

## **MANAGING DIRECTORS' ADDRESS**

**POWERTEL AGM, 26 MAY 2005**

### *Introduction*

Thank you Chairman and good morning ladies and gentlemen.

It's an exciting time to be Managing Director of PowerTel. The company has undergone a significant transition in a relatively short period of time and the good news is the best is yet to come.

### **Slide – PowerTel Vision**

I am here today as part of the new PowerTel team because I was inspired by the fantastic opportunities in the telco sector and its challenging market dynamics, and I have not been proven wrong.

I also knew that my experience with energy utilities was a perfect fit with PowerTel's original vision of using energy infrastructure to create a telco that would offer true value for business customers.

As we say, it should be simpler for businesses to communicate with their customers.

It's this vision that makes PowerTel unique, and our 2004 results demonstrate it's a vision we are on track to achieve.

### **Slide – PowerTel's Competitive Advantage**

Before we look more closely at those results, I want to talk briefly about our competitive advantage because it is what really drives this business.

That competitive advantage can be summed up by three words: OUR OWN NETWORK

## **Slide – The Network**

The advantages of owning our network are multiple.

We can offer national coverage.

We are able to tap into key buildings through our unique access strategy, allowing us to expand our coverage through metro and greater metro areas.

It also means we can double our addressable market without the need for significant capex investment.

Most importantly for our shareholders, having our own network means accelerating returns and better margins.

## **Slide – National Fibre Network**

This map shows the breadth of our national network coverage.

## **Slides – PowerTel's Competitive Advantage**

I mentioned a moment ago our access strategy, and this map of Sydney shows you exactly what that strategy means in terms of reach.

Our network of fibre infrastructure connects our voice and data services to over 600 buildings within Sydney, Melbourne and Brisbane CBD's.

We were the first to deploy a large scale multi service ATM network.

This gives us end-to-end management of service provision to our customers and an ability to directly control quality.

## **Slide – Access Strategy to Key Buildings**

As you look at this diagram, our access strategy looks highly technical and complicated, but it's really not.

Quite simply we use the electricity utility duct network to enter the building and directly connect our customers to PowerTel's services.

## **Slide – Metro Access**

Every week and every month we are expanding our access in metropolitan areas.

These two maps show Sydney on the left and Melbourne on the right.

Our access to new areas is through DSL and expansion is driven by the acquisition of new customers. We roll-out new exchanges to meet demand.

DSL is a technology for bringing high-bandwidth information to businesses over ordinary copper telephone lines

More specifically DSL provides a separate channel for voice and IP, which means that phone calls and data can be carried at the same time high-speed data is flowing across the line.

This is an incredibly efficient use of the existing copper network, paid for by telephone users many times over, that has been under-utilised for years by Telstra

The fact we own and manage the network makes DSL highly cost-effective for supplying Voice and Data.

## **Slide – Expanding Metro Access**

I referred earlier to the potential to double our addressable market for an incremental capex investment.

You can see from the highlighted areas on the map PowerTel can significantly expand its reach for incremental capex.

I should also point out that while this slide shows only Sydney and Melbourne, the planned footprint expansion for Brisbane, Perth and Adelaide has been completed.

### **Slide – Gross Margin Comparison (two slides)**

The diagram above shows a typical link between two office buildings.

For this example we have assumed that the customer is connected through our DSL network in the metro locations of North Ryde in Sydney and Carlton in Melbourne.

Most tier 3 communications companies and ISP's need to purchase fibre connectivity from a third party to enable them to connect the customer back from their DSLAM to their actual network.

PWT in 45% of cases has its own Fibre. This makes a tremendous difference to our margins.

I've emphasised today the great advantage of PowerTel owning its network, and this graph clearly shows just how important that advantage is to the bottom line.

These are compelling figures which show the clear financial benefits of having our own fibre network.

### **Slide – Benefits of Network Ownership**

To sum up the benefits to PowerTel of network ownership, it's all about control.

It gives us control over the total service delivery process to our customers.

Importantly it gives us control over pricing and the offering we take to market.

It allows us to develop products to meet customers' requirements and demands.

The end result is it provides our customers with an intelligent, reliable and cost-effective product.

### **Slide – Major Events and Results for 2004**

I would now like to take you through the highlights of the year, in respect of both the transition we have undertaken within the business and our performance in 2004.

### **Slide – Major Events in 2004**

There were some important developments for the company last year and these can essentially be summed up in three key areas:

- Strategic acquisitions;
- Optimising the way we take our services to market; and
- People

### **Slide – Strategic Acquisitions**

It's an old cliché, but a company like ours can't grow by standing still.

We have made no secret of the fact that we are always on the look out for potential acquisitions which complement our business and, critically, improve our operating leverage.

The recent acquisitions of Request Broadband and NTT Australia IP are a great example of how this strategy is working.

The smooth integration of people, network and channels following these acquisitions has boosted total services on the network by more than 300%.

Request and NTT Australia IP also brought with them a strong data product base which has enabled us to continue our shift away from more commodity-based voice products into high margin data and Internet products.

The complementary nature of Request's data strengths and PowerTel's voice products has opened up new growth opportunities with existing and new customers.

Our exchange network has doubled and we have been able to expand the range and type of companies that we target.

The success of these acquisitions is proof that by targeting the right opportunities at the right price – and then smoothly integrating those opportunities into your business – the rewards will flow.

## **Our Market**

The second significant achievement in 2004 is that we continued to optimise the way we are taking our services to market.

We have sensibly rationalised our channel partners in order to maximise growth opportunities.

These opportunities are through both direct and indirect sales channels.

We are actively up-skilling our channels to sell voice services to our existing data customers.

The premise behind this is that the easiest customers to reach are the ones you already have.

PowerTel has a track record whereby 50% of our customers use more than one of our products.

The fact that the acquisition of Request and NTT Australia IP brought us in over 8,000 new data customers presents us with a great opportunity to cross-sell voice services to these customers.

### **Slide – Greater Management Depth**

I have mentioned the word “infrastructure” and its importance to the business a few times today, but make no mistake, we are in a people business.

A clear focus on delivery and customer service is critical in such a highly competitive industry as ours.

Over several months we have put in place a new team of people which is an ideal blend of experience and new blood.

In my view we have made an already high performing team truly outstanding.

People like Nick Saphin, our new Director of Sales, whom I have known for some time and can count on to achieve results.

Our new Director of Network and Technology, David Yuile, has ‘been there and done that’ during his time as CEO of 90 East and CEO of Peakhour.

Another is James Orlando, our new Chief Financial Officer, whose 18 year telecom finance career spans the Asia Pacific and the United States.

These people are just an example of PowerTel’s future.

The contributions they have already made, along with those of their colleagues, are having a positive impact on our performance.

### **Slide – Profitability Enhanced**

So as you can see 2004 was a pivotal year for the company.

I would now like to take you through some of the financial details from the past 12 months.

I should also let you know we have produced some handouts summarising this information and they will be available at the back of the room once we break for tea and coffee.

It is pleasing to say our profitability picture was enhanced during the year.

As you can see from this table comparing 2004 to 2003, EBITDA, gross margin and revenue increased significantly.

We increased our EBITDA from \$10.3 million to \$22.8 million, a jump of 121%.

Gross margins rose 55% to \$77 million. As I mentioned earlier, this shows the value of owning our own network.

Total revenue of \$166 million was a 39% increase on 2003.

The underlying performance of the business is strong and getting stronger.

### **Slide – 2004 Financial Overview**

I won't dwell on the finer details of this table, but this shows the key line items in our financials, again comparing 2004 to the previous year.

## **Slide – Greater operating leverage**

Our strong financial performance in 2004 was achieved through greater operating leverage.

This is shown by substantial increases in both EBITDA as a percentage of revenue and revenue per headcount. This increase in operating leverage is being driven by our acquisitions and by organic growth.

EBITDA as a percentage of revenue increased from 9% in 2003 to 14% in 2004.

The other clear statistic here is that we are making better use of our operating capacity and our people.

The gains we have made in operating efficiencies and productivity validate our strategy.

In number terms the value to the company from these improvements is real - our revenue per headcount rose from \$0.47 million to \$0.55 million over the year.

## **Slide – More customers, more services**

Our overall aim is simple – we plan to keep on growing and to do that we must continue to provide more services to more customers.

To achieve this we are focusing on three areas.

Firstly, we will continue to acquire new business customers, initially from within our network coverage areas.

Secondly, we will pursue further acquisition opportunities that fit our criteria for achieving operating leverage.

And finally, but importantly, we will continue to seek up-sell and cross-sell opportunities within our total customer base.

The numbers on this slide speak for themselves.

1. New business rocketed  
We added 8,500 new customers, including a significant number of customers from the big end of town. This is a vast improvement over our 2003 results.
2. Service delivery tripled  
The beauty of owning our own fibre and DSL network is that the more customers we have the better we utilise the network and the greater the return. The total volume of services delivered on our network more than tripled, from 6,700 in December 2003 to 27,000 in December 2004.
3. Poised for greater expansion  
With a 41% increase in channel partners from 2003 to 2004 we are well on the way to continue expanding our customer base.

### **Slide - Improved revenue split**

One of the most pleasing aspects of 2004 was our ability to re-balance our product mix away from voice to a better combination and higher margin voice and data offering.

The acquisition of Request has helped us to achieve this.

It is significant because data and Internet products are experiencing rapid growth and offer higher yield than voice products.

The charts shown here demonstrate we have achieved a stronger shift toward data revenue.

### **Slide – Platform for future growth**

The initiatives we undertook in 2004 have laid the groundwork for a stronger, more competitive and more profitable PowerTel in the future.

### **Slide - Debt Refinancing – Benefits**

An important achievement in quarter 1 of this year was the refinancing of our \$54 million debt facility.

It is significant that one of the big four banks, Westpac, wanted to be PowerTel's banking partner because it shows great support for your company and the strength of its future.

The refinancing involved streamlining the company's financing arrangements from six banks to one.

This will bring a sharper focus to delivering on our financing requirements, as well as enhancing our ability to pursue future acquisitions through greater flexibility and an ability to act much more quickly on deals.

### **Slide – Q1 2005 Results Summary**

Our results for the first quarter to 31 March 2005 show continuing strong customer growth and a 35% uplift in revenue compared to the previous corresponding period.

Highlights of the result include:

- Revenue of \$46.3 million, an increase of 35% from \$34.3 million in the previous corresponding period;
- EBITDA increased to \$6.1 million, up 53% from \$4 million in the previous corresponding period;
- Continuing strong customer growth with the addition of 290 customers to PowerTel's national network; and
- Continuing strong growth in revenue mix, with data contributing 60% of total revenue, up from 53% on the previous corresponding period.

## **Slide - PowerTel Financial Growth**

You can see from this table we are forecasting both revenue and EBITDA to continue to grow strongly in the first half of this year.

This table shows a significant improvement in our financial position when you compare this year's forecast performance to the same period in 2004.

## **Slide – Future Growth**

We will continue to achieve pleasing results by staying true to the strategy.

That strategy can be broken down into four key components:

1. Maximising our operational leverage;
2. Shifting the revenue mix from voice to data;
3. Growing customers; and
4. Broadening our focus to market.

## **Conclusion**

I have stated previously that to achieve your goals once may be seen as luck.

To do it a couple of times might be a lucky streak.

But to consistently increase profitability in an extremely competitive market every year for four years says we are doing things right.

And, just as importantly, that we are doing them better each year.

The good news is the best is yet to come.

We still have extra operating capacity in our network.

The full advantages of our recent acquisitions are yet to flow through to our bottom line.

There is enhanced capability in our new senior management team and the wider organisation, and this will increasingly be seen as an advantage by the market.

As Managing Director, my goal is to uncover the untapped potential within PowerTel so that we may realise even greater success in the future.

There is no doubt we are heading in the right direction to achieve this vision.

Thank you.