

## Corporate Plan 2021 – NBN Co CEO Stephen Rue speech

### [SLIDE 1 – Corporate Plan 2021]

Good afternoon and welcome to the release of NBN Co's Corporate Plan 2021.

I trust you've all received the media release, presentation slides, and Corporate Plan for today's event. If not, these materials are now available on our website.

I'm joined today by nbn's executive team – Chief Financial Officer Philip Knox, Chief Customer Officer Brad Whitcomb, Chief Operating Officer Kathrine Dyer and Chief Development Officer, Regional and Remote, Gavin Williams.

As you would have heard with the announcements today from the Minister, this is a very important day for the millions of Australians that rely on the nbn.

And it's a very exciting day for nbn – a day that marks the start of the next phase of this company as we unveil investments totalling \$6 billion over the next three years to increase the capability, reach and value of this critical asset for the nation.

The centrepiece of this year's Corporate Plan is our \$3.5 billion investment over the next three years to enable 75 per cent of homes and businesses in the fixed-line footprint to access speeds of up to one gigabit per second.

This is a plan that cements the national broadband network as the digital backbone of the nation, a plan that will allow us to evolve to meet future demand and power the growth of Australia's digital economy.

It builds on the work we have done over the past decade to bring competition to new regions of Australia, to provide the services, speeds and prices to allow businesses to remain competitive in global markets, and to connect Australians to each other and the world.

It's also about working closer with industry, regulators, states and local communities to help unlock the benefits of broadband, not just for metro locations but importantly, rural and regional Australia.

And it is about investing now to help Australia recover from the economic impacts of COVID; a recovery that will have digital enablement at its core.

For the last 10 years, nbn has been focussed on delivering a network that would support the digital needs of Australians, wherever they live.

The path of the last decade has certainly had its challenges, but within the company there was always a belief in what we are doing and that we would get it done.

And through it all, the year 2020 has remained a North Star for the thousands of people who have worked on building the network.

But, as we entered this year and with the completion of the build in sight, Australia and the world entered a very dark period.

Suddenly, a broadband connection went from being a 'utility' and became a lifeline.

It was essential for those millions working and studying from home.

It was the only way to see friends and relatives, and for many it was the safest way to see their doctor.

With theatres, playgrounds and restaurants off limits, games and streaming movies has become a refuge from an increasingly difficult reality.

So, without knowing it, the people of nbn had been working for 10 years to prepare the network for when Australians would need it most.

And here we are.

Australians are relying on broadband more than ever and demand is growing, but job prospects have been challenged and the economy is suffering.

### **[SLIDE 2 - Agenda]**

So today we set out a new path that plays a role in addressing both these issues.

The investment supports future growth in demand and in doing so, creates 25,000 jobs over the next two years with money flowing into cities and regions as a vital stimulus measure.

So today, I want to return to nbn's purpose – to lift the digital capability of Australia – and outline the significant network investments to continue carrying this out.

I will also outline our core financial expectations and detail how these investments will be funded.

Philip, Brad, Kathrine, Gavin and I can then answer any questions you may have.

So first to recap on fiscal 20.

**[SLIDE 3 – Delivering the initial build]**

At the release of last year's Corporate Plan, I stood before you and outlined how we would complete the initial build of the nbn.

This was the plan we set out six years ago based on the government's commitment to bring fast broadband to all Australians as soon as possible.

As you know, in June this year, we fulfilled that commitment by rolling out this critical piece of communications infrastructure to more than 11.7 million homes and businesses – which was some 230,000 premises in excess of our full year target.

Indeed fiscal 20 was one of our best periods on record.

We exceeded our full-year operational targets for Ready to Connect, Activations and Revenue.

We reached 7.3 million customers connected on the network and generated \$3.8 billion worth of revenue.

While doing this, we also improved customer satisfaction as the network performed extremely well, even in the face of natural disasters and the COVID-19 pandemic.

Furthermore, we saw more customers take up 50 megabits per second plans and above, growing that base to 69 per cent by the end of fiscal 20.

Completing the initial build was an incredibly important milestone, not because we said we would deliver it on time and on budget, but because of what it has delivered to the nation.

#### **[SLIDE 4 – NBN Co's Purpose and Strategic Pillars]**

The rollout of the nbn has ushered in a new era of choice for customers and more competition amongst internet providers.

It is boosting business productivity and further opening global markets to the new generation of digital entrepreneurs.

It is helping those with a desire to learn, no matter their age or location.

It is playing an important role in reinvigorating rural areas through new businesses and job opportunities.

And, as we overcome the social and economic dislocations brought on by COVID-19, this network continues to support innovation in health, business, and agriculture so these sectors can remain competitive and thrive.

In simple terms, the nbn continues to lift the digital capability of Australia.

This is the driving force behind the decisions we take every day to guide this business for the benefit of all Australians.

And our purpose is delivered through the execution of our six strategic pillars, which are:

- ensuring all Australians can access high speed broadband
- ensuring nbn has a customer-led culture
- together with our retail partners, delivering excellent customer experience
- evolving our products and pricing as customer needs evolve
- strengthening relationships on behalf of customers
- and ensuring we have strong cashflows into the future so we can continue to invest on behalf of the community.

This purpose, and these strategic pillars, underline and underpin this corporate plan.

**[SLIDE 5 – Supporting Australia]**

The onset of COVID-19 has underlined just how important this piece of critical communications infrastructure is and the reliance people place on connectivity.

Thanks to fast, reliable broadband, Australians have been able to quickly adapt.

We shifted workplaces from the office to the home.

Our children adapted to studying and learning from home.

And many more small businesses now offer online ordering and the alternative delivery models.

Imagine a family or business trying to do all that in a pre-nbn world.

As the reality of the pandemic hit, we saw an acceleration in connections and also in the number of customers upgrading to higher speed plans.

This reinforces the importance of our fixed wireless and satellite services, particularly to regional and rural communities.

It also reinforces the irrefutable fact that fixed-line networks are built to carry large volumes of data, and as data needs grow, our fixed line networks will become more and more essential.

**[SLIDE 6 – Australia’s data demand]**

And of course, we have, also seen increases in data usage due to COVID-19.

This is particularly evident in the upload of data, which has grown significantly above trend in recent months.

And some of this increased demand may be temporary, but increases in remote working, the de-centralisation of workforces, video streaming and online health, have forever altered the ways we live, work, socialise and educate online.

And I believe these changes in consumer and business behaviour will be followed by a change in the focus of innovation.

The CEO of Snapchat, Evan Spiegel, recently made the observation in the Wall Street Journal that while the world has quickly turned to videoconferencing in this crisis, and I quote, “no one has had a chance to innovate on this yet”.

So now that people are comfortable with this way of working, innovators will turn their attention – and capital - to making that experience as collaborative, immersive, and productive as possible.

This starts a virtuous cycle where increased innovation leads to increased demand.

A fast, reliable broadband connection has quickly moved from being a 'nice to have' to becoming as important to work and productivity as the office was to previous generations.

And this will continue to happen across many online applications, including those that are yet to emerge.

It is with these forces in mind that we have developed this Corporate Plan – a plan that represents a new phase in nbn's history; a plan that focusses on bringing forward reinvestment to prepare our networks and operations for the future.

### **[SLIDE 7 – Ongoing operational investments]**

This strategy is built on a range of major investments to enhance our operations and network capabilities to ensure customers can receive the full benefits of this vital communications asset.

There are \$1.5 billion of initiatives to ensure our operations remain in the best possible shape to support the nation's broadband needs today.

This includes updating and simplification of our IT systems, continued investments into regional Australia, meeting the demand for additional premises not forecast in last year's Corporate Plan, and providing ongoing support to the community during COVID.

The IT simplification program will introduce new functionality and more efficient systems that will streamline interactions with internet providers and reduce industry costs, while also improving overall customer experience.

The regional investment reflects that regional Australia is a core part of our nation, our economy, our social structure, our heritage, indeed our culture.

This is why in October last year we set up Regional Development and Engagement business unit.

Our plan increases resourcing into this unit with more employees and more partnerships focussed on meeting the needs of regional and rural Australians.

We have also seen increasing take-up of Fixed Wireless and Satellite, requiring upfront investment to enhance these services, and we have moved some regional communities onto fixed-line services.

In our view, this is money well spent to lift the digital capability of all Australians.

A component of the \$1.5 billion is required to connect additional premises.

As we completed the initial build, it became apparent there were more premises in Australia than anticipated in previous Corporate Plans.

As I have said before, there was no pre-existing database of all premises in Australia, which is why these forecasts can need revision.

And furthermore, we have seen greater demand than anticipated for new developments, both in new estates, apartments and subdivisions of land.

This is reflected in the increased forecasts of premises ready to connect in this Corporate Plan, which is good for future revenue, but requires upfront investment.

**[SLIDE 8 – COVID-19 support]**

And finally, we have supported customers, the industry and the nation through the ongoing impacts of COVID-19.

This has included the ongoing CVC capacity boost, data download increases for Sky Muster satellite customers, adding capacity onto our network, and reductions in non-essential network maintenance.

**[SLIDE 9 – Investing for the future]**

We are also preparing the company to face the challenges and seize the opportunities presented by COVID-19 and the changing landscape of broadband use in Australia.

**[SLIDE 10 - \$4.5 billion network investment plan]**

Which is why we are unveiling today the next phase of the nbn network.

This is a \$4.5 billion commitment that will extend the reach of fibre and ultrafast speeds further into our fixed line footprint.

It contains new programs to support the digitisation of Australian businesses and the establishment of a co-investment fund to boost connectivity in regional Australia.

**[SLIDE 11 – Making highest speed plans available to more Australians]**

As I mentioned earlier, the centrepiece of this network investment plan is the commitment of \$3.5 billion over three years to make our highest speed plans available to up to 75 per cent of homes and businesses in the fixed-line footprint by 2023, compared to around 20 per cent today.

Or to put it another way, by 2023, seven in ten households or businesses across Australia, across all footprints, will be able to order nbn plans with peak download speeds close to one gigabit per second.

A large part of getting to 75 per cent is a \$2.9 billion program to extend fibre from the node deeper into FTTN neighbourhoods, enabling premises to move to an FTTP service when they order a higher speed plan.

We will also make our highest speed plans more available in HFC and FTTC footprints, upgrading equipment in exchanges, completing the rollout of DOCSIS 3.1, boosting network capability, and fixing in-home wiring issues where necessary.

**[SLIDE 12 – Providing better broadband capability for Australia's future]**

These programs vastly increase access in the fixed-line footprint to our highest speed plans, but will also mean by 2023 that 85 per cent of premises in the fixed footprint can order 100 megabits per second, and 95 per cent can order 50 megabits per second plans.

### **[SLIDE 13 – Physical build scope]**

I want to emphasise some key points around the proposed network architecture in this plan.

We have already put a lot of fibre in the ground to each node; a distance on average of more than 10 kilometres.

This program re-uses that existing fibre, but takes it beyond the node into local streets.

The final piece of fibre into the home or business, the lead-in, will only be built when a higher speed service is ordered.

This means customers actually demonstrate their demand for highsPEEDS *before* we expend around half of the incremental capex.

Demand is closely linked to expenditure, which in turn is offset by the increased revenue.

And this is a crucial point: we are not replacing FTTN.

This network will continue to operate and provide very good services for years to come.

But what we are providing, in a capex efficient way, are options so that if people in FTTN areas wish to purchase higher speeds in years to come, they will be able to do so.

**[SLIDE 14 – Supporting the digitisation of Australian businesses]**

This plan also allocates capital to provide significant support for Australian businesses.

We will invest up to \$700 million over three years, dependent on demand, to collaborate with industry and help deliver enhanced digital capabilities supporting business innovation, productivity and growth.

And this includes the creation of up to 240 Business Fibre Zones nationally, including 85 in regional centres.

Businesses within these zones will gain access to Enterprise Ethernet, providing symmetrical speeds of up to one gigabit per second, at significantly reduced wholesale prices.

We estimate that these Business Fibre Zones will cover around 700,000 Australian business premises.

The inclusion of regional centres in these zones means that businesses in places like Bunbury, Mount Gambier, Bathurst and Rockhampton will gain access to the fast, reliable and secure broadband they need to remain competitive.

Businesses will have access to the services, support and tools they need to innovate and compete in global markets, at prices previously reserved for the centres of capital cities.

In addition to these zones, we will also offer our premium-grade business fibre service - Enterprise Ethernet - to service providers with no up-front build costs for an estimated 90 per cent of business locations covered by the nbn network.

For areas that are not designated as Business Fibre Zones, there is a \$50 million fund to co-invest with local councils or state governments so that we can extend business-grade services as far as possible.

And these are examples of important investments into Australian businesses that will contribute to nbn's revenue and EBITDA growth.

But it also comes at a time when broadband has never been more relevant and critical to the success of Australian businesses.

By working with our retail partners, this investment will particularly help small and medium business thrive and help build our economic recovery.

**[SLIDE 15 – Regional co-investment fund]**

The final piece of our \$4.5 billion network investment plan is the establishment of a \$300m co-investment fund.

This fund will be used to co-invest with governments and local councils to continue to improve broadband services for Australia's rural and regional communities where the economic promise of enhanced digital capability can boost job prospects and help reinvigorate regions that need it most.

This means the Company can work with local governments to identify priority areas or readily engage with established funding programs targeted at improving connectivity in regional Australia.

So together, the initiatives outlined in this \$4.5 billion network investment plan will have a real and positive impact on the landscape of Australia's retail and business telecommunications services and the digital capability of the nation.

These investments will not only enhance the capability of nbn's network, they will provide the digital pathways for new opportunities that businesses and individuals will increasingly look for as we work together to recover from the social and economic dislocation brought on by COVID-19.

**[SLIDE 16 – Economic impact of investment]**

Economics firm AlphaBeta has calculated that this network investment plan will deliver an estimated incremental 25,000 new jobs over the next two years and an estimated \$6.4 billion in additional GDP, annually, from 2024.

Rural and regional Australia will also greatly benefit from these investments with an estimated \$1.5 billion in economic activity and the creation of an additional 2,800 businesses and 10,000 jobs, expected to flow to the regions.

And it will also be a huge boost for the industry.

We know that to deliver on our purpose, our retailers, technology vendors and construction partners must also be successful.

These investments will ensure we continue to collaborate to bring the benefits of digital capability and choice to homes and businesses all across Australia.

Indeed, as we ride out the economic effects of COVID-19, we will need to harness that spirit of co-operation to chart a path back to growth and prosperity.

**[SLIDE 17 – Key financial forecasts]**

Each of the initiatives I have outlined today have been carefully designed to lift the digital capability of Australia and to provide the ongoing cashflow required to continue to invest in the capability of this network over time.

We have previously signalled that the time we become cashflow positive is when we would begin significant reinvestment into the business.

But the impacts of COVID on data demand and on consumer and business behaviour has brought forward some of our thinking around the right time to invest.

With the nation's businesses, homes, education and health systems more reliant on broadband than ever – we believe that time is now.

We also believe that current market conditions mean that now is an important time to raise the required funding ahead of our being cashflow positive.

**[SLIDE 18 –Beyond the initial build]**

As a result, this plan will drive significant consumer and business benefit, and it will add considerable value to the nbn as a business, lifting our future revenues to \$6 billion in 2024 and our overall internal rate of return to 3.7 per cent.

It is of course worth remembering, that this rate of return includes the substantial investment nbn has in universal coverage that does not earn a positive return.

Following the initial build, premises Ready to Connect will continue to grow with the ongoing construction of new housing and business premises.

And with more than 7.5 million homes and businesses connected to the network today, we are not slowing down when it comes to connecting Australians to this network.

We forecast that activations will grow to nine million by the end of 2024 as more than 12.5 million homes and businesses are made ready to connect.

We maintain our forecast penetration rate, with around three in four households and businesses expected to connect to an nbn service through their chosen internet provider.

**[SLIDE 19 - Key financials FY21-FY24]**

Our plan sees EBITDA, reporting under Australian Accounting Standards, grow in excess of \$4 billion over this Corporate Plan due to the growth in revenue and the finalisation of subscriber payments to Telstra and Optus.

Losses after tax decline over the period, and we expect our first, annual profit after tax mid-decade.

Up to fiscal 24 Capex investment will amount to almost \$12 billion.

Earlier this year we showed we had the strong support of investors as we completed our inaugural, long-term borrowing from private debt markets of \$6.1 billion - completed with no financial covenants and no government guarantees.

And to fund the new investments outlined in this Corporate Plan, we will again raise the required capital ourselves by borrowing against future cash flows.

We also remain committed to refinancing the \$19.5 billion loan from the government by its due date at the end of fiscal 2024.

With interest rates at record lows, now is an opportune time to borrow against future cash flows, reinvest in this business and repay the government loan.

So to complete this financing task, we will look to raise debt from local and global capital markets over the next three years.

The total amount to be raised is up to \$27.5 billion, \$6.1 billion of which has already been secured.

**[Slide 20 – Corporate Plan 21]**

As the builder and operator of this network, we at nbn have been fortunate to witness the seeds of the investment in this asset bear fruit over the last decade.

This network has increased retail broadband competition and customer choice; it has helped grow industries like health and agriculture, and it has enabled homes, schools and businesses stay connected and productive through this pandemic.

But our responsibility extends beyond being just the builder and operator of this network.

We also have a duty to deliver excellent customer experience to the millions of Australians who rely on this network.

We have a duty to maintain the level playing field that enables internet providers to offer customers more choice as they compete on quality, service and price.

And we have a duty to boost business opportunities and reinvigorate the regions with the social and economic benefits that fast broadband access promises.

The plan we have outlined today, will continue to do just that and more.

It is an exciting and bold plan that proves what I have said for a while: the best years for nbn are ahead of us, not behind us.

Our network operates as the digital backbone of the nation, shaping a more equal Australia wherein social inclusion, access to healthcare and education, connection to friends and family – are not dictated by where you live.

With the plan I have outlined today, we are supporting the nation's future broadband needs.

We will ensure we can continue to meet household and business demand, enhance the value of the nbn asset, and lift the digital capability of Australia for many years to come.

So thank you, and we are now happy to answer your questions.

**[SLIDE 21 - Questions]**