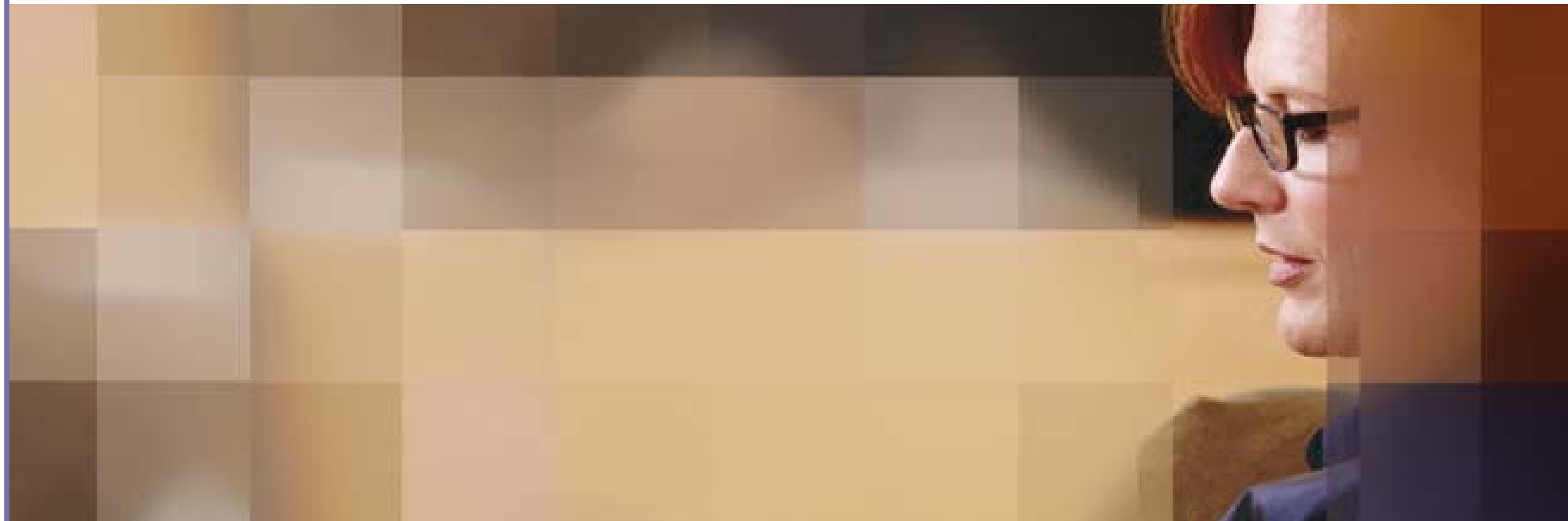

Consumer broadband - generating revenues from broadband growth

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Agenda

- Asia-Pacific’s broadband growth - putting it into context
  - Inernational benchmarks
- Making growth in connections = profitability
  - The business case for broadband access
  - Consumer VoIP - a market in the making
  - Broadband content - a cocktail of incremental revenues
  - IPTV - here we go again: will it work this time?
  - Triple play and convergence
- Summary and outlook

Asia-Pacific's broadband growth - in context

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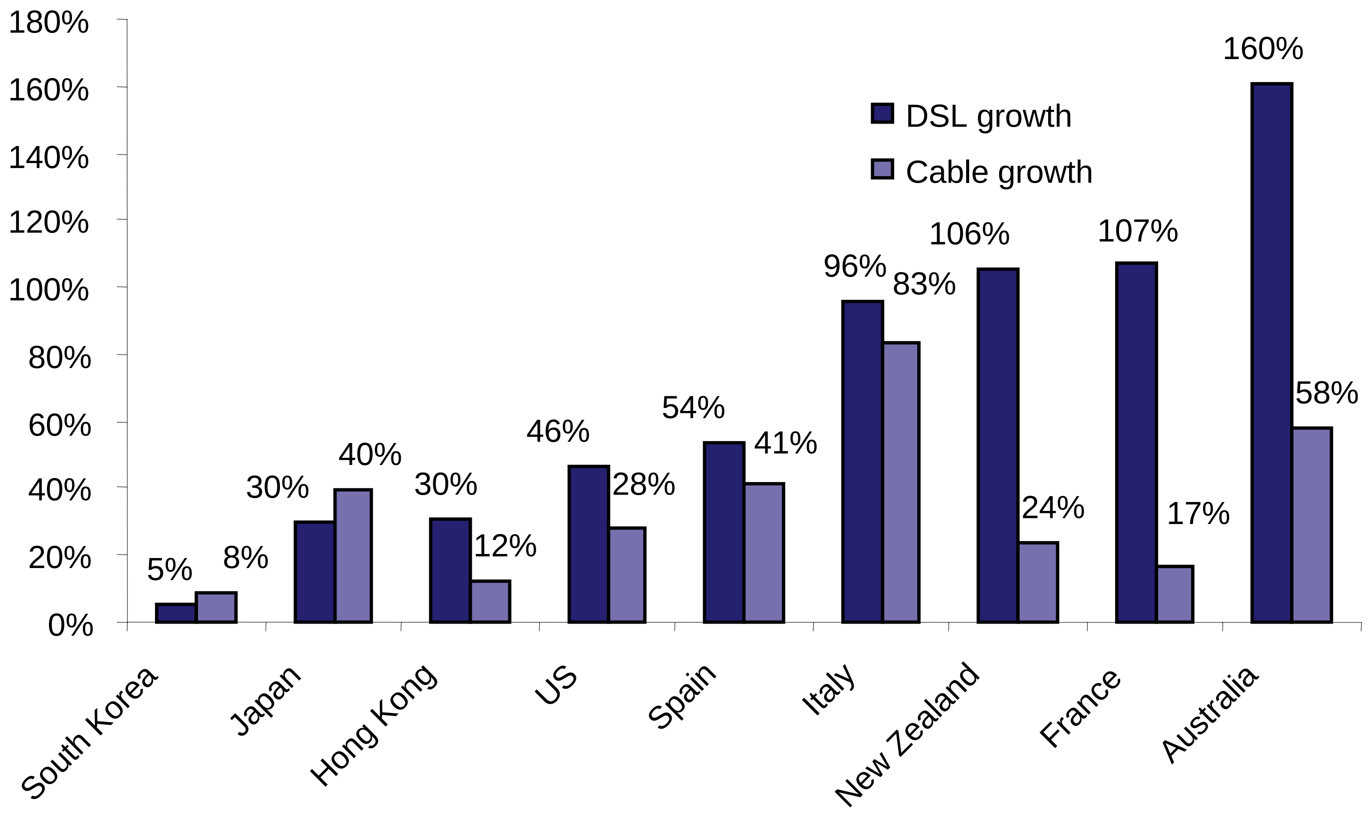
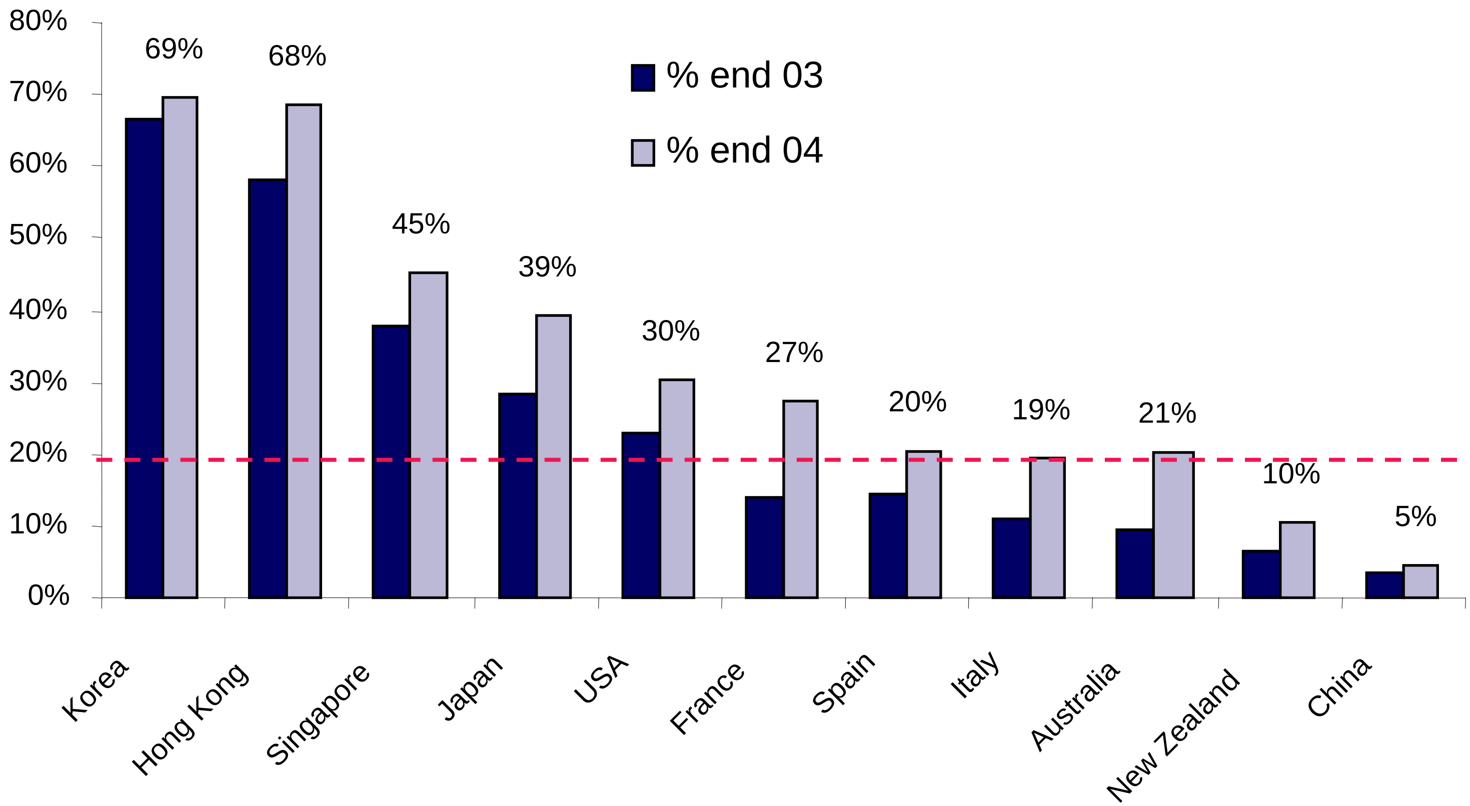
Broadband takes off

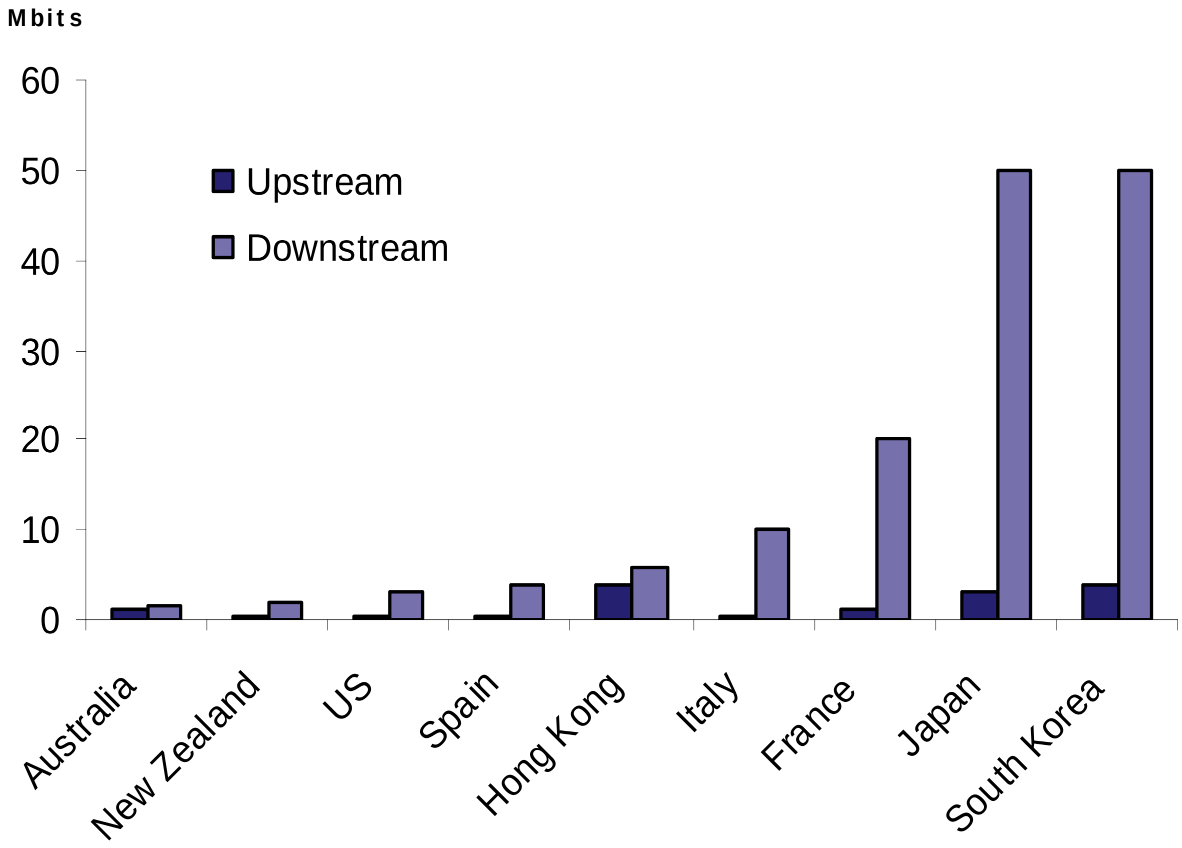


From early adopter to mass market

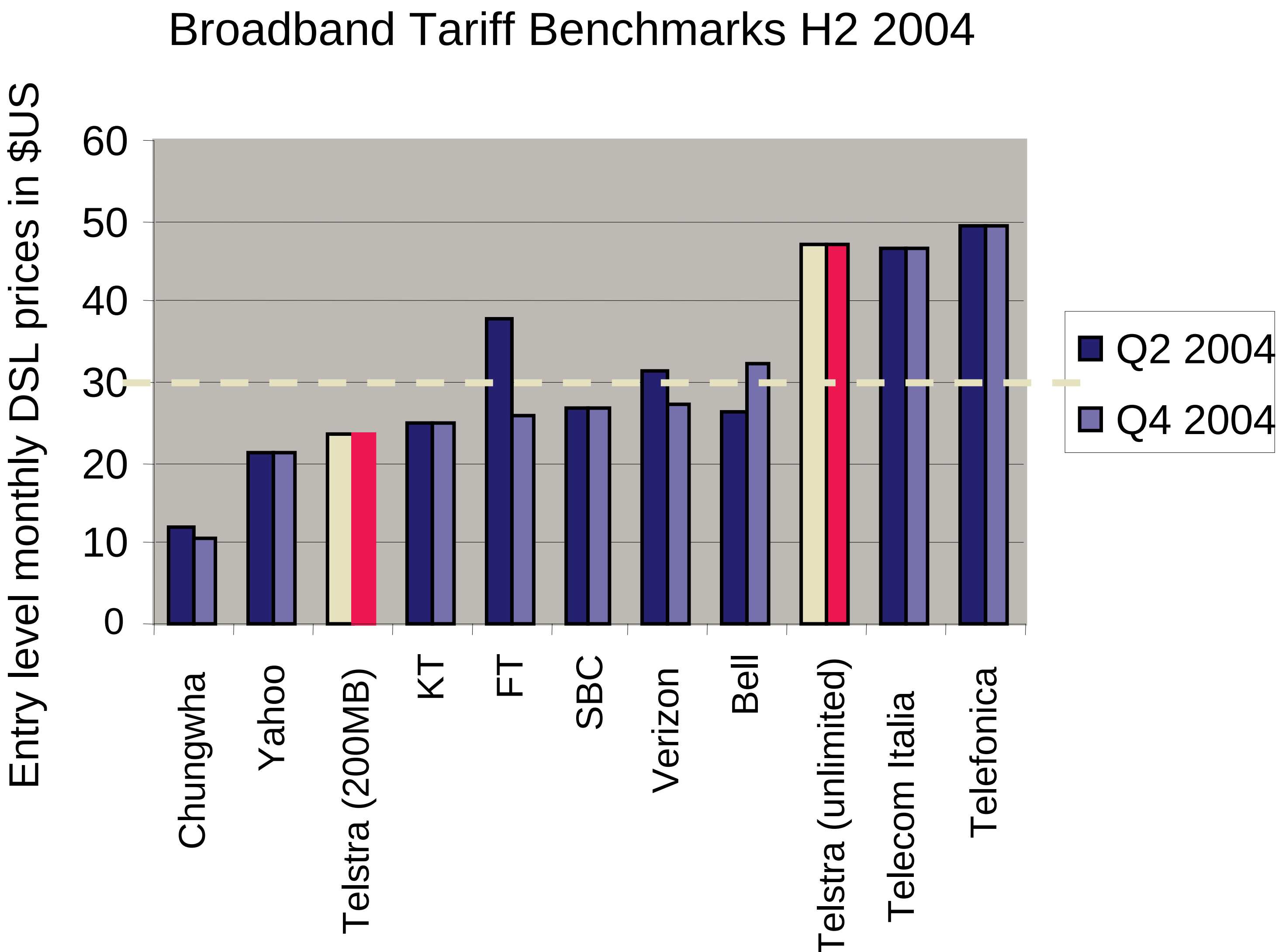
Broadband penetration (by household)



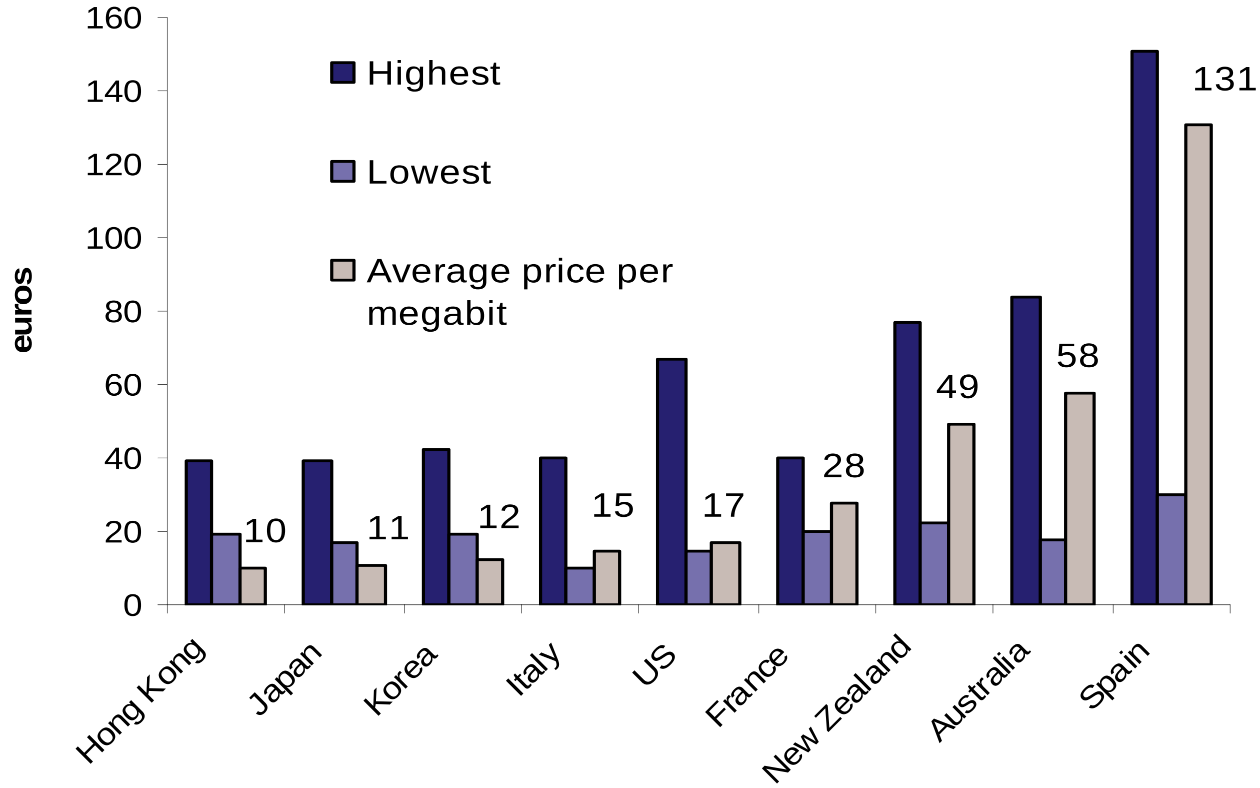
Speed is still throttled back...



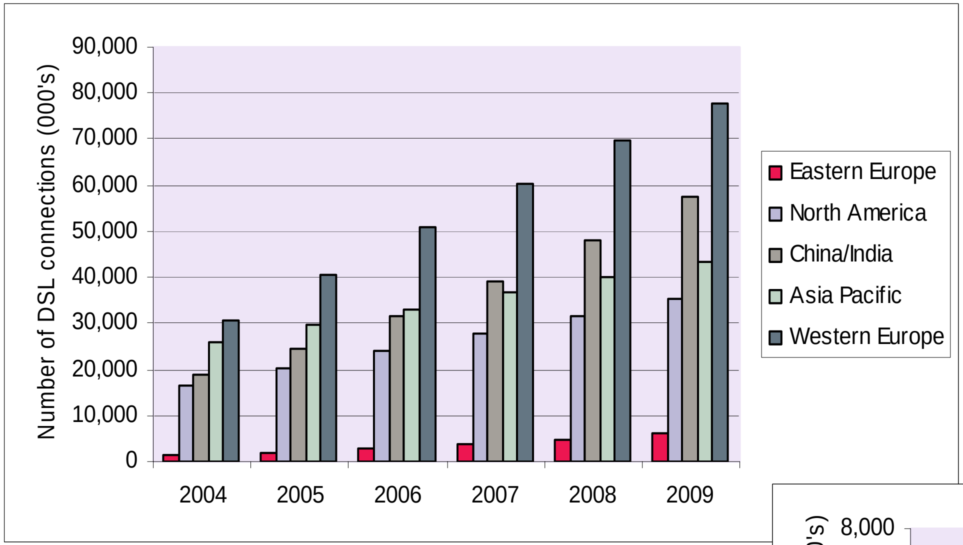
Asia-Pacific - highest speeds, lowest prices

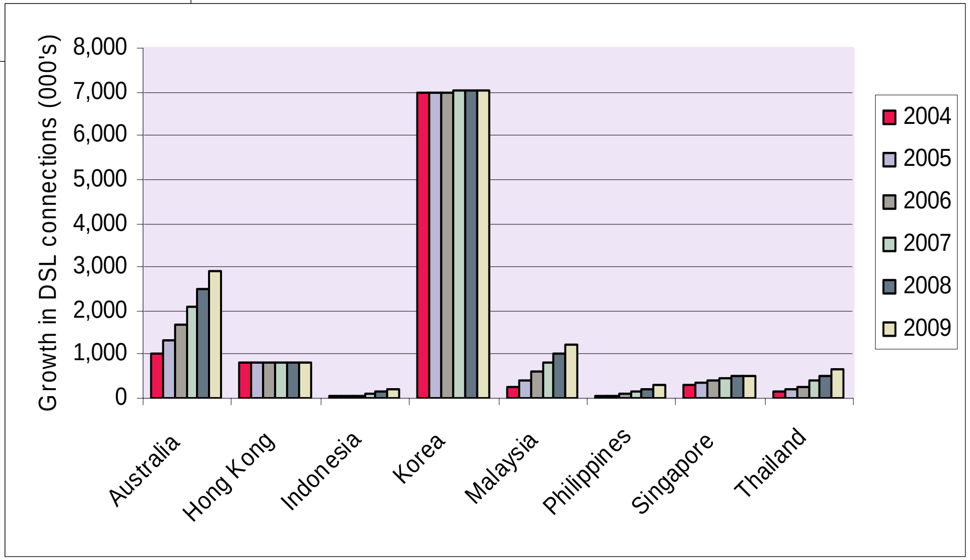


Pricing per megabit



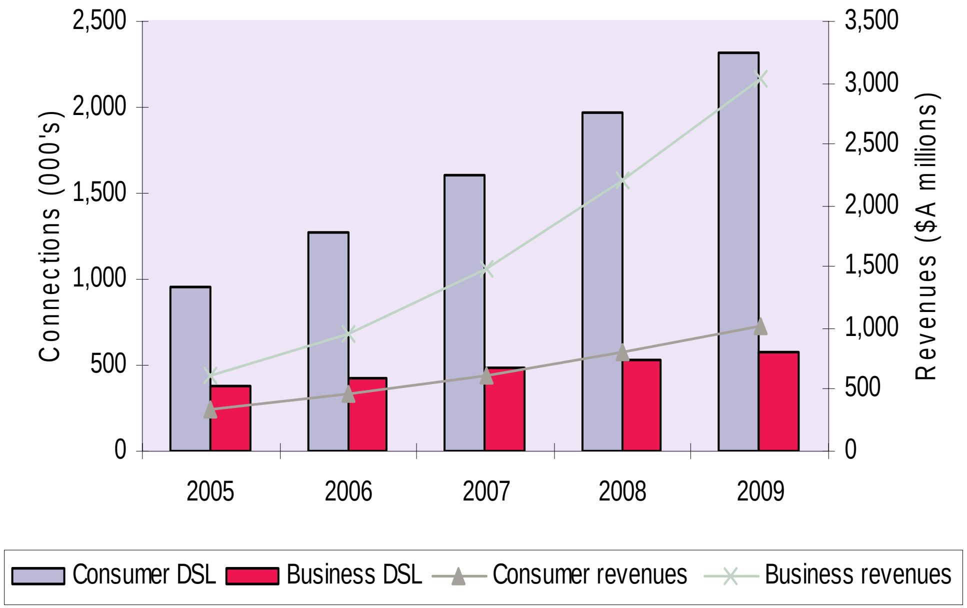
Growth in Asia-Pacific connections





This is only the beginning …

Australian broadband growth



- We forecast 2.9 million DSL connections by 2009

Growth is not matched by revenues - initially

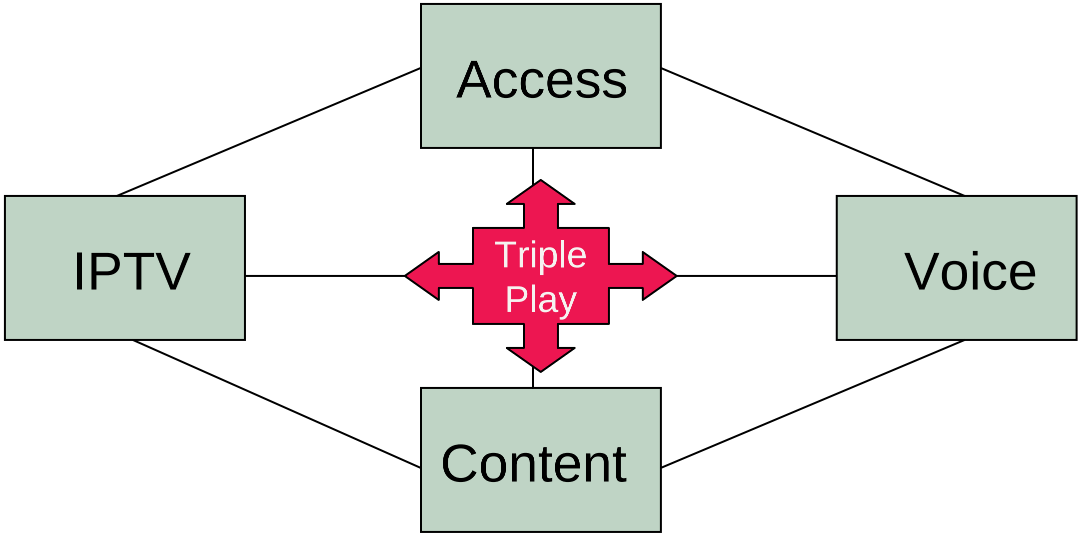
- Competitive pricing and higher speeds continues to pressure margins

However market maturity means shift to higher revenues per user

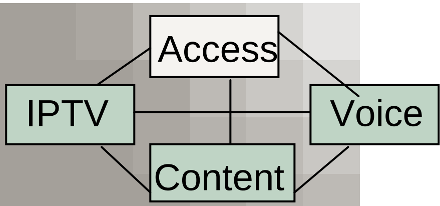
- 62% revenues generated by business DSL - although it only comprises 21% of connections

Still at early stage of broadband growth

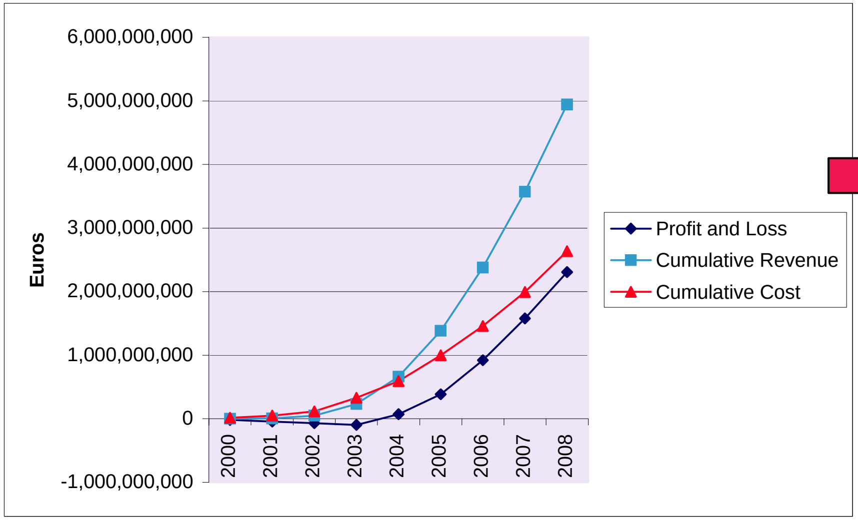
Making growth in connections = profitability

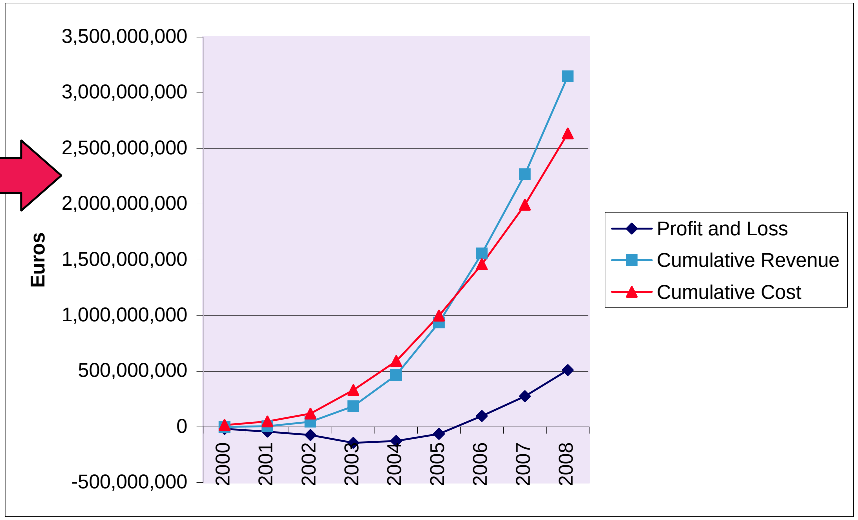


Business case for access



- Strong competition is forcing more to be offered for less
- Competing on price and speed only leads to greater churn
- Both of these stretch-out the business case for basic broadband



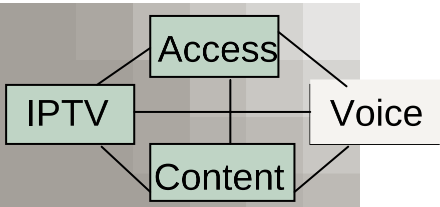


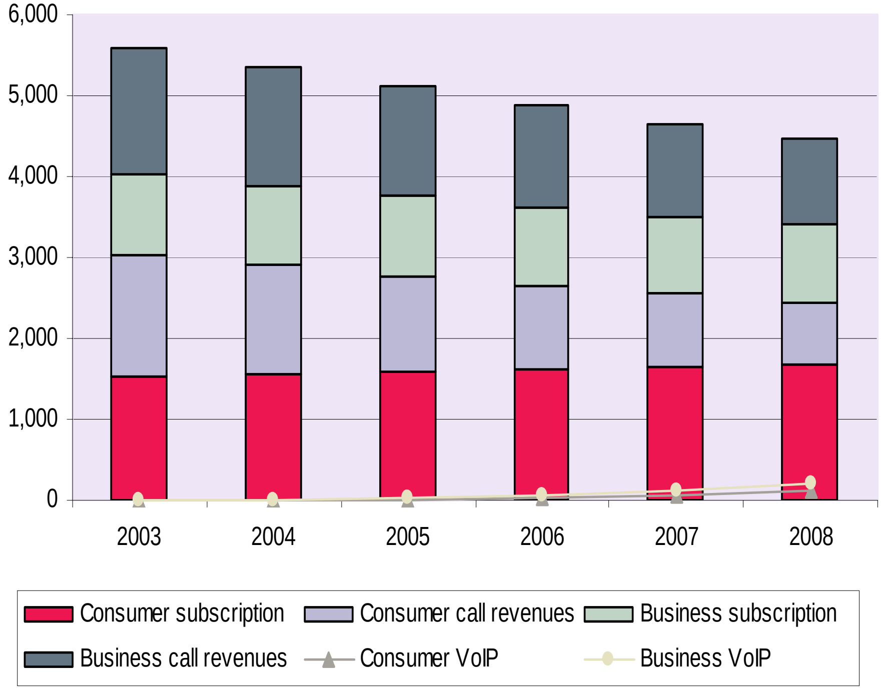
Value-added broadband services essential to continued growth

Scope & basic assumptions

- Ovum’s DSL cost model is based on a generic country
- Characteristics of the country and operator can be changed, but the results shown in this slide pack are based on:
  - a large European country such as France, UK, Germany
  - the network modelled is that of a typical incumbent operator
- Start of network deployment 2000
- Launch of DSL service 2001
- The basic model assumes that a USB modem is supplied free as part of the contract.
- The basic model assumes zero churn. This is modelled in a separate report
- Basic residential service is 512k, 50:1 contention.

Consumer VoIP - disruptive or diversionary?





Soft-client & indirect access first consumer VoIP opportunity

- VoIP will be hyped - but many substitutes
  - 4% consumer voice revenues
  - 9% business voice revenues
- A new consumer price battleground
  - 20% to 30% discount on PSTN
  - Functionality not a driver
- But a valued part of a bundled offer
  - Upselling broadband customers
  - Bypassing origination charges
  - Acquiring & retaining customers

Defining consumer VoIP potential in Australia

Demand factors

- Is PSTN pricing expensive? Will VoIP reduce my overall bill - including line rental
- Do I have a big bundle of ‘free’ mobile minutes?
- What is VoIP? What about quality, reliability, emergency services?
- Does it mean I have to upgrade to a faster broadband package - will I still save money?

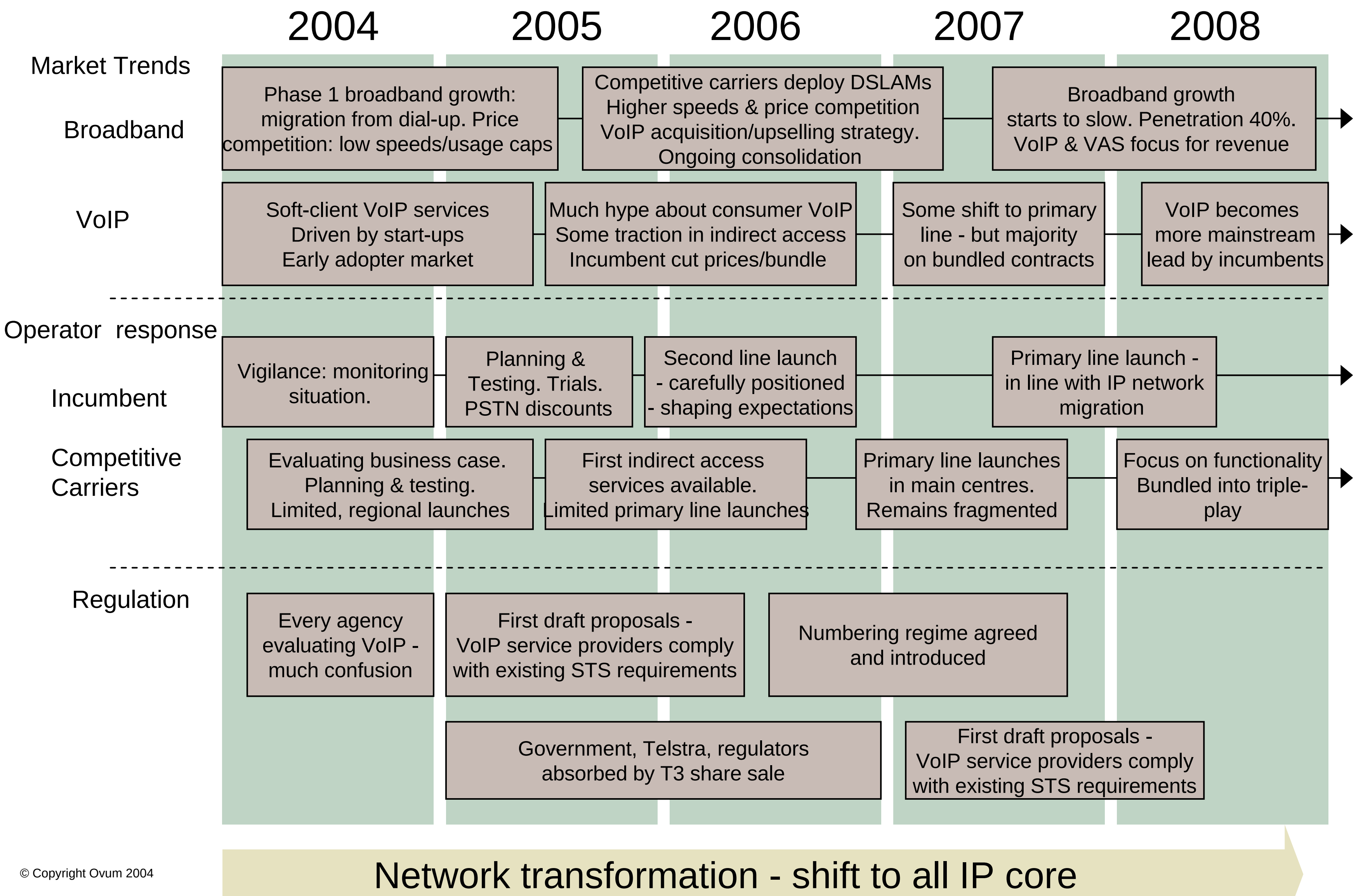
Environmental market factors

- Broadband penetration & uptake - includes standard speeds and conditions
- Level and nature of competition - degree of facilities & service-based competition
- Interconnect regime - status of carrier pre-select, line-sharing, LLU
- Regulatory environment - approach to VoIP and potential for ‘naked DSL’
- Political environment - degree of liberalisation

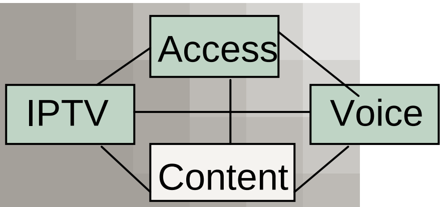
Supply side factors

- Alt-net operators face margin squeeze - VoIP new source of revenues
- Bypass incumbent origination charges - lower cost structures and improve margins
- Migrate users onto higher-value broadband/triple-play packages
- Maintaining market share and shape consumer perceptions of VoIP

Australia’s VoIP market evolution



Broadband content - the incremental revenue cocktail

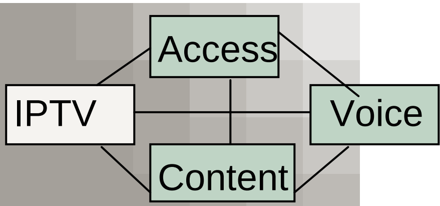


- User pays continues to be a challenge
  - Users continue to expect more for less
  - Advertising remains the portal ‘mainstay’
- Broadband creates new content opportunities
  - TV/video, multi-player games, music, sport
  - Community sites - incremental revenues
  - Protection, parental controls, security
  - Wireless VAS
  - Storage
- But beware … variation by market
  - Users will benchmark pricing against other channels
  - Scale become critical
  - Complex DRM, piracy and licensing issues

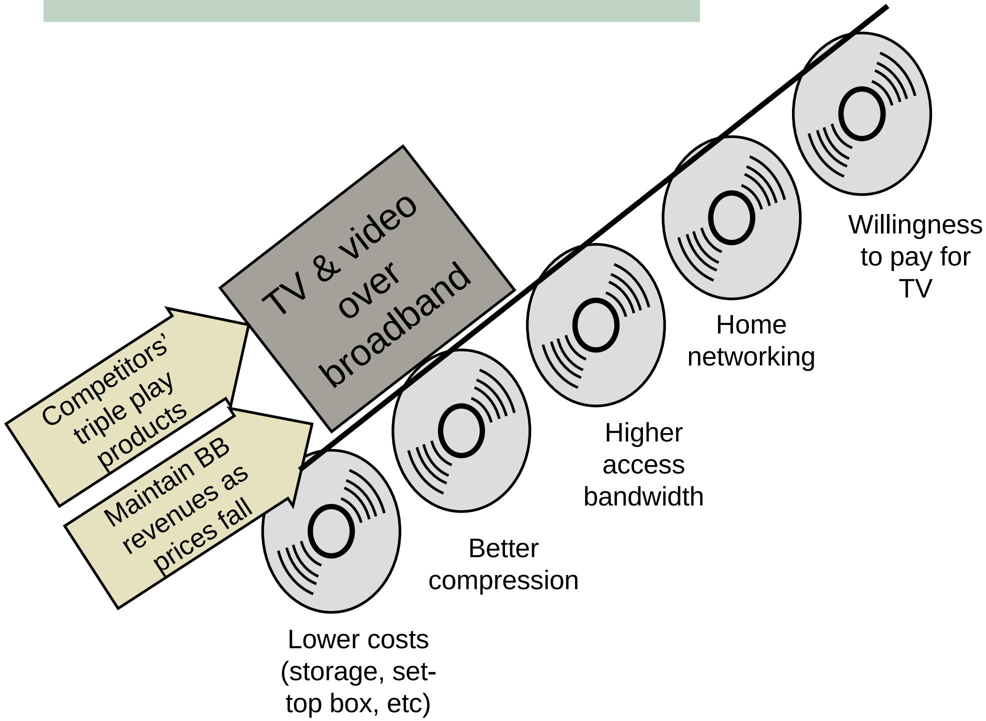
BB value-added services remain aspirational: we will not see too much contribution to ARPU in the near term. There will be a small contribution that will build over time

1H 05 Analyst briefing

IPTV - here we go again



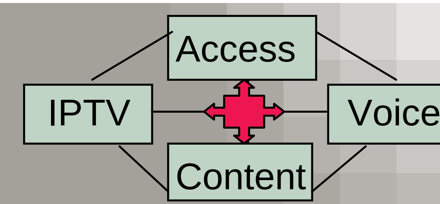
Drivers are intensifying ..
Enablers are improving ...

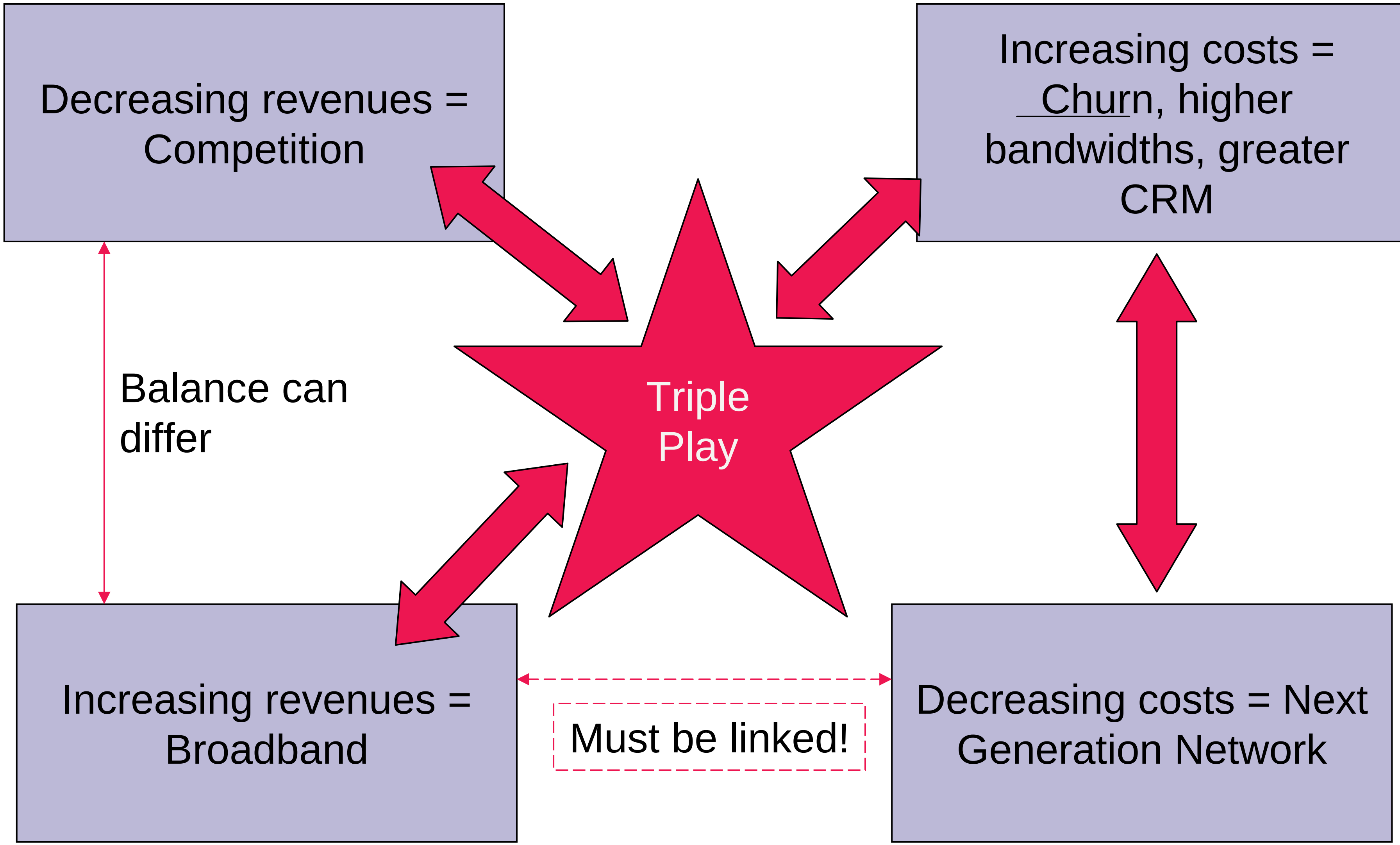


But still not a licence to print money

- Defensive strategy
  - Use TV & video to protect telephony & DSL lines of business
  - VoIP further intensifies the need for a defensive strategy
- Offensive strategy
  - Increase ARPU from broadband customer base
  - Target audiences that pay TV cannot access
  - Target broadband at non-internet users
  - Take an early lead in a young market - video on demand

Drivers for triple-play

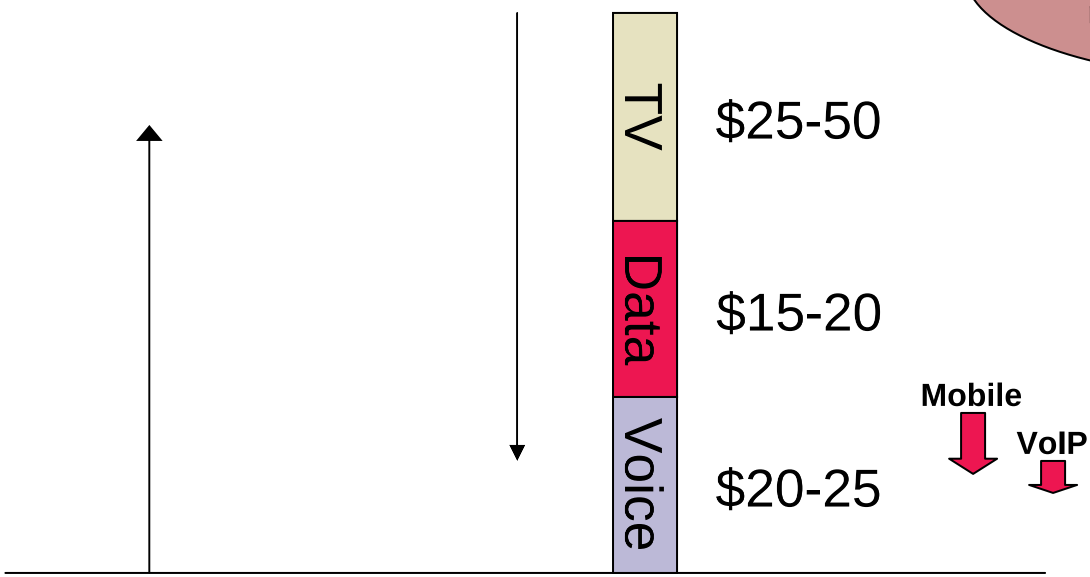




Why now ??? Lets look at VoIP

Cable operators

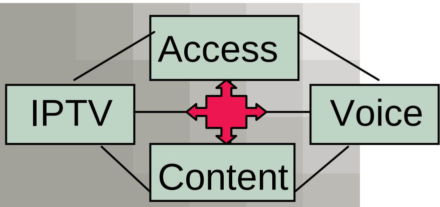
Most cable operators do not have a PSTN network. Need VoIP



DSL operators

DSL operators need to move to VoIP simply to stay competitive

Multiple service portfolio: hooking the customer

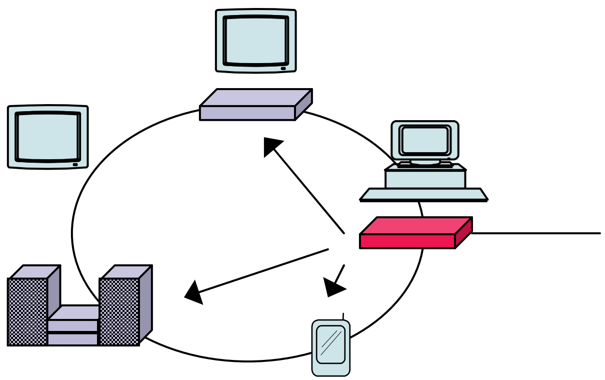


- broadband internet
- telephony: PSTN and VoIP
- digital TV
- pay per view
- gaming, music, PC-based content
- internet services: parental control etc.
- home-networking
- VoD
- messaging
- mobile

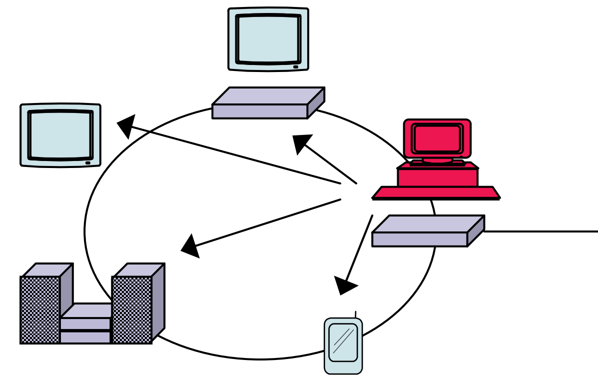
Service bundling
Discounting
Reward options

The battle for the living room challenge

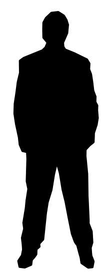
Who will own the home network?



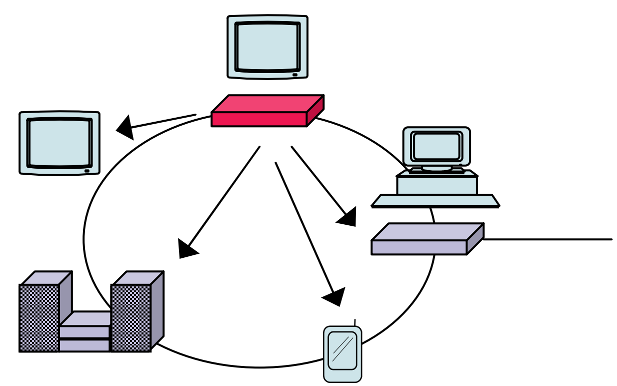
The broadband provider?



The device provider?

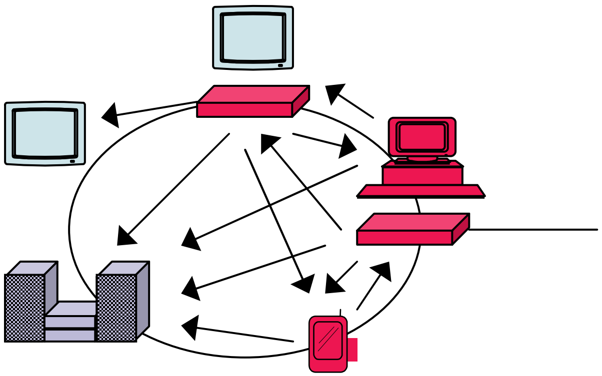


No, the home owner!



The TV provider?

Consumers want much more flexibility



Realistic?

No? Then device vendors may win

Operators must work together with industry to generate standards that will combine data and multimedia services and standards

Finding the right ‘role’ will not come easy!

Consumers do not want a walled garden, if they can jump the wall, they will!

Conclusions

Broadband is driving big strategic changes

- Australia needs to move carefully to avoid total flat-rate commoditisation of access
  - Need a la carte pricing for different consumer segments
  - Triple play assists shift of value perception from value to services
- Market launch of consumer VoIP - many things to many people
  - Driven by individual market dynamics - regulation, facilities competition, mobile and fixed premiums.
  - ‘Cheap voice’ positioning makes business case challenging
  - Market leaders respond with cheaper/flat rate tariffs, own VoIP offering and converged ‘triple play pricing.
- TVoD and IP TV - launched as part of retention/upselling strategy
  - Fair access to content key for competitive carriers
- Triple play will shift from discount to ‘converged value’ services
  - Converged pricing, trials of integrated applications

Thank you!

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