



**John Porter
CEO AUSTAR**

Address to the NSW Farm Writers' Association

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Thank you for inviting me to address you today. As a strictly regional company, we are fully aware of, and value, the contribution that regional journalists make to the Australian media. We love the regional markets that we operate in, which are without a shadow of a doubt, our markets of choice. New South Wales is one of our more diverse markets, stretching from urban Wollongong and Wagga Wagga, to the coastline areas and the north-west farming corridors.

AUSTAR is the leading subscription television provider in regional and rural Australia, with more than 710,000 residential and commercial subscribers, which means our service is seen by over two million viewers every day. Established in 1995, AUSTAR services an area of approximately 2.4 million homes, one-third of Australia's total homes, primarily using digital satellite technology.

2008 has seen AUSTAR continue to entertain, educate and inform regional and rural Australians. AUSTAR Digital now includes over 120 premier channels, a near video-on-demand service, and increased levels of interactivity, such as BOX OFFICE, Sports Active, SKY News Active and Weather Active. Whether it be the latest in live sports, award winning Australian dramas, or our highly regarded news and documentary channels, more regional and rural Australians are now tuning into AUSTAR's 'must have' television.

2008 has also seen the launch of MyStar, AUSTAR's personal digital recorder, which has revolutionised television across our market. MyStar is all about personalising your television experience: see what you want, when you want. Importantly, with the Australian Government's recent announcement of the timetable for digital switch-over, MyStar is the gateway to digital television for regional Australians, its two free to air digital tuners allowing customers access to local free to air digital channels as well as our satellite channels

AUSTAR has also looked to innovate in other product areas. We offer internet and mobile telephony services to our customers and we are determined to find an effective way of providing quality broadband services to regional Australia.

In regard to broadband, our focus has always been on the significant role that wireless services can play in providing affordable broadband services to regional areas. We have invested more than A\$180 million buying spectrum licenses which are ideal for the internationally recognised WiMAX standard. We own significant licenses of contiguous spectrum in the 2.3GHz and 3.5 Ghz spectrum bands within our regional service area.



AUSTAR's investment in spectrum was based on our belief, supported by customer feedback, that our television customers would value the ability to purchase and bundle multiple products from AUSTAR, and that we could deliver new services efficiently given our best-in-class customer service facilities.

However, our broadband history is a good example of how global circumstances and government policy can have a huge impact on service delivery in regional Australia.

Our original plans were scuttled by the dotcom crash, and the tightening of capital markets that followed. Many technology vendors working in the wireless area also had to change their plans for the same reasons so technology development took longer than expected. In 2006, AUSTAR commenced a phased roll out of wireless broadband services, launching services in Wagga Wagga and Tamworth. We stopped our rollout when the previous government announced the Broadband Connect Infrastructure Program. In response, we established the AUSalliance consortium with Unwired and SOUL and presented a compelling regional broadband solution which blended fibre, WiMAX and ADSL2+ access technologies.

Unfortunately we didn't win that bid, the Optus - Elders partnership, OPEL, did. The goal posts were moved when the money granted to OPEL was increased to nearly \$1 billion, so we kept our plans on hold to work out how a \$1 billion cash grant to a competitor would impact our rollout. Ultimately, we decided to join forces with OPEL, selling them our spectrum licenses, which would have seen an excellent service which would be providing new and innovative broadband services to regional Australia as we speak. Unfortunately our deal fell over when the new government cancelled the OPEL contract. As it stands, regional Australians face a very uncertain broadband future; but more on that later.

Changes in the media and telecommunications sectors in Australia

Structural headwinds are real in Australia. Media has evolved to be about much more than the local newspaper or television station. There are two main forces driving fragmentation: first, new types of media, with online and subscription television just two examples; and second, the emergence of new technologies which is fragmenting audiences and changing media consumption habits.

Advertising spend also supports the continual shift to new media, with online and subscription TV yet again widely forecasted as the only media mediums to grow their advertising revenue in 2009.

While consumers are happy to experiment with new content and new media, they continue to value traditional video entertainment such as movies, sports and other TV shows watched in linear channel format. Even young viewers are still avidly watching traditional TV while also eagerly trying out new options, including video-sharing sites such as YouTube. Their habits are changing, but it may take ten to fifteen years for the demographics to flow through and have a large effect on the mass market.

A major change with younger people is that they are the multi-tasking generation, watching television at the same time as texting, surfing the internet, speaking on an instant message service, playing games and so on.



And while AUSTAR will face the increasing pressure of competition from new services just like everyone else, we do so with a business model that is based on continual reinvestment in an ever improving product. The beauty of the subscription television model is that our growth has allowed us to continually increase payments to our channels on a per subscriber basis, and yet our channels do not see their costs increase in the same way. As a result, the platforms work with the channels in a virtuous cycle of continual reinvestment in quality content: the more money we pay the channels, the more money they can spend on quality and exclusive content which attracts more new customers and increases satisfaction of existing customers

This continuous improvement on the back of our continuing growth contrasts with the dilemma faced by the free to air networks, increasingly cash-strapped, facing negative revenue growth, but the prospect of increasing their cost base to populate digital multi-channels that will pull eyeballs away from their main channels which may then impact the premium they can charge for their advertising.

As the Chief Executive Officer of the Nine Network, David Gyngell, admitted yesterday, digital multi-channels will negatively impact both the quality of programming and the profit lines of the broadcasters.

Several alternative scenarios are possible for the speed and nature of change in the next five years, and my crystal ball is perhaps as useful as the next media executives. Nevertheless, I will commit to the following:

- Technology evolution, innovation and competition will deliver to the consumer unprecedented power and choice;
- On-demand media consumption will be a key driver of growth, as consumers become more used to more control: personal digital recorders and time shifted viewing will become the norm; but regardless of this, traditional “lean back” mediums, such as TV, will remain the preferred choice. Whatever it is possible to do, most consumers will prefer to “lean back” rather than “lean forward” and continually interact with their entertainment;
- Even so, traditional content players will be forced to raise their game: Competition will increase dramatically with the entry of new players including telcos offering more and more content services via the Internet; this of course presumes that broadband services, bandwidth and scalability continue to improve.

It is also important to note that while content creators will want to exploit all of these different content delivery options, or ‘windows’, they are also aware of where the bulk of their revenues come from, and no-one wants to kill the goose that lays the golden egg.

For AUSTAR, while today our main product is satellite television, we are in essence a retail, marketing and customer service company with an in depth understanding of regional Australian customers. We have a fantastic and highly scalable customer service infrastructure which we want to leverage to provide more services to our customers, and we see On Demand services a



key part of our future, whether delivered via our traditional satellite infrastructure or by our own broadband service.

National Broadband Network (NBN)

Of course this brand new world of On Demand content and amazing services does require broadband networks that are much improved on what we have today.

AUSTAR believes that access to, and the reliability and quality of internet and broadband services to regional, rural and remote Australians is inadequate in comparison to their metropolitan counterparts.

Recent data from the Australian Bureau of Statistics highlight the state of internet and broadband uptake in regional, rural and remote Australia. The findings show that regional and remote areas are at least 40 per cent less likely to have broadband access relative to major cities.

Everyone agrees that broadband is an enabling technology which will have a significant and profound influence on Australian society. True high speed broadband is not just about content services or being able to surf the internet more quickly; it is critical for business, for health services, for both private and public sectors, and policies developed should encourage the provision of affordable broadband access to all regional Australians.

AUSTAR has always been a strong advocate for policies which encourage competition, as we believe these will ultimately drive investments in telecommunication infrastructure benefiting all regional Australians.

We do believe that the OPEL network would have delivered significant advantages to regional Australia. Having terminated the OPEL contract, it is incumbent on the government to ensure that its current National Broadband Network will deliver an even better outcome for regional markets, and this is where I do have some major concerns.

The NBN initiative is an opportunity to banish existing access limitations and create a competitive retail environment, however if all it does is enshrine Telstra's de facto monopoly in regional areas, then everyone will in fact be worse off.

Given the significant public investment involved, the network built with the NBN funds must be separate to the downstream wholesale and retail operations. Separation must provide:

- a distinction between the network and other operations;
- active independent oversight and enforcement; and
- true service equivalence on all terms and conditions, including price.

There must be a very specific and fair access regime that allows retail competitors access to the NBN network.

There are huge difficulties in building competitive telco networks in regional areas, I know, I have been trying to make it work for 8 years. This is clearly why governments of both hues have



put in place massive funding programs to assist; but having done so, we must ensure that everyone gets to benefit fairly. Even if there cannot be competition at the network level, having effective and fair competition at the retail service level will drive innovation and competition in products and services that are critical to the broader economy.

AUSTAR will continue to monitor the NBN developments and what happens to the regulatory regime. We would like to be access seekers and provide competitive services over the NBN, potentially leveraging our WiMAX spectrum in regional Australia. AUSTAR's future participation is based on the delivery of a satisfactory regulatory environment.

Digital switchover

Another significant change that will soon impact on regional markets is the planned switch-off of analogue television services. The government's timetable will see regional markets as first cab off the rank, with Mildura to be switched off by 30 June 2010, other markets to follow.

Digital television brings huge benefit to viewers, as AUSTAR customers will attest. It brings with it clearer pictures, better sound, and importantly the ability to offer a range of interesting features, such as an electronic program guide and interactive opportunities.

Research released by the ACMA earlier this year (April 2008) confirmed that only 42 percent of Australian households are watching digital television. Amazingly, this figure does not include those Australians receiving digital TV through subscription television. Including our services actually boosts the figure to 54%.

The lack of any real investment in the marketing and promotion of digital television by the commercial free to air networks to date is in stark contrast to the manner in which the subscription television sector has invested in and driven the uptake of digital services. Just by way of example, FOXTEL and AUSTAR completed one of the fastest digital roll-outs in the world, converting their entire analogue base of customers to digital in less than three years. Our sector is a significant driver of digital television take-up – consistent with other subscription television contributions world wide.

AUSTAR spent in the region of \$21million in marketing costs over an 18 month period following the launch of its then new AUSTAR Digital service in March 2004. This was dedicated to convincing our existing customers to migrate across to the new service by demonstrating the immense benefits of the new digital services. This cost was in addition to the substantial on-air campaigns that AUSTAR and FOXTEL ran in order to advise viewers of the benefits of digital services.

There has been little visible marketing of the benefits of the FTA digital services by the FTAs other than some recent on-air promotion of certain high definition services and its launch of the Freeview brand. Given the FTA's ubiquitous position in Australian households and free provision of spectrum, we find the limited promotion of digital TV services by the FTAs astounding.

AUSTAR launched its new personal digital recorder, MyStar, to new customers in February this year. An Australian first, MyStar contains two digital free-to-air tuners which enable viewers to



watch their local, digital free-to-air channels seamlessly without having to purchase a separate digital set-top box. With live pause, live rewind, and recording functionality for two programs while reviewing a third, MyStar also provides viewers with the opportunity to record entire series.

2008 will see AUSTAR spend approximately \$4 million to launch, educate and maintain awareness of MyStar amongst our customer base and throughout regional Australia. AUSTAR believes it is critical to demonstrate and market this product and as such we are committed to doing our part to get more customers experiencing the benefits of digital TV.

We would hope that the government will clearly recognize this investment and commitment to digital when next year they commence spending millions of taxpayer funds to tell people about switchover.

Conclusion

Regional Australia is an exciting market for AUSTAR, it is our market of choice.

The growth opportunities, the willingness to embrace new services, the general attitude really works for us.

But there is no doubt that there are challenges being a service provider to regional areas, and where the government gets involved we have to make sure that this involvement helps the process rather than harms it, that it encourages innovation rather than reinforce a non-competitive status quo.

The National Broadband Network is an amazing opportunity but if it is built without structural separation between it and the retail arm of the company building it, and without clear access rules, the risk is that it will not lead to a major improvement in broadband services, and the innovative services which regional Australia truly deserves will be held back even longer.

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