Our financial resources

# Responsible business practices and sustainable financial growth

## NBN Co's ability to generate sustainable and long-term financial growth plays a crucial role in fulfilling the Company's purpose to lift the digital capability of Australia.

NBN Co's capital received from shareholders and external lenders is utilised to fund its core activities and deliver long term sustainable growth through ethically responsible business practices.

Sustainable long-term financial growth is essential to enable reinvestment into the network to keep pace with future customer demands; to meet contractual debt and lease obligations; and to generate a modest return on the Australian taxpayers' investment in the Company.

NBN Co is focused on growing profitability, which will be achieved via increased usage of the network, effective cost management, and targeting value accretive investments that enhance network and business performance for the benefit of customers.

The Company continues to measure its financial performance based upon growth or improvement of revenue and EBITDA[1].

| For the year ended 30 June | 2022 $m | 2021 $m | 2020 $m | 2019 $m | 2018 $m |
|---|---|---|---|---|---|
| Total revenue | 5,103 | 4,629 | 3,837 | 2,825 | 1,978 |
| Operating expenses | (1,857) | (2,048) | (2,071) | (2,217) | (2,081) |
| EBITDA[1] before subscriber costs | 3,289 | 2,581 | 1,766 | 608 | (103) |
| Subscriber costs | (175) | (1,226) | (2,414) | (1,903) | (1,948) |
| EBITDA[1] | 3,114 | 1,355 | (648) | (1,295) | (2,051) |
| Depreciation and amortisation expense | (3,541) | (3,596) | (3,154) | (2,614) | (2,167) |
| Net finance costs | (1,470) | (1,621) | (1,460) | (993) | (580) |
| Loss for the year | (1,468) | (3,837) | (5,239) | (4,878) | (4,780) |
| Capital expenditure[2] | 2,495 | 2,764 | 5,038 | 5,905 | 5,713 |
| Total assets | 36,777 | 35,738 | 36,850 | 32,757 | 28,203 |
| Debt | 24,579 | 23,818 | 20,458 | 13,053 | 5,531 |
| Lease liabilities | 10,951 | 10,819 | 10,860 | 8,553 | 7,198 |
| Contributed equity | 29,500 | 29,500 | 29,500 | 29,500 | 29,500 |
| Operating cash flows[3] | 3,224 | 2,763 | 1,692 | 587 | (27) |

1. EBITDA is defined as earnings before interest, tax, other non-operating income, depreciation and amortisation.
2. Capital expenditure excludes additions of leased assets, gifted assets and items of property, plant and equipment classified as inventories.
3. Net cash flows provided by/(used in) operating activities (excluding subscriber costs payments (ex GST), and receipts from government grants).

### FY2022 highlights

**$5.1bn**
Revenue
**FY21: $4.6bn**

**$3.1bn**
EBITDA[1]
**$1.76bn improvement**

**$18.2bn**
Market debt funding
**FY21: $10.6bn**

## FY22 financial performance

The Company's results for FY22 demonstrate continued financial growth with NBN Co meeting or exceeding its key financial targets outlined in its 2022 Corporate Plan.

NBN Co recorded revenue of $5.1 billion for FY22, which was a 10 per cent increase on the prior year. This revenue growth, in combination with a decline in total operating expenses of 9 per cent year-on-year, delivered a 27 per cent increase in EBITDA[1] before subscriber costs to $3.3 billion. Subscriber costs for the year of $175 million decreased by 86 per cent compared to FY21, which resulted in EBITDA[1] exceeding $3.1 billion, an improvement of $1.76 billion on the prior year.

Statutory net profit after tax (NPAT) for FY22 was a loss of $1.5 billion, which is a 62 per cent improvement on the prior year loss of $3.8 billion. The strong financial performance for the year and improvement in core metrics such as revenue, EBITDA[1] and NPAT are in line with management expectations, and reflect the current stage of the Company's lifecycle.

### Revenue

Total revenue for FY22 consists of telecommunications revenue of $5.0 billion and other revenue of $99 million. Revenue growth in FY22 was driven primarily by approximately 316,000 customers connecting to the **nbn**® network, with 8.5 million homes and businesses now connected to the **nbn**® network.

Telecommunications revenue includes revenue from residential and business customers. Residential telecommunications revenue was $4.0 billion, up 10 per cent, and telecommunications revenue from the business segment was $1.0 million, up 21 per cent.

Further supporting the growth in telecommunications revenue was a 3 per cent increase in Residential Average Revenue per User (ARPU) to $46 for the year. This is driven by customer demand for higher speed tiers, which has grown significantly in recent years. As at 30 June 2022, 76 per cent of all customers are now on plans based on wholesale speed tiers of 50Mbps or above, and 18 per cent of customers are now on plans based on wholesale speed tiers of 100 Mbps or above.

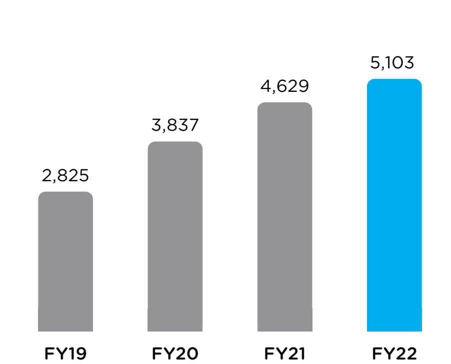
Other revenue includes revenue from developers, commercial works activities and the Technology Choice Program, as well as licensing income.

## Operating expenditure

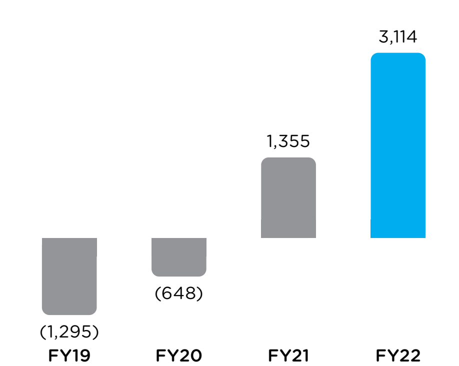
Total operating costs (excluding subscriber costs) declined 9 per cent to $1.9 billion.

Direct network costs were $730 million, up 10 per cent due to higher network assurance and maintenance costs as a result of the

**Revenue** ($m)




**EBITDA**[1] ($m)




1. For further details on EBITDA, refer to footnote 1 on page 57.

expansion of the network footprint and the increase in the number of customers connected to the **nbn**® network, as well as the impact of adverse weather events during the year.

Total employee expenses decreased by 22 per cent to $647 million due to the decline in the number of Company employees. Following the completion of the initial build in June 2020, both the size and shape of the organisation was restructured as NBN Co transitioned from being predominantly an infrastructure build company to a wholesale operating company. Coupled with the Company's continued focus on maximising cost efficiencies through simplification and digitisation of internal operations, the number of full-time equivalent staff has fallen from approximately 5,900 at the beginning of FY21 to 4,590 as at 30 June 2022.

Other operating expenses of $480 million have decreased 13 per cent year-on-year and have continued to reduce as a result of the Company's ongoing focus on cost efficiency.

Subscriber costs for FY22 have reduced by 86 per cent to $175 million due to the declining payments to Telstra for the disconnection of existing services and to Optus for the migration of subscribers to services over the **nbn**® network. These costs peaked in FY20 in line with the progression of the network rollout and have now virtually ceased.

## Finance costs

Net finance costs decreased by 9 per cent compared to the prior year, despite the increase in total debt to $24.7 billion. This is due to the impact of refinancing the Commonwealth loan via diversified funding sources which lowered the weighted average cost of the Company's debt from 2.79% in FY21 to 2.47% in FY22.

These costs relate to interest on the Commonwealth loan and bank and capital markets debt, as well as finance charges relating to the accounting for assets under a right of use arrangement under AASB 16 *Leases*.

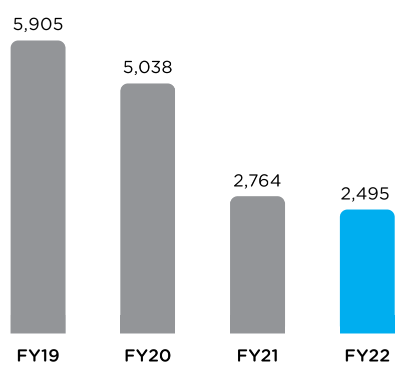
## Capital expenditure

During FY22, the Company continued to invest in its customer base and the ongoing evolution of the **nbn**® network, with capital expenditure totaling $2.5 billion.

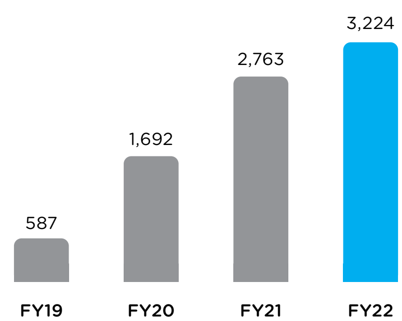
Our capital expenditure incurred during FY22 focused on five main areas:

- Executing our network investment plan to deliver fibre deeper into communities and provide more customers with access to NBN Co's fastest wholesale speed plans
- Connecting new customers onto the **nbn**® network and expanding the network to newly developed premises
- Upgrading capacity across the network to cater for increasing customer data demands

**Capital expenditure** ($m)




**Operating cash flows (excluding subscriber costs payments (ex GST), and receipts from government grants)** ($m)



- Deploying fibre infrastructure in support of Enterprise Ethernet products to grow our business customer base and business-grade service offerings
- Investing in software development and simplification, network resilience and security capabilities to ensure delivery of efficient and secure operations.

## Operating and free cash flow

Operating cash flows[1] increased by 17 per cent to $3.2 billion due to the growth in revenue and strong cash conversion.

Receipts for government grants increased to $547 million (inclusive of GST) for the year, up from $4 million in FY21. These included the announced $480 million contribution from the Federal Government to support the upgrade of Fixed Wireless infrastructure.

Payments for subscriber costs fell by 74 per cent to $402 million, reflecting the anticipated reduction in first-time activations and associated cash payments as we move beyond the impact of the initial build[1] of the **nbn**® network.

Capital expenditure payments decreased by 17 per cent to $2.6 billion due to lower build and activation costs post the completion of the initial build, partially offset by increased investment in network upgrades.

Lease payments predominantly relate to costs associated with right-of-use arrangements over network infrastructure supplied by Telstra. Our lease payments have increased by 12 per cent to $1.0 billion, primarily due to an increase in the volume of network infrastructure supplied by Telstra and inflationary price increases.

Interest payments on borrowings and other financial liabilities have decreased by 28 per cent to $540 million. This is due to the lower weighted average cost of debt as a result of refinancing activities.

The Company's free cash flow improved in line with expectation to a net cash outflow of $813 million. This is a result of the growth in operating cash flows coupled with lower capital expenditure and subscriber payments as the Company transitions from a build to an operate model, as well as reduced interest payments due to the refinancing of the Commonwealth loan.

## Capital management

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

In October 2021, Fitch affirmed NBN Co's AA credit rating and revised the outlook from Negative to Stable. This change followed on from the upgrade of Australia's AAA sovereign rating outlook from Negative to Stable. Moody's has also affirmed NBN Co's long-term issuer rating as A1 Stable. These ratings have assisted the Company to confidently enter negotiations with debt markets as it progresses its refinancing strategy.

As at 30 June 2022, the Company had raised in excess of $21.1 billion from debt capital markets and bank facilities, with over $7.0 billion of this raised during FY22. This included the Company's inaugural Green bond for $800 million, issued under its Australian Medium-Term Note (AMTN) Program, as well as further US144A/RegS bond issuances, private placements and increased available bank facilities.

These debt raisings are in line with the Company's refinancing strategy and have enabled the Company to repay $6.8 billion of the Commonwealth loan, reducing the outstanding balance to $6.4 billion. In addition, the diversification of its funding sources has enabled the Company to reduce its weighted average cost of drawn debt to 2.47 per cent (FY21: 2.79 per cent) with the weighted average tenor decreasing from 5.7 years in FY21 to 5.1 years in FY22.

In line with its Treasury policy, the Company manages its exposure to market risks, such as foreign currency and interest rate movements, by entering into derivatives to hedge against these risks.

1. For further details on Operating cash flows, refer to footnote 3 on page 57.

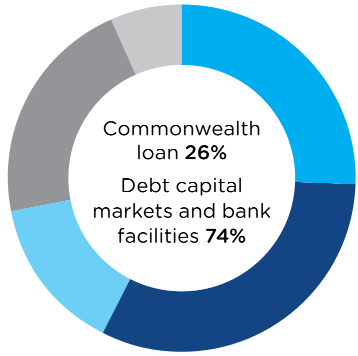
To complete the remaining financing task by FY24, NBN Co will seek to raise further debt from domestic and international capital markets over the next two years. NBN Co expects this funding task to be achievable based on its strong investment grade credit rating and the outcomes of recent financing transactions.

## Debt overview

| As at 30 June | 2022 | 2021 |
|---|---|---|
| Group debt[1] ($ million) | 24,734 | 23,764 |
| Weighted average cost of drawn debt (%) | 2.47 | 2.79 |
| Fixed interest ratio[2] (%) | 86 | 88 |
| Weighted average duration of drawn debt[3] (years) | 5.1 | 5.7 |
| Available liquidity[1] ($ million) | 2,775 | 3,579 |
| Fitch/Moody's credit rating[4] | AA/A1 | AA/A1 |

1. Excluding uncommitted facilities and facilities with less than 12 months to maturity.
2. Percentage comprises fixed rate debt 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. Credit rating includes implied Government incentive to provide support.

**Summary of borrowings as at 30 June 2022** ($bn)




| | |
|---|---|
| Commonwealth loan | **$6.4bn** |
| Bank facilities | **$7.9bn** |
| AMTN | **$3.6bn** |
| US144A notes | **$5.3bn** |
| Private placements | **$1.6bn** |

**FUTURE FOCUS**

- **Deliver FY23 revenue and EBITDA growth in line with Corporate Plan guidance**
- **Maintain strong asset position**
- **Repay Commonwealth loan by 30 June 2024**
- **Continue diversification of the Company's investor base and lengthening of debt maturity profile**