

NBN Co Corporate Plan

Introduction

Rollout of the National Broadband Network (NBN) is a key element of the Federal Government's plan to transform the Australian telecommunications market. The NBN will deliver a significant, once-in-a-generation restructuring of the industry while resolving the current infrastructure and investment bottlenecks that have seen Australia fall behind its international peers.

The NBN will replace Australia's copper telephone network, which is reaching the limits of its capacity to provide the level and speed of services that Australians will demand.

About the Corporate Plan

NBN Co publicly released its Corporate Plan on 20 December 2010. The Corporate Plan details financial and operational information about the NBN, incorporating forecasts covering a 30-year period. Alongside the financial forecasts, the plan includes details on construction, network design and wholesale products to be offered over the NBN.

The Corporate Plan, which assumes the successful conclusion of a deal with Telstra, demonstrates NBN Co's ability to realise the Government's policy of providing broadband throughout metropolitan, regional and rural Australia in a cost-effective and financially viable way.

A key element outlined in the Corporate Plan is the expectation by NBN Co that it will generate an Internal Rate of Return of seven percent per annum - in excess of the Government's cost of funds, or long-

term bond rate.

This assessment of the financial return to Government takes no account of the broader productivity and community benefits of the project.

Another key element outlined in the plan is the competitive pricing for wholesale broadband including a basic service offering with a download speed of 12/1 megabits per second (mbps) at a uniform national wholesale access price of \$24 a month.

As outlined in the Corporate Plan, the NBN will connect 93 percent of homes, schools and workplaces with optical fibre delivering broadband services with speeds of up to 1 gigabit per second. The network will cover the remaining seven percent of premises with a combination of wireless and satellite services with peak speeds up to 12 mbps. The speeds actually experienced by end-users will depend on a number of factors including the retail broadband plan they choose, their equipment and their in-premises connection.

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Below is a summary of the key elements of the NBN outlined in the Corporate Plan.

Further detail on the Corporate Plan is available on the NBN Co website at www.nbnco.com.au

Key points

- **Internal rate of return forecast at seven percent p.a.**
- **Uniform national wholesale access price for 12/1 mbps basic service of \$24/month**
- **Government Equity requirement \$27.5bn**
- **Total capital expenditure to the end of the construction period is forecast at \$35.9 billion.**
- **Total operational expenditure net of revenue over the same period is \$1.0 billion.**
- **NBN Co to seek funding from capital markets from FY2015**
- **Network construction to take nine-and-a-half years with rollout to reach peak of 5,900 premises a day during construction**

Pricing

Pricing information is set out in the plan for the variety of wholesale products NBN Co intends to offer.

The entry-level offer comprises a 12 mbps downstream and 1 mbps upstream service for a wholesale access price of \$24 per month. As well as the access charge there will be a capacity charge for the shared resource between the premises and the point of interconnect. This charge is shared across many end-users on the Service Provider's service and will add around \$1 for end-users based on average data rates.

All prices for specific individual wholesale products fall in real and nominal terms over time.

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Figure 1: NBN Co wholesale products pricing

Downstream / (PIR Mbps)	Upstream / (PIR Mbps)	Fibre	Wireless	Satellite
12	1	\$24*	\$24	\$24
25	5	\$27	-	-
25	10	\$30	-	-
50	20	\$34	-	-
100	40	\$38	-	-
250	100	\$70	-	-
500	200	\$100	-	-
1000	400	\$150	-	-

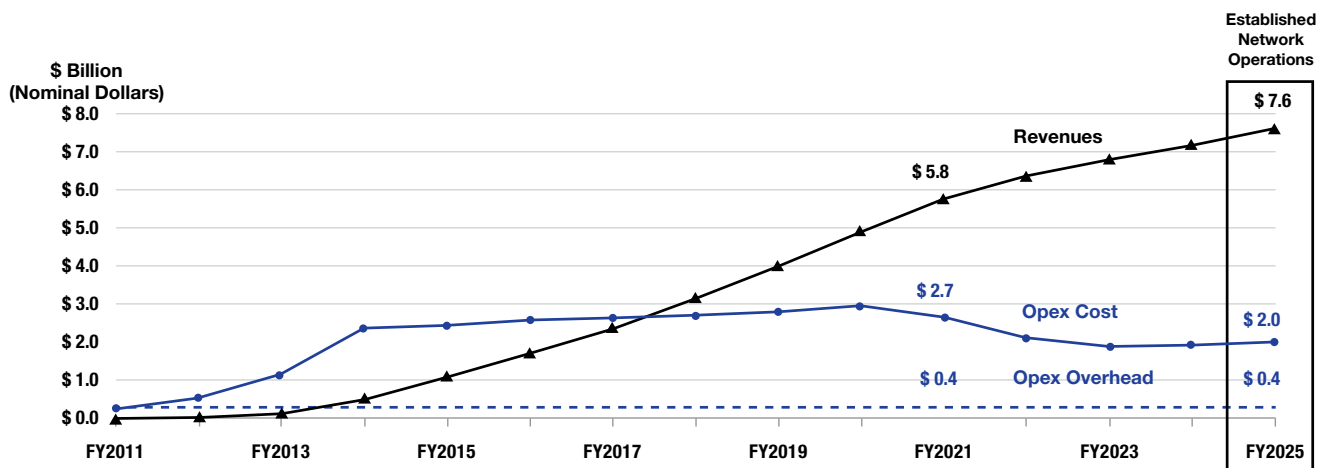
Revenue

NBN Co’s revenue plan is built based on assessments of the addressable market, products and pricing, expected take up of the basic services and speed and usage profiles.

NBN Co’s assessment of future speed and data usage is based on a balanced assessment of past trends and industry’s future expectations. Data usage and market expectations for download speeds have steadily increased over the past two decades and there is no reason to expect that trend will suddenly change.

NBN Co has assumed that 70 percent of premises passed by the network will take up a service. This figure takes into account an estimated 12 percent of premises being unoccupied, 13 percent using wireless products and 5 percent using other existing fixed line networks.

Figure 2: Revenues and opex



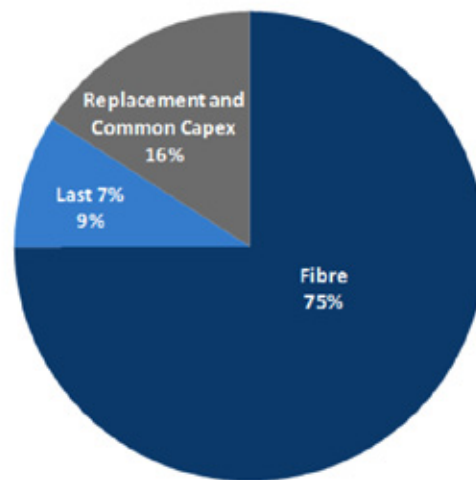
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Capital and operational expenditure

Total capital expenditure to the end of the construction period is forecast at \$35.9 billion.

Total operational expenditure net of revenue over the same period is \$1.0 billion.

Figure 3: Capital expenditure \$35.9 billion to December 2020



Funding

Funding for this important national infrastructure project will initially come from the Government, which will contribute equity of \$27.5 billion. However, this will be paid back with a return over the life of the project. Other funding will come from operational earnings and private debt.

From FY2015 NBN Co will begin raising funds through capital markets. NBN Co expects that it will be a top tier major Australian debt issuer and a significant proportion of funding will likely come from overseas investors. The quantum of debt to be raised from project finance or financial markets is estimated to be \$13.4 billion. Together the equity and debt funding add to a total funding requirement of \$40.9 billion including funding costs.

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Network design and construction

Over the 9.5 year construction period, NBN Co plans to build or lease 121 Points of Interconnect (PoI) and 980 Fibre Serving Areas (FSAs).

The NBN will cover 13 million premises by 2021 and involve installing 181,000km of gigabit-capable Passive Optical Network (GPON) and 57,000km of transit fibre.

NBN Co will also pass all greenfields developments by the end of deployment, representing some 2 million premises in the fibre footprint.

Deployment of the NBN is planned to take place concurrently across multiple rollout regions. NBN Co is already constructing five First Release Sites on the mainland, and has announced the locations of 19 further Second Release Sites.

Agreement with Telstra

The Business Case is based on the assumption that a deal is finalised and approved between NBN Co and Telstra Corp following the signing of a Financial Heads of Agreement in June 2010.

Key benefits of a binding agreement include:

- Progressive disconnection of copper and Hybrid-Fibre Coaxial (HFC) services and decommissioning and deactivation of Telstra's copper and HFC networks as the Fibre-to-the-Premises network is rolled out ;
- Utilisation of existing Telstra exchange space;
- Utilisation of a significant volume of Telstra's existing ducts and conduits; and
- Access to dark fibre and managed services for backhaul.

Contact

Phone **1800 881 816**
Website **www.nbnco.com.au**
Email **info@nbnco.com.au**