



M2 TELECOMMUNICATIONS GROUP LTD (ASX: MTU)

ASX RELEASE

Investor Q&A

FY11 Results, FY12 Guidance & CEO Transition

Monday 29 August 2011: M2 Telecommunications Group Ltd ("M2", ASX: MTU) releases the following questions and answers ("Q&A") to provide further clarification of the information released by the Company today, in relation to the financial results delivered for the Financial Year 2011 (FY11), the guidance announced for FY12 and the planned transition of the CEO role.

Question 1:

What were the main contributors to the Company's 72% increase in earnings in FY11?

Answer 1:

The Company's strong FY11 performance was a product of a number of contributing factors, the majority of which were related to improvements in the efficiency of the business arising from its increased scale. The principal contributors were marked improvements in the underlying wholesale purchasing arrangements, reduced operating expenditure resulting from a range of operational efficiency measures set in place in late FY10 and organic customer growth across both retail and wholesale operating divisions.

Significant acquisitions of note in FY11 were made late in the period (Clear Telecoms business assets and Austar mobile customers, in February 2011 and Edirect in April 2011) and as such were only modest contributors to the Company's earnings for the period to 30 June 2011.

A determination was made in June 2011 to make a provision for bad and doubtful debts for an amount of \$1.5 million relating to the non-recoverable portion of outstanding debt relating to the Edirect transaction. The provision has directly impacted the FY11 earnings EBITDA by this amount.

Question 2:

The company's operating cash-flow for the full year remained strong but not as strong as for the half year to 31 December 2010. What is the explanation for this reduction in operating cash flow?

Answer 2:

M2 continues to be a strong generator of operating cash flows, with a diligent approach to customer collections and maintenance of favorable payment terms with its key suppliers.

Operating cash flow in FY11 was impacted in the second half (period January to June 2011 inclusive) principally due to a timing delay relating to reconciliation of credits due to be paid to M2 in respect of improved wholesale buying arrangements negotiated for the period, totaling approximately \$7 million. These credits have been subsequently reconciled and are expected to be received in first half of FY12.



Question 3:

There was an Interim Access Determination (IAD) issued by the ACCC in relation to certain regulated wholesale services in March 2011. Did this determination impact upon FY11 earnings?

Answer 3:

The IAD provided a net earnings benefit to M2 in the second half of FY11 and was a key contributor to the upgraded earnings guidance released by the Company on 7 March 2011.

Question 4:

M2 has posted EBITDA guidance for FY12 which is considerably above the FY11 EBITDA result, by 24%. What are the key ingredients which make-up the FY12 guidance?

Answer 4:

The Company has forecast EBITDA and NPAT increases in FY12 of 24% and 15% respectively, which is marked growth by any measure and considerably exceeds the average earnings growth being delivered by the industry at large.

In preparing for the year ahead, the Company has made a conscious decision to invest more aggressively than in previous years into expanding and unifying its sales and marketing channels, to take advantage of what is believed to be a unique opportunity to seize additional share of, in particular, the small and medium sized business market and, in doing so, strengthen M2's reach and market presence for the medium to long term.

In FY12, M2 will be substantially expanding its successful Inside Sales team, establishing a new national Accredited Agents sales network under its leading Commander brand and investing more than ever before in programs designed to generate more qualified sales opportunities for our national dealer and agent network.

Additionally, within its FY12 guidance are provisions for certain sizable once-off costs associated with realising the operating cost benefits of M2's new "Ninja" business support system. The guidance also takes into account a recent announcement made by the competition regulator Australian Competition and Consumer Commission ("ACCC"), which, effective 1 July 2011, diminishes some of the financial benefit arising from recent changes to regulated wholesale fixed line services.

Finally, the FY12 forecast also acknowledges the fact that the telecoms "landscape" is set to change in the most significant manner since industry deregulation more than 20 years ago, led in large part by the deployment of the National Broadband Network and the associated industry structural changes. As such, a degree of conservatism is built within the FY12 forecast, which takes into account the changing competitive landscape and potential pressure which may be applied to operating margins as all industry participants position themselves for the next phase of evolution of the Australian telecoms industry.



Question 5:

Revenue for FY12 is forecast to be below that delivered in FY11 but earnings as a percentage of revenue is forecast to be considerably higher in FY12. What is the explanation for these variances?

Answer 5:

Forecast revenue reduces principally because of the Company's decision to eliminate a sizable amount of low margin revenues associated with a previous customer of M2 Wholesale ("Edirect"), which were present in FY11, totaling approximately \$55 million. This customer base was acquired by M2 in April 2011 at which time these revenues ceased and therefore do not figure in FY12 revenues.

As a result of the abovementioned elimination of this low margin revenue together with a number of business efficiency measures introduced in FY11 and scheduled to be introduced in FY12, the forecast FY12 EBITDA margin as a percentage of revenue ("EBITDA margin"), is expected to increase by 33% as compared with FY11, to an EBITDA margin of 15%.

It is worthy of note that Edirect (prior to the assets being acquired) was M2's only wholesale customer responsible for generating material, low margin revenues.

Question 6:

Excluding the revenue reduction explained in the answer to Question 7, is organic revenue growth expected to be achieved in FY12?

Answer 6:

Yes. The additional investment that the Company is making into its sales and marketing channels (both internal and external) in FY12 is done expressly with the intention to grow underlying recurring revenues, across both its retail and wholesale customer segments.

The Company has never before had a larger (in number) or wider-reaching sales channel representing its products and services or more team members within our Inside Sales team. The forecast investment in growing the output of these external and internal sales channels, combined with a continued intensive focus on improving customer service performance (and thus reducing customer churn), in combination, are expected to deliver underlying organic customer growth of between 7.5% and 10.0% in FY12.

Question 7:

Are new acquisitions factored into the Company's FY12 guidance?

Answer 7:

Whilst acquisition of complementary businesses or business assets remains something that the Company continues to actively explore, there are no assumptions that further acquisitions will be made within the FY12 guidance. The Company is principally committed to continuing to expand its presence in its target markets organically and will only make acquisitions that are highly complementary and represent value to M2 shareholders.



Question 8:

What operational and strategic benefits are presented by the pending transition of the CEO role from Vaughan Bowen to Geoff Horth and the Executive Director role to be taken on by Vaughan following the transition?

Answer 8:

Geoff Horth (incoming CEO) has more than 20 years of senior executive experience in the Australian telecommunications industry and more than 2½ years as a member of the M2 executive team. Furthermore, Geoff has been in the role of Chief Operating Officer (COO) since late 2010, responsible for both the retail and wholesale operating divisions of the M2 Group and key supporting functions (Human Resources, Product and Marketing, IT and Operations). Geoff is a proven leader with exceptional capability in the development of the systems and processes, which the M2 Group will require as it enters the next stage of its evolution.

Clearly Vaughan's track-record as CEO / Managing Director for the nearly 12 years he has occupied the role (since incorporation of the Company) is exceptional by any measure. However, the Directors, including Vaughan, are united in the view that strategically the Company will be in an even stronger position after the change, due to the proven skills and experience Geoff will bring to the CEO role and the value which Vaughan will bring to the Company in his new role as Executive Director. In this role Vaughan will focus upon the identification and evaluation of merger/acquisition prospects, key supplier relationships and providing ongoing strategic advice and support to the CEO. As has also been announced today, Vaughan will remain a member of the M2 Board of Directors, a position he has occupied since the Company's incorporation in 1999.

Geoff and Vaughan formally take on their new roles at the conclusion of this year's Annual General Meeting on 28 October 2011.

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About M2 Telecommunications Group Ltd

Established in 1999, M2 Telecommunications Group Ltd ("M2", ASX: MTU) is Australia's largest network independent provider of telecommunications services. M2 employs more than 450 people nationwide, across the Melbourne headquarters and offices in Sydney, Hobart, Adelaide, Brisbane, Perth and Wollongong. M2 also provides fixed line, 3G mobile and broadband services in New Zealand.

M2's retail business division incorporates Commander, People Telecom, M2 Telecom, Southern Cross Telco and the recently acquired Clear Telecoms. Within the retail division, M2 offers a suite of telecommunications services, equipment, personalised service and value-added offerings targeted principally at the small- and medium-sized business market. The retail products are offered across Australia through M2's national dealer and agent network, comprised of the exclusive Commander dealer channel and the extensive People Telecom dealer channel.

Through the M2 Wholesale division, M2 provides wholesale fixed line, mobile and data telecommunications services to small and medium-sized telecommunications service providers and Internet Service Providers (ISPs). M2 Wholesale was launched in 2006 following M2's appointment by Optus as its exclusively endorsed (post-paid) mobile services aggregator, an appointment which has since been extended to 2013.

In recognition of the Company's significant and consistent growth, M2 was named by BRW Magazine amongst Australia's 100 fastest-growing companies in 2003, 2004, 2005, 2006 and 2008, and in the Deloitte Technology Fast 50 in 2004, 2005, 2008, 2009 and 2010.

M2 has an established dividend pay-out ratio policy of 70% of net profit after tax (NPAT) and has consistently delivered upon this dividend policy for every fiscal half year since 2005.

For more about M2 visit www.m2.com.au.

Related Company sites (part of the M2 Group):

- www.commander.com
- www.peopletelecom.com.au
- www.sctelco.com.au
- www.cleartelecoms.com
- www.m2nz.co.nz
- www.bw.co.nz

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