HY FY21 Earning Conference Call
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CORPORATE PARTICIPANTS	CONFERENCE CALL PARTICIPANTS
Ms Sin Yang Fong – *Vice President, IR*	**Mr Piyush Choudhary -** *HSBC*
Ms Chua Sock Koong – *Group CEO*	**Ms Pang Vittayaamnuaykoon -** *Goldman Sachs*
Mr Yuen Kuan Moon – *Group CEO designate*	**Mr Eric Choi –** *UBS*
Ms Kelly Bayer Rosmarin – *CEO Optus*	**Mr Prem Jearajasingam**– *Macquarie Bank*
Mr Bill Chang – *CEO Group Enterprise*	**Mr Ranjan Sharma** – *JP Morgan*
Mr Samba Natarajan – *CEO Group Digital Life*	**Ms Vandana Luthra** – *HSBC Global Asset Management*
Mr Arthur Lang – *CEO International*	**Mr Ian Martin** – *New Street Research*
Ms Lim Cheng Cheng – *Group CFO*	**Mr Sachin Mittal** – *DBS Bank*
Ms Jeann Low – *Group COO*	**Mr Roger Samuel –** *Jefferies*
Mr Quah Kung Yang – *CFO Optus*	**Mr Arthur Pineda –** *Citigroup*
	Mr Paul Chew – *Phillip Securities*
	Mr Varun Ahuja – *Credit Suisse*

Start of Transcript

Operator

Ladies and gentlemen, welcome to the Singtel's half year FY21 results conference call. If you have any issues during the call, please press star zero to speak to an operator. Ms Sin, over to you.

Ms Sin Yang Fong - *Vice President, IR*

Thank you. A warm welcome to all investors and analysts. You are listening to Singtel's earnings conference call for the half year ended 30 September 2020. My name is Sin Yang Fong and let me introduce management on the call. We have Ms Chua Sock Koong, Group CEO. Mr Yuen Kuan Moon, Group CEO Designate. Ms Kelly Bayer Rosmarin, CEO Optus. Mr Bill Chang, CEO Group Enterprise. Mr Samba Natarajan, CEO Group Digital Life. Mr Arthur Lang, CEO International. Ms Lim Cheng Cheng, Group CFO. Ms Jeann Low, Group Chief Corporate Officer. Mr Quah Kung Yang, CFO Optus.

Before we start taking questions, I would like to invite Sock Koong to share some highlights from this set of results.

Ms Chua Sock Koong - *Group CEO*

Thanks, Yang Fong and good morning, everyone. Thanks for joining us for Singtel financial results for the half year ended 30 September 2020. I'll just share with you some key highlights from our business. The Group performance for the half year was weighed down by the fixed business in Australia and that was exacerbated by the COVID pandemic.

Lower equipment sales and margins, ongoing price erosion in carriage, combined with adverse margin impact from the higher mix of NBN resale and declining NBN migration revenue contributed to the sharp decline in consumer Australia's revenue and earnings.

COVID-19 exacerbated the decline as roaming revenue fell sharply due to travel restrictions and border closures.

While economic uncertainty impacted demand. We delivered a strong performance in ICT services, our digital investments set us up strongly for growth, notwithstanding short-term disruption in demand and supply condition.

NCS recorded strong growth across its line of business. We also saw good momentum in cloud and cybersecurity services in Asia Pac.

We have been unrelenting in our support to customers and the community during this difficult period. More than ever, the pandemic has highlighted the importance of the critical infrastructure, seamless connectivity and digital solutions that we provide. We are accelerating our efforts to position ourselves for the digital economy - digitalization remained central as we moved customers to additional channels and platforms and improve our operating model and processes.

We're also making significant investments into our 5G network and capability, which will unlock new revenue streams and deliver returns over the mid to long term.

For the half year, revenue decreased by 10% due mainly to fall in equipment sales, roaming and pre-paid mobile services. Optus revenue and earnings declines were marked by headwinds, particularly in the fixed business and intense competition.

We also experienced delays and deferrals in ICT and infrastructure spending with the rollout of projects disrupted by manpower constraints and site access. Despite the disruption, ICT services grew 8% with robust performance from NCS as it delivered strongly on government projects. EBITDA fell 19% while EBIT declined 44% on higher depreciation and amortisation.

Regional associates' pre-tax profits rose 11%. Airtel delivered stronger results led by operating momentum in India and Africa. Offsetting lower contributions from Telkomsel, due to aggressive price competition and the prolonged COVID lockdown.

Underlying net profit declined 36%. The Group recorded a net profit compared to a net loss last year as there were higher exceptional losses booked last year related to provisions for the India adjusted gross revenue regulatory matter.

I also just want to highlight that on a sequential quarter basis, we saw improvements in our businesses in the second quarter as lockdown measures eased and customers' spending gradually returned. Carriage services posted sequential quarter growth, although they have not reached pre-pandemic levels yet.

In Singapore, mobile service revenue growth was underpinned by increased pre-paid usage as previously quarantined foreign workers returned to work progressively. Australia consumer mobile service revenue rebounded in the September quarter with Optus Choice plans growing as a proportion of the subscriber base and lifting ARPU.

In the Enterprise segment, carriage and ICT revenues rose steadily, aided by business re-opening and also resumption of projects, Amobee also posted revenue growth in September quarter led by a modest recovery in ad spending in North America.

Let me quickly just wrap up by you know talking through the outlook and dividends. In view of the continued uncertain economic environment, we will not provide guidance on the outlook for the year, except that dividends from the regional associates will be approximately S$1.3 billion and that Group capital expenditure, including 5G network, will be around S$2.2 billion comprising $1.5 billion for Optus and S$700 million for the rest of the group.

The Group has also - the Board has approved an interim dividend of $0.051 per share. That represents approximately 100% of underlying net profit for the half year.

Total dividends for the full year, are expected not to exceed the Group's underlying net profit. We are committed to our investment grade credit rating and will review our dividend policy at the end of the financial year when there's more clarity on the impact of COVID-19 pandemic on the Group's businesses.

So with that, let me hand it back to Yang Fong.

Ms Sin Yang Fong - *Vice President, IR*

Thank you, Sock Koong. Participants, please be advised that this call is being recorded for playback and transcription. We will now invite questions from participants. Our operator will assist you to put through your questions.

Operator

Thank you ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question today, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. Thank you.

Once again, ladies and gentlemen, just a reminder, it is star one to ask a telephone question. We now have our very first question in queue from Piyush Choudhary from HSBC Securities. Please, ask your question.

Mr Piyush Choudhary - *HSBC*

Hi, good morning everyone. Thanks for the call. Two questions, please. Firstly, on asset monetisation. Could you give us an update on potential monetisation of Australian towers or any other value unlocking initiatives which the Group is pursuing?

Secondly, on 5G in Australia, can you tell us your aspirations for network coverage in terms of population coverage by end 2021 and 2022 and what level of capex spends would be required over the next three - two to three years to achieve such targets? Thank you.

Ms Chua Sock Koong - *Group CEO*

Maybe I ask Cheng to lead off on the asset monetisation question and then Kelly, you want to talk about 5G in Australia? I feel that you should just note that we have guided for capex spend for this year but not for outside of this year.

Ms Lim Cheng Cheng – *Group CFO*

Hi Piyush. Thanks for the question. I think on the asset monetisation, we are making good progress. We are working still obviously the different regulatory, legal and the valuation of the assets. So as and when, when we are ready to launch, you will definitely hear about that.

So over the course of the last two quarters, I think analysts have also asked about what about monetisation. We have always said that, we will continue to look at any other non-core assets and if there's anything that needs to be monetised it, something that has always been on our radar.

Ms Chua Sock Koong - *Group CEO*

I think maybe you may also have seen the update of the tower sale in Indonesia. Telkomsel had sold part of their towers, to basically Telkom subsidiary. So that has already been completed. Kelly, over to you on 5G?

Kelly Bayer Rosmarin - *CEO Optus*

Thanks. So we are excited about our 5G plans. As you may know, in the 4G realm, we've gotten to 98.5% population coverage and we're now turning our investment to 5G. We also recognise that there's not all 5G is created equal and we're very focussed on not just the population coverage but we are rolling out Australia's fastest 5G.

So we do have some strong capex plans. We gave guidance for this year and we will be increasing our coverage progressively over the next several years to make sure we bring the benefit and the real tangible benefits of speed, low latency, to our customers across the country.

Mr Piyush Choudhary - *HSBC Securities*

Thank you. Thanks, everyone.

Operator

Once again, ladies and gentlemen, if you wish to ask a question, it is star one. Our next telephone question is from Pang Vit from Goldman Sachs. Please, ask your question.

Ms Pang Vittayaamnuaykoon - *Goldman Sachs*

Hi, thank you very much for the opportunity, two questions from me. Firstly, on Australia. Can you update us on the competitive landscape currently, postpaid and ARPU coming in a bit weaker? I want to get more colour. And how would you expect the Amaysim acquisition to impact your business as well? That's the first question.

Second question is on the Enterprise business. Can you give us an outlook on Enterprise spending when we are entering Phase 3 in Singapore?

Kelly Bayer Rosmarin - *CEO Optus*

Sorry, can you repeat the question? We didn't hear any of it.

Ms Pang Vittayaamnuaykoon - *Goldman Sachs*

Oh, sorry. Can you hear me now?

Kelly Bayer Rosmarin - *CEO Optus*

Not very well.

Ms Pang Vittayaamnuaykoon - *Goldman Sachs*

Okay, let me try again. So the first question is on Australia in terms of competitive landscape. Can you give us an update on how it's going over there and is there anymore colour you can give us on terms of the acquisition of Amaysim on how this would impact?

And second question is on the Enterprise business. As we are entering phase 3 in Singapore, can we get some outlook on Enterprise spending and any update if you can give us? Thank you.

Ms Chua Sock Koong - *Group CEO*

Maybe we get - Kelly, you can talk about the competitive landscape in Australia and then we'll pass over to Bill to talk about the Enterprise business outlook, particularly in Singapore.

Kelly Bayer Rosmarin - *CEO Optus*

Thanks. So we operate in a very competitive market in Australia. What we are expecting is strong competition from the MNO but an increasing move towards market repair and monetising 5G. We also have a very competitive tier two market with a large number of MVNOs and that market has been growing its share in the Australian landscape, especially as we've stepped into the first recession in 29 years in this country.

So you will have seen that we announced that we will be seeking to purchase Amaysim. They are the largest player in the MVNO market with more than a million customers. We think that that will put us in a very strong position to compete across the full spectrum of the Australian market. We feel we've been performing really well in the tier one segment of the market and we now want to have more pieces covering the whole board.

We also announced that we will be launching our own native digital GOMO brands into the market. So we do feel we will be in a position to compete very fiercely across every aspect of the market.

Mr Bill Chang - *CEO, Group Enterprise*

Hi, this is Bill. Good morning, everyone. On the Enterprise trends. So if you think about what's happened in Q2 versus Q1 in our first half results, the Q2 performance was much better relative to Q1 because of the opening up of the locations and therefore allowing us, unlike the first three months, there was a complete lockdown, circuit breaker in Singapore and in Australia.

In Q2, there's more activity so we're able to continue to deploy our projects and therefore the uplifts. But more importantly, it's the long-term trends. What we saw in this whole COVID environment, is in discussions with many Enterprise leaders, the digitalisation trends in Enterprises have definitely picked up tremendously and what we hear, it's five years of digitalisation brought forward in a matter of months.

And we believe this is going to be an ongoing trend so from the largest enterprises to the smallest SMEs, everybody is embarking on this to be relevant in this whole digital economy.

So we are focussing on our capabilities. Our ICT growth in the first half is 8% stronger in the second quarter as more activity opened up and where we are seeing growth is in the areas around cloud services, data centres carrying cloud companies, largely, in cyber security as more companies build up their digital footprint. There's more needs of that companies working from home and therefore understanding that new sort of environment that they're operating in. So activities in that.

Also, in areas around digital capabilities in our SI business, NCS. We set up an NCS NEXT organisation that's the focus on digital capabilities and today, our digital revenues are 41% of the overall mix of NCS revenues. So it's an area of clear focus for us to build up aggressively.

We've also recently made an acquisition in Singapore, specifically in a digital services area. A company called 2359 that will help to extend and complement our capabilities that we're building organically.

So a lot of focus has been pushing down this. Obviously IoT and 5G, we're preparing for the Enterprise engagements. Beyond connectivity, ensuring that we have the means to help enterprises transition to this low-latency application. Things that are robotics in factories. Things that are like autonomous systems in ports, AR, VR, very high intensity throughput and low latency applications in a number of these large enterprises.

So that as we move from a pure connectivity play to one that aggregates connectivity, low latency, high throughput to the edge cloud and also to the data storage at the edge and ultimately looking at the data analytics and AI at the edge to deliver sub 5 millisecond kind of performance so that enterprises can really unlock more digitalisation and speed that up into these next few years.

So that's what we are focussing on and the focus is not just on large enterprises, we want to make sure that our capabilities extend out to SMEs. We have certainly worked with the government agencies and our partners in offering a lot of the bundled solutions to help SMEs work from home at the start of the pandemic, in the onset.

And very quickly helped them transition and not only providing all this unified comms and communication over fixed and mobile networks, but also in ensuring that we provide security packages. And so we worked with the government agencies like Enterprise Singapore, to really help drive the adoption.

So we've got a major campaign that we're pushing. It's Let's Get Digital for the SMEs and providing a lot of handholding to SMEs to help them cross this digitalization chasm. So those are the key things we believe with what's happening and the new normal will be more digital and companies will be focusing on that, and that's essentially where we are meeting those needs and building those capabilities and capacity to address that. Thank you.

Ms Pang Vittayaamnuaykoon - *Goldman Sachs*

Thank you very much.

Operator

Our next telephone question is from Eric Choi from UBS. Please ask your question, Eric.

Mr Eric Choi – *UBS*

Thank you. I just had two questions, both for Kelly, sorry, and both on the 5G opportunity in consumer. First question is one of your competitors, Vodafone, has said 5G handset penetration might only reach 20% by the end of 2021. Just wondering if you think that might be a bit too conservative, what percentage of your gross adds are being put on at 5G handsets or with 5G iPhones to date?

And then secondly, there was a really interesting stat out of the Telstra Investor Day today. They said 72% of their iPhone pre-orders are on plans where they are implicitly charging for 5G, and that's resulting in a $55 to $60 average sign-on ARPU for Telstra. So just in light of that data point, I just wanted to get your updated thoughts on monetising 5G, maybe even next year. It just seems like if you did something similar, even accounting for some discount to Telstra, that would be pretty accretive to your ARPUs. Thank you.

Ms Kelly Bayer Rosmarin – *CEO, Optus*

Hi, Eric. Thanks for your questions. I think before I answer them directly, I also want to remind you that we have the FWA product on 5G, so we are already monetising it and we are seeing very high levels of customer satisfaction. We've recently rolled out a two-tiered approach to that product. So 5G at home you can get up to 100 megabits per second speed and an uncapped speed at a higher price point. That's one of the ways in which we're really monetizing 5G and are well ahead of the rest of the market.

When it comes to mobiles, I think answering your second question first, we've been quite clear that our approach to monetizing 5G needs to take into account how ubiquitous 5G is, how many customers can access it most of the time, and also ensuring that there is true value add, i.e. demonstrably higher speeds on 5G than 4G. When we reach the point that we believe those conditions are met, we will of course seek to monetise 5G and so I agree that there is upside potential baked into our approach.

In terms of 5G phone penetration, I'm not sure we've done the same calculations as some of the others. What I can say is that the iPhone 5G has had a significant impact. A lot of customers are opting to upgrade to 5G phones. We feel we're at the forefront of that. We have market-leading price positioning, we are giving a 5G phone price match guarantee, and we are seeing strong demand for 5G phones at the moment. So I expect to see 5G phone penetration continue to climb over the next few years, and we're certainly putting ourselves in a position to benefit from that.

Mr Eric Choi – *UBS*

Crystal clear. Thanks, Kelly.

Operator

The next telephone question is from Prem from Macquarie Securities. Please ask your question, Prem.

Mr Prem Jearajasingam – *Macquarie*

Hi, this is Mr Prem Jearajasingam from Macquarie Securities. A couple of questions from me, please. Bill, I think in the commentary earlier there was talk about the government element kicking in to support enterprise revenues. Could you give us some colour as to what the split is between government and non-government revenues are, and where this growth is really coming from? Has 2Q really been driven by government and therefore going forward we should see the private sector kick in in a bigger way and therefore the growth of enterprise could actually be much greater, or was there an element of catch-up in 2Q which may have exaggerated the performance somewhat? That’s number 1.

And number 2, the tower sale in Indonesia. This seems to have been something that was long coming but it's finally happened. Could you give us some colour as to how your views on the market structures have changed to get this done now, rather than previously and what does it mean for the future of Telkomsel? Thank you.

Mr Bill Chang – *CEO, Group Enterprise*

Hi. Bill here. So my earlier comment on government was more of government being a partner and the activity there specifically refers to them through Enterprise Singapore helping SMEs. In so that context, we are working with them as they issue grants to help SMEs digitalise, and we being a technology and a services provider, enable that. So offering SMEs packages to allow them to digitalise, unified comms, work from home, cybersecurity, so those were the things we've put up. So it's not meant to be government at a consumption of those services. That's the part that I was describing.

However, the government is a large part of the mix, especially with regards to NCS. And if you think about the NCS business declared in our MD&A and we broke it out, it's about $2 billion a year and out of $6 billion and you can see the numbers in Q2. Q2, at the first half NCS would be at about $1.055 billion. A significant part, more than 70% of that is related to government agencies, statutory boards engagements.

So, that's that but they've also got a growing, and a faster-growing part that is in the commercial market that it is also seeing digitalization trends and also regional market opportunities, which is also growing fast, in fact faster than what we are seeing in the government sector, and that clearly is our plan to really diversify NCS beyond the government sector. So I think the government in this case, in this situation for NCS largely, is a major customer.

At the same time, government is also a major partner when it comes to helping the industry, and especially SMEs to get a lot of help. The other part is obviously in 5G, government is very keen to support the industry in the transformation and 5G, and that's where they issue grants, beyond the SMEs and some larger enterprises, and that is where we are also working with them. But that to me is really helping the enterprises to adopt 5G.

So those are the key things that we would work with the government agencies very closely, as a partner and as a customer. Thank you.

Mr Arthur Lang – *CEO International*

Sock Koong, do you want me to take the point on the towers?

Ms Chua Sock Koong – *Group CEO*

I couldn't unmute in time. Yes, please go ahead. Arthur, go ahead.

Mr Arthur Lang – *CEO International*

Sure. Okay. I think on the question on Telkomsel towers, just to give you a sense of the deal. So Telkomsel is disposing or selling a portion of its towers, of a total of about 6000 towers, to the wholly owned subsidiary of Telkom, Mitratel, and we're doing it over two phases. I think the rationale for doing this is a few things.

One is it's really the focus on value creation for Telkomsel as well as the shareholders. I think the company did an extensive review of its tower assets and bearing in mind the value of these towers as well as the potential upside that can be gotten from some of these towers, and also factoring in the ongoing business operations for Telkomsel. Meaning, as you know, once you sell these towers there's always that lease cost on your operating cost that would have to be factored into these leased back towers and to use these towers.

All these were factored into the consideration to decide on which towers had to be disposed of which towers could be disposed to Mitratel. So I think the focus is definitely on creating value based on its assets that is on the balance sheet now. I think we all know tower assets today are trading at much higher multiples than the operators, given the market conditions and the low interest rate environment.

So the Telkomsel team, both the management team and the directors, felt it was the right time to do it and of course, with the potential of changes that may come, of course, that's something we still do not know and we leave it to the government or Indonesia to make the decision, while with the potential changes in the Omnibus Law we felt that it was quite timely to undertake such a transaction.

So that's really the thinking behind it, and as a shareholder of Telkomsel we support basically all our op cos to consider ways where we can unlock value, particularly with the assets that each of our operators has, whether it is towers, whether it's fibre, whether it's various assets, I think this is something we will support and strongly support as a shareholder.

Mr Prem Jearajasingam – *Macquarie Bank*

Thank you. That's very helpful. Could I just have one follow up on this Telkomsel issue. Would you, having raised this money, look at injecting it into more digital businesses or do you think this money comes up to the Singtel level?

Mr Arthur Lang – *CEO International*

We are exploring all options, as really at the end of the day as shareholders we encourage the Company to do – to really, focus on a few things. Number 1, definitely to create shareholder value. Now, shareholder value can be created in a very short term, i.e. just do a single pop but I think what we are focused on is to create sustainable shareholder value. This could mean investing back into the core business. It could mean investing in digital businesses potentially, but it could also mean a dividend back to the shareholders.

And this is something we're working with the company, we're exploring and of course, working with our partner Telkom we're exploring the various options. But also bear in mind, Telkomsel has a very strong balance sheet so there is a possibility that for any funding for its core business and expansion can be funded through its own internally generated cash flows as well as potentially borrowing. So, actually, Telkomsel today has a lot of options, so we're working closely and maybe in the next few weeks, the company will be working on it and then make a decision on that.

Mr Prem Jearajasingam – *Macquarie*

Perfect. Thank you very much.

Operator

Our next telephone question is from Ranjan Sharma from JPMorgan. Please ask your question, Ranjan.

Mr Ranjan Sharma – *JP Morgan*

Thank you. It's Ranjan from JP Morgan. Before I ask the questions, just wanted to say good luck to Sock Koong and Moon. So, for my two questions. Firstly, can you share your thoughts if we should expect any change in corporate strategy? Singtel share price is back to where it was in 2005, so is there any change in the Company's direction to create value for shareholders?

The second question is on 5G pricing strategy. I guess, it was mentioned that 5G might not be priced at a premium initially, but the premium could come through at a later stage, so should we think that the ARPU reflation from 5G would only happen in the mid-to-long term rather than near term, and that just sounds a bit counter intuitive as well. Because for most markets and for the 4G migration, it was initially seen - 4G was initially seen to be priced at a premium and then the premium faded with competition. So just would like to hear your thoughts on how you think 5G impacts ARPUs across your markets. Thank you.

Ms Chua Sock Koong – *Group CEO*

Okay. Thanks for your good wishes. I think we've got to give Moon a bit of time before he comes and talk about what his strategic thrust and initiatives will be. So, I think let us give him a breather and ask the question in the New Year, because he takes over officially 1 January. So, beg for, ask for your indulgence and patience for another month or so.

Okay, I think on 5G pricing strategy, the way I would look at it is think about 5G as really how we position 5G rather than just a pricing strategy. If you look at 5G and you have been positioned purely as connectivity, you are back to the same issue, because everybody will have significant network capacity, people will - that's why initially you may get a bit of a price premium because of higher speeds. Very quickly, because of the excess network capacity, the price premium gets eroded away. That's not a great place to be.

We all seen increased ARPUs coming from higher data usage, but we all know that when there's excess capacity, that kind of premium gets eroded very quickly. That's why when we talk about 5G, it's always around how do you position 5G, and operators should not look at 5G as providing connectivity only. And that's why we've seen the Group ARPU being very, very focused on enterprise use cases, because that would be a new application of - a new revenue source for us and if you look at the speed capacity, the latency, the very, very low latency, it maybe lends itself to applications and uses that we can't do with 3G and 4G previously.

So, sorry, it's a very long and indirect answer to your question, but I will say that while you try and get as much premium as you can on the connectivity side, your big upside is to really when you are able to build services and platforms beyond just pure connectivity.

Mr Ranjan Sharma – *JP Morgan*

Okay. Thank you so much.

Operator

Thank you. Our next telephone question is from Vandana Luthra from HSBC. Please ask your question.

Ms Vandana Luthra – *HSBC Global Asset Management*

Thank you for your presentation and thanks for taking my question. I have two things that I wanted to touch upon. Firstly, on spectrum costs, would you be able to give us some indication on what is the spectrum cost you plan to incur this year and also next year, both at the Singapore level and at the Optus level.

And secondly, I wanted to ask you about the subscriber numbers for Optus. I see that September quarter mobile subscriber numbers are down versus June quarter. Could you help us understand what are the dynamics here, that’s leading to a fall in subscriber numbers?

Ms Chua Sock Koong – *Group CEO*

Okay. I think on the spectrum costs, those spectrums that has already been secured, the costs have already been announced. So maybe we can go through the payment details, so maybe I get Cheng to quickly run through, IR folks can also go through the details on the spectrum that we have already won with the detailed payments schedule. Cheng, you have the data right off hand?

Ms Lim Cheng Cheng – *Group CFO*

For the Singtel side, the spectrum fees that was previously shared was to the theme of about $55m so that has already been announced, okay. I think for Australia, this year we are not expecting to pay any more spectrum costs per se. Alright, so any new tranche of spectrum coming onsite it’s only when it’s announced and if we decide to compete for it.

Ms Chua Sock Koong – *Group CEO*

You have a question on subscriber numbers. Maybe I'll pass over to Kelly.

Ms Kelly Bayer Rosmarin – *CEO, Optus*

Thanks for your question. I think the big change in subscriber numbers is mostly in prepaid subscribers, and it reflects that we have a very strong business in selling prepaid SIMs to travellers and inbound immigrants, and of course, due to the restrictions and various lockdowns and travel restrictions, that has not been a market that's been available to us.

And so, relative to the previous year where that market was thriving, there has been a reduction in subscriber numbers. That accounts for the majority of that. There is also an impact that's happening as we see one of the MVNOs, who’s actually a brand that's owned by the merged TPG/Vodafone entity, is now moving its subscribers to TPG, and that has a big impact that has started to play out and will continue to play out over the remainder of the year.

Operator

We'll move to the next question. Our next telephone question is from Ian Martin from New Street Research. Please ask your question, Ian.

Mr Ian Martin – *New Street Research*

Thank you. Just interested in the huge increase in data usage in both Singapore, which went up by I think 20% on the June quarter, and Australia, which went up from like 10 gigabyte to nearly 14 for the quarter. I presume that's mainly 5G related, is it? There's no fixed wireless in that? I'm interested in how it affects network management and user management. I've heard - this is such a big issue with some 5G users switching off 5G rather than running up to their data limits. So I just wonder, Optus has got, as all network operators have, some big high user data plans and I think a promotion with 500 gigabytes per month. Is that designed around providing some peace of mind for those early 5G users? Thanks.

Kelly Bayer Rosmarin – *CEO Optus*

Hi, Ian. Happy to answer these questions. So, I do think that part of the increase in usage is a reflection of the lockdown conditions that people were facing. And we’ve seen data usage increase across all the technologies, including NBN at home, 5G at home, 4G at home and mobile. So, just a lot more consumption of entertainment and online services, as people were working and schooling from home and entertaining themselves and connecting with loved ones, through utilizing greater amounts of data.

I'm very proud of how the network has performed to support that uplift. Across the board, the network has held up well. We have prioritized, making sure that our capacity and throughput is strong across the network, to really support our customers during this very challenging year.

In terms of the high plans that you mentioned that we're promoting, I will take the opportunity to point out that that has been a response to some very aggressive discounting by a major competitor at their top-end plans. And so, we thought we would make sure that they weren't getting away with that in the market without some strong competition. We certainly didn't lead that one, but it is a very good offer.

Mr Ian Martin – *New Street Research*

Great. Thanks, Kelly.

Operator

Thank you. Our next telephone question in queue is from Sachin Mittal from DBS. Please ask your question, Sachin.

Sachin Mittal – *DBS Bank*

Hi. Thank you for the call. A couple of questions. Firstly, on Australia, how much of the Australia sinking into the red is because of COVID and how much is due to competitive positioning, or competition in the sector. A related question will be, I mean, how confident you feel to turn around Australia, given that there will be a drop of almost $300 million in NBN fee, going forward? So, what are your plans, can you share, on Australian turnaround efforts, whether it's the top line or in the offside?

Secondly could you share with us what are the costs of a 5G base station, relative to a 4G base station in both the markets, in Singapore and Australia? That's it, thank you.

Kelly Bayer Rosmarin – *CEO Optus*

Thanks for your questions, Sachin. In terms of the fall in EBITDA in Australia, more than half of that actually comes from headwinds related to the shift to NBN, both through the margin compression as we have lower resale margins for NBN and we now have 90% of our customer base migrated on to the NBN. And also because of the fall in NBN migration payments off the peak from last year.

So, those are significant impacts, but they are more than half of the fall that you see, which is something that we believe was predictable and that the market was expecting. On top of that there's a big impact from the lower numbers of equipment sales, which is in line with global trends of people holding on to their phones for longer. So, again, something that we think is quite consistent with what the market would expect. And then the remaining amounts, we think, is really COVID-related.

So, it looks like a very big number, but I think the parts are very explicable. And I would say, when it comes down to it, the competitive environment is not what's driving that decline. If it were not for the COVID impact, we would have actually seen our mobile service revenue improve, as we are seeing ARPU improvement as the penetration of our Choice Plan continues to increase across our customer base.

As you mentioned, there is still more of a drop in those NBN payments to come through. And so, again, we're planning around that. We have some very strong plans around removing costs from our fixed business. A lot of that cannot be front loaded, because we can only shut down our proprietary networks once all the customers are off those networks. And we're not through all of the migrations just yet. So, it will take a few years for those cost improvements to happen, but they're very much in train. And so, again, we are quite optimistic about our long-term outlook there.

Operator

Thank you. We'll move to the next question. Our next telephone question is from Roger Samuel, from Jefferies

Ms Sin Yang Fong - *Vice President, IR*

Kevin, we're not done with the question yet, we still have a second question.

Operator

Oh, sorry, my apologies, please go on.

Ms Chua Sock Koong – *Group CEO*

Moon?

Mr Yuen Kuan Moon – *Group CEO designate*

Yep. Hi, Sachin. I think your question on costs of the 5G base stations, relative to the 4G. I think, first of all, I think the 5G deployment in both markets are relying on existing 4G network that's building on top of it. So, most of the time you're talking about radio that is now fully integrated between 3G, 4G and 5G. So, in that sense you are talking about, the same equipment is an incremental site.

But if you look at it from a perspective of costs per gigabyte, it's definitely going to be a much lower cost per gigabyte because we do have a lot more capacity using the 5G spectrum, to deliver the type of network capacity that 5G can provide in high-speed and huge bandwidth. But obviously, if you're using a much higher band then you would need a lot more sites to compensate for the poorer penetration because of the higher spectrum frequency.

So, in general, I would say that the cost will definitely come down on the equipment as the global scale of 5G rollout over time. I will now know that a lot of the new base stations are all 4G, 5G ready, as you roll out. That will be the norm, even in emerging markets, where they are building up new 4G base stations, they'll be ready for 5G.

Sachin Mittal – *DBS Bank*

So, just a follow-up on this, I understand because there'll be a lot more base stations required for 5G. So, there will be some stations which are completely 5G base stations, from grounds up, right? So, they don't - I mean, they will just build the 5G base station. My question is, if today now you are building some 5G base stations from grounds up without any 3G and 4G, what kind of relative costs are we seeing on today's pricing? Which actually will come down as you said, in the future?

Mr Yuen Kuan Moon – *Group CEO designate*

Yes. I think if you are talking about those additional base stations, primarily for millimeter wave deployment, and this millimeter wave deployment it's really used for specific enterprise use cases where it is localized. For example, you may be building a 5G network for a manufacturing plant and therefore you need a high-density base station around that area, or for an industrial park, or whether it's for a port, or airport. So, those deployments, you are actually building for a specific purpose, with specific enterprise customers and you would measure that cost of that investment versus the potential of business revenue coming in from the enterprise customers.

By and large, if you look at deploying it for general mass consumer usage, you will be relying on a mixed spectrum of your existing reuse of your 4G spectrum, as well as some of the newer spectrum like the 3.5 giga, megahertz spectrums, which will be definitely relying on existing sites, like to minimize additional costs.

Sachin Mittal – *DBS Bank*

Got it, understand.

Operator

Excellent. We'll move to the next question. Our next telephone question is from Roger Samuel from Jefferies. Please ask your question, Roger.

Roger Samuel – *Jefferies*

Hi, thank you. I've got two very quick questions on Australia. First one is around the mobile customers and I understand the drop in prepaid mobile. But postpaid mobile customers also failed a little bit quarter on quarter. I'm just wondering if you can tell us whether it's the post-paid brand, the Optus-branded customers, or was it something else?

The second question is just on fixed wireless access, or FWA and just want to confirm where you recognise the revenue, whether it's in mobile or in fixed? Thank you.

Kelly Bayer Rosmarin - *CEO Optus*

Thanks for your question, Roger. In terms of postpaid, there is a small drop in postpaid. Some of that again is the impact of immigrants, et cetera. But actually, the largest correlation there is customers who no longer need the service and there's a very strong correlation to economic areas where there've been the biggest job losses in Australia, as a result of the COVID shutdown.

So, there is this impact of people not having as many services, rationalizing in the household and tightening their belts, given the economic environment and what people have gone through in the last few months. And We think that that's highly correlated to the small reduction on the postpaid side, in addition to the immigrant business that is missing from this year's numbers. On FWA, I think that we're accounting for that in our mobile numbers? Does that answer your questions, Roger?

Roger Samuel – *Jefferies*

Yes, thank you.

Kelly Bayer Rosmarin - *CEO Optus*

Thank you.

Roger Samuel – *Jefferies*

That's it from me.

Operator

Our next telephone question is from Arthur Pineda from Citigroup. Please ask your question, Arthur.

Arthur Pineda – *Citigroup*

Hi. Thanks for the opportunity. A few questions please. Firstly, can we get any color on the consumer operating trends for Singapore and Australia going into the third quarter? I see that you've seen a significant improvement in 2Q versus 1Q. Is this improvement sustaining into the third quarter, as well?

Second question is on the dividend from associates. You mentioned $1.3 billion. But does this reflect any potential for special dividends, or is this just business as usual? In PT Telkom's call for instance, they mentioned special dividends mostly likely on Telkomsel.

The third question I had, so Digital Life, I noticed that you swung into a positive EBITDA in 2Q. Were there any one-offs here, or is it the new normal now for Digital Life with the HOOQ expenses taken out and ad spend reviving? Thank you.

Ms Sin Yang Fong - *Vice President, IR*

Arthur, your question, your last question, I didn't get it, can you repeat that again?

Arthur Pineda – *Citigroup*

Sure. So, the last question was on Digital Life. It swung into positive EBITDA in 2Q. Just wondering, are there any one-offs, or is this now the new normal that we should see for Digital Life, given that HOOQ is now out of the equation and ad spend had rebounded?

Ms Chua Sock Koong – *Group CEO*

Why don't I get Cheng to take your question on the associate dividend and the GDL EBITDA numbers? And then, I think both Moon and Kelly can round off with the operating trends for our consumer business, yes.

Ms Lim Cheng Cheng – *Group CFO*

Hey, hi Arthur.

Okay, with regard to the dividend, I think you should just project the business as usual because as you rightly called it, special, it's something that's special. So, that's really up to the Board's decision in the near future. With regards to your question, I think you asked some question on EBITDA, whether there's any one-off for 2Q. I would say that maybe the more one-off item will be the jobs credit. I think we have also disclosed the jobs credit, I think for $97m or thereabouts, in the, for the first half results.

You should expect that to taper down okay, for Q3, significantly because of the, what was announced by the government, I think it's only 10% of the total wage going forward, okay, until end December.

So with regard to Digital Life, I think you also asked whether there's any one-off. The so-called one-off would be the, of course the closure of HOOQ. So, we stopped having to take in big losses of HOOQ per se, so those will be your so-called one-offs.

Mr Yuen Kuan Moon – *Group CEO designate*

Hi, Arthur. Moon here. We continue with your first question on operating trends, on Q1 to 2 and looking forward to Q3. First of all, I think the improvement on Q2 over Q1 is primarily because Q1 we do have a sort of a semi-lockdown period where a lot of the businesses and consumers were all staying at home and businesses were shutting down. So that Q3, Q2 versus Q1 have got a bit of that momentum in that people are coming back out after the lockdown period and we are seeing sales coming through for this Q much lower than pre-COVID days. I think going into Q3, we are seeing some positive trends in terms of customers buying more phones because of the recent new phone launches, so that's a good sign and together with that they are also upgrading into 5G phones and 5G plans.

So, I think this is some positive sign that we are seeing but we are still impacted by travel restrictions. Roaming will still be impacted because we do not see travelling coming back any time soon, in both for business travel as well as consumer leisure travel. In addition, in Singapore we also note that the foreign workers population and expatriates have been shrinking in terms of the total population size in Singapore. That also will have an impact both on the mobile and the fixed business for Singapore. So, this will continue to be a bit more pressure on both our top line as well as the bottom line because roaming service is actually very good margin and in the segment of prepaid, where foreign workers , we have the lion's share of that and that we are also impacted more severely than anyone else.

But we do see some positive green shoots in terms of buying momentum from consumers, so we will be watching this space very closely in the next two quarters.

Kelly Bayer Rosmarin - *CEO Optus*

As far as your question goes just relating to Australia, I think we have a lot of really good initiatives for the second half including the 5G iPhone season, which is upon us now. We think will be very good. Then Christmas, back to school, the launch of GOMO, our second brand, so lots to look forward to.

However, the economic conditions and sentiment remains uncertain. In Australia, there has been a lot of stimulus put into the economy, especially through the JobKeeper/JobSeeker schemes, which come to an end towards the end of March. So, there's a lot of uncertainty about whether there’s more job losses and economic consequences to come and how that will impact on sentiment.

It could go both ways. It could really dampen people's discretionary spending. It could also be an element of the lipstick effect, where people can't travel, can't do things so they treat themselves to new phones. So, we have to see how that plays out over time. As Moon said, we don't expect that roaming will return in the second half of this year and also, the pressures on our business through the continued NBN migration and reducing NBN migration payments are even stronger in the second half than the first. So, hopefully that gives you a good overview of the different factors that will come into play.

Operator

Our next telephone question is from Mr Paul Chew from Phillip Securities. Please ask your question.

Mr Paul Chew – *Phillip Securities*

Thank you. Three questions. Just two on Australia and just, and one on just the cost saving. Not sure if you are able to quantify but can you mention some of the types of costs that can be removed post-NBN migration. Second question on Australia will be, could you just share how did the MVNOs, turn more competitive than MNOs since that you actually have to acquire an MNO, no MVNO, because I would have thought the MNOs should have, know, better cost structure on paper at least. My final question is just on cost. I see that there is this cost savings line item. I’m just trying to understand what does it actually mean, what is the description of this cost item; and you also have indirect cost, which I saw it drop in Singapore consumer. But I’m just wondering how much of that is fixed cost and can we get like operating leverage from this so-called cost item post-COVID. Thank you.

Kelly Bayer Rosmarin - *CEO Optus*

I can start with the first two questions. So in terms of cost-out for - that we can take out once we've finished the migration, a lot of those costs relate to us currently running two proprietary fixed network in each of the HFC and ULL network. So, once customers have all migrated off those, we can take steps to close down those networks, having migrated the customers across. So those are all of the network and associated costs of running those different networks.

There's also a significant cost that we have in the moment in operating and NBN migration concierge. We put that in place to make up for challenges in how our NBN service was happening in our market. And so, we wanted to make sure customers were well looked after; so we've been hand-holding customers throughout the process of migration with this concierge team. So once customers are migrated, we will look to remove that cost from our fixed portfolio.

So Then we have a lot of ongoing operational costs that we hope we will be able to streamline once we have a single network on NBN, reseller margins and we're looking to digitalize more of our processes as we eliminate some of that extra complexity with selling multiple technology solutions. So, we feel pretty confident it's a strong plan there.

On your question with MVNOs, I think that the cost structure is very different. MVNOs do not operate stores, they tend to have more online or call-centre-based models. They tend to operate in a low frill part of the market, where there isn't value added benefit or as strong service that accompanies the solutions there. So they have tended to price in a different point in the market because they are delivering a different value proposition to customers. I thought the third question was for Singapore?

Ms Lim Cheng Cheng – *Group CFO*

Yup okay, let me take the third question, yes thanks. I think we didn't give any guidance this year for the cost savings so whatever that we have now, unfortunately what we are seeing, is showing only for the half year mark. But I think with regards to the direct and indirect costs, I think the direct costs, I think we have actually given a definition on it as to what constitute the direct cost which I think you can see on page 13, page 14 of the Singapore consumer side predominantly, but that will give a good description as to what really compromise - sorry include, that we include in our direct cost, which is really cost that is really attributable to all for the revenue earned per se.

I think we wanted to make this split to also show investors that previously, things that are directly attributable, it does go up and down in tandem with regards to the revenue line. And the indirect cost obviously, I think you did ask about the cost saving with regards to that. So as we continue to digitalize our business, or like you know what Kelly talked about the NBN network, as we continue to retire the older networks. Then you would see some improvement in those indirect costs, and hopefully that in the medium to longer term will actually come down.

Mr Paul Chew – *Phillip Securities*

Okay thanks, thank you and all the best Sock Koong.

Ms Lim Cheng Cheng – *Group CFO*

Thank you.

Operator

Our last telephone question for today comes from Varun Ahuja from Credit Suisse, please ask your question.

Mr Varun Ahuja – *Credit Suisse*

Hi, thanks for the opportunity, I've got two questions. First, I just want to check on the GOMO brand strategy right. So for GOMO, you launched in Australia, you launched in Philippines and Thailand. And if I remember you mentioned historically that it is a separate entity, as you were saying from the Singtel Group. So when you go to the associate is it still controlled by Singtel or it becomes a part of the associate? And hence they pay you some royalty for the technology and all that stuff.

So just wanted to understand that and maybe also in the long-term how do you see if it's a separate entity, how you're looking at it? Because some of the competition is looking at going across various markets and see the more digital telco solutions, or just wanted to see how Singtel is looking at that particular business? And lastly, Singtel over the last three, four years has seen a lot of challenges starting with competition in the core Singapore market then you've got associates competition and with COVID coming across and then challenges on the fixed line enterprise business, margin pressure and even in Australia.

Now looking at into the future, I don't want any guidance, but is it fair to assume that most of the headwinds are behind the company and incrementally you should see some improvement? Any qualitative comment would be helpful. Thank you.

Mr Yuen Kuan Moon – *Group CEO designate*

Hi Varun, maybe let me tackle the question on GOMO and comment a bit on the general competitive environment in our industry. Firstly, I think we started GOMO about one and a half years ago in Singapore as a digital only brand to compete in the tier 2 segment of the market. We find that using a tier 1 telco like Singtel's infrastructure and allow it to operate on a totally separate digital brand, gives us the flexibility to address different segments of the market.

And that has worked very well for Singapore, and with that idea we exported the same idea into our associates markets. Firstly with Telkomsel where they very quickly launched the equivalent brand called by.U, which is really positioned very similarly to GOMO and also the pure digital only brand, to address the tier two market where we are seeing a lot more price competition in that area. And soon after that you see that both AIS and Globe have also adopted the Gomo branding and use it to create their own digital only brand.

So it is not a separate company, GOMO is not a separate company. It is still all owned by each of the op co. And Obviously we all adopt the same brand GOMO, the intent of the idea is to create a regional network under the same brand, because we do believe that post COVID when travelling comes back to a bit more normal type of travelling condition, this particular segment of consumers will use Gomo actually travel quite a fair bit, and by offering them localised offer as they travel around the region, would be a differentiation for that group of customers.

And of course more recently Kelly announced that Gomo will be introduced in Australia in Optus very soon. We also look forward to the launch of Gomo in Australia as a digital brand that will address the tier two market in Australia as well. So we are quite excited about this, although it is very early days, we do see that the customer profile coming on to Gomo is actually very different from those who come on to the traditional Singtel brand, Telkomsel brand, AIS or Globe brand. So as you can imagine both, all the associates, AIS, Telkomsel, Globe and Singtel are all market leaders, so therefore having a digital brand like Gomo actually help to address segment of the market which we normally would not be able to get in to.

On your other questions on competitiveness, competition in all the markets including our associates' markets, emerging market. The telco industry has been under tremendous challenge, especially when we start to move from 3G to 4G and now from 4G, the beginning of migration into 5G. So at every transition of technology you see that we have to also migrate some of our old revenue streams for example in 3G case, 2G/3G case it's the voice revenue moving onto data for 3G times. Then when we go from 3G to 4G it was really about growing data revenue in place of voice revenue.

That transition for very developed market like Australia is already done, so you see it relatively low mobile voice revenue in the market. But for Singapore we do still see significant voice revenue, both on the prepaid and post-paid market, and we are still going through the transition where we see data revenue growing, but being prepared for the decline in voice traffic. And for all our emerging markets you will also continue to see this migration of 3G to 4G, network as well as the revenue move from voice to data.

And obviously, you see that this will take time, especially big markets like Indonesia, India, Thailand, you see that migration of - to a pure data network, it's going to take time and it will have to require quite a lot more investment. Now we are looking into the future of the next cycle of technology refresh which is 5G. As Sock Koong had earlier mentioned, it is purely on a connectivity growth on revenue, that's going to be there, the potential is there, but it's not going to be able to fully mitigate against all the old revenue that is eroding away.

So we do have to look at 5G as a platform to enable new businesses for the enterprise as well as the consumer, to look at what type of applications that we can provide on top of that 5G network that take advantage of the low latency, high bandwidth, high capacity, 5G network. So, it fits very well into the industry trend, not just in the telco industry, in all industry of enterprise moving into cloud, moving into digitalisation, moving into edge computing. So all this would require 5G as an underlying enabling technology for them to transform.

So we are optimistic in the mid to longer term where we see some of this new revenue stream coming on board and Bill had earlier on also mentioned about NCS being in the right place to capture some of this value that's created through the digitalisation of various industries, both on the government sector as well as in the commercial sector. So it is going to be longer term to midterm when we see some new revenue streams, that is going to be turned on because of 5G.

Mr Varun Ahuja – *Credit Suisse*
Thank you, thank you very much for the detailed answer.

Ms Sin Yang Fong - *Vice President, IR*

Thanks Varun.

Ms Sin Yang Fong - *Vice President, IR*
Okay, in terms of the time check, I think we have actually gone past the hour, I mean from my perspective we've had a very good discussion. We hope it has been useful to our audience as well. So I think we can tell there are certain callers might still have questions. So if there are still further questions, please feel free to reach out to the investor relations team. A transcript of today's call will also be posted on our website on Friday, so with that, we'll talk to you again until next time in May. Thank you so much, bye-bye.

End of Transcript