



Pan Asian Wholesale Market Evolution

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Good Morning Ladies and Gentlemen. I'm Peter Dutton, the Director of Data Marketing in Reach.

It's a pleasure for Reach to be the Gold Sponsor of this UnifiedCommsInternational conference... and I trust that the various speakers and workshops over the next few days are sufficiently enlightening and thought provoking to help make your attendance a fruitful exercise.

For those of you who are not yet familiar with Reach, we are the result of Telstra and PCCW combining their international wholesale businesses and assets.

This has provided Reach with an existing substantial business that Telstra and PCCW established to drive growth in the international wholesale market, specifically focused on Asia.

I'll go into more detail a little later but, in the meantime...



State of the Market - What Happened

**After 130 years of regulated, predictable growth...
several events collided in the 1990's**

- **Deregulation**
- **The Hype**
- **Investment Boom & Bust**
- **Supply**
- **Industry responses**
- **Some recommended solutions**

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Over the next 30 minutes or so, I'm going to present Reach's view of the evolving and changing wholesale market in Asia - under these broad headings.

Deregulation

Hype

Investment

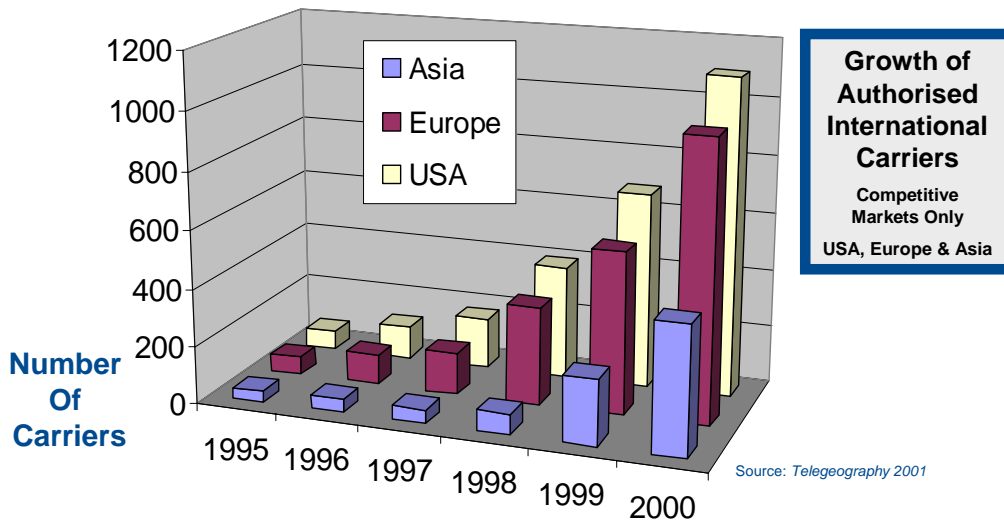
Supply

Industry responses

Some recommended solutions for carriers in the future



What Happened - Global Deregulation



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In the late 1990s and several years earlier, particularly in Europe, we saw accelerating Deregulation & Competition as depicted by the slide above.

This resulted in opening of markets to competition and the rapid lowering of barriers to entry to new markets.

What then attracted carriers to these new markets ?

Carriers saw potential for growth outside their increasingly competitive markets, seemingly especially in the case of Asia, double digit EBIT growth in the incumbent carriers; and, mistakenly for most, the view that Asia is a homogenous market.



What Happened - the Hype

"The Internet Changes Everything" - Chairman of prominent industry vendor

"See a video of potential rental property over your mobile phone!" - Cellular vendor

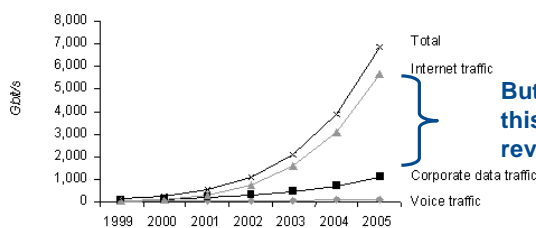
"IP Address for your Microwave oven" - Home networking company

"Portals Make Splash in Local Commerce" - Analyst Predictions for 1999

"On-Line Advertising Sizzles" - Analyst Predictions for 1999

Statistics from major 1999 analyst report quoted in business plans around the industry...

"Revolution not evolution!"... "These forecasts will not be realised without Internet video...but developments in IP will **this time** lead to commercially successful video applications." - *Global Telecoms & IP Markets, 2000*



But... few ever asked how this new traffic drives revenue

REACH

Almost coincidentally with the deregulation of many markets we saw the emergence of the Internet...and the resulting hype along the lines of these headlines:

Internet changes everything,

Video is the killer application,

Portals make a splash, online advertising sizzles...

Well the model that was anticipated to drive this growth simply has not emerged....

From a users' perspective, it is increasingly obvious that the maximum \$ per byte is gained from personalised point to point messaging services - and the lowest is for mass produced, replicated content.

Consumers don't want a multiplicity of financial relationships or portals that don't effectively reflect their own lifestyles. They want personal services that provide value.

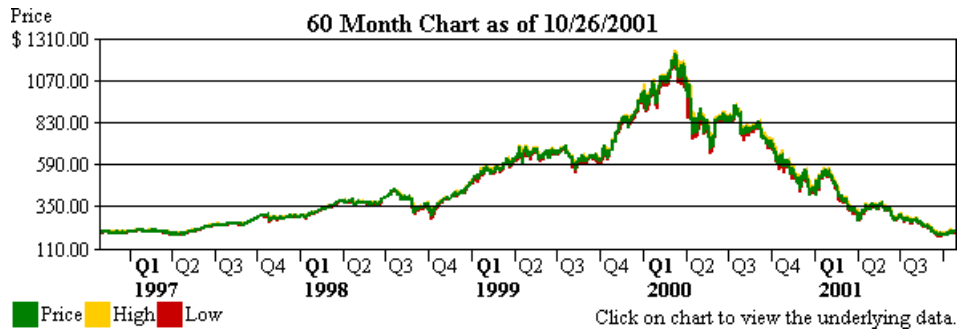
We have seen success in using the Internet as a business enhancer, but rather than drive massive growth it has simply made the supply chain more efficient.

Corporate data has tended to grow very quickly domestically but at much more conservative rates internationally. The continued success of frame and to a much lesser extent ATM is a testament to this.

We are still waiting for killer applications to emerge that will not only drive growth in bytes but growth in value to the customer flowing on to growth for major international carriers....



Investment Boom and Bust



Source: NASDAQ Telecoms Index

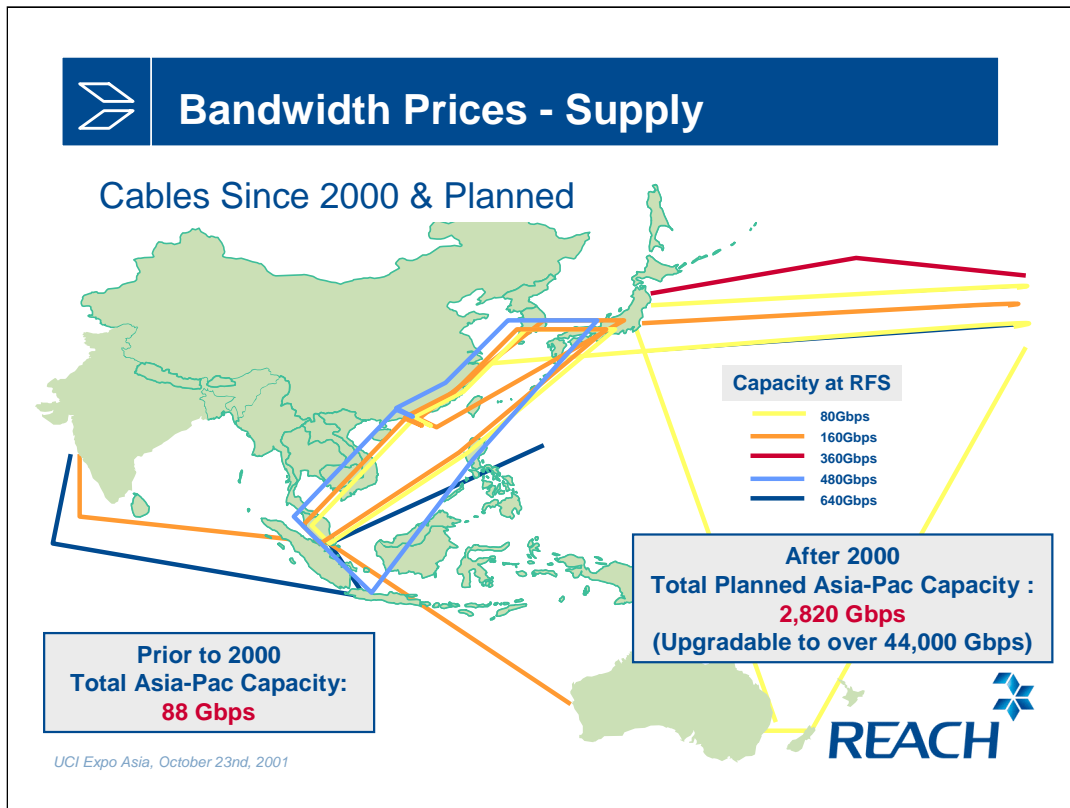


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With deregulation, liberalisation and the Internet hype we saw great investor interest with an expectation of supra normal profits...

Well as we can see from the NASDAQ graph there was a massive inflow of capital as these three factors truly excited investors...

That cash inflow and access to new markets drove the next phenomena...



Supply...

What then are then the consequences of this massive increase in supply and the non emergence of expected demand?

Firstly, the forecasts of endless exponential demand growth for bandwidth that were being made a couple of years ago have turned sour, as the new customers of the infrastructuralists - the internet companies - failed to generate as much traffic as had been hoped.

Those same companies are now also facing financial difficulties, and cannot afford to pay for the bandwidth.

Secondly, broadband local access has been much slower to take off in every country, with the possible exception of Korea.

Thirdly, I believe many business plans did not take sufficient account of the number of competitors who emerged around the same time.

Fourthly, and putting it simply, there was just too much money available to be borrowed, which stimulated an excessive number of competing infrastructure projects and a pace of growth in supply which far outstripped demand.

Telecoms companies have run up colossal debts. Their market values have collapsed and many have filed for bankruptcy.



Asia Industry Consequences

- New focus on Cashflow
 - >> short term price dumping ?
 - New focus on capital efficiency
 - >> focus on core business and defend home markets
 - Slowdown in global network buildouts, market withdrawal and possible failures
 - >> focus on end to end services, not point to point networks
 - Partnering, not alliances
 - >> strong emphasis on relationships
 - >> Local market knowledge, global economies of scale/scope
- Nature of Wholesale markets will change
- >> more than just capacity
 - >> service delivery and channels to market

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What then are the likely consequences and challenges we will all face in 2002 and beyond? While it is certainly true that growth has not matched the levels which were being forecast two years ago, we can take heart that our industry is still growing at a rate which would make most other industries extremely envious.

We will continue to be faced with another period of uncertainty, but the next 12 months will also be a time of consolidation.

Some companies will not survive and there will be a flight by customers to stability and quality which will make life even more difficult for the recent entrants, but will give some relief to well-established carriers, especially incumbents.

Will dumping become an issue for operators and possibly regulators alike, not to mention investors? Possibly... but the likely result is that customers are likely to see very positive benefits if they select the right wholesale carrier... but rationalism must resume as capital markets desert those not focused on shareholder value...

There will certainly be a focus on capital efficiency which will tend, I believe, to lead to a situation where carriers will go and "defend the fort". They will focus on their core business and look after their existing customer base.

It's not unreasonable to speculate that the wholesale value chain will alter as retail-oriented carriers still require international services, even if Asian operations become the victims of internal and external capital rationing.

Partnering will become a major focus. Reach does not intend to venture into building networks outside Asia; we will continue our relationship model and continue to grow our data product range with our partners.

Wholesale markets will become service delivery-oriented and better use will be made of channels to market, as specialisation and focus help defend existing revenue bases.

What will ensure success for wholesale carriers?



Key Success Factors

- **Absolute focus on cost structures;**
- **Strong network based products and services;**
- **Ability to partner in order to provide seamless end to end global services;**
- **Offer Service Levels, not just a facility for rebates;**
- **Partnering to provide business enablement services such as security and systems integration;**
- **Local market knowledge;**
- **Excellent customer support services.**

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Source:Ovum



Ovum has provided, I believe, an excellent list of factors that the new world wholesale carriers will need – certainly many of these points are key to Reach's product and service strategy.

- Absolute focus on cost structures. Economies of scale will dominate the ability of operators to finance new services.
- Strong network-based products and services.
- Ability to partner in order to provide seamless end to end global services.
- Offer Service Levels, not just a facility for rebates.
- Partnering to provide business enablement services such as security and systems integration.
- Local market knowledge will be absolutely key to delivering those seamless global services.
- Excellent customer support services.



I know everyone was expecting a Reach sales pitch – so I won't disappoint you.

Reach is going to weather the storm and we will grow our business into the future by leveraging our key strengths of quality, stability, ubiquity in Asia and our ability to deliver value for money. We believe we have the resilience, experience and focus on quality and service to help our customers prosper.

Reach will take its experience in managing a wide portfolio of assets and creating a range of services for our wholesale customers to offer to their retail customer bases. We will work with the full spectrum of wholesale market participants and that includes incumbent carriers, challengers and the whole range of service providers including ISPs, mobiles and the like.

We believe the key to our success is to continue helping our wholesale customers grow their business by being able to offer one-stop-shop services at the retail level. If that interests you, then we'd be delighted to meet you on our stand at this conference.

In the meantime, I trust my comments over the past 20 minutes or so have provided you with some thought-provoking material.

I'd like to think they will help you focus on what went wrong in the Asian wholesale market and the lessons to be learned.

There's little doubt that much of the turmoil of the past two years was self-inflicted by those who are either no longer with us or are seriously, and appropriately, considering their future.

Thank you for your attention, and if anyone has any questions, I'll be happy to respond in the time we have left...