

Media Release

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NBN Co Forecasts 7% Internal Rate of Return Plans Access Price for Basic Service of \$24/Month

Key Points

- Internal rate of return forecast at 7% p.a.
- Uniform national wholesale access price for 12/1 Mbps basic service of \$24/month
- Government Equity requirement \$27.5bn
- Annual revenue forecast at \$5.8 billion in FY2021, \$7.6 billion in FY2025
- NBN Co forecasts positive operational earnings from FY2018, and positive net income in FY2021
- 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

NBN Co today said it expects to produce an internal rate of return of 7% per annum over the life of the project, confirming that over the long term Australia's national broadband network will be financially viable.

Detailed financial and operational information regarding the NBN was released today in NBN Co's Corporate Plan, which incorporates forecasts covering a 30-year period. The plan also assumes the successful conclusion of a deal with Telstra.

The plan outlines 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.

NBN Co CEO Mike Quigley said the plan's data demonstrates the company's ability to realise the Government's policy of providing broadband throughout metropolitan, regional and rural Australia in a cost-effective way.

"Building a genuinely national broadband network in a country such as Australia requires a central role for the Government, as no commercial enterprise would be likely to fund such an endeavour," Mr Quigley said.

“Rollout of the 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 the country’s copper telephone network, which is reaching the limits of its capacity to provide the level and speed of services that Australians will demand,” he said.

“Australia, like most of the world, is experiencing an almost insatiable demand for data. The Australian Bureau of Statistics recorded a 21% increase in the average monthly volume of traffic downloaded on a fixed broadband connection in the six months to June 2010.

“The rollout of a national high-speed broadband network, will provide services on a wholesale-only, open-access, non-discriminatory basis. This will allow greater choice and new innovative services for end users at the home, office, school or hospital,” Mr Quigley said.

Based on the assumptions made by the company and set out in the plan, NBN Co expects to generate an Internal Rate of Return of 7% per annum - in excess of the Government’s cost of funds, or long-term bond rate.

“Our assessment of the return to Government takes no account of the broader productivity and community benefits of the project,” Mr Quigley said.

Commercially-sensitive aspects of the plan, as expected, remain confidential and have not been released given NBN Co is in commercially-sensitive negotiations with a number of parties.

“There is certainly enough information in this Corporate Plan for anyone to clearly see our assumptions and how we intend to build and operate the network,” Mr Quigley said.

Alongside the financial forecasts, the plan includes details on construction, network design and wholesale products to be offered over the NBN.

Over the next three years, NBN Co will begin the rollout and complete necessary systems for operational and business support and enterprise resource planning, which need to be in place before NBN Co can begin full scale services.

The NBN will have the capacity to serve 100% of Australian businesses and homes while providing uniform national wholesale pricing.

The NBN will connect 93% of homes, schools and workplaces with optical fibre delivering broadband services with speeds of up to 1 gigabit per second. The network will cover 4% of premises with a wireless service and 3% by satellite with 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.

“The selection of technologies for fibre, wireless and satellite aims to provide the most appropriate and cost-effective mix of services to meet the needs of Australians across this vast nation on a standardised and ubiquitous network, no matter their location.”

Mr Quigley said NBN Co has the capacity and capability to ensure that the Government's objectives are achieved efficiently and equitably.

NBN Co will begin earning revenue at a relatively early stage compared with other major infrastructure projects and also expects to improve cost efficiency as the rollout proceeds.

Prices

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 RSP'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.

Revenue

Total revenue to the end of the construction period is forecast to be \$20.8 billion. Annual revenue is forecast at \$5.8 billion in FY2021 and \$7.6 billion in FY2025.

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% of premises being unoccupied, 13% using wireless products and 5% using other existing fixed line networks.

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.

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.

Network Design and Construction

Over the 9.5 year construction period, NBN Co plans to build or lease 120 Points of Interconnect and 980 Fibre Serving Areas.

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.

Several large contracts are now in place for network technology, IT and corporate requirements. More contracts will be awarded over coming months for construction and installation services, operational IT systems and equipment. Contracts will also be awarded for wireless and satellite network equipment and services.

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 HFC services and decommissioning and deactivation of Telstra's copper and HFC networks as the FTTP 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

"The agreement with Telstra makes good sense because it makes the best possible use of existing infrastructure and effectively upgrades the nation's fixed line communications network," Mr Quigley said.

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