NBN Co. Business Case Summary

24 November 2010

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1 NBN Business Case

The NBN Business Case is based on detailed engineering, financial and business analysis undertaken by NBN Co. over the last twelve months.

The Business Case includes robust sensitivity analysis throughout the plan, which shows that the key conclusions (outlined below) as measured against the stated objectives of the project are robust to a range of assumptions.

Information outlined below has been redacted from the Business Case with the view of providing more information without comprising the market sensitive aspects of the Business Case including those that will be impacted by outstanding Government decisions, especially a decision around the final number of Points of Interconnect (POI).

The POI decision is subject to external review by the Australian Competition and Consumer Commission (ACCC), which will be concluded on 30th November. The discussion of the conclusions below outlines the range of impacts that different decisions on the POI may have on the project's finances. Irrespective of the decision on the POI the NBN will realise a return higher than the long term average government bond rate, the decision itself has significant implications for the structure of the NBN and the telecommunications industry.

This Business Plan sets out the key objectives and priorities for NBN Co for the three years from 1 July 2010 to 30 June 2013.

It is anticipated that the Corporate Plan will be updated at least once a year.

The Corporate Plan is a critical part of the process of designing, building and operating the National Broadband Network ('NBN') and achieving the Government's objective of providing affordable superfast broadband to all Australians through structural reform in the Australian telecommunications industry.

The Corporate Plan is prepared in accordance with the requirements of the Commonwealth Authorities Companies Act 1997 and Governance

Arrangements for the Commonwealth Government Business Enterprises (June 1997).

2 Business Environment

Current forecasts anticipate that there will be more than 50 million end users connected by fibre to the premise (FTTP) technologies worldwide by the end of 2010 compared to 43 million at the end of 2009, mostly in Asia.

The key observations emerging out of the experience from global fibre deployments include;

- Government policy plays an instrumental role in overall fibre development;
- Open access network models are seen as being important in driving fibre competition at the retail level, with copper access seekers needing fibre wholesale products and a clear migration path to fibre;
- Retail pricing structure for fibre products is based around bundled (cheap or free) voice, fast broadband access and multi-channel TV. Retail price relativities are determined by broadband speed, broadband usage limits, and size and quality of the overall package bundle;
- Cost effective fibre builds and connections remain a continuous focus for operators; and
- fibre development is a long-term play with competition from cable operators to remain strong in markets where cable is entrenched.

2.1 The role of NBN Co in transforming the Australian telecommunications industry

The establishment of NBN Co and the roll-out 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, resolving the current infrastructure and investment bottlenecks that have seen Australia fall behind its international peers.

The rollout of a national high-speed broadband network, via fibre and wireless and satellite, will enable greater competition, services and innovation for consumers at the retail level. This is expected to lead to a new industry structure, entrants, positioning, pricing & demand drivers, and revenue and profit shares.

The NBN will also facilitate a major reallocation of capital in the telecommunications industry, which has historically been dominated by high Public Switched Telephone Network voice revenues.

The decline of voice revenue is already underway, and is expected to accelerate with the advent of high quality Voice over Internet Protocol (VOIP) under the NBN. However, declining voice revenues are expected to be substituted by increasing broadband revenues, as business models continue to shift from toll calling charges to access charges.

In addition, the significant investment by Internet Service Providers in Digital Service Line Access Multiplexers (DSLAMs) and other equipment in order to provide broadband services over copper is expected to be redirected to content, service differentiation and value added services over the NBN, fuelling the development of new applications and innovation that will drive consumer demand.

As a wholesale provider of services with no participation in the retail market, NBN Co is set to address the problems currently arising from the primary infrastructure owner and wholesale access provider also holding the position of market share leader in almost all segments of the industry. This separation should in time allow a simplification of the regulatory regime and greater certainty for industry participants at all levels.

NBN Co will provide Layer 2 wholesale services only, providing flexibility to support a range of wholesale and retail business models. Larger retail service providers are expected to acquire Layer 2 products from NBN Co and use their own infrastructure to provide retail services to their customers. Smaller retail service providers may opt to use a Layer 3 intermediary for incremental wholesale services. The diversity of possible business models is expected to

result in lower barriers to entry for retail service providers and to open up competition both in the major population centres and in regional areas.

3 KEY OBJECTIVES

The Government has stated its broad objectives for the NBN as follows:

"The new superfast network will:

Connect homes, schools and workplaces with optical fibre (fibre to the premises or "FTTP'), providing broadband services to Australians in urban and regional towns with speeds of 100 megabits per second – 100 times faster than those currently used by most people extending to towns with a population of around 1,000 or more people;

- Use next generation wireless and satellite technologies that will be able to deliver 12 megabits per second or more to people living in more remote parts of Australia;

- Provide fibre optic transmission links connecting cities, major regional centre and rural towns;

- Be Australia's first national wholesale-only, open access broadband network;

- Be built and operated on a commercial basis by a company established at arm's length from the government and involve private sector investment; and

- Be expected to be rolled-out, simultaneously, in metropolitan, regional and rural areas."

- To design, build and operate the broadband network required as the foundation of the Government's NBN policy the Government established NBN Co on 9 April 2009 as a Company under the Commonwealth Authorities Companies Act, 1997.

NBN Co's objectives can be summarised as:

1. The network should be designed to provide an open access, wholesale only, national network, covering all premises;

2. The technologies utilised should be fibre to 93 per cent of premises (including Greenfields developments), fixed wireless to 4 per cent of premises (delivering at least 12Mbps), and satellite to 3 per cent of premises;

3. The pricing principles to be employed should ensure uniform, national wholesale pricing accessible on non-discriminatory terms; and

4. The network expected rate of return should be in excess of current public debt rates.

NBN Co has designed a layer 2 network that satisfies the four objectives set above.

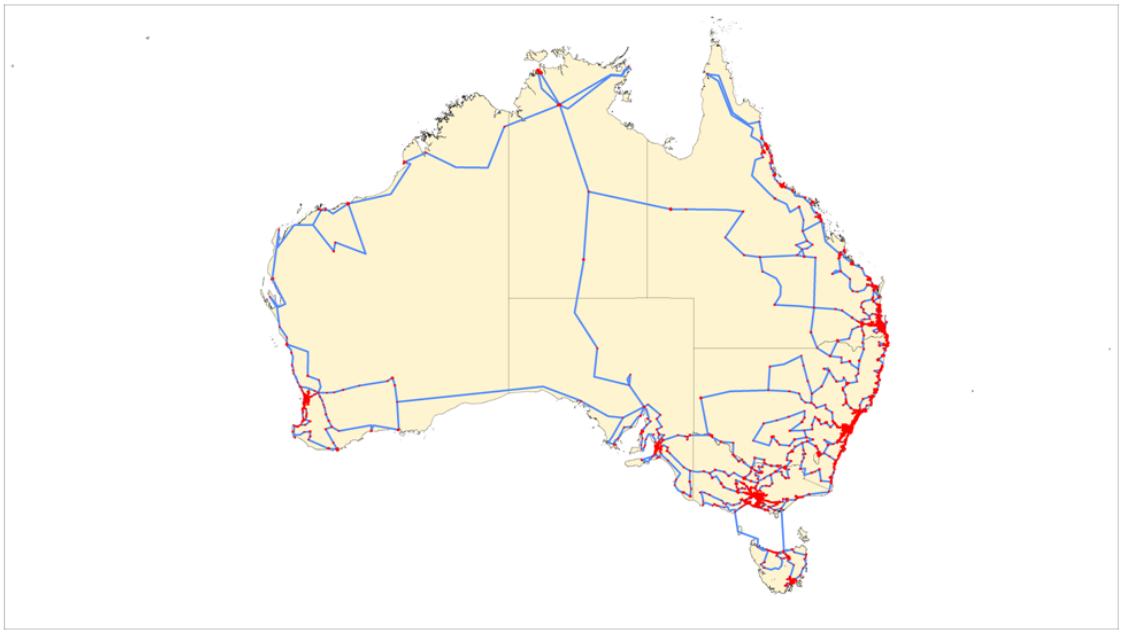
Once NBN Co's Corporate Plan is approved by Government (in this first year of operation NBN Co's Corporate Plan primarily relates to the design of the network,) NBN Co will commence full-scale build and operation of the network.

3.1 Achievability of the Objectives

The major objectives and timeline are dependent on the rapid resolution of Government policy dependencies as well as the progress of the negotiations with Telstra, all of which appear to converge towards the end of the 2010 calendar year.

The charts below show the coverage under each technology.

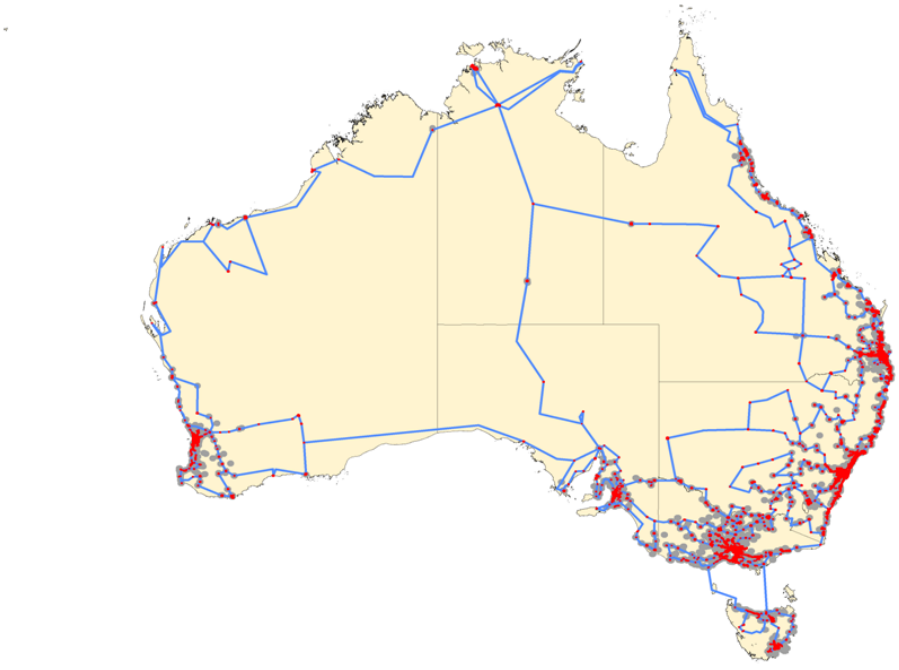
93% Fibre Coverage



5 Version 2.0 Commercial in Confidence

NBNCo Limited

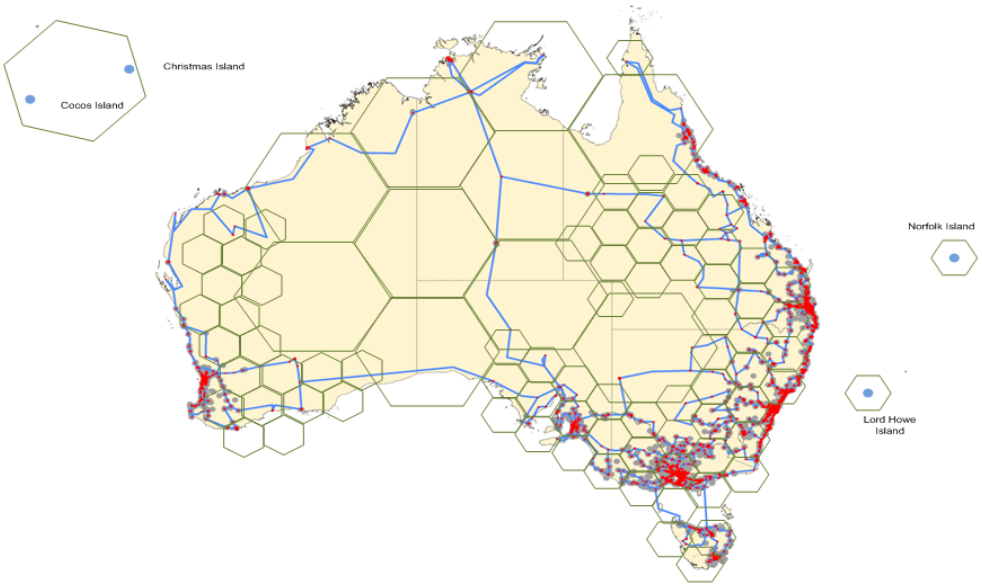
93% Fibre + 4% Wireless



6 Version 2.0 Commercial in Confidence

NBNCo Limited

93% Fibre + 4% Wireless + 3% Satellite



4 Timeline and Critical Dates

There are four distinct phases in the early delivery of the National Broadband Network:

1. Establishing NBN Co;
2. Planning and Design;
    a. Products & Pricing;
    b. Network Design & Testing;
3. Construction; and
4. Commercial Operations.

4.1 NBN Co has identified five critical dates in the overall program plan for FTTP:

December 2010	Complete Telstra negotiations	Finalise agreements with Telstra on decommissioning of copper and hybrid fibre coaxial (HFC) networks and infrastructure usage; subject to Conditions Precedent.
April 2011	Start Customer Trial	Capability to connect at least one mainland based retail service providers (RSPs) with trial customers offering a free subset of products to test preparedness. All NBN Co support with manual processes.
June 2011	Completion of Telstra Definitive Agreements	All Conditions Precedent satisfied, including enabling legislation, ACCC and Telstra shareholder approvals.
September 2011	Ready for First Commercial Service	Capability to fulfil, activate and assure a limited number of products with multiple RSPs and up to 6 per cent of premises passed. Supported with a combination of basic semi-automated and manual processes.
December 2011	Ready for Business as Usual Roll-out	Capability to fulfil, activate and assure an increased number of products with multiple RSPs and up to 19 per cent of premises passed. Supported with a combination of advanced semi-automated and manual processes.
August 2012	Ready for Market	Fully automated systems, no limitation in activating as a percentage of premises passed. Multiple RSPs certified; critical volume available and predictable. Operations capability can fulfil and assure the NBN Co suite of products at scale.

The period to August 2012 will be focused on the establishment of key systems required to support the roll-out of the NBN. This includes detailed testing of NBN Co's network design and construction methodologies through the establishment of a test lab, the early roll-out of FTTP in twelve First Release Sites (five mainland First Release Sites and seven sites in Tasmania). It also encompasses completion of essential support systems - including operational and business support systems and enterprise resource planning - that need to be in place before full scale customer acquisitions can commence.

NBN Co is currently scaling up the FTTP deployment from the First Release Sites to full-scale network construction. It is anticipated that, following evaluation of the lessons learned from the First Release Sites, a series of 'Second Release Sites' already announced (14 new sites on the Australian mainland in addition to five first release sites), will be used to refine construction methodologies and systems once critical support systems are in place and operational. Based on current timetables, detailed design of the Second Release Sites will commence in November 2010, with subsequent construction commencing in February 2011. The Volume Roll-out construction will commence in June 2011.

During FY2011, NBN Co will also be finalising the design and accelerating the deployment timeframe of its wireless and satellite solutions for the 'Last 7 per cent'. NBN Co is currently progressing negotiations for wireless spectrum acquisition, which are expected to close before the end of 2010. After a simplified procurement process, the Company expects construction of the main wireless network to start in November 2011, following a series of proof of concept and First Release sites aimed at finalising key decisions around spectrum and wireless network build options.

The long lead times in satellite construction and launch mean that NBN Co does not expect to have its own satellites in orbit until FY2015. However, the Company expects to be able to offer an interim satellite solution, called Satellite First Release Sites, from June 2011 using spare capacity on existing satellites in order to provide continuity to the existing Government Australian Broadband Guarantee program expected to cease on 30 June 2011.

4.2 Annual Updates

The assumptions made by the Company, which underpin the Plan, together with the business strategies and development of capabilities of the business, how the Company will measure its achievement of the financial and operational objectives, and the risk management and its mitigation strategies, will be reviewed on a regular basis to take into account the latest major developments; it is anticipated that the Plan will be updated at least once a year.

5 Telstra Deal

The Financial Heads of Agreement between Telstra and NBN Co paves the way for a faster, cheaper, more efficient rollout of the National Broadband Network.

Taxpayers benefit from the deal with Telstra because it reduces the overall cost of building the network and will result in higher take-up rates and revenue for NBN Co.

It also means that a greater proportion of the NBN rollout will be underground, with less overhead cabling.

It would mean Australia's largest telecommunications company, Telstra, will become a participant in the rollout of the NBN. Telstra will become NBN Co's largest suppliers of infrastructure and is likely to become NBN Co's largest customer.

As no binding agreement has yet been entered into with Telstra, the Business Model includes extensive analysis of NBN Co's No Deal scenario (which is a scenario set out in Business Model) and a comparison between the two cases.

The Corporate Plan is predicated on the execution of Definitive Agreements that give effect to the Financial Heads of Agreement with Telstra. There are two major risks with regards to this transaction:

Delay in completion: The Plan assumes that the definitive and binding agreements will be signed by end of 2010, with completion and satisfaction of all the Conditions Precedent by 30 June 2011. Any delay will impact NBN Co's ability to finalise its network design (deployment targets, transit backhaul, fibre access network (FAN) sites and POIs locations), and therefore the Company's ability to achieve the Plan deployment targets; and

Unwinding of the Financial Heads of Agreement: The Financial Heads of Agreement are the basis for negotiation and, if agreed, the terms of the Definitive Agreements. The terms of the commercial schedules are not legally binding. No legal obligation arises unless and until all of the Definitive Agreements are executed by the parties. Whilst negotiations and drafting of

the Definitive Agreements are progressing well, there are no legal obligations on either party to agree and sign binding documentation other than to negotiate 'in good faith'.

In addition, the Definitive Agreements will be subject to satisfaction of Conditions Precedent, including the dates by which the Conditions Precedent must be fulfilled; these include due diligence, shareholder approval as well as enacting of legislation and regulatory and other matters between Telstra and Government. In the event of the Definitive Agreements not taking effect, there will be significant impact to the implementation of the NBN and NBN Co's Business Model; the period required to achieve full deployment will also need to be extended.

5.1 ACCC Special Access Undertaking Process

NBN Co's announced intention is to utilise a special access undertaking approved by the ACCC to determine pricing for NBN.

The special access undertaking cannot be finalised and lodged with the ACCC until key policy matters such as the number and location of POIs and pricing of products and services are finalised.

NBN Co considers that it would be preferable if it did not lodge its special access undertaking until the CCS Bill and NBN Companies and Access Arrangements Bills are passed. These Bills contain amendments which affect the way NBN Co would operate and the powers of the ACCC in relation to the special access undertaking.

NBN Co is planning lodgement of the special access undertaking as soon as feasible after the Bills are passed.

The ACCC is subject to a statutory timeframe of six months to accept or reject the special access undertaking, subject to extensions of time and 'stop clocks' (for example while it is waiting for information it may request from NBN Co)

NBN Co is actively engaging with the ACCC in developing the special access undertaking, including to try and reduce the likelihood of an extended

consideration process once the finalised special access undertaking can be lodged.

6 KEY CONCLUSIONS

6.1 Product definition and Pricing

NBN Co has developed a rigorous process to ensure an attractive product set is offered to meet market demand.

NBN Co will also provide Uniform Wholesale National Pricing across fibre, wireless, and satellite technologies.

6.2 Products

The NBN Co product set will be offered as follows:

- A uniform product construct across fibre, wireless and satellite, featuring the same four product components across each access network, and based on the technology-agnostic Ethernet Bitstream framework.
- A 12Mbps downstream and 1Mbps upstream entry-level offer across all three access technologies (i.e. fibre, wireless & satellite), at the same price (network ubiquity).
- An initial fibre product suite with committed speed options of up to 100Mbps and peak speed options of up to 1Gbps (performance certainty and speed).

6.2.1 Product release road-map

The NBN Co Product Roadmap & Release Schedule

The Product Release roadmap commences in April 2011 building on core capability and value proposition with the introduction of the high speed broadband and telephony capability. The product set then evolves with 4 additional feature and functionality 'drops' creating a strong value proposition for Retail Service Providers to address consumer through to high-end business markets.

Product Drop One: High Speed Broadband & Telephony

Product drop one delivers a core set of NBN Co Fibre Access Service features to the market. It is intended to enable Retail Service Providers to "On-Board" and commence interoperability testing of NBN Co services. The Retail Service Provider will be able to offer high-speed internet packages with access speeds of up to 100 Megabits per second and telephony capability. This will enable a range of migration scenarios from existing broadband and telephony plans.

Product Drop Two: Emerging Entertainment Capability

Product drop two enables Retail Service Providers to build a triple play offering, by adding the capability to distribute their content (eg. television channels) simultaneously to two or more end-users as a single stream. This feature will greatly enhance a Retail Service Provider's ability to deliver internet protocol television offerings. This multicast technique can achieve significant bandwidth savings when delivering the same content to many end users. NBN Co expect to see retail market innovation based on these features, particularly around the delivery of a "triple play" offering, eg. high speed internet, telephony and television channels for real time viewing.

Product Drop Three: High Speed Business Services

Product drop Three provides incremental functionality to support innovation in the small-to-medium-business market. These additional features are specifically designed to connect multiple business locations, so that they interact seamlessly and provide secure, high speed and reliable access to various business applications including video collaboration and conferencing.

Product Drop Four: High Speed Enterprise Services

Product Drop 4 delivers very high speed up to 1 Gigabit per second for high-end enterprise services. It will also provide incremental business-oriented functionality including point to point links and transparent VLAN. Enhanced Respond and Repair Service Levels in support of mission critical applications are targeted for this release.

Product Drop Five: Enhanced Reliability for Mission Critical Sites

Product Drop 5 delivers the final features to complete the initial NBN Co Fibre Access Service feature set. It includes access diversity for end-users. This feature enables mission-critical sites, such as hospitals, to achieve higher network availability and reduce their risk of outages. Additional operational capabilities will allow Access Seekers to provide greater reliability to their business end-users.

6.3 Uniform National Wholesale Pricing

One of the objectives Government has set for NBN Co. is "uniform national wholesale pricing." This means that retail service providers (RSPs) will have to pay the same amount, irrespective of where they are based, to deliver their service to households and business throughout Australia.

RSPs currently have to pay for two "products" in order to reach households: (1) "access" through a network – currently primarily copper but in future fibre – and (2) "backhaul" to carry content from the RSP's headquarters to a "point of interconnect" (PoI) with the access network. NBN Co sees it as part of its mission to make the sum of these two costs low and uniform.

If PoIs are served by only one backhaul provider, that provider can therefore charge very high prices to any RSP seeking access to the set of households served by that particular PoI. This greatly limits competition, and the capacity to innovate at the RSP level.

NBN Co's recommended solution to this problem is to establish a small number of PoIs located in capital cities. In our business model there are 14. Since there would be competitive backhaul available between any RSP's headquarters and all of these 14 PoIs, the cost of backhaul would tend to be both modest and uniform.

If the Government elects to mandate a larger number of PoIs than NBN Co plans, it will need to take other steps to achieve low and uniform national wholesale pricing. If that solution does not promote the same intensity of retail competition as the 14-PoI offering, NBN Co projects that its IRR could decline by 50-80 basis points because of slower take-up of broadband and slower introduction of retail services that require higher speeds.

NBN Co plans to charge the same amount for its basic access product – 12/1 Mb/s – across all three technologies: fibre, fixed wireless and satellite.

NBN Co will also charge whole uniform national prices at higher speed tiers across its entire fibre footprint, which will be serving 93% of premises.

6.3.1 Prices

The pricing policy is based on wholesale price levels allowing to achieve comparable or better retail prices than current market for equivalent performance.

NBN Co pricing points will allow any retail provider to offer substantially higher quality products (i.e. much faster speeds), at a highly competitive prices in today's market.

The pricing structure and pricing levels have been set to achieve a viable internal rate of return (IRR) based on NBN Co's estimates of take up of different speed tiers and connectivity capacity usage.

Based on take up and speed usage growth assumptions, NBN Co. anticipates being able to reduce real prices for all products and nominal prices for all products, except the basic service offering, while maintaining an internal rate of return above the Government long-term bond rate.

6.3.2 Internal Rate of Return

The project returns, on an unlevered basis, are expected to exceed the long term government bond rate.

This is based on a number of assumptions, the most significant of which are growth in speeds and demand and hence revenue. The stated internal rate of return is also dependant on the completion of the Telstra deal, which has a material impact on construction costs (see discussion below).

The internal rate of return does not take account of any external benefits anticipated from the NBN to the economy, productivity or social outcomes.

The NBN Co business plan and internal rate of return assumes NBN Co's 14 PoI solution. There may be an impact to NBN Co's depending on the uniform wholesale price solution adopted by Government. NBN Co's estimate is that this impact on the internal rate of return could be in the range of 50-80 basis points.

Other remaining Government decision may also have some impact on the internal rate of return.

The internal rate of return is driven by the following revenue considerations.

Stock of premises and new premises

Total premise sizing has been based on G-NAF (Geocoded National Address File) national address index, which uses multiple address sources including Government land records, Australia Post and the Australian Electoral Commission. In conjunction with work carried out by the Department of Broadband, Communications and the Digital Economy, NBN Co has assumed a starting national premise count of 10.9 million at FY10, comprising 9.6 million residential premises and 1.3 million business premises.

The forecast for premise growth has been based on forecasts of new 'Greenfield' (undeveloped/raw broadacre land) and 'Redevelopment / In-fill (net of demolitions / replacement stock) dwelling households and business premises. This is based on the BIS Shrapnel report 'Overview of the Australian Residential Market' dated August 2010; National Housing Supply Council 2009 report, ABS data and internal estimates. NBN's long-term forecasts have been referenced to residential household growth rates, assuming a compound annual growth rate of 1.6 per cent per annum, from Australian Bureau of Statistics forecasts.

Premises growth is driven primarily by the expected growth in residential households, resulting in an average growth of approximately 177,000 new premises each year during the forecast period (to FY2025), or average growth of approximately 166,100 to FY2040.

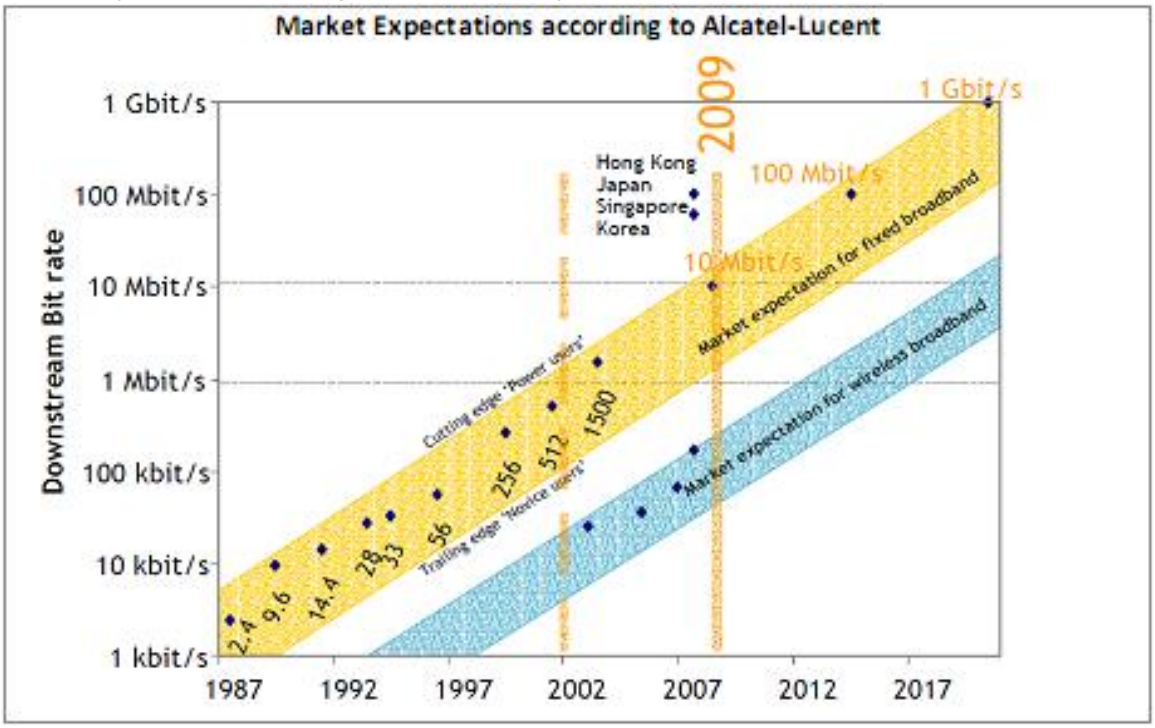
Speed

Another key determinant of revenue is speed. Over the course of the build the demand for faster speeds will continue to trend upward as they have in the past.

This will satisfy increased demand for new application and devices at premises.

Chart 1 shows the increase in download speeds available over broadband and that speeds available is expected to continue to increase going forward.

Chart 1: Speed Historical Profile and Market Expectations

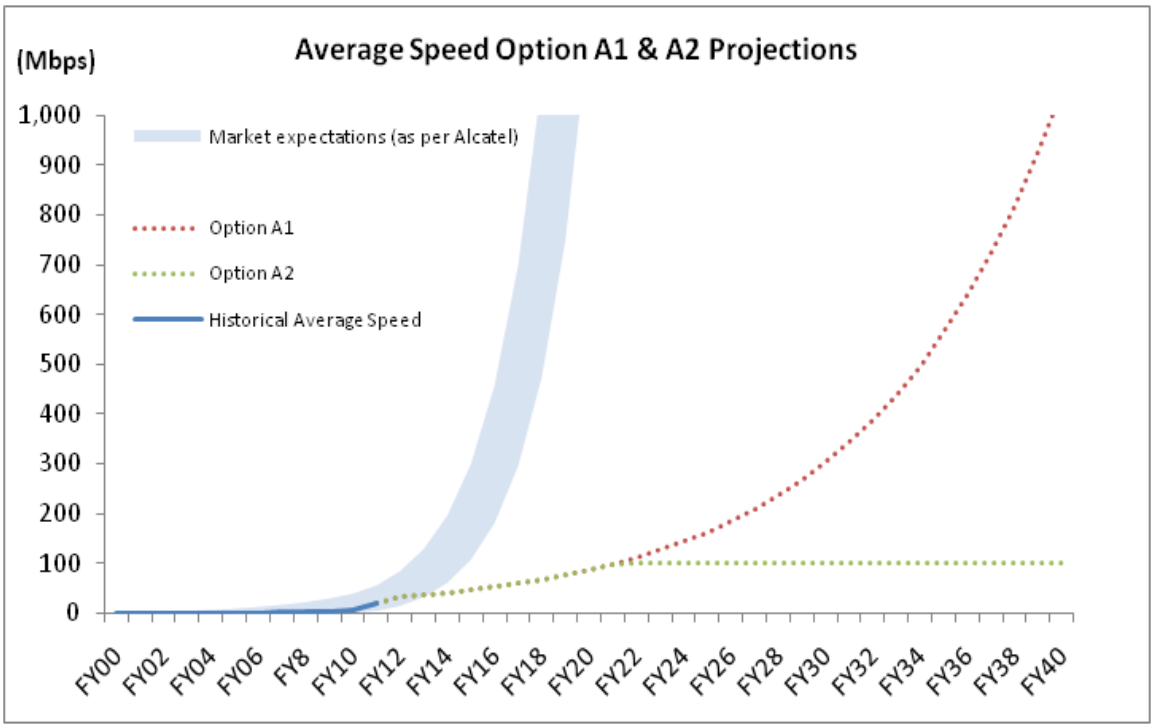


Source: Alcatel Lucent.

NBN Co Speed Projections

Exhibit 2 illustrates the projections of average subscriber speed purchased (Mbps) during the forecast period. The market expectations presented in the previous Alcatel-Lucent diagram (Chart 1) have been superimposed over NBN Co's two alternate speed projections (Option A1 and A2). This presentation illustrates NBN's conservative expectation that the growth in demand for speeds will be considerably lower than the extrapolation of increasing speeds implied by the history of internet access technologies.

Exhibit 2 Download Speed Historical Profile and Projections[1]



Source: ABS, 8153.0 Internet Activity Australia for period pre – FY10, NBN Co Option A1 & A2 Projections, Approximation of Alcatel's Market Expectations (per Exhibit 8.20)

[1] Internet Activity, Australia, Jun 2010 http://www.abs.gov.au/ausstats/abs@.nsf/mf/8153.0/

Data usage

A key driver of revenue is that there is growth in speed leads to a new applications and therefore increased data usage over time.

Chart 3 shows the dramatic growth in data usage within Australia over the past decade.

Chart 3: Australian Data Use, Historical Profile

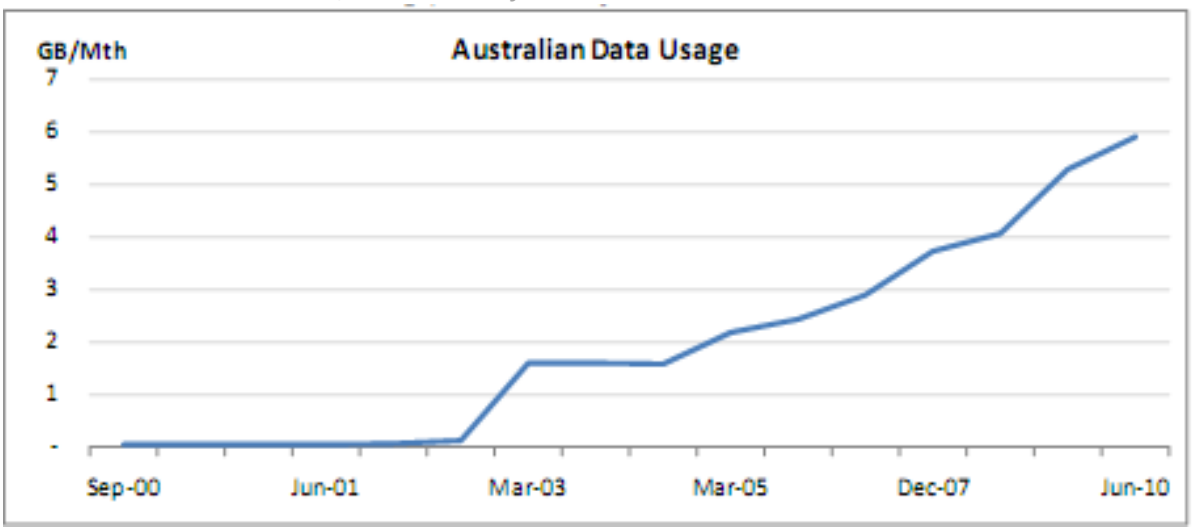
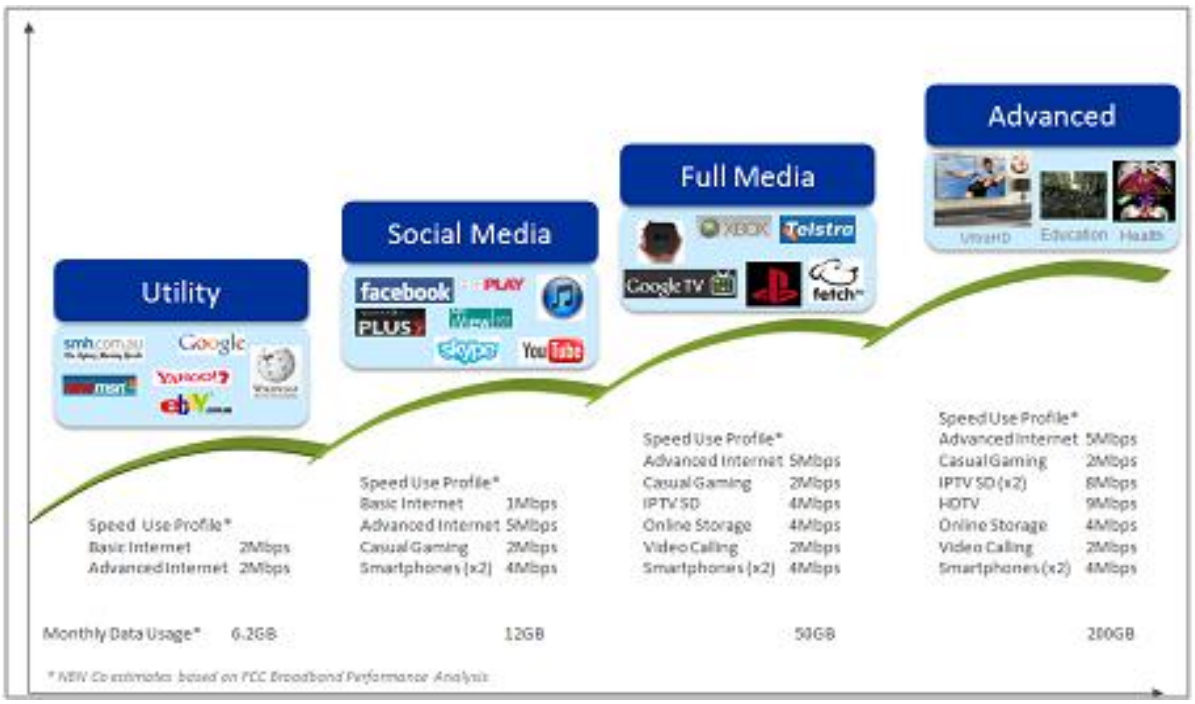


Chart 4 shows a stylized progression in intensity of broadband use commencing with simple websearching tasks, requiring low broadband speeds, and progressing to include increased access to features like smartphones, gaming and television delivered over broadband.

The number of GB/month in June 2010 is an average of fixed downloads (9.2 GB/month) and wireless downloads (1.2 GB/month).

Chart 4: Trends in Broadband Use



Source: NBN Co, adapted from FCC, OBI Technical Paper No4 and September Meeting Commission 2009, ITIF, CSMG

Projections of data usage used by NBN Co have been built from the ground up and factor in the relatively strong relationship between increasing access speeds and usage The starting point has been to take the historic usage level as reported by the ABS (9GB/mth for fixed broadband) in FY2009 allowing for uploads and downloads and the long-term growth trends seen in the Australian and international markets (Cisco VNI forecasts). This underlying growth has been adjusted to reflect the large step change in speeds available to customers coming onto NBN fibre, and an adjustment has been factored in over approximately ten years to reflect the gradual development and adoption of applications that can fully utilise the increased bandwidth.

A conservative approach has been taken with regard to long-term data usage growth, factoring in considerations including saturation of usage, slowing growth in online hours and increasing delivery of content on multicast applications. This sees growth fall to ~8 per cent p.a. from FY2030, well below the baseline increase in access speeds forecast.

NBN Co has also referenced usage projections against a number of independent sources:

- Historic ABS data, showing a 36 per cent per annum compound average growth rate from 2000 – 2010.
- Cisco international forecasts for internet traffic to increase at a 34 per cent compound average growth rate from 2009 – 2014.

6.4 Capex

At the end of the contribution and deployment period, the total capital expenditure (capex) is estimated by NBN Co to be $35.7 billion.

This is lower than originally forecasted as a consequence of the pending deal with Telstra. This deal reduces the overall capex due to efficiencies as a result of the re-use of infrastructure and also the use of longer term leases.

The Business Model and Corporate Plan are predicated on the assumption that a deal is finalised and approved between NBN Co and Telstra in accordance with the Financial Heads of Agreement in relation to the following:

- Progressive disconnection of copper services and decommissioning of Telstra's fixed line copper and HFC networks as the NBN Co fibre network is rolled out;
- Utilisation of existing Telstra exchange space;
- Utilisation of a significant portion of Telstra's existing ducts and conduits; and
- Access to dark fibre and managed services for backhaul.

The deal with Telstra represents a marked improvement to the Business Model and Corporate Plan relative to NBN Co's No Deal scenario and substantially mitigates a number risks otherwise present in the build (notably in relation to demand forecasts and the cost and speed of deploying the fibre network).

The NBN Co detailed cost modelling estimates that the NBN can be built for a total Construction Capital Expenditure of $34.4 billion to achieve targets of 8.3 million premises connected and 12 million premises passed by fibre or covered by fixed wireless or satellite by the end of full deployment date in a deal case scenario.

When adding the Replacement Capex (representing the forecast Capex reserved to maintain the deployed network) for a total of $1.3 billion, (total Construction and Replacement Capex amount to $35.7 billion).

The Agreement between NBN Co and Telstra, worth an expected value of $9 billion, in net present value terms(NPV) provides for:

The reuse of suitable Telstra infrastructure, including pits, ducts, conduits, backhaul fibre and space in Telstra exchanges, by NBN Co as it starts to rollout its new network - avoiding unnecessary infrastructure duplication.

As a result, NBN Co's forecast of the estimated capex cost to build the NBN in a deal scenario is $35.7 billion compared to $37.4 billion in a no deal scenario.

The progressive migration of customers from Telstra's copper and pay-TV cable networks to the new wholesale-only fibre network to be built and operated by NBN Co.

Under a deal scenario, total capital expenditure per premise is lower than in a no-deal scenario. This is due to the upfront savings achieved through the increased use of Telstra's existing infrastructure.

As mentioned above, the Capital Expenditure for Connections is higher in a Deal Scenario than in a No-Deal Scenario due to the increased number of customers being connected earlier in a Deal Scenario, which translates into both a timing impact (acceleration of customers connections) and a structural

impact (implying more initial build Capex to Connect, as well as active equipment, together with more replacement Capex).

As a trade-off, Opex costs are higher in a deal scenario in comparison to no deal, due to the higher use of Telstra's infrastructure (ducts, transit backhaul links, exchanges) as well as the acceleration of customer take-up (connections) generated by the deal.

Brownfields in the Build Capex Breakdown

For the purposes of the financial model a distinction has been made between Brownfields and Greenfields premises within the FTTP footprint, due to their different cost characteristics.

FTTP Brownfields premises are considered to be the 10.1 million existing premises that are to be covered by the FTTP network at the start of the volume rollout. Greenfields premises are all those premises not currently included in the 10.9 million total premises as at June 2010.

Targets & Projections	**Full Deployment Key Metrics (Rounded) (Nominal Dollars)**
Capex	$35.7 billion total Capex (of which $1.3 billion for Replacement and Maintenance and $9.9 billion for fibre connections) by June 2020.
Telstra Agreements	$13.8 billion decommissioning and infrastructure payments by June 2020

6.5 Opex

As discussed above the Opex for the NBN is impacted upon by the Telstra deal

Specifically Opex costs are higher in the deal scenario in comparison to No Deal, due to the higher use of Telstra's infrastructure as well as the acceleration of customer take-up.

The main drivers of Opex costs are described below:

- up-front migration incentives payable to Brownfield premises which connect during the main construction period. Under a Deal scenario, the cost of an upfront migration incentive per Brownfield customer is half that of the No Deal scenario.

- Decommissioning payments payable to Telstra at the time of disconnection of subscribers as an incentive for the take up to subscribers to NBN infrastructure. Decommissioning payments on occur under the Deal scenario.

- The lease of key infrastructure including aerial fibre, ducts, backhaul, wireless operating expenses and satellite operation expenses.

6.6 Funding

NBN Co's funding requirement is driven by the Company's earnings before interest, taxes, depreciation and amortisation (EBITDA) and Capex profiles, including working capital.

6.7 Equity requirement

The equity requirement from Government based on our current plan is $27.1bn.

This is based on advice from Goldman Sachs that NBN Co should be able to arrange debt funding.

Irrespective of what amounts NBN Co decides to borrow, total funding requirements will begin to decline in 2021 (approximately when the rollout is complete), because at that point NBN Co will be generating cash from its operations in excess of any capital expenditure requirements.

From 2020 to 2022, NBN Co. will be replacing equity funding with debt funding until its reaches a steady-state debt:equity ratio of 1:1.

NBN Co. expects to pay cash dividends, beginning in 2020, which in the aggregate would repay the government's entire investment by 2034, even if no shares of NBN Co were sold to private investors. Since such dividends would be paid out of earnings, NBN Co. would continue to be appropriately

capitalized and capable of being floated in the public market whenever the government chose to do so.

6.8 Cost of Capital

The corporate plan assumes that NBN Co's cost of funds will decline as its credit ratings improve as stable revenues begin to be generated.

The risk premium is expected to decline by more than 200 basis points over the course of the build.

NBN Co has undertaken a detailed analysis of the cost of capital through the Weighted Average Cost of Capital (WACC) methodology. The WACC value has been considered in the context of the changing nature of NBN Co over time, using 4 lifecycle periods which reflect different levels of risks and volatility.

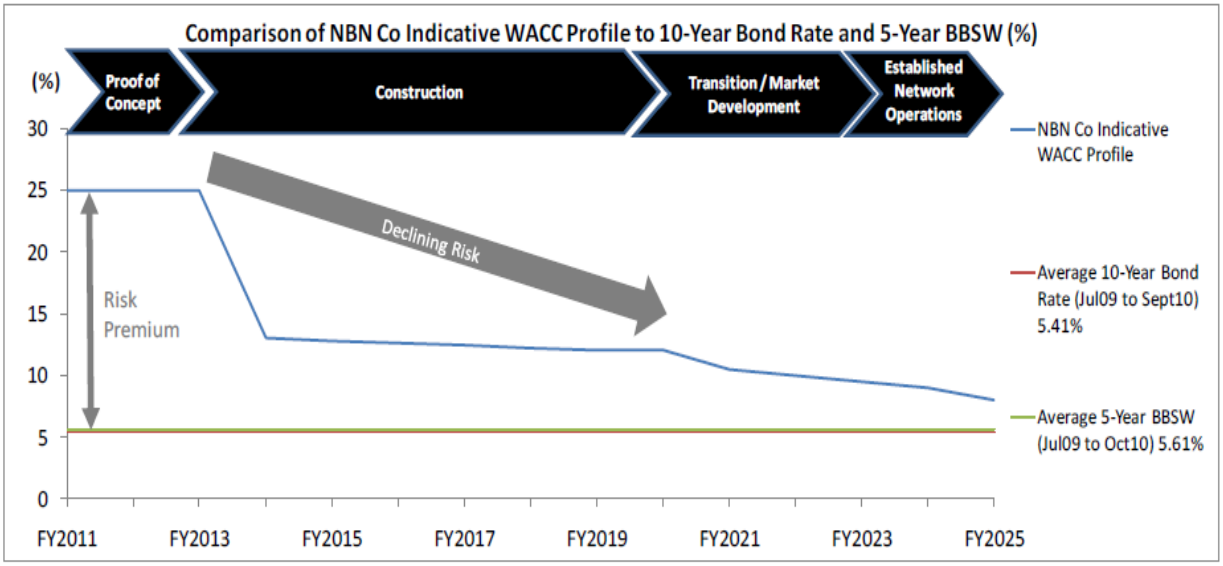
The cycles are as follows:

- 'Proof-of-Concept' period, which encompasses the Corporate Plan timeline - the cost of capital would not be based on relevant comparables NBN would have the nature of an infrastructure project and an element of Australian Government broader policy in the telecoms industry;
- 'Construction' period, benchmarks linked to the construction industry are used to derive a WACC;
- Transition / Market Development' period as risk tapers; and
- 'Established Network Operations' period, is estimated reflecting the established infrastructure nature of NBN Co by that stage (while keeping a conservative risk premium compared to regulated assets such as water and gas utilities).

Based on these parameters, a capital weighted WACC has been derived at 10 per cent-11 per cent over the 30-year period. This has been factored into the business model.

NBN Co's weighted average cost of capital over time will fall as shown in Chart 5.

Chart 5: Movement in weighted average cost of capital over time



7 RISK MANAGEMENT

NBN Co is seeking to develop a sound system of risk oversight, management and internal control and the associated culture, processes and structures to support achievement of its business objectives. Embedding a risk culture requires time and attention, as disciplines take time to form business as usual activities.

NBN Co has established an enterprise-wide risk management system to facilitate the identification of significant business risks and implementation of appropriate risk mitigation or treatment plans and monitoring processes. The system is built upon the premise that all employees have responsibility for risk management in their job areas.

The approach adopted by NBN Co is consistent with the international risk management standard, Australia/New Zealand Standard ISO 31000:2009. NBN Co's Risk Management Policy details the way in which the Company establishes the risk context, identifies, assesses, analyses, evaluates and treats risk to effectively manage its business, assign roles and responsibilities for risk management, and establish a risk register and reporting framework to facilitate the process and meet reporting obligations.

Risk profiles will be defined and managed for each of NBN Co's business functions and major activities. The aggregation of these profiles forms the NBN Co Group Risk profile and also forms the basis for Management and Board reporting of risks and associated management processes. Risk reporting is subject to legal professional privilege wherever appropriate. Risks, the risk mitigations in place, and treatment plans are reported quarterly to the Board under the following categories:

- Safety and Environment;
- Demand and Revenue (Product and Competition);
- Technology;
- Execution and Delivery;

- Security (Physical, Networks, Information Technology);
- Policy and Regulatory;
- Resourcing - Suppliers;
- Resourcing – People and Skills; and
- Financial.

The Risk Management Policy includes a consequence scale to assess the impact of a risk on NBN Co's reputation

Risk management is also being integrated with NBN Co's Program processes, with weekly recording and reporting of issues and risks that also form part of the reporting above.

NBN Co's operating environment is dynamic, and subject to many external factors, many of which are outside of NBN Co's control. The risk management system will play an important role in identifying and responding to risks as the operating environment changes in both the short and longer terms. Finance provides policy, strategies, tools, guidance and a cross-company reporting capability to manage risk, while additional risk specialists are distributed throughout the organisation with responsibility for addressing specific risk areas.

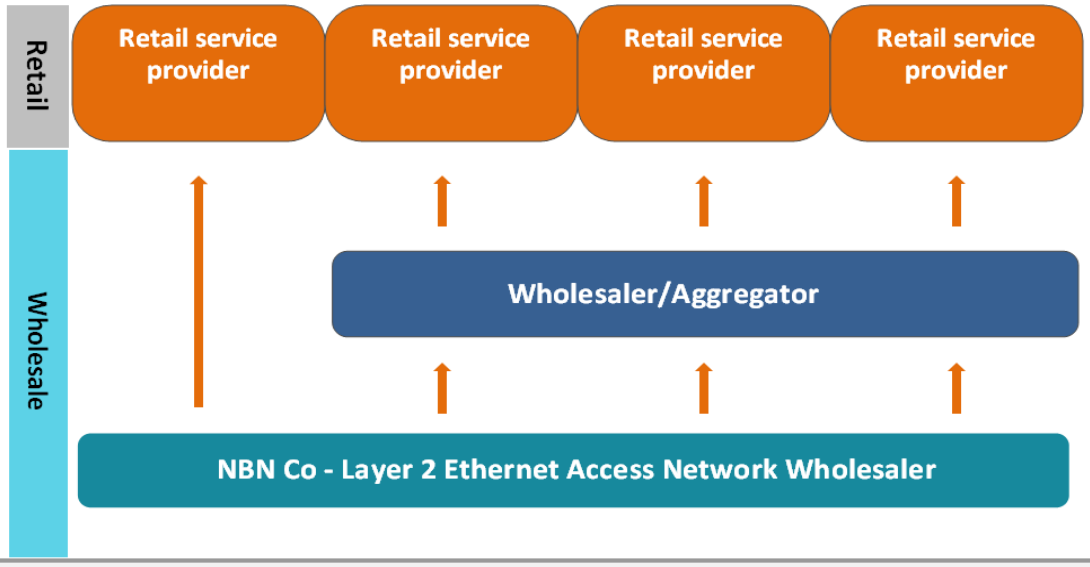
Whilst the execution of the risk management system aims to identify risks before they occur, for a number of reasons this is not always possible. As such, NBN Co also places an equal emphasis on risk readiness, business resilience and fostering a preparedness to respond to risk events; with the risk reporting and communication disciplines being established facilitate this. The regular risk reporting processes that have been established facilitate appropriate oversight and ownership of risks, and also serve as a mechanism for regular updating of risk registers and considering the completeness of risks identified and mitigation plans in place.

Risk management is seen as an ongoing process as part of all business activities and not a cyclical event. NBN Co seeks to foster a risk aware culture, open to

risk identification and treatment of risk. This includes the promotion of education and awareness of the risk management system and key risk management principles amongst its staff.

The Risk Management Policy that establishes and underpins the risk management system will be reviewed at least annually and updated as required to reflect NBN Co's needs. This will ensure the risk management system remains fit-for-purpose as NBN Co's primary activities move through planning and design, to construction and commercial operation.

Wholesale and Retail Business Models



From Premise to Point of Interconnect