

## **OPENING STATEMENT SENATE ESTIMATES, 9 FEBRUARY 2015 – BILL MORROW**

Thank you Chair for the opportunity to make an opening statement. For today's hearing, I am accompanied by my colleague and Chief Financial Officer, Stephen Rue.

We would like to provide the Committee with an update on progress with the rollout since we were here last October and to take you through some of the key operational and financial highlights of **nbn**'s half-yearly report which we released last Friday and which is available on our website.

Before I go into the update detail, I just want to once again assure the Committee that we are committed to providing answers to all your questions and Mr Rue and I will continue to attend and do our very best to either answer them now or take them on notice and respond as soon as possible. Of course this is always with the caveat that there may be some information that we cannot readily release if it is commercially sensitive. We are very conscious of getting the best value for the Australian taxpayer with the funds that the Government is injecting into this project and we have to be very mindful of the commercial and competitive environment in which we are operating.

### **Overall Direction**

In general terms we finished calendar 2015 on a positive note with momentum continuing to build in the rollout of the Multi-technology Mix (MTM) technologies. But as I have said publicly, 2016 will be a *Tipping Point for Connectivity* for all Australians. It is a crucial year for the company to continue the momentum we have built and scale the deployment and take up rates.

### **Operational progress**

During the six months ended December 2015, we largely focussed on building and strengthening a number of the underlying elements that are essential to sustain the large scalability required in the coming years. This meant:

- carrying out a number of pilots and trials of our new technologies in the MTM rollout including Fibre to the Node (FTTN) and HFC;
- strengthening our processes particularly our back-end systems for activations, assurance and customer support;
- putting in train new agreements with our business partners;
- releasing new commercial products; and
- increasing workforce capability that is so important in ensuring the capacity exists to meet user demand.

Let me now talk about the general rollout progress.

### **General Rollout progress**

We can see the appetite for connecting to the network building rapidly as the footprint now extends to more than 1.7million homes and businesses across Australia. This year we plan to start construction or complete work across a further 1500 suburbs and by end June this year, we believe nearly one in four homes will be able to order a service on the network and by June 2018 we are targeting 3 in 4 homes.

We now have more than 780,000 connected premises as at end January 2016 and just prior to Xmas we reached a new milestone of over 10,000 activations per week and I am pleased to report that we have just had two consecutive weeks above 13,000. This compares to about 4,000 per week in just over a year ago, and reflects the increasing marketing and take-up of **nbn** services from Retail Service Providers. More than half the cumulative number of Premises Activated and Ready for Service at end December 2015

occurred during that calendar year. Again, reflecting the significant acceleration over the last 12 months as we begin to scale the rollout.

In fact, half the nation's homes and businesses are now either in the Design process, Under Construction or Ready for Service stages.

Now let me provide you with a snapshot of our financial results.

### **Financial highlights**

With the growth in active premises and a 10 % improvement in Average Revenue Per User (ARPU) year on year to 31 December, our growth in revenue continues to build. Capital expenditure for the last 6 months to 31 December was \$2.1 billion – continuing to reflect investment in the network, particularly the design and build of our FTTP, FTTN and HFC networks plus the IT systems to support both the build and our customers. Of course we are currently relying on the equity funding from the Commonwealth Government which currently stands at \$16.4 billion out of a total equity commitment of \$29.5 billion.

The Cost per Premises at 31 December 2015 continues to be broadly in line with our Corporate Plan 2016 projections including for the FTTN Service areas completed to end December 2015.

With these improving results, we remain confident that the momentum is sustainable.

Why do I think this? Because:

- We now have contractual arrangements in place with 10 different delivery partners to design and construct the fixed line footprint across Australia. And the competition we are seeing for these build contracts sends a positive signal from the industry that we

are doing the right things and that they have more confidence that we are solving some of the problems of the past;

- Leveraging industry and network knowledge we are working with the existing network Owners (Telstra and Optus) to put in place construction management contracts for the HFC part of the network build;
- Maintaining capability to meet the demand for connections has improved with the conclusion of 3 new master agreements for operation and maintenance of the network; and
- Through the Industry Development Program, **nbn** is committing up to \$40 million for industry skills training, awareness campaigns and developing a national skills register to assist our construction partners recruit, train and develop approximately 4,500 additional employees across Australia.

But let me now walk through the progress to date across the various MTM technologies.

#### **FTTP**

- Over 1.1 million premises are now Ready for Service and we are adding nearly 9,000 per week. The service order activation rate is now nearly double that of last year as the majority of premises now have lead-ins pre-built so the installation is much faster and more efficient.

#### **Fixed Wireless footprint**

- The Fixed Wireless footprint has accelerated significantly in the last six months with Premises Ready for Service now exceeding 50 per cent of the targeted footprint of approximately 600,000 premises. Premises covered as at end January was approximately 343,000 with over 87,000 end users activated on the service.
- The success of this service is evident in its Net Promoter Score (NPS) of 50+ and a product satisfaction rating of 8.1/10.

- Following a successful pilot phase, **nbn** also launched a 25-50/5-20 wholesale fixed wireless service in December 2015 to provide higher speeds to customers that will go further to improve the end user's experience. This is world-leading performance, attracting significant interest from the global industry, and promises to deliver to regional Australians and indeed those on our metropolitan outskirts - the sort of speeds that one might only expect in our capital cities.

## **FTTN**

- The FTTN build is progressing well and as at last week has now reached over 180,000 premises and growing rapidly. [This is an increase from end December of 123,000].
- The experience gained in this rollout demonstrates minimal civil works, less homeowner complaints, and a lower cost structure than alternative approaches.
- The technology evolution in FTTN continues and whilst it is early days, our trials with Fibre to the Distribution Point (FTTdp) are showing that it will be an important upgrade path in the future. G.Fast has also now been certified by the International Telecommunications Union with world-wide acceptance and wide scale deployment plans.
- Significantly, we have to-date found that the fault rate (and remediation costs) on the copper are in line with our Corporate Plan forecasts which gives us confidence in achieving our expectations for this rollout. The expansion of this footprint is a primary goal for this year with a target of providing access to 0.5 million homes and businesses by July 2016.

## **HFC**

- We commenced end-user trials of the HFC technology in Redcliffe, Qld in the first half of FY2016 and initial results are positive showing successful provision of up to 100/40 speeds.
- We have our equipment vendors lined up, chosen our construction partners and are in talks with Telstra and Optus to assist us in the management of construction.

- We also expect the commercial launch of the HFC product in the second half of FY2016 and are pleased that the DOCSIS3.1 technology is being embraced by major telcos around the world.

## Satellite

- Following the successful launch of our **Sky Muster™** satellite last October, testing and deployment of all the satellite and ground station networks is progressing well. Optimisation of the Spot Beams on the satellite is well underway with modems on the ground active in 95% of the beams to allow configuration of the service.
- Following a recent demonstration of the satellite service, there is a high level of confidence it will perform as expected with plans to provide a commercial service in the second half of FY2016.
- The second satellite is scheduled for launch in the last quarter of calendar year 2016 and it has been decided to repurpose the back-up capacity on this satellite to provide a greater data allowance to end users.

The **Sky Muster™** service will be a game changer for rural telecommunications delivering a new generation of satellite broadband to remote and isolated areas of Australia and island territories. It will provide vastly improved speeds and data allowances compared to services over the Interim Satellite Service, while ensuring a good quality experience for all satellite users. **nbn** is also ensuring that capacity is allocated for public interest uses like education, with the potential for this approach also to be applied for health and emergency services.

## Engagement and Customer Service Metrics

Whilst the network build is gaining momentum it is important we also ensure our customers, end-users and our employees are also feeling positive about the changes we are making.

We have shifted the company to a customer centric model and have made many improvements in the experience we offer to both our service providers and the end users. The results are confirming we are doing the right things.

We have reduced dramatically the time to install a service and lifted the percentage of appointments kept. As a result we have seen our NPS score rise to +31 from +16 just 12 months ago. RSP sentiment is trending towards 7 out of 10 for FY2016 and our User Satisfaction Rating overall has risen to 7.7 out of 10. Importantly, FTTN End Users rate the product the same as FTTP users rate their product which gives us confidence that the consumer accepts the technology as meeting their needs.

I am also pleased to say that our employee engagement surveys also improved with double digit growth and we remain focussed on continuous improvement across all these metrics as a key to sustain the momentum we need going forward. Other trends are also showing positive signs.

### **Data Consumption and CVC pricing construct**

Looking across all technologies, we can see the amount of data consumed by our end-users continues to grow with now over 128Gbytes/user/month being used. The download is on the rise at 112GB with the upload staying flat at 16GB. As a result of this growth coming earlier than expected, we have been evaluating a new pricing scheme for our CVC construct. Late last year, we used the product consultation process to seek feedback on a dimension based pricing structure where the price comes down as more data is consumed. This was widely supported by the RSPs and naturally they would like to see lower prices. We are processing the feedback and hope to be able to decide on any changes during the first half of this year.

### **Three Year Rollout**

Last October we announced a Three Year Construction Plan covering an additional 7 million homes and businesses, increasing from an 18 month view to provide greater clarity about the rollout. Our current Three Year Plan covers 9.5 million homes and businesses that are either complete or will begin construction up to September 2018. It also covers the areas of the HFC footprint.

## **Conclusion**

With the hard work of our employees, contracted partners and providers, we have continued to make excellent progress but we accept that we still have many challenges ahead of us. But all in all the progress to-date is very pleasing and we are looking forward to what will be an exciting year for the company as more of our technologies start to deliver a fast broadband service to all Australians and continue to break down the digital divide.

We are now happy to take any questions you may have.

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