *DBS Vickers Securities - Analyst*

If you'll allow me this last question, what is the major area of CapEx savings? And is this CapEx saved? Or is it CapEx delayed until next year?

Neil Montefiore - *StarHub Limited - CEO*

It's really CapEx delayed until next year, to be frank. What it's -- the bulk of it is our belief that one of the undersea cable projects we've invested in probably won't actually come out in cash CapEx during the last quarter of this year but it will spill over into the subsequent year.

Sachin Mittal - *DBS Vickers Securities - Analyst*

So you're saying undersea cable has been delayed, what was the reason for that?

Neil Montefiore - *StarHub Limited - CEO*

There's no real reason. It's normally the discussions between the members of the consortium, and exactly of the timing of the payments, and so forth.

Sachin Mittal - *DBS Vickers Securities - Analyst*

Okay, okay, great. Thank you very much.

Eric Loh - *StarHub Limited - Senior Manager, IR*

Roshan, Merrill Lynch.

Roshan Raj - *Merrill Lynch - Analyst*

Just got four questions. Wanted to clarify on the question on Broadband; it's still not clear why your subscribers signing up for lower price bands. And what is the kind of trend do you see going forward? The ARPU has stabilized at SGD45, but has it bottomed out at these levels, or there's a likely downward pressure there?

The second question is on the subscriber acquisition cost on cellular. Wasn't able to locate it, so if you could share that, that will be good.

Third question was on pay TV. What are your longer-term plans to grow [distressed] revenue for pay TV?

Finally, on margins, on a longer term view, two or three years down the line, do you see margins improving? And what could drive margin improvement? Those are the four questions.

Neil Montefiore - *StarHub Limited - CEO*

I think I tried to explain with the lower price plans, it really is two areas. It's, one, that many of the consumers don't yet see the benefit of 100 megabit per second with the next generation. And the other area is there are quite a few households that don't actually have fixed broadband and so we've been offering quite low-end plans to try and attract them in and get them used to using fixed broadband.

And we've seen -- we've been offering 100 megabits for many, many years, so we don't see that the next generation network offers very much more to our existing customers. We have a very small percentage of them actually have chosen 100 megabits per second before, so that's really where we are.

And then also in the mid-market, where customers are looking at fixed broadband more attentively, then we have seen quite a little bit of price competition in that area so we've been cutting some of the prices, making introductory offers as well, so that's what's brought down the ARPU.

The previous guidance we gave is we thought it would come down from around the SGD50 mark, down to about SGD45 and stabilize around that level, and the last two quarters it has been doing that.

Roshan Raj - *Merrill Lynch - Analyst*

Right. So do you expect that to remain at these levels, or improve? Or do you see downward pressure?

Tan Tong Hai - *StarHub Limited - COO*

I think right now it all depends on the mix. And because we sign up more fibre broadband then it comes in at a higher price. But customers will still buy the lower price plans, cable and other, so the mix may vary. But I think we're very happy the last two quarters with CapEx stable, and we hope to continue to keep it around that level.

Roshan Raj - *Merrill Lynch - Analyst*

Okay.

Eric Loh - *StarHub Limited - Senior Manager, IR*

Okay, so just to clarify that the SGD45 ARPU is mainly coming from the cable side, not so much from the fibre broadband side.

Next, we're going to talk about the SAC?

Kwek Buck Chye - *StarHub Limited - CFO*

The subscriber acquisition cost is obviously higher this period than the same period last year, and this is partly also due to more mix of smartphones in the acquisition cost involved; and also, these phones actually cost higher -- more.

Neil Montefiore - *StarHub Limited - CEO*

I think you were trying to ask what were the actual acquisition costs and the --

Roshan Raj - *Merrill Lynch - Analyst*

Yes, I was not able to locate the numbers.

Neil Montefiore - *StarHub Limited - CEO*

The numbers we used to put in there were across both prepaid and postpaid, and we decided they weren't very useful so we're not going to disclose those any more.

What we have said to many investors is that the acquisition costs vary according to the type of handset; from plain handsets, about three to four months revenue, to top of the range smartphones, which can be five, six, seven months' revenue. So that's a broad guidance on what the acquisition costs are.

Roshan Raj - *Merrill Lynch - Analyst*

Okay.

Tan Tong Hai - *StarHub Limited - COO*

Roshan, you asked about how we're going to grow the pay TV revenue. Of course, we have increased the price by SGD2. Certainly, we cannot continue to just increase the price alone.

We have actually offered more HD programs. If you notice, we have given our subscriber the chance to upgrade their set-top box. So if they upgrade their set-top box we will get a little bit more from rental of the HD set-top boxes. At the same time, if they subscribe to our HD program then we will also get upside. But, more importantly, I think as a whole we have a lot of choices for customers who upsize and to add on channels.

And if they also buy our overall hubbing proposition I think we will be able to grow the revenue as a whole. We see, in fact, the cable, the broadband and the pay TV as one; it's a hubbing household. And I believe that, that will allow us to strengthen our proposition, increase stickiness, and yet grow revenue.

Then in terms of margin, how we're going to drive our overall margin, I believe that right now, in the short term -- Neil mentioned -- we mentioned about the staff cost, yes, that's because in the short term we want to keep our service level. So we hire more temp staff because of the migration of the system, but I think that's behind us now.

So, going forward, we need -- we want to do more automation. In fact, we are looking at more self-help services. And in this case we can allow customers to help themselves, and by doing so we like to drive our operational costs lower.

The other area we look is, of course, the content, and being able to make sure that we buy the content the customer's really value. And that will allow us to lower the costs -- or manage the costs, I wouldn't say lower, because I think content providers are asking for increases year-on-year. I would like to manage it based on the value of the content and decide what to buy and what maybe not to buy and let it be non-exclusive.

Roshan Raj - *Merrill Lynch - Analyst*

Okay. And just a follow-up question on the pay TV. What is your internal thinking on the pay TV segment? Do you see competition stabilizing at these levels? Or because of introduction of cost carriage, possibly the situation has -- the competitive situation has increased on a longer term view. And despite that, given your hubbing content on less appeal, you see that there is a good opportunity for you to grow avenue?

Tan Tong Hai - *StarHub Limited - COO*

I think the good thing about it right now, although there's competition, we realize that customers are still picking our box; in fact, they are maintaining two boxes. I think that's a good thing.

We are able to register growth in our pay TV subs quarter on quarter, as what you've seen. So we're going to look at this more in terms of how we can service our customers better through the content that we have from the pay TV, so actually we have put our content on mobile, and even on any devices. And our strategy really is to bring TV to any devices, mobile devices still our customer wants to see, and I think that will offer a better, what we call, service that we can offer to our customers.

Roshan Raj - *Merrill Lynch - Analyst*

Okay, thank you.

Eric Loh - *StarHub Limited - Senior Manager, IR*

Rama, Daiwa.

Ramakrishna Maruvada - *Daiwa Securities Markets - Analyst*

Two questions for me, please. Firstly, with regards to the Fixed Network Services, if you could provide some color in terms of what the revenue trends there are going to be on the data side that would be great.

Second one is on Broadband. Your churn rates are decreasing while you have -- M1 has just launched -- has been marketing their broadband plans, so any color in terms of what you are seeing on the customer front that would be great.

Neil Montefiore - *StarHub Limited - CEO*

On the Fixed side, we expect to see some growth coming through, driven really by the new access that we would be getting to the corporate buildings within Singapore. That access has not been as easy as was originally intended with the next generation network, and it's slightly slower than it should have been. But we are seeing it beginning to happen now and so we see it ramping up during the second half of this year, and we're hopeful we'll see some good growth coming through during 2012-2013.

In terms of the --

Tan Tong Hai - *StarHub Limited - COO*

In terms of the Broadband churn rate, I think, as I mentioned, we are not offering just broadband alone. We are offering a hubbing offer, which is broadband and cable, and that combination is, by itself, more compelling than just offering broadband alone. So although M1 has launched a broadband, we still manage to keep our churn rate low with our hubbing. I think that is really a way to keep our customers loyal to us.

Ramakrishna Maruvada - *Daiwa Securities Markets - Analyst*

Yes, if I can just follow up on the Fixed Network. So, Neil, do you expect a tangible pick up from the third quarter? Or is it really going to be a 2012 story on the Fixed Network Services?

Neil Montefiore - *StarHub Limited - CEO*

I think if you'd asked me six months ago I would have said I expect it probably in the third and fourth quarters, but I think we're now looking probably fourth quarter and early next year. So it's gone a lot slower than we imagined.

Ramakrishna Maruvada - *Daiwa Securities Markets - Analyst*

Okay, thank you very much.

Neil Montefiore - *StarHub Limited - CEO*

But we working very hard to resolve the issues with it, as all the players are.

Eric Loh - *StarHub Limited - Senior Manager, IR*

Thanks, Rama. We can take a couple more questions. Let's hear from Arthur from Citigroup.

Arthur Pineda - *Citigroup - Analyst*

Thanks for the call. Three questions for me. Firstly, I just wanted to ask about your prepaid subs. It seems to (have) shrunk on a Q and Q basis, and it's not like it's just a clean-up because there's a decline in revenues, what's happening behind this?

Second, could you provide some more color on your fibre take up? Are you seeing mostly migration from your existing cable subscriptions? Are you seeing incremental ads coming in from ADSL?

Lastly, with regard to pay TV, are we to expect content costs to be flat in the second half? Or should we see margin expense -- should we seem margin improvement as a result of this given your price increase recently? Thank you.

Tan Tong Hai - *StarHub Limited - COO*

For the prepaid subs, we mentioned that the decline in revenue is because we had lowered the IDD rates to be competitive. So when we lower the rates, we expect, of course, the rise in traffic but I think it didn't come in as fast as we expected it to be.

We are also driving up our distribution outlets. We're looking at how we can service of course the foreign workers segment better. We believe that the decline, yes, this quarter but we're working to ensure that we arrest the decline. And I mentioned the two-way distribution, at the same time hoping that our reduction in rates will help to attract more usage down the road.

Now in terms of the fibre take up, I have mentioned that, interestingly, a lot of the new take up comes from ADSL, which is something good because it's not coming from our existing subscriber base. And I think that, that will remain a trend. In fact, we do have pay TV customers who in the past use ADSL subscribes, so they may see a hubbing offer from StarHub with our fibre and TV as a very interesting value proposition for them.

Content, costs-wise, I mentioned that we will try to manage it to ensure that we view it based on the value that the customer subscribe to it. I think this is part and parcel of how we measure the subscriber viewership and what value they placed on content.

I don't see content costs going down. In fact, even with the cross-carriage, we expect content costs to continue to go up. But we may not want to buy all these contents, so we would choose selectively those contents that our customers value and that's how we intend to manage it. And if those that are not important then we may want to get it on the non-exclusive, and of course at the lower price. But, all in all, we do not expect content costs to go down because of cross-carriage; in fact, we do see they will still continue to go up.

Arthur Pineda - *Citigroup - Analyst*

Maybe, just to be clear with my question, should profitability levels increase because of this SGD2 price increase which you will implement in the second half? Or be negated by rising content costs into that as well?

Tan Tong Hai - *StarHub Limited - COO*

Yes, I mentioned that there will be ARPU because if you add SGD2 to the basic subscription plan, which will apply to all our over 540,000 subscriber, on a monthly basis you will get the upside because there's no associated costs. It basically applies to all the --- to offset the costs.

Kwek Buck Chye - *StarHub Limited - CFO*

The price increase that was already put into place, most of it to partially offset some of the increased costs because as content gets renewed, I have mentioned it in previous discussions, that annually there are escalation clauses. So even in existing contracts there are escalation clauses for inflation negotiated on a multi-year basis so that increasing prices to take care of those hygiene increases that is already in the agreement.

So net effect is there is not going to be a significant push on margin due to the price increase. The increase in ARPU would be due to how we can increase the value of our content, and we are certainly looking for it to increasing revenue from pay TV.

Arthur Pineda - *Citigroup - Analyst*

Understood, thank You

Eric Loh - *StarHub Limited - Senior Manager, IR*

Right, we've got time for one more. The last person on the call will be Kelvin, from CIMB.

Kelvin Goh - *CIMB Research - Analyst*

Thanks for the call. I just wanted to check a couple of things. First one is on your revenue. There is this downgrading you have, I'm just wondering what changed. I know you mentioned something about the pick-up of fibre not being as strong as expected, but is there anything else behind that?

I believe that your traffic costs were also lower, and I am wondering is that related to the lower costs of IDD.

And lastly, I'm wondering, in terms of your postpaid subs, I'm wondering how many of them are spending above their minimum contract levels. Thanks.

Neil Montefiore - *StarHub Limited - CEO*

Where the downgrading of the guidance on the revenue growth, is really because we've been pretty flat in the first half of the year and we haven't been able to grow the corporate fixed market at the levels that we had expected to when we gave that guidance in the first quarter.

That's really because of delays, not caused by us, in the roll out of the next generation network to the corporate buildings that we don't have access to. That's about 20,000 buildings. We have access to around just over 1,000 with our own network, but we were hoping to get access to a significant number of other buildings.

Now, the fibres have passed those buildings but within the buildings there's issues in getting that from where the offices are to where the fibre is terminated. So it's getting resolved. We're working very closely with all the parties, with OpenNet, with Nucleus Connect, and with the regulators to try and get these problems solved but we think now the growth in that area may come in the last quarter of this year, but it's more likely to come in the first half onwards from 2012.

The traffic costs are lower because, Buck Chye, it's just the --?

Kwek Buck Chye - *StarHub Limited - CFO*

The traffic costs, this is an interesting development. As we grow our mobile and our sub-base, the traffic, internationally and domestically, it's interesting, reaching higher economies of scale. So wherever possible, you hear us talk about us being able to negotiate better with our overseas partners in view of the increased roaming opportunities coming in. So that's why the costs, both international and domestic, are being managed better over an expanded customer base.

Your other question on postpaid sub, whether we're getting revenue above MRC, minimum recurring revenue, in the packaging, this will depend basically on the level of inbound roaming, and IDD, and so forth. We're beginning to see traction in that for the second half; we were definitely expecting better traction there.

Kelvin Goh - *CIMB Research - Analyst*

So you think inbound roaming increasing in the second half of the year and that will help pull up your ARPU then?

Kwek Buck Chye - *StarHub Limited - CFO*

We certainly would --

Neil Montefiore - *StarHub Limited - CEO*

I think with the -- we don't give out the exact breakup of where the APRU comes from, but we do give the ARPU levels. And you can look at our plans and see that if you take an average across the plans it's significantly lower than the ARPU, so we do get quite a lot of use over. It does come from our outbound roaming, definitely, and we do get quite a lot of people going over in voice, in SMS, and occasionally in data.

Kelvin Goh - *CIMB Research - Analyst*

All right, thank you.

Eric Loh - *StarHub Limited - Senior Manager, IR*

Okay, with that, we're going to end the call for this evening. Thank you very much for joining us, and we look forward to speaking with you again at our next quarter result.
