

**Company:** StarHub  
**Title:** StarHub's 3Q and Nine Months Ended Results  
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### Start of Transcript

Eric Loh: Good evening ladies and gentlemen and welcome to StarHub's third quarter 2012 results announcement. With us this evening, we'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. Right after the short presentation that the three men will be giving, we'll be opening up the floor for question and answers. So without further ado, let's welcome Neil to walk us through the third quarter highlights.

Neil Montefiore: Thank you very much. I'm just going to quickly run through the highlights and then I'll hand over to Buck Chye to run through the financials in a bit more detail. So if you turn to slide five in the pack then financial side you see our operating revenues increased slightly by about 2%. This is quarter on quarter. Service revenue up as well about 2%. EBITDA about 13% up and EBITDA margin improved slightly to 33.9%. Net profit after tax grew 27% third quarter 2012 against third quarter 2011. Operationally, we saw a small decline in the mobile revenues. That was mainly done because we renegotiated interconnection rates with our roaming partners. So although the revenue - roaming revenue came down slightly, the costs also came down as well. The post-paid customer base we saw a little bit of growth there. Pay TV revenue increased by 6%, Broadband up 4% and the Fixed Network - that's the enterprise market - that rose around 10%.

Bit more detail on the next slide, on slide six, we can see there the operating revenue came in at \$586 million. EBITDA margin, as I said, 33.9%, net profit after tax of around \$96 million. Capex increased slightly to about 10% of revenue. We do expect the Capex in the next quarter to grow so that the whole year will end about 11% of revenue. Free cash flow you can see there \$0.088 cents per share year to date is \$0.231 so it's above the actual annual dividend.

Slide seven. If we look there we can see the lines of business. So as I said, there's a small fall in the service revenue in mobile, that was driven by the roaming because we renegotiated a lot of interconnection rates, lowered the revenue but also lowered out costs. Customer base fairly flat. Pay TV we saw some growth in revenue, it was about 6% up, broadband we saw some growth at 4% and the enterprise markets we saw around 10% growth in revenue.

The final slide in the introduction I've got is my Hubbing Scorecard, that's on slide eight. Really the main point here is our triple services. So that's households that take three or more services from us grew by about 6,000. There was a small drop in terms of the single household customers, that was mainly due to a reduction in the use of dongles. People moving away from dongles and laptops and more into tablets and iPads, so that's the reason there. So with that I'll hand you over to Buck Chye to run you through the financial highlights.

Kwek Buck Chye: Good evening, I'll take you through the financial highlights. My first slide is slide 10. On the back of continued growth in service revenue by 2% for the quarter and 3% for the year to date, as well as low operating expenses, EBITDA for the current period, as well as for the year to date, were higher year on year. EBITDA for the quarter grew by \$21 million or 13% to \$188 million strong for the quarter. For the nine month period to date EBITDA increased by \$53 million or 11% to a total of \$544 million. The EBITDA margin was higher this quarter at 33.9% and for the year to date averaged at 32.7%. At this time in the reporting the margin is still ahead of our guidance for the full year at around 30% margin.

The next slide on slide 11 takes you through the cost components and we are at the cost of sales. The cost of sales for the quarter was marginally 1.8% higher year on year at \$224 million and for the year to date increased 7% to \$704. Now the main increases came from higher costs of equipment sold and also higher costs of services. These are partially mitigated by lower traffic expenses. For the quarter and the year to date, the cost of equipment was higher due to a higher mix of costlier smart phones sold. Although the quantities sold year on year were lower at this time. There are new models of smart phones this quarter and the iPhone 5 was launched in late September this quarter.

The cost of services increase was attributable to the higher TV content and production costs as well as the increased service costs associated with our expanded fixed network and NGNBN services. Traffic expenses for the quarter were 8% lower year on year and the year to date was 4% lower. As we saw, lower interoperator traffic and lower interconnection rates, although the volume handled for our international voice and data services has increased. As a percentage of revenue, the total cost of sales is trending at 38% of revenue, similar to the same period last year. Though for the year to date, this trend was slightly higher at 40%. This is on account of the year to date higher costs of handsets and the higher cost of service generally. We must also remember that this year costs of service also included the Euro Cup event costs in June.

The next chart is on the second group on costs on slide 12. That is other operating expenses. Other operating expenses for the quarter was 4% lower year on year at \$250 million and for the nine months was 3% lower at \$745 million. Now depreciation at \$68 million is tracking a ratio of 11.5% of operating revenue both for the quarter and for the year to date. This is lower than last year rate of 12.2%. Now certain assets are becoming fully depreciated this year. This helps to offset the increasing depreciation from the new additions this year. Other operating - other general expenses for the quarter, they were \$1 million only lower year on year at \$149 million [sic] and for the year to date was \$2 million lower at \$432 million. Now included here with are staff costs, operating leases, repair and maintenance expenses. All these recorded decrease for the quarter and for the year to date.

Of particular importance to mention are the marketing and promotion expenses this year. They were 12% lower for the quarter and 15% lower for the year to date. This is mainly driven by a reduced acquisition and recontracts costs outside of handset subsidy. Other operating expense as a percentage of revenue is trending down from last year nine months of 45% to 42% for the year to date.

Next chart on page 13 is on profit from operations. The improvements in the operating performance and a higher other income this year has led to a higher profit from operations both in this quarter as well as the

year to date. The profits from operations grew 24% to \$121 million this quarter and grew by 20% to \$340 million for the year to date period. Now we've increased profit from operations by \$24 million in the quarter year on year. There was an increase year on year for tax expense by \$4 million. Consequently, the quarter net profit after tax at \$96 million was \$20 million higher year on year. For the nine months to date, the net profit at \$271 million was 22% higher. On an earnings per share basis, this translates to \$0.157 per share compared with \$0.129 a year ago for the nine months.

Slide 15 on Capex. Capex payment for the quarter totalled \$60 million as expected. This computes to a 10% on the quarter's operating revenue. Year to date Capex outflow totalled \$157 million and this is effectively 9% of operating revenue. We expect to see the fourth quarter cash Capex payment to be significantly higher than this third quarter as payments for LTE investment and enhancement of our network are expected to be paid. This is why we are still guiding Capex to revenue ratio for the full year to be above 11% of operating revenue.

Free cash flow chart on slide 16. The free cash flow for the quarter is \$151 million and this is higher than the previous sequential quarters as well as the same quarter last year. However, we expect the fourth quarter free cash flow to be significantly lower due to the higher Capex outflow expected in the fourth quarter as discussed in the previous chart. For the nine months to date, the free cash flow at \$398 million is \$32 million lower. The higher operating profit more than offset the higher capital payments for Capex being \$27 million higher year on year. As well as cash tax payment of \$54 million in the first nine months to date. The free cash flow on a per share basis for the nine months at \$0.231. Our cumulative dividend of three quarters is at \$0.15. This puts the dividend for free cash flow rate at about 65% as guided in previous announcements.

With that I'll pass the call over to Tong Hai for the business update.

Tan Tong Hai: Thank you Buck Chye. Chart number 17. We are at the business highlights for mobile. Chart 18 - mobile revenue decreased 1%. Post-paid ARPU at \$74 and customer based grew 10,000. Chart 19 year on year pre-paid revenue was 2% lower due to reduced voice and SMS usage. Quarter on quarter there was a light increase in pre-paid revenue. Pre-paid ARPU remains flat at \$19 per month. Year on year post-paid revenue decreased 1% due to lower revenue from interconnect operators. Quarter on quarter post-paid revenue was lower due to lower outbound roaming. ARPU remains flat at about \$74 per month.

Next mobile Net Adds. Total mobile customer base is 2.18 million. We have healthy post-paid Net Ads of 17,000 this quarter. Pre-paid Net Adds is still negative although it has improved quarter on quarter. We have launched more promotional offers and should see further improvement in our Net Adds in subsequent quarters.

Chart 21, mobile non-voice and churn trend. Post-paid non-voice services as a percentage of ARPU is 42.7%. The growth is primarily contributed by increased data usage but partially offset by a reduction in SMS usage. Churn rate was lower at 1% as customers were waiting for iPhone 5.

Next Pay TV highlights. Chart 23. Pay TV revenue increased 6%. ARPU was up \$2 to \$52. Customer base remains stable. Chart 24. Revenue from Pay TV was higher year on year; contributed by a \$2 monthly subscription increase in August 2011, increased rental of our high definition set top box and higher

advertising revenue. Also third quarter's revenue was lower as there was a one-off contribution by the UEFA EURO Cup in quarter two. If you net off the one-off contribution, ARPU remains stable at \$52 quarter on quarter.

Next chart 25. Pay TV net ads was lower due to the expiration of short-term promotional offers. Total subscriber base is now 541,000. Chart 26 on Pay TV churn. Churn rate was stable year on year at 1.2%. With the opening of some of our content we expect churn rates may increase in fourth quarter.

Next, broadband chart 28. Broadband revenue increased 4%. ARPU up \$1 to \$46 per month and customer base grew 5000. Chart 29. Broadband revenue was up year on year and quarter on quarter as there was a higher take up of our highest speed broadband plans. ARPU remains stable at \$46 per month.

Chart 30. We have healthy net ads of 4,000 this quarter and total broadband subscriber is 443,000. Next on broadband churn. Churn rate was higher year on year due to more competitive offers and the non-renewal of low speed plans when their promotional offers expired.

Next we take a look at our Fixed Network services. Chart 33. Data and Internet revenue increased 8%, voice revenue grew 20%. Chart 34. Notice that Fixed Network revenue increased by 10% to \$89.9 million contributed by growth in both data and internet and voice services. Year on year voice revenue was higher due to higher subscription of local voice services and increased interconnect revenue. Data and Internet was higher due to increased take up of our domestic data internet services coupled with more solution sales. With this, I will hand over to Neil to provide the 2012 outlook.

Neil Montefiore: Thank you very much Tong Hai. It's been a pretty good quarter. I'll just give you the outlook because it's more or less maintained as the previous guidance we gave. In terms of revenue, we'll maintain the revenue growth to low single digit range. In terms of EBITDA, we are still guiding the margin to be about 30% for the full year. This is really because we do expect some additional handset subsidies during the fourth quarter but we have had the iPhone 5 launched. That happened just about 10 days before the end of September so we've only had 10 days of that in the third quarter.

Obviously, we've got very popular Samsung Galaxy III phone in the market and also we've got the festive season coming up. So we will maintain our guidance to be around 30%. Capex again I think as Buck Chye mentioned, we do expect some cash Capex to come through in this last quarter in several areas including the investment in LTE. So we're keeping the guidance there to about 11% of operating revenue. As usual, we're recommending the interim dividend of \$0.05 per share and maintain our annual cash dividend of \$0.20 per share for 2012. We will be giving guidance on 2013 with our next set of results next year.

Eric Loh: We're open for Q and As now. With that, let's speak to Sachin from Nomura. Sachin: (Nomura, Analyst) Thank you very much for that. Just a few things. Firstly just on the - you've added about 17,000 post-paid customers but your equipment revenues and your equipment costs haven't really changed much. I was just wondering if you could talk through some of the underlying trends about the reasons for that. That's number one. Number two, I understand, obviously I mean you have reaffirmed your 30% margin guide and so if you work through the simple maths that implies that in 4Q there could be around 40 odd million increase in the cost of sales.

I was just wondering does that sound a bit too aggressive. Or is that something that you think is reasonable given the iPhone sales or the other handset sales you are seeing. The last question I guess is just on the LTE strategy. Obviously both M1 and SingTel- I mean their roll out seem to be marginally ahead of your roll out. I was just wondering, what are the plans on coverage? Is it because of just the handset limitation do you think there's no need to accelerate or is there is there actually a spectrum issue as well.

Neil Montefiore: Thank you, that's very good. Shall we just answer those in reverse order, I think? So I'll start with the LTE. We are rolling out LTE quite aggressively; we've launched LTE we did that just towards the end of the quarter we're talking about. We see LTE as important in the future but right now we don't see it as that important. What we saw more important was the fact that we've upgraded our 3G network to DC-HSPA+ which gives speeds of 42 megabits per second - much wider selection of our customer base than just the LTE.

LTE is catching on and obviously the phones are coming through and the growth will continue. So we expect to have significant coverage by the end of this year and I think that during the first half and second half of next year we'll complete all the coverage roll out for LTE, and hopefully by then a lot of the handsets will be in the market and we'll start to see a lot of growth in the data. Besides the launch of the LTE, we've launched some pretty interesting tiered plans so we hope we can monetise some of the data growth that we expect to see going forward.

Kwek Buck Chye: Sachin, can you repeat your question? You are saying that the handset...

Neil Montefiore: Handset subsidy for the last quarter.

Kwek Buck Chye: Handset subsidy - the cost of equipment seems to be \$40 million higher?

Sachin: (Nomura, Analyst) No, basically I said if you work through the guidance the fact that you are maintaining your 30% margin guidance and given the run rate we have seen for the first nine months of the year, that actually implies that 4Q the cost base is going to be quite high. Assuming that nothing else changes, the cost of sales could be about \$40 million higher. So is that, I mean, just wondering is that a reasonable assessment?

Kwek Buck Chye: I think it would not be that high. We're hoping that there'll be more through-put but certainly we don't expect the cost to be that high because the cost of the CPE - our throughput each quarter is only \$85 million or so. If you look at slide 11 you'll see that in last year it reached a peak of \$128 million and that's why you are concluding that it's probably going to be \$40 million higher if you compare \$85 million against \$128 million. We do not think we need to go to that level because most of the handsets would have been larger quantities negotiated at better pricing.

Neil Montefiore: So I think basically we are sticking with our guidance of around 30% EBITDA margin. It's possible that we'll improve on that. So don't do too many big number assumptions for the last quarter. I think the first question was about the growth in 17,000 post-paid. Tong Hai, do you want to explain where that came from?

Tan Tong Hai: I think it's mentioning that we added 17,000 and why the equipment cost trend doesn't grow that much.

Neil Montefiore: Yeah.

Kwek Buck Chye: I think it's - just to clarify, this cost is a question of mix. If you are contracting higher customers obviously the equipment and the subsidies are higher. So it's all a mix of how - what are the customers you're likely to contract in this festive season. We think that generally the mix is driving the cost.

Neil Montefiore: I think also there was somewhat suppressed demand if you like because of the expectations of what the iPhone 5 was going to be like. So I think that kept the price down and we - as we said, we saw the churn fall slightly.

Sachin: (Nomura, Analyst) Okay, thanks for that.

Eric Loh: Thank you Sachin. Next let's hear from another Sachin from DBS.

Sachin: (DBS, Analyst) Hi, congratulations on an excellent set of numbers. Three questions for me. The first one is of course on the cost side that we are seeing your costs decline actually especially the traffic costs. In fact, I am very surprised over the last two years the costs have declined despite rising traffic. Is it a question of - is it a function of negotiation or is it a function of investment or is it a function of strong Singapore dollar? That's my question number one.

Secondly, we saw you announced 4G pricing plans with extra \$10.70 from March onwards and within very few days you went back and you pushed that extra \$10.70 to December 2013. So the question is, is it - you saw some delay in your 4G roll out or is it just a function of what you saw as competitive response?

Sachin: (DBS, Analyst) The last question is on the enterprise broadband and 4G capex often talked about this being higher probably in the future. Just wondering why do you need to invest in enterprise broadband despite all the hiccups in NBN being dissolved by IDA. Almost everything, unless you want to elaborate which are the difficulties and why do you need to invest in capex. Thank you.

Neil Montefiore: Okay I think that's the first question on the cost side, what we're really seeing and those come in mainly from the interoperator termination charges have become generally lower so that's really what's driving that and that's the traffic costs.

Sachin: (DBS, Analyst) Is it negotiation or is it investment or is it a strong dollars?

Neil Montefiore: No it's negotiation. The second question there, I didn't quite understand

Eric Loh: Let me try and explain that. What he's asking is we have a promotional price of \$10.70 for 4G users which we now offer for free. It was until March, then it was subsequently extended to December 2013. You remember the LTE pricing, the \$10.70.

Neil Montefiore: Yes.

Eric Loh: He's asking why did we extend from March to December.

Kwek Buck Chye: Due to competitive...

Neil Montefiore: Yeah it was just a...

Kwek Buck Chye: ...the competitor stance.

Neil Montefiore: So M1 went into the market with a charge, we sort of had it and they took theirs away, we took our away, so it was just a competitive reaction. I think the last question was enterprise broadband investment. We've always invested in supply - particularly for the multi-nationals and the big local companies. We've always invested in supplying our own infrastructure and that will continue. We also want to supply quite a lot of our own backhaul to all our base stations which have all obviously been upgraded as well. So that's why we continue to invest in the fixed network. What we do offer to the enterprise customers is a diversity of routing, not just from the national broadband network but also from our main competitor SingTel. So we can offer diversity of routing and more security.

Sachin: (DBS, Analyst) This is not a function of some issue with the NBN? This is just your normal capex cycle?

Neil Montefiore: There is another issue with the next generation network which is on the enterprise side we're still having some difficulties in provisioning and the regulator is trying to deal with that.

Sachin: (DBS, Analyst) Okay, great, thank you.

Eric Loh: Okay Sachin, next on the line we've got Chate from Credit Suisse.

Chate (Credit Suisse, Analyst) Hi good evening guys, congratulations on the strong set of results and thank you for the opportunity to ask the questions. I just basically have two questions, the first one is related to mobile revenue. If we could take out the impact from the interconnect which you say is lower revenue and also lower costs. How would the revenue look like year on year mobile service revenue? Just a little bit follow up on the back of that it seems like the revenue growth is slowing approaching zero. So I understand that there's some effort, for example, the introduction of the tier pricing. When you really think that we will see some kind of growth again in service revenue? What would need to happen?

The second question's regarding your broadband. It seems like you start growing your subscriber again on the broadband side. What really has changed during the quarter? What special thing that you do to grow the broadband subscriber again? Thank you.

Neil Montefiore: Okay, in terms of the - what the difference would be if we hadn't renegotiated a large number of interconnection prices. We see - the revenue would be slightly higher, probably more in line with the year on year growth of about 2% or so. We don't want to give the exact number. In terms of tier pricing, it's early days; it's only been in there a few weeks. We think it's very fair pricing. We would say that probably 80% of the customers would use below the basic package, which is the two gig package, and the ones above that would pay very little more. But we do think going forward the heavier users will start to pay more. At the moment they're really subsidised by the lower users, so we think it's a good arrangement and we hope that will start to generate some additional revenue in the future. But it won't make much impact this year, it'll be more in 2013. Now the broadband...

Kwek Buck Chye: The growth in broadband subscribers has been...

Neil Montefiore: The growth in broadband, I think, we are the market leader and have been for some time in terms of high speed broadband. We're over 50% market share of anything above 50 megabits per second, and I think yes, we continue to be attractive to customers.

Tan Tong Hai: Basically, the way that we're selling our broadband is not just a broadband line, but a bit more for including our Pay TV. It's currently, take for example if a Pay TV subscriber, it comes with cable modem, it comes with also Wi-Fi, it also has digital voice, so all these are very compelling offerings for the cable broadband. For the fibre broadband we have all the high speed broadband also coupled with our...

Chate (Credit Suisse, Analyst): Yes, I understand that. I agree that is pretty strong proposal, but just in terms of net adds specifically for residential broadband, third quarter you added 4,000. That's much higher than what you delivered over the past three quarters, so I just try to think whether there is a specific thing that you did that would prove a turnaround and you start growing the residential broadband subscribers again, or it's just one quarter that so happened.

Tan Tong Hai: No, I think we are definitely very focused in this that we want to grow the broadband, especially the high speed broadband subscriber base.

Jeannie Ong: Chate, we can't share with you too much, competitors listening in.

Chate (Credit Suisse, Analyst) Okay, thank you very much.

Eric Loh: Next on the line let's welcome Kelvin from CIMB.

Kelvin: (CIMB, Analyst) Hello.

Neil Montefiore: Hello.

Kelvin: (CIMB, Analyst) Hi, okay thanks for the opportunity. I have three questions. First one's on the BPL, now that it's out on a non-exclusive basis what do you - what can we expect from your end, number 1.

Number 2 is just to follow up on the previous question regarding the pricing for data. You said that you expect more of an impact next year. Could you give us some more colour into that? Perhaps some sort of - what your thoughts are in terms of percentage of users, who might be crossing over from basic into the higher tier and where you can charge more for them.

Lastly, you also mentioned that churns for mobile customers were a little lower in the third quarter. Are you then implying that it could rise in the fourth quarter? Thank you.

Neil Montefiore: Okay, first question on BPL. We saw that SingTel had made an announcement that they have acquired the content on a non-exclusive basis. They are the incumbent and as far as we are aware at the moment, it is non-exclusive and the FAPL are still in negotiations with SingTel. So until that's finished we won't really be in a position to say where we will be, but that's the current position.

In terms of the data pricing, we think it will deliver some improvement in revenues during 2013, 2014. As I said earlier, about 20% of the users use over the very basic package of two gigabytes and then if you go up to the 12 gigabyte package we were offering before this, probably 99% of the users are below that. So it's



that area of the market we see some opportunities for growth, and also as LTE becomes more widely adopted we think the revenue use will increase even further.

Third question was...

Kelvin: (CIMB, Analyst) Just before that, Neil, can you give us an idea of how much on average usage has grown year-on-year over the last few years?

Neil Montefiore: Yes, if you look when the smartphones first came in, particularly the iPhones, then we got it I think it was 2009, we would see typically a user would be just below half a gigabyte then and now it's just below one gigabyte. So it's doubled in that period. We think it will continue to grow but there is this small section of users that are really heavy users and they...

Kelvin: (CIMB, Analyst) Sure okay, I understand that. But do you think the average user, the growth of the average usage, will that growth accelerate or do you think it's more of a linear kind of trend up?

Neil Montefiore: Difficult to predict to be honest. I mean the way people are using phones is changing so dramatically that what we are seeing in Singapore is probably we're the world leader now in terms of - in terms of smartphone penetration, we're above 85% now in smartphones on our post-paid network, which is way above any other country I know of. So people are looking at what they're doing with phones, but it is changing. I mean you can go into pubs and restaurants here and you'll see young people there and they're sitting around a table with a drink but they're not talking to each other.

Kelvin: (CIMB, Analyst) They're not talking, yes.

Neil Montefiore: They're on their phones.

Kelvin: (CIMB, Analyst) Yes, WhatsApping each other.

Neil Montefiore: So the actual use is changing and I can see it also with my own grandchildren, with two year olds and four year olds, that they are now wanting - demanding smartphones and access to them.

Kelvin: (CIMB, Analyst) Even the two year old?

Neil Montefiore: Yes, if they see a tablet or an iPad they rush up to it and start hitting it, or they stroke their hand, their fingers across the TV screen trying to get...

Kelvin: (CIMB, Analyst) Yes.

Neil Montefiore: So yes, lots of things are changing. The third question?

Tan Tong Hai: The third question is about lower churn in the third quarter. I explained that because they were all waiting for iPhone 5, so that's the reason why in the third quarter you see the churn lower. Of course, in the fourth quarter with the festive season as we follow the iPhone we could anticipate that there will be a slight rise in the churn.

Kelvin: (CIMB, Analyst) Okay.

Eric Loh: Thank you, Kelvin.

Kelvin: (CIMB, Analyst) All right, thanks.

Eric Loh: Next, can we have Arthur from Citigroup?

Arthur: (Citigroup, Analyst) Thank you for the opportunity to ask questions. I have three questions. First I just wanted to clarify your costs and your margins. Now your costs have declined across a number of items. What do you think will materialise in the next quarter such that the margins actually go towards your guidance for the year?

Secondly, what's driving the post-paid revenue momentum? It seems to be shrinking, and is it this jump between your revenue momentum there and subs, which is actually trending pretty healthily?

The last question I had is with regards to Pay TV. Now your competitor has obviously increased their content from October onwards, do you think this will have any meaningful impact on your business, or are you comfortable with your current offers and pricing? Thank you.

Neil Montefiore: Okay, in terms of the costs, then I think what you see is the customer premise equipment, as we call it, or the handset subsidies increasing in the last quarter, that's the main driver. The mobile revenue slight decrease was, as I said earlier, due to the renegotiation of a number of interconnect deals with our roaming partners. We lowered our interconnect rates mutually so our revenues came down but also our costs came down.

The Pay TV content, yes we see some of our content is now available on our competitor's system. Yes, I think Tong Hai guided that we may see an increase in the churn rate because of that on the Pay TV side in the next three months or so. But we are actively introducing new content of our own and we're also producing content now of our own. Tong Hai, do you want to add anything?

Tan Tong Hai: Yes, of course we understand that with the opening up of the content there will be an increase of course in churn, but the churn is not purely just because the other party has the same content. There's also the availability of content on the OTT platform, Over-the-Top, so what we have done is we've introduced TV everywhere. In fact we've launched it in the third quarter and that will allow our subscribers to be able to watch our TV content on tablets or on any platform. Also we are continuing to enhance the user experience on our platform, so we believe that this will make it compelling for subscribers to stay with StarHub.

Arthur: (Citigroup, Analyst) Thank you. If I can just clarify your comment a while ago on subscriber acquisition costs rising in the first quarter, I assume that's of course due to the iPhone, but is there any other item there which you should be looking out for? Because it seems like it's three to four percentage point drop - sorry three percentage point drop that you're looking at for year end.

Neil Montefiore: I'll just get Buck Chye to... Any other major items in there, Buck Chye?

Kwek Buck Chye: Yes, I think you'll probably see - probably traffic cost is now down as a ratio. I think in our MD&A we've guided that traffic costs will stay at a fair rate. I guess the area that we will have to look at is the cost of services. Cost of services has now got two components. Of course the major components are what is the cost of content for Pay TV moving forward and you're looking at the trend. The other part of it is

that as we get into enterprise, the cost mix will change. So as I've explained, some part of the increase in costs of services is due to third party sub-contracted costs in servicing the enterprise business.

But having said that, those costs come relatively with higher contribution in margin from corporates. So on balance I think we will see the cost - we will track the cost of service and cost of sales as a percentage of revenue. In the past we have been confident in managing that within the range of 40% to 42%, it fluctuates there. You can see that the year-to-date has dropped from 45% to 42% and perhaps within that we will be managing it. It's fair to say that we have the confidence to tell you that our business on an integrated basis will still continue to generate about 30% of EBITDA margin year-on-year.

Tan Tong Hai: Arthur, just to add on, you see in the fourth quarter which is the festive season, we run more events and road shows and all this will have incurred higher M&P expenses. At the same time we will need more hands and all those people to help to run and that will also increase some of the other costs, other than the equipment. So we expect in the fourth quarter you'd be running quite a number of these festive activities and promotional events.

Arthur: (Citigroup, Analyst) Thank you very much.

Eric Loh: Thanks. Next on the line we've got Rama from Daiwa.

Rama: (Daiwa, Analyst) Hi, good evening. Two questions from me please. Firstly with regards to the post-paid operational metrics in terms of the MOU as well as SMS, they've been trending down for a while now. I'm just wondering where you actually see the bottom for both of them, that's one.

The second one is with regards to the other expenses line, I see the description is impacted by forex as well as site rental. This has been fairly volatile all the year, so I'm just wondering if you could talk through on the drivers and how we should be looking at the (unclear - likely volume) going forward.

Neil Montefiore: Okay, in terms of minutes of use and SMS, I think there's a whole global trend there you can look at. If people are changing the way they're using phones, they're communicating more through the social networking sites and we see texting and minutes of use coming down. I think that will continue but we're fairly protected because we bundle quite large amounts of text and voice with our plan, so we're not terribly affected by that in terms of revenue.

I think if you looked out five years, I don't think any operator will be charging for minutes or texts anymore. You can see that's happened in some markets already, in the US and in the UK in particular. So I think there's nothing really to worry there, the plans we've put in place are meant to cover us as we go forward into the data world. Buck Chye, can you answer the next one?

Kwek Buck Chye: Yes, you're referring to the item called other expenses and these are the other miscellaneous expenses. There are many items in there, but it's fair to say that one of the fluctuating items there is usually exchange gain and that while we manage our foreign payments and we hedge three to six months ahead, that is one component. But if you take the total and you just look at the year-to-date, you'll see that year-to-date is \$70 million and that is trading like 4%. If you look at the previous year it's also about

the same. So I mean it's difficult to really expect it but 4% of your sales is all in other miscellaneous expenses that we do and exchange gain is just like a small component of that every quarter.

Rama: (Daiwa, Analyst) Okay, if I can just follow up on the MOU and the SMS. So Neil, you don't think it's the post-paid revenue growth has - rather the source has something to do with the keys in this metric?

Neil Montefiore: No, as I said, it's all to do with the interconnection rates, the one in these particular results. In fact if you look, we do think we're going to see some growth coming from our new plans we've put in place, which really are a bit irrelevant of whether people talk less or text less. I think also it's excessive to see because we give big bundles we have seen some of the applications that people use actually diminish. If you look at things like Skype or Viber over the last six months or so, the number of users - we can identify who's using it - the number of users has dropped by about 20%. WhatsApp stays fairly flat but those two have really fallen down. So I think people will continue to talk and they will continue to text, but it won't affect the revenues much even as it falls away.

Rama: (Daiwa, Analyst) Okay, thank you very much.

Eric Loh: Thank you Rama. Next on the line we've got Roshan from BA.

Roshan: (BAML, Analyst) Hi, thanks for the opportunity and congrats on a good set of numbers. Focuses from me, first one very basic, this is for Singapore mobile penetration level, it looks like it's gone down this quarter. Just trying to understand what's the reason for this business for this sector as a whole, I believe, is that because of some softness in the pre-paid segment or something else?

Second question is in terms of your market share trends on mobile subscriber market share. That's been trending downwards for quite a few quarters now, so are you still comfortable with this trend going forward as well?

Third question is on Pay TV, increasingly the differentiation in terms of content that's getting narrower and narrower, so how do you plan to grow the segment? Is it by content or in terms of pricing that you want to differentiate yourselves from SingTel?

The final question is on the comment you made about the devices or handset equipment sales not really generating much because of possibly the mix of the devices. But looking at your competitor, M1, they had a pretty sizeable at least quarter-on-quarter change in terms of both the handset sales as well as the cost side. So just trying to understand what's the reason for this difference, or it's purely to do with the mix of handsets that you sold versus your competitors?

Neil Montefiore: Okay, now the mobile penetration, I'm not quite sure what numbers you're looking at there. I think the current penetration's about 150%.

Eric Loh: It's come down slightly actually, it's come down to about 148%.

Neil Montefiore: Has it? Okay. So that was probably one of our competitors cleaning up their pre-paid inactive cards. That's what normally moves it. For the pre-paid cards, if they're unused for six months we're supposed to deactivate them, then after a period of incubation, reissue the numbers. Quite often this gets delayed, particularly with one of our competitors and then they do it in bigger batches.

Market share, we don't focus on market share, we try to focus on the value of the customer. So that's not a major issue for us, but we - I think our market share will remain fairly constant, particularly on the mobile side.

Content, I mean yes, it's a difficult world. I mean we've got the Over-the-Top content coming in, we've got the semi-legal content become available and we've got the illegal content, which is quite widespread in Singapore. So that's changing and as Tong Hai said, we were trying to enhance the value of what we have of our content through our TV Anywhere platforms, which launched in this previous quarter. So we think that's a good strategy.

I'm not quite sure what you saw with M1's handsets. I know M1 have been doing some strange things in terms of some handsets they amortise and some they don't.

Tan Tong Hai: Roshan, the key thing is that when we sell our handset we sell with the lines and that's what our priority is. We don't focus on just pure handset sales, because we are in the business of long-term relationship with our customers and that comes with the line, not just selling handsets. So I think that is a different strategy that different companies adopt and so for us this is really lifetime really.

In terms of content, well what you're seeing is just some English content that has been opened up but I believe that StarHub still has the most comprehensive Asian content. It is this whole suite of content, including education, food and the whole variety that we are trying to differentiate the most variety. But it's also a proven platform, the viewing platform is very easy to use and most important we have now brought the content to any platform of your choice.

But we're also enhancing HD, if you noticed I mentioned growth in Pay TV revenue. There is a higher take up of HD and HD will be a key differentiator also because with this what you can get out in the pirate sites, I think the focus is more on HD and we can see a higher take up of HD boxes, so rental HD boxes and they also subscribe to our HD content. So these are the things that we are doing to ensure that and also the value proposition position of not just TV, but broadband, mobile, including digital voice. All this together to make it really the most comprehensive solution for our customers.

Neil Montefiore: Thank you Tong Hai. I've just had another thought about what you're saying about the M1 handset revenue, of course if you use their fair value accounting then the amount that goes into their books is not what they sell it for; it's what the value of the phone is which is going to be considerably higher on a subsidised phone. So that would account for quite a big chunk of the increase in revenue that you're probably looking at. I don't have the actual handset numbers, but in terms of the revenue, then if they use fair value accounting, which they do, that would account for that.

Roshan: (BAML, Analyst) Yes, that part is fine but just looking at your StarHub's trend, I mean one that I've expected at least given the pent-up demand for the iPhone 5, even if it's one week I would have assumed that there is a strong growth at least in the equipment sales as well as cost of equipment. So I'm a bit surprised, I would say, that it's not so strong in that sense, in a later sense.

Kwek Buck Chye: Roshan, I cannot compare the relative size of the handset sales, but I just had to look at M1 as you referred to. The growth in the third quarter against last year is 5%. Our growth is 4%, so it

reflects that they are about the same activity. However, if you remember, they do have a mix of pull ahead revenue recognition of handsets because of their accounting practice policy. So you will see that in the balance sheet you always have this receivable pull ahead.

So you have to infer from that how much of that pull ahead is in that number of \$59 million in the quarter and then it compares with their previous same quarter last year is \$56 million. So the increase is very, very small. So is our case, our increase is only \$1.2 million higher in handset sales collection and it's only 4% higher in a quarter where it has appeared here. So the activity is about the same. Yes, it's about the same for line sales.

Roshan: (BAML, Analyst) Okay, thank you.

Eric Loh: Thank you Roshan. That's all the time we have for this evening. For those who are still on the line we know who you are and we'll come and get you sooner or later. So until then, the next quarter, you have a good evening and we'll catch you again.

Neil Montefiore: Thank you very much.

**End of Transcript**