



Internode



Building a higher bandwidth Australia while protecting and strengthening competition

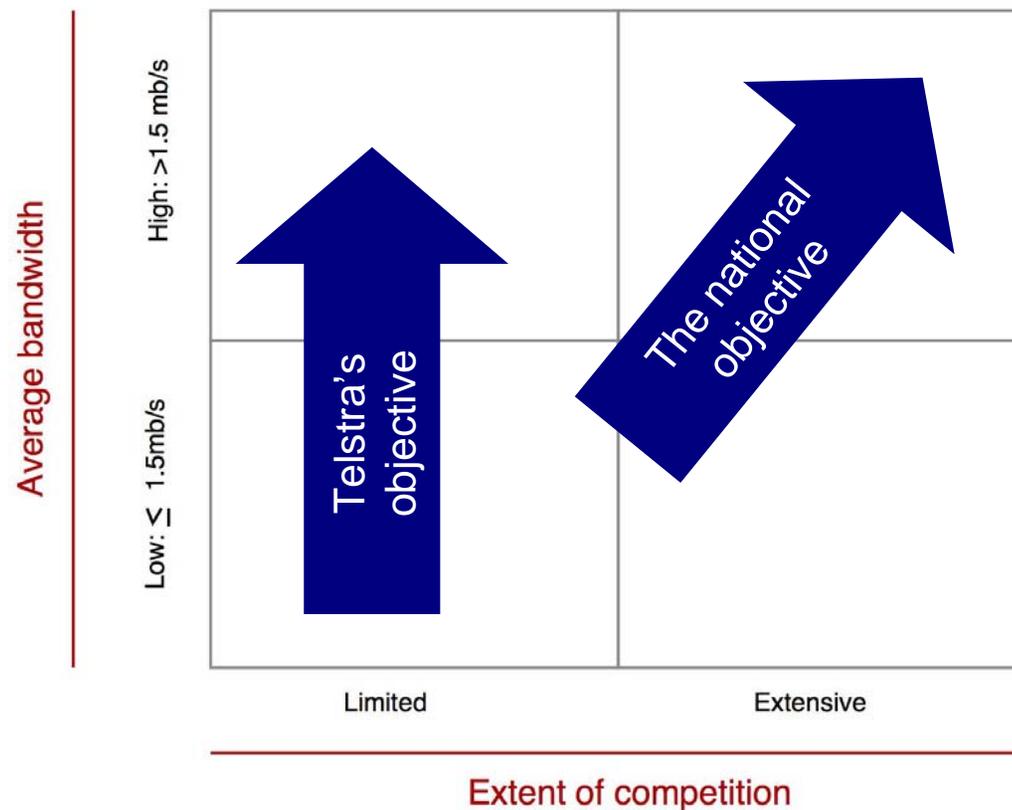
10 July 2006

Our plan for a higher bandwidth Australia

- We've developed a plan for a higher bandwidth Australia – while protecting and strengthening competition.
- Our model has four key features:
 1. Creation of an industry-owned, special purpose company called 'SpeedReach' to make key decisions about the network.
 2. A process to secure more extensive capital investment in the FTTN network — thus delivering high bandwidth broadband to millions more Australians than under Telstra's proposal.
 3. An access pricing model which sets fair prices for use of the network.
 4. An integrated process to move forward - including a managed process for transition from today's world of unbundled local loop to the future world of FTTN.

The policy objective for Australia

We need to go from low bandwidth / low competition to high bandwidth / high competition.



Our model is better

Our model offers

- A blueprint for high speed, wide coverage broadband – going to more Australians than under Telstra’s model.
- An FTTN network operating under effective competition – thus ensuring more innovation, lower prices, better service and greater penetration than Telstra’s model.
- The regulatory certainty to let the FTTN investment go ahead.

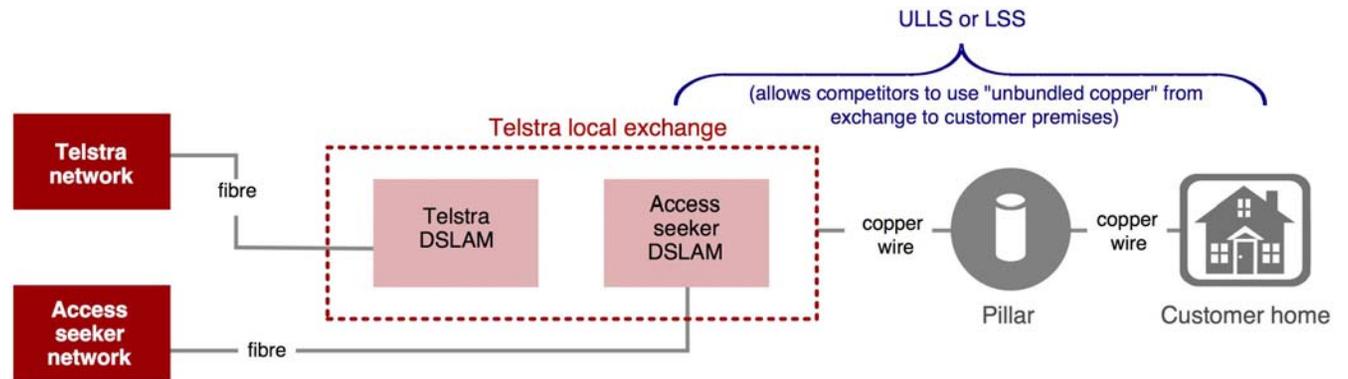
Whereas Telstra’s model

- Reaches only 4 million homes and businesses – would create a two tier Australia.
- Would establish Telstra as monopoly FTTN provider – because FTTN cannot be ‘unbundled’.
- Would seriously damage unbundled local loop (ULLS) competition.

FTTN cannot be unbundled

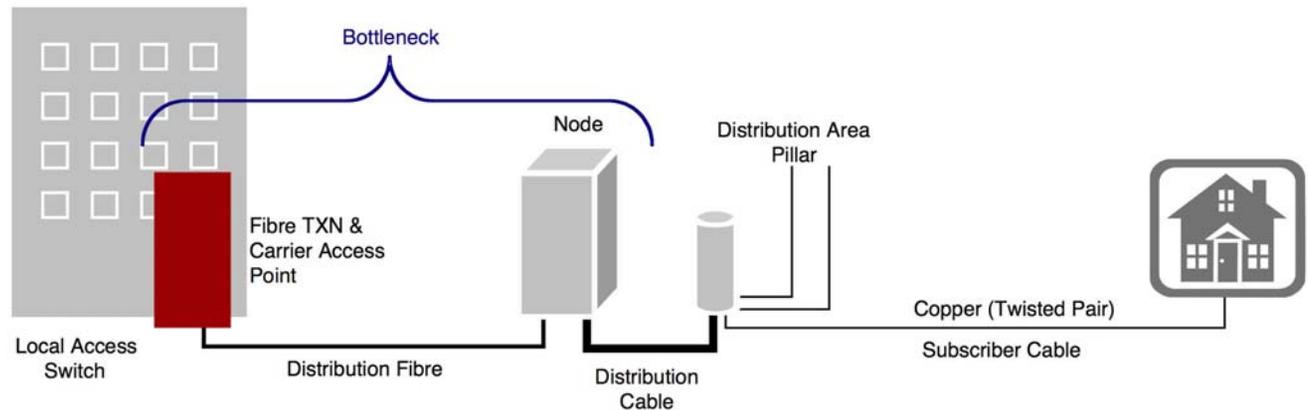
Today

- Telstra controls the bottleneck.
- But the network can be unbundled.
- Competitors can get around the bottleneck.

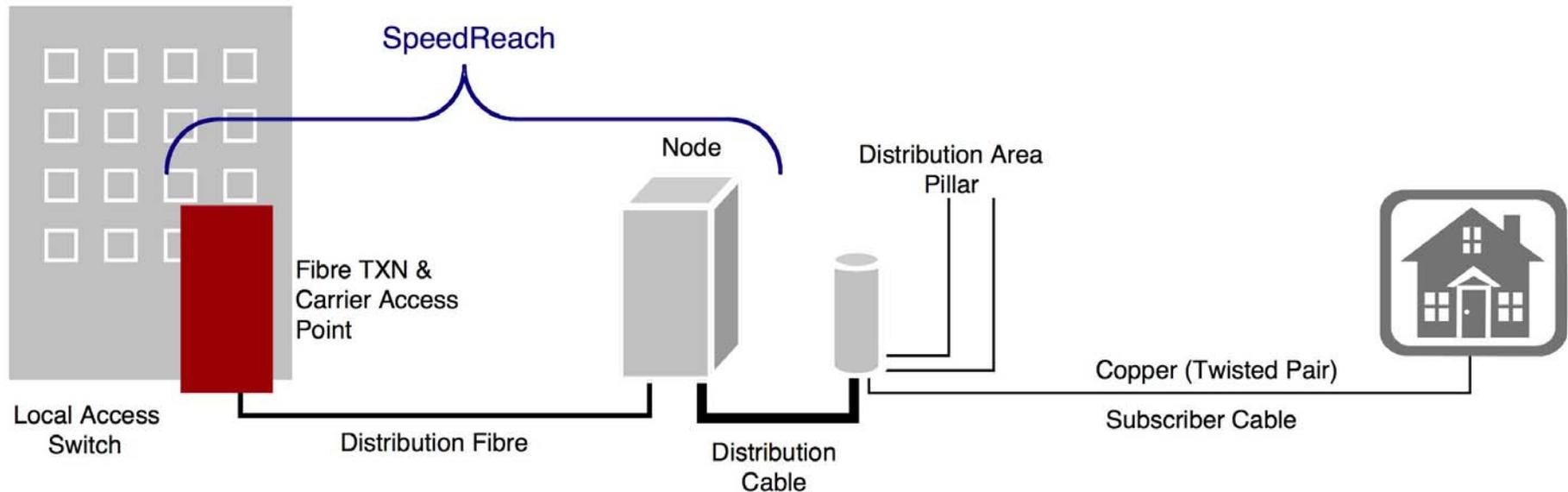


FTTN

- Telstra controls the bottleneck.
- Cannot be unbundled.



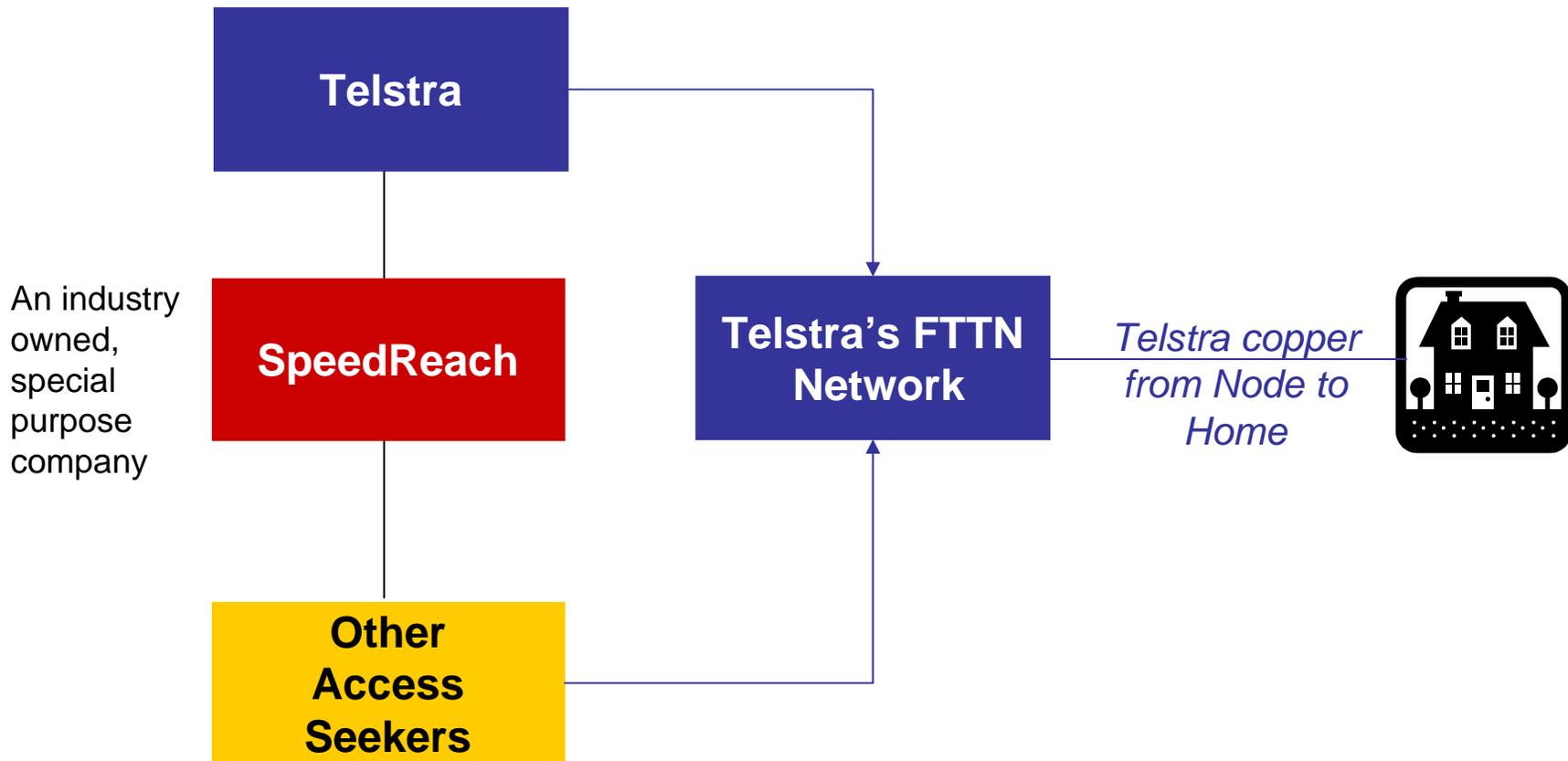
SpeedReach solves the unbundling problem – and so delivers effective broadband competition



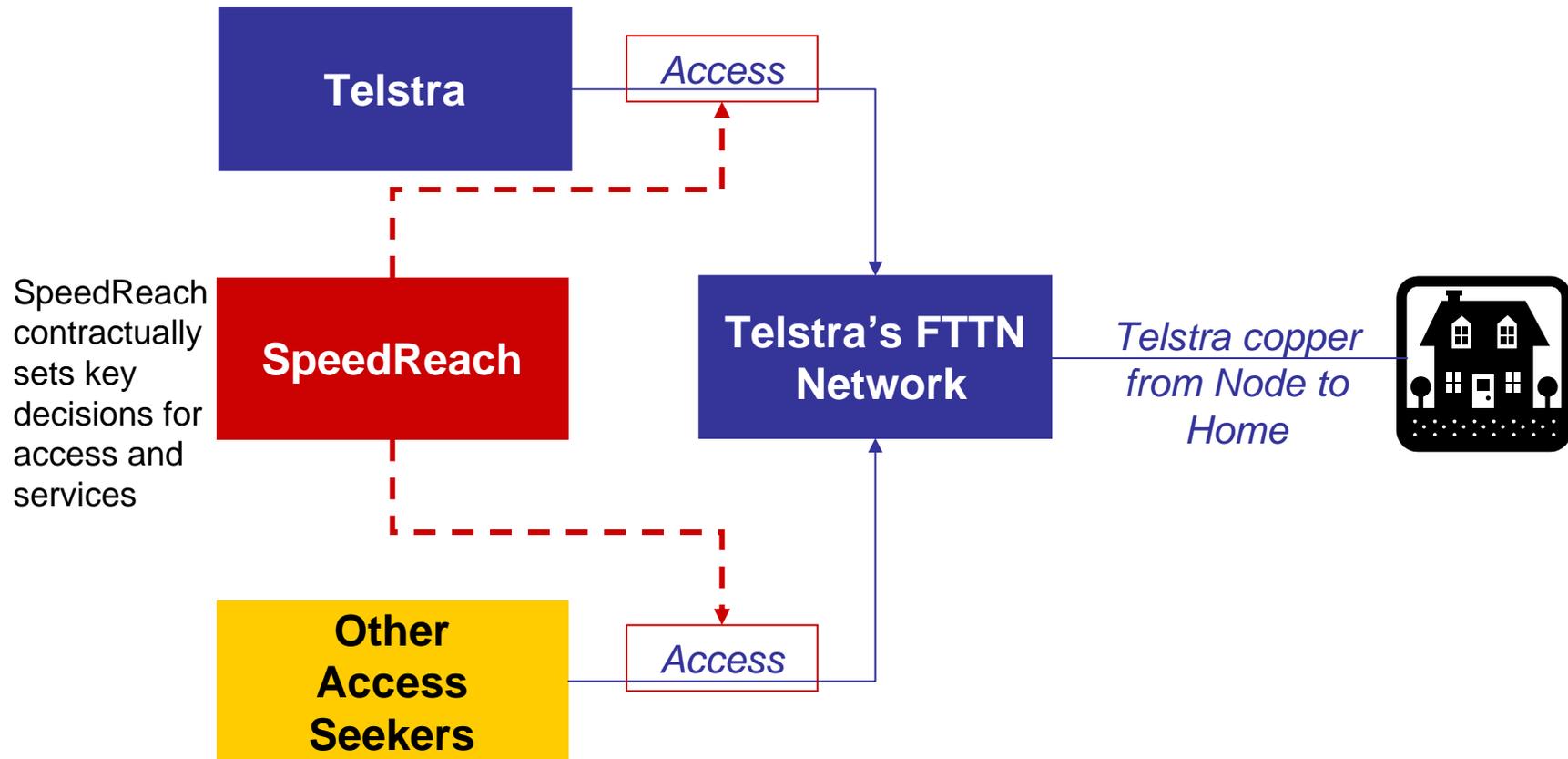
SpeedReach:

- An industry owned, special purpose company.
- Will not own the network.
- But network owner will contractually delegate key decisions to SpeedReach.
- Will make key decisions about the bottleneck infrastructure – the node; the fibre; and the 'carrier access point' in the exchange.

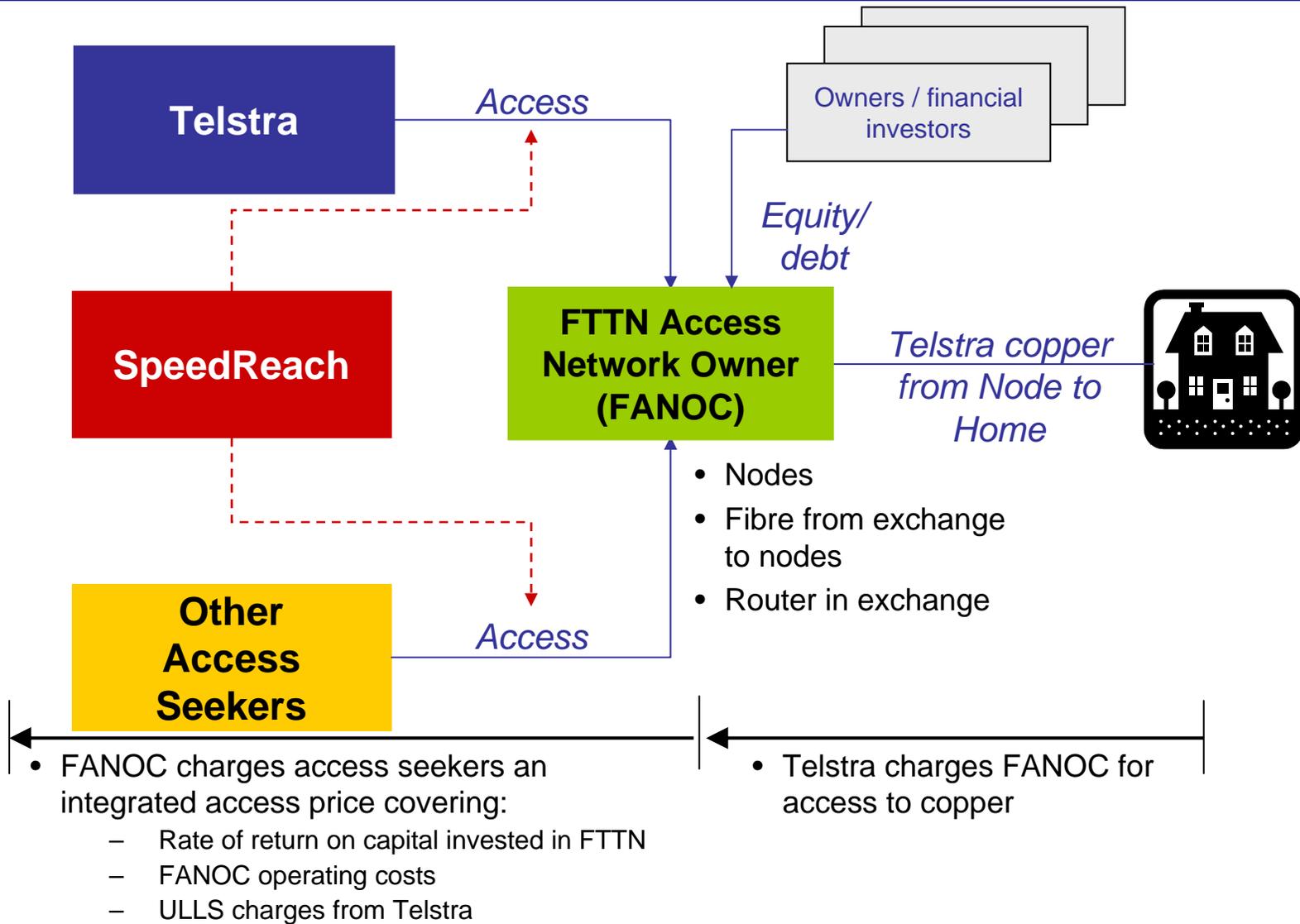
SpeedReach delivers effective broadband competition by providing governance



SpeedReach delivers effective broadband competition by providing governance



An alternative ownership model can exist – Telstra need not be the default owner



Benefits of other parties investing in the FTTN network

- More funds available to build a larger FTTN network
 - Will allow network to be built to serve a significantly larger number of Australians.
 - We estimate an additional one billion dollars would extend network reach to almost one million households.
- More vigorous retail competition - drives more rapid take up of broadband services than if Telstra is the monopoly provider.
- Reduce Telstra's capacity as the dominant, vertically integrated player to suppress competition .
- Minimise the wasteful duplication of national infrastructure which we saw with the HFC overbuild.
- Free up investment capital within telecommunications industry – which industry participants can re-invest into new services and faster take up.
- Lets Telstra deliver high speed FTTN services without needing to fund the \$3.1 billion cost on its balance sheet.

An access pricing model which sets fair prices for the use of the network

- Fairly straightforward to develop access prices which will be paid by parties (including Telstra) for access to the FTTN access network.
- FTTN Network owner will submit special access undertaking to the ACCC which will be used to determine access prices.
- Access prices will be determined consistent with usual regulatory principles.
- Access prices will reflect cost and be set on the basis of the Total Service Long Run Incremental Cost (TSLRIC) of providing access to the network.
- Access pricing is discussed in detail in the body of the report.

An integrated process to move forward

1. Test investor market for interest and required terms
2. Finalise network design
3. Finalise and implement governance arrangements including SpeedReach
4. Determine access pricing
5. Agree network upgrade timetable and ULLS lifetime by exchange
6. Obtain final stakeholder sign off
7. Raise capital
8. Commence construction and ULLS to FTTN transition period
9. Complete transition period.

What we say should happen

Telstra's position

- Agrees to joint ownership model
- Rejects joint ownership model
- Does not proceed with FTTN

Our response if our governance model (SpeedReach) applies

- FTTN can proceed
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- We will work with infrastructure financiers on our own FTTN rollout proposal

Our response if our governance model (SpeedReach) does NOT apply

FTTN can NOT proceed



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