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Update on Guidance & Strategy

Open Briefing interview with MD Clive Stein

amcom
T E L E C O M

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In this Open Briefing®, MD Clive Stein talks us through Amcom's updated guidance and strategy.

- Amcom guiding FY10 NPAT growth of 30 per cent with at least 20 per cent from operations
 - Amcom's balance sheet will be in a net cash position with significant capacity for growth
 - Amcom outlines the trends and areas of further opportunity in the fibre market
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Record of interview:

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At Amcom Telecommunication's recent AGM, you provided guidance that NPAT growth for FY10 from operations would be a minimum of 20 per cent. How is Amcom going to achieve this growth?

MD Clive Stein

We are expecting our bottom line reported earnings in FY10 to deliver a minimum increase of 30 per cent over FY09, with our underlying operational result having anticipated NPAT growth of at least 20 per cent.

The main driver of our operational growth is the continued strong demand for fibre network products. Fibre is now essential for most businesses and Amcom is well placed by having the right assets at the right time to leverage this demand.

The strong growth in the second half of the last financial year is now flowing into FY10 revenues. We finished 2009 with an annualised billing base of \$50.8 million. This growth in our billing base, coupled with a relatively flat cost structure, means the incremental revenue growth flows to the bottom line.

The earnings growth of many businesses stalled during the GFC. In 2009, Amcom increased its revenues by 20 per cent and NPAT from wholly owned operations by 38 per cent. Overall we believe our business is resilient and well placed to achieve our guidance for our operating businesses.

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Following the conversion and cancellation of the AMMO options, Amcom's net debt will be paid off leaving the company with net cash. What level of gearing would you seek to maintain over the medium to longer term, and how do you intend to deploy the balance sheet strength?

MD Clive Stein

With the cancellation of a portion of our options and underwriting of the majority of the balance we anticipate having between 690 million and 730 million shares on issue. In cash terms we expect approximately \$21 million in net proceeds to be received and be in a net cash position in January 2010. At the end of FY09 our balance sheet gearing was 11 per cent and we consider these levels as being appropriate for our business. Our re-capitalised balance sheet provides us with significant capability to accelerate the growth of our business.

We are currently investing in growth capex on new customer connections to our network, which are delivering superior internal rates of return. There continues to be numerous opportunities for us to invest further in fibre network expansion to address the latent demand. In addition, we have a well established customer base that we can further leverage. We will also consider acquisitions in areas that are complementary with our fibre business and will help us accelerate our growth by leveraging our fibre network further and providing a broader range of products and services to our customer base.

These are the types of initiatives that will allow us to deploy our capital and grow our overall profitability as well as being able to offer a broader range of products to our customers.

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Demand for wireless technology is growing strongly whereas at Amcom you are strongly committed to fibre networks. Why are you so confident about the opportunities for fibre both in your current business and future business? How do you see the industry trends for the fibre market?

MD Clive Stein

Wireless technology is a growing segment of the market, however, this is primarily in the mobility market. Wireless does not offer the speeds, capacity and reliability that our business customers require. We are focussed on delivering business solutions and these require fibre.

Fibre today delivers a broad range of traditional telco services such as data which includes private networks and high speed internet access. We are seeing market growth where fibre optic delivery to the business is becoming extremely relevant for next generation voice and video services. Products such as VOIP, Video Conferencing, Unified Messaging, and hosted PABX services rely upon high speed fibre as the enabler to deliver services business.

The traditional telco market space that Amcom has been operating in now encompasses the IT segment. This means that the total market that we're exposed to with our fibre network infrastructure is now a lot broader than simply the traditional telco space.

We also see an emerging trend in technology, where 'cloud' computing is being adopted to provide an outsourced solution to customers. What this means is businesses are now looking

at various operational models for deploying software based applications across their enterprise. All of these services will be using high performance reliable fibre networks as the integral part of delivering those solutions. As we know, businesses see IT as a competitive advantage and fibre is the enabler for these new emerging services.

With regards to the National Broadband Network or NBN, this is contemplated on a 5-7 year time horizon. We see NBN providing many opportunities, however, these have a long term time horizon. We also believe the proposed NBN is not that relevant to our customer base, as the NBN will typically offer speeds of up to 100 Mbps per second and today 46 per cent of our customers by revenue have services operating well in excess of that level, typically at 1,000 Mbps per second.

We remain excited and confident about the industry trends supporting growth in fibre networks, and Amcom remains well placed to capitalise on these trends.

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Thanks Clive

For more information on Amcom Telecommunications Limited visit amcom.com.au or call Clive Stein on +61 8 9244 6022.

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