



G9 FTTN Proposal Progress Update



Internode



21 February 2007



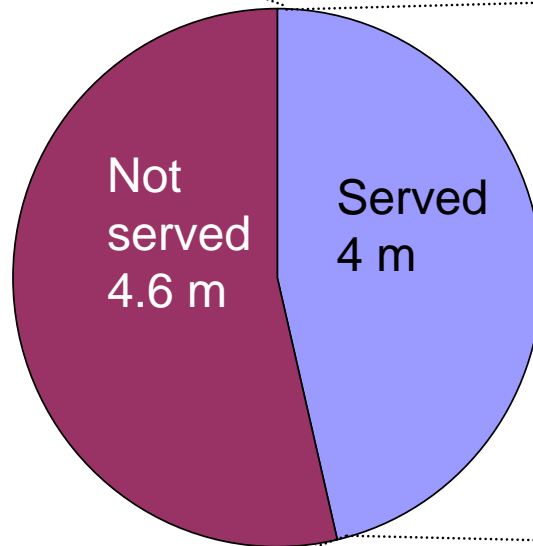
Key messages

- Since July last year the G9 has made considerable progress on our FTTN proposal
 - We have refined our financial model and tested its viability with the assistance of respected investment bank, Investec
 - We have done considerable work on our special access undertaking and are on track to lodge with the ACCC by April-May
- The G9 model offers Australia the best of both worlds
 - Upgrading Australia's broadband infrastructure to world competitive speeds
 - While protecting and stimulating competition – through the governance model we have proposed for the network called 'SpeedReach'
- The G9 is working towards turning our model into reality
 - The immediate next step is securing acceptance of our special access undertaking

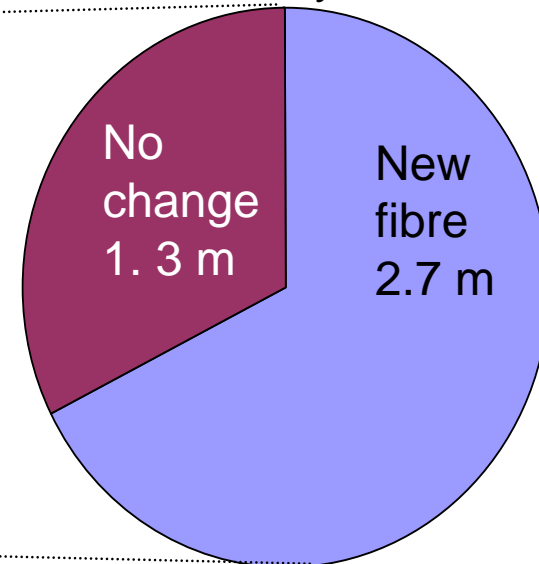
Telstra's FTTN proposal – Announced Nov 2005

- Newcastle
- Wollongong
- Canberra
- Gold Coast
- Townsville
- Cairns
- Hobart
- Darwin
- Toowoomba
- Bendigo
- Ballarat
- Geelong

FTTN Network –
Premises served



FTTN Network - Premises
served by new fibre



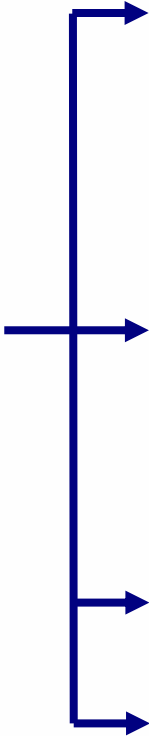
Telstra's position 7 August 2006

“Negotiations with the ACCC over a fibre-to-the-node broadband network have reached an impasse. Until Telstra's actual costs are recognised and the ACCC's regulatory practices change, Telstra will not invest in a fibre-to-the-node broadband network.”

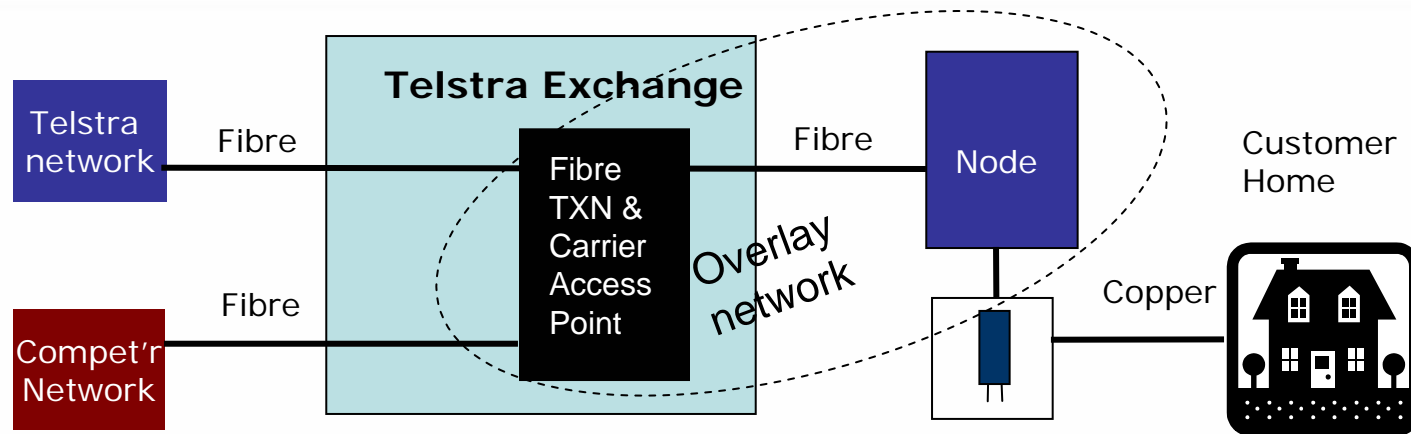
Telstra ASX Announcement, 7 August 2006, 'Fibre-to-the-node talks discontinued'.

G9's response to Telstra FTTN proposal

G9 Position - July 2006	We said that if Telstra...	...then G9...
1. Telstra's Nov 2005 proposal unacceptable <ul style="list-style-type: none"> • Destroyed ULLS competition • Made unbundling impossible in FTTN world 	➤ Agreed to <ul style="list-style-type: none"> • Governance model (SpeedReach) and • G9 joint ownership of FTTN network with Telstra 	➤ Would agree to FTTN proceeding and would co-invest with Telstra to expand the network's reach
2. We stated required access/governance model for FTTN to proceed – 'SpeedReach'	➤ Agreed to Governance model (SpeedReach) but rejected G9 joint ownership of FTTN network	➤ Would agree to Telstra proceeding to build the FTTN network
3. We said G9 interested in joint investment with Telstra in FTTN network	➤ Rejected Governance model (SpeedReach)	➤ Would oppose Telstra building the FTTN network
4. We proposed financial model for FTTN network to be built and financed as infrastructure project	➤ Indicated that it would not proceed with an FTTN network	➤ Would explore building its own FTTN network under the infrastructure financing model



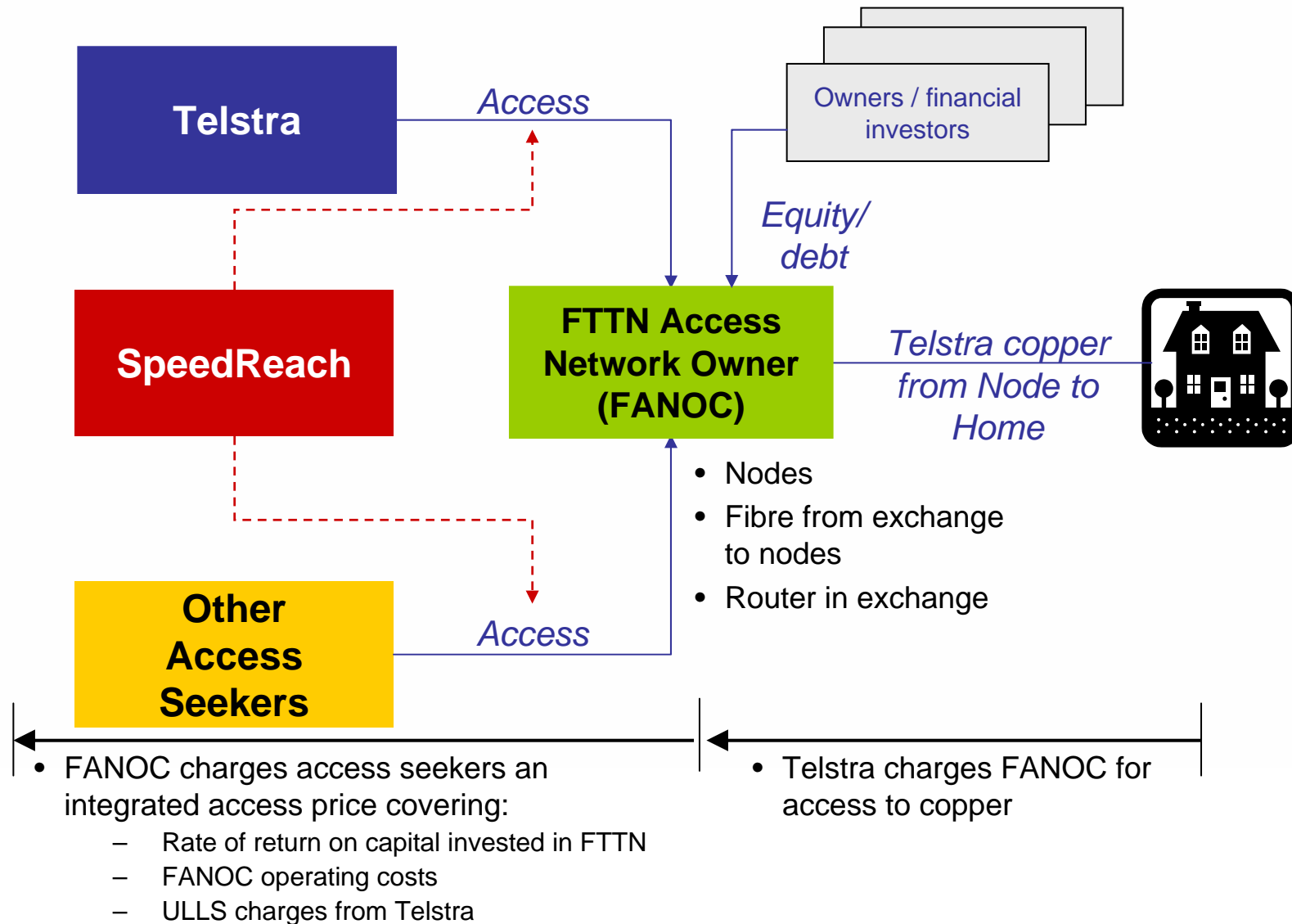
G9's model involves building an overlay FTTN network



Overlay network

- Comprises nodes, fibre and electronics in exchange
- Owned by special purpose company (FANOC)
- Key decisions made by SpeedReach
 - Under contractual delegation from special purpose company
 - Eg network configuration
- Interconnects with Telstra copper to home; and upstream networks of Telstra and competitors

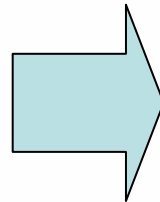
G9's financial model – infrastructure financing



G9 has commissioned Investec to model financial viability of G9 model

Key assumptions

- FTTN overlay network
- Same reach as Telstra's plan (12 meg/sec to 4 m homes)
- Similar capital spend to Telstra's plan - \$3.6 bn
- Approx 4 m homes served by FTTN
- Owner of FTTN network (FANOC) charges for access:
 - \$15/service/month – for existing services
 - Extra charge for high speed services
- FANOC pays Telstra \$5/service/mth to access copper
- Subject to SpeedReach Governance model

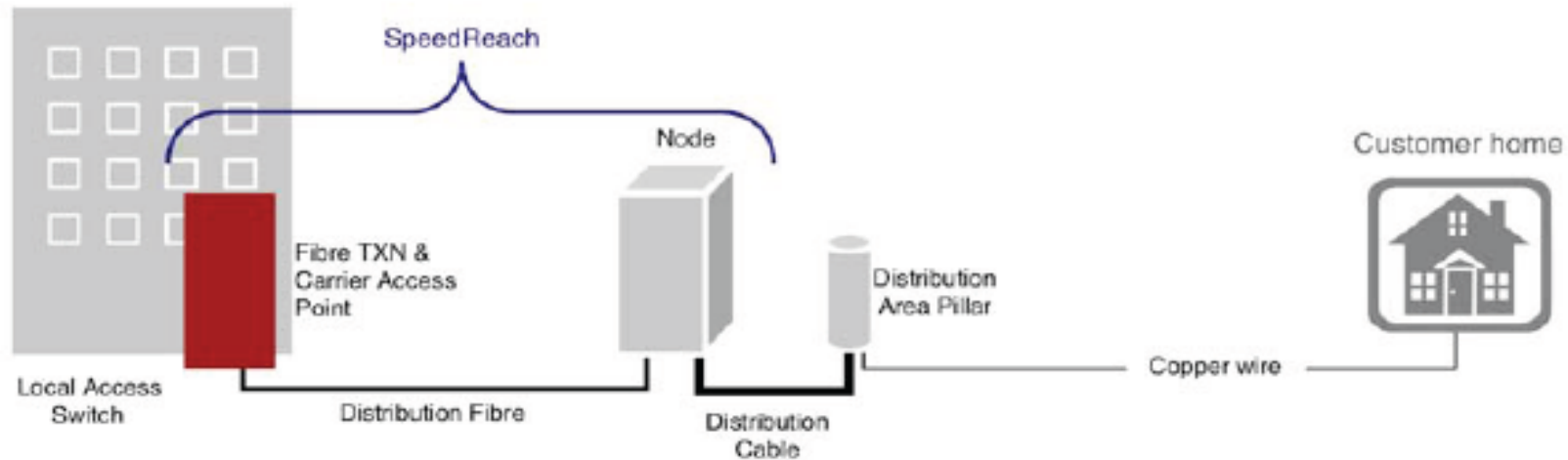


Key findings

- Could be financed as an infrastructure investment
- Required WACC
 - Gives ability to raise required funds in capital markets
 - Yet lower than Telstra's required WACC
- Revenue stream from access charges is sufficient to cover interest/dividend payments and repay principal
 - Even with conservative assumptions about rate of take up of high speed services
- 20 year life of investment
- Key requirement for financing is protection against overbuild

Description of a broadband access service (BAS) over the FTTN network

SPEEDREACH



- FANOC will provide to access seekers a broadband access service (BAS) between a customer premises and a point of interconnection (POI) with the FAN.
- The BAS is a high speed transmission service based on an xDSL technology
- The BAS will provide specified technical service qualities (eg speed, latency etc)

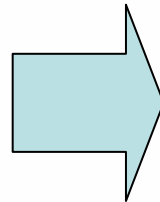
Services over the FTTN network

- A point to point high speed transmission service capable of delivering minimum broadband speeds of 12 mbps to residential customers (ADSL 2+)
- A point to multipoint high speed transmission service capable of delivering multiple video channels
- A low bandwidth transmission service to allow access seekers to offer VOIP services to customers at a quality of service comparable to PSTN and consistent with international standards

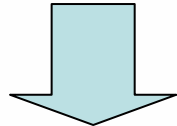
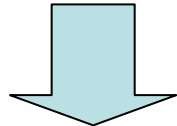
G9 is developing Special Access Undertaking

Purpose of SAU

- Define the service(s) that the network owner will provide over the network
- Specify pricing and other conditions on which the service(s) will be offered
- Secure certainty about
 - The access prices that can be charged; **and hence**
 - The returns that can be provided to investors



What SAU will cover

- Description of network
 - Capital cost to build network
 - Annual operating cost of network
 - Weighted average cost of capital
- 
- Sets annual cost pools to be recovered through access pricing
- 
- Pricing mechanism to recover costs – but not overrecover – over life of undertaking

Progress on Special Access Undertaking

Timing	Activity	Status
Second half 2006	<ul style="list-style-type: none"> • Appoint lawyers and economic advisers • Lodge SAU principles document with ACCC 	<ul style="list-style-type: none"> • Complete – Clayton Utz and NERA • Complete
January – March 2007	<ul style="list-style-type: none"> • Prepare 5 detailed papers on SAU aspects, lodge with ACCC <ul style="list-style-type: none"> ➢ Service description ➢ Pricing ➢ Network design and build • Working discussions with ACCC re SAU, based on papers 	<ul style="list-style-type: none"> • In train – three papers prepared and lodged • Discussions well underway
April 2007	<ul style="list-style-type: none"> • Lodge draft SAU with ACCC for feedback 	<ul style="list-style-type: none"> • On track
May 2007	<ul style="list-style-type: none"> • Formally submit SAU to ACCC 	<ul style="list-style-type: none"> • On track
June 2007 onwards	<ul style="list-style-type: none"> • ACCC conducts statutory consultation on SAU • ACCC accepts or rejects 	

Policy issues which arise from G9 proposal

- Cutover of all copper pairs at a node
 - This is the efficient way to manage the upgrade to FTTN – and what Telstra was planning to do
 - Requires change to ULLS declaration – we have raised this issue with the ACCC
 - Key policy principle is that Telstra’s provision of access does not interfere with “Telstra’s anticipated requirements”
 - We believe this can be satisfied by the G9 providing continued services to Telstra over the FTTN network
 - May require legislative clarification
- Ensuring that there is only one FTTN network
 - The efficient national outcome is that only one network is built, and all operators access it
 - We do not want to repeat the HFC overbuild experience of the mid-nineties
 - This is both a competition policy issue and an issue for financiers
 - G9 has highlighted this issue to Government and ACCC as an important policy lever

Steps once SAU is secured

1. Determine final form of regulatory arrangements – based on ACCC and Government engagement
2. Secure financing based on SAU and regulatory settings
3. Finalise and implement governance arrangements including SpeedReach
4. Agree network upgrade timetable and ULLS lifetime by exchange
5. Commence construction and ULLS to FTTN transition period
6. Complete construction