

Media release

21 February 2014

NBN Co prepares for revised rollout model

Financial statement as at 31 December 2013

Financial highlights

- Capex increases by 50% to \$1.19 billion and opex increases by 50% to \$500.4 million in line with the continued expansion of the network compared to half year ending 31 December 2012
- ARPU stable at \$36.50
- Total revenue increases by 63% to \$47.8 million, with telecommunications revenue up fourfold to \$21.8 million
- \$715 million operating loss after tax

Operational highlights

- Limited scale FTTN trials to complement FTTB build pilot, as NBN Co embraces a broader mix of technologies to deliver access to high speed broadband sooner and at less cost
- Negotiations commenced with Telstra Corporation Limited on potential changes to the current agreements
- 130,759 premises with an active NBN service to 31 December 2013, with a sevenfold increase in fibre users to 80,077
- Company brings stability to existing construction program to help minimise impact of transition on delivery partners and construction workforce

NBN Co has begun active preparations for the transition to a revised rollout model that is planned to deliver the nationwide upgrade to Australia's fixed-line broadband infrastructure sooner and at less cost to taxpayers.

The company confirmed that it had commenced negotiations with Telstra Corporation Limited on potential changes to the current agreements. It has also begun preliminary discussions with Optus around the some of the findings of the Strategic Review.

In addition, it is undertaking a Fibre to the Building (FTTB) pilot and Fibre to the Node (FTTN) trials to assist with the smooth transition to a new architecture subsequent to Commonwealth and regulatory approvals.

The company has established a transformation management office to deliver the roadmap to the new NBN and ensure the workforce has the right mix of skills and experience to undertake the task.

NBN Co anticipates it will be in a position to begin the transition to the Optimised Multi-Technology Mix as set out in the Strategic Review from calendar 2015.

The company is determined to stabilise and improve the efficiency of the rollout, and to help provide ongoing certainty for the Australian construction industry. As a consequence, the existing Fibre to the Premises (FTTP) rollout in the fixed-line footprint will continue throughout calendar 2014.

Accordingly construction orders continue to be issued and FTTP deployment continues to areas in line with the company's current guidance for FY14, on top of the 351,046 premises already passed by fibre as at 31 December 2013.

A more detailed framework for the transition will be set out in the NBN Co Corporate Plan, which is due to be submitted to the Commonwealth later this year.

Key financial results

News of the preparatory steps towards a revised rollout come as NBN Co publishes its results for the first half of financial year 2014.

The company recorded a \$715 million operating loss after generating \$47.8 million in revenue for the six months to 31 December 2013. Total revenue rose by \$18.4 million against the comparable period, with telecommunications revenue deriving from a growing end-user base being the main driver. Total telecommunications revenue rose fourfold to \$21.8 million.

Revenue generated from the 130,759 premises with an active NBN service across all access technologies (30 June 2013: 70,100) provided an average revenue per user figure of \$36.50 a month (30 June 2013: \$37.33).

Capital expenditure rose \$396 million to \$1.19 billion, in line with the continued expansion of the network.

The ongoing network rollout also drove an increase in operating expenditure, up \$167 million to \$500.4 million.

Employee-related expenses increased by 23% to \$189 million, driven by a 32% increase in headcount from 2,235 over the corresponding period to 2,949. As the company reaches maturity NBN Co is focused on ensuring headcount is commensurate with the needs of the organisation as it transitions to the new rollout model. At the same time an estimated 3,450 external workers were actively working on the construction of the NBN.

NBN Co Executive Chairman, Dr Ziggy Switkowski, said:

“As the Strategic Review reported, the national rollout of the NBN is still only three per cent complete after nearly five years. Today's results, while showing incremental progress, are indicative of the complexities inherent in the original approach.

“A revised NBN rollout that enables people access to high speed broadband sooner will both reduce costs and bring forward revenues. A more rapid accumulation of revenues will also help fund the already-reduced construction costs and thereby reduce the debt requirements to build the NBN.

“I am pleased with the steps underway to deliver a faster and more cost-effective NBN, including the commencement of negotiations with Telstra and preliminary discussions with Optus as well as the technology trials and pilot we are undertaking.”

Towards a new NBN model

NBN Co has initiated a series of programs that will inform its ability to incorporate a broader mix of advanced broadband technologies into the NBN and move the rollout to scale.

These include a limited FTTB pilot and an FTTN build trial.

NBN Co is negotiating a collaborative agreement with Telstra to gain access to its copper access network for the purpose of these tests. This agreement will fall outside the terms of the Definitive Agreements between the two companies.

Further details as follows:

- **Fibre-to-the-Building pilot** will test the rollout of high speed VDSL broadband to end users in ten apartment complexes and office blocks in Carlton, Brunswick and Parkville in Melbourne. Fibre optic cables are being delivered to a telecommunications connection box (or node) located in the communications rooms of the buildings. The box, in turn, will connect to the existing in-building wiring, enabling Retail Service Providers (RSPs) to deliver fast broadband to each individual premises. A technology trial in December, in advance of the participation of end users and RSPs, produced download speeds of 108Mbps and upload speeds of 48Mbps.
- **Fibre-to-the-Node build pilot** in two locations: Umina near Woy Woy on the NSW Central Coast and Epping in Melbourne's northern suburbs. The company will construct two small scale Copper Serving Area Modules, erecting kerbside node cabinets which will connect [NBN fibre] to spare copper pairs in the Telstra pillar. Neither site had been earmarked to receive FTTP within the next 12 months under the previous rollout plan
- Once active, NBN Co will invite RSPs to participate in a **Fibre-to-the-Node end user trial**. This limited term trial will test the delivery of high speed broadband via FTTN to up to 100 premises at each location.

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Notes to editors

- Download the NBN Co Half Year Report www.nbnco.com.au/about-us/half-year-report-december-2013.html
- NBN Co is committed to fulfilling the Commonwealth's policy goal of ensuring that all Australians have access to fast broadband as soon and as cost-effectively as possible, as set out in the Commonwealth's Interim Statement of Expectations to the company
- A Strategic Review carried out by NBN Co and completed in December 2013 recommended that the National Broadband Network could be rolled out faster and at a lower cost by combining proven technologies with existing capable networks <http://www.nbnco.com.au/about-us/media/news/strategic-review.html>
- For more information, visit nbnco.com.au