H1 2025 Results Announcement - Feb 12, 2025
CFO Philip Knox - remarks

Chief Financial Officer – Philip Knox

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

As Ellie has indicated, I am pleased to say that our financial results for the first half of fiscal 25 continue to reflect NBN's solid financial performance.

Headline Results Half Year 25

On my first slide, you can see our headline results for the first half of fiscal 2025. These results show the Company's performance over the last 6 months and demonstrate the ongoing progress we have made as a business.

I'll provide greater detail on each of these metrics on the following slides, but you can see that our total revenue has grown by 4 per cent on the prior corresponding period to $2.9 billion and the operating expenses have declined by 2 per cent to $821 million, despite inflationary cost pressures.

As a consequence, our EBITDA result for the six months ended 31 December 2024 grew to over $2.1 billion, an improvement of $131 million, or 7 per cent, compared to the prior corresponding period.

These financial results mean that the Company remains on track to meet the financial performance guidance as laid out in our 2025 Statement of Corporate Intent, which included revenue guidance of between $5.7 and $5.9 billion and EBITDA guidance of between $4.1 and $4.3 billion for the 2025 financial year.

Capital expenditure rose to $1.9 billion for half-year 2025 - an increase of 2 per cent from the prior corresponding period.

This represents our continuing investment in the network and the execution at scale of our Fibre Upgrade Program and the completion of the Fixed Wireless Upgrade Program.

Revenue and customer base

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

Telecommunications revenue has increased by 5 per cent which is underpinned by the growth in Residential Average Revenue Per User, or ARPU, from $47 to $49. This increase in Residential ARPU is reflective of the application of regulated changes to wholesale prices from the first of July, as well as a greater customer take up of higher speed tier products, with 28 per cent of premises on wholesale speed tier plans of 100 Mbps or above.

This increase in higher speed tier services is supported by growing demand for fibre connections - with over 217,000 premises upgraded onto a Fibre to the Premises service during the first six months of fiscal 2025.

The scale of our network and customer base remains stable, with an incremental 36 thousand active premises connecting to the network compared to a year ago. This means that over 8.6 million premises are now activated on the network.

Other revenue is related to network construction activity and was $111 million for half-year fiscal 25. This decreased by $14 million compared to the prior corresponding period, due to a reduction in new developer deployment charges and lower contributions recognised in respect of completed co-investment projects.

Operating expenditure

Now moving to operating expenses on the next slide…

I am pleased to say that operating expenses decreased by 2 per cent compared to the prior corresponding period, down to $821 million. This reduction was achieved by NBN's focus on delivering cost efficiency initiatives which has helped mitigate continuing inflationary cost pressures across almost all areas of operating expenditure.

As a percentage of revenue, operating expenses now stands at 29 per cent, falling from 30 per cent as of 12 months ago.

At a category level, direct network costs increased by 1 per cent which was predominantly due to inflationary cost increases to operate network infrastructure assets. These increases were partially offset by efficiency benefits achieved by the Company's continued focus on cost optimisation and network performance and reliability.

Employee benefits expenses decreased by 1 per cent compared to the prior corresponding period. This was due to a planned reduction in total headcount, which exceeded the offsetting impact of inflationary remuneration increases.

As part of this overall workforce strategy, NBN has continued to expand its customer facing internal field workforce with over 150 additional field technicians and engineers joining nbn compared to December 2023.

Other operating expenses also decreased by 6 per cent from the prior corresponding period. This covers a wide range of cost categories, and the reduced expenditure has been achieved due to the delivery of cost optimisation initiatives across multiple areas, including IT software and maintenance, insurance and marketing costs.

Continuing EBITDA momentum

Turning to EBITDA on the following slide...

This graph illustrates the continued improvement in our EBITDA result and the trajectory of our EBITDA margin over a five-year period. Since the completion of the initial build in 2020, there has been substantial growth in our revenue but also a significant decline in our operating expenditure, as the Company reached full operating scale.

EBITDA reached $2.1 billion for the first half of fiscal 2025, with the EBITDA margin increasing to 74 per cent, up from 72 per cent a year ago. As discussed earlier, this improvement is due to a combination of growth in revenue as well as declining operating costs.

Capital expenditure

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

During the period, we continued to make significant investment in the **nbn**® network to keep ahead of national data demand and offer greater availability of higher speed tiers to end users.

Our capital expenditure for the six months ended 31 December 2024 was just over $1.9 billion, an increase of $33 million compared to the prior corresponding period.

Our capital expenditure can be summarised across the following main areas:

- Firstly - We continue our strategic investment in the design and build of local fibre network infrastructure and the delivery of fibre connections to upgraded premises. NBN has invested nearly $845 million into this activity during the six-month period. This has increased by $38 million against the comparative period largely due to growing uptake of customer connections onto the newly available fibre infrastructure.
- We spent $376 million continuing our delivery of the Fixed Wireless Upgrade Program which was completed in December 2024. This level of expenditure has grown by $138 million compared to the prior corresponding period due to the greater scale of construction activity required to complete the program. The

ongoing level of investment to operate and maintain the fixed wireless network is expected to reduce significantly following the completion of the upgrade program.

- We also invested $275 million on network infrastructure to build fibre to new developments and business customers, as well as delivering incremental network capacity to meet increasing data traffic demands. This capital expenditure decreased by $85 million compared to the corresponding period, reflecting lower volumes of new development activity and lower direct fibre build costs, which have declined due to increasing availability of local fibre infrastructure as a result of the fibre upgrade program.
- Connect and assure capital expenditure of $237 million, decreased by $15 million compared to half-year fiscal 24. This expenditure relates to first time connections and re-connections of premises onto the **nbn**® network and network assurance costs.
- Finally, we continue to invest in our software and systems development, network security and other operational support activities with expenditure in the period totalling $169 million.

Cash flow summary

On the next slide.....

We can see that operating cash flows continue to improve in line with the EBITDA performance of the company – growing from $1.8 billion in half year fiscal 24 to just under $2.0 billion over the last six months. This correlation with EBITDA growth demonstrates NBN’s strong cash conversion.

The Company’s free cash flow position after equity injections improved from a loss of $514 million in the prior corresponding period to a loss of $507 million for the six months ended December 2024. In line with expectations, free cash flow continues to be negative, due to the ongoing capital investment in delivering network upgrade programs, which is partially offset by the receipt of $528 million in equity funding from the Commonwealth Government.

The equity funding received is part of the Commonwealth Government’s commitment to provide up to $2.4 billion in additional equity by June 2026, which supports an additional 1.5 million homes and businesses previously served by FTTN to be made eligible for an upgrade to FTTP technology by December 2025.

As announced in January, the Commonwealth will invest up to a further $3 billion in equity to support the additional network upgrade of the remaining 622,000 FTTN premises not already covered by the fibre upgrade program.

Finally, free cash flow was also impacted by higher lease payments linked to inflationary price changes and higher debt interest payments due to increased debt levels and interest rates.

Capital summary

Turning to the following slide, we can see a summary of our debt and equity funding……

NBN Co's capital strategy remains focused on funding network investments, facilitating refinancing and maintaining a strong liquidity position.

During the six-month period, NBN raised $3.9 billion dollars in bank and capital market debt, which included $750 million dollars from a Green Australian Medium-Term Note issuance.

The weighted average cost of drawn debt in the period was 3.52 per cent and has increased compared to the corresponding prior period due to higher recent market interest rates. However, we continue to be shielded from the full effect of current interest rates, as a result of our policy to hedge a significant portion of our floating debt portfolio.

Finally, our committed liquidity increased to over $4.0 billion as at 31 December 2024, up from $2.9 billion as at 30 June 2024, largely due to debt capital market issuances and the repayment of bank debt during the period.

HY25 Statutory Results

On my final slide…you can see the Statutory Profit or Loss statement for the 6-month period to 31 December 2024.

The preceding slides have already covered revenue, expenses and EBITDA in detail. But I would like to highlight some other results….

Our Earnings Before Interest and Tax - or EBIT - result of $524 million has increased by 42 per cent. This is a direct result of the improved EBITDA position as well as lower depreciation and amortisation expense in the period.

We recorded a Net Loss After Tax result of $564 million dollars for the six-month period, which is an improvement compared to the prior corresponding period's statutory loss of $696 million. This reflects the improved EBIT result offset by higher finance costs on both lease arrangements due to CPI linked lease payment increases and on borrowings due to a slight increase in weighted average cost of debt in the period.

The income tax expense of $107 million for the six months ended December 2024 is lower than the comparative period. In both periods, a tax expense has been recognised to reflect deferred tax movements linked to the fair value of derivatives designated in cash flow hedges. This is the partial unwinding of an income tax gain recognised in previous periods.

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

We continue to drive greater use of our network and achieve EBITDA growth to move closer to a sustainable positive cash flow position. This will enable re-investment in 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 Ellie.

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