

OPERATING AND FINANCIAL REVIEW



COMPANY OVERVIEW

M1 is a leading full-service provider of mobile and fixed communications services to over 2 million customers in Singapore. With an emphasis on network quality, customer service, value and innovation, our mission is to link anyone and anything; anytime, anywhere.

The M1 Group holds both Facilities-Based Operator (FBO) and Service-Based Operator (SBO) licences issued by the Info-communications Development Authority of Singapore (IDA) for the provision of telecommunication systems and services, as well as a Telecommunication Dealer's Class Licence. M1 also holds Internet Access Service Provider and IPTV licences issued by the Media Development Authority (MDA).

We operate both 2G (GSM) and 3G/High Speed Packet Access (HSPA) networks, which will be enhanced with the islandwide rollout of our Long-Term Evolution (LTE) network this year. We offer a wide range of voice, data and value-added services on these networks. Our wireless broadband service – M1 Mobile Broadband – offers customers a choice of service plans differentiated by access speed and data bundle. With the deployment of our LTE network, we are capable of supporting theoretical downlink and uplink throughput speeds of up to 75 Mbps and 37.5 Mbps respectively.

For international call services, we offer mobile and fixed-line customers International Direct Dial (IDD) services using prefixes 002 and 021, and an International Calling Card (ICC) service using prefix 1818. We also trade wholesale voice minutes with other international and local service providers.

In the fixed segment, M1 offers various broadband service plans with speeds ranging from 10 Mbps to 1 Gbps, including fixed voice and other value-added services for residential homes. For corporate customers, besides connectivity services, we offer managed and data centre services, as well as cloud-based and other enterprise solutions. Our services are further supported by specialised teams who provide customers seamless migration from their legacy network to fibre network.

The following key milestones marked our short history:

- Commercial launch of mobile services in April 1997;
- Achievement of 10% mobile market share within one month of launch, and profitability in the first full-year of operations in 1998;
- Listing on the Singapore Exchange in December 2002; and
- First operator in Singapore to launch:
 - 3G mobile services commercially in February 2005

- Islandwide mobile broadband services in December 2006
- Fibre services commercially on the Next Generation Nationwide Broadband Network (NGNBN) in September 2010
- Mobile broadband service on our LTE network in June 2011

In 2011, we achieved a full-year net profit after tax of S\$164.1 million, 4.5% higher than 2010. Net profit margin on service revenue was 21.9%, up from 21.4% in 2010. Operating revenue and service revenue improved by 8.8% to S\$1,064.9 million and 2.4% to S\$750.5 million respectively. Earnings before interest, taxes, depreciation and amortisation (EBITDA) was S\$310.4 million, representing a margin of 41.4% on service revenue. Free cash flow increased 139.0% to S\$161.3 million.

As at 31 December 2011, M1 had a total of 2,015,000 mobile customers, comprising 1,046,000 postpaid and 969,000 prepaid customers, and this represented an overall 26.0% market share of the mobile customer base. In addition, M1 had 44,000 fixed service customers.

MARKET DEVELOPMENTS

Based on statistics published by IDA, as at 31 December 2011, Singapore's mobile penetration rate was 149.6%, which was 6.0 percentage points higher than a year ago. Out of the total mobile subscriber base of 7,755,200, 52.0% were postpaid subscribers and 48.0% were prepaid subscribers. For the fixed broadband market, there were 542,200 Digital Subscriber Lines (DSL), 679,300 cable and 98,500 fibre subscribers for both the residential and corporate segments as at 31 December 2011.

M1 launched South East Asia's first LTE network in June 2011. Offering downlink speeds of up to 75 Mbps and uplink speeds of up to 37.5 Mbps, the initial launch covered major areas within the financial district. Coverage is being progressively expanded and is scheduled to be islandwide by the second quarter of 2012.

The take-up of fibre services through the NGNBN in 2011 was hampered by operational issues such as installation service delays and accessibility to commercial buildings. M1 worked with various stakeholders, including the Infocomm Development Authority (IDA), to address these issues and some improvements were seen in the second half of 2011. With continued efforts and an expected 95% NGNBN coverage by mid-2012, the adoption of fibre services is likely to gain momentum.



POSTPAID MOBILE

The mobile segment remained our core business and continued to be a major contributor to our operating revenue. During the year, our postpaid customer base grew by 45,000 to reach 1,046,000 as at 31 December 2011. This formed 51.9% of our total mobile customer base and contributed 86.7% of our total mobile telecommunications revenue in 2011.

Data usage trends continued to advance with the proliferation of smart devices in the mass market and contribution from non-voice services rose to 35.6% of service revenue in 2011, up from 31.9% in 2010.

We saw increased adoption of tablets in 2011, with the launch of devices such as iPad 2, Samsung Galaxy Tab, Blackberry Playbook and HTC Flyer. Customers have the flexibility of

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FOR A BETTER SURFING EXPERIENCE, SWITCH TO M1'S NEW MOBILE BROADBAND PLANS.

At M1, our products have always evolved around your needs. Which is why, we have launched new mobile broadband plans to give you better surfing experience.

From today, our mobile broadband plans will offer theoretical download speeds of 72Mbps (typical speed range of 0.6-4.8Mbps) and 21Mbps (typical speed range of 0.7-6.7Mbps) with data bundles of up to 50GB. Furthermore, enjoy peace of mind with the usage data cap at \$69.30 on all mobile broadband plans.

So if you are looking for a mobile broadband plan that best suits you, SWITCH TO M1.

For more details, visit m1.com.sg now.

Plans	Data Bundle	Monthly Subscription	Download speed
mData Value	5GB	\$12	Theoretical download speed: 72Mbps Typical download speed range: 0.6 - 4.8Mbps
mData Lite	12GB	\$24	
mData Max	50GB	\$40	Theoretical download speed: 21Mbps Typical download speed range: 0.7 - 6.7Mbps
mData Extreme	50GB	\$59	

purchasing these tablets with either no lock-in period, or sign up for a two year contract and obtain the device at a subsidised price.

There was significant excitement and interest from customers in June 2011, as we launched an ultra high-speed mobile broadband service in the financial district for enterprise customers on our LTE network – a first in South East Asia. This represents another milestone for M1, and demonstrated our commitment to continually invest in our networks to deliver a better experience to our customers.

In September 2011, we launched our new mData mobile broadband plans with 5 to 50GB of bundled data. With prices starting from as low as S\$12 per month, these new plans also feature published typical download speeds and data usage capped at S\$69.30. The mData plans enable customers to pay for what they need, and the majority of our customers will effectively pay less and enjoy internet surfing at higher speeds.

The much awaited iPhone 4S was made available through our stores and exclusive distributors on 28th October, and

we celebrated the launch at our Paragon flagship store at midnight. The highly anticipated event, featuring live performances and entertainment, was well attended by both existing and new customers. A wide range of iPhone specific service plans, from our affordable S\$36 a month iPhone Value plan to M1's unique Take3 Flexi plan that offers the handset at no upfront cost, were made available to customers.

During the year, we worked with various phone manufacturers to bring in their latest handsets, from the Samsung Galaxy S2 to the Motorola Razr, as part of our ongoing efforts to provide customers with a wide range of mobile devices. Notable handsets launched in the second half of 2011 included five new Blackberry handset models which feature the new BlackBerry 7 operating system. We held a launch party and preview sale for the BlackBerry Bold 9900, as well as a Blackberry consumer workshop in October 2011. December saw the launch of two new Nokia Windows smartphones, the Lumia 710 and Lumia 800. We also conducted a consumer workshop to provide customers with first-hand experience of using Nokia applications on the new Windows operating system. Both workshops were well received by our customers.

PREPAID MOBILE

In the highly competitive prepaid segment, our customer base grew 6.5% during 2011 to 969,000, reflecting our various initiatives in catering to different customer preferences through timely product and service launches. These included:

- Complimentary rental of Huawei 3G handset with the purchase of our M Card bundle, and customers get to keep the handset after twelve months on our network;
- Enhancement and launch of new top-up cards with additional benefits such as 20 or 30 days of free incoming calls, 50MB of bundled data and 15% bonus value;
- Ease of choice in top-up denominations through the launch of our E-load service, in addition to fixed denomination physical top up cards.

As foreigners made up a significant proportion of our prepaid customers, we continued to sponsor major festive events in 2011 such as Thaipusam, Deepavali Light-up, as well as the Myanmar, Tamil and Bengali New Year, to reinforce our brand presence and strengthen our links with these key foreigner segments. Indians, Bangladeshi, Myanmar and Indonesians, remained key patrons of our prepaid services. As 2011 drew to a close, we partnered Oli 96.8FM, a local radio station with a strong Indian following, to sponsor a countdown event at Fort Canning to usher in the New Year.



FIXED SERVICES

Fixed services revenue increased 56.2% to S\$38.3 million in 2011.

During the year, we grew our fixed services customer base and further entrenched M1's position in the fixed space. As at end of 2011, we had 44,000 fixed services customers.

We continued to ensure that our customers enjoy the best value fixed broadband packages, with no cap on international bandwidth and access to remote and technical onsite support. Customers also get free fixed voice service that offers unlimited local calls, with every fibre broadband sign-up. For the corporate segment, we offered customised solutions, including cloud-based and managed services. Specialised teams were also available to assist customers in migrating their legacy network seamlessly to the new fibre network.

While the NGNBN achieved more than 80% islandwide coverage by end 2011 and interest in our fibre services was high, take-up of services was impeded by a number of barriers, including installation service delays, accessibility issues relating to commercial buildings and customers being locked in on

current contracts. During the year, we worked to resolve some of these barriers with the IDA and various stakeholders.

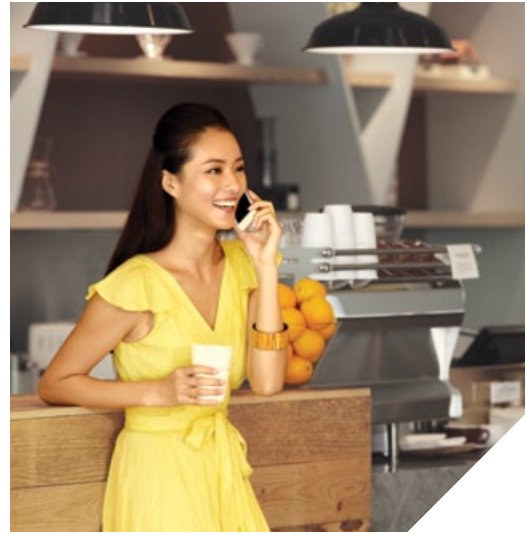
In the second half of 2011, we set up and completed the islandwide rollout of our active network for the NGNBN. Serving both our corporate and residential customers, this network enhances our long-term competitiveness and enables us to better serve our customers through greater control of service delivery and improved ability to offer customised solutions.

PRODUCTS AND SERVICES

In 2011, the following innovative and exciting services were launched:

- **mData:** Four new mobile broadband plans differentiated by data bundle sizes (starting from 5GB per month) and accompanied by a lower starting monthly subscription plan were launched, to provide M1 customers with a better mobile surfing experience. The new competitively priced plans, with their typical download speeds published, allow customers to better complement their individual data usage needs with a mobile broadband plan that best suits their usage patterns. Such plans are designed to enhance the surfing experience of the majority of our customers.

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- MessageSurf Plans:** MessageSurf and BlackBerry MessageSurf Plans were exclusively launched for members of the Singapore Association of The Deaf. These plans are meant to cater directly to the needs of the deaf and hard of hearing individuals, who communicate mainly through the modes of email, SMS, MMS, instant messaging, video calls and social media applications. With generous outgoing video calls, data and SMS bundles, these new plans will enhance the way these individuals communicate and stay connected.
- Next Generation Mobile Network Service:** With the initial launch of M1's LTE network in the financial district, enterprise customers were able to access next generation mobile network service via USB modems on existing mobile broadband plans and experience the enhanced surfing speeds. As coverage is expanded islandwide and more LTE devices become available, the service will be made available to all other customers.
- Take3 Flexi:** The Take3 programme allows customers to obtain a phone of their choice with no upfront costs. Take3 Flexi now offers customers the option of enjoying the Take3 service with a shorter contract tenure of 12 months, allowing them to change their handsets earlier.

SALES AND DISTRIBUTION

We have an islandwide network of operator-owned retail shops (M1 Shop) and operator-appointed distributor outlets that serve the consumer segment, as well as an enterprise sales team that serves the business segment. During the year, we streamlined our retail presence with the closing of shops at Plaza Singapura, Sun Plaza and Sembawang Shopping Centre

and at the same time, opened new shops at 313 Somerset, Clementi Mall and Changi City Point. We will also be opening a new outlet at Causeway Point in late 2012. As at 31 December 2011, we operate a total of 13 M1 Shop outlets, as well as an e-shop (www.m1shop.com.sg) which sells mobile phones and accessories online.

BRAND

To differentiate M1 as a full service operator, providing a better experience across all our services remains key.

We launched a branding campaign in May 2011 to reinforce our strong customer-centric focus in both the consumer and enterprise segments. This helped to drive awareness of our fixed services and enterprise solutions, and further entrench M1 as a full service operator.

In June 2011, we launched another campaign centred on our new LTE mobile network – the first in South East Asia. This campaign highlighted our commitment to enhance our customers' experience through our continual investments in advanced technologies.

CUSTOMER SERVICE

In the 2011 Customer Satisfaction Index (CSISG¹), M1 continued to lead in the info-communications sector.

Over the year, we made investments to improve our processes to serve our customers better. This included enhancements to our end-to-end remote and onsite technical support services to both residential and corporate customers. We further invested in staff training via our company-wide Customer Centric Initiative and Legendary Service training programmes, and



extended our “Serve with Passion” programme to our dealers’ staff, as part of our commitment to service quality.

The increased take-up of NGNBN services during the year was hampered by start-up operational issues that led to service delays and other inconveniences experienced by some of our customers. While the NGNBN service delivery depends on several parties, we took ownership of the issues and proactively worked with other stakeholders to resolve them so that our customers are not inconvenienced.

NETWORK

M1 was the first operator in South-East Asia to commercially launch a LTE network in June 2011, with initial coverage at the Marina Bay Financial and Shenton Way areas. Our dual band LTE network, operating on both the 1.8 GHz and 2.6 GHz frequency bands, will have an initial downlink speed of up to 75 Mbps and uplink speed of up to 37.5 Mbps. Coverage is progressively expanded and is scheduled to be islandwide by the second quarter of 2012.

During the year, we completed our 2G network modernisation works and continued to expand our 3G and HSPA network to cater for the increasing data traffic being carried by our networks.

Our backhaul transmission network, comprising fibre rings and high capacity microwave radio links, was also expanded with the completion of the Western Core network, which is now carrying live traffic. This serves to further increase our self-provisioning capability and reduce our operating expenses. In addition, we have completed a fibre swap project with

Verizon Communications and this network is also carrying live M1 traffic in the central business district.

A new International Gateway (IGW) softswitch was deployed in the second half of 2011 and is scheduled for cutover in the first half of 2012. This will augment our existing IGW switches and allow for faster and more flexible traffic routing changes in our international links and connectivity.

In 2011, we expanded the infrastructure supporting our NGNBN fixed broadband and fixed voice services. During the year, we planned and deployed our own active network to serve the corporate and residential markets. In November, we expanded our footprint to provide islandwide service and coverage. This has enabled us to have better control of service delivery, faster fault resolution and provide a better experience for both our corporate and residential customers.

¹ The CSISG is commissioned by the Singapore Workforce Development Agency (WDA) and managed by the Institute of Service Excellence (ISES) at the Singapore Management University