

NBN Co HY23 Financial Results

CEO & CFO speeches

Part One: Stephen Rue – Chief Executive Officer

Good morning everyone and welcome to NBN Co's financial results announcement for the six months ended 31 December 2022.

I'd like to start by acknowledging the Traditional Custodians of the various lands on which we work today and any First Nations' People participating in this meeting.

We pay our respects to their Elders past, present and emerging, and recognise and celebrate the diversity of First Nations' People and their ongoing cultures and connections to the lands, skies, and waters across Australia.

I trust you all have the media release and presentation slides for today's event, which have been distributed and are available on the **nbn** media centre.

Joining me today is our Chief Financial Officer Philip Knox and our Chief Legal & Regulatory Officer Jane van Beelen, who will be available to contribute to the Question and Answer session at the end.

Philip will speak to the Company's financial performance, and I will speak to the Company's operational performance, and we will open the lines for Q&A at the end of our formal presentation and speeches.

Progress, performance & revenue growth

So before Philip takes us through the financial details for the half, I would like to reflect on how we have continued to invest in our network upgrades - to ensure that **nbn** is future-ready and continues to deliver for our customers, communities and country.

As the Company has transitioned from building to operating the nation's wholesale broadband network, important milestones have been reached - and these appear in our 2023 Half Year Report, which is available on our website.

The following slide sets out some of these key metrics.

At the end of the half, more than 12.2 million homes and businesses across Australia were able to connect to the **nbn** network. Customers in more than 8.5 million premises have so far connected to the network, which equates to approximately 20 million people relying on our network every day.

At the end of the half, approximately 77 per cent of residential and business customers were connected to plans based on **nbn** wholesale speed tiers with peak download speeds of 50 Mbps¹ and above.

And approximately 21 per cent were on **nbn** wholesale speed plans offering peak download speeds of 100 Mbps or higher – up from 15 per cent the previous year.

The growth in our customer base and continued take-up of higher speed services on the network helped increase total revenue by 4 per cent to \$2.6 billion dollars for the half.

Revenue from business customers increased to \$549 million dollars in the first half of fiscal 23, up 11 per cent from \$493 million dollars in the first half of fiscal 22.

¹ 50Mbps (download) wholesale speed plan¹ includes wholesale plans available to phone and internet providers with download speeds of 50Mbps and 25-50Mbps. The **nbn**[®] wholesale speed tiers available to your phone and internet provider vary depending on the **nbn**[®] access network technology in your area.

Throughout the first half of the 2023 fiscal year, the **nbn** network performed well and continued to meet the needs of households, businesses and communities across the nation.

Average data downloads for December 2022 was 408 Gigabytes per customer - compared to 382 Gigabytes in December 2021 - which was an increase of 6.8 per cent.

Average monthly upstream data usage for December 2022 was 36.1 Gigabytes per customer - compared to 34.8 Gigabytes in December 2021 - which represents an increase of 3.7 per cent.

So the clear take-out is that customers are demanding higher speeds and more data - and we are making provisions to accommodate both - through our network upgrades and wholesale product and pricing reset, which I'll come to later.

Customer experience

I would now like to talk about how we are working with industry to enhance customer experience.

In the first half of the 2023 fiscal year, we introduced improvements via our Service Excellence program, which was aimed at better allocation of work for our field technicians, enhancements to the mobility tools they use in the field and a new and simplified schedule of rates for completed work.

These have helped improve customer experience and the ways we interact with Retail Service Providers.

This enhanced customer experience was reflected in the latest Annual Report from the Telecommunications Industry Ombudsman.

As you can see from this slide, the September 2022 report showed that complaints about faults and connections for services delivered over the **nbn** were down by 37.5 per cent on the previous year.

And I'm pleased that **nbn** has been able to work with Retail Service Providers to maintain a sustained reduction in complaints escalated to the TIO in recent years.

Enterprise simplicity

We want to make it easier for partners to work with **nbn**, so we are transforming our operations and incorporating better ways of doing things.

We are simplifying the architecture of our technology systems to improve interactions with retailers and enable better service for customers.

Work continues to be done to simplify and improve partner portals and interfaces where retailers can self-serve information about products, technology or reporting.

Network upgrades

As you can see from the next slide, we continue to make good progress upgrading the network and enabling greater access to our higher speed tiers.

At the end of the half, more than 50 per cent of the entire **nbn** network was capable of delivering close to gigabit speeds - up from 38 per cent at the end of December 2022.

In October 2022, the Government announced an equity investment of a further \$2.4 billion dollars to enable an additional 1.5 million premises served by Fibre-to-the-Node (FTTN) to upgrade to Fibre-to-the-Premises (FTTP) by the end of 2025.

We are on track to enable around 10 million premises – or up to 90 per cent of the Fixed Line network – to access **nbn** Home Ultrafast, offering wholesale speeds of 500 Mbps to close to 1 Gbps by the end of 2025.

Design and construction of the local fibre network roll-out has so far been completed within many suburbs and towns across Australia - meaning around 550,000 premises served by FTTN became eligible¹ to upgrade to FTTP by December 2022.

We are also progressing well on our plan to enable¹ up to 1.5 million homes and businesses currently served by Fibre to the Curb to upgrade to Fibre to the Premises.

And at the end of the half, approximately 810,000 premises served by Fibre to the Curb became eligible to upgrade to Fibre to the Premises.

In May 2022, we completed upgrades which enabled all 2.5 million premises in the HFC footprint to access the **nbn** Home Ultrafast wholesale speed tier.

1 Conditions apply. Eligibility criteria includes among other things, being designated by nbn as a simple premises and placing an order for an nbn® powered plan based on an eligible wholesale speed tier.

The Government and **nbn** have previously announced a \$750 million dollar co-investment commitment to upgrade the **nbn** Fixed Wireless and Satellite networks using 4G technology and software enhancements, and the latest 5G millimetre wave technology.

nbn will be among the first in the world to deploy 5G millimetre wave technology at this scale for a dedicated Fixed Wireless network.

One of the major benefits of the upgrades is expanding the capacity of the network to enable existing Fixed Wireless customers to achieve faster and more consistent speeds - with less congestion.

Selected **nbn** Fixed Wireless infrastructure sites will have their coverage enhanced and footprint coverage expanded by up to 50 per cent.

The enhancements are being delivered across more than 2,300 Fixed Wireless infrastructure sites and are planned to enable approximately 120,000 former satellite-only eligible premises to access **nbn** Fixed Wireless services by the end of 2024.

The growth in our customer base, and this continued take-up of higher speed tiers on the network, helped increase total revenue by 4 per cent to \$2.63 billion dollars for the half.

And pleasingly, we are on track to deliver our Corporate Plan guidelines for fiscal 23 - generating revenue in the range of between \$5.2 to \$5.4 billion dollars and EBITDA of between \$3.4 and \$3.6 billion dollars.

These are solid financial results - which is good news for customers and retailers - because a financially stable and sustainable **nbn** means we are able to continue our important investment in the network, and the continued improvement of our products and simplification of our systems.

I will now hand over to Philip who will share more detail on our financials and our capital management plans.

Thank you, Philip

Chief Financial Officer - Philip Knox

Thanks Stephen – and good morning to everyone on the call today.

I am pleased to say that our financial results for the first half of the fiscal 23 year demonstrate our solid financial performance and continued growth.

Headline results / Half Year 23

Turning to my first slide, you can see the headline results for the first half of fiscal 23. These results show both the performance in the last six months and also provide a reminder of the growth and progress we have made as a business when we compare ourselves to the first and second halves of fiscal 22.

I'll talk to each of these metrics in more detail on the following slides, but you can see that total revenue has grown by 4 per cent on the prior year to \$2.6 billion dollars for the half and EBITDA has improved by \$1.8 billion dollars. The Company remains on track to meet the guidance targets as laid out in our Corporate Plan 2023, which includes revenue guidance of between \$5.2 and \$5.4 billion dollars and EBITDA guidance of between \$3.4 and \$3.6 billion dollars for the 2023 financial year.

The significant improvement in our EBITDA result, which has grown by 20 per cent against the prior corresponding period, is a result of revenue growth, lower operating costs and the anticipated reduction in subscriber costs, which are negligible in fiscal 23.

Capital expenditure was over \$1.4 billion dollars for the half, an increase of 22 per cent from the prior corresponding period as we continue to invest to upgrade our network.

The final metric to highlight is our operating cash flows, which you'll note excludes government grants. This has increased by 26 per cent compared to the same period last year, to \$1.6 billion, which correlates to our EBITDA performance.

Revenue, customer base and speed tier mix

Looking at revenue and activations in more detail on the next slide...

The 4 per cent increase in total revenue is mainly driven by the growth in our customer base, with over 8.5 million premises activated on the network at the end of December 2022, which is a 2 per cent increase compared to a year ago.

The pace of growth in activated premises is continuing to stabilise as we move beyond the initial build and subsequent connection of first time NBN customers.

The other key driver of the revenue growth is the uplift in Residential ARPU to \$47 from \$46.

The increase in ARPU was primarily driven by the higher take up of faster speed tiers with approximately 77 per cent of customers connected to plans based on **nbn** wholesale speed tiers of 50 Mbps or above, and 21 per cent of customers on plans based on wholesale speed tiers of 100 Mbps or above.

The decline in other revenue to \$62 million dollars is due to lower volumes of Copper and HFC sub-loop licences with Telstra - as fewer premises are now within the 18-month co-existence period associated with the initial build.

Operating expenditure continues to decline

Now moving to operating expenses...

I am pleased to say that operating expenses, excluding subscriber costs, decreased by 3 per cent compared against the prior corresponding period to \$886 million dollars. As a percentage of revenue, operating expenses now stand at 34 per cent, falling from 36 per cent in the first half of fiscal 22.

At a category level, direct network costs decreased by 11 per cent, which was primarily driven by lower service assurance costs resulting from a reduction in truck roll volumes as well as lower average assurance costs post the full transition to service excellence delivery contracts.

Employee benefits expenses were 2 per cent above the prior corresponding period due to annual salary and wage rises which have been partially offset by a reduction in total headcount.

Other operating expenses increased by 3 per cent from half year 22. This covers a wide range of expenditure, and the majority of our cost base has remained stable, with higher legal and consulting costs, cybersecurity insurance and travel costs being partially offset by lower occupancy costs.

And finally, as noted earlier our Subscriber costs have virtually ceased and will not be material going forward.

Continuing EBITDA momentum

Moving to EBITDA on the following slide...

The graph on this slide illustrates the continued improvement and momentum in our EBITDA and its margin trajectory.

EBITDA including subscriber costs reached \$1.8 billion for the half year, with the EBITDA margin increasing to 69 per cent, up from 60 per cent a year ago. The improvement is due to a combination of growth in revenue and other income, as well as declining operating and subscriber costs, as discussed earlier.

Capital expenditure

Now moving to capital expenditure on the next slide....

During the half year, we continued to make significant investment into the ongoing evolution of the **nbn** network and connecting our customer base. As expected, our capital expenditure increased to \$1.4 billion dollars for the half, up from \$1.2 billion dollars in the corresponding period.

Our capital expenditure can be summarised across five main areas:

- Firstly - We invested \$550 million dollars into Fixed Line and Transit upgrades, up from \$401 million dollars in the first half of fiscal 22. This reflects the increasing scale of the fibre upgrade activity both in the delivery of the original 2 million premises under our network investment plan and initial design work for the recently announced additional 1.5 million premises.
- Secondly – Continuing investment of \$276 million dollars for the design and construction of new network infrastructure and business upgrades.

The increase compared to the \$227 million dollars incurred in the prior corresponding period has been driven by the higher volume of Enterprise Ethernet orders received and the associated capital build to support these full fibre products.

- Thirdly – We spent \$275 million dollars to connect and assure our customers. This level of expenditure is consistent with the prior corresponding period, as increase in full fibre upgrade connections and re-connections of existing premises, replaces declining first-time connection costs.
- Fourthly - Ongoing investment of \$137 million dollars in software and systems to drive operational simplicity and enhanced digital interactions with retailers.
- And finally, we have increased our capital investment in upgrading our Fixed Wireless and Satellite networks to \$131 million dollars, following the announcement of our Fixed Wireless and Satellite Upgrade Program in late fiscal 22.
- Other capex consists of capital expenditure on network management and operational support activities.

Capital summary

On the next slide we can see a summary of our debt funding.....

During the first half of fiscal 23, we continued to execute our refinancing plan and raised a further \$2.6 billion dollars in bank and capital markets debt, bringing our total debt funding to \$25.4 billion.

A key component of our debt raising activity in the past six months has been the successful launch of NBN's inaugural Promissory Note Programme, under which we have raised \$1.4 billion dollars.

The success of the Promissory Note Programme has diversified our funding sources and alongside further AMTN issuances in the period has enabled NBN to repay bank facilities and increase our available liquidity to over \$4 billion dollars.

As well as improving liquidity, we have used debt raisings in the prior period to fund operations, capital investment and repay an additional \$875 million dollars of the Government loan during the half, reducing the remaining balance to \$5.5 billion dollars as at 31 December 2022.

The weighted average cost of drawn debt has increased during the six-month period to 31 December due to the rising market interest rates. However, we have largely been shielded from the full effect of the increase in market rates as a result of our hedging strategy which has meant we have hedged a significant portion of our floating debt portfolio.

We continue to monitor and closely manage the interest and foreign exchange risks of our debt portfolio in accordance with our Treasury Risk Policy.

Improving cash flow performance

Turning to the next slide...

Our cash flow performance continues to improve with free cash flow improving by 26 per cent compared to the prior corresponding prior period. This result is due to a 26 per cent growth in operating cash flows, driven by strong cash conversion and lower subscriber cost payments.

Lease payments have increased by 3 per cent as a result of contractual obligations and inflationary pricing increases, alongside an increase in capital expenditure and interest payments on debt, which we have touched on previously.

HY23 Statutory Results

Turning to my final slide...you can see the Statutory Profit or Loss statement for the half-year, which is presented in accordance with the statutory accounting principles.

The preceding slides have already covered revenue, expenses and EBITDA in greater detail.

Although we continue to record a Net Loss After Tax result of \$444 million dollars for the period, we are pleased with the significant 48 per cent improvement compared to the prior corresponding period loss of \$857 million dollars. This result is in line with our expectations and reflects where we are currently in our lifecycle as a company.

Other income has increased compared to the prior corresponding period due to the recognition of a proportion of the Fixed Wireless Upgrade grant for \$480 million dollars received in June 2022 from the Federal Government.

This is also the first period that the Company recorded a positive EBIT result, which in addition to the improvement in the EBITDA result, has been aided by the decrease in depreciation and amortisation expense following the re-estimation of the useful lives of certain network assets.

We are pleased with these results, which are in line with our key financial targets.

We remain focussed on seeking revenue growth and optimisation of our cost base as we move towards a sustainable positive cash flow position.

This is central to our purpose as it will enable re-investment into our network to meet future customer demand, deliver great customer service and meet our ongoing contractual and funding obligations.

With that, I will hand back to Stephen.

Part Two: Stephen Rue – Chief Executive Officer

So, thank you Philip.

nbn continues to deliver improvements to the network while keeping prices affordable.

And this is illustrated by recent research from consultancy firm Accenture, commissioned by **nbn**, which indicates that broadband is largely affordable for most people across Australia.

Of the customers surveyed, 90 per cent have no concerns with the affordability of their **nbn** service.

The research indicated people across Australia were more inclined to be concerned about the relative cost of other household essentials.

It found that the average Australian household pays \$16.90 per week - or 1.1 per cent of income - for services over the **nbn** network.

The research also revealed the average **nbn** user saved 120 hours and around \$2,580 dollars per year by using services and doing activities over the network instead of in-person.

Accenture's research on the global stage - which analysed 2,800 broadband plans from 13 OECD countries - ranked Australia as the sixth most affordable market.

This helps demonstrate that one of the policy outcomes of the Government in creating the **nbn** network - which was to level the playing field in the Australian telecommunications industry and enhance competition – is being met and there has been a resulting great customer outcome.

SAU variation

I would like to talk about the SAU variation that we lodged with the ACCC in November 2022.

The framework used to regulate wholesale access to the **nbn** network - and for setting price and certain non-price terms of access - is governed by NBN Co's Special Access Undertaking, or SAU.

nbn is committed to industry collaboration as demonstrated by our active engagement with internet retailers, customer advocacy groups, as well as the ACCC, on the future of wholesale broadband pricing and the long-term regulatory framework.

It has been a lengthy process over the past two years. But throughout that time, **nbn** has been working closely with the industry and the ACCC to formalise what is a very difficult process of setting pricing and long-term regulatory certainty, while also enabling **nbn** to make further investments in the network to support the nation's current and future needs and effectively compete in the market.

We closed out the half by lodging a proposed SAU variation with the ACCC at the end of November 2022, with the aim of delivering a new SAU in time to implement changes by 1 July 2023.

nbn welcomed the ACCC's publication of its consultation paper in mid-January and note the ACCC's detailed views on the proposed SAU variation and subsequent comments reported in Communications Day.

In particular, the ACCC's consultation paper stated that **nbn's**, and I quote, "revised SAU variation proposal would appear a positive step towards an SAU that could be capable of achieving the five outcomes that were identified through the ACCC's earlier consultation," end of quote.

We will continue to work constructively with the ACCC, internet retailers, and customer advocacy groups towards the successful acceptance of our proposed SAU variation.

It is designed to meet the expectations of Government to enhance competition and to support **nbn** in being long-term commercially sustainable, including achieving and maintaining a standalone investment grade credit rating.

The ACCC has signalled its intention to release its draft decision in April 2023.

We look forward to further engagement following lodgement of industry responses to the ACCC's consultation paper, which are due later this week, on Friday.

WBA5

During November and December 2022, we released two Wholesale Broadband Agreement consultation papers - which are collectively called WBA5 – and are focused on how a revised SAU could be implemented subject to acceptance by the ACCC.

Statement of Expectations (SoE)

So now to our revised Statement of Expectations...

On 19 December 2022, the Australian Government issued a revised Statement of Expectations for **nbn** and we are fully committed to it.

In line with the Statement of Expectations, we have a strong focus on upgrading and improving the network to enable the use of emerging and future technologies, which will meet expected future demand and promote innovation.

I'm pleased to say we are on track to deliver our promised network upgrades in line with the Government's timing.

This includes upgrading 3.5 million premises currently on our Fixed Line network to access our fastest on-demand wholesale speed tier plans from 500 Mbps to close to 1 Gbps by the end of 2025, and the \$750 million dollar upgrade of our Fixed Wireless and Satellite networks by December 2024, which I mentioned earlier.

Supporting regional Australia

This \$750 million dollar investment is a great boost for regional Australia, not least because the enhanced coverage and range will also enable 120,000 former satellite-only premises to access **nbn** Fixed Wireless services.

There are many more things we are also doing for regional Australia...

Customers on an enhanced **nbn** Sky Muster Plus satellite services - introduced from 1 July last year – can access the Virtual Private Networks, or VPN, and video streaming for 16 hours a day - between midnight and 4pm - without it counting towards monthly data allowance¹.

1 Exclusions and fair use conditions apply. nbn may, at its discretion, shape traffic to slow speeds where required. For more information on which traffic may be shaped to proactively protect the nbn® network and ensure fair access to the network for all users, and exclusions, visit nbnc.com.au/skymuster-plus or speak to your internet service provider. For details on fair use conditions, contact your internet service provider.

To proactively protect and ensure the fair access to the nbn® network for all users, nbn may from time to time, at its discretion, shape the following data activities to maximum wholesale upload and download speeds of 256kbps:

1. uploads and downloads via peer to peer;
2. uploads and downloads to cloud storage platforms;
3. PC and smartphone operating system updates;
4. software/application updates;
5. gaming software updates;
6. any other data traffic related to applications which nbn cannot identify.

Other data applications that nbn considers may cause adverse network impacts may also be added to the above list to be shaped, including streaming video and VPN outside of 4pm and 12am midnight.

Since these enhancements were introduced, **nbn** Sky Muster Plus customers on average now use around 13 per cent more data per month - and 81 per cent of their total internet usage does not count towards their monthly data allowance.

We're also pleased to be working with the Victorian Government, and in October last year announced the third stage of our landmark co-investment agreement.

This will enhance digital infrastructure across the Fixed Line, Fixed Wireless and Satellite footprint, across 180 Victorian suburbs and towns, including 150 in regional areas.

In total, the three stages of the Connecting Victoria Program will fund over 3,000 kilometres of new fibre and make our highest residential speeds available to 100,000 homes and businesses in 110 Victorian towns and suburbs.

The latest stage involves the construction of 20 new telecommunication towers, which will deliver Fixed Wireless services to 6,500 homes and businesses across 40 towns and the establishment of 31 new Business Fibre Zones.

Digital inclusion

I would now like to talk about how **nbn** continues to tackle barriers to digital inclusion.

We are pleased to deliver the Government's School Student Broadband Initiative, which will provide internet access for a year for up to 30,000 families with school aged students that do not have **nbn** network broadband connections.

nbn is waiving wholesale charges for this service, which has helped enable participating RSPs to offer the broadband services for free.

I'm delighted we were able to support the Government's announcement around this in time for the first term of the new 2023 school year.

We continue to dedicate resources and capital to help remote and regional areas of Australia to stay connected – including First Nations and isolated communities.

Through our Communities in Isolation program, we have delivered 102 installations through a single wireless access point located within key locations.

And our proof-of-concept has also connected four remote communities via a meshed Wi-Fi solution.

Our ongoing efforts to connect First Nations' People and improvements to digital inclusion for low income households and other vulnerable groups - that face barriers to accessing high speed broadband – are in line with our revised Statement of Expectations.

Outlook and closing remarks

Before I close, I would like to talk about our vision for the future.

We aim to be the first choice provider of broadband services to new residential and business premises as they are built around Australia.

Our New Developments team has now delivered access to the **nbn** network to more than one million newly built premises nationally.

We're working with industry partners to deploy network infrastructure in support of multi-gigabit speeds and to supply the next-generation 4G and 5G technology that will deliver enhanced coverage and speed across our Fixed Wireless network.

Our Smart Places product takes the power of fibre connectivity beyond buildings to locations around communities that require fast, reliable¹ and secure broadband connectivity.

This pilot program at 40 locations across the country, supports a wide range of scenarios including traffic lights, electric vehicle charging stations, public parks and skate parks.

The last few years have made even clearer in my mind, the importance of telecommunications for the nation.

We've seen an increasing shift in the way people work, are educated and enjoy their recreation online. And we expect to see this trajectory increase into the future.

Over the past two years, online health consultations increased by 147 per cent and online secondary schooling grew by 114 per cent, according to Venture¹ research commissioned by **nbn**.

¹ Source: Venture Insights, 'Australia's Digital Economy: Consumer Engagement with digital services', 18/10/21, [internal report prepared for nbn]

According to Australia Post, around 5.4 million households bought goods online each month, on average, between January and June 2022.

Our research shows that around a third of people who can work from home now expect to work from home at least once a week moving forward.

And we know that a quarter of households will be using more automated 'smart home' services and devices in 2023 - and this will only grow in the years ahead.

Over 40 per cent of businesses are using video calling, cloud storage or cloud-based software – and over 95 per cent of businesses use at least one online service to conduct their business.

We expect to see further growth in technologies such as virtual reality, cloud gaming, home security, remote health care and AI enabled home devices.

Rapid growth in our digital and data driven economy is one of the seven societal megatrends identified by the CSIRO that will shape our society in the coming decade.

This will make fast, reliable¹ and secure broadband ever more critical to our daily lives - and it will be an essential foundation for the smarter cities and regions needed to meet the opportunities and challenges ahead.

As the digital economy drives data usage, **nbn**'s network must continue its evolution to maintain high resiliency, security and performance.

So, moving forward it is crucially important that **nbn** is able to make a sufficient level of return so we can continue to reinvest in the network to support the nation's growing digital needs and facilitate productivity.

As **nbn** delivers on its purpose to lift the digital capability of Australia, we remain committed to supporting the nation by ensuring the network is future-ready, continues to meet the nation's growing digital needs, and enables access to Government services, online education and health.

So thank you everyone, and with that we will now take questions.

ENDS

1. An end customer's experience, including the speeds actually achieved over the **nbn**[®] network, depends on the **nbn**[®] access network technology and configuration over which services are delivered to their premises, whether they are using the internet during the busy period, and some factors outside of NBN Co's control (like their equipment quality, software, chosen broadband plan, signal reception, or how their provider designs its network). Conditions, eligibility criteria and costs will apply. Eligibility criteria is expected to include, among other things, being designated by NBN Co as a simple premises (e.g. standalone premises or Single Dwelling Unit (SDU)) and once the program is available for an eligible premises, placing an order for an **nbn**[®] powered plan based on an eligible wholesale speed tier. Additional costs may apply to providers, who may choose to pass this charge onto their customers.