

**VENTURE CONSULTING / IIA BROADBAND
INDEX**

Ninth Edition (Q3 2009)

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VENTURE
Consulting



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1 Executive summary

The Venture Consulting / IIA Broadband Index (the 'Index') analyses the Australian broadband market on behalf of the Internet Industry Association ('IIA') to assess trends in pricing and availability of broadband products to Australian consumers. The index is now in its third year.

The Index analyses all broadband packages currently offered by four major Australian fixed ISPs (Telstra, Optus, iiNet and Primus), as well as the wireless offerings of Hutchison, Vodafone and Unwired. The Total Cost of Broadband (i.e. start-up cost plus headline fees plus usage charges) for each broadband package and usage profile is calculated and compared. For this edition of the Index, we have analysed 152 different broadband packages across a wide range of technologies, including ADSL, ADSL2+, cable, wireless and satellite.

In addition, from this edition onwards, in recognition of the increasing demand for bandwidth of online media, we have re-defined usage profiles of the average Australian internet user. We now define the four user profiles as: 'Low' (1GB per month), 'Medium' (5GB per month), 'High' (10GB per month) and 'Ultra high' (20GB per month).

This edition of the Index has shown broadband prices continue to fall, but only in segments of the market where strong competition exists:

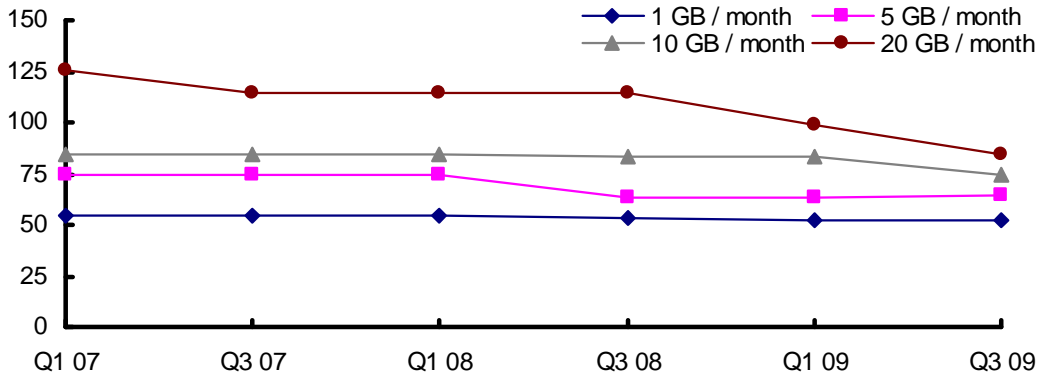
- High speed (17mbps+) broadband has experienced significant competition due to continued decline in LLU pricing and easier installation of DSLAMs, leading to proliferation of ADSL2+ service providers in high population density areas. As a result, high speed (17mbps+) broadband pricing have declined across all four usage profiles. Not surprisingly, the highest decline in pricing of 32% has been experienced in the Ultra-high usage segment (20 GB / month)
- Wireless broadband has experienced tremendous declines in pricing as shown in our last edition of the Index, and this trend has continued in our latest analysis. This is driven by the continued strong competition in wireless broadband market and proliferation of HSDPA wireless technology. During the nearly 3 years we have collected data for, the cost per month of a 1Mbps service with 1GB of usage has fallen from \$100.70 to \$25.00, which represents a decline of 75%
- However, low speed fixed broadband access pricing have remained stable over the last three years. We believe this is because competition is limited to the service level as competitors to Telstra resells its broadband product

Overall, our analysis of the Australian broadband market suggests that where infrastructure competition exists, as in ADSL2+ and wireless broadband, service providers will more aggressively price their offerings, driving down the access price for consumers. However, in the case of limited infrastructure competition such as ADSL, broadband access price remains high for consumers.

This suggests that price regulation of the NBN will be critical given its natural monopoly characteristics.

Venture Consulting / IIA Broadband Index

Figure 1: Historical most economical 17mbps+ fixed broadband by usage (\$/month)



Source: Venture Consulting

As the figure above shows, 17Mbps+ fixed broadband packages have shown declines in access pricing for consumers over the last three years. As ISPs increase the data cap size of the broadband packages, for consumers of a particular usage profile, the access pricing declines when a previously cheaper, but insufficient data-wise package becomes viable. Over the last three years, the average data cap size has increased by 40% as shown in the figure below.

Figure 2: Average cap size for standalone fixed broadband plans surveyed (GB/month)

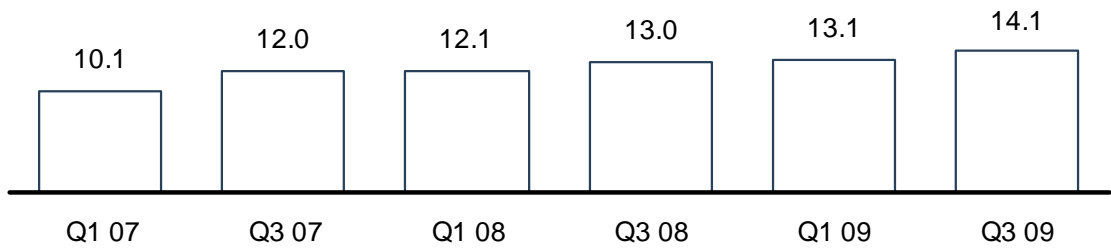
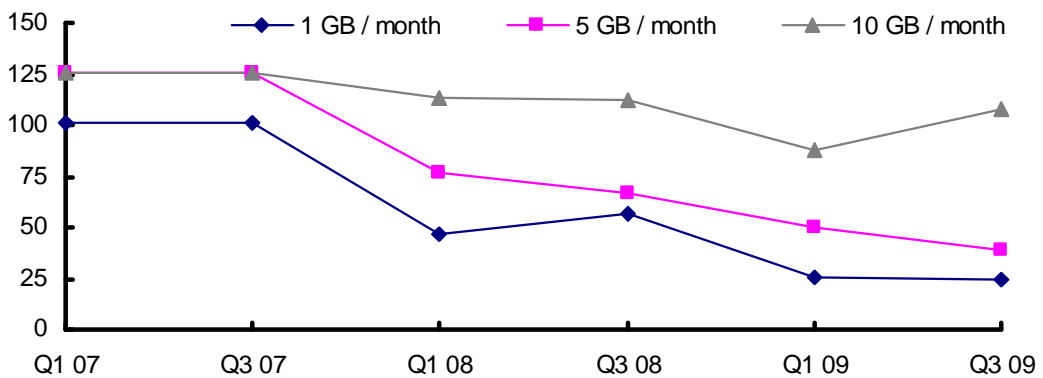


Figure 3: Historical most economical 1mbps wireless broadband by usage (\$/month)

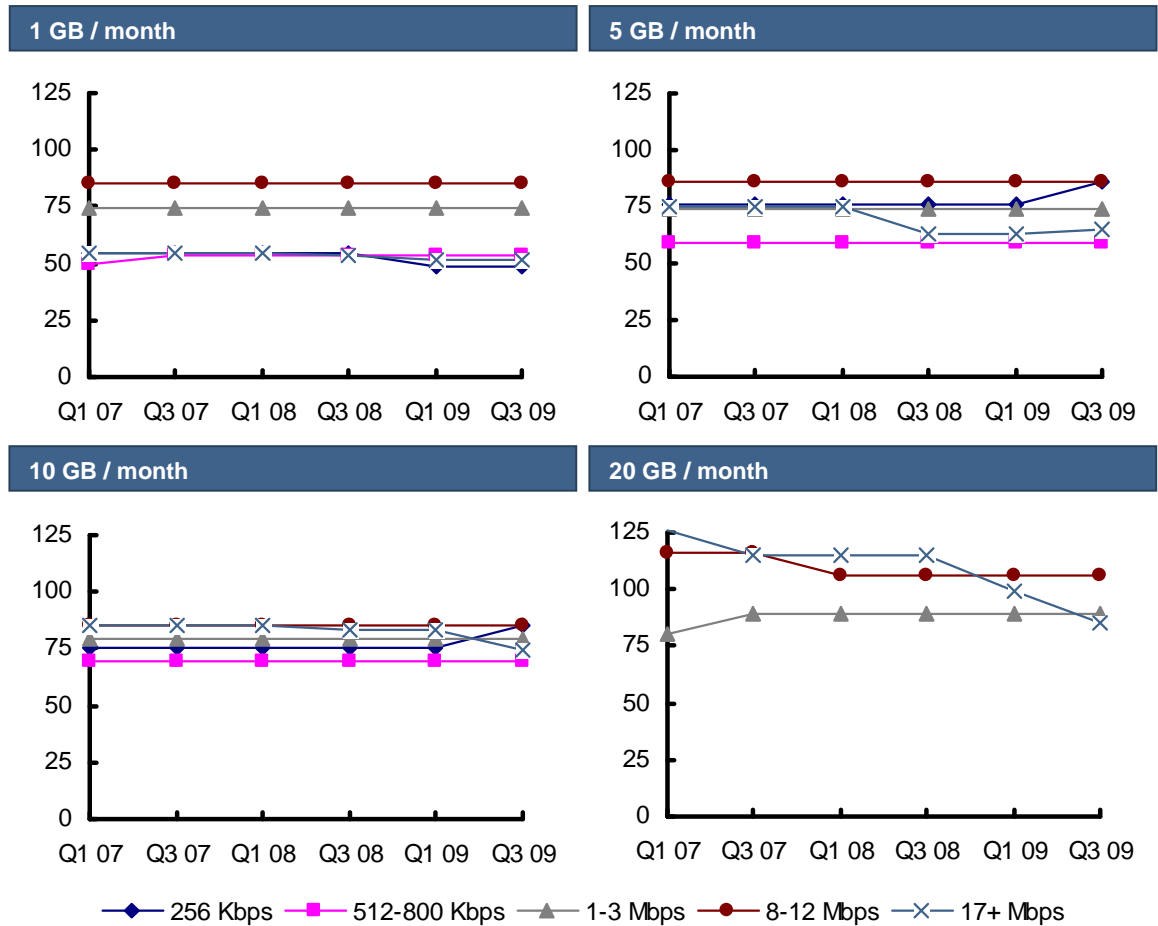


Source: Venture Consulting

Venture Consulting / IIA Broadband Index

The figure above shows that wireless broadband pricing continues to decline with the exception of 10 GB / month packages as Unwired refreshed its broadband packages, reducing the data allowance of all plans.

Figure 4: Historical most economical standalone fixed broadband package by usage (\$/month)



Source: Venture Consulting

2 Introduction

On 31st July 2006, the Internet Industry Association (IIA) published the first ever national targets for broadband for 2010. The aim of this initiative was to develop a set of aspirational targets for both fixed and wireless broadband in order to provoke national discussion on how to achieve adequate broadband provision in Australia. The targets were based on comparisons of broadband availability in other countries, the current status of broadband provision in Australia, the projected level of future demand for bandwidth and the range of technologies likely to be deployed in the next four years. The targets stated:

- 80% of Australians should have access to 10Mbps downstream services and 1Mbps upstream services by 2010
- 67% of Australians should have access to 24Mbps downstream services by 2010

To help track broadband market developments, in support of these targets, the IIA together with Venture Consulting (previously Value Partners) has developed the '*Venture Consulting / IIA Broadband Index*'. The index will track the speed, cost and availability of broadband services in Australia and monitor the progress made towards meeting the IIA's targets. Initially published on a quarterly basis, the IIA, in association with Value Partners, will henceforth publish this report on a half yearly basis (reflecting a maturing market where trends and impacts are visible only over longer periods of time). The IIA hopes to provide a benchmark for comparing Australian broadband provision against other developed economies until 2010.

The IIA and Venture Consulting expect, over time, that the index will track the:

- Decreases in the cost of broadband services across all access speeds and usage levels
- Decreases in the cost of broadband access on a weighted index basis
- Increases in download caps as operators gradually move to unlimited downloads
- Increases in the number of packages available to consumers across new platforms and access technologies such as WiMAX and ADSL2+

Increases in broadband service coverage across Australia, particularly for high speed services, as networks continue to be rolled out and new technologies are deployed (both fixed and wireless)

3 Full result

3.1 Standalone fixed broadband packages

The 2009 Q3 Venture Consulting / IIA Broadband Index analysed 51 standalone fixed broadband packages currently offered by four selected ISPs (Telstra, Optus, iiNet and Primus). The monthly costs of access for the most economical packages for each of these ISPs are categorised by access speed and data allowance as shown in the table below.

Figure 5: Total monthly cost of most economical standalone broadband packages as at Q3 2009

	Telstra	Optus	iiNet	Primus	Overall Min Total cost	Min Total Cost Tech	Min Total Cost Operator
256 Kbps							
1 GB	\$85.70	-	\$54.87	\$48.95	\$48.95	ADSL	Primus
5 GB	\$85.70	-	-	-	\$85.70	ADSL	Telstra
10 GB	\$85.70	-	-	-	\$85.70	ADSL	Telstra
20 GB	-	-	-	-	-	-	-
512-800 Kbps							
1 GB	-	-	\$64.87	\$53.95	\$53.95	ADSL	Primus
5 GB	-	-	-	\$58.95	\$58.95	ADSL	Primus
10 GB	-	-	-	\$68.95	\$68.95	ADSL	Primus
20 GB	-	-	-	-	-	-	-
1-3 Mbps							
1 GB	\$105.70	-	\$74.87	\$73.95	\$73.95	ADSL	Primus
5 GB	\$105.70	-	\$74.87	\$73.95	\$73.95	ADSL	Primus
10 GB	\$105.70	-	-	\$78.95	\$78.95	ADSL	Primus
20 GB	\$115.70	-	-	\$88.95	\$88.95	ADSL	Primus
8-12 Mbps							
1 GB	\$85.70	-	\$94.87	\$98.95	\$85.70	Cable	Telstra
5 GB	\$85.70	-	\$94.87	\$98.95	\$85.70	Cable	Telstra
10 GB	\$85.70	-	\$94.87	\$118.95	\$85.70	Cable	Telstra
20 GB	\$105.70	-	\$114.87	\$148.95	\$105.70	Cable	Telstra
17+ Mbps							
1 GB	\$95.70	\$70.66	\$54.87	\$51.95	\$51.95	ADSL	Primus
5 GB	\$95.70	\$70.66	\$64.87	\$71.95	\$64.87	ADSL	iiNet
10 GB	\$95.70	\$90.66	\$74.87	\$88.95	\$74.87	ADSL	iiNet
20 GB	\$115.70	\$130.66	\$84.87	\$98.95	\$84.87	ADSL	iiNet

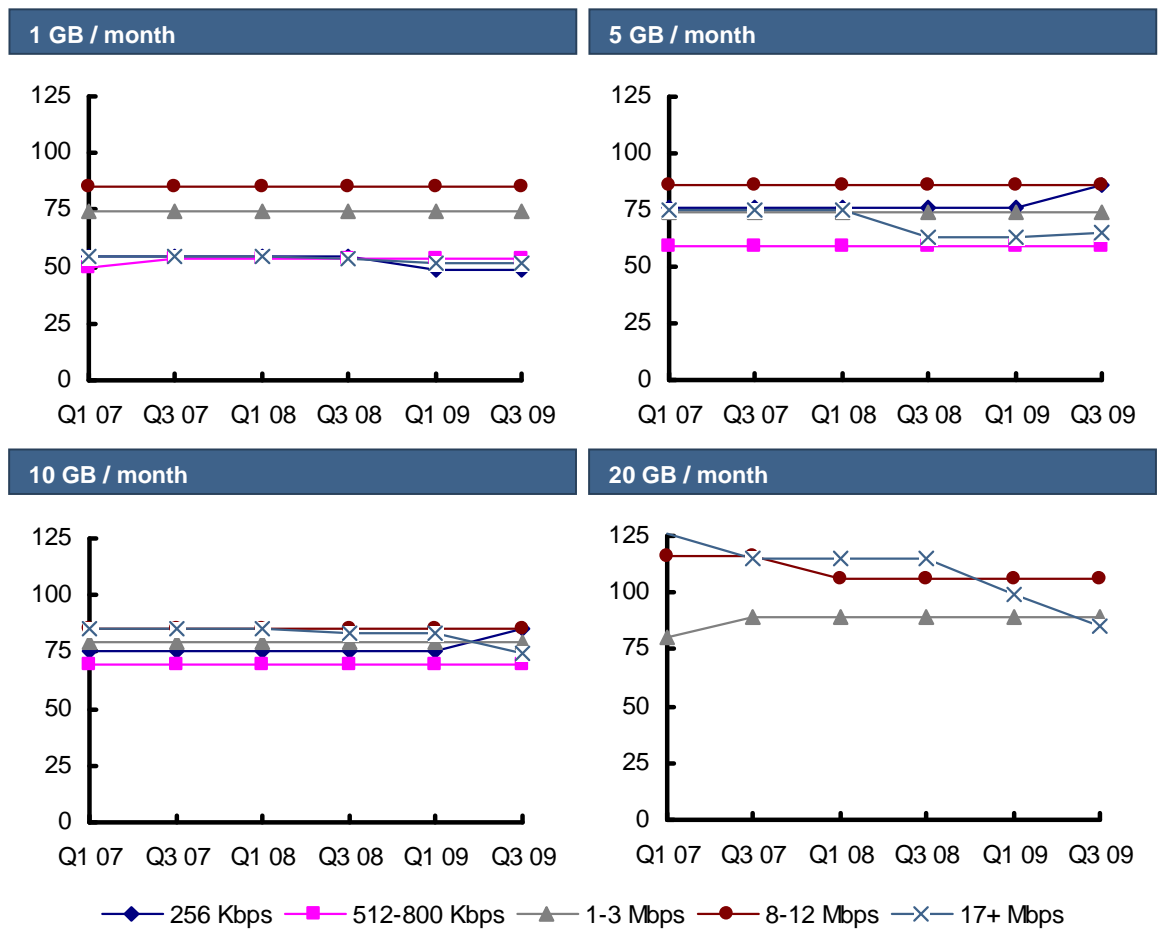
Note: Excludes bundled offerings, even if these plans offer comparable value to standalone plans. Excludes plans with 'throttle' download speed if users exceed data cap. Also excludes satellite offerings.

Source: Venture Consulting

In our latest Index, our analysis has shown the lack of price competition in lower speed broadband products continues to exist in the Australian broadband market. However, where infrastructure based competition exists – in the 17+ mbps broadband packages – competition continues to be strong, showing declines in access prices for two out of four usage profiles. The 17+ Mbps, 20 GB / month product segment experienced the greatest decline, dropping from \$98.95 per month in Q1 2009 to \$84.87 currently, which is a decline of 14%.

Venture Consulting / IIA Broadband Index

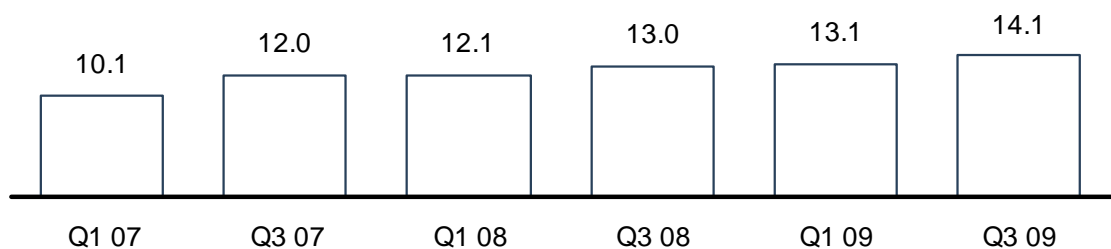
Figure 6: Historical most economical standalone packages by monthly cost (\$/month)



Source: Venture Consulting

One of the trends we continue to observe is the increasing data cap size for fixed broadband packages. Since 2007, the average data cap size for fixed standalone broadband plans have increased from 10.1 GB / month to 14.1 GB / month, an increase of 40%. This indicates internet service providers are continuing to raising the data caps of plans and / or removing low cap plans.

Figure 7: Average data cap size for fixed standalone plans surveyed (GB/Month)

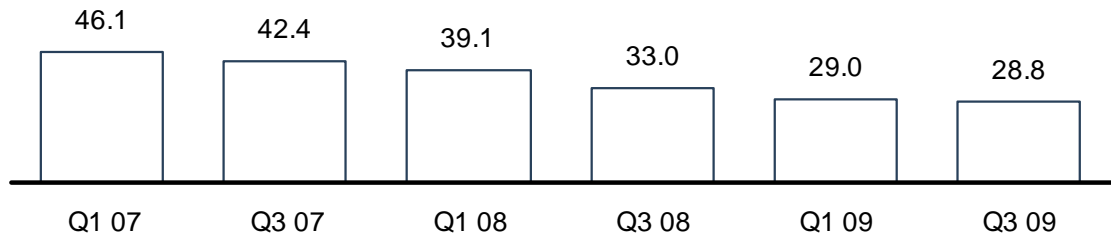


Source: Venture Consulting

Venture Consulting / IIA Broadband Index

As average data cap size increases, the implied average cost per gigabyte of data has declined. Over our survey period, the implied average cost of data has declined from \$46.1 per GB in 2007 to \$28.8 per GB currently, representing a significant decline of 38%.

Figure 8: Implied average cost per Gigabyte of data for fixed standalone plans surveyed (\$/GB)

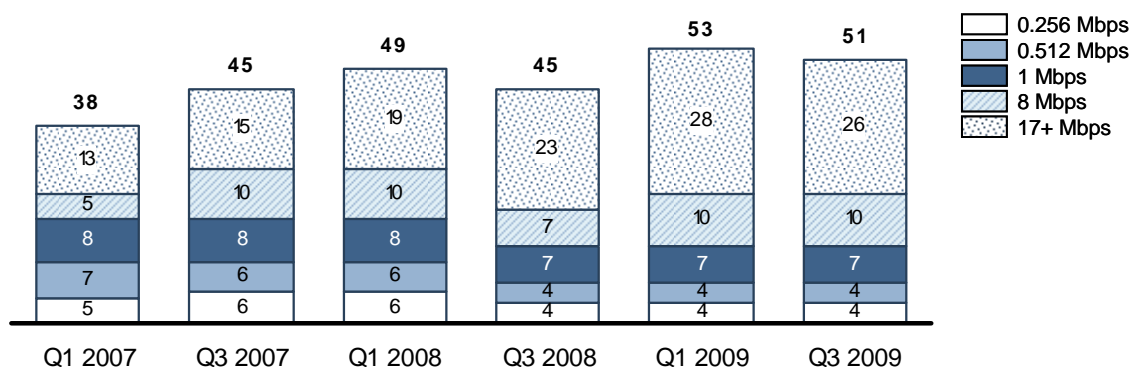


Source: Venture Consulting

In addition, the majority of plans offered by ISPs are now of the highest speed broadband plans. In our latest survey of broadband plans, 26 out of 51 standalone broadband packages are of 17+mbps access speed, which is over 50%.

These trends combined indicate ISPs have continued to refresh their product offering to suit the needs of consumers – greater consumption of high bandwidth, high data usage digital media over the internet. As a result, more Australian consumers are able to access higher speed internet and more bandwidth intensive services without being charged extra or penalised in other ways.

Figure 9: Variation of fixed standalone internet plans by access speeds

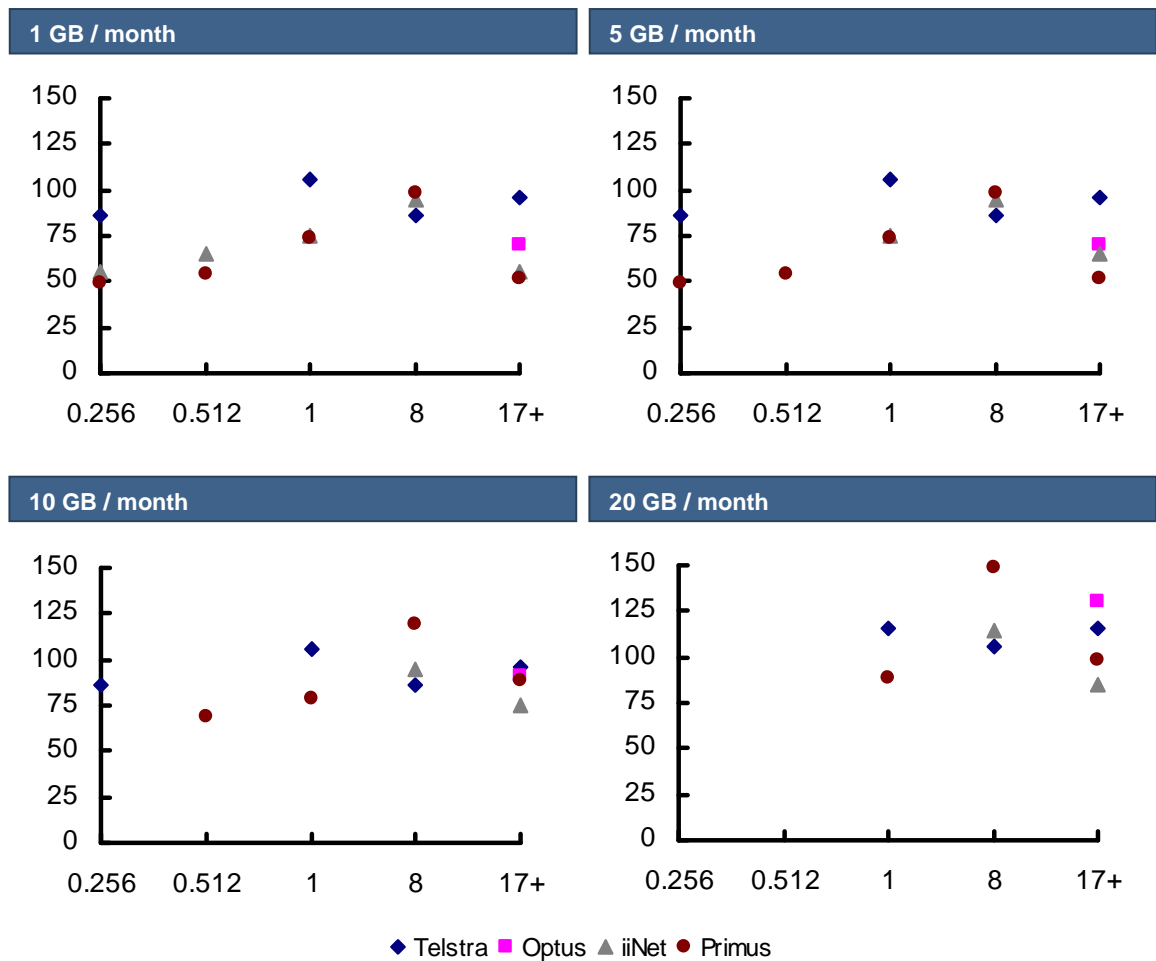


Source: Venture Consulting

Across the new usage profiles we have defined, no single ISP consistently provides the most economical package as evidenced by the figure below. Therefore, when it comes to selecting the best package, it pays for the consumer to shop around based on their own personal requirements in terms of access speed and data usage.

Venture Consulting / IIA Broadband Index

Figure 10: Most economical standalone packages for each user type by speed and operator (Q3 '09)



Source: Venture Consulting

3.2 Bundled fixed broadband packages

ISPs surveyed in the Index continues to offer bundled broadband packages, which require customers to take up addition services such as fixed voice and VoIP in exchange for discounts on monthly broadband access fees, high bandwidth services, and / or increased download quota. Comparing the best value 17 mbps+, 5GB data quota product segment for standalone and bundled packages show significantly lower monthly access fee for bundled - \$49.99 per month compared to \$64.87 per month.

For this survey, we analysed 58 bundled packages and the most economical package are shown in the table below.

Venture Consulting / IIA Broadband Index

Figure 11: Total monthly cost of most economical bundled broadband packages as at Q3 2009

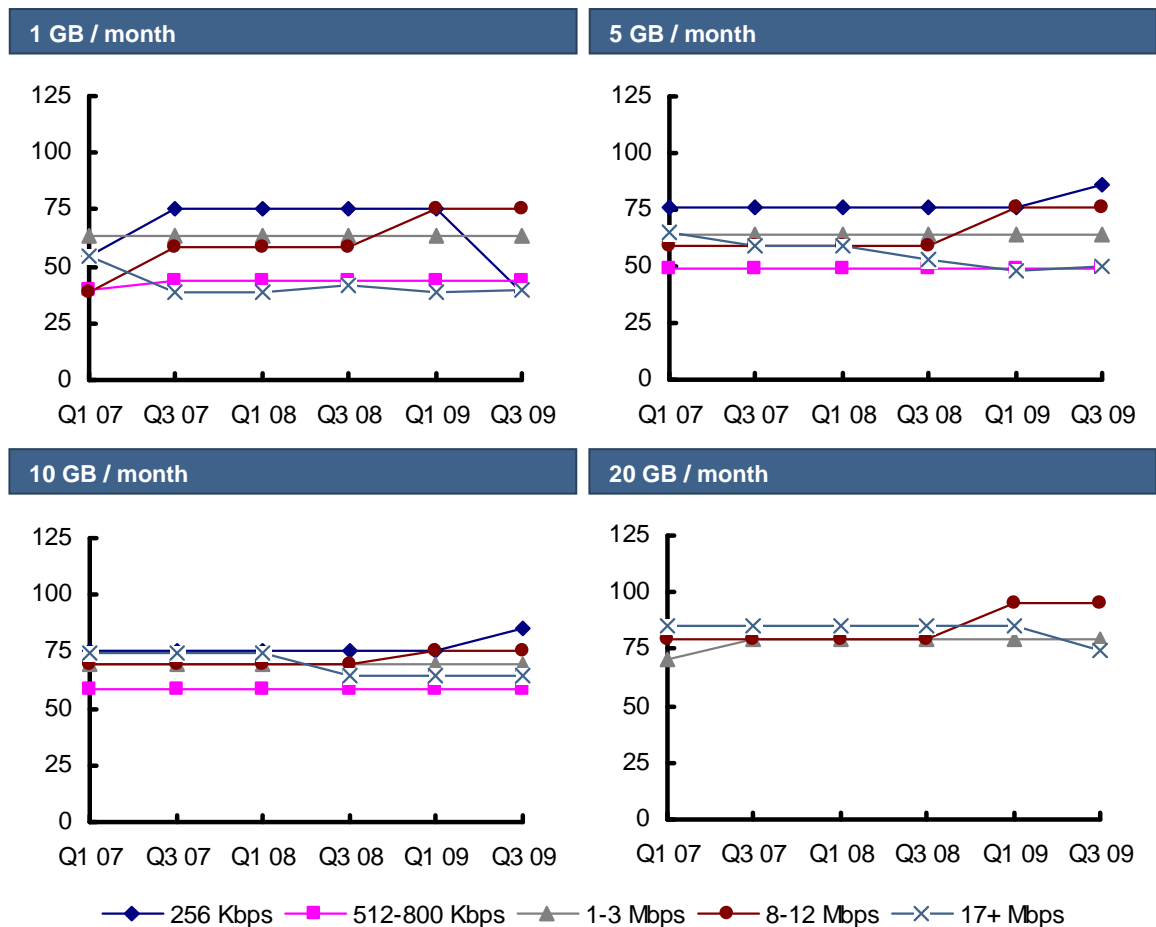
	Telstra	Optus	iiNet	Primus	Overall Min Total cost	Min Total Cost Tech	Min Total Cost Operator
256 Kbps							
1 GB	\$85.70	-	-	\$38.95	\$38.95	ADSL	Primus
5 GB	\$85.70	-	-	-	\$85.70	ADSL	Telstra
10 GB	\$85.70	-	-	-	\$85.70	ADSL	Telstra
20 GB	-	-	-	-	-	-	-
512-800 Kbps							
1 GB	-	-	\$54.87	\$43.95	\$43.95	ADSL	Primus
5 GB	-	-	-	\$48.95	\$48.95	ADSL	Primus
10 GB	-	-	-	\$58.95	\$58.95	ADSL	Primus
20 GB	-	-	-	-	-	-	-
1-3 Mbps							
1 GB	\$95.70	-	\$64.87	\$63.95	\$63.95	ADSL	Primus
5 GB	\$95.70	-	\$64.87	\$63.95	\$63.95	ADSL	Primus
10 GB	\$95.70	-	\$74.87	\$68.95	\$63.95	ADSL	Primus
20 GB	\$105.70	-	-	\$78.95	\$78.95	ADSL	Primus
8-12 Mbps							
1 GB	\$75.70	-	\$94.87	\$88.95	\$75.70	Cable	Telstra
5 GB	\$75.70	-	\$94.87	\$88.95	\$75.70	Cable	Telstra
10 GB	\$75.70	-	\$94.87	\$108.95	\$75.70	Cable	Telstra
20 GB	\$95.70	-	\$114.87	\$138.95	\$95.70	Cable	Telstra
17+ Mbps							
1 GB	\$85.70	\$39.99	\$44.87	\$41.95	\$39.99	Cable	Optus
5 GB	\$85.70	\$49.99	\$54.87	\$61.95	\$49.99	Cable	Optus
10 GB	\$85.70	\$69.99	\$64.87	\$78.95	\$64.87	ADSL	iiNet
20 GB	\$105.70	\$99.99	\$74.87	\$88.95	\$74.87	ADSL	iiNet

Source: Venture Consulting

The observed standalone package trend of competitive 17mbps+ segment and stagnant lower speed market segment exists for bundled packages as well, as the chart below indicates.

Venture Consulting / IIA Broadband Index

Figure 12: Historical most economical bundled packages (\$/month)



Source: Venture Consulting

3.3 Wireless broadband packages

Wireless broadband packages, in particular, 3G broadband offerings from Hutchison and Vodafone, were included as part of our analysis for the Index in the last edition as it was deemed a close substitute for fixed broadband. In total, 22 wireless broadband packages were surveyed for this edition of the Index, and the monthly cost of access is calculated using the same methodology. The most economical packages for each provider and each usage category are shown in the table below.

Figure 13: Total monthly cost of most economical wireless broadband packages as at Q3 2009

	Telstra	Optus	Vodafone	Hutch	Unwired	Overall Min Total cost	Min Total Cost Operator
256 Kbps							
1 GB	-	-	-	-	\$28.20	\$28.20	Unwired
5 GB	-	-	-	-	-	-	-
10 GB	-	-	-	-	-	-	-
20 GB	-	-	-	-	-	-	-
512-800 Kbps							

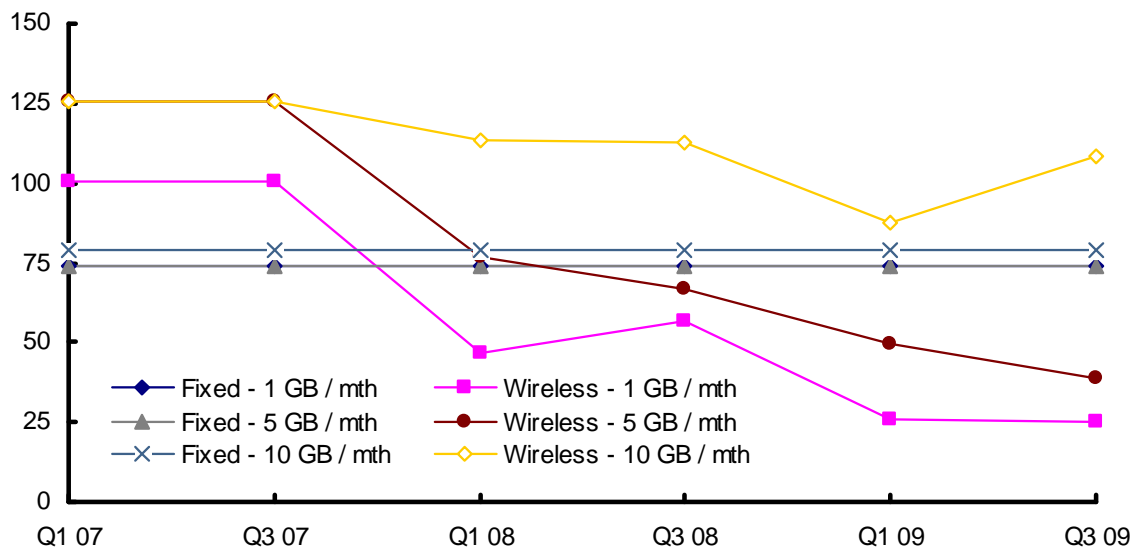
Venture Consulting / IIA Broadband Index

1 GB	-	-	-	-	\$48.20	\$48.20	Unwired
5 GB	-	-	-	-	\$58.20	\$58.20	Unwired
10 GB	-	-	-	-	-	-	-
20 GB	-	-	-	-	-	-	-
1+ Mbps							
1 GB	\$84.87	\$56.57	\$29.95	\$25.00	\$58.20	\$25.00	Hutch
5 GB	\$114.87	\$66.57	\$39.95	\$39.00	\$83.20	\$39.00	Hutch
10 GB	\$154.87	\$676.57	\$539.95	\$349.00	\$108.20	\$108.20	Hutch
20 GB	-	-	-	-	-	-	-

Source: Venture Consulting

With the continued proliferation of 3G, wireless broadband has continued to improve in availability and price. In the last 6 months, access cost of 1mbps service with 5 GB of data quota per month has declined from \$49.75 to \$39 per month, a fall of 22%.

Figure 14: Historical comparison of 1 Mbps speed fixed and wireless BB services pricing (\$/month)



Source: Venture Consulting

4 Appendix A: Methodology

In this report, we analysed all of the pricing plans of five major ISPs in Australia, as well as wireless broadband plans of Vodafone and Hutchison as of Q1 '09, in order to calculate the monthly cost to a subscriber. The Q1 '09 data was sourced directly from the operator websites on 12th March 2009. The internet pricing plans from previous editions of the Broadband Index were retained for comparison purposes.

We analysed each plan by:

Operator: The operators chosen comprise of the four largest fixed providers by market share (as at December '06 - as per JP Morgan), Unwired, Vodafone and Hutchison.

Technology: The analysis includes plans offering the following access networks: ADSL; wireless; 2 way satellite; and cable.

Speed: We have classified each plan by the maximum download speed advertised (256kbps, 512-800kbps, 1-3Mbps, 8-12Mbps, 17+Mbps). Upload speeds also vary across packages.

Cost: We created four user profiles based on hypothetical usage levels: 'Low' (1GB per month), 'Medium' (5GB per month), 'High' (10GB per month) and 'Ultra high' (20GB per month). We then calculated the monthly cost of each pricing package for each user type.

The 'Total Cost of Broadband' of each package includes the following elements:

- Monthly subscription charge
- Cheapest available connection and modem fee amortised over the length of the contract. We only analysed pricing plans requiring a minimum contract length of 12 months or less, with the exception of satellite which require a minimum contract length of 18 months. Other (longer contract) plans were excluded. These plans may offer better value over the life of the contract
- Any additional charges if usage exceeds the monthly data allowance (or cap). Where the usage profile exceeded the data cap, we excluded packages which do not charge additional data usage fees but 'throttle' download speed for the remainder of the month

For example, the monthly cost to a 'Low' user of a 0.5GB 12 month plan with a monthly subscription charge of \$29.95, an initial charge of \$189 for a modem and an excess data usage fee of \$150 per GB would be:

$$\$29.95 + (\$189/12) + ((1-0.5)*\$150) = \$120.70$$

We have excluded special offers and promotions available for a limited period only (e.g. free connection and modems) from the analysis, although in future editions of the Index we may decide to include these. In addition, we have excluded Broadband Connect subsidies to remote and rural subscribers. In both cases, the intention is to provide a meaningful comparison of underlying price movements over time. Business packages are also excluded. We will keep all these rules under review.

All bundled pricing plans are now analysed as opposed to only bundled plans not available as standalone packages in the previous edition.

After calculating the monthly cost of every package for each user type, we have identified the 'most economical' package, i.e. the cheapest, for each of the four user types by operator, technology and speed category.

Venture Consulting / IIA Broadband Index

Contact information

Venture Consulting is Australia's leading independent telecommunications and media consultancy firm. It came into being following local management's buyout of the Sydney office of the global management consultancy Value Partners in January 2009. We are a broad-based consultancy, having worked with Australia and New Zealand's leading operators, policy makers, regulators, vendors and financiers to provide strategic, commercial, financial and technical advice. Specifically, we work across corporate and commercial strategy, financial advisory support, bid support, operational improvement and change management, policy and regulation, rights management, strategic technology decisions and strategy implementation.

Venture Consulting

King Street Wharf Suite 302,
45 Lime Street,
Sydney NSW 2000

Telephone: +61 2 9279 0072

Fax: +61 2 9279 0551

www.ventureconsulting.com

justin.jameson@ventureconsulting.com

peng.liu@ventureconsulting.com

The Internet Industry Association (IIA) is Australia's national internet industry organisation. Members include telecommunications carriers; content creators and publishers; web developers; e-commerce traders and solutions providers; hardware vendors; systems integrators; insurance underwriters; Internet law firms, ISPs; educational and training institutions; Internet research analysts; and a range of other businesses providing professional and technical support services. On behalf of its members, the IIA provides policy input to government and advocacy on a range of business and regulatory issues, to promote laws and initiatives which enhance access, equity, reliability and growth of the medium within Australia.

Internet Industry Association (IIA)

PO Box 3986

Manuka, ACT 2603

Australia

Phone: +61 (0)2 6232 6900

Fax: +61 (0)2 6232 6513

www.iaa.net.au