

Optus Backgrounder Rural and Regional Australia

1. Optus - background, networks and services

Most Australians are familiar with the name Optus, however few are aware of the extent of its operations and activities in Australia. It is the only new entrant integrated communications company serving consumers, business and all Australian governments.

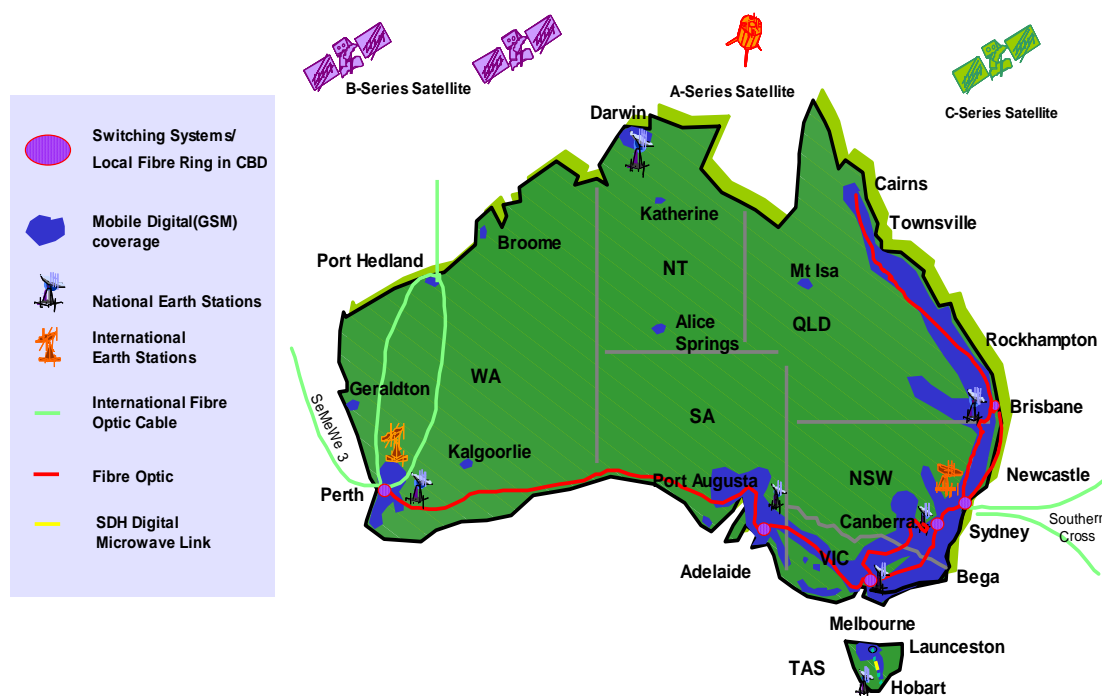
On a daily basis Optus serves more than six million customers. It employs 9,000 Australians, and generates almost \$6 billion in revenue.

Since commencing operations in 1992, Optus has invested more than \$10 billion in the construction of fixed, mobile and satellite networks (illustrated below).

The company provides a broad range of communications services including mobile; local telephony; national and long distance services; international telephony; communications services to business and government; internet and satellite services; and subscription television.

In 2001, SingTel became the parent company of Optus, paving the way for Optus to become a strong and strategic telecommunications player in the Asia-Pacific region.

Optus is divided into four major business areas - Mobile; Business; Wholesale; and Consumer & Multimedia.



The company's **Mobile** business unit has captured around one-third of the total Australian GSM mobile market and leads the market in mobile data take up. Optus also holds a national 3G licence and is working in partnership with Nokia to develop cutting-edge mobile data technology.

Optus Business is also ready for the future, with almost half its revenue now coming from data services. Optus is a leader in alternative access services, providing a new level of communications flexibility for businesses of all sizes, and to all Australian Governments.

Optus Wholesale provides services and capacity to other telcos and communications companies. It also provides services via the Optus satellite fleet, and business data services via its specialist DSL operator XYZed.

Consumer and Multimedia's pivotal strength is its unparalleled range of services and products. Australian consumers, for the first time, can choose from a full suite of sophisticated entertainment and communications products. These products include local and long distance telephony, narrowband and broadband internet access and subscription television.

2. Competition – the benefits and the challenges

Optus spearheaded competition in telecommunications in Australia when it became the second fixed line carrier in 1992 and, together with Vodafone, became one of two new mobile carriers. The Government then opened up the telecommunications market to full competition in 1997.

Competition has delivered many benefits for consumers. Prices for telephony services have declined in real terms by more than 20% as a direct consequence of competition reforms since 1997, and last year the Australian economy was \$12 billion better off due to competition.

Despite the benefits of competition, there is still much to be achieved. Telstra still retains more than two thirds of industry revenues, and over 90% of industry profits. This is because of the dominance it exerts, principally as a consequence of its ownership of the local loop; that is, the copper wire network that connects virtually every Australian home and business to the nearest Telstra exchange.

This allows Telstra to stymie competition in the many telecommunications markets where competitors need access to the local loop to provide their services, such as fixed line telephony and DSL. By contrast, in markets such as mobile, where Telstra does not retain this bottleneck control, competition is thriving.

3. Delivering services into rural and regional Australia

There are particular challenges for new entrants in delivering services into rural and regional Australia. The less densely populated an area is, the more it costs per customer to build a telecommunications network. The problem is then compounded by the fact that a new entrant begins with zero percent market share, competing against the 100% enjoyed by Telstra as the

legacy incumbent. Moreover, Telstra has an existing network, so it does not face the cost challenges of building a new network.

For all these reasons, Telstra has been relatively protected from competition in rural and regional Australia. As a result, in many places Telstra's network is not as modern and efficient as it could be.

It is important to create incentives for new technology to be introduced in rural and regional telecommunications or else people in rural and regional Australia will increasingly receive an unsatisfactory level of service.

Competition provides that incentive. Now operators like Optus introduce the latest equipment and services. In turn, the incumbent upgrades its network to ensure it is not left behind.

For its part, Optus is doing more and more in rural and regional Australia, across a variety of platforms, as outlined below.

Mobile

Optus' GSM mobile network covers 95% of the population. That has involved building over 3,919 base stations at a cost of over \$2.5 billion. Improving coverage of this network is a key priority for Optus. Since May 2002 we have built 671 new sites across Australia, 40% of those in regional areas. Over next 2 years we plan to build a further 780 new sites across Australia, 46% of those in regional areas.

Dial up internet

OptusNet dial-up internet services can now be accessed by 99% of Australians for the cost of a local call. By expanding its points of presence, Optus has brought the benefits of competition and bundling to regional Australia.

Trunk networks

Optus has laid out 8,400 kms of fibre optic cable running from Perth to Cairns, providing competitive infrastructure to many towns and providing services above and beyond Telstra's infrastructure.

Arrangements with state and territory governments

State and territory governments are increasingly recognising the potential they have to leverage off their own telecommunications purchasing needs for regional telecommunications outcomes.

The Queensland Government's SmartNet initiative is a good example.

Optus was recently selected as the preferred supplier for SmartNet initiative. By making a significant purchasing commitment, the Queensland Government has secured major fibre and DSL infrastructure upgrades from Optus in regional centres.

Satellite

In terms of rural and regional service delivery, Satellite is the jewel in Optus' crown.

Satellite is not dependent on access to cables or copper in the ground so it can reach where other technologies do not. That is why it is the natural technology to deliver advanced

telecommunications services across a country like Australia, with vast geographic areas and a dispersed population.

Optus operates four satellites that provide coverage across Australia, into Asia, New Zealand and the Pacific. Last year Optus launched its latest satellite, C1 - the world's largest hybrid military and civilian satellite.

These developments will substantially increase Optus' potential to deliver both data and broadcasting services by satellite.

Currently Optus satellites deliver broadcasting, high speed internet and advanced applications including:

- subscription TV to 800,000 customers - both Foxtel customers in the cities, and Austar customers spread across the full breadth of regional, rural and remote Australia - as well as free-to-air services throughout rural and remote Australia as part of the Federal Government's Remote Area Broadcasting Service;
- high-speed internet via satellite to 43,000 students in the Northern Territory and New South Wales;
- interactive distance learning services to school of the air students in the Northern Territory and New South Wales allowing students in isolated homesteads to see and hear their teachers online; and
- interactive distance training platform for companies such as Ford Australia who use the Optus service to train mechanics in their workshops around the country.

Optus Business Broadband in Regional Australia

Optus delivers business grade broadband to regional Australia, recently announcing an extension to its footprint. This lets us deliver premium business broadband services from more than 1,000 exchanges around the country. Optus DSL business grade broadband brings fast, lower cost broadband solutions to businesses in the capital cities, major regional centres and key rural towns.

4. Looking Forward

Into the future, Optus is committed to continuing to grow its presence in regional Australia and providing effective competition. Expansion of the Optus mobile network continues, the reach of DSL broadband services for both business and consumers increases, and, the company has recently announced the construction of two new satellites – D1 and D2.

Optus continues to work with state and territory governments to deliver rural and regional outcomes. Optus is also working with local partners, such as local ISPs, who already have reach in regional Australia, and this is a key means of expanding our regional presence.

The Federal Government plays a key role in supporting communications services in rural and regional Australia. The principal means of achieving this is through funding schemes. It is vital that such schemes are devised in a way that supports new players and new technologies, rather than entrenching the incumbent, and outdated technologies.

Optus is excited by the funding schemes announced by the Government following the independent Regional Telecommunications (Estens) inquiry.

For example, the Government is making available a total of \$107.8 million under the higher bandwidth incentive scheme (HBIS). This scheme will assist providers like Optus to offer broadband services to people in rural and remote areas at about the same cost as broadband services in the cities.

Optus is working to develop a range of solutions that are aligned with the scheme. For people and businesses outside towns, satellite is likely to be the technology of choice. For people and business in towns, technologies such as wireless local loop will be likely to provide the most appropriate solution.

Optus is Australia's leading satellite provider; a front-runner in the development of wireless broadband solutions and – in anticipation of finalisation of the HBIS scheme - is developing a range of additional products to offer to rural and regional Australians.

The potential to do more

Both on its own initiative, and with the support of the Federal Government, Optus is driving forward with its commitment to rural and regional Australia.

Optus want the opportunity to do more. Its proposal to reform the Universal Service Obligation provides this opportunity. It is a proposal that would release over \$150 million in Optus funds for the benefit of rural and regional Australia. It would enable the company to invest directly in rural and regional infrastructure and services, providing greater focus on bringing more advanced, competitive, and economical technology into the regions.