



NBN Co Limited

Half-Year Results

HY2023

15 February 2023

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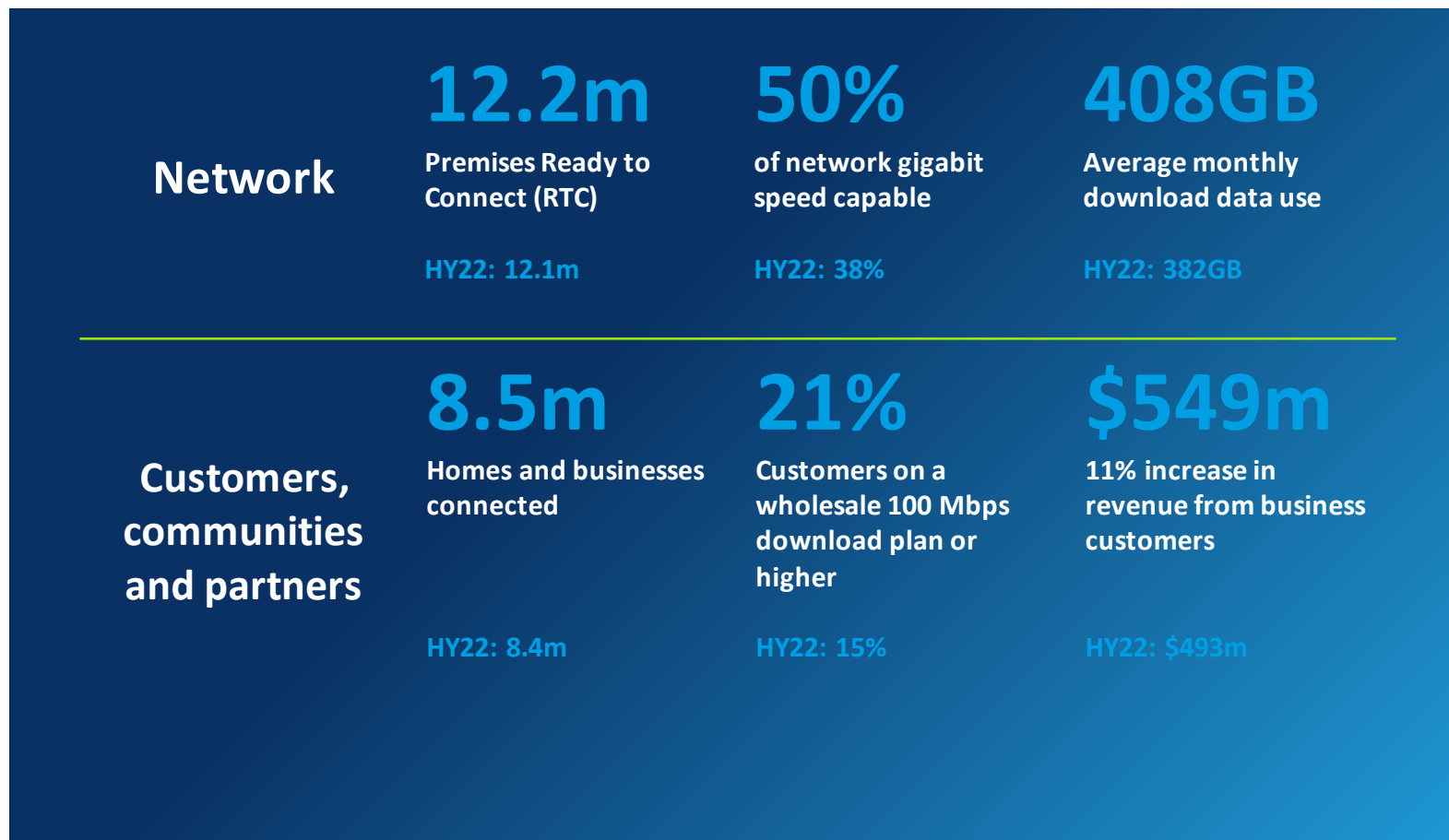


Stephen Rue

Chief Executive Officer



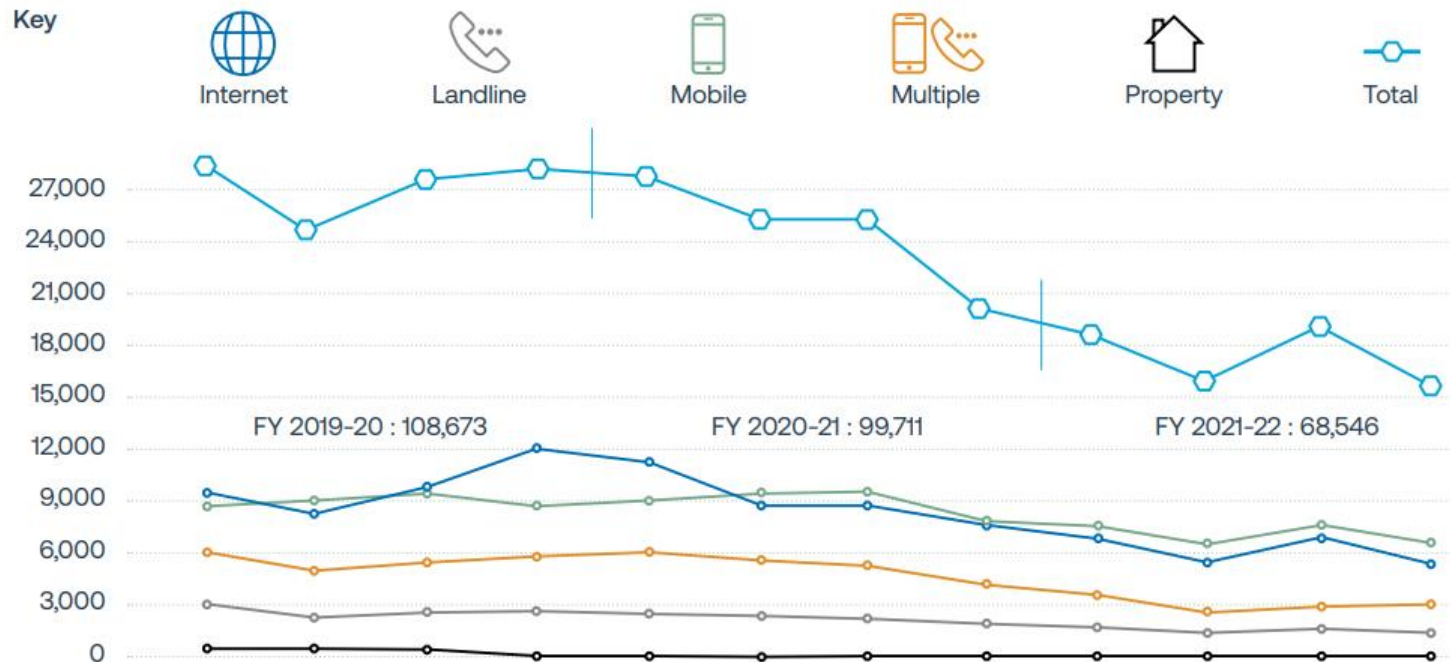
Continued focus on network upgrades and customer experience



Working with industry to improve the customer experience

Compared to 2020-21, complaints about fault and connection for services delivered over the **nbn**[®] network declined by 37.5 per cent. Meanwhile, fault and connection complaint volume reduced by 29.9 per cent across all service types.

Residential complaints by service type and quarter: 2019-20 to 2021-22



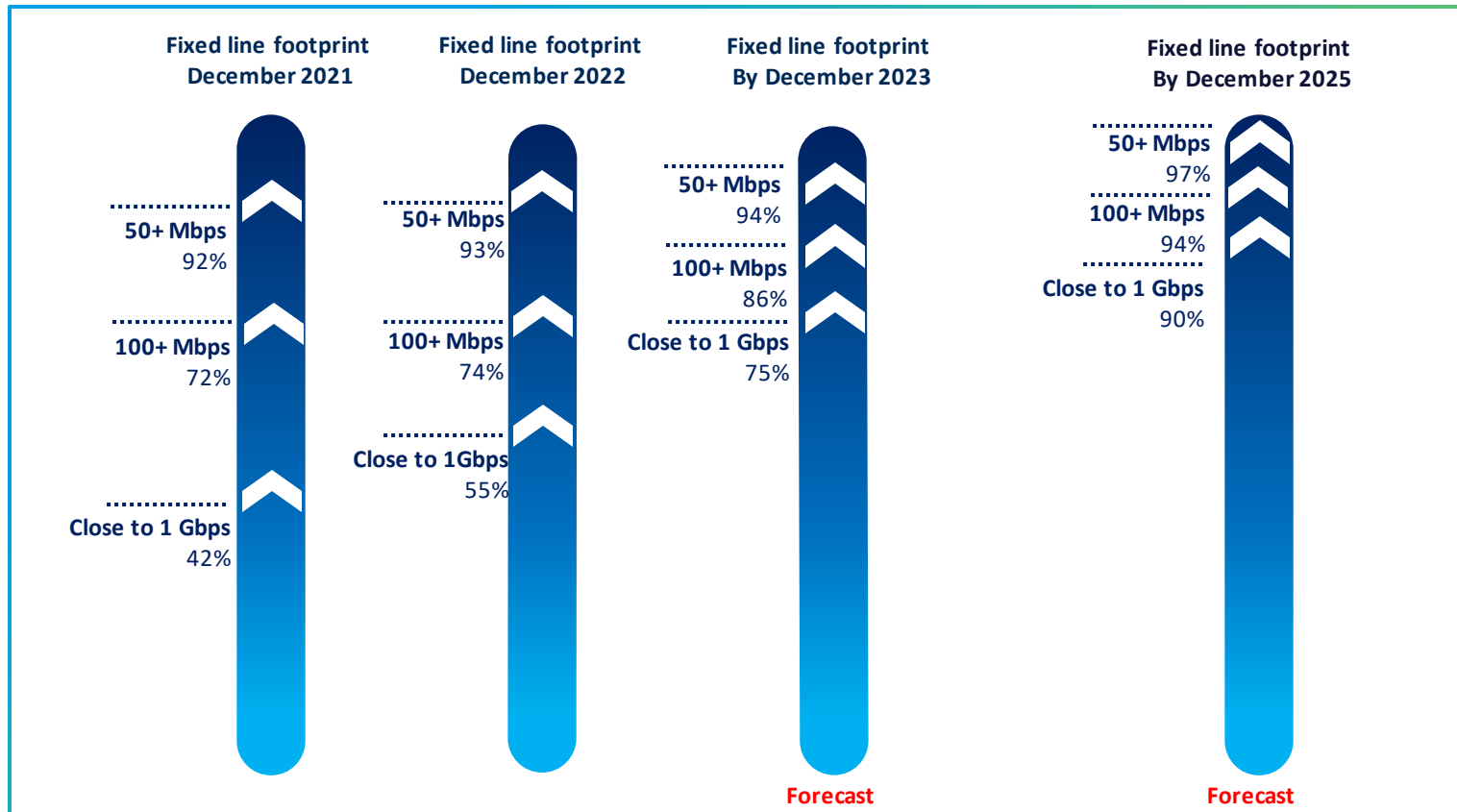
Source: Telecommunications Industry Ombudsman Annual Report 2021-2022

Making it easier for partners to work with NBN Co

- Transforming our operations and incorporating better ways of doing things
- Simplifying the architecture of our technology systems to improve interactions with Retail Service Providers (RSPs) and enable better customer service
- Work continues to simplify and improve partner portals and interfaces where RSPs can self-serve information about products, technology or reporting



nbn Fixed Line network: wholesale download speed capabilities



At completion of current network investment plan



nbn Fixed Wireless network upgrades

- On track to deliver \$750 million upgrade of the **nbn**® Fixed Wireless network by the end of 2024
- Latest 4G technology and software enhancements and 5G mmWave technology
- Expanded network coverage, faster and more consistent speeds, less congestion
- Enabling typical wholesale busy period download speeds of at least 50 Mbps
- Enhancements to more than 2,300 fixed wireless infrastructure sites
- Approximately 120,000 former satellite-only eligible premises to access **nbn**® Fixed Wireless services by the end of 2024





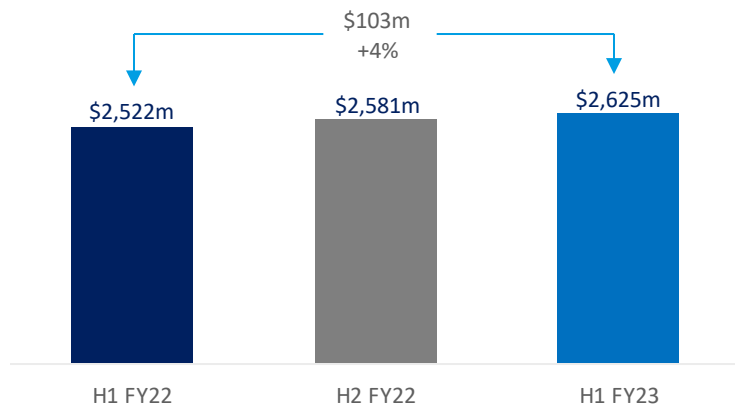
Philip Knox

Chief Financial Officer

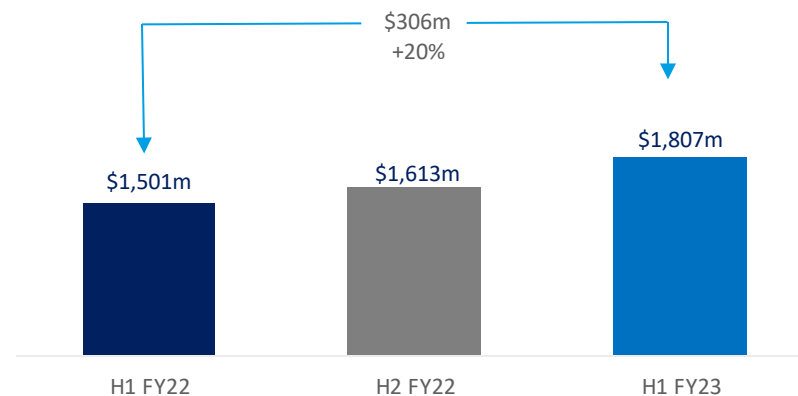


Headline results HY23

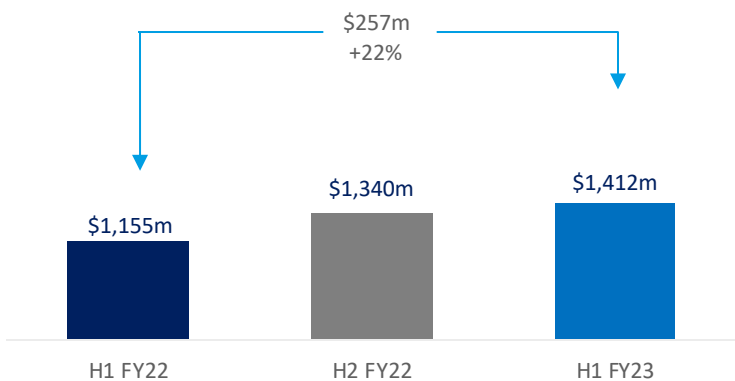
Revenue



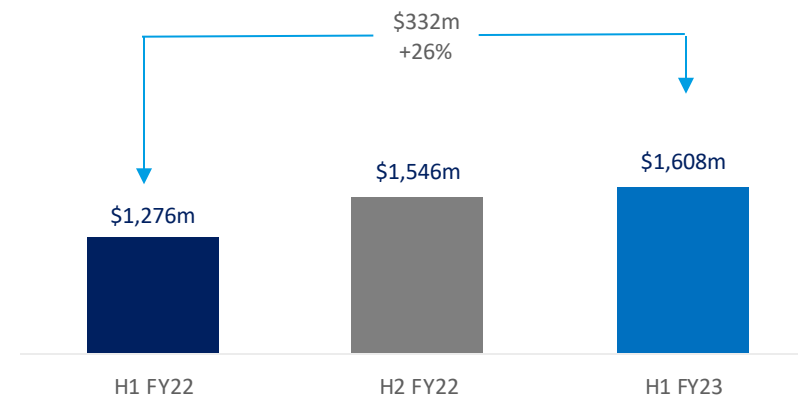
EBITDA¹



Capital Expenditure



Operating cash flows²



1 EBITDA after subscriber costs
2 Excluding receipts from government grants

Revenue, customer base and speed tier mix

Solid HY23 revenue performance supported by customer demand

\$m	For the 6 months ended		
	31 Dec 21	31 Dec 22	% Increase/ (Decrease)
Telecommunications	2,452	2,563	5%
Other	70	62	(11%)
Total	2,522	2,625	4%
Residential ARPU (\$)	\$46	\$47	1%
Activations (premises)	8,392,101	8,533,122	2%

- 5% growth in Telecommunications revenue driven by increased activations and 1% improvement in residential ARPU performance
- Other revenue has decreased by 11% predominantly due to declining volume of Telstra copper sub-loop licences, as fewer premises are within the co-existence period post the initial roll out
- Over 8.5 million homes and businesses are now connected to the **nbn**[®] network, up 2% compared to 12 months ago

Incremental take-up of faster speed tier products

Total nbn [®] network speed tiers (Mbps)			
	31 Dec 21	31 Dec 22	Percentage point Increase/ (Decrease)
25 Mbps or lower	24%	23%	(1%)
50 Mbps	61%	56%	(5%)
100 Mbps or above	15%	21%	6%
Total	100%	100%	

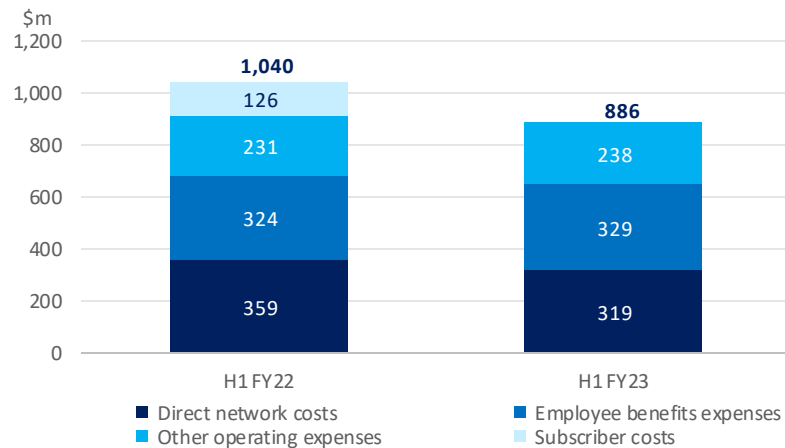
- 77% of customers on a 50Mbps speed tier product or higher
- 21% of customers on a 100Mbps speed tier product or higher



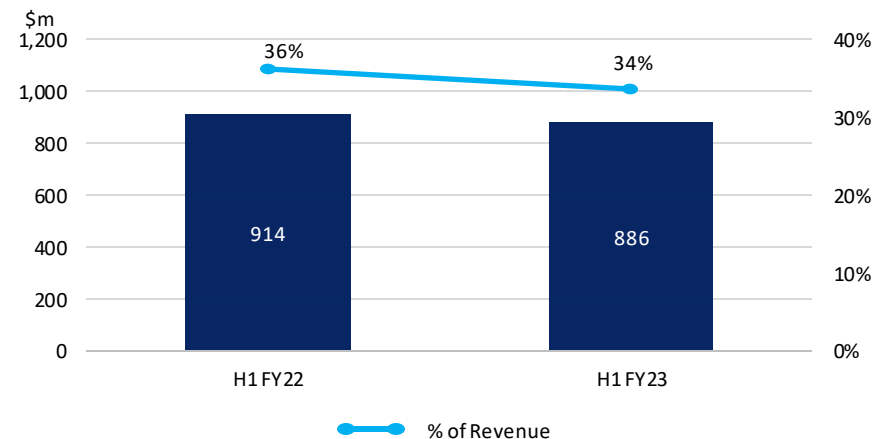
Operating expenditure continues to decline

\$m	For the 6 months ended			
	31 Dec 21	31 Dec 22	% Increase/ (Decrease)	
Direct network costs	359	319	(11%)	<ul style="list-style-type: none"> Decrease driven by lower service assurance costs resulting from a reduction in truck roll volumes and a full transition to service excellence delivery contracts
Employee benefits expenses	324	329	2%	<ul style="list-style-type: none"> Increase is due to annual salary and wage rises which are partially offset by a reduction in total headcount
Other operating expenses	231	238	3%	<ul style="list-style-type: none"> Overall cost base has remained stable with minor increases due to higher insurance and travel costs
Operating expenses	914	886	(3%)	<ul style="list-style-type: none"> Total operating expenses decreased 3% and represent 34% of total revenue
Subscriber costs	126	0	(100%)	<ul style="list-style-type: none"> In line with expectation
Total	1,040	886	(15%)	

Operating expenses performance (HY22 vs HY23)



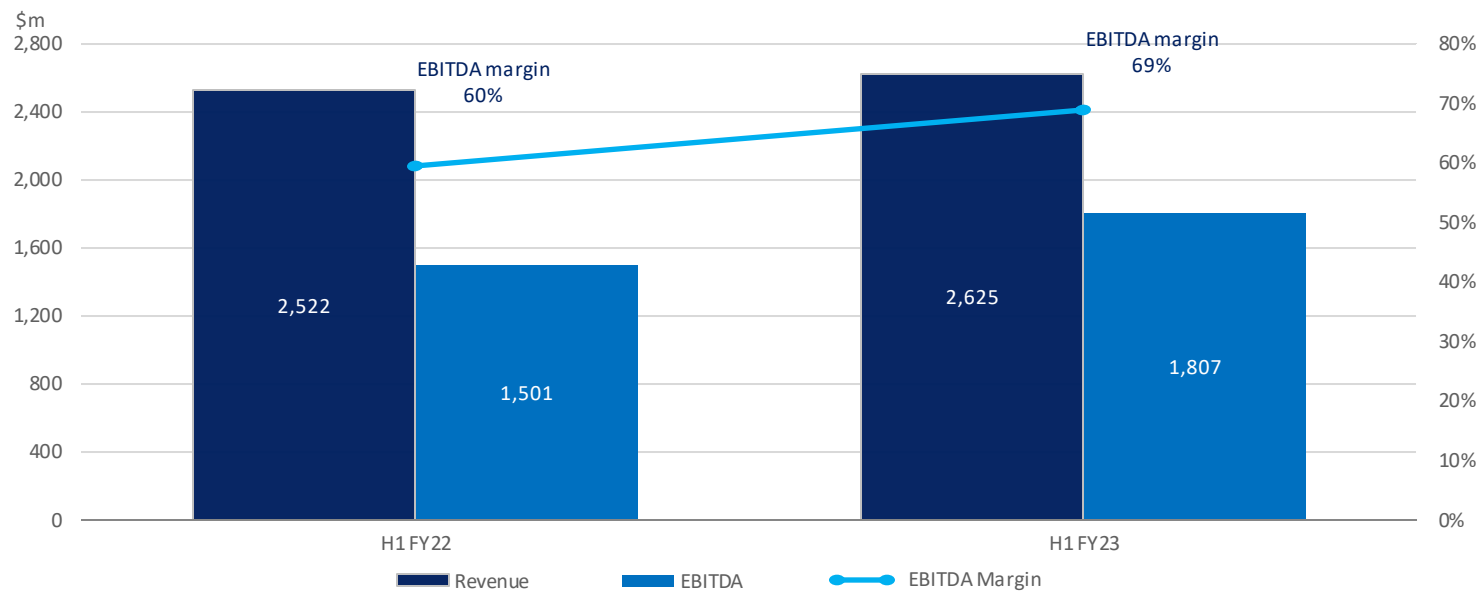
Operating expenses before subscriber costs



Continuing EBITDA momentum

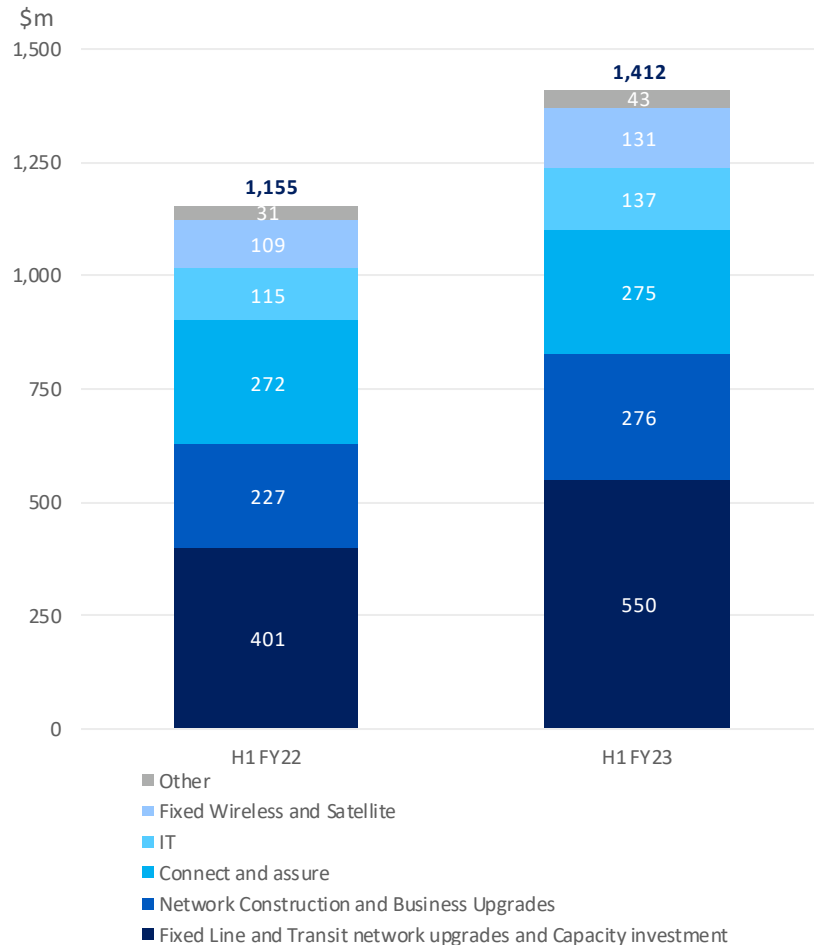
- EBITDA continues to increase due to the combination of revenue growth and declining operating cost base
- EBITDA margin (including subscriber costs) reached 69% for HY23, up from 60% in HY22
- In line with expectation, subscriber costs are not material in HY23 resulting in no difference between EBITDA and EBITDA before subscriber costs

Revenue, EBITDA, and EBITDA margin



Capital Expenditure

Continuing to invest in **nbn** network upgrades



NBN Co has continued to invest into the **nbn**[®] network on behalf of our customers. Capital expenditure in HY23 has increased compared to the corresponding period driven by the following:

- 1 \$550 million investment in Fixed line and Transit upgrade programs. This has increased compared to HY22 due to the increasing scale of FTTN and FTTC to FTTP upgrade activity
- 2 \$276 million for the design and construction of new network infrastructure and business upgrades. The increased expenditure compared to HY22 is mainly driven by higher volumes of Enterprise Ethernet orders and corresponding fibre network build
- 3 Ongoing expenditure of \$275m to connect and assure the **nbn**[®] network. HY23 capex contains higher FTTX to P connection upgrade costs, reconnections and assurance work which has been offset by lower first-time connection volumes post initial rollout build
- 4 Increased software and system development investment of \$137 million in continuing support of operational simplicity initiatives and enhanced digital interactions with retailers
- 5 Fixed Wireless and Satellite capacity investments of \$131 million, increasing in line with the initial design and delivery of the Fixed Wireless upgrade program

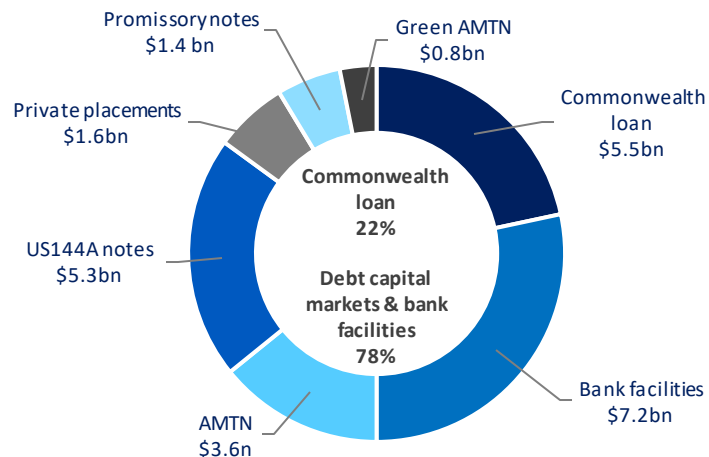


Capital Summary

Diversified sources of debt provides capacity to repay Commonwealth loan and execute network investments

Debt overview	As at	
	30 Jun 22	31 Dec 22
Group debt (\$m) ¹	24,734	25,396
Weighted average cost of drawn debt	2.55%	2.93%
Fixed interest ratio ²	86%	87%
Weighted average duration of drawn debt (years) ³	5.1	4.7
Available liquidity (\$m) ⁴	3,025	4,080

Summary of borrowings as at 31 December 2022



1 Drawn debt, including overdraft facility and excluding accounting adjustments, accrued interest and fees

2 Percentage comprises fixed and floating rate debt that has been hedged and has a remaining interest period of greater than twelve months, as a proportion of total debt. Excludes forward starting interest rate swaps

3 Excluding the Commonwealth loan

4 Comprised of undrawn bank facilities and overdraft facility

- Capital strategy remains focused on refinancing the Commonwealth loan by June 2024, funding network investments and maintaining a strong liquidity position
- In HY23, NBN Co raised a further \$2.6 billion in bank and capital markets debt, comprising:
 - \$1.4 billion of promissory notes with tenors ranging from 1 month to 6 months under NBN Co's inaugural Promissory Note Programme
 - \$800 million via 4-year AMTN issuance
 - Net \$400 million in additional bank facilities
- Repaid a further \$875 million of the Commonwealth loan, reducing the outstanding balance to \$5.5 billion
- Available liquidity increased to over \$4 billion following the launch of NBN Co's inaugural Promissory Note Programme, enabling the repayment of bank facilities
- The weighted average cost of drawn debt has increased during the 6-month period to 31 December 2022 due to rising market interest rates. This has increased the cost of NBN Co's floating debt portfolio, although NBN Co has hedged a significant proportion of its floating debt which has helped to shield the Company from the full effect of the increase in market interest rates

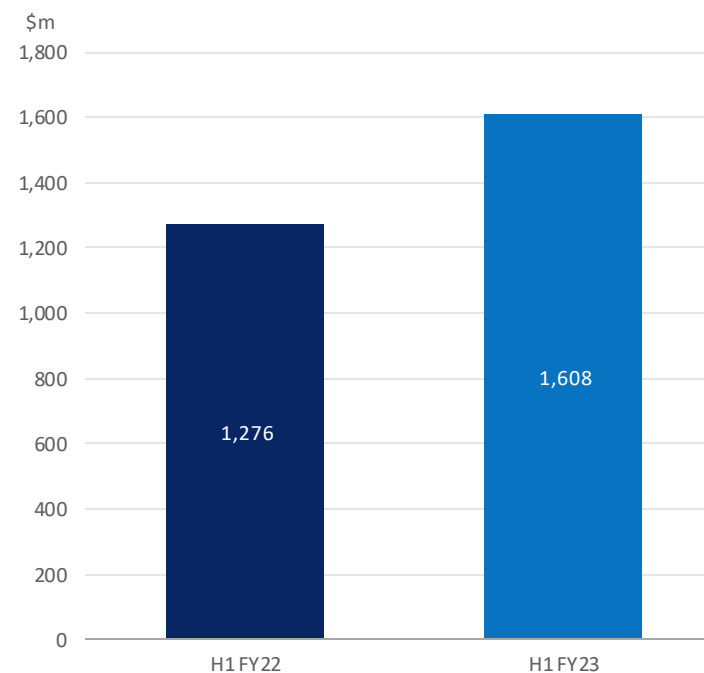


Improving cash flow performance

- Operating cash flows continue to improve due to revenue growth, lower operating expenditure, reduced subscriber payments and strong cash conversion
- 26% improvement in free cash flow due to higher operating cash flows, partially offset by greater capital expenditure, interest and leasing payments

\$m	For the 6 months ended		
	31 Dec 21	31 Dec 22	% Increase/ (Decrease)
Operating cash flows ¹	1,276	1,608	26%
Receipts of Government grants	3	3	-
Capital expenditure	(1,306)	(1,401)	7%
Lease payments	(522)	(537)	3%
Interest paid on borrowings and other financial liabilities	(288)	(296)	3%
Free cash flow	(837)	(623)	26% improvement

Operating cash flows¹



¹ Excluding receipts from government grants



HY23 Statutory Results

The results demonstrate continued financial growth with the Company on track to meet its financial targets as outlined in its Corporate Plan 2023

\$m	For the 6 months ended			% Increase /(Decrease)	
	31 Dec 21	31 Dec 22			
Total revenue	2,522	2,625	4%		• Growth in revenue driven by increased activations and improvement in residential ARPU as customer demand for higher speed tiers grows
Operating income	19	68	258%		• Income recognised for grants and RBS Levy has increased due to the commencement of the recognition of the Fixed Wireless Upgrade grant
Operating expenses	(914)	(886)	(3%)		• Lower direct network costs, marginally offset by higher employee costs and other expenses
EBITDA before subscriber costs	1,627	1,807	11%		• Underlying EBITDA up 11%
Subscriber costs	(126)	(0)	(100%)		• Subscriber costs are not material as NBN Co has now reached the end of migration periods with Telstra and Optus
EBITDA	1,501	1,807	20%		
Depreciation and amortisation expense	(1,709)	(1,488)	(13%)		• Lower depreciation and amortisation expense resulting from the re-estimation of useful lives of network assets
Other income	15	17	13%		• Non-cash income from gifted 'pit and pipe' assets
EBIT	(193)	336	\$529m		• EBIT improved to \$336 million from EBIT loss in comparative period
Net finance costs	(752)	(786)	5%		• Rising market interest rates and growth in total borrowings has led to a 5% increase in net finance costs despite further repayment of the Commonwealth loan
Income tax benefit	88	6	(93%)		• NBN Co is currently in a taxable loss position. Movement is due to deferred tax impact of financial derivatives
NPAT	(857)	(444)	(48%)		• 48% or \$413 million improvement in statutory NPAT





Stephen Rue

Chief Executive Officer



Making broadband more affordable across Australia

Accenture research findings:

- More than 90 per cent of those surveyed reported no concerns with the affordability of their **nbn** service
- The average Australian household pays \$16.90 per week (or 1.1 per cent of income) for services over the **nbn**® network
- The average **nbn** user saved 120 hours and around \$2,580 per year by using services and doing activities over the network
- On the global stage, analysing 2,800 broadband plans from 13 OECD countries, Australia is ranked the sixth most affordable market

Source: Accenture Affordability and Value Reports, published February 2023



Proposed SAU Variation

- Removal of CVC (capacity) charging and introduction of AVC-only pricing for the **nbn**® Home Fast (100 Mbps) and above wholesale speed tiers within three months of SAU Variation acceptance
- Wholesale price reductions to key higher speed tiers and new entry level 25 Mbps offers within three months of SAU Variation acceptance
- Annual reductions in CVC charges leading to the complete removal of CVC charges and introduction of AVC-only pricing across the 12, 25 and 50 Mbps fixed line and fixed wireless wholesale speed tiers by 1 July 2026
- Significantly reduced wholesale combined charges on 25 Mbps and Voice Only (12 Mbps), along with reduced wholesale prices for high-speed tiers are balanced against a marginal increase in the combined charge of the 50 Mbps fixed line and fixed wireless wholesale speed tiers
- Significant CVC operational improvements via the introduction of 'as utilised' rather than 'pre-provisioned' CVC charges across the 12, 25 and 50 Mbps fixed line and fixed wireless wholesale speed tiers
- Introduction of a Weighted Average Price Control (WAPC) that will initially cap overall annual wholesale price increases on average at CPI, ensuring NBN Co's average prices cannot increase in real terms
- Limiting drawdown of the Initial Cost Recovery Account (ICRA) to \$12.5 billion (in 2023 dollars) over the term of the SAU
- Setting benchmark service standards for each regulatory period, with ACCC oversight
- Provisions to allow the ACCC the discretion to reset the regulatory framework from 2032
- Automatic expiration of the SAU before 2040 if a future Government relinquishes control of NBN Co



Delivering on the new Statement of Expectations

- Continue to lift the digital capability of Australia, particularly for customers living and working in regional, rural and remote Australia
- Continued focus on improving connectivity and supporting social and economic inclusion for First Nations' communities
- Maintain a secure, reliable and high-speed network that is resilient to the effects of climate change and extreme weather events
- Play our part in creating and maintaining an energy-efficient network in line with Government's commitment to achieve net zero emissions by 2050
- Maintain our collaborative and consultative engagement with the ACCC, Retail Service Providers and consumer advocacy groups as we work towards the acceptance of our proposed SAU variation and implementation of Wholesale Broadband Agreement (WBA5) in 2023



Connecting First Nations' people and improving digital inclusion

- Enhanced **nbn** Sky Muster® Plus services
- Connecting Victoria program
- School Student Broadband Initiative
- Communities in Isolation program



Meeting the nation's growing digital needs

- Delivering **nbn**[®] network access for more than one million newly built premises nationally
- Working with industry to deploy network infrastructure in support of multi-gigabit speeds & supply next-generation 5G technology for enhanced coverage
- Serving 40 community locations across the country through our Smart Places pilot program





Questions



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