

NBN Co FY22 Financial Results

CEO & CFO speeches

Part One: Stephen Rue – Chief Executive Officer

Good morning and welcome to **nbn**'s fiscal 22 results for the 12 months to 30 June 2022.

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

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

We have distributed our media release and presentation – but if you have not yet received them, please visit the Media Centre on our website where they are now available.

Joining me today is our Chief Financial Officer, Philip Knox, and our Chief Customer Officer, Brad Whitcomb.

I will touch on the highlights and achievements of the year, before Philip takes you through the numbers in more detail. I will then speak to some of our forthcoming plans and outlook, and we will then go to Questions & Answers.

Financial Highlights

Fiscal 22 was a solid year of performance for **nbn** as you can see here with our highlights.

Total revenue was \$5.1 billion, a 10 per cent increase year on year.

Our Earnings Before Interest, Tax, Depreciation and Amortisation – or EBITDA – were \$3.1 billion, a 130 per cent improvement year on year.

And at 30 June 2022, 8.5 million homes and businesses were connected to the **nbn**[®] network, an increase of approximately 316,000 premises in the past 12 months.

I'd like to take a moment to remind you of why **nbn** was established more than 10 years ago – because this continues to inform and underpin our strategy today.

We were established to substantially improve telecommunications services across the country, an ever increasingly essential infrastructure that is more and more driving social equity, productivity and economic growth across a whole continent, in urban, regional and rural areas.

And we were established to provide wholesale access to all internet companies on a non-discriminatory basis. In short, to level the playing field and encourage healthy competition – which has translated into sharper prices and greater choice for customers across the country.

nbn's purpose, which I talk about constantly, to lift the digital capability of Australia, reflects the original intent of **nbn**'s creation. We do this by connecting homes and businesses everywhere and providing access to the positive social and economic benefits enabled by fast, reliable and secure internet.

The delivery of our purpose and strategy has enabled customers to connect to high-speed broadband in the workplace and at home. And, in recent years - for many Australians – access to work, education, shopping, entertainment and essential services such as healthcare, has become less about the physical location of these activities and more about the speed and reliability of their internet connection.

Throughout fiscal 22, therefore, we continued to extend fibre to new homes and businesses in new residential communities and business precincts across the country.

Network Investment Update

So, turning to the ongoing development and improvement of our network...

I'm very pleased to report that all of our network construction and upgrade programs are on time and on budget.

During the year, we made an additional 100,000 residential and business premises Ready to Connect, taking the total to 12.1 million premises Ready to Connect at 30 June 2022.

As a result of our Fibre Connect and HFC upgrade programs, 5.1 million premises were able to access **nbn** Home Ultrafast services, with download speeds from 500 megabits per second to close to 1 gigabit per second, by 30 June 2022.

And this will grow to 9.7 million premises, or around 90 per cent of the Fixed Line network, by the end of 2025.

The Government recently announced that we would extend our Fibre Connect upgrade program to an additional 1.5 million premises, and we are well advanced in preparing for this additional investment.

Overall, our Fibre to the Premises upgrades are being offered to around 180,000 additional premises per month and we intend to maintain this run rate.

We recently completed our upgrade of the HFC network well ahead of schedule, enabling the entire footprint of some 2.5 million premises to now access **nbn** Home Ultrafast, on demand.

As a result of these investments, we are fulfilling orders from around 1,000 customers on average per week to upgrade to higher speed tiers.

We expect this demand for higher speed services to continue, but the network upgrades to support that demand take time, so planning, investment and construction must occur years in advance.

Under-investment now and failure to meet demand for greater speed and greater reliability in the future would be bad for everyone that relies on the network, but also the wider economy.

We also recently announced a \$750 million commitment to upgrade the **nbn** Fixed Wireless network.

We are extending the range of more than 2,200 Fixed Wireless infrastructure sites and 22,000 cells, increasing our total coverage footprint by up to 50 per cent.

Homes and businesses in the expanded Fixed Wireless footprint will be able to order retail services based on maximum wholesale download speeds of up to 100 megabits per second.

And up to 85 per cent of the expanded footprint will be able to order services with maximum wholesale download speeds of up to 250 megabits per second. This is up to three times faster than the highest wholesale speeds currently available on the **nbn** Fixed Wireless network.

The expanded footprint will also enable approximately 120,000 premises in satellite areas to access enhanced Fixed Wireless services.

And this will help people in semi-rural and regional areas to more easily run their businesses and work from home, and enjoy better access to health, education and other essential services.

I'd now like to spend a few moments talking about an exciting growth area for **nbn**, which is new developments - and a prime focus for us.

Our New Developments team has so far delivered **nbn** network access to more than one million new properties nationally.

We want to continue to work with developers – not merely as a technology enabler, but as a serious, critical infrastructure partner.

We are giving developers even more reasons to partner with **nbn**. We are expanding our offerings to support the development of smart properties, communities, and cities across the country in ways that drive competitive advantages *for developers*.

This includes **nbn** Smart Places, the latest example of **nbn** innovating today so Australians are ready for tomorrow – and giving developers a point of difference for their project.

The majority of Smart Places solutions in market today are offered over a wireless platform. Our point of difference is fibre.

We're running a Smart Places pilot program at 35 locations across the country where the technology is being delivered to traffic lights, electric vehicle charging stations, public parks and skate parks - and assisting in the operation of water infrastructure.

We are using new fibre technology that enables the **nbn** network to reach outdoor locations and deliver enhanced capabilities compared to standard mobile or fixed wireless equipment.

I raise new developments because city infrastructure is changing and growing. We are committed to working with developers, town planners, local government and state infrastructure bodies to ensure we meet the needs of new communities and those of local and state governments through providing innovative digital infrastructure and choice of retail service provider.

Now to our focus on supporting the needs of small, medium and large businesses...

Several years ago, we set an ambitious goal to generate \$1 billion in revenue from the business segment. I'm pleased to say we achieved that target in fiscal 22.

This billion-dollar result has been made possible by the investments we have made, and continue to make, in our network. Our company is focused on building our network capabilities – so residential and business customers alike can upgrade to higher speed tiers – and that is exactly what they are doing.

We know, in particular, that small and medium businesses are the lifeblood of the economy. This is another reason why we are committed to continually upgrading our network and seeking further expansion of Business Fibre Zone areas.

Over the last 12 months Australians have endured severe weather events, particularly in New South Wales and Queensland, and the resilience of our network has been tested.

These severe weather events impacted many communities on multiple occasions.

Over the last two years, we have worked hard to improve the resilience of our network to the effects of climate change and the increasing frequency of these traumatic events.

We have also improved our co-ordination with State Emergency Services and other essential service providers, particularly energy providers.

This means we have greater visibility and awareness of the status of each other's networks – and work together to restore essential services as soon as possible.

Our industry has pulled together well, sharing information and vital resources to support communities in need.

No technology, of course, is impervious to natural disasters, but much has been done to respond to the devastating impact of these events in recent years.

In the majority of cases, once the power is back on - and once we gain access to an area - we have restored **nbn** infrastructure within 72 hours.

I would also add that the rollout of new fibre, deeper into our network – in addition to delivering faster speeds, greater energy-efficiency and requiring less maintenance – also helps to make the network more reliable and resilient.

I'm proud of the way our people have always gone the extra mile to keep people and communities connected and help in the recovery effort following these severe weather events.

As I've said, we are a company with a strong purpose: to lift the digital capability of Australia.

We exist to deliver great service. And that means we need an engaged, diverse, inclusive and purpose-led workforce.

Through our network investments, we have supported the nation in working and learning from home. We have supported the growing digital demands of households, businesses and communities in every corner of Australia.

Our purpose shows - in how we show up.

And I'm delighted that our latest engagement survey has returned a score of 81 per cent, which puts **nbn** in the upper ranks of Australian corporates.

I will now hand over to Philip to share more detail on our financial and 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 despite the backdrop of another challenging year, our financial results for fiscal 22 demonstrate continued growth. We have met the key financial targets that were set in our 2022 Corporate Plan.

Headline results / Full Year FY22

Turning to my first slide, you can see the headline results for 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 10 per cent on the prior year to \$5.1 billion dollars and EBITDA has improved to \$3.1 billion dollars. Each of these figures is in the middle of the guidance range provided within the 2022 Corporate Plan, which was \$5.0 to \$5.2 billion for revenue and \$3.0 to \$3.2 billion for EBITDA.

As anticipated, the gap between EBITDA before and after subscriber costs is narrowing due to the substantial decline in subscriber costs as we approach the end of the disconnection and migration activity associated with the initial build.

Capital expenditure was \$2.5 billion dollars for the year, reflecting our ongoing investment into our network and systems.

Net borrowings were \$24.7 billion dollars as at 30 June 2022, which is a slight increase from the comparative of \$23.8 billion. NBN has total available facilities of \$27.5 billion.

The final metric to highlight, operating cash flows, which you'll note excludes subscriber cost payments and government grants, has increased by 17 per cent compared with last year, to \$3.2 billion.

Revenue, customer base and speed tier mix

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

The 10 per cent increase in total revenue is mainly driven by the increase in our customer base between fiscal 21 and fiscal 22, with over 8.5 million premises activated on the network at the end of June 2022, which is a 4 per cent increase compared to a year ago.

The other key driver of the revenue growth in fiscal 22 is the uplift in Residential ARPU to \$46 from \$45. The increase in ARPU was primarily driven by the higher take up of faster speed tiers over the past two years.

Operating expenditure continues to decline

Now moving to operating expenses on the next slide...

I am pleased to say that operating expenses, excluding subscriber costs, decreased by 9 per cent compared to the prior year.

At a category level, direct network costs grew by 10 per cent due to the expansion of the network and the growth in our customer base, as well as increased network assurance and maintenance costs due to adverse weather events.

Following the completion of the initial build in June 2020, the Company was restructured in size and shape, as we transitioned from an infrastructure build company to a wholesale operating company, resulting in lower employee benefits expense compared to the prior period.

During the last two years, we have continued our focus on maximising cost efficiencies through simplification and digitisation of internal operations. This has reduced other operating expenses, which decreased by 13 per cent on the prior year as a result of lower expenditure across the board.

As expected, subscriber costs have significantly reduced compared to prior year. Our subscriber costs decreased from \$1.2 billion in fiscal 21 to \$175 million in fiscal 22. This is because we are reaching the tail end of disconnections from legacy services. The remaining costs in future periods will be immaterial.

Continuing EBITDA momentum

Moving to EBITDA on the following slide...

The graphs on this slide illustrate the continued improvement and momentum in our EBITDA and its margin trajectory. EBITDA before subscriber costs reached \$3.3 billion for fiscal 2022, with the improvement due to the combination of revenue growth and a declining operating cost base, as discussed in my previous slides.

EBITDA before subscriber costs is equivalent to an 'underlying EBITDA' result, as subscriber payments are a non-recurring expenditure and are expected to all but cease in fiscal 23.

Capital expenditure

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

During fiscal 22, we continued to invest in our customer base and the ongoing evolution of the **nbn** network, with capital expenditure totalling \$2.5 billion.

Our capital expenditure during the year focused on four main areas:

- Firstly, executing our network investment plans to deliver fibre deeper into communities and provide more customers with access to **nbn**'s fastest wholesale speed plans;

- Secondly, connecting new customers onto the **nbn** network and expanding the network to newly developed premises
- Thirdly, upgrading capacity across the network to cater for increasing customer data demands;
- And finally, investing in software development and simplification, network resilience and security capabilities to ensure delivery of efficient and secure operations.

Capital summary

Now moving to our capital summary overview on the following slide...

During the year, we continued to execute our financing strategy, which is focused on refinancing the Commonwealth loan by June 2024, funding investment in the network, and maintaining a strong liquidity position.

\$7 billion dollars was raised during the year, including \$800 million from our first Green Bond.

These raisings enabled us to repay \$6.8 billion dollars of the Commonwealth loan, reducing the remaining balance to \$6.4 billion at 30 June 2022.

In addition, the diversification of our funding sources has reduced our weighted average cost of drawn debt to 2.47 per cent, from 2.79 per cent previously.

We manage our exposure to market risks, such as foreign currency and interest rate movements, in line with our treasury policy. The high proportion of fixed debt, due in part to our hedging strategy, is protecting **nbn** from the full effect of recent interest rate increases. However, any newly issued debt or refinancing may occur at higher rates and could lead to an increase in interest expense in the future.

Improving cash flow performance

Turning to the next slide...

Our cash flow performance continues to improve with free cash flow improving by 77 per cent compared to the prior period. This result is due to the 17 per cent growth in operating cash flows coupled with lower capital expenditure, borrowing and subscriber costs, as well as the receipt of a \$480 million dollar government grant for the Fixed Wireless upgrade program.

Lease payments have increased by 12 per cent as a result of contractual obligations and inflationary pricing increases.

Interest payments on debt have declined despite overall borrowings increasing. This is due to the ongoing refinancing of the Commonwealth loan over the previous two years, which has lowered the average cost of debt, as discussed on the previous slide.

FY22 Statutory Results

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

I have already discussed revenue, expenses and EBITDA in greater detail in the preceding slides, but I would like to acknowledge the bottom line Net Loss After Tax result.

The statutory result for fiscal 22 was a net loss of \$1.5 billion dollars, which is a \$2.4 billion dollar improvement on the prior year. This result is in line with our expectations and reflects the Company's position in its lifecycle, with the construction of the network, including connecting customers, requiring significant up-front investment, well before our EBITDA position was due to reach maturity.

Overall, these are a pleasing set of results, which are in line with our key financial targets. We will continue to seek revenue growth and a sustainable positive cash flow position, as these are essential to enable investment in the network to meet future customer demand; to deliver great customer service; to meet our contractual obligations; and to enable the raising and servicing of debt.

With that, I will hand back to Stephen.

Part Two: Stephen Rue – Chief Executive Officer

Thank you, Philip.

The challenges faced by our nation over the last few years have underscored just how critical and essential the **nbn** is to Australians every day.

The **nbn** is Australia's digital backbone. It underpins our global competitiveness and the economic future of our nation – in no small way - rests on the success of the **nbn**.

The measure of this success hinges on our ability to grow the capability and capacity of our network to keep ahead of the nation's digital demands.

I've explained how we are rolling fibre deeper into communities and expanding our Fixed Wireless coverage and capabilities to support the current and future digital needs of customers.

The job is not finished. All networks, worldwide, require continuous investment just to keep pace with the digital needs and data demands of today and tomorrow.

Today, the average customer buys a service that is 100 times faster than the average speeds of 2004.

As recently as 2016, less than 20 per cent of customers were on plans based on wholesale download speeds of 50 megabits per second. Now, 76 per cent of customers are on 50 megabits per second or above and 18 per cent are on 100 megabits per second or above.

The **nbn** was conceived as a superfast network - and to us - that means enabling more customers to access **nbn** Home Fast, Home Superfast and Home Ultrafast with wholesale download speeds of close to 1 gigabit per second.

We have a network investment plan that will deliver access to close to gigabit speeds to 9.7 million premises - or more than 20 million Australians - by the end of 2025.

And yes, it is absolutely important that there is a wholesale speed tier available to suit every customer segment, but over time access to our high-speed plans will become more and more important.

We need to price in a way that puts these higher speed tier plans within easier reach of more customers - and we need to price in a way that encourages retailers to support us - and serve their customers in the best possible way.

This is why it is imperative that we get our wholesale pricing right. And why we, as an industry, working with Government and regulators, create the best possible environment to support Australia's digital future.

Working with Industry

So let me speak to the process around the Special Access Undertaking Variation...

The original SAU was accepted in 2013 and in the nine years since, it was only formally applied to services supplied by **nbn** over Fibre-to-the-Premises (FTTP), Fixed Wireless and Satellite.

This means that the newer technologies of FTTN, FTTC and HFC are not covered by the current SAU.

We lodged our draft variation in March this year to include those technologies, as well as proposing ways to evolve our wholesale pricing and products.

But a lot has happened since. We withdrew our previous proposal on 27 July because we and the Government recognised that a varied SAU should reflect the changes in the policy landscape and operating environment since that original proposal was lodged.

Our new shareholder ministers also confirmed that the Government ‘will retain NBN Co in public ownership for the foreseeable future, expanding full-fibre access to more homes and businesses, and ensure the NBN delivers for consumers and facilitates productivity’.

Since the end of July, we have engaged in further consultation with the Government and the ACCC. And we have reviewed the many submissions to the ACCC Consultation Paper.

With all those important inputs in mind, we are developing a new SAU Variation Discussion Paper, which will be released later this week.

We will continue to consult with the ACCC, Retail Service Providers and consumer advocacy groups to deliver a new SAU in time to implement changes by 1 July 2023.

Fundamental to these discussions is the ability for retailers to meet the growing needs of their customers at an affordable price.

And it is in the entire industry’s best interests for **nbn** to be well funded and resourced to deliver an **nbn** network that is fast, stable, and resilient – a network with capabilities that stay ahead of growing demand.

Going back to the reason **nbn** was established, the new SAU should continue to support a healthy, competitive retail industry where customers can choose from a range of retailers offering high-quality broadband services.

We must achieve a sensible economic balance on the SAU that enables continued investment in the network to ensure it supports customers now and into the future - and to ensure that Australia can remain competitive in the global digital economy.

Sustainability

I'd like to close by talking about how we are growing the network in a sustainable way...

As the digital backbone of Australia, **nbn** has an important role to play in supporting our nation's social wellbeing and economic productivity and prosperity.

In essence, we exist to make positive difference in people's lives.

Our programs, network investments and sustainability approach are helping make the **nbn** network as secure and reliable as we possibly can.

Earlier this year, we announced our commitment to set science-based targets to reduce emissions.

This, in turn, supports our Towards-Zero Carbon Ambition, which we announced in December 2021 – along with our commitment to buy 100 per cent renewable electricity from December 2025.

Just last month, we put words into action, where we joined Minister Rowland to mark the start of construction on a new solar farm in the Riverina area of New South Wales.

This is enabled by the Company's first Power Purchase Agreement, and through this, we have contracted to take approximately 80 Gigawatt hours annually - or more than 50 per cent of the expected power generated by this new solar farm.

In April 2022, we also successfully issued our first Green Bond and this generated proceeds of \$800 million – which at the time of issuance was the largest such raising by an Australian company.

These funds will be allocated to projects **nbn** undertakes as part of our commitment to create a faster, greener network.

Outlook for FY23

In terms of future focus...

As I have explained, we have an exciting program to roll out more fibre deeper into the network to give customers living and working in 9.7 million premises around Australia

access to Fibre-to the-premises and our highest available speed tiers on demand. At the same time, we are underway with a \$750 million program to upgrade our Fixed Wireless network.

We look forward to implementing these programs, which reflect the Government's commitment to deliver faster, more reliable broadband services to people across Australia.

We are improving telecommunications services across the country.

We are levelling the playing field and encouraged healthy competition both in the delivery of residential and business-grade broadband services.

We are proud of the work we are doing to lift the digital capability of Australia.

The **nbn** is the backbone of the digital economy. I have always said the best years of this company are ahead of us and we look forward to playing our part in delivering resounding social and economic benefits to Australia in the future.

Thank you. We will now take questions.

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