

# SingTel Investor Day: Optus Overview and Strategy

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Chief Executive, Optus

11 July 2011

## Forward looking statements - important note

The following presentation may contain forward looking statements by the management of SingTel Group relating to financial trends for future periods, compared to the results for previous periods.

Some of the statements contained in this presentation that are not historical facts are statements of future expectations with respect to the financial conditions, results of operations and businesses, and related plans and objectives. Forward looking information is based on management's current views and assumptions including, but not limited to, prevailing economic and market conditions. These statements involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those in the statements as originally made. Such statements are not, and should not be construed as a representation as to future performance of SingTel Group. In particular, such targets should not be regarded as a forecast or projection of future performance of SingTel Group. It should be noted that the actual performance of SingTel Group may vary significantly from such targets.

**Video: Queensland Disaster Rescue**

# Today

- 1 **Optus overview**
- 2 **FY11 performance**
- 3 **Future opportunities and strategy**



# Today

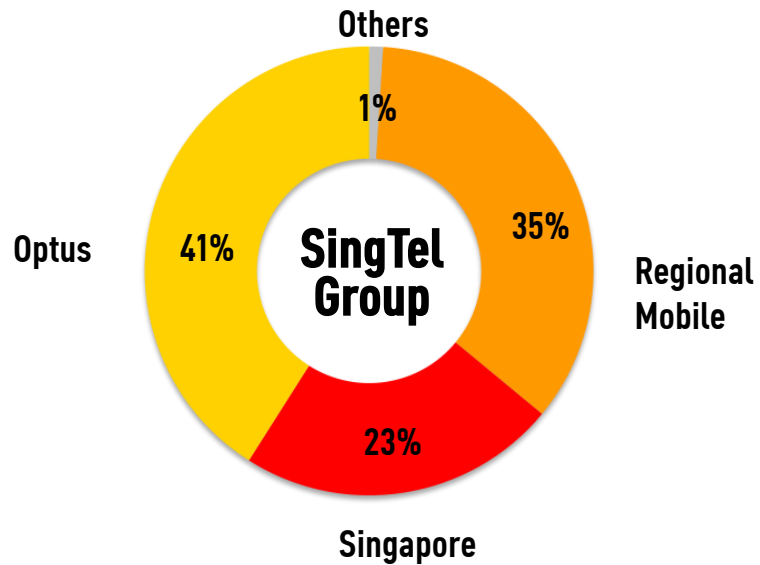
- 1 **Optus overview**
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# Optus: integral part of an extensive group

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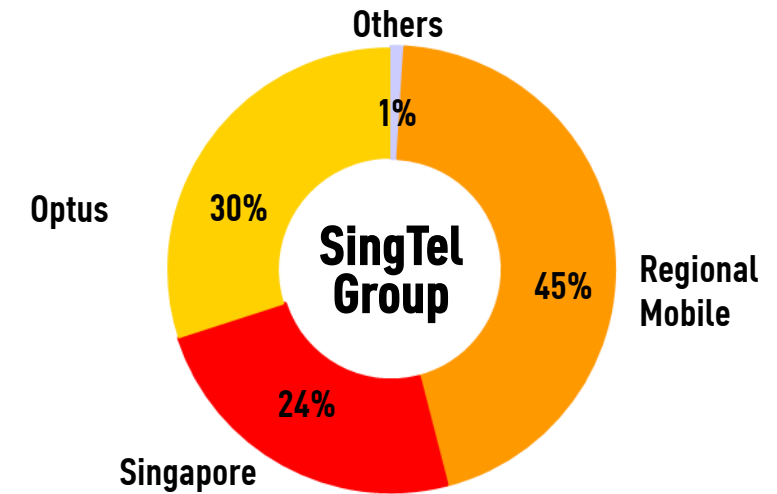
Optus' contribution to proportionate revenue<sup>1,2</sup>

41%



Optus' contribution to proportionate EBITDA<sup>1,3</sup>

30%



1. Proportionate information is provided as supplementary data only – to show relative contribution from Singapore, Australia and other regional markets
2. Consolidated revenue plus proportionate share of associates revenue – 12 months to Mar 2011
3. Consolidated EBITDA plus proportionate share of associates EBITDA – 12 months to Mar 2011

# We're a large company and growing

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## Customers

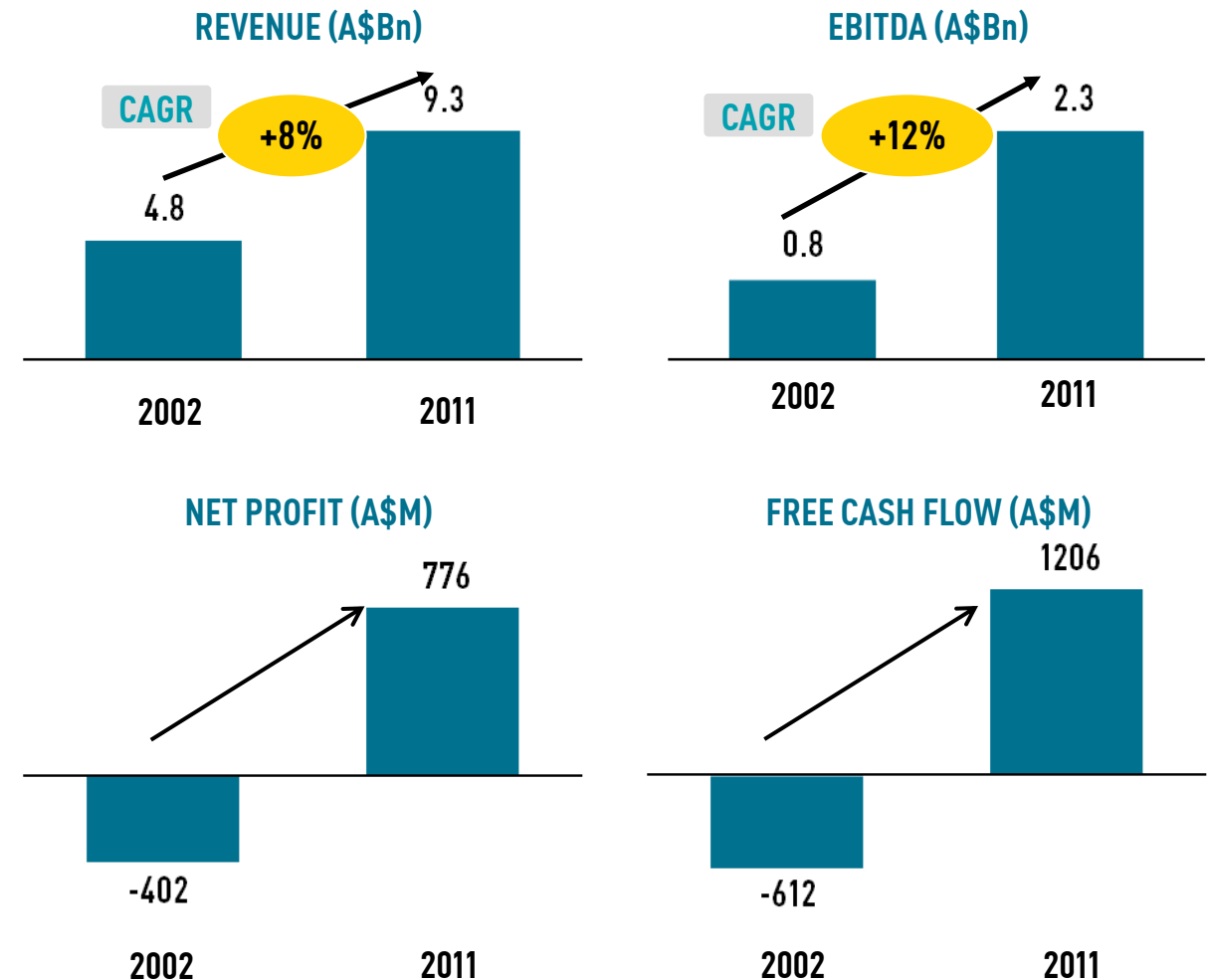
- 9.1m mobile customers
- 1m on-net telephony customers
- 960k on-net fixed broadband customers
- Key Business customers include ANZ, Tabcorp, DIAC and ATO
- Key Wholesale Partners include M2, Amaysim & Dodo

## Customer Experience

- Over 260 Optus branded stores and over 9,000 retail outlets distributing prepaid products and services
- Approximately 2.5m My Account registrations (online)
- Approximately 1,000 staff in our national sales and telemarketing operations in Consumer & SMB
- Over 5,000 Consumer & SMB call centre staff

## Our people

- 10,090 employees
- Employee Engagement score 2% above Global Telco norm



# Optus: three major businesses

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## Mobile A\$6.0bn

- 9.1m Optus subscribers
  - 4.8m Postpaid
  - 4.3m Prepaid
  - Includes 1.3m WBB subs
- 31.9% subs share<sup>2</sup>; 30.7% revenue share<sup>3</sup>
- Data 40% of service revenue; non-SMS data 18% of service revenue

**26% EBITDA MARGIN**

## OB/OWS (fixed) A\$2.0bn

- Full service provider to business and government, and wholesale services to service providers
- Approximately 18,000 major buildings connected
- Australia's #1 satellite owner / operator

**27% EBITDA MARGIN<sup>4</sup>**

## Consumer & SMB (fixed) A\$1.3bn

- HFC network covers 1.4m homes
- Optus ULL service covers up to 2.9m premises
- Over 1m on-net telephony customers
- 960k on-net broadband customers

**17% EBITDA MARGIN**

1. Figures are for 12 months to 31 Mar 11, unless otherwise stated

2. As at 31 December 2010 (JP Morgan)

3. Service revenue for 12 months to 31 December 2010 (JP Morgan)

4. EBITDA margin excluding impact of the reversal of outpayment provision no longer required (including impact: 28%)



# Our network: over A\$16BN invested since 1992

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## Fibre/Coaxial Cable

- Inter-city (from Perth to Cairns – **OVER 10,000KMs**)
- Intra-city – **OVER 12,000KMs**
- Hybrid Fibre Coaxial – **OVER 26,000KMs**
- Ownership in – **7 international cables**

## ULL

- Over **1,200** DSLAM racks in **418** exchanges
- Over **70%** of exchanges in metro areas
- Delivers fixed **voice and ADSL2+** broadband to **residential and business** customers

## Mobile

- Over **9,000** base stations, incl **approx 5,000 3G** base stations
- 3G network delivers **7.2Mbps** data speed capability to **80%** population
- **Fibre backhaul** to **80%** of **metro** base stations

## Facilities

- **17** exchanges
- **1** dedicated hosting and data centre

## Satellite

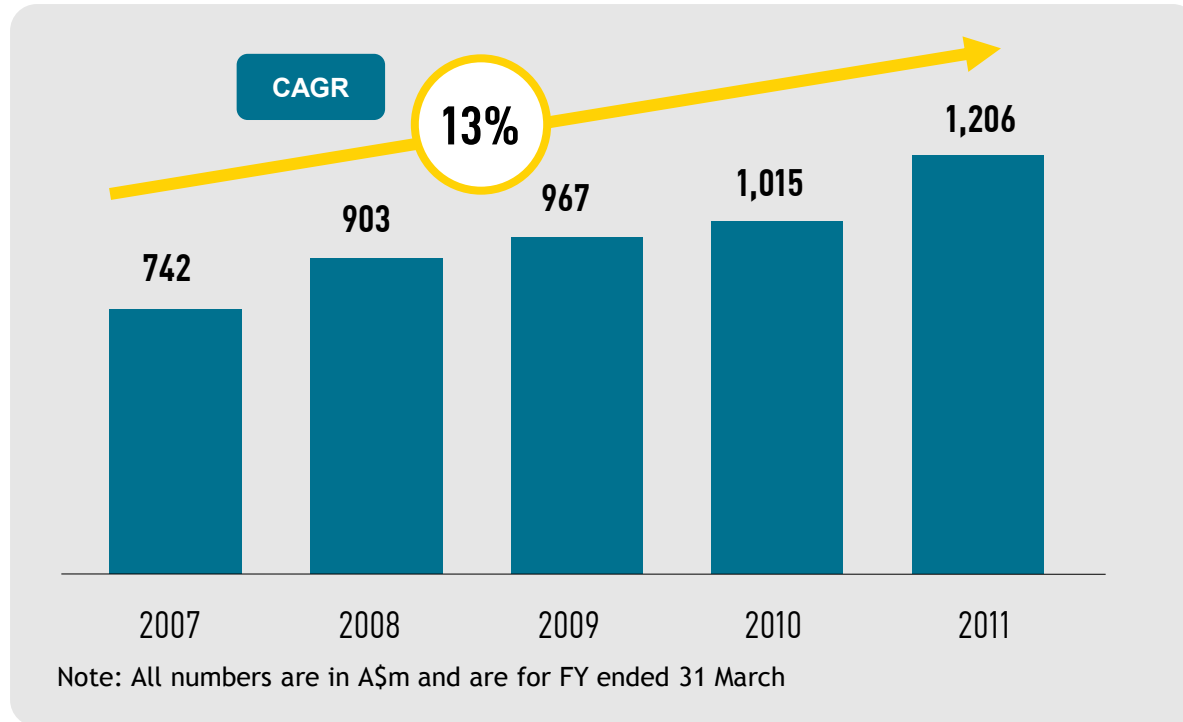
- **5** currently in orbit delivering Pay TV to over **2M households**
- Currently constructing **Optus 10**, to launch in **2013**
- **6** satellite earth stations

Source: Optus Network Information: FY11



# Growing cash flows and strong financial position

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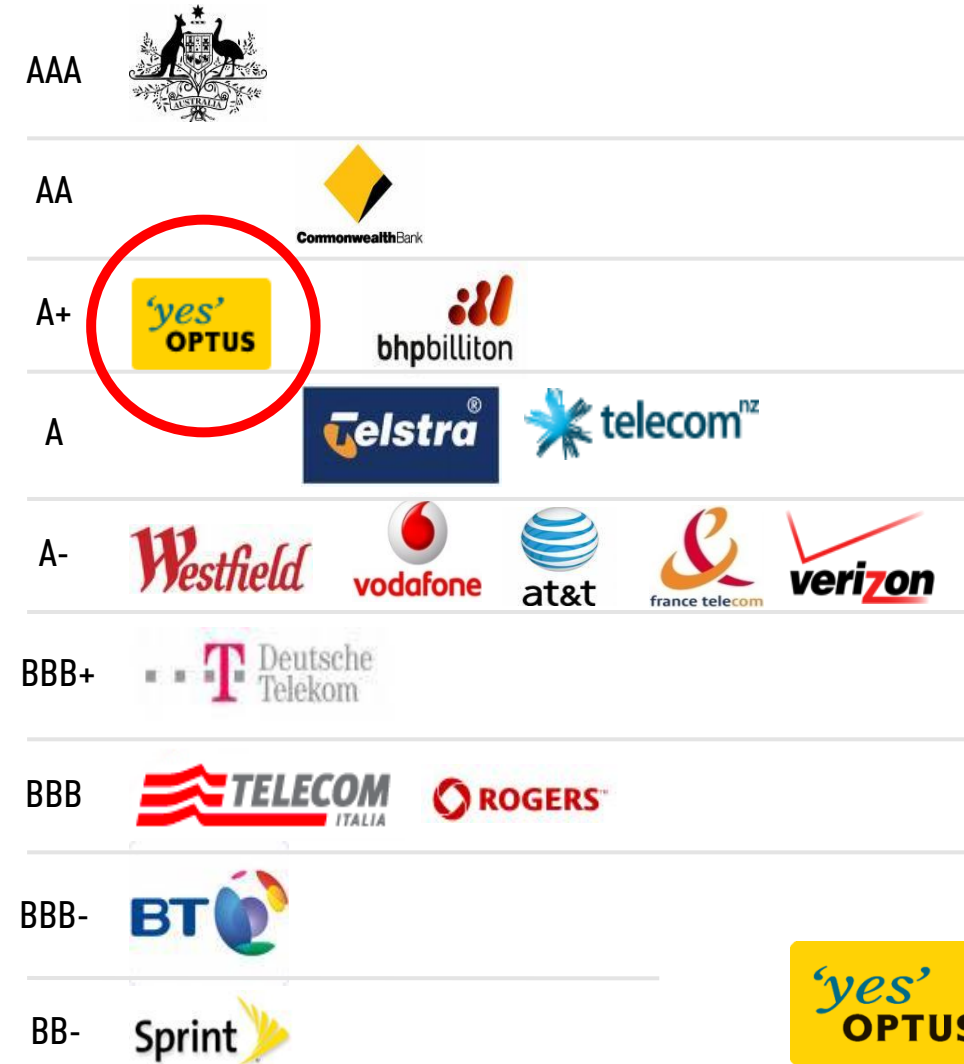


- Net Debt A\$1.4bn<sup>1</sup>
- Access to international debt capital markets
  - US\$500m 10 yr notes
  - HK\$ 1bn 10 yr notes
  - €700m 10 yr notes
- Committed medium term bank facilities
  - Total facilities A\$1.2bn<sup>2</sup>
  - Maturing 2014

1: As at 31 Mar 2011

2: As at 1 July 2011

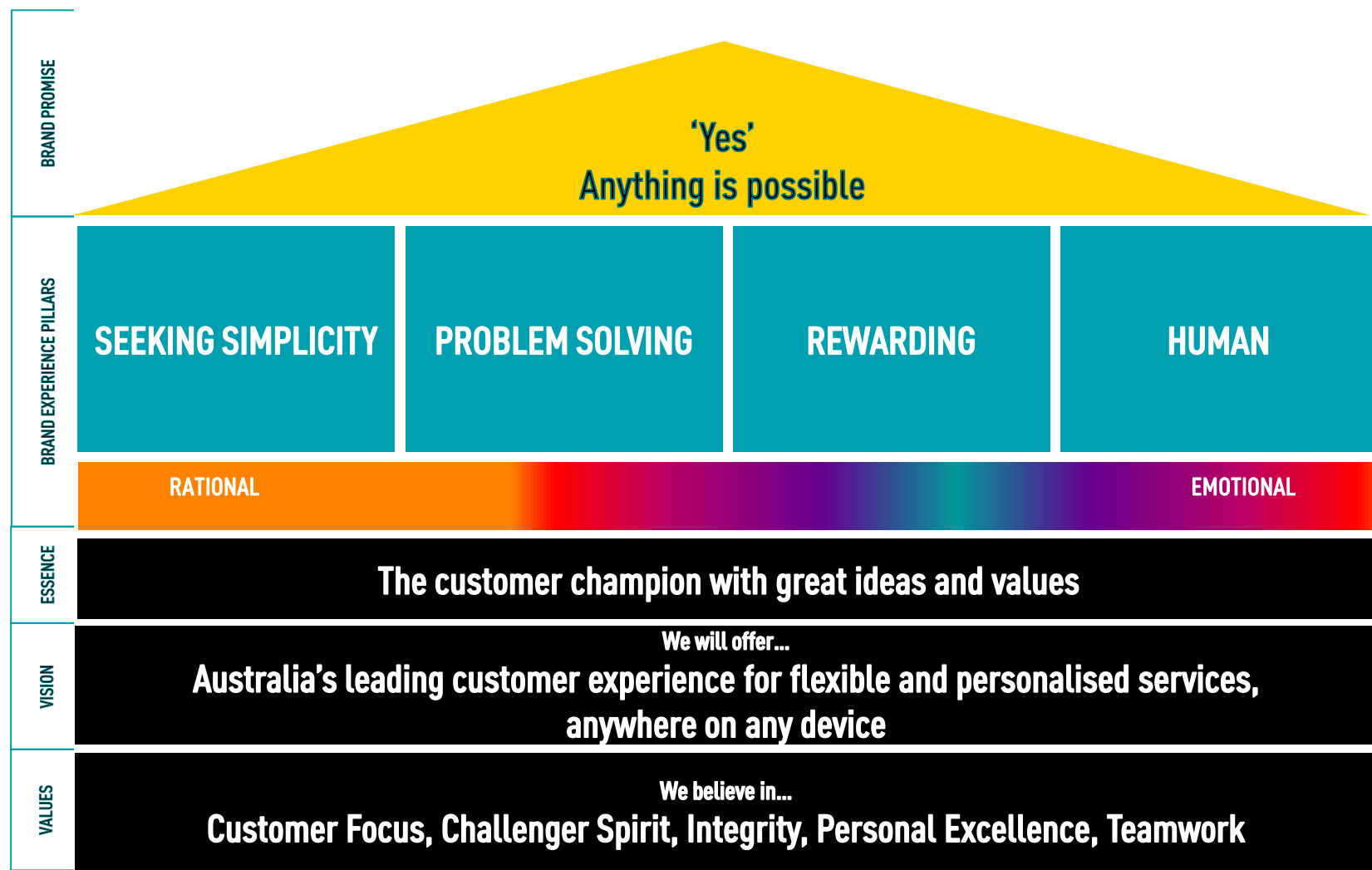
## S&P Rating



'yes' OPTUS

# Optus' brand positioning: Anything is possible

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# Optus: recapping what we said last year

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## FY08-FY09

### Begin Transformation

- Business stabilisation
- Re-start mobile growth
- Targeted investments:
  - Reitz, 96% 3G, D3
- Begin transformation
  - Customer experience
  - Corporate business
  - Fixed on-net focus; resale exit
  - G9 advocacy

## FY2010

### Acceleration

- Increase mobile growth momentum to drive revenue share gains
- Deliver initial customer experience differentiation and realise benefits
- Transform fixed market structure via NBN advocacy

## FY2011

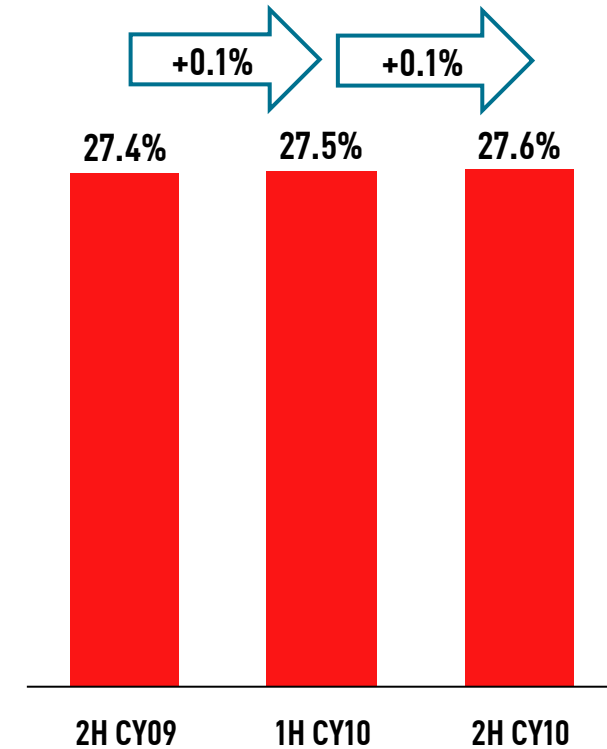
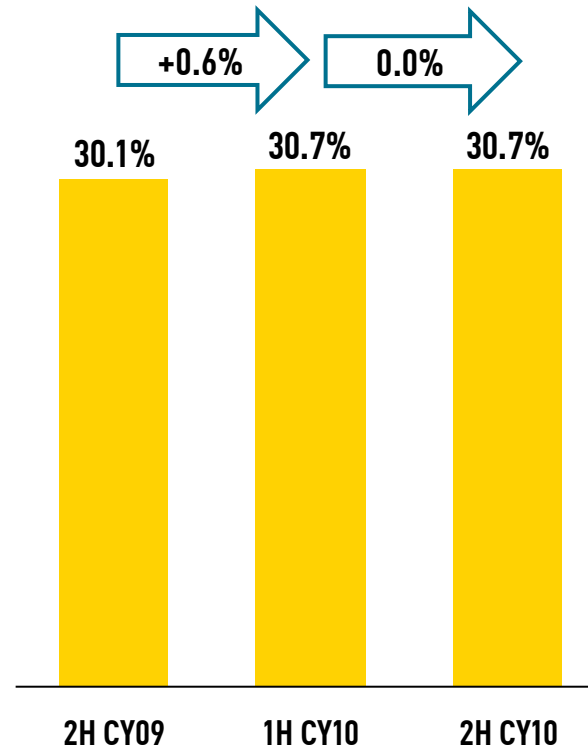
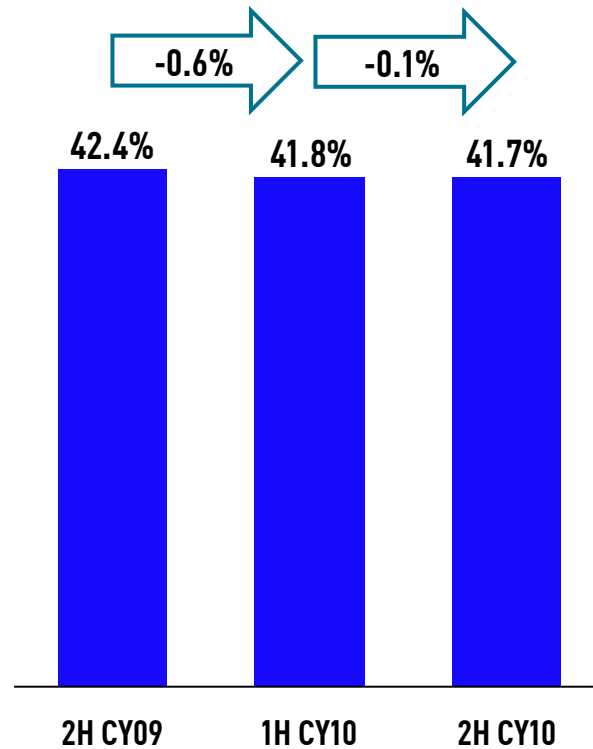
### We said we would...

- Focus on maintaining mobile momentum
- Drive to leadership in customer experience and relevance
- Exploit the NBN

# FY11: mobile was a year of two halves, with increased competition in 2H

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Mobile service revenue share (%)



# Optus CE is stable while customer expectations are increasing

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**We operate in an environment of heightened awareness:**

- Changing customer expectations
- Increased regulator advocacy

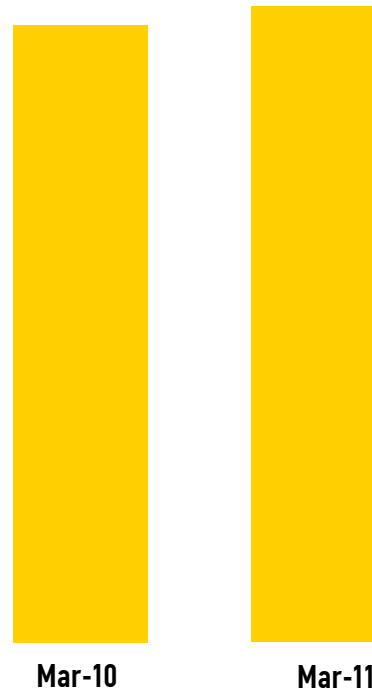
**Building on our CE tradition...**



## **SingTel Optus Lean**

- 40 projects completed
- 51 projects in flight
- 1,953 people trained

## **Optus 'Yes' Meter results stable**



**~5% improvement** in satisfaction with how we are servicing our customers' enquiries in **SMB & Consumer**

**~8% overall improvement** in satisfaction on how we bill our customers in **SMB**

**~8% increase** in **OVS** customers' satisfaction in how we are resolving their **service difficulties**

**~7% improvement** in satisfaction with how we **connect and provision** our products for our **OB Customers**

Note: The 'yes' Meter is independent "unsponsored" research undertaken to assess how Optus rates in Customer Experience relative to our competitors

**'yes'**  
**OPTUS**

# Optus plays a key role as the NBN becomes a reality

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1

Structural  
separation

2

Equivalence  
of access

3

Cost-based  
pricing

4

Strong ACCC  
oversight

## CCS bill passes despite coalition's last-ditch battle

Australian telecoms history has been made in the final Senate sitting hours of 2010 with the passage of the Competition and Consumer Safeguards Bill. The culmination of months of heated parliamentary debate and a frenzy of eleventh-hour deals with key crossbenchers, the passing of the instrument now opens the way for the eventual separation of Telstra and a reform of access regime regulation.

**NBN Co seals interim  
satellite deal with Optus**

**NBN power  
grows with  
\$11bn deal**

## Optus and NBN Co reach A\$800m agreement

Optus and NBN Co have forged a deal to migrate the telco's Hybrid Fibre Coaxial network customers over to the NBN.

**Conroy wins Senate support for  
NBN bills following compromise**

**'yes'  
OPTUS**



# Overall Optus exceeded market guidance in FY11

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## FY11 GUIDANCE

## FY11 OUTCOMES

Revenue to grow at mid single-digit level

**Revenue A\$9,284m**

**Up 4%**



EBITDA to grow at mid single-digit level

**EBITDA A\$2,334m**

**Up 8%**



Capital expenditure to be approx. A\$1.2 billion

**A\$1,018m**

**Capex: Revenue 11%**



Free cash flow to be above A\$1.0 billion

**A\$1,206m**

**Up 19%**



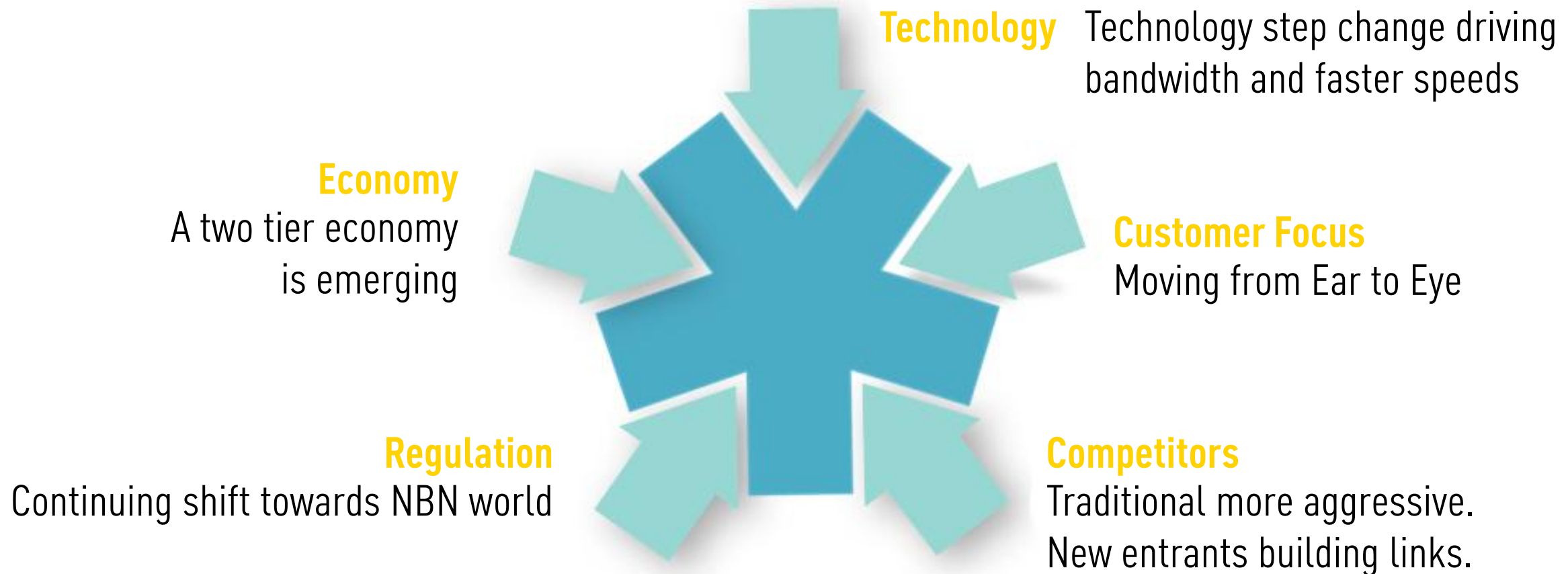
**Video: Optus achievements**



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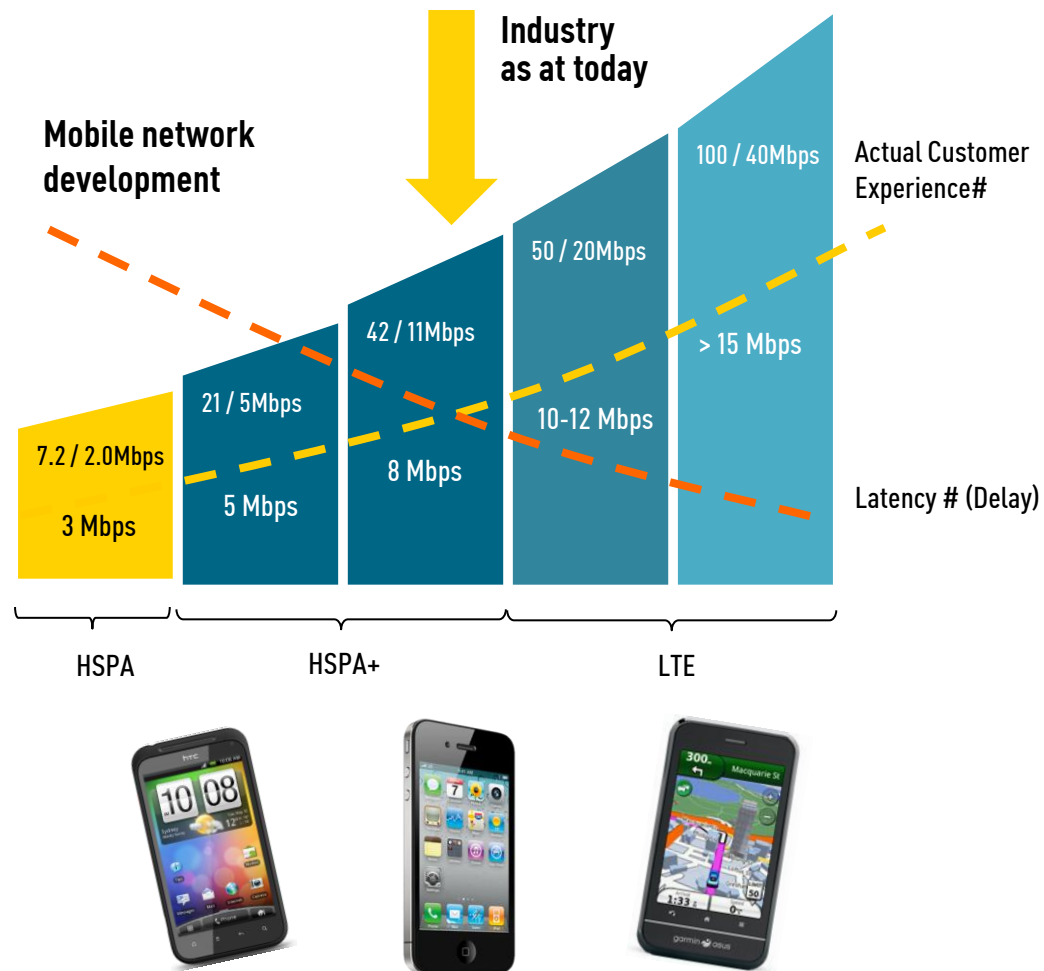
# A number of key trends continue to shape the Australian Telco landscape



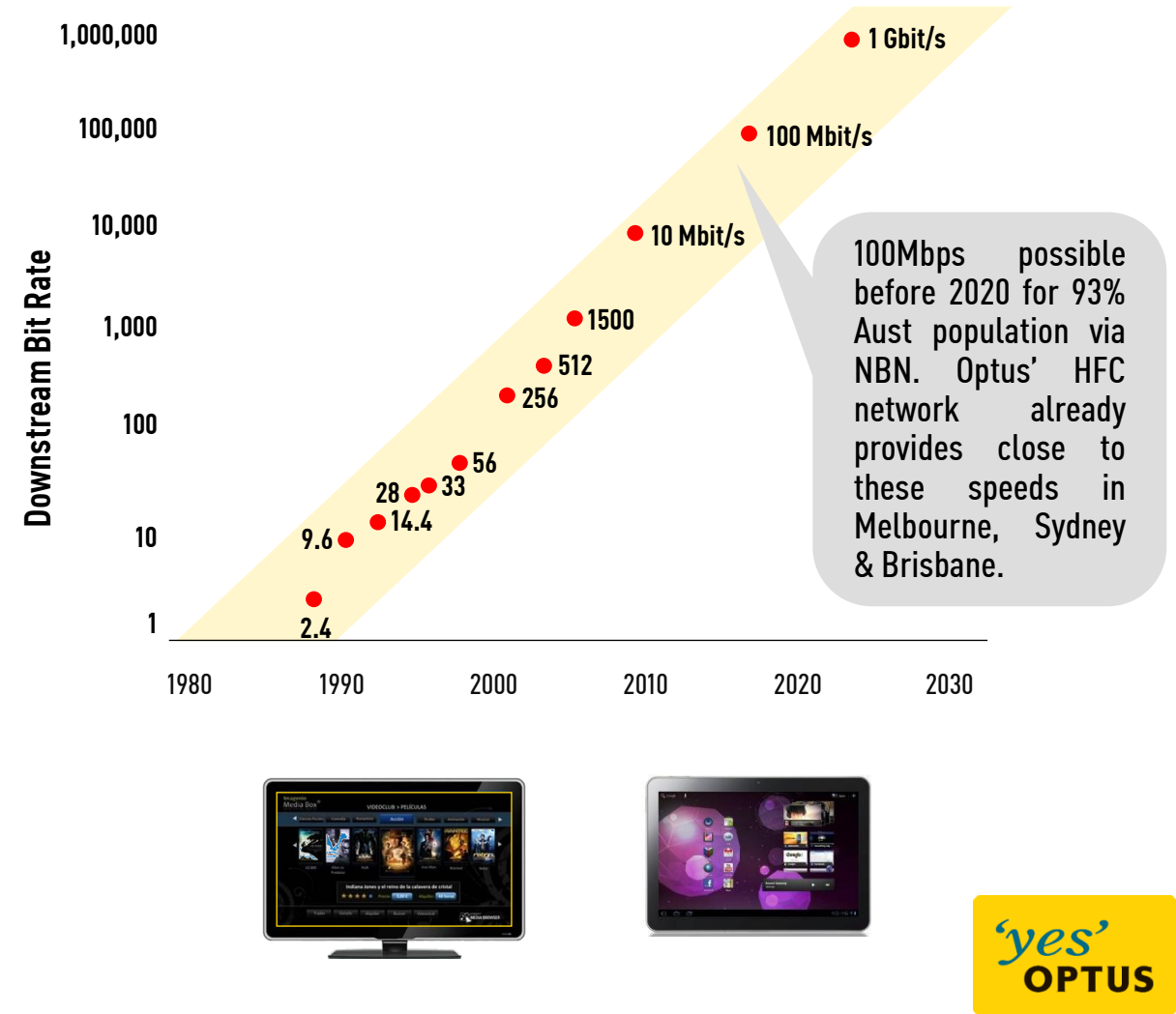
# Technology continues to evolve rapidly

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## Mobile network bandwidth



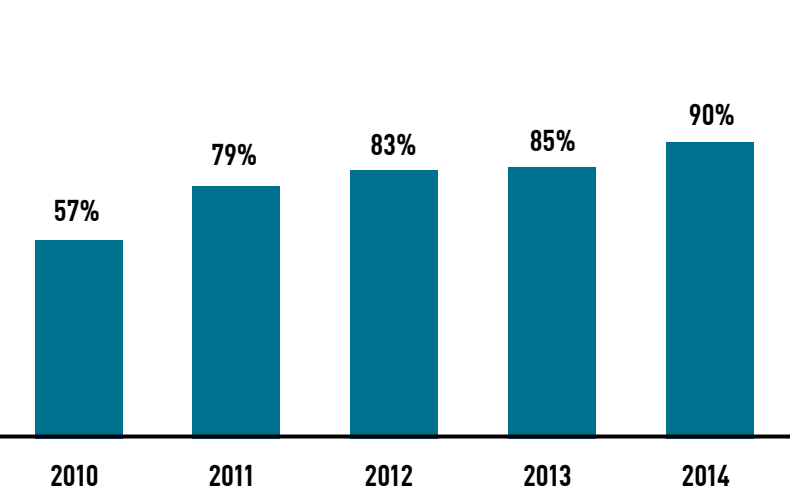
## Fixed network bandwidth



# Mobile customers are connecting over a wide range of 'smart' devices...

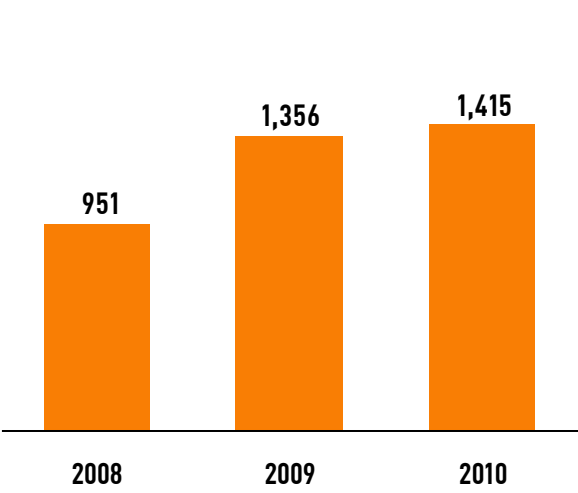
## Smartphones a key acquisition driver

Australia Smartphone Shipments % Total Handset Shipments



Source: IDC

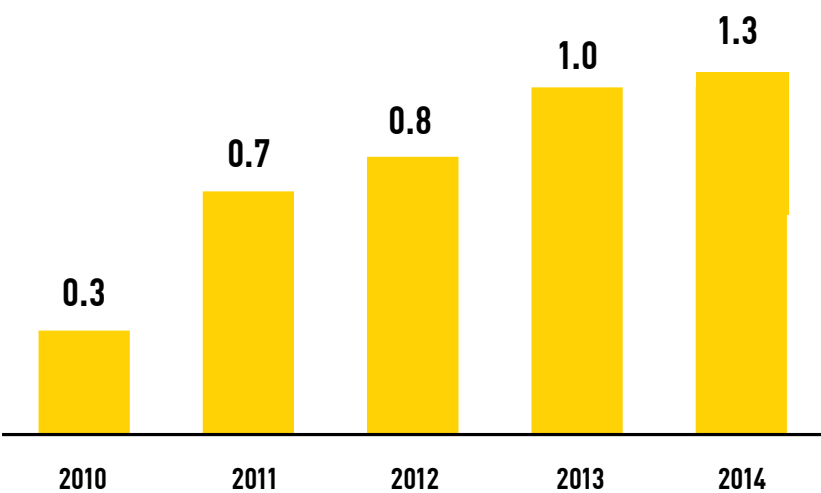
## Mobile broadband net adds ('000)



Source: JP Morgan

## Tablets are providing greater HD video capability

Australia Tablet Shipments (M)

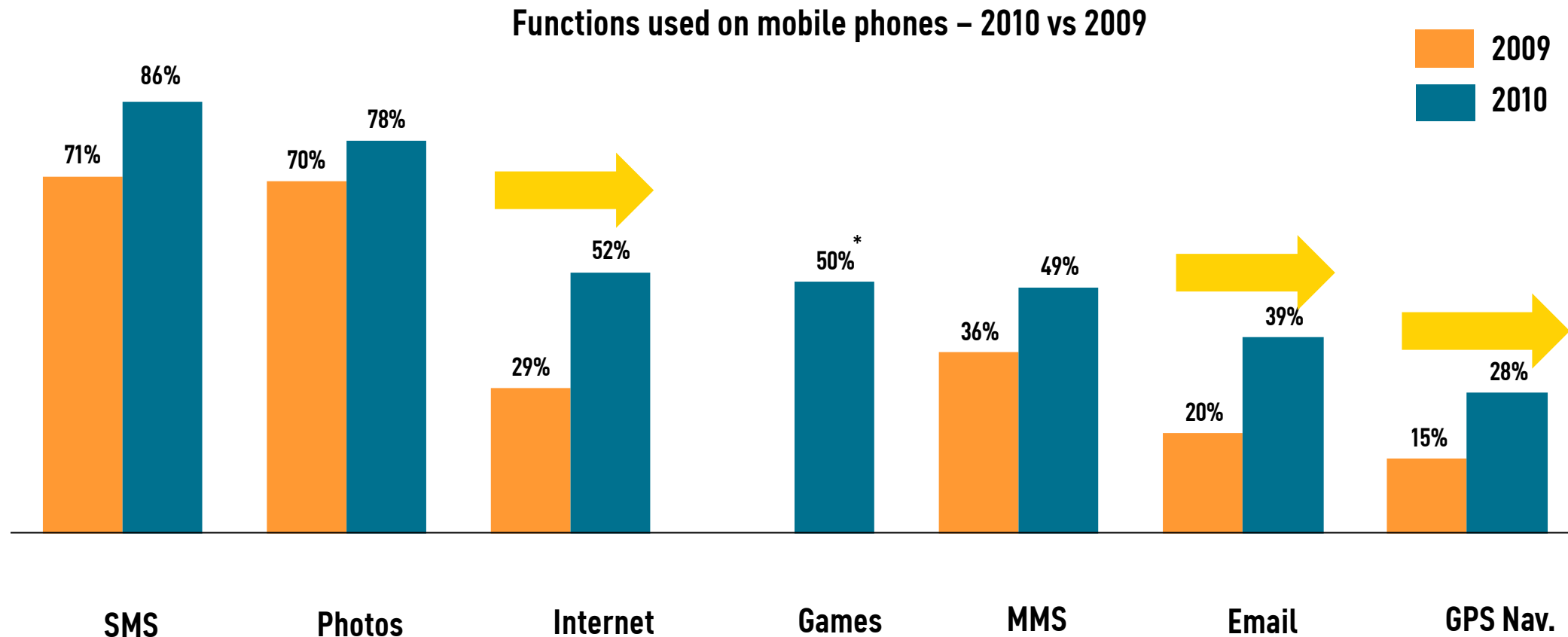


Source: Goldman Sachs



# ...and are shifting their use of the mobile device from 'ear to eye'

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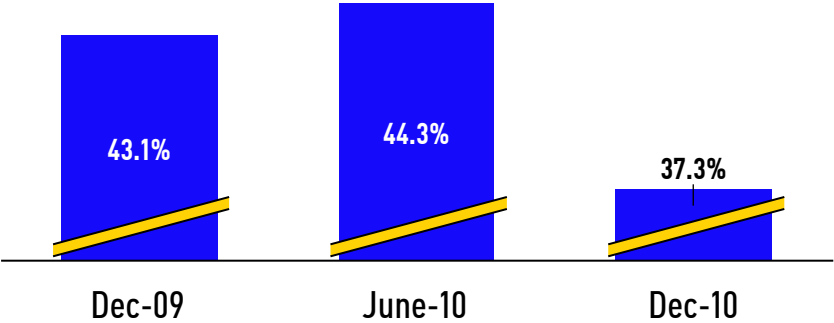


Source: Nielsen, The Australian Online Consumer Report, February 2011

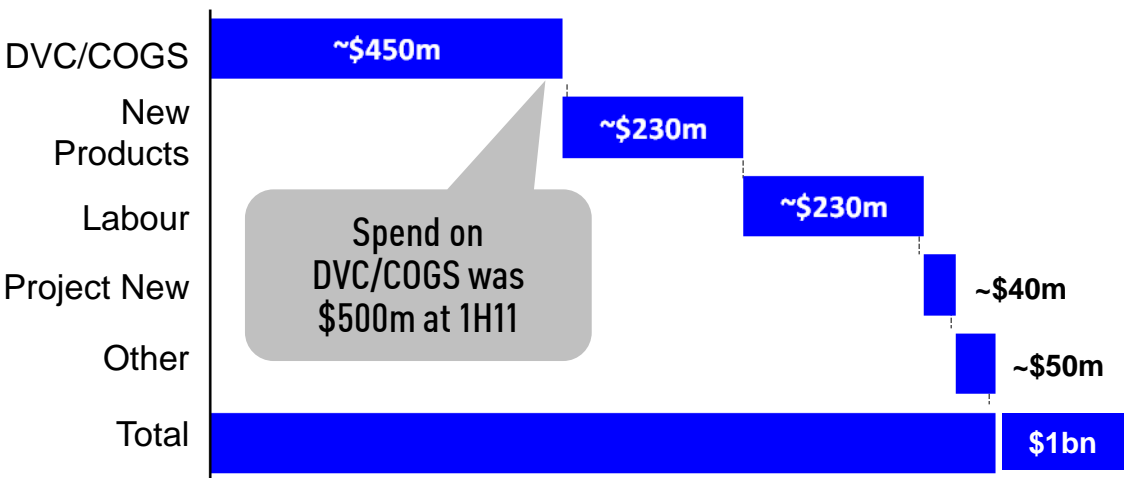
\* 'Games is a new category introduced in 2010

# Aggressive competition from incumbent operator

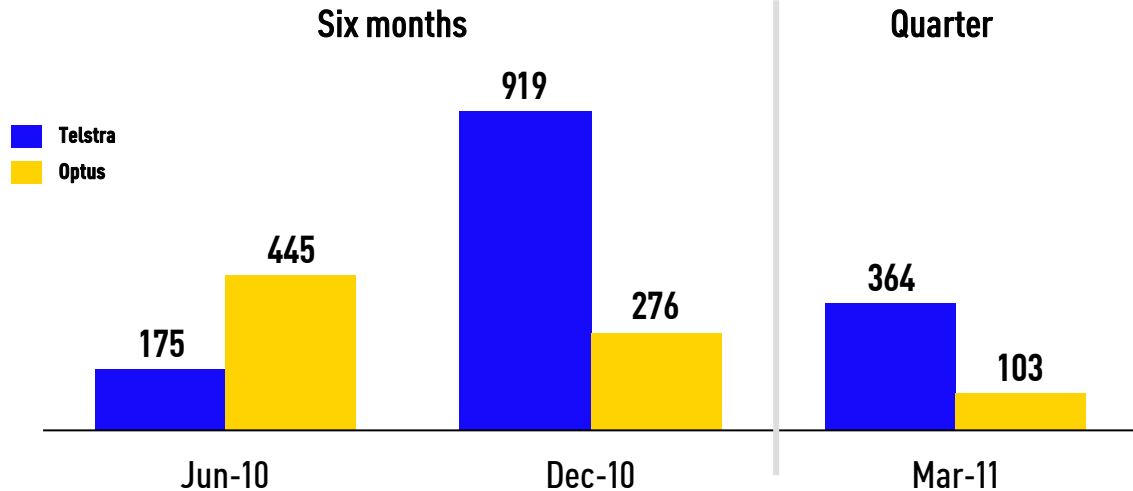
Telstra EBITDA margin – six months



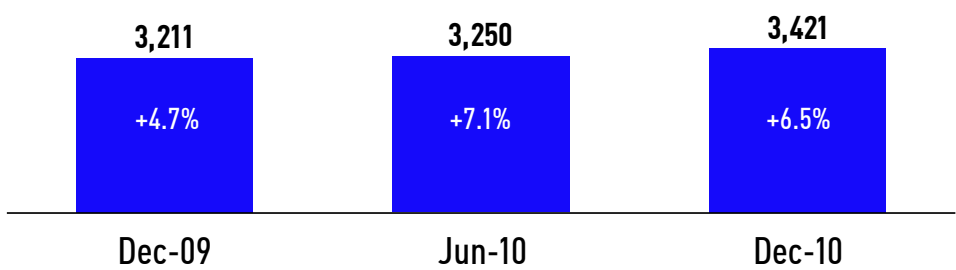
Telstra FY11 “Strategic Opex Investments” announced Sep 2010



Mobile net adds ('000)



Mobile Service Revenue and YoY growth - six months (A\$m)



Source: Telstra disclosures. Note: Guidance of flattish revenue and high single digit EBITDA decline



# VHA leading on price but limited pull-through on customer growth

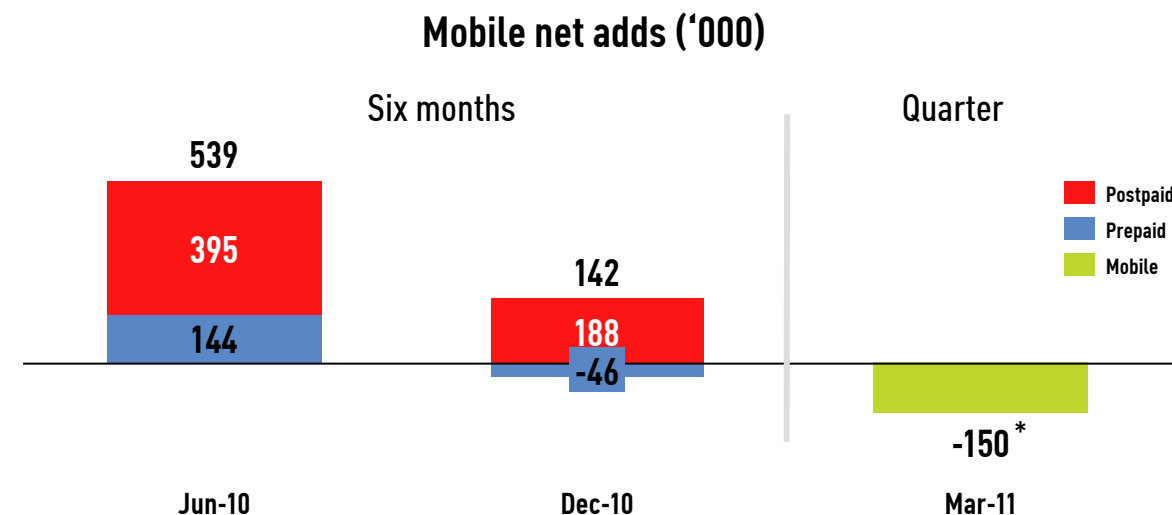
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## Aggressive “Infinite” plans

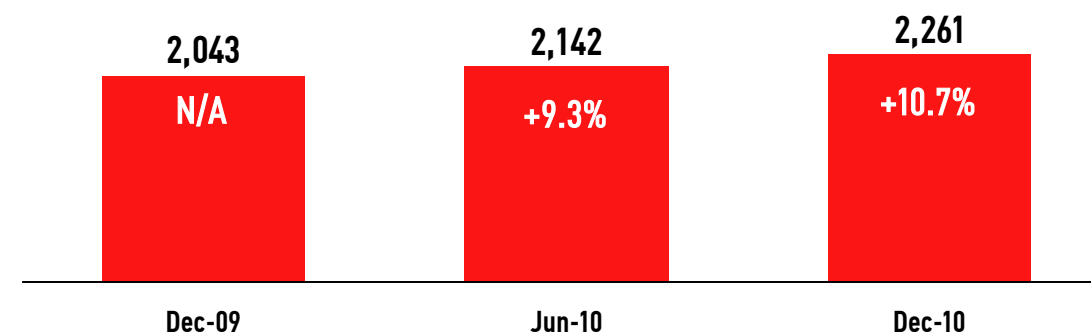


- \$35-\$100 price points (prepaid / postpaid)
- Unlimited calls, TXT and social network access
- 250MB-4GB of data offered
- Various handsets available

Source: Vodafone Hutchison Australia Pty Ltd website



## Mobile Service Revenue and YoY growth - six months (A\$m)



Source: Carrier's disclosures, JP Morgan

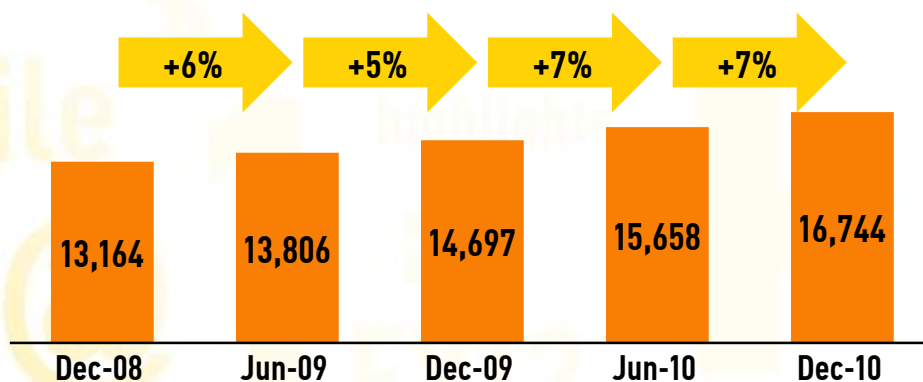
\* Hutchison Whampoa FY10 results announcements (VHA customers at 28 March 2011)



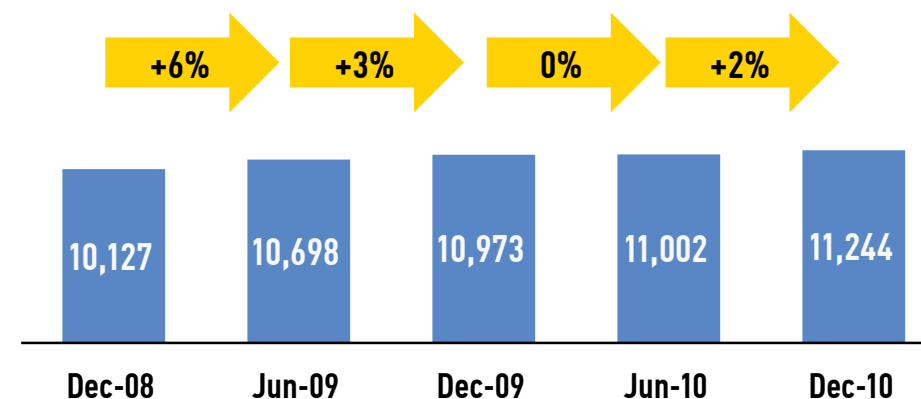
# Competitive low-end postpaid offers fuel growth in postpaid, but prepaid growth moderates

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Market Subscriber Growth - Postpaid ('000)



Market Subscriber Growth - Prepaid ('000)



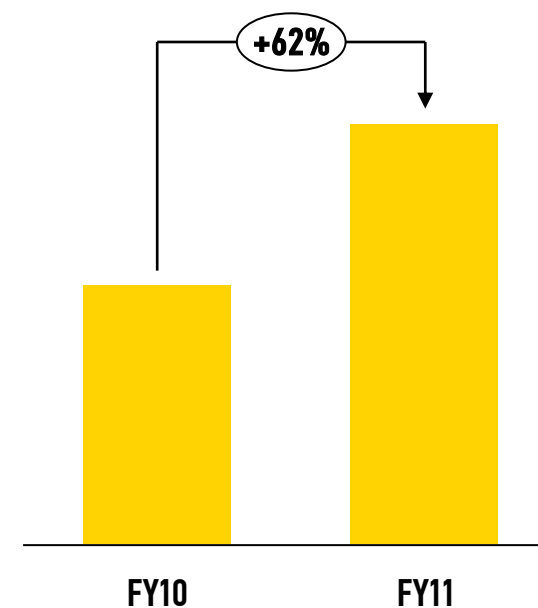
Source: JPMorgan

# Strong take-up for digital services as smartphone penetration increases

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Growth in Optus Browsing Revenue (excl WBB)



# Progress on regulatory issues, with some yet to be determined

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## MOBILE

-  Negotiations with Government on renewal of existing spectrum licences
-  Late 2012 confirmed for wireless spectrum auctions (700 MHz, 2.5 GHz)

### To be determined:

- ACCC review of mobile termination rates
- ACCC review of transmission pricing for backhaul
- ACMA “Reconnecting the Customer” Inquiry

## FIXED

-  Parliament passes key legislation for structural separation of Telstra and NBN Co governance
-  ACCC’s draft final determination on ULL / PSTN access pricing

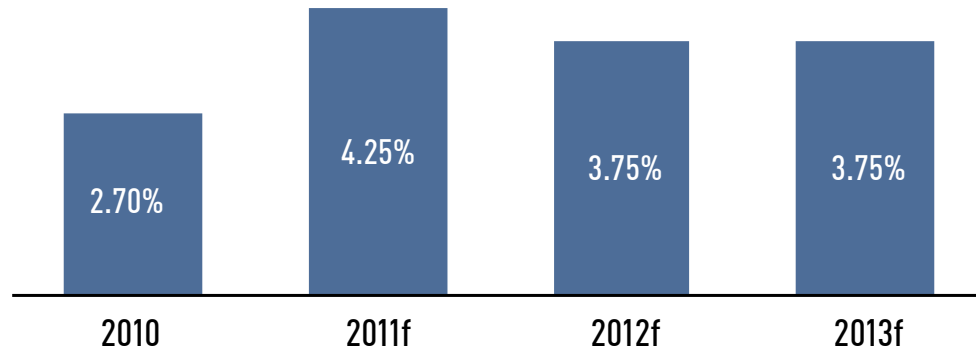
### To be determined:

- ACCC approval for Telstra Structural Separation Undertaking and Optus / NBN HFC agreement
- ACCC to review NBN Co’s proposed access pricing
- ACCC decision pending on Foxtel/ Austar merger

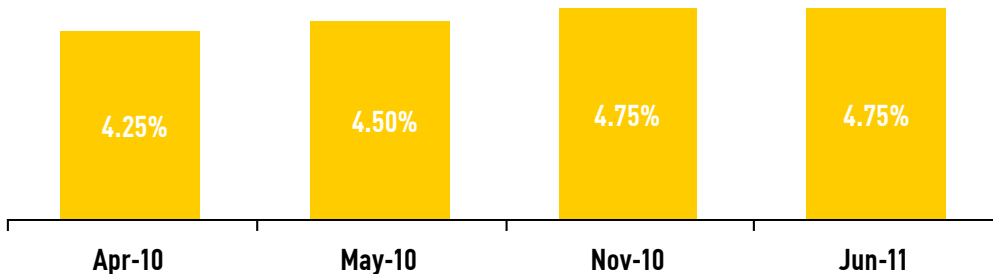
# Australia - two speed economy is emerging and consumer sentiment is soft

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## Australian GDP (Forecast)



## Interest Rates



Source: RBA

## Consumer sentiment



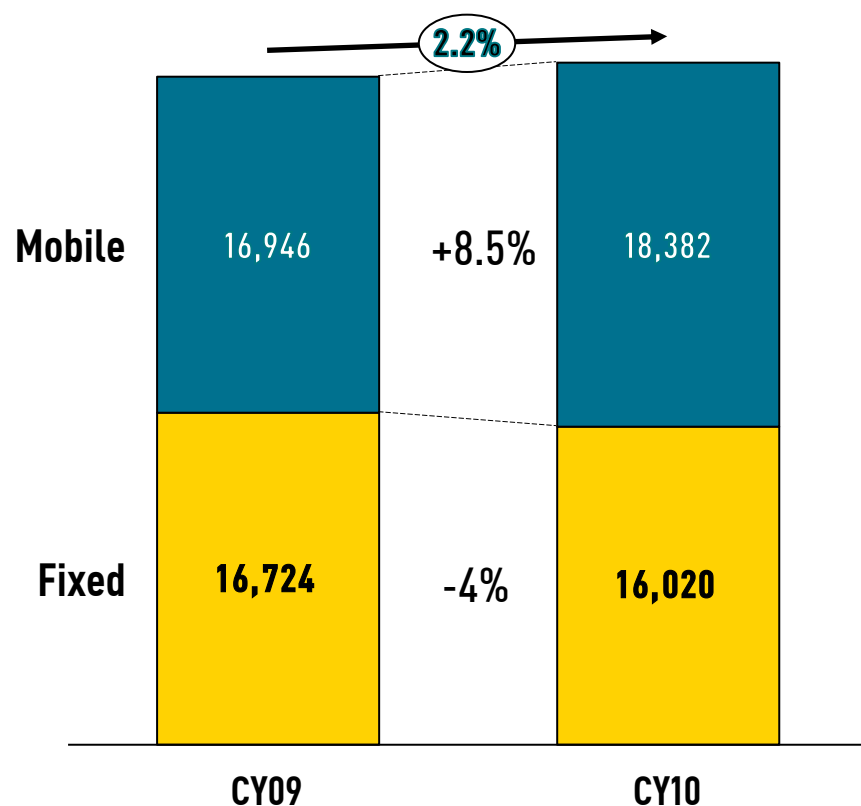
“Growth in household consumption and borrowing, however, remains relatively subdued, as households continue to save a higher share of income than was the case over the past two decades...The volume of retail sales was flat in the March quarter...”

RBA Statement on Monetary Policy, May 2011

# The Australian telco market continues to be driven by mobile growth, although there are some headwinds

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Australian Telco Market (A\$m)

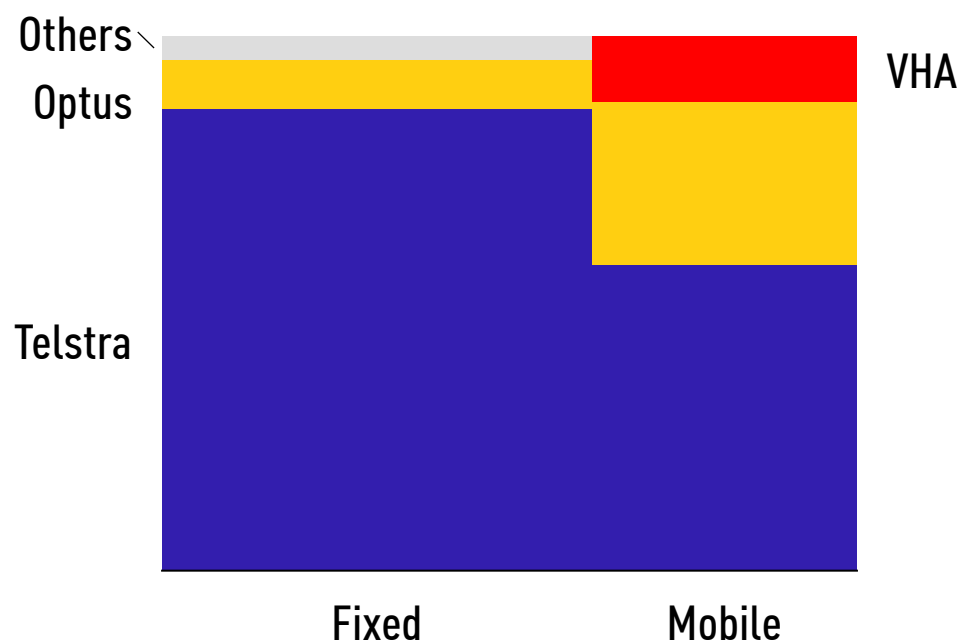


- Economy
  - Consumer confidence
- Competition
  - Aggressive pricing from other telcos
  - Prepaid market softness
  - New entrants to the market

# Value shift from fixed to mobile expected to continue

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## Pre NBN market EBITDA (FY10)



## Future

### Mobile continues to be a key source of growth:

- ✓ Strong device take-up
- ✓ Strong ongoing demand expected for data services

### However, fixed market still very important:

- ✓ Increased market opportunity with NBN
- ✓ Emerging value of convergence to customers
- ✓ NBN expected to have substantial fixed market share in medium to long term

# Focus on building mobile market share while exploiting the NBN

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## FY11-FY12

Drive to leadership  
in Customer Experience  
and leverage digital  
capabilities to drive  
lower cost structure

## FY2012+

Exploit NBN and IP  
to cement leadership  
via wireless-led  
convergence



## In FY12 we will focus on:

### MOBILE

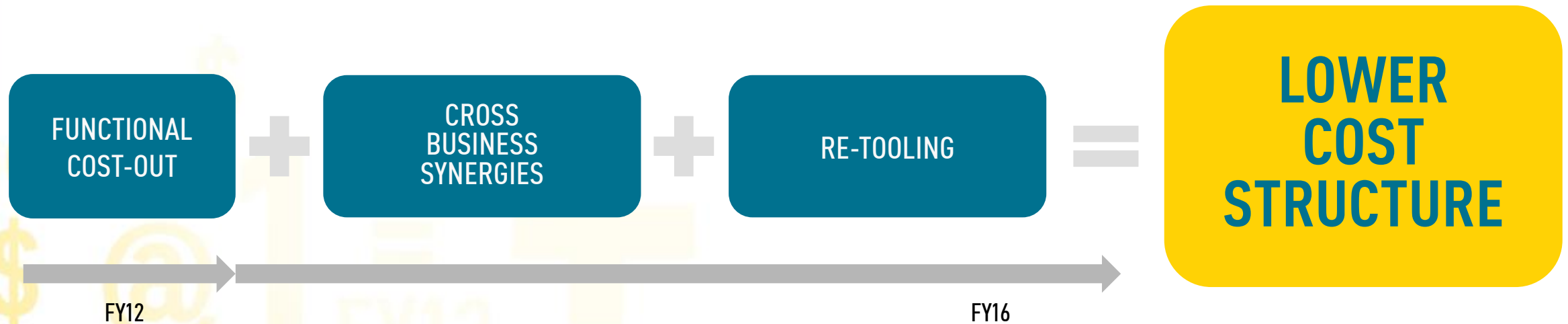
- Break-out in Customer Experience
- Device leadership
- Relevant and personalised digital services
- Leverage distribution
- Network investment

### FIXED

- Build scale in lead-up to NBN
- Relevant and personalised digital services
- Leverage ICT and Cloud capability for corporates
- Prepare for NBN

# We will continue to invest in growth with a lower cost structure

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## FY12 GUIDANCE

Revenue to grow at low single digit level

EBITDA to grow at low single-digit level

Capital expenditure to be at around A\$1.2 billion

Free cash flow to be above A\$1.0 billion

# Brand Video – Smart Safe TVC

# SingTel Investor Day: Optus Overview and Strategy

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