



**Uecomm**<sup>TM</sup>  
*fibre broadband*

# TARGET'S STATEMENT

## ACCEPT

This Target's Statement has been issued in response to the off-market takeover bid made by Optus Networks Pty Limited (ABN 92 008 570 330) for all the ordinary shares in Uecomm Limited.

Your Independent Directors unanimously recommend you ACCEPT Optus' Offer for all your Uecomm Shares at 40 cents per Share, in the absence of a superior proposal.

### THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about how to deal with this document, you should contact your broker, financial adviser or legal adviser immediately.

FINANCIAL ADVISER TO UECOMM



LEGAL ADVISER TO UECOMM



**UECOMM LIMITED**  
(ABN 56 079 083 195)

Shareholder Information Line: 1300 368 987

## KEY DATES

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<b>Date of this Target's Statement</b>	<b>25 June 2004</b>
<b>Date of Optus' Offer opening</b>	<b>2 July 2004</b>
<b>Close of Optus' Offer Period (unless extended or withdrawn)</b>	<b>7.00pm Sydney time on 3 August 2004</b>

## UECOMM SHAREHOLDER INFORMATION

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Uecomm has established a shareholder information line which Uecomm shareholders may call if they have any queries in relation to Optus' Offer. The telephone number for the shareholder information line is **1300 368 987**.

Uecomm notifies shareholders that, as required by the Corporations Act, calls to the shareholder information line will be recorded, indexed and stored.

Information relating to Optus' Offer is also located on Uecomm's website at **[www.uecomm.com.au](http://www.uecomm.com.au)**.

## IMPORTANT NOTICES

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### ***Nature of this document***

This document is a Target's Statement issued by Uecomm under Part 6.5 Division 3 of the Corporations Act in response to Optus' Bidder's Statement and Offer.

### ***Defined terms***

A number of defined terms are used in this Target's Statement. These terms are explained in section 9 of this document.

### ***No account of personal circumstances***

This Target's Statement does not take into account your individual objectives, financial situation or particular needs. It does not contain personal financial or taxation advice. The Uecomm Directors encourage you to seek your own independent financial and taxation advice before making a decision as to whether or not to accept the Offer.

### ***Disclaimer as to forward looking statements***

In addition to the historical information that is contained in this Target's Statement, some of the statements appearing in this Target's Statement may be in the nature of forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industry in which Uecomm operates as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement. None of Uecomm, Uecomm's officers, any persons named in this Target's Statement or any person involved in the preparation of this Target's Statement, makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law.

The forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

### ***ASIC disclaimer***

A copy of this Target's Statement has been lodged with the Australian Securities and Investments Commission (**ASIC**). Neither ASIC nor any of its officers take any responsibility for the content of this Target's Statement.



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25 June 2004

Dear Shareholders

### **Takeover bid by Optus**

On 21 May 2004, SingTel Optus Pty Limited announced a takeover bid, through its wholly owned subsidiary Optus Networks Pty Limited (**Optus**), to acquire all of the issued shares of Uecomm Limited (**Uecomm**).

Optus is offering 40 cents cash for each of your ordinary Shares in Uecomm (**Offer**).

### **Uecomm's Independent Directors<sup>1</sup> unanimously recommend you ACCEPT THE OFFER for all of your Uecomm Shares in the absence of a superior proposal.**

The key reasons for the Independent Directors' recommendation to accept the Offer include:

- 1 The Independent Expert has concluded that the Offer is fair and reasonable.
- 2 Uecomm's 66% majority shareholder, Alinta Limited, has conducted a comprehensive strategic review of its investment in Uecomm and currently intends to accept the Offer. The Offer is the only proposal to result from Alinta's review which meets Alinta's share price expectations and provides an offer to Uecomm's minority shareholders and Uecomm's Independent Directors believe there is a low likelihood of a superior proposal being made for your Shares.
- 3 Optus' Offer price of 40 cents per Share represents a significant premium to Uecomm's Share price before the announcement of the bid (please refer to section 2.2 of the Target's Statement).
- 4 The Optus Offer represents a 23% premium to the effective price Uecomm's major shareholder, Alinta Limited, will receive under the takeover proposal.
- 5 Uecomm's Share price may fall if Optus' bid does not succeed (please refer to section 1.2 and 2.7 of the Target's Statement).
- 6 Optus' Offer is a straightforward cash offer (please refer to section 1.2 of the Target's Statement).
- 7 No other offer has been made to purchase your Uecomm Shares since Optus' bid was announced.

You should also be aware that all of Uecomm's Directors who hold Uecomm Shares intend to accept Optus' Offer in respect of all of their Uecomm Shares.

The Independent Directors recommend that you **ACCEPT THE OFFER**. You are encouraged to read both the Bidder's and Target's Statements in full and consider the Optus Offer having regard to your personal circumstances. The Independent Directors encourage you to seek your own independent financial and taxation advice prior to deciding whether to accept the Optus Offer.

If you have any questions concerning the Offer, you may call the Uecomm shareholder information line on **1300 368 987** during normal business hours.

Yours sincerely

**Peter Shore**

Chairman

<sup>1</sup> Peter Shore, John Craven and Robert Stewart are the Independent Directors, please refer to section 1.4 of the Target's Statement.

**UECOMM'S INDEPENDENT DIRECTORS UNANIMOUSLY RECOMMEND YOU ACCEPT THE OFFER FOR ALL OF YOUR UECOMM SHARES IN THE ABSENCE OF A SUPERIOR PROPOSAL. ALL OF UECOMM'S DIRECTORS WHO HOLD UECOMM SHARES CURRENTLY INTEND TO ACCEPT THE OFFER FOR THEIR UECOMM SHARES IN THE ABSENCE OF A SUPERIOR OFFER.**

**The Independent Expert has concluded that the Offer is fair and reasonable.**

Grant Samuel & Associates Pty Limited, the Independent Expert, has given an opinion that the Optus Offer is fair and reasonable for Uecomm shareholders. The Independent Expert is independent from each of Uecomm, Optus and Alinta. The Independent Expert's report concludes that Uecomm's Shares are worth (at the date of the report) between 36 cents and 44 cents each and that Optus' Offer of 40 cents per Share is fair and reasonable.

**Uecomm's majority shareholder Alinta currently intends to accept the Offer and Uecomm's Independent Directors believe there is a low likelihood of a superior proposal being made for your Shares.**

Alinta has previously expressed its intention to exit its investment in Uecomm and to enable it to do so, it has undertaken a comprehensive strategic review of its options. The Optus Offer and the proposal for Optus to acquire Alinta's investments in Uecomm is the only proposal which has emerged which meets Alinta's Share price expectations and provides an offer to Uecomm's minority shareholders.

The Independent Directors of Uecomm are currently not aware of any other alternative proposal, and believe that there is a low likelihood of a superior proposal emerging, to acquire all of Uecomm's Shares.

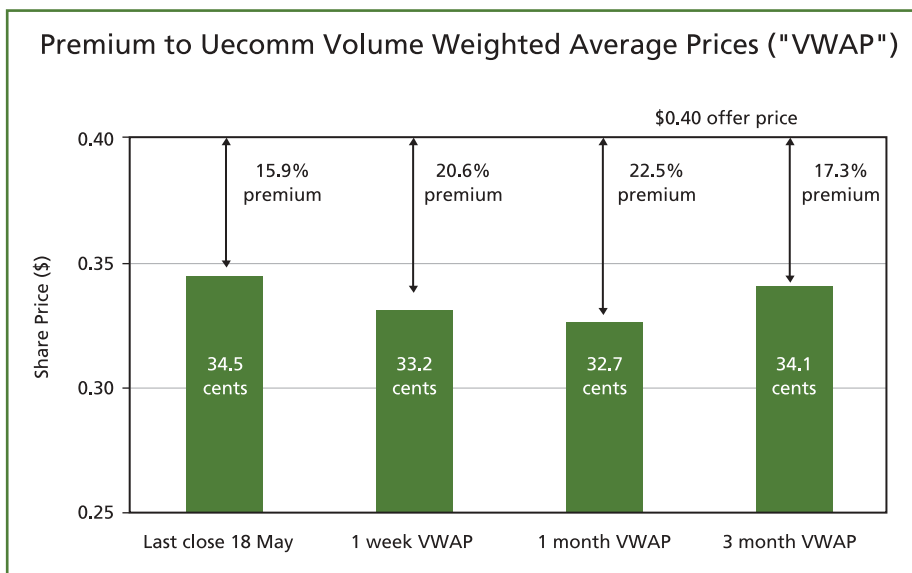
The Independent Directors of Uecomm believe there is a low likelihood of a superior proposal being made for your Shares for the following reasons:

- The Optus Offer is the only proposal acceptable to Alinta to emerge from Alinta's comprehensive review of its options to exit its investment in Uecomm and provides an offer for Uecomm's minority shareholders.
- Optus and Alinta have entered into an agreement which governs the acquisition of 19.99% of Uecomm Shares by Optus from Alinta and this stake could have the effect of deterring a rival bidder for Uecomm.
- Optus' bid is subject to a 65% minimum acceptance condition and Alinta is the only Uecomm shareholder which holds enough Shares to satisfy this condition.
- Alinta has stated that its current intention is to accept the Optus Offer in the absence of a higher offer for its Uecomm interests.
- There have been no other proposals made to acquire your Uecomm Shares since Optus' bid was announced.

**Optus' Offer represents a significant premium to Uecomm's Share price before the announcement of the bid.**

The Offer price of 40 cents per Share represents a significant premium to Uecomm's trading price prior to the announcement of the takeover bid from Optus. It represents:

- a 15.9% premium to the closing Share price of 34.5 cents on 18 May 2004 (which was the last full trading day before Uecomm Shares were placed in a trading halt prior to the announcement of Optus' takeover offer);
- a 20.6% premium to the volume weighted average trading price of Uecomm Shares of 33.2 cents over the week prior to 18 May 2004;
- a 22.5% premium to the volume weighted average trading price of Uecomm Shares of 32.7 cents over the month prior to 18 May 2004; and
- a 17.3% premium to the volume weighted average price of Uecomm Shares of 34.1 cents for the 3 months prior to 18 May 2004.



**The Optus Offer represents a 23% premium to the effective price Uecomm's major shareholder, Alinta Limited, will receive.**

Alinta (Uecomm's 66% majority shareholder) and Optus entered into a pre-bid agreement which is set out in Annexure A of Optus' Bidder's Statement. Under this agreement Alinta has agreed to rebate Optus a certain proportion of the price Optus will pay Alinta for the Shares Alinta accepts into the Offer. The effect of this rebate is that Uecomm's minority shareholders will receive 7.5 cents per Share, or 23%, more than Alinta will receive if they accept Optus' Offer for their Shares.

**Uecomm's Share price may fall if Optus' bid does not succeed.**

While there are many factors which affect Uecomm's Share price and Uecomm's Directors are unable to predict the price that Uecomm Shares will trade at in the future, Uecomm's Share price may fall after Optus' takeover bid closes if Optus does not become entitled to compulsorily acquire all outstanding Uecomm Shares. This is because Uecomm's Share Price may suffer from a reduced trading liquidity and may not sustain any takeover premium.

**Optus' Offer is a straightforward cash offer.**

If you accept Optus' Offer, Optus will pay you 40 cents cash for each of your Uecomm Shares. You will not incur any brokerage or stamp duty if you accept Optus' Offer for your Uecomm Shares.

**No other offer has been made to purchase your Uecomm Shares since Optus' bid was announced.**

You should be aware that there has been no other proposal to acquire your Uecomm Shares which has been announced since Optus announced its bid. The Independent Directors believe there is a low likelihood of a rival bid emerging and recommend that you **ACCEPT** Optus' Offer for all of your Uecomm Shares.

# 1 DIRECTORS' RECOMMENDATION

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## 1.1 Summary of Offer

The price offered by Optus under its takeover bid is 40 cents for each Uecomm Share.

The Offer is subject to a number of conditions which are summarised in section 4.2 of this Target's Statement.

## 1.2 Independent Directors' recommendations

**After taking into account each of the matters in this Target's Statement (including the Independent Expert's Report) and in the Bidder's Statement, the Independent Directors unanimously recommend that you ACCEPT THE OFFER in respect of all of your Uecomm Shares (in the absence of a superior offer).**

In considering whether to accept the Offer, the Independent Directors encourage you to:

- read the whole of this Target's Statement (including the Independent Expert's Report) and the Bidder's Statement;
- have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances;
- consider the alternatives noted in section 3 of this Target's Statement; and
- obtain financial advice from your own broker or financial adviser regarding the Offer and obtain taxation advice on the effect of accepting the Offer.

The key reasons for the Independent Directors' unanimous recommendation to **ACCEPT THE OFFER** are:

- The Independent Expert has concluded that the Offer is fair and reasonable.
- Uecomm's 66% majority shareholder, Alinta Limited, has conducted a comprehensive strategic review of its investment in Uecomm and currently intends to accept the Offer (in the absence of a higher offer for its Uecomm interests). The Offer is the only proposal to result from Alinta's review which meets Alinta's Share price expectations and provides an offer to Uecomm's minority shareholders and Uecomm's Independent Directors believe there is a low likelihood of superior proposal being made for your Shares.
- Optus' Offer price of 40 cents per Share represents a significant premium to Uecomm's Share price before the announcement of the bid (section 2.2 of the Target's Statement contains details of the premiums).
- The Optus Offer represents a 23% premium to the effective price Uecomm's major shareholder, Alinta Limited, will receive after providing a 7.5 cent per Share rebate to Optus.
- Uecomm's Share price may fall if Optus' bid does not succeed. While there are many factors which affect Uecomm's Share price and Uecomm's Directors are unable to predict the price that Uecomm Shares will trade at in the future, Uecomm's Share price may fall if Optus' takeover bid is unsuccessful, due to a reduced trading liquidity and Uecomm's Share Price may not sustain any takeover premium.
- Optus' Offer is a straightforward cash offer. If you accept Optus' Offer, Optus will pay you 40 cents cash for each of your Uecomm Shares. You will not incur any brokerage or stamp duty if you accept Optus' Offer for your Uecomm Shares.
- No other offer or proposal has been made to purchase your Uecomm Shares since Optus' bid was announced. The Independent Directors believe there is a low likelihood of a rival bid emerging and recommend that you **ACCEPT** Optus' Offer for all of your Uecomm Shares.

### 1.3 Intentions of your Directors in relation to the Offer

Each Director of Uecomm who has a relevant interest in Uecomm Shares intends to **ACCEPT THE OFFER** in relation to those Shares and the Shares held by any of their associates, unless a superior offer is announced.

### 1.4 Directors of Uecomm

As at the date of this Target's Statement, the Directors of Uecomm are:

Name	Position
Peter Shore	Independent, Non-Executive Chairman
John Craven	Independent, Non-Executive Director
Robert Stewart	Independent, Non-Executive Director
Timothy Healey	Non-Executive Director
John Cahill	Non-Executive Director
Robert Browning	Non-Executive Director
Christopher Indermaur	Non-Executive Director

Each of Peter Shore, John Craven and Robert Stewart desires to make, and considers himself justified in making, a recommendation to Uecomm shareholders. Messrs Shore, Craven and Stewart are referred to in this section and elsewhere in this Target's Statement as the **Independent Directors**.

Each of Timothy Healey, John Cahill, Robert Browning and Christopher Indermaur holds a position as a director and/or an executive of Alinta, which has entered into a pre-bid agreement with Optus to grant certain rights over its Shares in Uecomm to Optus. In addition, due to their positions with Alinta, Messrs Healey, Cahill, Browning and Indermaur were not party to the discussions that the Independent Directors had with Optus. For this reason, Messrs Healey, Cahill, Browning and Indermaur do not consider it is appropriate for them to make, and they decline to make, a recommendation to Uecomm shareholders.

## 2 IMPORTANT MATTERS FOR UECOMM SHAREHOLDERS TO CONSIDER

### 2.1 Optus' Offer

Optus announced its intention to make its takeover bid for Uecomm on 21 May 2004. A summary of the Offer is contained in section 4 of this Target's Statement.

Optus' Offer is open for acceptance until 7.00pm Sydney time on 3 August 2004, unless it is extended or withdrawn. (Sections 4.5 and 4.6 of this Target's Statement describe the circumstances in which Optus can extend or withdraw its Offer).

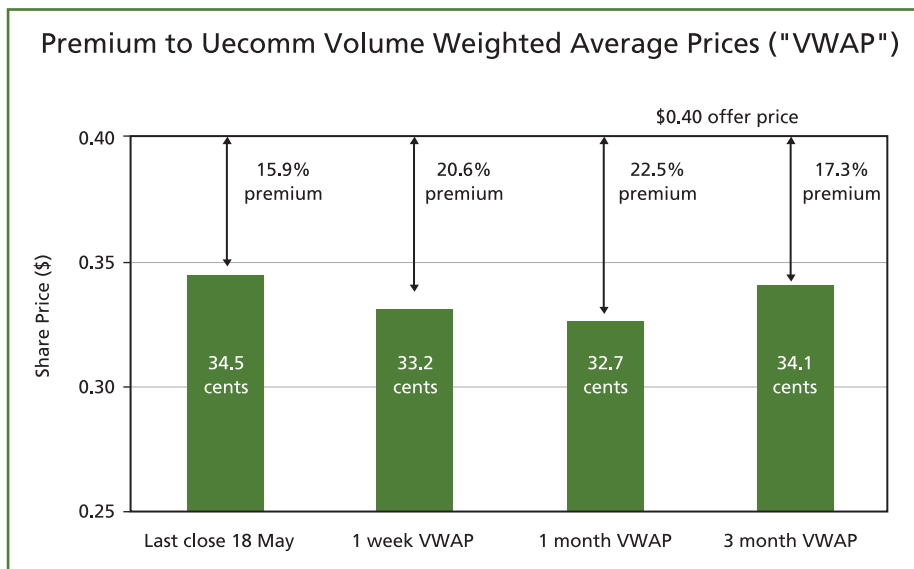
### 2.2 Value of Optus' Offer

The Offer price of 40 cents per Share represents a significant premium to Uecomm's trading price prior to the announcement of the takeover bid from Optus. It represents:

- a 15.9% premium to the closing Share price of 34.5 cents on 18 May 2004 (which was the last full trading day before Uecomm Shares were placed in a trading halt prior to the announcement of Optus' takeover offer);
- a 20.6% premium to the volume weighted average trading price of 33.2 cents over the week prior to 18 May 2004;
- a 22.5% premium to the volume weighted average trading price of 32.7 cents over the month prior to 18 May 2004; and
- a 17.3% premium to the volume weighted average price of Uecomm Shares of 34.1 cents for the 3 months prior to 18 May 2004.

For Uecomm's shareholders (excluding Alinta), the Offer price of 40 cents per Share is also equivalent to:

- An enterprise value to EBITDA multiple of 12.9 times Uecomm's reported EBITDA for the year ended 31 December 2003; and
- An enterprise value to EBITDA multiple of 8.7 times Uecomm's publicly stated EBITDA target for the year ended 31 December 2004.



### **2.3 The strategic review process and the low likelihood of a superior offer**

Since acquiring its 66% holding in Uecomm, Alinta has continually expressed the view that it is not a long term holder of its investment. Alinta, with Uecomm's co-operation, conducted a comprehensive strategic review of its exit options relating to its Uecomm holding.

During this review, Uecomm provided due diligence information under strict confidentiality undertakings to a range of parties potentially interested in acquiring Alinta's stake in Uecomm. These parties included companies in the Australian telecommunications industry and certain private equity investors. In early March 2004, Alinta, with Uecomm's co-operation, also attempted a market placement of its Shares in Uecomm to institutional and sophisticated retail investors. The placement was unsuccessful as demand for Uecomm Shares during the placement did not, according to Alinta, meet its price expectations.

Optus' Offer is currently the only offer to emerge from the strategic review process that meets Alinta's Share price expectations and also provides an offer for minority shareholders. Uecomm's Independent Directors and the Independent Expert, Grant Samuel & Associates Pty Limited, consider Optus' Offer to be fair and reasonable for minority shareholders.

Given Alinta's expressed intentions to exit the Uecomm Share register, the Independent Directors believe that, had Optus' Offer not emerged, it is likely that Alinta would have continued to actively explore its options to exit the Uecomm register. The Independent Directors believe that as a result of this, Uecomm would have continued to experience uncertainty in its shareholder register composition and this uncertainty would have, amongst other things, created an overhang in relation to demand for Uecomm Shares and would have had a negative impact on staff motivation and customer support for the company (which could have affected the performance of the business going forward).

The Independent Directors advise that, in the absence of Optus' Offer, a divesting of Alinta's shareholding in Uecomm in the future may not entail an offer for all of Uecomm's Shares. Optus' Offer is currently the only proposal, of which the Independent Directors are aware, which also meets Alinta's Share price expectations and provides an offer for Uecomm's minority shareholders.

The Directors will advise you if a superior offer emerges before the end of the Offer Period. The Independent Directors believe, however, that there is a low likelihood of a superior proposal being made for your Shares.

### **2.4 Optus' intentions and the commercial desirability of the takeover**

The Independent Directors note that Optus has indicated publicly that:

- Uecomm is a growth company and is a natural complement to Optus' existing strength in the corporate and government segment.
- In the event that Optus is successful in acquiring 100% of Uecomm, Optus' current intention is to retain Uecomm as a stand-alone channel to focus on the mid-sized business market (50-500 employees) and government organisations.
- Optus believes that customers will benefit from the acquisition through a greater focus and an improved range of services.

Given Optus' presently stated intentions in regards to the operation of the Uecomm business, the Independent Directors believe that combining Uecomm and Optus pursuant to the Offer would benefit Uecomm's business. It will enable customers of Uecomm to benefit from the Offer through greater focus and an improved range of services at competitive prices. As there may be some duplicate functions and overlapping activities, some staff positions may become redundant. Optus has stated that where possible, it will offer affected employees redeployment to other positions.

## 2.5 Independent Expert's Report

Annexure A of this Target's Statement includes a copy of a report by Grant Samuel & Associates Pty Limited (an independent expert who has no association with Uecomm, Optus or Alinta) stating whether, in its opinion, Optus' Offer of 40 cents cash for each Share is fair and reasonable and giving reasons for forming that opinion.

**By way of summary, Grant Samuel has concluded that the Offer is fair and reasonable and within its valuation range of 36 cents to 44 cents per Uecomm Share.**

Grant Samuel's other key conclusions include the following:

- Assessment of the full underlying value attributable to Uecomm Shares is subject to considerable uncertainty.
- The Optus Offer followed an extensive process to maximise the value realised by Alinta on the divestment of its controlling shareholding in Uecomm.
- Because the value of the Optus Offer is fair, it is by definition reasonable. In Grant Samuel's view, there are also other compelling reasons for Uecomm shareholders to accept the Optus Offer:
  - The Optus Offer represents a substantial premium to the effective price that Alinta is prepared to accept for its controlling shareholding;
  - The Optus offer represents a meaningful premium to the recent Uecomm Share price;
  - While the valuation of Uecomm is subject to considerable uncertainty, in Grant Samuel's view it is difficult to argue that the underlying value of Uecomm is significantly greater than Grant Samuel's valuation range. The assumptions required to support a significantly higher valuation are, in Grant Samuel's view, unlikely to be sustainable; and
  - Even if shareholders took a different view on value and concluded that the value of Uecomm was above 40 cents per Share, it is likely that it would still be in their best interests to accept the Optus Offer. Given the extensive process undertaken by Alinta to divest its shareholding, and the ample opportunity for any third party to make a counter-offer in response to the Optus Offer, it appears unlikely that a higher offer for Uecomm will be forthcoming. Shareholders who do not accept the Optus Offer run the risk that they will ultimately hold Shares in a highly illiquid company, with no assurance that they will ever be able to realise full underlying value.

The Directors recommend that you read the report in full.

## 2.6 Substantial holders

The following entities have (together with any of their associates) relevant interests in 5% or more of Uecomm's Shares.

Name	Shares	Relevant interest in Shares (%)
Alinta	335,000,000	65.78
Optus	101,892,600	19.99

Optus and Alinta have entered into an agreement which governs the acquisition of 19.99% of Uecomm Shares by Optus from Alinta. Under the Corporations Act each is considered to have a "relevant interest" in these Shares. Accordingly, they are included in the above table for each holder. Please refer to sections 3.1 and 7.2(a) of the Bidder's Statement.

## 2.7 Minority ownership consequences

Optus' Offer is subject to a 65% minimum acceptance condition. Optus has the right, in certain circumstances, to free its Offer from this condition. Alinta holds approximately 65.78% of Uecomm's issued Shares, and has granted Optus options to acquire just less than 20% of Uecomm's issued Shares. Alinta has also indicated that its current intention is to accept the Offer in respect of the remaining Shares it holds in Uecomm in the absence of a higher offer being publicly announced or made to Alinta in respect of its interests in Uecomm. Alinta's intention is to accept the Offer within two Business Days after all the conditions of the Offer have been satisfied or the Offer has been declared by Optus to be free of all such conditions, other than the minimum acceptance condition.

If Optus acquires 90% of Uecomm's Shares and all the conditions of the Offer are fulfilled or waived, Optus will be entitled to compulsorily acquire all outstanding Uecomm Shares pursuant to the Corporations Act. Optus has indicated in section 5.3 of part 1 of its Bidder's Statement that if it meets the required thresholds that will entitle it to proceed to compulsory acquisition of the outstanding Uecomm Shares, it intends to exercise that right (see section 4.12 of this Target's Statement).

If Alinta accepts the Optus Offer in respect of all of its Shares in Uecomm (and Optus does not become entitled to compulsorily acquire minority shareholders' Shares), shareholders who do not accept the Offer would continue as **minority shareholders** in Uecomm. This has a number of possible implications, including:

- Optus would be in a position to control the composition of Uecomm's Board of Directors and senior management, and to control the strategic direction of the businesses of the Uecomm group. Optus has stated in section 5.4 of the Bidder's Statement that, in these circumstances, it will seek to implement its intentions as set out in section 5.3 of the Bidder's Statement as far as possible but that its ability to do so will be subject to applicable legal and regulatory requirements which may delay or affect the extent of their implementation. The statements in section 5 of the Bidder's Statement are said to be statements of current intentions only and may change as new information becomes available to Optus or circumstances change.
- Optus may not realise all of the benefits of the Uecomm acquisition set out in section 5 of the Bidder's Statement.
- If Optus acquires 75% or more of the Shares in Uecomm it will be able to pass a special resolution of Uecomm. This will enable Optus to, among other things, change Uecomm's constitution.

Accordingly, the Independent Directors believe that there is a potential risk that Uecomm shareholders who do not accept the Offer may continue to be minority shareholders in a company that, after the Offer closes, is under the management of a controlling shareholder (Optus) and has reduced trading liquidity. Whilst the Independent Directors cannot predict the actual effect this will have on Uecomm's Share price, it may result in a decrease in Uecomm's Share price as Uecomm's Share price may not sustain any takeover premium and may suffer a liquidity discount.

## 2.8 Taxation consequences for shareholders

The taxation consequences of accepting the Offer depend on a number of factors and will vary depending on your particular circumstances. A general outline of the Australian taxation considerations of accepting the Offer are set out in section 7 of this Target's Statement/section 6 of part 1 of the Bidder's Statement.

You should carefully read and consider the taxation consequences of accepting the Offer. The outline provided in this Target's Statement is of a general nature only and you should seek your own specific professional advice as to the taxation implications applicable to your circumstances.

### 3 YOUR CHOICES AS A UECOMM SHAREHOLDER

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**Your Independent Directors unanimously recommend that you ACCEPT the Offer for all of your Uecomm Shares (in the absence of a superior offer).**

As a Uecomm shareholder you have three choices currently available to you:

**(a) Accept the Offer**

Uecomm shareholders may elect to accept Optus' Offer of 40 cents for each of their Shares.

Uecomm shareholders will not incur any brokerage charge on the disposal of their Shares. However, Shareholders who accept the Offer may have a capital gain or a capital loss on the disposal of their Shares and therefore, if they have a capital gain, may be liable for capital gains tax (see section 7 of this Target's Statement).

Details about how to accept the Offer are contained in clause 3 of part 2 of the Bidder's Statement.

**(b) Sell your Shares on market**

During a takeover, shareholders in a target company can still sell their Shares on market for cash.

On 24 June 2004 Uecomm's share price closed at 39 cents, a 2.5% discount to Optus' Offer price of 40 cents per Share. The latest price for Uecomm Shares may be obtained from the ASX website [www.asx.com.au](http://www.asx.com.au).

Shareholders who sell their Shares on market may have a capital gain or a capital loss on the disposal of their Shares and therefore, if they have a capital gain, may be liable for capital gains tax (see section 7 of this Target's Statement) and may incur a brokerage charge.

Uecomm shareholders who wish to sell their Shares on market should contact their broker for information on how to execute that sale.

**(c) Do not accept the Offer and do not sell your Shares on market**

Shareholders who do not wish to accept the Offer or sell their Shares on market should do nothing. Shareholders should be aware, however, that Optus has stated in the Bidder's Statement that it intends to compulsorily acquire any Uecomm Shares in which it does not have a relevant interest if it becomes entitled to do so.

If you do not accept the Offer and your Shares are compulsorily acquired, you may face a delay in receiving the consideration for your Shares compared with shareholders of Uecomm who accept Optus' Offer.

Section 2.7 of this Target's Statement contains further information about minority ownership consequences.

## 4 KEY FEATURES OF OPTUS' OFFER

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### 4.1 Consideration payable to shareholders who accept the Offer

Optus is offering 40 cents cash for each Uecomm Share.

### 4.2 Conditions to the Offer

Optus' Offer is subject to a number of conditions. Those conditions are set out in full in clause 7 of part 2 of the Bidder's Statement.

By way of broad overview, the conditions to the Offer are that:

- (a) Optus obtains the necessary foreign investment approval;
- (b) the Australian Competition and Consumer Commission does not object to Optus acquiring Uecomm;
- (c) Optus and its associates have relevant interests in at least 65% of Uecomm's issued Shares during the Offer Period;
- (d) no event occurs or is disclosed that has, or is reasonably likely to have, a material adverse effect on the business of Uecomm or the Uecomm group of companies between 21 May 2004 and the end of the Offer Period;
- (e) Uecomm or any of its subsidiaries does not acquire or dispose of any asset with a value greater than \$5 million between 21 May 2004 and the end of the Offer Period;
- (f) there is no standard prescribed event relating to Uecomm (as set out in section 652C of the Corporations Act) between 21 May 2004 and the end of the Offer Period;
- (g) Optus does not become aware of any untrue statement made by Uecomm which has, or is reasonably likely to have, a material adverse effect on Uecomm's business between 21 May 2004 and the end of the Offer Period; and
- (h) there is no regulatory action taken by a public authority which has a material adverse impact on the Optus takeover bid between 21 May 2004 and the end of the Offer Period.

As at the date of this Target's Statement, Uecomm is not aware of any act, omission, event or fact that would result in any of the conditions to the Offer not being satisfied.

### 4.3 Notice of Status of Conditions

Clause 7.6 of part 2 of the Bidder's Statement indicates that Optus will give a Notice of Status of Conditions to the ASX and Uecomm on the date specified in that clause.

Optus is required to set out in its Notice of Status of Conditions:

- whether the Offer is free of any or all of the conditions;
- whether, so far as Optus knows, any of the conditions have been fulfilled; and
- Optus' voting power in Uecomm.

If the Offer Period is extended by a period before the time by which the Notice of Status of Conditions is to be given, the date for giving the Notice of Status of Conditions will be taken to be postponed for the same period. In the event of such an extension, Optus is required, as soon as practicable after the extension, to give a notice to the ASX and Uecomm that states the new date for the giving of the Notice of Status of Conditions.

If a condition is fulfilled (so that the Offer becomes free of that condition) during the Offer Period but before the date on which the Notice of Status of Conditions is required to be given, Optus must, as soon as practicable, give the ASX and Uecomm a notice that states that the particular condition has been fulfilled.

Under the pre-bid agreement between Optus and Alinta which is set out in Annexure A of Optus' Bidder's Statement, Optus is required (except in certain limited circumstances) to free its bid of all conditions (except the minimum acceptance condition) after the conditions described in sections 4.2(a) and 4.2(b) have been satisfied.

#### **4.4 Offer Period**

Optus' Offer is open for acceptance from 2 July 2004 until 7.00pm Sydney time on 3 August 2004.

The circumstances in which Optus may extend or withdraw its Offer are set out in section 4.5 and section 4.6 respectively of this Target's Statement.

#### **4.5 Extension of the Offer Period**

Optus may extend the Offer Period at any time before giving the Notice of Status of Conditions (referred to in section 4.2) while the Offer is subject to conditions. However, if the Offer is unconditional (that is, all the conditions are fulfilled or freed), Optus may extend the Offer Period at any time before the end of the Offer Period.

In addition, there will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period:

- Optus improves the consideration offered under the Offer; or
- Optus' voting power in Uecomm increases to more than 50%.

If either of these two events occurs, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurs.

#### **4.6 Withdrawal of Offer**

Optus may not withdraw the Offer made to you if you have already accepted it. Optus may, however, withdraw the Offer prior to your accepting the Offer, with the written consent of ASIC and subject to the conditions (if any) specified in such consent.

#### **4.7 Effect of acceptance**

The effect of acceptance of the Offer is set out in clause 5 of part 2 of the Bidder's Statement. Uecomm shareholders should read these provisions in full to understand the effect that acceptance will have on their ability to exercise the Rights attaching to their Shares and the representations and warranties which they give by accepting of the Offer.

#### **4.8 Your ability to withdraw your acceptance**

You have limited rights to withdraw your acceptance of the Offer.

You may only withdraw your acceptance of the Offer if Optus varies the Offer in a way that postpones, for more than one month, the time when Optus needs to meet its obligations under the Offer. This will occur if Optus extends the Offer Period by more than one month and the Offer is still subject to conditions.

#### **4.9 When you will receive your consideration if you accept the Offer**

Optus has stated that, if you accept the Offer (and return any document required with your acceptance), payment will be dispatched to you on or before the later of:

- 7 Business Days after the date the Offer becomes or is declared unconditional; and
- 7 Business Days after the date you accept the Offer if the Offer is, at the time of acceptance, unconditional.

#### **4.10 Effect of an improvement in price on shareholders who have already accepted the Offer**

If Optus improves the Offer price under its takeover bid, all Uecomm shareholders (other than Alinta), whether or not they have accepted the Offer before that improvement in price, will be entitled to the benefit of that improved price.

#### **4.11 Lapse of Offer**

The Offer will lapse if the Offer conditions are not freed or fulfilled by the end of the Offer Period. In that case, all contracts resulting from acceptance of the Offer, and all acceptances that have not resulted in binding contracts are void. In that situation, you will be free to deal with your Uecomm Shares as you see fit.

#### **4.12 Compulsory acquisition**

Optus has indicated in section 5.3(a) of part 1 of its Bidder's Statement that if it meets the required thresholds that will entitle it to proceed to compulsory acquisition of the outstanding Uecomm Shares, it intends to exercise that right.

Under section 661A of the Corporations Act, Optus will be entitled to compulsorily acquire any Uecomm Shares in respect of which it has not received an acceptance of its Offer on the same terms as the Offer if, during or at the end of the Offer Period, Optus and its associates have a relevant interest in at least 90% (by number) of the Uecomm Shares. The consideration per Share that will be payable to Uecomm shareholders whose Shares are compulsorily acquired will be the same as that payable under Optus' Offer.

If this threshold is met, Optus will have one month after the end of the Offer Period within which to give compulsory acquisition notices to Uecomm shareholders who have not accepted the Offer. Uecomm shareholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant shareholder to establish to the satisfaction of a Court that the terms of the Offer do not represent "fair value" for their Uecomm Shares. Uecomm shareholders should be aware that the Independent Expert has concluded that Optus' Offer price of 40 cents per Share is, in its opinion, fair and reasonable.

If compulsory acquisition occurs, Uecomm shareholders who have their Uecomm Shares compulsorily acquired are likely to be paid for their Shares (which will be at the same price per Share for accepting Uecomm shareholders) approximately five to six weeks after the compulsory acquisition notices are dispatched to them. This is later than the time by which Optus will pay Uecomm shareholders who accept the Offer in respect of their Shares.

## **5 FINANCIAL INFORMATION AND RELATED MATTERS**

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### **5.1 Uecomm Financial Position**

Uecomm has published financial statements for the full year ended 31 December 2003 and has also publicly announced its unaudited results for the quarter ended 31 March 2004.

Uecomm has also released full year forecasts for 2004 and most recently reiterated these forecasts at its annual general meeting on 25 May 2004. As it is now near the end of the second quarter, Uecomm is in a position to refine the operating revenue forecast to a range between \$70 million to \$75 million. The EBITDA forecast remains unchanged and is expected to be approximately \$30 million. The \$30 million excludes one-off costs associated with the sale process and Optus takeover.

Except as set out elsewhere in this Target's Statement, the Directors are not aware of any material change to the financial position of Uecomm from what has been publicly disclosed.

### **5.2 Financial Reporting Section of Bidder's Statement**

In section 5.3(f) of the Bidder's Statement, Optus states that its limited due diligence review identified some potential differences in the accounting principles adopted by Uecomm and Optus in relation to three specific areas. In addition, while Optus also states that it is not acting on a view that Uecomm's financial statements do not comply with applicable accounting standards, it intends to undertake a review of Uecomm's treatment of the items identified in section 5.3(f), and, if it deems appropriate, align Uecomm's application of accounting policies to its own.

The Directors have previously declared that Uecomm's financial statements comply with Australian Accounting Standards, the Corporations Regulations and other mandatory professional reporting requirements. Moreover, Uecomm's external auditors, KPMG, have previously issued an unqualified audit report on Uecomm's 2003 Annual Financial Report.

## 6 INFORMATION RELATING TO YOUR DIRECTORS

### 6.1 Interests and dealings in Uecomm securities

#### (a) Interests in Uecomm Shares and Options

As at the date of this Target's Statement, your Directors had the following relevant interests in Shares and Options:

Director	Number of Uecomm Shares (including held by associates)	Number of Uecomm Options	Uecomm Loan Share Plan	Uecomm Investment Share Plan
Peter Shore	1,400,000	240,000	Nil	808,000
John Craven	10,000	136,300	26,300	Nil
Robert Stewart	50,554	136,300	26,300	Nil
Timothy Healey	12,000	Nil	Nil	Nil
John Cahill	Nil	Nil	Nil	Nil
Robert Browning	Nil	Nil	Nil	Nil
Christopher Indermaur	Nil	Nil	Nil	Nil
<b>Total</b>	<b>1,472,554</b>	<b>512,600</b>	<b>52,600</b>	<b>808,000</b>

None of Uecomm's Directors have any Uecomm Performance Rights.

#### (b) Dealings in Uecomm Shares and Options

No Director of Uecomm has acquired or disposed of a relevant interest in any Shares or Options in the four month period ending on the date immediately before the date of this Target's Statement.

### 6.2 No dealings in Optus securities

No Director of Uecomm holds or, in the four month period before the date of this Target's Statement, has acquired or disposed of, a relevant interest in any securities in Optus or its ultimate parent company, SingTel.

### 6.3 No benefits or agreements

#### (a) No benefits in connection with retirement from office

As a result of the Offer, no person has been, or will be, given any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that person, or someone else, from a board or managerial office of Uecomm or related body corporate of Uecomm.

#### (b) No material agreements connected with or conditional on the Offer

There are no material agreements made between any Director of Uecomm and any other person in connection with, or conditional upon, the outcome of the Offer other than in their capacity as a holder of Shares or Options.

**(c) No benefits from Optus**

None of the Directors of Uecomm has agreed to receive, or is entitled to receive, any benefit from Optus which is conditional on, or is related to, the Offer, other than in their capacity as a holder of Shares or Options.

**(d) No material interests of Directors in contracts with Optus**

None of the Directors of Uecomm has any material interest in any contract entered into by Optus.

## 7 TAXATION CONSIDERATIONS FOR UECOMM SHAREHOLDERS

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The following is intended to provide only a general overview of the Australian taxation implications for Australian residents in disposing of Uecomm Shares. The summary is not intended to be comprehensive and is based upon income tax legislation currently in force as at the date of this Target's Statement.

Uecomm shareholders should not rely on these comments as advice in relation to their own affairs. The taxation laws are complex and there could be implications in addition to those generally described below. It is recommended that Uecomm shareholders consult their own tax advisers for advice applicable to their individual needs and circumstances. Uecomm does not accept any responsibility for tax implications for individual shareholders.

The implications for non-resident shareholders will vary according to their particular circumstances. It is recommended that non-resident Uecomm shareholders consult their own tax advisers for advice applicable to their jurisdiction and individual needs and circumstances.

Directors, employees or executives who hold Uecomm Shares, Uecomm Options or Uecomm Performance Rights that they received in respect of their employment should also obtain their own independent advice. This overview does not apply in respect of those securities.

### **(a) Disposal of Uecomm Shares held as a capital investment**

Acceptance of an Offer will constitute a disposal of Uecomm Shares (referred to in this Target's Statement as a **CGT Event**).

A taxable capital gain or capital loss may be triggered on the CGT Event.

A taxable gain arises if there is an excess of the proceeds on disposal (40 cents per Uecomm Share) over the cost base of (generally based on the cost of acquiring) the Uecomm Shares.

If an individual makes a capital gain from the disposal of Uecomm Shares which have been held for at least 12 months before disposal, the individual will be taxed on only 50% of the gain.

If a trustee of a superannuation fund makes a capital gain from the disposal of Uecomm Shares which have been held for at least 12 months, the trustee will be taxed on only two thirds of the gain.

A capital loss will arise if the proceeds on disposal are less than the reduced cost base of the Uecomm Shares. A capital loss may only be used to offset capital gains arising in the same or subsequent years of income.

### **(b) Disposal of Uecomm Shares held as revenue assets**

In certain circumstances, for example, where the shareholder is in the business of trading in shares or where the Uecomm Shares were acquired with a dominant purpose of profit-making by sale, Australian resident shareholders may be subject to the general income tax provisions of the tax legislation in respect of profits or losses arising on disposal of Uecomm Shares. (The general income tax rules on CGT rules are designed not to "double count" such profit or losses).

A taxable gain will arise if the consideration received by Uecomm shareholders (40 cents per Uecomm Share) exceeds the tax value of (generally the cost of acquiring) the Uecomm Shares. A loss will arise where the consideration received (40 cents per Uecomm Share) is less than the tax value of the Uecomm Shares. These losses can be used to offset profits or capital gains.

## 8 OTHER MATERIAL INFORMATION

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### 8.1 Issued capital

As at the date of this Target's Statement, Uecomm's issued capital consisted of:

- 509,463,008 fully paid ordinary shares;
- 10,347,670 Uecomm Options; and
- 5,288,429 Uecomm Performance Rights.

### 8.2 Effect of Offer on Uecomm's employee incentive schemes and securities issued under those schemes

Uecomm operates four employee incentive plans. They are the Uecomm Option and Performance Rights Plan, the Uecomm General Share Plan, the Uecomm Investment Share Plan and the Uecomm Loan Share Plan. This section explains how the takeover bid affects securities issued under these incentive plans.

#### (a) Uecomm Option and Performance Rights Plan

Under this Plan, employees have rights to acquire newly issued Uecomm Shares on exercise of their Options or Performance Rights. There are currently 10,347,670 Options and 5,288,429 Performance Rights on issue under the Plan.

There are 2 ways that holders of Options or Performance Rights may participate in benefits available under the Optus takeover bid.

First, the Optus bid extends to any Uecomm Shares issued during the Offer Period as a result of the exercise of an Option or a Performance Right. Therefore, if an employee is able to exercise an Option or Performance Right, he or she may do so and then sell the resulting Uecomm Shares to Optus under the takeover offer, thereby becoming entitled to receive payment of the Offer price of 40 cents per Share, subject to the conditions of the bid. In this regard, the Board of Uecomm has resolved to waive all outstanding conditions (including time and Uecomm Share price performance hurdles) to the exercise of Options and all time based hurdles applicable to Performance Rights which have satisfied business performance hurdles, conditional on the Optus takeover bid becoming unconditional or the bid conditions being satisfied. All Options are still subject to the relevant exercise price requirements attached to each Option. Holders who wish to exercise their Options or Performance Rights are encouraged to discuss the procedures with Uecomm's Company Secretary to ensure the issue of new Shares occurs in a timely manner so that, if desired, they may be sold into the takeover bid before it closes.

Secondly, it may become possible for employees to sell their Options or Performance Rights to Optus without first exercising them. In this regard, if Optus becomes entitled to compulsorily acquire Uecomm Shares (that is, Optus receives acceptances under the takeover bid which give it control of 90% or more of Uecomm's issued Shares), Optus will make a separate offer:

- to acquire Uecomm Options at "fair value", which will be assessed using the Black and Scholes methodology (which is a commonly used methodology for valuing options); and
- to acquire Performance Rights in respect of which performance hurdles have been satisfied at the same price per Performance Right as the final Offer price that Optus offers for each Uecomm Share.

This may confer some advantages to the employees compared to exercising Options or Performance Rights and then selling the resulting Shares into the takeover bid. These advantages may include:

- receiving a price based on Black and Scholes methodology (which may include a component for the time value of the option);

- avoiding the financing cost of exercising an Option; and
- possibly a taxation advantage if the Option or Performance Right has been held for more than 12 months when sold and the employee has previously elected to be taxed under Division 13A of the Income Tax Assessment Act on the acquisition of their Option or Performance Right. This possible taxation advantage arises because of the rules which give an individual a 50% discount on capital gains tax in relation to assets held for 12 months or more. If you think this may be applicable to you, you are advised to seek your own taxation advice.

Optus has only agreed to make a separate offer to purchase the Options and Performance Rights if, and only if, it becomes entitled to proceed to compulsory acquisition. Accordingly, there is a possibility that, if the takeover bid closes without Optus reaching the necessary 90% threshold, holders of Options and Performance Rights who have decided to wait for that offer may find it is too late to exercise their Options or Performance Rights and still accept the Optus offer for Shares issued on exercise of their Options or Performance Rights. It may still be possible to sell the Shares on market, but the prices available may differ from the Offer price.

Optus has also agreed (in the Implementation Agreement) that, if its takeover bid is successful, it will procure that the holders of Performance Rights that have not satisfied their performance hurdles or other conditions will be offered alternative value or an alternative retention plan of no less value, subject to the satisfaction of the performance hurdles or conditions. This may include participation in Optus' existing incentive plans. Uecomm will inform the holders of any developments in this regard.

#### **(b) Uecomm General Share Plan**

Under this Plan, employees are offered up to \$1,000 worth of Uecomm Shares in a year subject to the company's performance. These Shares may not be disposed of for 3 years (unless the employee ceases to be employed by Uecomm). There are currently 591,615 Shares on issue which are subject to the Plan.

Employees who have held Shares under the Plan for 3 years or more are free to deal with those Shares and may sell them to Optus under the takeover offer. Shares which have been held under the Plan for less than 3 years remain subject to the restriction against disposal and may not be sold to Optus under the takeover offer. However, if Optus becomes entitled to compulsorily acquire Shares in Uecomm, this will apply to those Shares as well.

#### **(c) Uecomm Investment Share Plan**

Under this Plan, participating Directors and employees may sacrifice salary and instead receive an issue of Uecomm Shares, which are then held subject to the restrictions and conditions of the Plan, including restrictions against disposals. There are currently 865,000 Shares on issue under the Plan.

The Uecomm Board of Directors has determined that it will waive the disposal restriction which applies to these Shares on application by the relevant holder. This means that the Shares which are subject to this Plan may be accepted into Optus' Offer (or sold elsewhere). There will be tax consequences on the restrictions being waived – essentially, the holder will be taxed on the value of the Shares when the restriction is waived. Holders are advised to seek their own taxation advice in this regard.

#### **(d) Uecomm Loan Share Plan**

Under this Plan, Uecomm provides non-recourse loans to eligible employees to assist them in acquiring Uecomm Shares. Shares which are on issue under the Plan may not be disposed until the relevant loan has been repaid in full. There are currently 3,022,200 Shares subject to this Plan.

The Plan permits an employee to repay his or her loan in full and, at that time, the restrictions against disposal will be released. This may be advisable if the amount of the loan is less than the value of the Shares. In that case, the Board will facilitate any relevant employee repaying his or her loan by releasing the Shares in exchange for a written direction to the company to effect a sale of the Shares under the takeover offer and to apply the proceeds of sale first to discharge any loan outstanding and then to remit any balance to the employee.

If the value of the loan exceeds the value of the Shares (which is likely to be the case for Shares acquired under this Plan around the time of the float of Uecomm), the Board will not waive the obligation to repay the loan in full. If Optus becomes entitled to compulsory acquisition of Uecomm Shares as a result of the takeover bid, the Shares may be compulsorily acquired. The Board has resolved that, in that event, it will not seek repayment of the loan at that point, nor will it take steps to waive the repayment obligation. The loan will remain outstanding until the employee ceases employment with Uecomm, at which time the loan will be waived automatically in accordance with the rules of the Plan. That should result in no outstanding obligations on any employee.

### **8.3 Implementation Agreement**

Uecomm entered an Implementation Agreement with Optus on 21 May 2004. A conformed copy of the agreement is set out in Annexure B of the Bidder's Statement. The key terms of this agreement include the following:

- (a) Optus agrees to make an Offer under the takeover bid at 40 cents for each Uecomm Share.
- (b) Uecomm agrees to endeavour to ensure that the conditions to the bid are satisfied.
- (c) If Optus becomes entitled to compulsorily acquire Uecomm Shares under Chapter 6A of the Corporations Act, Optus will offer to acquire:
  - (1) Uecomm options at fair value which will be assessed using Black-Scholes option pricing methodology; and
  - (2) any Uecomm Performance Rights in respect of which performance hurdles have been satisfied, at the same price per Performance Right as the final Offer price per Uecomm Share.
- (d) Optus and Uecomm will prepare the formal takeover bid and response. Uecomm will use its best endeavours to ensure that its Target's Statement includes:
  - (1) an unanimous recommendation by the Independent Directors to Uecomm shareholders to accept the Offer in respect of all of their Uecomm Shares, subject to no superior proposal being announced; and
  - (2) a statement by each Independent Director that they intend to accept the Offer in respect of all Uecomm Shares held by that Director or any associate of that Director subject to no superior proposal being announced.
- (e) Uecomm must take certain action to facilitate the novation to Optus of the debt facility (described below) outstanding to Uecomm.
- (f) Uecomm must cooperate and provide all reasonable assistance to Optus in relation to the assumption by Optus or release of Alinta's obligations under the Guarantee Facility.
- (g) Uecomm represents to Optus that it is not in discussions, and will not hold discussions, with any other party in relation to any proposal to acquire more than 20% of Uecomm, or to take an assignment of the debt facility (described below). Uecomm also promises not to seek or facilitate any enquiries about any such proposal, or to allow any third party to conduct due diligence of Uecomm. These restrictions only apply for a limited period of two months after the date of dispatch of this Target's Statement. Some of the restrictions are also subject to an exception if Directors' fiduciary duties require a different course of action.

#### 8.4 Novation of the Uecomm debt facility

Uecomm currently has a debt facility with Alinta Finance Pty Ltd (**Alinta Finance**) under which it is able to borrow up to \$80 million. At the date of this Target's Statement, Uecomm had borrowed \$54 million of this amount.

Alinta Finance has agreed to novate this facility to Optus for \$45.9 million (plus accrued interest which had not been paid at 21 May 2004 and any further amounts drawn down under the facility as at the date of novation) on the following terms:

- (a) The novation will take effect on the date on which all of the conditions of Optus' Offer have been fulfilled, or the Offer has been declared free of conditions by Optus and Optus and its associates have a relevant interest in at least 65% of Uecomm's Shares. The debt facility will then be immediately novated from Optus to Optus Finance Pty Limited.
- (b) Alinta, SingTel Optus and Uecomm have agreed to novate a guarantee and indemnity provided by Alinta, in respect of all the obligations (monetary or non monetary, present or future, actual or contingent) of Alinta Finance, to Uecomm arising under the debt facility to SingTel Optus, in respect of the obligations to be incurred by Optus Finance Pty Ltd.
- (c) Alinta Finance and Alinta have agreed to release and discharge Uecomm, and Uecomm has agreed to release and discharge each of Alinta and Alinta Finance from all relevant claims arising on or after the effective date of the novation.

#### 8.5 Consents

This Target's Statement contains statements made by, or statements said to be based on statements made by, Grant Samuel & Associates Pty Limited. Grant Samuel has consented to the inclusion of each statement it has made in the form and context in which the statements appear and has not withdrawn that consent at the date of this Target's Statement.

This Target's Statement contains statements made by, or statements said to be based on statements made by, Uecomm's Directors. Each of Uecomm's Directors has consented to the inclusion of each statement they have made in the form and context in which the statements appear and has not withdrawn that consent at the date of this Target's Statement.

This Target's Statement contains statements made by, or statements said to be based on statements made by, Alinta. Alinta has consented to the inclusion of each statement it has made in the form and context in which the statements appear and has not withdrawn that consent at the date of this Target's Statement.

As permitted by ASIC Class Order 01/1543 this Target's Statement contains statements which are made, or based on statements made, in documents lodged by Optus with ASIC or given to the ASX, or announced on the Company Announcements Platform of the ASX, by Optus. Pursuant to the Class Order, the consent of Optus is not required for the inclusion of such statements in this Target's Statement. Any Uecomm shareholder who would like to receive a copy of any of those documents may obtain a copy (free of charge) during the Offer Period by contacting the Uecomm shareholder information line on **1300 368 987**. (Any telephone calls to these numbers will, as required by the Corporations Act, be tape recorded, indexed and stored.)

In addition, as permitted by ASIC Class Order 03/635, this Target's Statement may include or be accompanied by certain statements:

- fairly representing a statement by an official person; or
- from a public official document or a published book, journal or comparable publication.

## 8.6 No other material information

This Target's Statement is required to include all the information that Uecomm shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- only to the extent to which it is reasonable for shareholders and their professional advisers to expect to find this information in this Target's Statement; and
- only if the information is known to any Director of Uecomm.

The Directors of Uecomm are of the opinion that the information that Uecomm shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer are:

- the information contained in the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- the information contained in Uecomm's releases to the ASX, and in the documents lodged by Uecomm with ASIC, before the date of this Target's Statement; and
- the information contained in this Target's Statement (including the information contained in the Independent Expert's Report).

The Directors of Uecomm have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate. However, the Directors of Uecomm do not take any responsibility for the contents of the Bidder's Statement, and are not to be taken as endorsing, in any way, any or all statements contained in it, except those statements which are attributed to Uecomm or its Directors.

In deciding what information should be included in this Target's Statement, the Directors of Uecomm have had regard to:

- the nature of the Shares;
- the matters that shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to shareholders' professional advisers; and
- the time available to Uecomm to prepare this Target's Statement.

## 9 GLOSSARY AND INTERPRETATION

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### 9.1 Glossary

In this Target's Statement, the following terms have the following meanings unless the context requires otherwise:

**Alinta** means Alinta Limited (ABN 40 087 857 001).

**ASIC** means Australian Securities and Investments Commission.

**ASX** means Australian Stock Exchange Limited.

**Bidder's Statement** means the bidder's statement of Optus dated 11 June 2004.

**Board** means the board of Directors of Uecomm.

**Business Day** means a day on which banks are open for business in Sydney, Australia, but not a Saturday, Sunday or a public holiday.

**CGT** means capital gains tax.

**Corporations Act** means the Corporations Act 2001 (Cth) (as modified or varied by ASIC).

**Directors** means all of Uecomm's directors (including both the Independent Directors and those associated with Alinta).

**Guarantee Facility** means the debt facility described in the facility deed dated 1 August 2003 between ANZ, Uecomm and Alinta.

**Implementation Agreement** means the agreement dated 21 May 2004 between Optus and Uecomm relating to the implementation of the Offer.

**Independent Directors** means Peter Shore, John Craven and Robert Stewart, being those directors who are not associated with Alinta.

**Independent Expert** or **Grant Samuel** means Grant Samuel & Associates Pty Limited (ABN 28 050 036 372).

**Independent Expert's Report** means the independent expert's report prepared by Grant Samuel and dated 25 June 2004 which is contained in Annexure A to this Target's Statement.

**Notice of Status of Conditions** means Optus' notice disclosing the status of the conditions to the Offer that is required to be given by subsection 630(3) of the Corporations Act.

**Offer** or **Optus' Offer** means the offer by Optus for the Uecomm Shares, which offer is contained in clause 1 of part 2 of the Bidder's Statement.

**Offer Period** means the period during which the Offer will remain open for acceptance in accordance with clause 1.4 of part 2 of the Bidder's Statement.

**Option** or **Uecomm Option** means an option to acquire an unissued Uecomm Share.

**Optus** means Optus Networks Pty Limited (ABN 92 008 570 330).

**Performance Right** or **Uecomm Performance Right** means a right to subscribe for a Share at no consideration under the Option and Performance Rights Plan Rules following the satisfaction of certain performance hurdles.

**Rights** has the meaning given in part 3 of the Bidder's Statement.

**Shares** or **Uecomm Shares** means fully paid ordinary shares in the capital of Uecomm.

**SingTel** means Singapore Telecommunications Limited (ARBN 096 701 567).

**SingTel Optus** means SingTel Optus Pty Limited (ABN 90 052 833 208).

**Target's Statement** means this document (including the annexure), being the statement of Uecomm under Part 6.5 Division 3 of the Corporations Act.

**Uecomm** means Uecomm Limited (ABN 56 079 083 195).

## 9.2 Interpretation

In this Target's Statement, unless the context requires otherwise:

- (1) other words and phrases have the same meaning (if any) given to them in the Corporations Act;
- (2) words importing a gender include any gender;
- (3) words importing the singular include the plural and vice versa;
- (4) an expression importing a natural person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- (5) a reference to a section, clause, annexure and schedule is a reference to a section of, clause of and an annexure and schedule to this Target's Statement as relevant;
- (6) a reference to any statute, regulation, proclamation, ordinance or by-law includes all statutes, regulations, proclamations, ordinances, or by-laws amending, varying, consolidating or replacing it and a reference to a statute includes all regulations, proclamations, ordinances and by-laws issued under that statute;
- (7) headings, boldings and underlinings are for convenience only and do not affect the interpretation of this Target's Statement;
- (8) a reference to time is a reference to time in Sydney, New South Wales; and
- (9) a reference to dollars, \$, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia.

## 10 AUTHORISATION

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This Target's Statement has been approved by a resolution passed by the Board of Directors of Ucomm.

Signed for and on behalf of Ucomm:

Date: 25 June 2004

A handwritten signature in black ink, appearing to read "Peter Shore". The signature is written in a cursive style with a large initial "P".

**Peter Shore**

Chairman

## **ANNEXURE A – INDEPENDENT EXPERT’S REPORT**

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# **Uecomm Limited**



## **Independent Expert's Report in relation to the Offer by Optus Networks Pty Limited**

**Grant Samuel & Associates Pty Limited**  
(ACN 050 036 372)

**25 June 2004**



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25 June 2004

The Independent Directors  
Uecomm Limited  
Building 8  
658 Church Street  
Richmond VIC 3121

Dear Sirs

## Optus Offer

### 1 Introduction

On 21 May 2004, Singtel Optus Pty Limited ("Optus") announced an off-market takeover offer for all the issued shares in Uecomm Limited ("Uecomm"). The consideration offered is \$0.40 cash per share ("the Optus Offer").

Uecomm's major shareholder, Alinta Limited ("Alinta"), has signed a pre-bid agreement with Optus under which it has effectively granted Optus call options over 19.99% of Uecomm's shares on issue. The exercise price under the call options is \$0.325 per Uecomm share.

Alinta holds 335 million Uecomm shares (approximately 66% of Uecomm's issued capital), which it acquired as part of a portfolio of assets from United Energy Limited ("United Energy") in July 2003. Alinta has indicated it intends to accept the Optus Offer for its remaining interest in the absence of a higher offer being announced. If the Optus Offer is declared unconditional, Alinta will pay to Optus a rebate that has the effect of reducing the price Alinta receives for each of its shares to \$0.325.

Alinta currently provides a loan facility to Uecomm. The balance owed to Alinta at 31 May 2004 was \$54 million. Subject to the Optus Offer becoming unconditional, Optus will assume Alinta's rights and obligations under the facility. The consideration payable to Alinta will be \$45.9 million (plus accrued but unpaid interest and any further amounts drawn down at the time of the acquisition of the loan facility), a discount of around \$8 million.

The Optus Offer is subject to a number of conditions, including that Optus acquire at least 65% of the Uecomm shares on issue.

There is no regulatory requirement for Uecomm to commission an independent expert's report in relation to the Optus Offer. However, the directors of Uecomm not associated with Alinta ("the independent directors") have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report. The report is to set out Grant Samuel's opinion as to whether the Optus Offer is fair and reasonable and the reasons for forming that opinion.

Grant Samuel is independent of Uecomm, Alinta and Optus. Grant Samuel has no involvement with, or interest in the outcome of the Offer other than the preparation of this report. A copy of this report is to be despatched to shareholders with the Target's Statement prepared by Uecomm.

This report has been prepared to assist the independent directors of Uecomm in making their recommendations to shareholders in relation to the Optus Offer and to assist the shareholders of Uecomm to assess the merits of the Optus Offer. The sole purpose of this report is an expression of Grant Samuel's opinion as to whether the Optus Offer is fair and reasonable. This report should not be used for any other purpose or by any other party.

## 2 Summary of Opinion

Grant Samuel has valued Uecomm in the range \$0.36-0.44 per share. The Optus Offer of \$0.40 per share falls within Grant Samuel's valuation range of \$0.36-0.44 per share. Accordingly, Grant Samuel has concluded that the Optus Offer is fair.

Judgements regarding the value of Uecomm are subject to considerable uncertainty. Uecomm's earnings have grown strongly over the last two years and management expects that earnings growth will continue, at least in the short term. On the other hand, the business faces a number of significant competitive risks and there can be no assurance that earnings growth will be maintained in the medium term or beyond. The Optus Offer followed an extensive process conducted by Alinta, in co-operation with Uecomm, to maximise the value realised on the divestment of Alinta's controlling shareholding in Uecomm. This process provides useful evidence as to value. Alinta is effectively prepared to sell its controlling Uecomm shareholding for a price of \$0.301 per share (after taking into account the discount on the loan facility). In this context the Optus Offer of \$0.40 per share, which represents a premium of approximately 33% to the price that Alinta will receive, is highly attractive. In Grant Samuel's view the Optus Offer is reasonable.

## 3 Key Conclusions

- **Grant Samuel has valued Uecomm in the range \$0.36-0.44 per share.**

Uecomm has been valued in the range \$0.36-0.44 per share, on the basis of a total equity value for Uecomm of \$191-231 million. The valuation represents the full underlying value of Uecomm. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Uecomm shares to trade on the Australian Stock Exchange in the absence of a takeover offer or similar transaction. The valuation is summarised below:

<b>Uecomm - Value Summary for Operating Assets (\$ millions)</b>		
	<b>Value Range</b>	
	<b>Low</b>	<b>High</b>
<b>Uecomm data services business</b>	240.0	280.0
Net debt	(51.2)	(51.2)
Other assets	2.6	2.6
<b>Net value of assets</b>	<b>191.4</b>	<b>231.4</b>
Fully diluted shares on issue (millions) <sup>1</sup>	524.8	524.8
<b>Value per share</b>	<b>0.36</b>	<b>0.44</b>

The valuation reflects the terms of the arrangements between Alinta and Uecomm, discounted cash flow analysis and capitalisation of earnings. The valuation represents the following multiples of earnings:

<b>Uecomm - Value Summary for Operating Assets (times)</b>		
	<b>Low</b>	<b>High</b>
<b>Revenue multiples for Uecomm</b>		
Historical (year ended 31 December 2002)	5.7	6.6
Historical (year ended 31 December 2003)	4.1	4.8
Forecast (year ending 31 December 2004)	3.2	3.8
<b>EBITDA multiples for Uecomm</b>		
Historical (year ended 31 December 2002)	50.9	59.4
Historical (year ended 31 December 2003)	10.9	12.7
Forecast (year ending 31 December 2004)	7.9	9.3

<sup>1</sup> The number of shares on issue on a fully diluted basis assumes that all performance rights are vested.

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In Grant Samuel's view these multiples are reasonable, having regard to the following:

- Uecomm has achieved strong earnings growth over the last two years and expects significant further growth in earnings for the year ending 31 December 2004;
  - Uecomm's business is growing off a relatively small base and accordingly has the potential to continue to achieve relatively high rates of earnings growth, at least in the short term; and
  - Uecomm's extensive CBD and metropolitan fibre optic network is a significant competitive advantage.
- **The arrangements between Alinta and Uecomm will result in Alinta effectively receiving approximately \$0.301 per Uecomm share.**

If the Optus Offer is declared unconditional Alinta will pay Optus a rebate such that the price Alinta receives for its shareholding will be \$0.325 per share. In addition, Alinta will effectively sell to Optus the debt owed to Alinta by Uecomm at a discount of approximately \$8 million to face value. Given Alinta's total shareholding of 335 million Uecomm shares, this discount represents approximately \$0.024 per Uecomm share held by Alinta. Accordingly, the overall arrangements between Alinta and Uecomm will result in Alinta effectively receiving approximately \$0.301 per Uecomm share.

- **The Optus Offer is fair.**

The Optus Offer of \$0.40 per Uecomm share falls within Grant Samuel's valuation range of \$0.36-0.44 per share. Accordingly, the Optus Offer is fair.

- **Assessment of the full underlying value attributable to Uecomm shares is subject to considerable uncertainty.**

Following a significant restructuring of its business, Uecomm reported strong improvement in earnings during the 2002 and 2003 financial years. Earnings growth is expected to continue for the 2004 financial year. However, it must be recognised that this earnings growth has been achieved off a low base. The ability of the business to continue to generate this growth beyond the short term is uncertain.

On the one hand, Uecomm's fibre optic network should continue to be a real competitive advantage, at least for the medium term. It could be argued that Uecomm's network should allow it to continue to win new business and to retain existing business, on highly profitable terms. In such a scenario Uecomm could ultimately be very valuable.

On the other hand, Uecomm is highly dependent on a single product, and its business model means that it is tightly focussed on a narrow range of customers (effectively large corporates and government). To date, Uecomm has faced little effective competition. An intensification of competition, either from major existing industry participants such as Telstra or Optus, or from new industry participants with new technology, has the potential to severely limit Uecomm's growth potential and erode the profitability of its current customer base. Uecomm's ability to respond to technological and competitive threats may be limited by its small size relative to the major participants in the Australian data services market.

Judgements regarding the future performance of Uecomm beyond the short term are essentially subjective. A wide range of equally credible scenarios for the future performance of the business can be developed. In these circumstances, assessment of the full underlying value attributable to Uecomm shares is subject to considerable uncertainty.

- **The Optus Offer followed an extensive process to maximise the value realised by Alinta on the divestment of its controlling shareholding in Uecomm.**

Alinta acquired its 66% shareholding in Uecomm in July 2003 as part of a broader transaction involving Uecomm's original parent, United Energy. Alinta did not consider itself a natural controlling shareholder of Uecomm, and initiated a process to divest its Uecomm shareholding on the best possible terms. This process, which was conducted with the co-operation of Uecomm, involved the canvassing of an institutional placement of Alinta's shareholding by way of a bookbuild,



discussions with both local and international telecommunications/data services companies, and discussions with potential financial investors. Uecomm understands that the Optus Offer was the most attractive proposal received by Alinta.

▪ **The Optus Offer is reasonable.**

Because the Optus Offer is fair, it is by definition reasonable. In Grant Samuel's view there are compelling reasons for Uecomm shareholders to accept the Optus Offer:

- the Optus Offer represents a substantial premium to the effective price that Alinta is prepared to accept for its controlling shareholding (\$0.301 per Uecomm share);
- the Optus Offer represents a meaningful premium to the recent Uecomm share price;
- the valuation of Uecomm is subject to considerable uncertainty. However, in Grant Samuel's view it is difficult to argue that the underlying value of Uecomm is significantly greater than Grant Samuel's valuation range of \$0.36-0.44 per share. The assumptions required to support a significantly higher valuation are, in Grant Samuel's view, unlikely to be sustainable; and
- even if shareholders took a different view on value and concluded that the value of Uecomm was above \$0.40 per share, it is likely that it would still be in their best interests to accept the Optus Offer. Given the extensive process undertaken by Alinta to divest its shareholding, and the ample opportunity for any third party to make a counter-offer in response to the Optus Offer, it appears unlikely that a higher offer for Uecomm will be forthcoming. Shareholders who do not accept the Optus Offer run the risk that they will ultimately hold shares in a highly illiquid company, with no assurance that they will ever be able to realise full underlying value.

Accordingly, Grant Samuel has concluded that the Optus Offer is both fair and reasonable.

**4 Other Matters**

Acceptance or rejection of the Optus Offer is a matter for individual shareholders and holders of options, based on their own views as to value and future market conditions, risk profile, liquidity preference, portfolio strategy and tax position. Shareholders who are in doubt as to the action that they should take in relation to the Optus Offer should consult their own professional adviser.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully



GRANT SAMUEL & ASSOCIATES PTY LIMITED



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## 1 Details of the Offer

On 21 May 2004, Singtel Optus Pty Limited (“Optus”) announced an off-market takeover offer through its wholly owned subsidiary, Optus Networks Pty Limited (“Optus Networks”), to acquire all the issued shares of Uecomm Limited (“Uecomm”). The consideration offered is \$0.40 cash per ordinary share (“the Optus Offer”).

Uecomm’s major shareholder, Alinta Limited (“Alinta”), has signed a pre-bid agreement with Optus under which it has effectively granted Optus call options over 19.99% of Uecomm’s ordinary shares on issue. The first option allows Optus to acquire 15% of Uecomm’s issued shares (less one share). The second option allows Optus to acquire a further 5% of Uecomm’s issued shares upon Optus receiving Foreign Investment Review Board (“FIRB”) approval in respect of its offer. The exercise price under the call options is \$0.325 per Uecomm share.

Alinta holds 335 million Uecomm shares (approximately 66% of Uecomm’s issued capital), which it acquired as part of a portfolio of assets from United Energy Limited (“United Energy”) in July 2003. Alinta has indicated it intends to accept the Optus Offer for its remaining interest in the absence of a higher offer being announced. If the Optus Offer is declared unconditional, Alinta will pay to Optus a rebate that has the effect of reducing the price Alinta receives for each of its shares to \$0.325.

Subject to the Optus Offer becoming unconditional, Optus has also agreed to assume Alinta’s rights and obligations under:

- a loan facility currently provided to Uecomm by Alinta, for a consideration of \$45.9 million plus accrued but unpaid interest and any further amounts drawn down at the time of the acquisition of the loan facility. The loan was drawn to \$54 million at 31 May 2004; and
- a guarantee facility provided by Alinta to the ANZ Banking Group.

Optus and Uecomm have entered into an Implementation Agreement under which the parties have agreed to cooperate to implement the Optus Offer. Under the implementation agreement, Optus has agreed it will bid at fair value for all options in Uecomm if it acquires more than 90% of all Uecomm shares under the bid. Uecomm currently has 10,347,670 options on issue.

Optus is a major integrated communications company, serving around six million customers each day and employing over 8,800 staff. Since commencing operations in 1992, Optus has invested more than \$7 billion in the construction of fixed, mobile and satellite networks.

Uecomm is a specialist provider of fibre broadband data services to government, large corporations and other carriers and telecommunications providers.

The Optus Offer is subject to a number of conditions which are set out in full in the Bidder’s Statement issued by Optus. In summary, they are:

- required regulatory approvals and consents are obtained, including from FIRB and the Australian Competition and Consumer Commission (“ACCC”);
- the Optus Offer receives acceptances in respect of a minimum of 65% of Uecomm’s issued shares;
- no material adverse change in the structure, business, financial or trading position or condition, assets, liabilities or future profitability of Uecomm and its subsidiaries taken as a whole occurs or is announced after the date of announcement of the Optus Offer;
- no material acquisition or disposal in excess of \$5 million occurs or is announced after the date of announcement of the Optus Offer;
- no event or circumstance in section 652C(1) and 652C(2) of the Corporations Act 2001 (“Corporations Act”) (formerly referred to as prescribed occurrences) occurs between the date of announcement and the date upon which the Optus Offer closes; and

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- Optus does not become aware of any untrue statements which are required to be disclosed and which would likely result in a material adverse change in the structure, business, financial or trading position or condition, assets, liabilities or future profitability of Uecomm and its subsidiaries since 31 December 2003.



## 2 Scope of the Report

### 2.1 Purpose of the Report

Section 640 of the Corporations Act states that a Target's Statement made in response to a takeover offer for shares in an Australian public listed company must be accompanied by an independent expert's report if:

- the bidder's voting power in the target is 30% or more; or
- a director of the bidder is also a director of the target company.

In this case, Optus does not have an interest in Uecomm that is greater than or equal to 30%, nor are there any common directors. Therefore, there is no regulatory requirement for Uecomm to commission an independent expert's report in relation to the Optus Offer. However, the directors of Uecomm not associated with Alinta (the "independent directors") have requested that Grant Samuel & Associates Pty Limited ("Grant Samuel") prepare a report on the Optus Offer as if a report were required for the purposes of Section 640 of the Corporations Act. The report is to set out whether, in Grant Samuel's opinion, the Optus Offer is fair and reasonable.

Grant Samuel is independent of Optus, Alinta and Uecomm and has no involvement with, or interest in, the outcome of the Optus Offer other than the preparation of this report. A copy of this report is to be despatched to shareholders with the Target's Statement prepared by Uecomm.

This report has been prepared by Grant Samuel to assist the independent directors of Uecomm in advising shareholders in relation to the Optus Offer. This report should not be used for any other purpose or by any other party. The sole purpose of this report is as an expression of Grant Samuel's opinion as to whether the Optus Offer is fair and reasonable.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of shareholders in Uecomm. Because of that, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Bidder's Statement issued by Optus and the Target's Statement issued by Uecomm in relation to the Optus Offer.

Acceptance or rejection of the Optus Offer is a matter for individual shareholders based on their expectations as to value and future market conditions and their particular circumstances, including risk profile, liquidity preference, portfolio strategy and tax position. Shareholders who are in doubt as to the action they should take in relation to the Optus Offer should consult their own professional adviser.

### 2.2 Basis of the Assessment

The term "fair and reasonable" has no legal definition although over time a commonly accepted meaning has evolved. In the context of a takeover, an offer is considered to be fair and reasonable if the price fully reflects the value of a company's underlying businesses and assets.

Policy Statement 75 issued by the Australian Securities Commission, the predecessor to the Australian Securities & Investments Commission ("ASIC"), attempts to provide a precise definition of fair and reasonable. The Policy Statement continues earlier regulatory guidelines which create a distinction between "fair" and "reasonable". Fairness is said to involve a comparison of the offer price with the value that may be attributed to the securities which are the subject of the offer based on the value of the underlying businesses and assets. In determining fairness any existing entitlement to shares by the offeror is to be ignored. Reasonableness is said to involve an analysis of other factors that shareholders might consider prior to accepting a takeover offer such as:

- the offeror's existing shareholding;
- other significant shareholdings;
- the probability of an alternative offer; and



- the liquidity of the market for the target company's shares.

A takeover offer could be considered "reasonable" if there were valid reasons to accept the offer notwithstanding that it was not "fair".

For the purpose of this report, Grant Samuel has treated "fair" and "reasonable" as separate concepts in accordance with Policy Statement 75. Fairness is a more demanding criterion. A "fair" offer will always be "reasonable" but a "reasonable" offer will not necessarily be "fair".

A fair offer is one that reflects the full market value of a company's businesses and assets. A takeover offer that is in excess of the pre-bid market prices but less than full value will not be fair but may be reasonable if shareholders are otherwise unlikely in the foreseeable future to realise an amount for their shares in excess of the bid price. This is commonly the case in takeover offers where the bidder already controls the target company. In that situation the minority shareholders have little prospect of receiving full value from a third party offeror unless the controlling shareholder is prepared to sell its controlling shareholding.

Grant Samuel has determined whether the Optus Offer is fair by comparing the Optus Offer price to the estimated underlying value range of Uecomm. The Optus Offer will be fair if it falls within the estimated underlying value range. In considering whether the Optus Offer is reasonable, the factors that have been considered include:

- the estimated value of Uecomm relative to the Optus Offer price of \$0.40 per share;
- the sale process conducted by Alinta and its intention to accept Optus' offer at an effective price of \$0.301 per share (after taking into account the discount on the loan facility) in the absence of a higher offer for its shares;
- the existing shareholding structure of Uecomm;
- the likelihood of an alternative offer;
- the likely market price and liquidity of Uecomm shares in the absence of the Optus Offer; and
- other advantages and disadvantages for Uecomm shareholders of accepting the Optus Offer.

### 2.3 Sources of Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

#### *Publicly Available Information*

- the Bidder's Statement dated 11 June 2004 issued by Optus;
- the Target's Statement dated on or about the date of this report issued by Uecomm;
- annual reports of Uecomm for the four years ended 31 December 2003;
- press releases, public announcements, media and other public filings by Uecomm including information available on its website;
- press releases, public announcements, media and other public filings by Optus including information available on its website;
- broker's reports and recent press articles on Uecomm and certain of its investments;
- various reports by analysts and other industry commentators on the telecommunications and data services markets; and
- sharemarket data and related information on Australian and international listed companies engaged in the telecommunications industry and on acquisitions of companies in the telecommunications industry.

***Non Public Information provided by Uecomm***

- Uecomm's Financial Forecast for the year ending 31 December 2004;
- management accounts and monthly management reports for periods up to 31 March 2004;
- board papers up to May 2004;
- drafts of Uecomm's Target's Statement; and
- other confidential documents, presentations and working papers provided by Uecomm.

Grant Samuel has also held discussions with, and obtained information from, senior management of Uecomm and its financial adviser.

**2.4 Limitations and Reliance on Information**

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances. However, subject to Section 670C of the Corporations Act, Grant Samuel has no obligation or undertaking to advise any person of any change in circumstances which has come to its attention after the date of this report or to review, revise or update its report or opinion.

This report is also based upon financial and other information provided by Uecomm and its advisers. Grant Samuel has considered and relied upon this information. Uecomm has represented in writing to Grant Samuel that to its knowledge the information provided by it was complete and not incorrect or misleading in any material aspect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent it considers necessary and appropriate for the purposes of forming an opinion as to whether the Optus Offer is fair and reasonable. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. In any event, an opinion of the kind expressed in this report is more in the nature of an overall review reflecting commercial judgements rather than a detailed audit, verification or investigation.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Uecomm. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

The information provided to Grant Samuel included Uecomm Group 2004 Forecasts for the year ending 31 December 2004 ("2004 Forecast"). Uecomm is responsible for the 2004 Forecast. Grant Samuel has used and relied on the 2004 Forecast for the purposes of its analysis insofar as it has been taken into consideration in the preparation by Grant Samuel of financial models for certain of Uecomm's operating assets. The major assumptions underlying the 2004 Forecast were reviewed by Grant Samuel in the context of current economic, financial and other conditions.

## GRANT SAMUEL



However, it should be noted that the 2004 Forecast and the underlying assumptions have not been reviewed (nor is there a statutory or regulatory requirement for such a review) by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions.

Subject to these limitations, Grant Samuel considers that, based on the inquiries it has undertaken and only for the purposes of its analysis for this report (which do not constitute, and are not as extensive as, an audit or accountant's examination), there are reasonable grounds to believe that the 2004 Forecast has been prepared on a reasonable basis. In forming this view, Grant Samuel has taken the following factors, inter alia, into account that:

- the 2004 Forecast was reviewed in detail by the Directors of Uecomm;
- the 2004 Forecast has been prepared through a detailed budgeting process involving preparation of "ground up" budgets and review by senior management of Uecomm; and
- senior management have advised that the overall performance of Uecomm in the first five months of 2004 has been in line with the 2004 Forecast.

Grant Samuel has no reason to believe that the 2004 Forecast reflects any material bias, either positive or negative. However, the achievability of the 2004 Forecast is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by management of future events that cannot be assured and are necessarily based on the information available to management at the time of preparation and on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable.

As part of its valuation analysis, Grant Samuel has prepared a financial model to assess the impact of financial performance for years beyond 2004. Grant Samuel determined the economic and financial assumptions used in the model.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the information set out in the Bidder's Statement (and any supplementary statements) sent by Optus to Uecomm shareholders and the Target's Statement sent by Uecomm to its shareholders is complete, accurate and fairly presented in all material respects; and
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading.

To the extent that there are legal issues relating to assets, properties or business interests or issues relating to compliance with applicable laws, regulations and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.



### 3 Profile of Uecomm

#### 3.1 Background

Uecomm was established in 1996 as a subsidiary of United Energy, specialising in high speed corporate data services. It was listed on the Australian Stock Exchange Limited (“ASX”) in September 2000. The initial public offering raised \$315 million which was used principally to fund the expansion of Uecomm’s network and to repay existing borrowings. Following listing, United Energy held 66% of Uecomm’s issued shares.

Between 1996 and 2001, Uecomm’s strategy was focussed on achieving maximum customer reach by rolling out a fibre network across CBD and metropolitan areas in Australia’s major cities. The company offered a broad range of services including fibre optic links, managed network services, telehousing services and broadband and dial-up internet services, to institutional, corporate, wholesale and residential customers.

During this time, the company was affected by a number of earnings downgrades, and management and board changes.

Following the appointment of Peter McGrath as chief executive officer in 2001, Uecomm’s business was significantly restructured, with a new business strategy focussed on achieving profitability by rationalising costs and product exposure, and concentrating on the corporate, wholesale and government broadband data markets. Uecomm initiated a significant restructure and cost reduction program which included:

- several senior management changes;
- a reduction in headcount, following the outsourcing of field construction and maintenance services, from approximately 270 to 110 during 2001. Uecomm currently has around 140 employees;
- a reduction in capital and operating expenses;
- the disposal of the Unite residential ISP business in December 2001 and the closure of fibre-to-the-home initiatives;
- the sale of Uecomm’s investment in People Telecom (a voice services reseller) in September 2002;
- refocussing sales and marketing efforts on new customer connections, particularly major corporates and carriers.

Uecomm now specialises in providing broadband connectivity and data services to large corporates and government, and also sells wholesale services to other carriers and telecommunication service providers.

In December 2002, Uecomm sold its Perth fibre network to Western Power Corporation while retaining ownership of the switching equipment. As part of the transaction, Uecomm was granted the long term right to use substantial capacity on the network with fees for this right of access capped for three years.

In July 2003, United Energy completed a major transaction with several parties including Alinta and AMP Henderson, which resulted in Alinta acquiring United Energy’s 66% interest in Uecomm. Alinta indicated that it did not see itself as a natural long term major shareholder in Uecomm and, with Uecomm’s cooperation, conducted a comprehensive strategic review of its exit options. This included providing information to a range of parties in the telecommunications industry and certain private equity investors. On 12 March 2004, Alinta announced it would retain its shareholding after an institutional bookbuild process failed to attract a price sufficient to induce Alinta to sell.

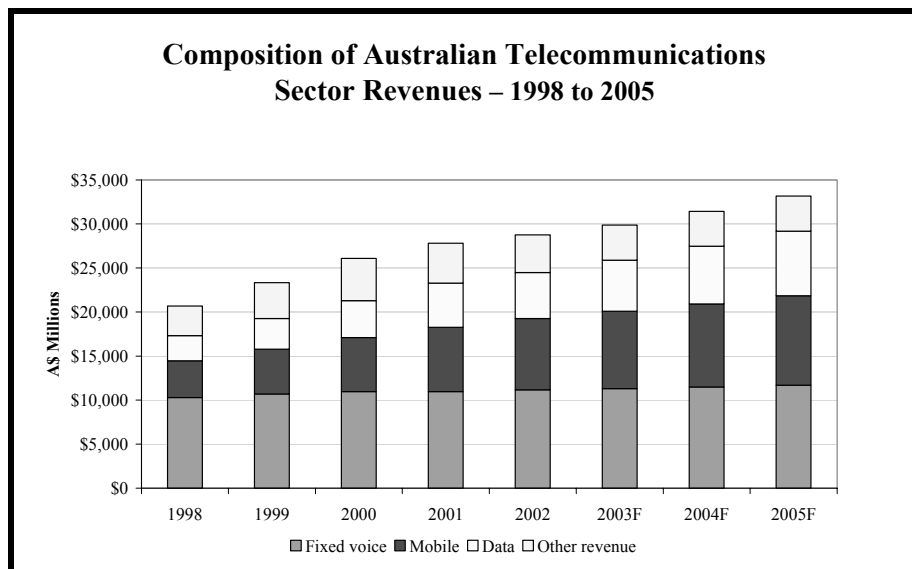


### 3.2 Industry Overview

#### 3.2.1 Overview

Consistent with trends in global telecommunications markets, the Australian data market has grown significantly since the early 1990's when businesses began utilising computer networks and the Internet on a broad scale. Spurring this growth has been the development of high bandwidth technologies such as frame relay, asynchronous transfer mode ("ATM") gigabit ethernet and digital subscriber line ("DSL"). The development of these technologies has enabled widespread adoption of broadband ('always on' data and Internet channels capable of transmitting large volumes of data), initially by larger enterprises and government, and increasingly by the SME and household sectors. The advent of broadband has in turn led to the development of new applications requiring high bandwidths, which has further increased demand for data services.

The size of the data market in revenue terms was estimated at approximately \$5.8 billion for the twelve months to 30 June 2003, having grown from approximately \$2.9 billion for the 12 months to 30 June 1998 (a compound annual growth rate of 15%). Revenue from this sector is forecast to exceed \$8 billion by 30 June 2006 (a compound annual growth rate of 12%). Data services comprise a sizeable and growing proportion of the overall telecommunications sector. For the 12 months to 30 June 2003, data's revenue share of total telecommunications revenue comprised almost 20%, having grown from approximately 14% in 1998. The table below provides an estimate of the historical and forecast size of the Australian data market in dollar terms, relative to other components of the Australian telecommunications sector:



Source: Broker reports.

Note: Other Revenue includes items such as directory services, solutions management, calling products and an offset from intercarrier revenues.

The data services market comprises:

- **the high volume data user and wholesale segment** services large corporate, government and wholesale data users that require reliable, high volume data transference between several network sites. Products in this segment are also used to provide the backbone data highways that service the intra and inter-capital markets. Key products within this segment include:
  - Gigabit Ethernet - a third-generation Ethernet technology used to connect networks within and between cities ("wide area network" or "WAN"). Although



Ethernet technology has been used in local area networks (“LANs”) for over two decades, its application in WANs is relatively recent. Gigabit Ethernet is gaining rapid market acceptance in the large corporate market as it is cost effective, uses less expensive customer premises equipment and is easily adaptable to LANs (most LANs use first or second generation Ethernet technology);

- Frame Relay - an older-generation communication protocol used to manage data transmission on a WAN. While frame relay’s reliability and cost effectiveness make it a growing corporate connectivity option, substitute technologies have slowed its growth and take-up in Australia;
  - ATM (Asynchronous Transfer Mode) - a communications technology capable of extremely high speeds of data transfer. It is relatively costly to implement and therefore mostly suited to large national networks. ATM is widely used by telecommunications providers due to its ability to transfer data with reliability and predictability (suitable to support real-time voice, video and data). As with frame relay, ATM is facing increasing competition from new generation high capacity data technologies;
  - SDH (Synchronous Digital Hierarchy) - an international transmission technology developed in the early 1990s to standardise high speed data transmission over fibre optic networks. SDH is easily adaptable to most forms of data traffic and is therefore a popular backbone transmission technology on fibre networks for providing high volume data services such as ATM and frame relay; and
  - ISDN - ISDN delivers data at medium speeds over digital telephone lines. With the construction of high speed transmission media in Australia such as fibre optic cable networks, ISDN has become uncompetitive from a cost and efficiency perspective. ISDN is a shrinking segment of the Australian data market and is offered predominantly by Telstra Corporation Limited (“Telstra”);
- **the DSL segment** services small to medium corporate and residential users. DSL offers broadband connectivity through different variants of the DSL technology (known in aggregate as “xDSL”) and is the newest and fastest growing segment of the Australian data market. Initially targeted as an ISDN replacement technology, xDSL is gaining rapid market acceptance as a cost effective broadband access option for the SME and retail markets. Features such as minimal/self installation and low customer equipment outlay have accelerated xDSL’s penetration into these markets. xDSL is also used to complete large corporate networks by providing access to smaller sites with lower bandwidth needs. DSL does not generally provide sufficient bandwidth for large corporate, government or wholesale users; and
  - **the Internet and ISP segment** is a consistently growing element of Australia’s data services marketplace and covers the broadest range of end users, from large corporates, government and service providers to households. It is also the most contested market with over 600 Australian ISPs in operation. Although there are variants of Internet products, Internet is increasingly becoming a commoditised service, and in the corporate sector is usually packaged alongside other tailored data services.

Data services are increasingly moving from a product to a delivery service model, with a focus on the delivery of data, Internet and voice services through a single broadband network as part of an integrated package. From a customer perspective this eliminates voice and data network duplication, which should reduce overall telecommunications costs. Voice over IP (“VoIP”) is a relatively new broadband offering in the Australian market. It is capable of replacing traditional copper wire telephony by delivering voice services over data networks. While still in its infancy in Australia, VoIP has the potential to attract a significant share of the \$20 billion per annum fixed line and mobile telecommunications market. VoIP is achieving rapid adoption in overseas countries, particularly in Europe. Market surveys estimate that approximately one in five companies in Europe are using



VoIP products. Participants best placed to benefit from VoIP include last mile network operators with no legacy voice services (this rules out most countries' incumbents) and established broadband service providers.

### 3.2.2 Industry Participants

The data services sector is comprised of network operators (that generally operate optical fibre networks in and between Australia's major cities) and services resellers. There are currently five key operators of optical fibre networks in Australia servicing the corporate, government and wholesale markets:

Optic Fibre Network Operators			
Company	Network	Target Customers	Estimated market share of total data and Internet
<b>Telstra</b>	Largest national network (inter-capital, CBD and metro networks in all major cities)	All corporate, government and wholesale	60%
<b>Optus</b>	National (6 inter-capital networks and 8 CBD networks, limited metro)	All corporate, government and wholesale	17%
<b>PowerTel</b>	3 inter-capital networks and 4 CBD networks	Large corporate and inter-capital. More recently SMEs via Request	<5%
<b>Uecomm</b>	3 CBD and 3 metro networks, access to 2 additional CBD/metro networks	Medium/ large corporate, government and wholesale	<5%
<b>Amcom</b>	3 CBD and 3 metro networks	Corporate and government	<5%

Telstra is the incumbent operator with an estimated revenue share of 60% of the data services market. Although Telstra's market share has declined since the data market was deregulated in July 1997, its pre-deregulation monopoly in data services and extensive national network has enabled it to retain a dominant position in all data and Internet product markets. Telstra and Optus are the only two participants with national networks and an ability to offer a full range of telecommunication services (voice and data on fixed and mobile networks). Telstra's market share is also supported by its monopoly position in the ISDN market. However, as ISDN is increasingly superseded by new generation technologies, this advantage may disappear.

The Australian data markets were deregulated in July 1997 and in October 1999, in a move to further increase competition and accelerate broadband take-up in Australia, the ACCC made Telstra's local loop a declared service. This enabled other service providers to install their own equipment (telephony and data) in Telstra's local exchanges and access last mile cabling to customers' businesses and homes at regulated prices.<sup>1</sup> At around the same time, Telstra released a series of wholesale DSL products for the service provider market.

The new competitive environment spurred the deployment of new data networks to compete with Telstra. Optus, PowerTel, NextGen and Amcom built inter-capital networks that provided the backbone for data traffic between Australia's major capital cities. These participants also constructed extensive fibre networks in and around the CBDs of Australia's major cities, in particular Sydney, Melbourne and Brisbane. Similarly, Uecomm focussed on establishing networks in major city CBDs, but differentiated itself from the smaller network operators by establishing fibre networks around the cities' metropolitan areas as well.

<sup>1</sup> Whilst the ACCC does not dictate prices, its Pricing Principles for Telstra's local loop services provide parameters for Telstra's pricing of these services which it considers competitive.



A range of data and Internet resellers also entered the market, packaging wholesale capacity purchased from the network owners into products for the corporate, government and household markets. In particular, participants that were historically competing for a share of the voice services market (fixed line and mobile) entered the data market in order to provide a complete range of telecommunications products to their business and household customers.

More recently, the growth of broadband has seen the emergence of specialist data and Internet providers focussing on selling broadband delivery (for example, DSL and wireless). Some of these providers have created localised networks to service their targeted markets, but rely on the large fibre networks for back-haul and inter-capital support.

### 3.2.3 Key issues and trends

While the Australian data services market continues to grow rapidly in volume terms, revenues are not growing at the same rate. Intense competition, over-investment in network infrastructure and a downturn in the global telecommunications sector between 2000 and 2004 have all impacted the data services market. Major issues facing the Australian data and Internet market in which Ucomm competes include:

- **incumbent operator** – given its incumbent status, Telstra continues to play a major role in the pricing and competitive environment for data and Internet services in Australia. As broadband services become cheaper to establish and deliver, other market participants have been able to compete more effectively for Telstra's market share. Many industry analysts anticipate that strong price competition and increased bundling of data with other telecommunications products by Telstra will increase competition and pressure on data providers' margins;
- **significant excess capacity** – in many cases the fibre networks built by new market entrants following deregulation resulted in duplication of network infrastructure, particularly within the CBD and inter-capital markets. Despite growth in data volumes driven by more sophisticated data products entering the market, there is still significant excess capacity within Australia's data networks;
- **commoditisation of data products** – with increased price competition, particularly within the corporate data sector, product delivery has become more commoditised and disaggregated. To grow business, participants will need to either compete on price or target specialised customers and/ or services;
- **low marginal costs** – most major participants in the data market have substantially completed their infrastructure developments and network owners' data delivery costs are predominantly fixed. Economies of scale and falling interconnect costs have also reduced variable expenditure. Accordingly, marginal costs are low, allowing network owners to engage in significant price competition within the corporate data segment while still maintaining profitability. However as price competition intensifies (low network costs are being passed on to resellers through wholesale products) and new technologies (such as broad band wireless) emerge, the structural advantage enjoyed by network owners may be eroded; and
- **xDSL and other new broadband technologies** – xDSL is one of the fastest growing sectors of the data market with an increasing small businesses and household subscriber base. Access to Telstra's local loop and wholesale DSL offerings has resulted in the emergence of a number of new and price aggressive xDSL network owners and resellers. While Telstra has released its own ADSL product (a version which is largely aimed at the household and SME sectors), its late entry into this product line and legacy issues with ISDN have resulted in substantial market share being captured by other participants. Alternative high speed data delivery services (wireless networks and microwave) continue to present alternative broadband delivery systems. While these new technologies are still in their infancy in Australia, they have been successfully deployed overseas. They are expected to be particularly



competitive in Australia's metropolitan regions where network owners' connection costs for new customers are higher relative to connection costs in the CBD and in areas where xDSL is unavailable. These new technologies' ability to largely bypass the traditional fibre and copper networks threatens volumes and margins for these networks over the longer term.

### 3.3 Operations

Uecomm is a specialist provider of broadband access to major corporates and government bodies, and to other service providers in a wholesale capacity. The majority of services offered relate to the implementation and management of wide area networks that deliver inter-office connectivity to Uecomm's customers. Uecomm's products range from simple data services through to more complex and customised data solutions. Uecomm's strategy is to target customers with a data spend of over \$100,000 per annum, with the primary focus on the top 1,500 organisations by IT spend. Contracts generally run for a period approximately 24-30 months, with annual churn of less than 5%.

Uecomm's flagship product is its gigabit Ethernet product. Uecomm was one of the first to market and remains a strong player in WAN Ethernet products, with an estimated share of 30% of the WAN Ethernet market. Uecomm Ethernet delivers high bandwidth data services, allowing customers to network multiple locations across suburbs and states so that they can communicate as if located in a single office. Ethernet is a significantly lower cost and more flexible product offering compared to "traditional" high capacity data offerings such as ATM and frame relay.

Uecomm Ethernet is by far Uecomm's most important product, and is expected to represent more than 50% of Uecomm's new business for the 2004 year. Uecomm also sells a number of complementary products. Products such as Uecomm Internet allow Uecomm to provide a broader service offering. Uecomm DSL allows Uecomm to deliver a networking solution that includes locations for which fibre is not cost effective. These complementary products are generally sold as part of a broader Uecomm offering, and their sales are to some extent dependent on the success of the Uecomm Ethernet product. Uecomm's product range is described below:

Uecomm Product Range	
Product	Description
<b>Uecomm Internet</b>	<ul style="list-style-type: none"> <li>▪ permanent reliable connection to the internet with a static IP address</li> <li>▪ provided via third party arrangements with domestic and international partners</li> <li>▪ generally provided to customers in conjunction with other products</li> </ul>
<b>Uecomm Metrowave</b>	<ul style="list-style-type: none"> <li>▪ point to point managed wavelength division multiplexing service</li> <li>▪ designed to support customers' mission critical applications in the areas of storage area networking, server mirroring and mainframe mirroring. It forms an intrinsic component of disaster recovery data services for financial institutions and major corporations</li> </ul>
<b>Uecomm MetroFibre</b>	<ul style="list-style-type: none"> <li>▪ customer managed dark fibre network</li> <li>▪ Uecomm offers direct fibre connectivity, usually called dark fibre, for customers requiring scalability, control and bandwidth independent prices. For a fixed charge, MetroFibre gives a customer unlimited access to a fibre pair and the ability to connect any equipment with Uecomm's specifications using any protocol at any speed desired by the customer</li> <li>▪ MetroFibre customers pay a premium compared to managed services such as MetroWave due to the value of having complete access to the capability of the fibre</li> </ul>

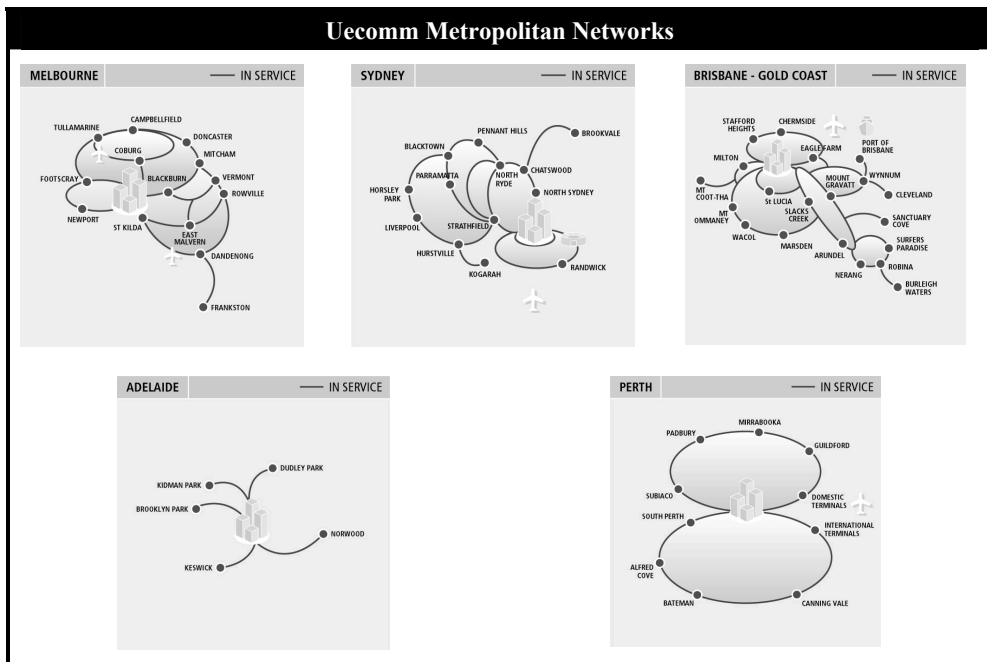


Uecomm Product Range	
Product	Description
<b>Uecomm SDH (synchronous digital hierarchy)</b>	<ul style="list-style-type: none"> <li>protocol independent technology delivering constant bandwidth data delivery over long distances</li> <li>a traditional telecommunications carrier product able to provide the highest level of reliability at transmission speeds ranging from 2Mbps to 620Mbps</li> <li>SDH is typically sold to other carriers (for example, telecommunications companies)</li> </ul>
<b>Uecomm ATM (asynchronous transfer mode)</b>	<ul style="list-style-type: none"> <li>the backbone technology for carrier networks and large enterprises</li> <li>a traditional telecommunications carrier product which provides differential quality of service. Customers can run voice, data and video on the same link at transmission speeds ranging from 2Mbps to 155Mbps</li> <li>customers selecting this service typically have legacy networks and are churning from other carriers</li> </ul>
<b>DSL</b>	<ul style="list-style-type: none"> <li>Uecomm resells various xDSL products as low speed Ethernet tails to interconnect with Uecomm's fibre Ethernet services. These services are a low cost alternative to expanding Uecomm's network coverage for lower speed services.</li> </ul>

To date, approximately \$200 million has been invested in Uecomm's infrastructure. Uecomm has a large optical fibre based CBD and metropolitan broadband data network that provides comprehensive network coverage in Sydney, Melbourne and Brisbane, with approximately 800 sites in the CBD and metropolitan areas fibre connected to the core network.

The networks consist of approximately 2,000km of high bandwidth optical fibre cabling accompanied by a substantial, reliable network infrastructure. Uecomm partners with a number of other telecommunications carriers, using their high speed inter-capital networks to link its CBD and metropolitan fibre networks throughout Australia. In both Adelaide and Perth, wholesale arrangements exist that provide Uecomm competitive access to metropolitan networks.

Uecomm's existing network (both owned and accessed) is set out below:



Source: Uecomm.

The large number of strands per cable across its network provides Uecomm with significant capacity. Uecomm-owned fibre paths can be upgraded through hauling additional fibre if



required. Uecomm has also utilised ducts and facilities from utilities and other carriers such as Telstra to gain prompt and cost efficient network and customer access.

Uecomm believes that it has achieved the requisite scale to efficiently operate its business. While there are expected to be a number of future enhancements to the existing network, further network expansion is expected to be associated primarily with new customer connections.

Uecomm's extensive fibre network reach provides it with a significant competitive advantage. Uecomm competes for CBD-based customers against a number of other service providers with extensive CBD based fibre networks (Telstra and Optus are the two largest participants in the CBD based market). However, it faces less competition in metropolitan areas, where Telstra is generally Uecomm's only major competitor. Accordingly, Uecomm is often one of only a few potential last mile fibre providers to a customer. Moreover, Uecomm's network allows it to realise higher margins than non infrastructure based carriers.

Uecomm's fibre network is likely to continue to be a significant competitive advantage, although this advantage may be undermined over time:

- xDSL may become an increasingly competitive last mile broadband connectivity alternative for providers who do not have networks in metropolitan regions;
- aggressive price competition from Telstra and, particularly, Optus could reduce Uecomm's margins; and
- new broadband technologies (eg broadband wireless) may allow new market entrants to compete more effectively with existing network operators.

The successful turnaround of Uecomm's business and subsequent strong earnings growth have been based on a tightly defined focus on servicing a relatively limited market (government, corporate and wholesale clients), on the strength of a single major product (Uecomm Ethernet). Uecomm management expects that this strategy will continue to be effective in the short term. In the longer term, however, it is likely that Uecomm will need to broaden its client focus and product offering to support further growth and withstand increasing competitive pressures.



### 3.4 Financial Performance

Uecomm's financial performance for the three years ended 31 December 2003, together with forecast earnings for the year ending 31 December 2004, are summarised below:

<b>Uecomm - Financial Performance (\$ 000s)</b>				
	<b>Year ended 31 December</b>			
	<b>2001 audited</b>	<b>2002 audited</b>	<b>2003 audited</b>	<b>2004 forecast</b>
Connection fees	5,739	5,889	10,583	7,964
Service fees (including Internet)	23,298	30,862	47,401	63,674
<b>Revenue</b>	<b>29,037</b>	<b>36,751</b>	<b>57,984</b>	<b>71,638</b>
<b>EBITDA</b>	<b>(8,056)</b>	<b>4,713</b>	<b>22,039</b>	<b>30,549</b>
Depreciation and amortisation	(7,451)	(10,578)	(13,530)	(15,085)
<b>EBITA</b>	<b>(15,507)</b>	<b>(5,865)</b>	<b>8,509</b>	<b>15,464</b>
Amortisation of goodwill	-	-	-	-
<b>EBIT</b>	<b>(15,507)</b>	<b>(5,865)</b>	<b>8,509</b>	<b>15,464</b>
Net interest income (expense)	1,407	(2,342)	(3,416)	(4,256)
Net gain/(loss) on sale of assets	804	409	(89)	(90)
<b>Operating profit before tax</b>	<b>(13,296)</b>	<b>(7,798)</b>	<b>5,004</b>	<b>11,118</b>
Income tax expense	644	2,797	6,677	(1,694)
Significant items	(42,503)	(472)	(1,378)	(350)
<b>Operating profit after tax</b>	<b>(55,155)</b>	<b>(5,473)</b>	<b>10,303</b>	<b>9,074</b>
<i>Statistics</i>				
<b>EBITDA margin (%)</b>	-	12.8%	38.0%	42.6%
<b>EBIT margin (%)</b>	-	-	14.7%	21.6%
<b>Revenue growth (%)</b>	(28.2%)	26.6%	57.8%	23.6%
<b>EBIT growth (%)</b>	(>100%)	62.2%	>100%	81.7%
<i>Reported basic earnings per share (cents)</i>	<i>(10.9)</i>	<i>(1.1)</i>	<i>2.0</i>	<i>na</i>
<i>Earnings per share (before significant items) (cents)</i>	<i>(2.5)</i>	<i>(1.0)</i>	<i>2.3</i>	<i>na</i>
<i>Dividends per share</i>	-	-	-	-

Source: Uecomm.

In considering the above table the following should be noted:

- Uecomm's cost base is largely fixed, with relatively low variable costs incurred in providing services;
- in relation to new contracts, no more than 20% of contract revenue is recognised at the time of connection to the network, with the balance of the contract revenue recognised over the life of the contract;
- the following factors contributed to the significant operating loss in 2001:
  - the severe downturn in the telco industry, which resulted in lower than expected revenues as customers delayed or did not proceed with orders;
  - operational issues encountered early in the year, such as the need to replace some switches that serviced the broadband ISP network, which prevented new customer connections, and a global shortage of fibre optic cable; and
  - one-off costs associated with restructuring the business to reflect its change in strategic direction.
- Uecomm's improved 2002 results reflected the implementation of the company's new business strategy. Uecomm signed 450 sales contracts in 2002 worth \$86 million, including a two year \$20 million contract with the NSW Department of Education and Training. These contracts underpinned revenue and earnings growth for both 2002 and 2003;

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- Uecomm achieved significant earnings growth in 2003, reflecting the new business won in 2002 and further new business won in 2003. During the year Uecomm signed 500 new sales contracts with a total value of \$58 million and won contract renewals of \$8 million. Almost 60% of new contracts were with existing customers; and
- 2004 projected earnings reflect Uecomm's strong sales pipeline and continued strong margins.

Significant items after tax incurred over the period are summarised in the following table:

<b>Uecomm – Significant Items After Tax (\$ 000s)</b>				
	<b>Year ended 31 December</b>			
	<b>2001 audited</b>	<b>2002 audited</b>	<b>2003 audited</b>	<b>2004 forecast</b>
Lucent contract settlement	-	6,176	-	-
Writedown and sale of investment in People Telecom	(9,000)	450	-	-
Writedown of surplus network assets and equipment	(10,441)	-	-	-
Sale of Perth network	-	(7,163)	(137)	-
Loss on loan share plan	(2,087)	(514)	-	-
Lease assignment	-	(470)	-	-
Change of control event	-	-	(1,693)	(500)
Tax losses	-	-	-	-
Bad debts written off	(11,183)	-	-	-
Restructuring and redundancy costs	(4,517)	-	-	-
Write-off of UNITE branding costs	(1,667)	-	-	-
Loss on disposal of UNITE – business and assets	(1,929)	-	-	-
UNITE operating losses	(4,513)	-	-	-
<b>Significant items (before tax)</b>	<b>(45,337)</b>	<b>(1,521)</b>	<b>(1,830)</b>	<b>(500)</b>
Tax on significant items	2,834	1,049	452	150
<b>Significant items (after tax)</b>	<b>(42,503)</b>	<b>(472)</b>	<b>(1,378)</b>	<b>(350)</b>

Source: Uecomm.

The following points should be noted:

- in December 2001, Uecomm announced the sale of UNITE, its residential dial-up internet service provider (“ISP”) business to Dodo Internet. Total losses amounted to \$8.1 million on an after tax basis, and comprised the 2001 operating losses until disposal, the write-off of capitalised branding costs and losses on the disposal of the business;
- Uecomm undertook a comprehensive review of operations and a restructuring program in 2001. This resulted in a significant write-down of assets of \$10.4 million and restructuring and redundancy costs of \$4.5 million;
- the slowdown in the telco market in 2001 resulted in some bad debt write-offs;
- Uecomm provided non recourse loans to employees to participate in Uecomm's initial public offering. For employees who have since left Uecomm, a provision has been raised equal to the difference between the loan amount and the recoverable amount based on the current share price (i.e. the loans have been ‘marked to market’). The declining share price has resulted in a loss of around \$2.5 million over 2001 and 2002;
- in September 2002, Uecomm announced that it had sold its shareholding in voice reseller, People Telecom, for \$1.45 million. Uecomm had written down the value of this investment in 2001 by \$9 million to \$1 million;



- in 2002 Uecomm received a termination settlement of \$6.2 million (\$4.3 million after tax) from global information technology group, Lucent. The settlement was in respect of the early termination of a five year contract relating to the building and management of a portion of One.Tel's next generation mobile network;
- the sale of the Perth network to Western Power Corporation in 2002 resulted in a loss on disposal of around \$7.2 million;
- Uecomm incurred a number of one-off costs when United Energy transferred its shares in Uecomm to Alinta, including advisory expenses and insurance; and
- Uecomm has incurred a number of one-off costs in relation to the Optus Offer. To date, these costs have amounted to \$500,000 on a before tax basis. Uecomm expects to incur additional transaction costs. These costs have not yet been accrued as management believe they cannot be estimated with reasonable certainty.

### 3.5 Cash Flow

Uecomm's cash flows for the three years ended 31 December 2003 and forecast cash flows for the year ending 31 December 2004 are summarised below:

<b>Uecomm – Cash Flow (\$ 000s)</b>				
	<b>Year ended 31 December</b>			
	<b>2001 audited</b>	<b>2002 audited</b>	<b>2003 audited</b>	<b>2004 forecast</b>
EBITDA	(8,056)	4,713	22,039	30,549
Changes in working capital	17,427	1,954	4,177	(1,528)
<b>Cashflow from operations<sup>2</sup></b>	<b>9,371</b>	<b>6,667</b>	<b>26,216</b>	<b>29,021</b>
Capital expenditure	(93,362)	(21,341)	(45,245)	(19,600)
Asset acquisitions and disposals	(9,196)	1,484	3,713	-
<b>Cashflow after investing</b>	<b>(93,187)</b>	<b>(13,190)</b>	<b>(15,316)</b>	<b>(9,421)</b>
Net repayment of borrowings	19,700	15,015	18,755	(5,000)
Proceeds from issue of shares	-	-	564	-
Payments for share buyback	-	-	-	-
Net interest	2,606	(2,610)	(3,442)	(4,421)
Income tax paid	(2,424)	853	-	-
<b>Net cash increase/(decrease)</b>	<b>(73,305)</b>	<b>68</b>	<b>561</b>	<b>-</b>

Source: Uecomm.

Over the period, Uecomm has incurred significant capital expenditure as it has continued to expand and enhance its data network. Capital expenditure for 2003 included approximately \$10 million of network enhancements, with the remainder attributable to new customer connections.

For 2004, Uecomm is expected to be cash flow positive net of capital investment for the first time. This reflects the maturing of Uecomm's business model as earnings increase and capital intensive new business represents a lower proportion of overall business activity.

<sup>2</sup> For 2004, the forecast cash flow from operations does not include any transaction costs associated with the Optus Offer.



### 3.6 Financial Position

The balance sheets for Uecomm at 31 December 2003 and 31 December 2002 are summarised below:

<b>Uecomm - Financial Position (\$ 000s)</b>		
	<b>As at 31 December</b>	
	<b>2002 audited</b>	<b>2003 audited</b>
Debtors and prepayments	12,950	17,299
Creditors, accruals and unearned income	(17,250)	(23,265)
<b>Net working capital</b>	<b>(4,300)</b>	<b>(5,966)</b>
Intangibles	486	459
Property, plant and equipment (net)	148,688	173,771
Loan share plan (net)	1,633	1,376
Other receivables	-	1,612
FITB attributable to tax losses	3,000	12,000
FITB attributable to timing differences	3,355	1,484
Deferred income	(4,450)	(7,918)
Other (net)	(288)	278
<b>Total funds employed</b>	<b>148,124</b>	<b>177,096</b>
Cash and deposits	629	1,190
Loan – Alinta	(35,000)	(54,000)
Finance lease liabilities	(441)	(196)
Net debt	(34,812)	(53,006)
<b>Net assets</b>	<b>113,312</b>	<b>124,090</b>
<b>Statistics</b>		
<i>Ordinary shares on issue (million)</i>	<i>505.080</i>	<i>509.243</i>
<i>Net assets per share</i>	<i>\$0.22</i>	<i>\$0.24</i>
<i>Net tangible assets<sup>3</sup> per share</i>	<i>\$0.22</i>	<i>\$0.24</i>
<i>Gearing<sup>4</sup></i>	<i>23.5%</i>	<i>29.9%</i>

Source: Uecomm.

Note: In 2002, Uecomm's debt facility was provided by its then major shareholder, United Energy Limited.

The following should be noted:

- the majority of Uecomm's asset value is fibre optic cable and equipment;
- Uecomm's loan share plan involves interest free, limited-recourse loans offered to employees to acquire shares in the company. Uecomm's recourse is limited to the shares the subject of the loan agreement. The majority of the loans were provided to employees in 2000 to participate in the IPO at \$1.90 per share. Loans made to employees who have left Uecomm have been written down to their recoverable amount. A contingent liability exists in relation to loans provided to current employees; and
- Alinta assumed responsibility for Uecomm's \$80 million funding facility in July 2003 following Alinta's transaction with United Energy, which also resulted in the transfer of 66% of Uecomm's shares to Alinta. The facility can be drawn against until 29 June 2006 and is to be repaid by 29 June 2007. The facility interest rate is 8% per annum.

<sup>3</sup> Net tangibles assets are net assets less intangibles.

<sup>4</sup> Gearing is net borrowings divided by net assets plus net borrowings.



### 3.7 Capital Structure and Ownership

At 10 June 2004 Uecomm had:

- 509,463,008 ordinary shares on issue and 14,737 registered shareholders;
- 10,347,670 options outstanding; and
- 5,288,429 performance rights

Alinta is the largest shareholder (and only substantial shareholder), holding 65.76% of Uecomm's shares on issue. Uecomm's major shareholders are set out below:

Uecomm – Major Shareholders		
	Number of Shares 000's	Holding %
Alinta Limited	335,000.0	65.76
ANZ Nominees Limited	12,047.5	2.36
Westpac Custodian Nominees Limited	8,261.9	1.62
UBS Nominees Pty Ltd	4,783.6	0.94
John Steven Lundgren	4,456.0	0.87
Citicorp Nominees Pty Limited	3,869.4	0.76
JP Morgan Nominees Australia	2,621.2	0.51
Fortis Clearing Nominees P/L	2,401.1	0.47
Mount Beauty Properties	2,200.0	0.43
Dr John Audley Bowbyes	2,000.0	0.39
<b>Top 10 shareholders</b>	<b>377,640.7</b>	<b>74.11</b>
Other shareholders	131,822.3	25.89
<b>Total</b>	<b>509,463.0</b>	<b>100.00</b>

Source: Uecomm.

Uecomm's outstanding options are set out below:

Uecomm – Outstanding Options				
Issue Date	Expiry Date	Exercise Price \$	Performance/ Time Hurdles	Number of Options Outstanding
9 September 2000	9 September 2005	2.20	Not vested	272,600
5 October 2001	5 October 2006	0.12	Vested	1,000,000
9 August 2002	9 August 2007	0.12	Vested	240,000
30 April 2003	30 April 2008	0.1557	Vested	6,897,525
22 April 2004	22 April 2009	0.3227	Not vested	1,937,545

Source: Uecomm.

Each of the option tranches has various performance/ time hurdles which must be satisfied before the option is able to be exercised (or vests). The performance hurdle will be satisfied when Uecomm's share price exceeds various specified exercise prices for the options. The time hurdle is satisfied at least two years from issue (ie options cannot be exercised for at least the first two years following issue)<sup>5</sup>. The Uecomm board has resolved that the options will vest and time hurdle conditions will be waived, subject to the Optus Offer becoming unconditional.

Uecomm has issued a number of performance rights to employees of the company. A summary of performance rights outstanding is set out below:

<sup>5</sup> 50% of options issued may be exercised after two years from the date of issue, with the remaining 50% of options able to be exercised the following year.

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<b>Uecomm – Outstanding Performance Rights</b>				
<b>Issue Date</b>	<b>Expiry Date</b>	<b>Exercise Price \$</b>	<b>Performance/ Time Hurdles</b>	<b>Number of Rights Outstanding</b>
30 April 2003	30 April 2005	-	Vested	1,494,787
30 April 2003	30 April 2005	-	Not Vested	1,486,097
30 September 2003	30 March 2005	-	Not Vested	370,000
30 April 2004	30 April 2006	-	Not vested	1,937,545

Source: Uecomm.

Each performance right is a right to subscribe for one fully paid ordinary share in the company subject to performance hurdles being met. Employees do not pay any consideration for the performance rights they receive or to exercise their performance rights.

The performance hurdles relate to the achievement of annual EBITDA targets. Half of the performance rights issued in a particular year will vest if EBITDA targets are met. The remaining half will vest if EBITDA targets are exceeded by a pre-determined amount. To the extent that the performance hurdles are not achieved in the year of issue, 75% of the non-vesting performance rights are able to be carried forward and retested for one further period.

The time hurdle is satisfied two years from issue (ie the right cannot be exercised for the first two years following issue irrespective of whether performance hurdles have been met). Following the announcement of the Optus Offer, the Uecomm board has resolved that the rights which satisfy performance hurdles will vest and time hurdle conditions will be waived, subject to Optus receiving ACCC and FIRB approval and acquiring 65% of Uecomm's shares.

### 3.8 Share Price Performance

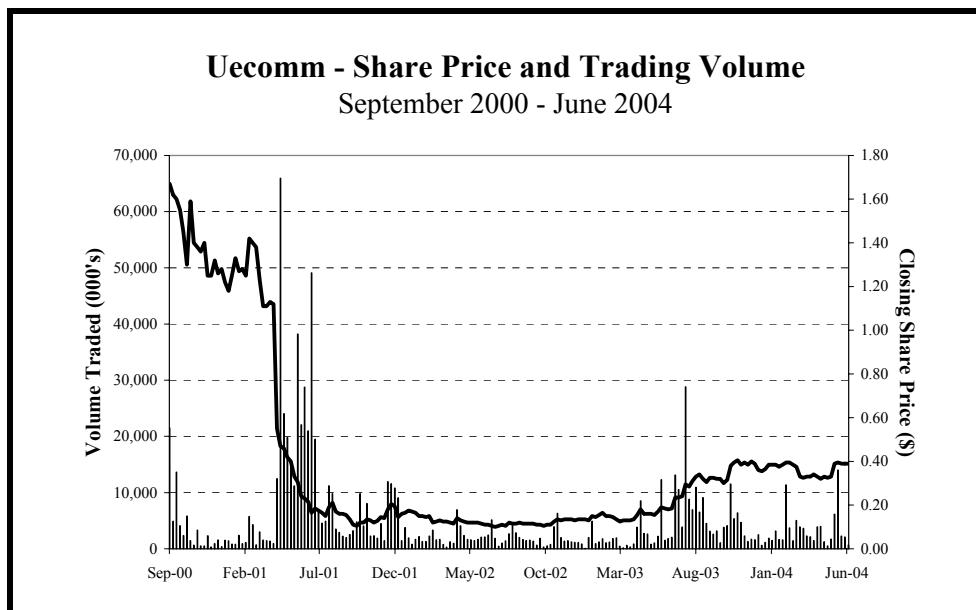
A summary of the price history of Uecomm shares since January 1999 is set out below:

<b>Uecomm - Share Price History</b>					
	<b>Share Price (\$)</b>			<b>Average Weekly Volume (000's)</b>	<b>Average Weekly Transactions</b>
	<b>High</b>	<b>Low</b>	<b>Close</b>		
<b>Year ended</b>					
2000 (listed 20 September 2000)	1.91	1.19	1.28	4,006	260
2001	1.51	0.09	0.16	9,360	559
2002	0.19	0.10	0.14	1,935	106
2003	0.44	0.31	0.39	4,124	229
<b>Quarter ended</b>					
December 2003	0.44	0.27	0.37	3,428	232
March 2004	0.43	0.31	0.33	3,244	232
<b>Week ended</b>					
2 April 2004	0.35	0.33	0.33	2,136	137
9 April 2004	0.34	0.32	0.34	1,458	90
16 April 2004	0.34	0.32	0.33	3,881	135
23 April 2004	0.34	0.31	0.32	3,984	211
30 April 2004	0.34	0.33	0.33	1,260	85
7 May 2004	0.34	0.33	0.33	521	57
14 May 2004	0.34	0.32	0.33	1,723	89
21 May 2004 (announcement 21 May 2004)	0.40	0.33	0.39	6,125	281
28 May 2004	0.40	0.39	0.40	14,002	188
4 June 2004	0.40	0.39	0.39	2,248	131
11 June 2004	0.39	0.39	0.39	2,088	147
18 June 2004	0.40	0.39	0.39	1,164	109

Source: IRESS.



The share price and trading volume history is depicted graphically below:



Source: IRESS.

Uecomm's shares listed at \$1.90 in September 2000. Shortly thereafter, the share price commenced falling as the global telecommunications market deteriorated. In May 2001, the company issued its first profit warning, indicating it would not meet its prospectus revenues and profits for 2001 by 25%. Uecomm's share price fell to \$0.46 per share on the news.

In June 2001, Uecomm's chief executive officer resigned following Uecomm's second profit warning in three months. Uecomm significantly cut revenue forecasts to between \$45-55 million as opposed to an April forecast of \$100 million. Uecomm's share price continued to fall, from \$0.30 per share at the beginning of June to \$0.15 per share by the end of July 2001.

Uecomm's share price fell to a low of \$0.105 per share at the beginning of October 2001, following Uecomm's announcement of a third profit warning. During October, the company also announced the appointment of a new chief executive officer and a new chief financial officer and other changes to the management team. Later in the month, as a result of enquiries from ASIC, Uecomm provided further disclosure on its revenue projection and expected loss position (its fourth earnings downgrade). The company eventually reported a pre-tax loss of \$59 million on revenues of \$33 million.

In March 2002, Uecomm's chairman announced he was stepping down as chairman and a director, with the deputy chairman also stepping down. At this time, Uecomm's share traded around \$0.12 per share.

In February 2003 Uecomm released its 2002 financial results, which indicated a significant improvement in profitability. In April 2003, Uecomm was notified by its major shareholder, United Energy that an agreement had been reached with Alinta to pursue a proposal for United Energy to be acquired. As part of this transaction, United Energy's holding in Uecomm was to be transferred to Alinta. During the same month, Uecomm announced the completion of its sale of its Perth network. Uecomm's share price improved, increasing to around \$0.18 per share by the end of April 2003.

In July 2003, Alinta became the major shareholder of Uecomm following the transaction between United Energy, Alinta and other parties. Alinta also assumed responsibility for Uecomm's funding facility. In August 2003, the chief executive officer of Alinta indicated that Alinta did not see itself as a long term holder of Uecomm's shares. Uecomm's share price increased from \$0.24 per share in the week ending 4 July 2003 to \$0.34 per share by the end of August 2003.

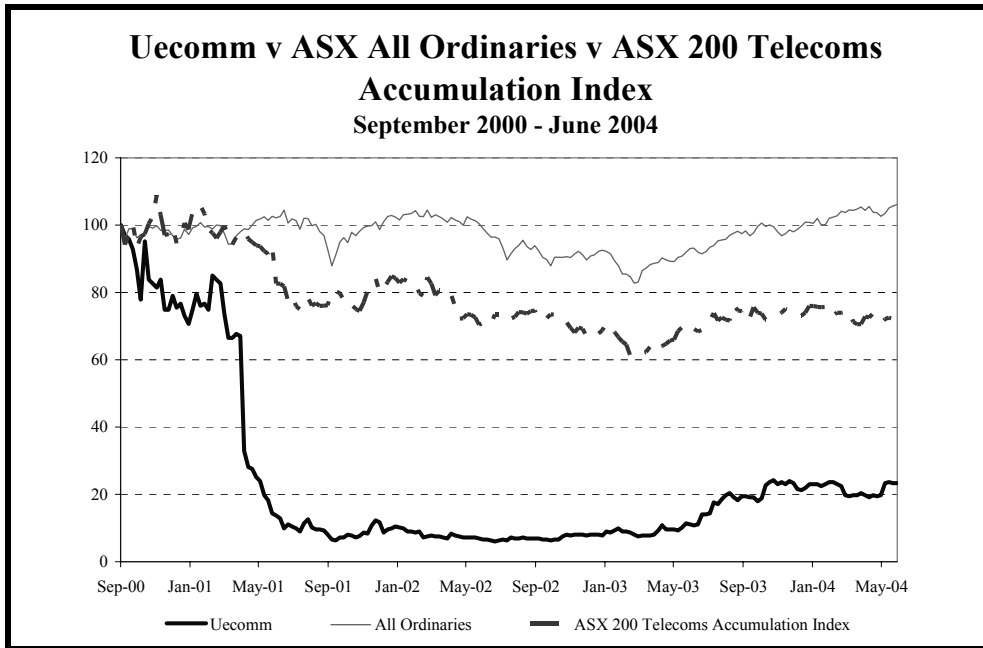


In October 2003, Uecomm released its results for the nine months ended 30 September, demonstrating a significant increase in earnings and indicating to the market that the company was on track to record a maiden pre-tax profit for the year. Uecomm's share price continued to strengthen, reaching a high of \$0.44 per share in early November 2003.

In February 2004, Uecomm released its 2003 financial results, which demonstrated strong earnings growth and a positive earnings outlook. In March 2004, Alinta unsuccessfully attempted to divest its stake through an institutional placement using a bookbuild process.

During 2004 (prior to the announcement of the Optus Offer on 21 May 2004), Uecomm shares generally traded in the range \$0.31-0.40 per share. Since the announcement of the Optus Offer, Uecomm shares have traded in the range \$0.39-0.40 per share.

Uecomm shares have substantially underperformed the S&P/ASX 200 Telecoms Accumulation Index and the S&P/ASX All Ordinaries Index since September 2000, as shown below:



Source: IRESS.

Since March 2003, Uecomm has outperformed both indices, reflecting the improved performance of the company.



## 4 Valuation of Uecomm

### 4.1 Summary

Uecomm's data services business has been valued in the range \$240-280 million. After adjusting for net debt and other assets and liabilities, this implies an equity value for Uecomm of \$191-231 million, which corresponds to a value of \$0.36-0.44 per share. The value represents the full underlying value of Uecomm. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Uecomm shares to trade on the stock exchange in the absence of a takeover offer or similar transaction.

Uecomm - Value Summary for Operating Assets (\$ millions)		
	Value Range	
	Low	High
Uecomm data services business	240.0	280.0
Net debt	(51.2)	(51.2)
Other assets	2.6	2.6
<b>Net value of assets</b>	<b>191.4</b>	<b>231.4</b>
Fully diluted shares on issue (millions) <sup>6</sup>	524.8	524.8
<b>Value per share</b>	<b>0.36</b>	<b>0.44</b>

Uecomm has achieved a substantial turnaround in performance and strong growth in earnings in recent years. This earnings growth is expected to continue in the short term. However, it is difficult to make judgements regarding the medium to longer term future for the business with any confidence. A broad range of credible scenarios for Uecomm's longer term prospects can be developed, with widely varying implications for the value of Uecomm's business. In this context, the process whereby Alinta sought to divest its controlling shareholding in Uecomm provides extremely useful market-based evidence as to value. In addition, Grant Samuel has assessed the value of Uecomm by reference to discounted cash flow analysis and having regard to capitalisation of earnings.

### 4.2 Methodology

The value of Uecomm has been estimated by aggregating the estimated market value of its operating business and the realisable value of non-trading assets and deducting external borrowings and non-trading liabilities. The value of Uecomm's operating business has been estimated on the basis of fair market value as a going concern, defined as the maximum price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting projected cash flows ("DCF");
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

<sup>6</sup> The number of shares on issue on a fully diluted basis assumes that all performance rights are vested.



Each of these valuation methodologies has application in different circumstances. The primary factor for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

There are inherent difficulties associated with valuing a business such as Uecomm's, as:

- the business has experienced a significant turnaround since 2001, following a change in business strategy and major restructure;
- Uecomm expects to continue to generate strong growth in earnings in the short term. However, its ability to continue to win significant volumes of new business and maintain its current high margins in the medium to longer term is uncertain. Uecomm's business strategy revolves around a principal product, Uecomm Ethernet, and a narrow focus on customers with high data volume requirements. Uecomm already has a significant share of the WAN Ethernet market and is potentially vulnerable to more focused competition from other participants in the market. Moreover, its growth to date has been off a relatively low base. Future growth may prove more difficult to achieve; and
- Uecomm has been able to successfully leverage its fibre network to give it a competitive advantage. In the longer term, this competitive advantage may be eroded by the introduction of competing technologies (for example, broadband wireless).

Given the uncertainties regarding the longer term prospects for the business, judgements regarding value are inevitably subjective. In this context, Grant Samuel has placed considerable reliance on evidence as to value inferred from the process whereby Alinta sought to divest its controlling shareholding in Uecomm. This process involved both an informed seller (Alinta) and a wide range of sophisticated potential acquirers of Uecomm. In the ordinary course of events such a process would be expected to provide strong evidence as to underlying value.

In addition, Grant Samuel has conducted discounted cash flow ("DCF") analysis, based on discounting projected future cash flows under various scenarios. The cash flows are discounted using a discount rate which reflects the systematic risks associated with the projected cash flow stream. Discounting of projected cash flows has a strong theoretical basis and is particularly appropriate for businesses for which future earnings and cash flows are expected to vary significantly. The DCF approach is able to explicitly capture growth and margin assumptions and can allow the modelling of a wide variety of scenarios for the future development of the business. However, calculated net present values can be extremely sensitive to small changes in DCF assumptions and considerable care must be exercised in reviewing the results.

Finally, Grant Samuel has analysed the earnings multiples implied by the valuation range, having regard to the earnings multiples implied by the shares prices of comparable listed companies.

Grant Samuel has determined a range of values that are appropriate for the acquisition of Uecomm as a whole. Accordingly, these values incorporate a premium for control. A value determined on this basis would usually exceed the value implied by the price at which shares in the company involved would trade on the stock exchange, in the absence of a takeover offer, assuming that the market is fully informed.

#### **4.3 Transaction Evidence**

Alinta holds 335 million Uecomm shares (approximately 66% of Uecomm's issued capital), which it acquired as part of a portfolio of assets from United Energy in July 2003. Following the acquisition, Alinta made public its interest in divesting its Uecomm shareholding, given that the Uecomm business is not consistent with Alinta's core operations and strategy.

With the co-operation of Uecomm, Alinta conducted an extensive process aimed at divesting its Uecomm shareholding. Discussions were held with a number of participants in the Australian telecommunications/data services market, as well as international industry participants. Discussions were also held with various potential financial investors. Interested parties were provided with information about Uecomm and its prospects. In addition, Alinta attempted to sell

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down its interest via an institutional bookbuild in March 2004. The bookbuild process failed to attract a price sufficient to induce Alinta to sell.

The proposal from Optus was the only formal offer received by the independent directors of Uecomm as a consequence of the sale process.

Under its pre-bid agreement with Optus, Alinta has granted Optus options to acquire 19.99% of Uecomm's issued shares for \$0.325 per Uecomm share. Alinta has also indicated that it intends to accept the Optus Offer for its remaining interest in the absence of a higher offer being announced. If the Optus Offer is declared unconditional, Alinta will pay to Optus a rebate that has the effect of reducing the price Alinta receives for each its remaining shares to \$0.325.

Subject to the Optus Offer becoming unconditional, Optus has also agreed to assume Alinta's rights and obligations under a loan facility currently provided to Uecomm by Alinta, for a consideration of \$45.9 million plus accrued but unpaid interest and any further amounts drawn down at the time of the acquisition of the loan facility. The loan was drawn to \$54 million at 31 May 2004. Accordingly, the offer from Optus for the loan facility represents a discount to face value of \$8.1 million, or 2.4 cents per share in Uecomm held by Alinta.

If the discount is applied to the amounts to be received by Alinta for its Uecomm shareholding, the discount effectively reduces the amount Alinta will receive from \$0.325 to \$0.301 per share. Taking into account Uecomm's existing debt and other assets and liabilities, this implies a value for Uecomm's data services business of approximately \$208 million.

Conversely, the overall amount that Optus will pay under the Optus Offer (if successful), taking into account the discounted amount that Optus will pay in respect of the Uecomm debt, implies a value for Uecomm of \$0.335 per share (based on Alinta's 66% shareholding at \$0.301 per share and the residual 34% public shareholding at \$0.40 per share). In turn, this implies a value for Uecomm's data services business of approximately \$226 million.

In the ordinary course of events the price realised for a business following a thorough sale process could be expected to be good evidence as to its underlying value. By definition, underlying value is the price that can be realised for a business through a properly conducted sale process on a willing buyer/willing seller basis. Accordingly, the range \$208-226 million (that is, the value range implied by the price that Alinta is willing to accept and the price that Optus is prepared to pay) would normally be expected to fall within a range of full underlying values.

In Grant Samuel's view, however, there are reasons to suggest that Alinta's divestment process may not have realised full value:

- Uecomm does not form part of the core operations of Alinta, and Alinta has made clear its interest in divesting its Uecomm shareholding. Alinta is a committed, and arguably even enthusiastic, vendor of its Uecomm shareholding. In these circumstances Alinta may well have been prepared to accept an offer that represented marginally less than full underlying value, particularly if that offer also resolved Alinta's debt funding commitment to Uecomm. On the other hand Alinta cannot be characterised as a desperate seller. Grant Samuel is not aware of any factors that suggest that Alinta was compelled to accept whatever offer was made to it. There is no reason to believe that Alinta would have accepted an offer at a level which represented a substantial discount to its views on full underlying value. Alinta's willingness to abandon the proposed institutional bookbuild initiated earlier in the year evidenced this;
- Optus may have been the only genuinely interested and financially capable potential acquirer from within the Australian telecommunications/data services sector. Given the overlap between the Telstra and Uecomm networks, Telstra may have had limited interest in (and may have faced competition regulatory constraints in relation to) Uecomm. The junior Australian telecommunications/data services companies may have lacked the financial capacity to complete a cash transaction with Alinta. For offshore parties, the acquisition of a small participant in an Australian market characterised by two very large participants (Telstra and Optus) is unlikely to have been attractive;



- financial investors (including private equity investors and investment banks) are generally cautious about investments in technology focussed businesses or businesses that require significant ongoing capital expenditure. On the other hand, it appears reasonable to expect that financial investors would have been interested in acquiring Uecomm if it was available to be acquired at a substantial discount to full underlying value.

Grant Samuel has valued Uecomm's data services business in the range \$240-280 million. The bottom end of Grant Samuel's range is above the value implied by the total amount that Optus will pay under the Optus Offer. In Grant Samuel's view this is consistent with the conclusion that Alinta's determination to sell its Uecomm shareholding, together with the limited number of genuine potential acquirers of Uecomm, may have resulted in a transaction at a price below (although not significantly below) the full underlying value of Uecomm.

#### 4.4 DCF Analysis

In valuing Uecomm's data services business in the range \$240-280 million Grant Samuel has had regard to the results of a DCF analysis of the business.

Given the strong growth in revenue and earnings in recent years, and the expectations of continued strong growth, at least in the short term, the DCF approach is in theory particularly well suited to valuing Uecomm's business. However, Uecomm has not prepared internal forecasts beyond the 2004 Forecast. Accordingly, for the purposes of the valuation, Grant Samuel has developed financial models based on a variety of possible scenarios for the future financial performance of the Uecomm business. These scenarios do not represent Grant Samuel's forecasts of the future financial performance of the business. Grant Samuel gives no undertaking and makes no warranty regarding Uecomm's future financial performance. Such future performance is subject to fundamental uncertainty. Rather, the scenarios have been developed purely to allow Grant Samuel to assess the impact on calculated net present values of alternative assumptions regarding the future financial performance of Uecomm.

Grant Samuel had prepared detailed financial models for a number of scenarios. These models incorporate assumptions regarding factors such as new business volumes, business churn, gross margins, fixed and variable overheads, maintenance capital and the level of capital required to support new business. The models project nominal ungeared after tax cash flows for the 11 years to 31 December 2015, and estimate a terminal value at the end of that period.

Grant Samuel has had particular regard to the following scenarios:

- Case 1 assumes that the business continues to grow at around current rates of growth for the medium term, with strong revenue growth and limited margin pressure. This scenario reflects a future business environment in which Uecomm is faced with moderate levels of competition and pricing pressure; and
- Case 2 assumes that the business maintains current growth rates and margins in the short term, but then experiences declining margins. This scenario effectively reflects a more competitive future business environment, resulting in lower revenue growth and greater margin erosion over time.

The earnings and cash flow outcomes for each of these scenarios are set out in the following table:

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<b>DCF Analysis - Scenario Summary</b>				
A\$000's	Year Ending 30 June			
	2005	2006	2007	2015
<b>Case 1</b>				
Revenue	87,206	100,479	111,716	170,940
EBITDA	36,985	44,896	50,033	64,847
EBIT	22,377	30,435	34,715	47,868
Free Cash Flow <sup>7</sup>	15,266	20,198	20,415	32,345
<b>Case 2</b>				
Revenue	87,206	100,240	110,266	164,031
EBITDA	36,985	42,714	45,664	55,075
EBIT	22,377	28,253	30,358	38,273
Free Cash Flow <sup>7</sup>	15,266	18,730	18,190	26,096

Net present values have been calculated using discount rates of 10.5-11.5%. These rates represent an estimate of a nominal after tax weighted average cost of capital appropriate for Uecomm's business.

The results of the DCF analysis for Cases 1 and 2 are set out below:

<b>Summary of DCF Analysis</b>			
A\$000's	Discount Rate		
	10.50%	11.00%	11.50%
<b>Case 1</b>	300,479	280,743	263,359
<b>Case 2</b>	235,779	222,080	209,846

The valuation range for Uecomm's business of \$240-280 million is consistent with the DCF analysis summarised above (although the DCF analysis does not reflect the synergies and cost savings that could be available to potential acquirers of the business).

However, it should be recognised that the calculated net present values are extremely sensitive to small changes in assumptions regarding margins, revenue growth and capital expenditure for periods many years into the future. This sensitivity to assumptions regarding future operational performance is highlighted by the fact that the terminal values for both Cases 1 and 2 represent around 40-50% of total net present value.

Moreover, a relatively wide range of reasonably credible scenarios for the future performance of the business can be developed. The adoption of assumptions of marginally higher long term growth rates and marginally greater margins would result in the calculation of significantly higher net present values (although significantly higher future profitability may be difficult to sustain having regard to the high returns on capital employed that would be implied by such performance). Conversely, both Case 1 and Case 2 assume that Uecomm's business continues indefinitely without any need for major capital expenditure. Effectively, they assume that Uecomm's network never becomes obsolete and never faces significant capacity constraints. It could credibly be argued that the terminal value estimates should reflect a risk that technological change, volume growth or other factors will ultimately require some substantial capital expenditure, significantly reducing calculated present values.

Notwithstanding these uncertainties, Grant Samuel believes that the DCF analysis generally supports the valuation of Uecomm's data services business in the range \$240-280 million.

<sup>7</sup> EBITDA less capital expenditure, working capital movements and tax (calculated on a notional ungeared basis)



#### 4.5 Earnings Multiples

The valuation of Uecomm's data services business in the range \$240-280 million implies the following multiples of earnings:

<b>Uecomm - Value Summary for Operating Assets (times)</b>		
	<b>Low</b>	<b>High</b>
<b>Revenue multiples for Uecomm</b>		
Historical (year ended 31 December 2002)	5.7	6.6
Historical (year ended 31 December 2003)	4.1	4.8
Forecast (year ending 31 December 2004)	3.2	3.8
<b>EBITDA multiples for Uecomm</b>		
Historical (year ended 31 December 2002)	50.9	59.4
Historical (year ended 31 December 2003)	10.9	12.7
Forecast (year ending 31 December 2004)	7.9	9.3

The implied multiples are high on a historical basis, but generally consistent with trading multiples for comparable companies on a prospective basis (having regard to the fact that the trading multiples do not reflect a premium for control). In Grant Samuel's view the multiples are reasonable having regard to the following:

- Uecomm has achieved a significant turnaround in earnings over the last two years. EBITDA has increased from \$4.7 million in 2002 to \$22.0 million in 2003 and is forecast to increase to \$30.5 million to 2004. Uecomm management believes that continued growth at similar levels is achievable in the short term; and
- Uecomm's extensive fibre network reach provides it with a significant competitive advantage, particularly in metropolitan (non-CBD) areas where it faces limited competition.

On the other hand:

- Uecomm is highly dependent on a single product and a narrow band of customers;
- while Uecomm has achieved significant earnings growth, the extent to which similar levels of growth are sustainable in the medium to longer term is uncertain; and
- to date, Uecomm's network infrastructure has allowed it to realise high margins on both new and renewal business. In a potentially more competitive environment in the future Uecomm may face margin erosion.

#### **Trading Multiples**

Grant Samuel has reviewed share market ratings of Australian and overseas listed companies which operate in the telecommunications industry, in particular those which own data network infrastructure. The following table sets out the multiples implied by the share prices of selected listed companies:



Share Market Ratings of Selected Listed Companies							
	Market Capitalisation (\$ millions)	Revenue Multiple <sup>8</sup>			EBITDA Multiple <sup>9</sup>		
		2003 historical	2004 forecast	2005 forecast	2003 historical	2004 forecast	2005 forecast
<b>Australia</b>							
Telstra	A\$64,495.1	3.7	3.6	3.5	7.6	7.2	7.0
Singtel	A\$32,659.6	3.1	2.9	2.8	8.8	7.9	7.5
Telecom Corporation of NZ Ltd	A\$10,271.5	2.8	2.7	2.7	6.2	6.2	6.0
Powertel	A\$113.2	1.2	0.9	0.7	14.4	5.9	3.6
Amcom	A\$53.6	4.8	na	na	13.7	na	na
<i>Simple average</i>		3.1	2.5	2.4	10.1	6.8	6.0
<i>Weighted average<sup>10</sup></i>		3.4	3.3	3.2	7.8	7.3	7.0
<b>International</b>							
Qwest Communications International Inc	US\$6,931.0	1.7	1.7	1.7	7.5	6.6	5.9
COLT Telecom Group plc	US\$3,535.5 <sup>11</sup>	1.2	1.1	1.0	8.7	6.7	5.0
Equant N.V.	US\$2,070.2	0.5	0.5	0.4	4.7	4.4	3.4
Commonwealth Telephone Enterprises Inc.	US\$963.5	3.1	3.1	3.0	6.0	6.1	5.9
Time Warner Telecom Inc	US\$492.0	1.9	2.0	1.8	5.5	6.4	5.7
ITC Deltacom Inc	US\$431.9	1.5	1.1	1.1	12.7	8.0	6.1
<i>Simple average</i>		1.6	1.6	1.5	7.5	6.3	5.3
<i>Weighted average</i>		1.5	1.5	1.4	7.4	6.3	5.3

Source: Bloomberg, IRESS, Annual Reports, Broker's Reports, Company Announcements.

The Australian EBITDA multiples range between 5.9 and 7.9 times forecast 2004 EBITDA. Excluding Equant N.V. ("Equant"), which has little debt and significant cash, the international EBITDA multiples range between 6.1 and 8.0 times forecast 2004 EBITDA.

In analysing the table above, the following factors should be taken into account:

- the multiples in the table are based on share market prices as at 22 June 2004 and do not reflect a premium for control;
- all Australian companies have a 30 June year end, except for Powertel which has a 31 December year end and Singapore Telecommunications Limited ("Singtel") which has a 31 March year end. All international companies have a 31 December year end except for Equant which has a 30 June year end;
- Telstra is Australia's largest telecommunications and information services company providing more than 10.3 million Australian fixed line and over 6.5 million mobile services. Telstra's principal activities are the provision of national local, long distance and international telephone services, mobile telecommunications, data, Internet and on-line services. Telstra also has a 50% interest in a pay TV joint venture, Foxtel. The Australian Federal Government is the 50.1% majority shareholder of Telstra;
- SingTel is a telecommunications company that is listed on the Australian and Singapore stock exchanges. The company is the largest listed company and the leading provider of fixed-line, mobile and Internet services in Singapore. SingTel has operations and investments in over 20 countries and territories around the world with two main hubs in Singapore and Australia (where it owns 100% of Optus, Australia's second largest

<sup>8</sup> Represents the gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by revenue.

<sup>9</sup> Represents gross capitalisation divided by EBITDA.

<sup>10</sup> Weighted by market capitalisation. Singapore Telecommunications Limited and Telecom Corporation of New Zealand Limited's market capitalisations have been converted from Singapore \$ to Australian \$ as of 22 June 2004.

<sup>11</sup> Colt Telecom Group plc's market capitalisation has been converted from £ to US\$ as of 22 June 2004.



telecommunications carrier). The Singapore government is the company's majority shareholder;

- Telecom Corporation of New Zealand Limited ("Telecom NZ") is the largest telecommunications company in New Zealand providing local, national and international services, cellular and other mobile services, data and Internet services, equipment sales and installation services, and directories. The company's Australian subsidiary, AAPT, is Australia's third largest telecommunications carrier;
- Powertel is an Australian broadband telecommunications provider to the corporate, government and wholesale markets. Powertel owns and operates the third largest fixed fibre-optic telecommunications network in Australia extending down the eastern seaboard, connecting the CBDs of Brisbane, the Gold Coast, Sydney and Melbourne with leased capacity to Adelaide and Perth. In December 2003, Powertel acquired Request Broadband Pty Ltd ("Request"), an infrastructure based broadband carrier which provides broadband services to the SME sector. Powertel also holds a 10% interest in Macquarie Corporate Telecommunications Limited;
- Amcom is a broadband provider with a 'last mile' network that services other service providers, large corporate and government customers in regional and metropolitan centres. The company has deployed over 450 km of high-speed metropolitan networks in Perth, Adelaide and Darwin accessing over 320 buildings. Products provided range from DSL services through to 1 Gigabit virtual private networks connecting multi-site locations;
- Qwest Communications International Inc ("Qwest") is a United States telecommunications company which provides local telecommunications services in 14 American states. The company's traditional telephone network is made up of both copper cable and fibre optic broadband cable and serves approximately 16.2 million access lines. Qwest also provides long-distance services and broadband data, voice and video communications globally through a fibre optic broadband network extending over 180,000 miles to major cities worldwide;
- COLT Telecom Group plc ("COLT") provides high bandwidth data, Internet, voice and advanced communications services to businesses and governments in Europe. COLT owns and operates an integrated 20,000 km digital fibre optic network connecting over 9,000 buildings in 32 cities across Europe with additional points of presence worldwide. COLT's fibre optic local city-networks are inter-linked via the company's EuroLAN to form a single IP-based pan-European network;
- Equant provides global, integrated and customized communications infrastructure services to multinational corporations and international institutions such as Ernst & Young, Hanjin Shipping, Japan Tobacco International, Le Meridien Hotels and Zurich Financial Services. Equant has the world's largest data network in terms of geographic coverage spanning more than 220 countries and territories, 1,100 cities and towns with more than 300,000 user connections worldwide;
- Commonwealth Telephone Enterprises Inc ("Commonwealth") is a United States rural incumbent local exchange carrier (RLEC) offering telecommunications services in Pennsylvania. The company also operates as a competitive local exchange carrier (CLEC) outside its territory. Commonwealth utilises an advanced optical fibre network. In addition, Commonwealth uses an ATM network to support its network of over 11,000 DSL lines in its territory;
- Time Warner Telecom Inc. ("Time Warner Telecom") is a provider of managed network solutions delivering data, dedicated Internet access, and local and long distance voice services to business customers in the United States. Time Warner Telecom's networks cover over 18,200 route miles offering service to over 16,000 buildings. Time Warner Inc holds a majority voting interest in the company; and
- ITC Deltacom Inc ("ITC") provides integrated communications services in the south-eastern United States. The company owns, operates and manages a fibre optic network that is over 10,900 route miles and extends from New York to Florida. In addition, ITC uses leased network facilities to extend its market coverage. ITC provides bundled and individual



services to small, medium-sized, and large business enterprises, governmental agencies and other carriers.

### ***Transaction Multiples***

There have been a number of transactions in recent years involving companies operating in the telecommunications infrastructure industry. These transactions have implied a wide range of multiples, which are generally of limited relevance to the valuation of Uecomm. In particular:

- those transactions which occurred prior to the 'tech-wreck' (ie pre-April 2000) occurred at high valuations on the basis of little or no earnings; and
- those transactions which have occurred following the market correction have tended to occur under distressed conditions (e.g. bankruptcy proceedings).

### ***Multiple Analysis***

The trading multiples for the comparable companies are consistent with the multiples implied by the valuation range for Uecomm, having regard to fact that the trading multiples do not incorporate a premium for control. However, the following factors need to be recognised:

- in many case there are significant differences between the comparable companies and Uecomm, in relation to factors such as network structure, competitive environment, business strategy and stage of development;
- many of the comparable companies are substantially larger than Uecomm;
- although Telstra and Telecom Corporation of New Zealand both operate fibre optic network and provide high volume data services, they are the incumbent integrated telecommunications companies in Australia and New Zealand respectively and provide many other services; and
- the overseas companies operate in industry, market and regulatory environments different from those facing Uecomm. They also operate in different tax regimes. All of these factors impact sharemarket valuations.

Notwithstanding these differences, in Grant Samuel's view the trading multiples for the comparable companies support the multiples implied by the valuation range for Uecomm. While the historical multiples for Uecomm are significantly higher than those for many of the comparable companies, these are of limited relevance given the substantial improvement in earnings achieved by Uecomm over recent years. The prospective earnings multiples for the comparable companies are consistent with those for Uecomm (after adjusting for a premium for control).

## **4.6 Other Adjustments**

### **4.6.1 Net Debt**

At 31 May 2004, Uecomm had net debt of approximately \$51.2 million, comprising \$54 million of borrowings less \$2.8 million cash.

### **4.6.2 Other Assets**

The value of Uecomm's other assets is summarised below:

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Uecomm - Other Assets (\$ millions)		
	Value Range	
	Low	High
Share plan receivables	0.8	0.8
Cash from exercise of options	1.8	1.8
<b>Net value of other assets</b>	<b>2.6</b>	<b>2.6</b>

These values represent estimates of the net realisable value of each asset.

***Share Plan Receivables***

Uecomm’s loan share plan involves interest free, limited-recourse loans offered to employees to acquire shares in the company. The estimated recoverable loan amount totals \$0.8 million.

***Option Proceeds***

Uecomm has 10,347,670 options on issue, which are exercisable at a range of prices from \$0.12 per share to \$2.20 per share. Assuming all options that are in the money (that is, for which the exercise price is less than the Optus Offer price) are exercised, Uecomm would receive cash proceeds of \$1.8 million.



**5 Evaluation of Optus Offer**

**5.1 The Optus Offer is Fair**

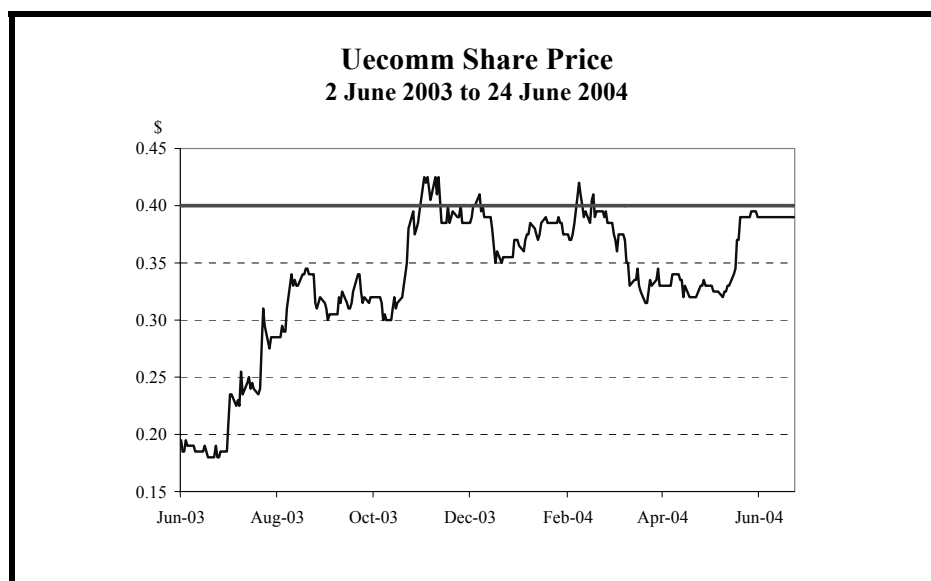
Grant Samuel has valued Uecomm in the range \$0.36-0.44 per share. The Optus Offer of \$0.40 falls within the valuation range. Accordingly, the Optus Offer is fair.

**5.2 The Optus Offer is Reasonable**

Because the Optus Offer is fair, it is by definition reasonable. In Grant Samuel’s view there are compelling reasons for Uecomm shareholders to accept the Optus Offer:

- the Optus Offer represents a substantial premium to the effective price that Alinta is prepared to accept for its controlling shareholding (effectively, \$0.301 per Uecomm share);
- the Optus Offer represents a meaningful premium to the recent Uecomm share price, as summarised in the following table and chart.

Offer Premium Relative to Weighted Average Uecomm Share Prices		
	Weighted Average Price	Premium
Day before Optus Offer announced	0.37	8.1%
Week before Optus Offer announced	0.35	14.3%
Month before Optus Offer announced	0.33	21.2%
Three months before Optus Offer announced	0.34	17.6%
Six months before Optus Offer announced	0.37	8.1%
Twelve months before Optus Offer announced	0.32	25.0%



Source: IRESS.

Uecomm shares briefly traded above \$0.40 during late 2003 and again in early 2004. However, this trading may have been influenced by speculation regarding a possible corporate transaction involving Uecomm, and accordingly may already have incorporated some element of a control premium;

- the valuation of Uecomm in the range \$0.36-0.44 per share is subject to considerable uncertainty. However, in Grant Samuel’s view it is difficult to argue that the underlying value of Uecomm is significantly greater than Grant Samuel’s valuation range. Such a

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conclusion would imply that Alinta, a sophisticated, well-informed controlling shareholder, had surrendered substantial value. Moreover, such a conclusion would imply that potential financial investors had passed up an opportunity to acquire Uecomm at a deep discount to underlying value. In Grant Samuel's view these implications are difficult to sustain; and

- even if shareholders took a different view on value and concluded that the underlying value of Uecomm was above \$0.40 per share, it is likely that it would still be in their best interests to accept the Optus Offer. Given the extensive process undertaken by Alinta to divest its shareholding, and the ample opportunity for any third party to make a counter-offer in response to the Optus Offer, it appears unlikely that a higher offer for Uecomm will be forthcoming. Shareholders who do not accept the Optus Offer run the risk that they will ultimately hold shares in a highly illiquid company, with no assurance that they will ever be able to realise full underlying value.

Accordingly, Grant Samuel has concluded that the Optus Offer is both fair and reasonable.



## **6 Qualifications, Declarations and Consents**

### **6.1 Qualifications**

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally), property advisory services and manages private equity and property development funds. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 295 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Stephen Cooper BCom (Hons) CA(SA) ACMA, Dan Gerber BCom LLB ASIA and Marisa Leone BBus ASIA. Each has a significant number of years of experience in relevant corporate advisory matters. James Lilico BSc (Hons) MSc assisted in the preparation of parts of this report. Each of the above persons is an authorised representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

### **6.2 Disclaimers**

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Optus Offer is fair and reasonable. Grant Samuel expressly disclaims any liability to any Uecomm shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Target's Statement issued by Uecomm. Grant Samuel does not accept any responsibility for the contents of the Target's Statement except for this report and references to it.

### **6.3 Independence**

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Uecomm, Alinta or Optus, that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Optus Offer. In May 2001, Grant Samuel was retained to prepare an independent expert's report in relation to Singapore Telecommunications Limited takeover offer for Cable & Wireless Optus Limited.

Grant Samuel has no involvement with, or interest in the outcome of, the Optus Offer other than the preparation of this report.

Grant Samuel will receive a fixed fee for the preparation of this report. This fee is not contingent on the outcome of the Optus Offer. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Practice Note 42 issued by the ASIC (previously known as Australian Securities Commission) on 8 December 1993.



#### 6.4 Declarations

Uecomm has agreed that Uecomm will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Uecomm has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action. Any claims by Uecomm are limited to an amount equal to the fees paid to Grant Samuel.

Advance drafts of this report were provided to Uecomm and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft reports. In particular, Grant Samuel provided a draft of its full report to Uecomm and its advisers on 23 June 2004. Concurrently, Uecomm management was completing a review of its 2004 Forecast for the Board. Uecomm subsequently advised Grant Samuel of a narrowing of its forecast revenue range for the 2004 financial year from \$70-80 million previously to \$70-75 million, but maintaining its EBITDA forecast of approximately \$30 million. Uecomm also provided high level commentary on the financial performance for 2005 reflected in the cases developed by Grant Samuel for the purposes of its DCF analysis. On the basis of this additional information, Grant Samuel reduced its valuation range for Uecomm from \$0.38-0.46 per share to \$0.36-0.44 per share. Other than this change, there was no alteration to the methodology, evaluation or overall conclusions as a result of issuing the drafts.

#### 6.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to accompany the Target's Statement to be sent to shareholders of Uecomm. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

#### 6.6 Other

The accompanying letter dated 25 June 2004 forms part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is separately included in the documents sent by Uecomm to shareholders.

GRANT SAMUEL & ASSOCIATES PTY LIMITED  
25 June 2004

