

**Australian Mobile Network Operators  
and NBN Co**

**Three-year forecast and ten-year outlook  
for the Australian mobile market**

**MNO and NBN Co  
willingness-to-pay and ability-to-fund  
Expiring Spectrum Licence renewal payments**

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# 1 Key points: the case for MNO and NBN Co ESL renewal

## 1.0 Executive Summary: Key points supporting ESL renewal

**The three-year operating outlook for the three MNOs and NBN Co remains good**, albeit with the outlook for revenue growth moderating compared with the previous three years. MSR is close to our previous forecasts although with lower growth from the postpaid category and more from prepaid and wholesale categories. We consider this reflects both growing MVNO competition and initial competition impacts of the Optus TPG regional Multi-Operator Core Network (MOCN) agreement. Macroeconomic factors are also impacting the sector including consumer sentiment, inflation and migration. Despite these revenue issues, cash earnings (i.e. EBITDA) remain strong, with Telstra recording recent growth of 4.6%, Optus 5.7% and TPG 2.0% (on a pro-forma basis, but tracking higher we estimate in FY26F) and NBN Co 7.7%. The good cash earnings outlook would support both ongoing business-as-usual (BAU) capex as well as renewal of spectrum licenses.

**The improving return outlook supports the case for MNO willingness to pay (WTP) for ESL renewal.** Good cash earnings and steady capex and invested capital have led to improving returns on invested capital for all three MNOs. In TPG's case, it substantially restructured its balance sheet after completing the sale of its EGW business in July 2025. This transaction and the MOCN agreement also reduced its EBITDA initially but also reset its operational base of invested capital at a lower level, overall improving its return outlook. NBN Co continues to achieve good outcomes for its obligated Fixed Wireless Access (FWA) service having recently completed a major FWA network upgrade. Ongoing provision of this service requires it to maintain its FWA spectrum portfolio at a reasonable price.

**Strong cash earnings outlook, good balance sheets and ongoing capital management underwrite the MNOs' ability to fund (ATF) ESL renewal.** ESL renewal will occur over a six-year period to FY33. Cash earnings generated by the four companies over the eight-year period to FY33, good balance sheet settings and well-considered capital management allows sufficient scope for all four companies to fund BAU capex and ESL renewal. We estimate the peak period of ESL payment will see Optus's invested capital increase by 5.7% and TPG's by 7.8%, with the same percentage increase in net debt.

**Table 1.1: Key drivers of case for renewal of ESL spectrum**

	Telstra	Optus	TPG	NBN Co
<b>Key cash earnings drivers</b>				
MSR growth FY25	3.5%	4.1%	4.2%	n.a.
EBITDA growth FY25	4.6%	5.7%	2.0%	7.7%
<b>Willingness to Pay</b>				
RoIC FY24	8.3%	1.8%	4.9%	n.a.
RoIC FY25	8.5%	2.9%	5.5%	n.a.
<b>Ability to fund</b>				
ESL renewal amount (\$bn)	2.9	1.9	2.1	0.5
Cumulative EBITDA to FY33 (\$bn)	77	21	14-16	41
ESL % of cumulative EBITDA	3.7%	8.8%	13% - 15%	1.2%
Likely impact on net debt	0%	5.7%	7.8%	0%

Note: We have used the operational base of invested capital for Optus and TPG. Likely impact on net debt assumes MNOs manage gearing at peak IC at the same level as at balance date 2025.

Source: MNO and NBN Co Annual Reports and investor presentations. IMA forecasts and estimates.

## Summary response to several questions raised in the ESL renewal process

- **ESL renewal at the proposed prices is not likely to lead to an increase in mobile prices.** Spectrum costs based on the updated preliminary prices are lower in aggregate than the costs borne by the three MNOs from the current licences for this spectrum (on a like-for-like basis). Moreover, these ESL costs are likely to be a smaller share of MSR than previously—we estimate falling from 3.7% of MSR to 2.6%—with customer growth, pricing and ARPU strategies and new services increasing nominal MSR over the long term.
- **ESL renewal itself is unlikely to lead to a material increase in MNO net debt.** Based on recent operating performance, 2025 balance sheet settings, our three-year forecasts and long-term outlook, all four companies are likely to generate sufficient cash earnings over the eight years to FY33 to meet BAU capex and ESL renewal. We consider meeting ESL renewal payments is a straightforward matter of MNO capital management. We estimate ESL renewal will have no impact on Telstra and NBN Co's net debt and a small impact on invested capital at Optus and TPG. Good capital management would see little impact on net debt at these two companies.
- **We consider ESL renewal would have little if any impact on overall capital spending including network investment compared with current rates.** MNO capital investment is driven by the return outlook which is, we estimate, positive for the three MNOs and already well laid out for several years in current corporate plans and network agreements. In the longer term, potential 6G investment is likely to be driven at a minimum by the long-term network replacement cycle. If there is a business case for more accelerated 6G investment that is likely to be a result of stronger revenue expectations rather than concerns about well-based ESL payments.
- **Should spectrum prices be adjusted to reflect or correct for asymmetric operating scale?** No, ESL prices should reflect the market value of this spectrum as closely as market-based benchmarking allows, which should best support productive investment and efficient service provision. Asymmetric operating scale is a significant feature of the mobile network industry in Australia. While this may test the investment returns of smaller MNOs, it may or may not contribute to inefficient outcomes that require a public policy response. Even in that case, those key industry issues would not be resolved by a one-off adjustment in ESL spectrum prices.
- **At what point would ESL prices be too high?** ESL prices would be too high when they begin to distort long term investment decisions on mobile network investment and the optimal mix of investment between network infrastructure and spectrum. ESL prices might also distort efficient long term investment decisions where investors lose confidence in the spectrum price setting process or stakeholders consider they can influence price outcomes with calls to support one or other industry policy. We consider both the amount of ESL renewal prices and investor confidence in the ESL price-setting process requires ESL prices to be set as close and rigorously as reasonably possible to market benchmarks.
- **Should ESL renewal prices be adjusted to support D2D satellite services and potential UOMO requirements?** No, ESL prices should reflect the market value of this spectrum as closely as market-based benchmarking allows, which should support productive investment and efficient service provision in either commercial or subsidised services. Adjusting ESL spectrum prices would undermine efficient development of potentially commercial LEOsat delivered direct-to-device (D2D)

services and is a less efficient means of supporting non-commercial D2D services than direct subsidy or contract.

## **1.1 Discussion: The case for MNO and NBN Co ESL renewal remains strong**

Good MSR growth and expanding operating margins in the three years to June 2024, and the outlook for the drivers behind this, pointed to a good three-year outlook for MNO cash earnings. This, we considered previously, established a good case for ESL renewal at the preliminary prices proposed by the ACMA in 2025.

However, market MSR growth slowed to 3.8% in FY25 from 5.9% in FY24 as subscriber growth slowed and with competition impacts in the E&G sector, as well as on prices and price structures across the wider mobile market. This included a step-up in MVNO, MVNE and platform-based competition as well as initial competition effects in the lead up to the Optus TPG regional MOCN deal. Further, rising costs slowed the previous strong expansion in operating margins which is a key factor driving long term return expectations.

In this context, we previously considered that the three-year outlook to FY27 was good for all three MNOs, although somewhat less than the previous three years. Along with the ongoing good operating outlook we also noted moderating capex which we considered would see further improvement in return on invested capital (RoIC) over three years.

Beyond the three year forecast period, our key long-term concern relates to changes in the risk profile facing the three MNOs, particularly as they consider how best to address the rising needs to support AI and how to best invest to build 6G networks. Our concern is that the MNOs may invest in long term network development such as 6G but see expected revenue and earnings transferred to other stakeholders through changes in technology (we note risk in relation to Open RAN, core network and AI). A similar issue challenged MNOs in the latter part of the 4G era with revenue leaking to OTT and streaming platforms. This challenge, we consider, led them to better manage 5G investment and returns and we think will bear on eventual 6G investment. We consider market-based spectrum prices, including ESL prices, is a key part of the signalling process that guides such long-term investment.

These issues are likely to influence MNO management of operations and results, capital investment and RoIC outcomes in the 10-year outlook period. However, in the context of ESL renewal, we consider the MNOs are best placed to evaluate these risks (as threats and opportunities), are well placed to assess and manage them and, if anything, such assessments would enhance their interest in renewing spectrum licences at market-based prices.

In respect of NBN Co we have previously highlighted the significant difference (relative to the MNOs) in its operating outlook notably an extended period of negative Free Cashflow. NBN Co is now experiencing a period of good revenue growth and uplift on operating cashflow with a rapid switch to higher speed broadband products but ongoing negative cashflow as it completes fibre build out and with subsequent connections. It also has committed funding for this capital investment. In that context, the ESL renewal payments are small relative to other capital investment and an essential part of its capital investment program.

This report summarises our latest MNO and NBN Co forecasts following their latest reported results for the period to December 2025. We have rolled forward our three-year outlook from FY27 to FY28 and adjusted our three-year forecasts where reported results indicate a change in outlook. We have also adjusted ESL payment amounts in our longer-term forecasts to reflect the updated preliminary prices published in the ACMA's consultation, and assessed their impact on long term cashflow forecasts for each of the four companies.

Telstra and Optus reported operational outcomes and challenges but both have mobile service revenue (MSR) and group EBITDA running at or ahead of our previous forecasts. TPG has undertaken a significant operational and balance sheet restructure which we consider leaves it in a better medium-term position to contest the mobile market and improve returns on its operating base of invested capital.

Overall, the results that the three MNOs reported for the period to December 2025 were as good as or better than expected with aggregate MSR growth lifting to 5.1% and pointing us to a FY26 forecast of 5.0%. Compared with the three years to June 2024, this growth is driven less by subscriber growth and more from pricing and ARPU strategies, particularly in prepaid and MVNO categories, with inflation also a pricing factor in nominal MSR growth.

Optus provided a business update for the 9 months to December 2025 which indicated it is running ahead of our MSR forecasts for its FY26 (March YE). Its emergency services outage late in 2Q26 had some effects on subscriber growth and mix as well as operating cost but does not seem to have materially impacted earnings recovery. That points to potential upgrades to our forecasts of Optus MSR and EBITDA if the outage effects have been managed in its 4Q26.

Capex for Telstra and Optus is tracking close to forecast but is lower than expected for TPG in the year to December 2025. We continue to take a relatively conservative view on capital expenditure over three years as 5G rollout and systems upgrades are completed and with ongoing inflation impacts. Nevertheless, the three-year outlook is for lower capex as a proportion of service revenue.

It is also notable that inflation is running at a higher level than we expected previously and may persist at a higher level for much of the forecast period flowing into both prices and nominal MSR growth as well as operating inputs and unit costs driving capital expenditure. On that basis we would expect nominal growth at a somewhat higher rate than we have previously modelled.

On that basis we consider that both Telstra and Optus remain well placed to meet their respective ESL renewal at the updated preliminary prices. Telstra, we forecast, will draw sufficient cash earnings to allow it to fund payments over the period. Optus is likely to draw on funding arrangements with its parent company through the peak payment period.

TPG will also need to consider ESL renewal both from cash earnings as well as through long-term capital management. It completed its EGW sale to Vocus in July, commenced a major transmission capacity agreement with that company, reported initial outcomes from its regional network sharing deal with Optus and introduced an “innovative” mobile handset finance program. These have significantly changed its capital structure as well as its operational and capital expenditure outlook and allowed it to substantially restructure its balance sheet including sources and costs of finance. We consider it is better placed to manage its capital while meeting ESL renewal following these changes.

More broadly, although its operational outcomes have improved, and we expect to improve further over three years, they remain marginal given its limited albeit well-managed operating scale. Nevertheless, we consider TPG has scope to meet its ESL renewal payments at the updated preliminary amounts. Given the timing of these it is likely to rely on further capital funding to meet payments through the peak ESL payment period.

After FY26 TPG intends to reduce its capital expenditure to an annual rate of between \$550m and \$650m, less than half the level of Optus. TPG has nearly completed significant

network upgrades, probably ahead of its optimal upgrade path as it switched out Huawei kit; anecdotal industry comment suggest it achieved this ahead of rivals in metropolitan areas.

However, we are concerned that such a low level of network investment by TPG may see it fall behind rivals in the long-term affecting relative service levels and contestability. It also raises the question about the extent of investment by TPG in a 3<sup>rd</sup> 6G network. That may mean a slower upgrade path to 6G than followed by Telstra or Optus, and switch out of 4G equipment, with possible flow-on impacts to relative operating performance. Alternatively, there are likely to be structural options if there is a commercial case for more rapid 6G rollout. In either case, spectrum including ESL spectrum is a necessary component and would aid bargaining outcomes in the case of further structural change.

Our assessment is that the three-year outlook to FY28 is good for all three MNOs with good growth in MSR and mobile EBITDA, somewhat boosted in nominal terms by ongoing inflation. We also note good ongoing discipline in 5G capex relative to 4G which has led to better returns. With capex moderating as 5G rollout completes and before 6G network investment might again lift capex, we expect to see further improvement in return on invested capital over three years.

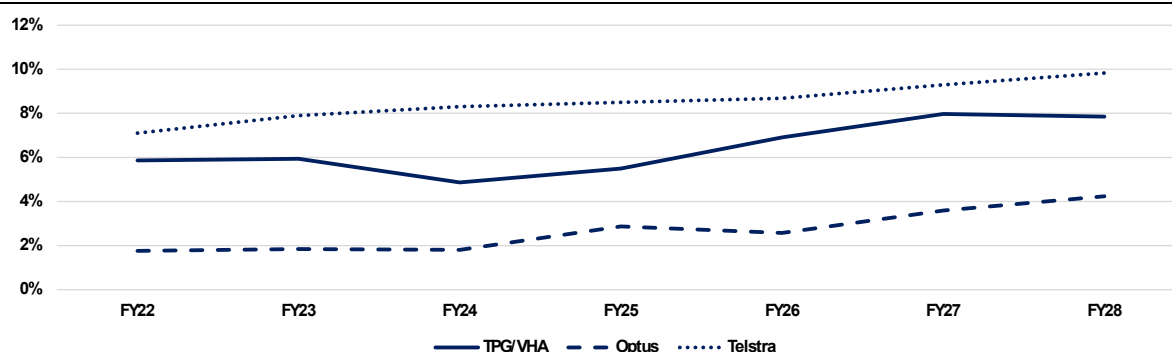
It seems that all three MNOs are in a period of good operating cashflow in their respective mobile operations, somewhat diluted at group level by weak growth and cash earnings challenges in their respective consumer broadband operations and decline and/or restructuring in their enterprise and government operations. Mobile continues to grow as a proportion of cash earnings and contribution to investment returns at all three MNOs.

Broadly, given our three-year forecasts and avoiding further pitfalls, all three MNOs have the opportunity over three years to continue to improve operating outcomes, build returns on invested capital and demonstrate a case to fund (indeed build further balance sheet flexibility to support) future capital investment for 6G networks of which ESL licence renewal will be a critical component.

## 1.2 Key assessment questions

After reviewing operational outcomes for the period to December 2025, we assessed two key questions for each of the three MNOs. First, is there likely to be a willingness-to-pay for ESLs at the proposed prices. We considered that question based on long term trends in return on invested capital on the operational base of capital used to generate mobile services. In a broader assessment envelop we also considered returns against the total financial base of group investment. (See Attachment C.)

**Chart 1.1: MNO RoIC trends**



Note: We have used the operational base of invested capital for Optus and TPG. Telstra reports return on invested capital using a financial base of assets plus net debt.

Source: MNO Annual Reports. IMA estimates and forecasts.

All three MNOs are on a path of increasing their respective long-term returns with ongoing capital spending and operational outcomes lifting returns each year. Annual incremental capital spending and an extended period of recovering or growing EBIT indicate MNOs assessment that incremental returns are higher than their respective cost of capital. Ongoing mobile network investment has a positive return, and spectrum is a joint or inseparable but relatively small part of that evaluation.<sup>1</sup> We consider all three MNOs will be willing to acquire spectrum at the proposed prices given the outlook for mobile returns and the economic value added by the renewed licences.

Second, we consider MNOs ability to fund (ATF) ESL renewal. Even if the return consideration is positive, MNOs also need to generate enough cashflow over the period leading up to ESL renewal payments, or draw on further capital funding from debt or equity to cover the payment (and the associated incremental capital cost).

We consider these two questions for each of the three MNOs and NBN Co in sections 3 to 6 of this report.

### **1.21 Will ESL spectrum priced at the updated preliminary prices lead to higher mobile service prices?**

No. ESL spectrum renewal costs based on the updated preliminary prices are lower in aggregate than the costs borne by the three MNOs from the current licences for this spectrum. Moreover, these costs are now attributed and allocated over more users and revenue generating products than previously, a trend we expect to continue through the renewed licence period to 2044. We estimate annual ESL spectrum cost (which is nearly 2/3<sup>rd</sup>s of total spectrum costs) will fall from a 10-year average of 3.7% of MSR (FY16 to FY25) to 2.6% of MSR (FY26 to FY35), and a lower share still through the remaining life of the licences (FY36 to FY44).

There are two relevant costs of this spectrum: amortisation, which is booked annually, typically on a straight-line basis over the life of the licence; and the cost of capital which is realised as a return on invested capital over the life cycle of the related asset base.

The current licences have somewhat different durations although average around 15 years. As well some of the spectrum was allocated as apparatus licences with the cost incurred as an operating expense rather than amortisation of a capital expense. On a like-for-like licensing basis with the proposed ESL renewals, the current total nominal value of licences \$7.8 billion (i.e. at prices previously paid and excluding NBN Co's ESL spectrum) indicates an aggregate annual amortisation charge for the three MNOs for this spectrum of c\$520m.

The ESL renewal licences will also have different durations running through to June 2044, ranging from eleven years and eight months to sixteen years, and averaging about fourteen years. On a like-for-like licensing basis, the proposed nominal value of ESL renewal licences of \$6.8 billion (excluding NBN Co's ESL spectrum) indicates an average annual amortisation charge for this spectrum of c\$490m pa once all the licences are issued.

Although mobile service revenue declined for several year after FY15, it has recovered strongly since FY22 with growth averaging well over 5%pa. We expect MSR will continue to

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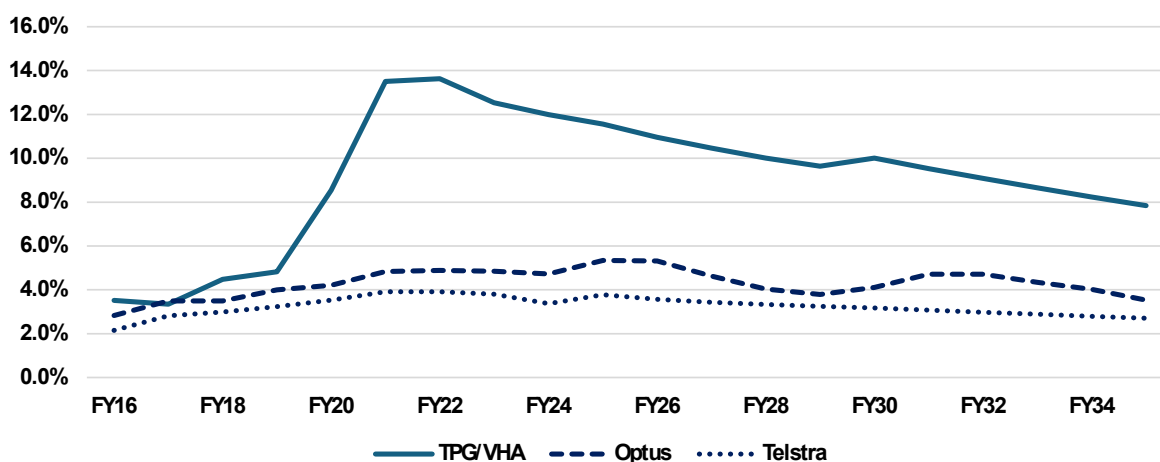
<sup>1</sup> Typically, spectrum makes up less than 10% of the MNOs' respective bases of invested capital although higher at TPG as it has more expensive legacy spectrum and since it restructured its operations and balance sheet to reduce its other components of invested capital. The spectrum share of invested capital has increased with recent spectrum acquisitions and for existing spectrum holdings will peak around FY30 after the forthcoming ESL renewal payments before reducing with annual amortisation. See our illustration of spectrum amortisation in Attachment D.

grow averaging around 4.0% pa to FY28F, and beyond that we extrapolate MSR growth to FY35F at c3%pa. On that basis:

- MSR averaged a nominal amount of \$13.7bn pa over ten years to FY25A, with amortisation of the ESL spectrum representing about 3.7% of this indicative annual income.
- We estimate MSR will average a nominal amount of \$18.5bn pa over the ten years to FY35F (growth of just over 3% pa) with part of that reflecting inflation as well as new service revenue and subscriber growth and mix. Amortisation of renewed ESL spectrum would represent about 2.6% of this potential indicative annual income.

At the indicative \$510m pa estimate, current ESL spectrum amortisation represents 62% of the total \$820m of spectrum amortisation booked by the three MNOs in FY25. This is more than double the annual amortisation of FY16 at \$383m representing a significant uptake of new and renewed spectrum as well as conversion of annual apparatus licences to spectrum licences. For instance, it includes the 3.6 GHz spectrum auction of 2018 at a value of \$853m and the 3.4/3.7 GHz spectrum auction of 2023 at a value of \$722m. The spectrum allocated in these auctions had little recognised market value before 2016.

**Chart 1.2: MNO spectrum amortisation as a share of MSR FY16 to FY35F**



Note: TPG's spectrum amortisation increased sharply between FY19 and FY21 following the merger between TPG and VHA. The assessment excludes write-downs of TPG spectrum pre- and post-merger with VHA. TPG MSR contracted by c20% through the COVID years. Forecast MSR and spectrum amortisation does not include potential licensing of new spectrum. Source: MNO Annual Reports. IMA estimates and forecasts.

Spectrum amortisation as a share of MSR varies considerably between the three MNOs reflecting the relative operating leverage conferred by their respective share of MSR. For Telstra and Optus, the share has increased from c2% and 3% of MSR respectively to 4% and 5% respectively in FY25 with recent spectrum acquisitions.

TPG's spectrum amortisation increased sharply from \$115m in FY19 to \$187m in FY20 and \$261m in FY21 following the FY impact of the merger between TPG and VHA, and reflecting much of the high price paid for spectrum by TPG in 2017 (pre-merger). Much of this amount was written off pre- and post-merger and is not reflected in this assessment. TPG's spectrum amortisations as a relatively high share of MSR was compounded by a c20% fall in its MSR over the two years of Covid impacts.

Total spectrum amortisation may increase as a share of MSR through the licence period depending on prices paid for any new spectrum that may be offered to MNOs, but not because of the renewal of these ESL licences at the indicated prices.

Similar points could be made about the impact of the capital costs of spectrum holdings, noting that this cost could increase if interest rates rise with inflation or other macroeconomic factors. However, there is a key difference in how the capital cost impacts return on invested capital reflecting a fundamental economic characteristic of this sector. Spectrum amortisation affects annual earnings, reducing the numerator in the RoIC evaluation. The capital investment in spectrum increases the base of invested capital and the hurdle to achieve a positive return.

A feature of the industry is that large capital amounts are committed well in advance in the expectation and assessment of achieving a positive return over the life cycle of the asset base. That creates an earnings and cash flow impact in the initial years offset by positive returns over the later years particularly as operating leverage is built. We expect returns on the ESL asset base to build up through the licence period with gains (after annual amortisation) in the latter years offsetting the initial RoIC impact of ESL licence payments.

### **1.22 Will the ESL renewal lead to a material increase in MNO net debt?**

No, with appropriate MNO capital management including use of ongoing operating cash flow and balance sheet structure, ESL payments at the updated preliminary view will have a minor impact on MNO net debt. ESL payments aren't necessarily a matter of debt funding. Over the period of ESL payments, depending on the extent and use of free cashflow, they may increase the overall invested capital base of each MNO, which in turn requires associated capital management.

The indicated ESL payments have, we consider, no net impact on Telstra's invested capital and only a small impact on Optus's invested capital. Each is well placed to manage cashflow and balance sheet impacts with minor impact on net debt, gearing, and debt service ratios. Given the operating outlook, these reset quickly relative to the licence period of the ESLs.

The effect of ESL renewal payments on TPG's invested capital base is more significant mainly in part because its 2025 balance sheet restructure significantly reduces the other components of invested capital and because it initially reduces its overall lower cash earnings. Nevertheless, we consider that it too will be able to manage cashflow and balance sheet impacts with a moderate impact on its net debt, gearing, and debt service ratios. Given the operating outlook for TPG, these reset quickly in the licence period of the ESLs.

The claim that ESL renewal will materially increase net debt seems to reflect an addition of the aggregate amount of several ESL payments to the latest full year balance of net debt. If so, that would make no sense. The ESL payments are made over a period of five or six years, or eight years from FY26, during which each of the MNOs will generate extensive operating cashflow which on a cumulative basis will be a multiple of the indicated ESL payments.

**Table 1.2: Wrongly inferred net debt by simply adding cumulative ESL payments over six years to latest reported year end net debt (\$bn)**

	ESL payment	Net debt at last balance	Ambit claim net debt	Claimed increase in net debt
Telstra	2.9	16.4	19.3	17%
Optus	1.9	6.7	8.6	28%
TPG	2.1	4.1	6.2	52%

Note: Net debt figures reported at balance date 30 June 2025 for Telstra, 31 March 2025 for Optus and 31 Dec 2025 for TPG.

Source: MNO Annual Reports and investor presentations. IMA forecasts and estimates.

Instead, the potential cash generation between now and the end of the ESL payment period, and current good balance sheet settings provide great scope for the three MNOs to manage their overall base of invested capital and their respective capital structure over the period of ESL payments without materially increasing net debt even at the peak period of payment.

**Table 1.3: With ongoing MNO capital management, ESL payments are likely to have only a minor impact on invested capital and net debt (\$bn)**

	ESL payment	Invested capital	...of which, net debt	Eight years cumulative EBITDA	ESL % of cumulative EBITDA	Peak invested capital	Peak net debt	Likely increase in peak net debt
Telstra	2.9	32.9	50%	77	3.7%	31.9	15.9	0%
Optus	1.9	11.4	59%	21	8.8%	12.0	7.0	5.7%
TPG	2.1	5.3	77%	14 - 16	13.2% - 15.0%	5.7	4.4	7.8%

Note: The MNOs reported gearing ratios (net debt to net debt plus equity) respectively of 50%, 42% and 32% at respective 2025 balance dates. Net debt as a percentage of invested capital is higher than the gearing ratios for Optus and TPG as they report an operational asset base of invested capital.

Source: MNO Annual Reports and investor presentations. IMA forecasts and estimates.

Given the operating outlook and ongoing capital management, we assess the likely increase in peak invested capital as a result of ESL renewal payments is less than 10% for each of Optus and TPG, and there is no resultant impact for Telstra (although it may have to moderate its program of equity buybacks through the peak period of ESL impact).

For Optus, its operational base of invested capital may lift by c\$600m, with net debt accounting for about half of this if it maintains 2025 balance sheet settings. That is an indicated increase in net debt of c5.7%.

For TPG, its operational base of invested capital may lift by c\$400m, with net debt accounting for about two thirds of this if it maintains 2025 balance sheet settings. That is an indicated increase in net debt of c7.8%.

Of course, other investment decisions and capital management priorities may influence balance sheet settings and the level of net debt over the eight-year period to FY33. But ESL renewal payments at the indicated level are manageable by all three MNOs.

We note that both Telstra and TPG conducted substantial equity returns to shareholders in FY25 with Telstra continuing an equity buyback in FY26. These equity returns effectively increase gearing, that is reduce the book value of equity and increase net debt. The capital returns also reflects their confidence in managing cashflow, capital funding and balance sheet metrics given the relatively stable operating outlook over the next few years. And these capital management decisions were made with the knowledge of upcoming ESL renewal payments.

### **1.23 Does an extra dollar spent on spectrum mean a dollar less on network capex?**

In the context of the operating outlook and improving returns for the mobile industry in Australia, it is unlikely that the ESL renewal at the indicated prices would have any effect on the level or make-up of network investment. Returns are improving and set to improve further over the three-year forecast period implying that incremental annual investment returns are above the MNOs' respective costs of capital.

Telstra's BAU investment is well laid out in its Connected Future 30 strategy and relies on ongoing use of its spectrum portfolio including its ESL spectrum. Its investment plans are based on a long-term return target of 10% on invested capital including ESL renewal and it is on track to achieve this ahead of schedule.

Optus's network investment including its 5G regional upgrade and its rollout obligations as part of its regional MOCN agreement with TPG is well underway and set to continue through to 2030. We think this also relies on ongoing use of ESL spectrum. We think it is on track to achieve long term RoIC targets including the relatively small ESL component.

TPG's ESL spectrum is a larger component of its operational base of invested capital, and the ESL payment may raise its investment hurdle more than the other two MNOs, but not significantly enough in our view to change its three-year investment outlook. It has already largely completed its own network upgrade as part of its switch out of Huawei kit, and we expect this to be largely completed in FY26. Beyond that it proposes a relatively low BAU capex spend of \$550m to \$650m pa regardless of ESL renewal pricing.

At the margin there is a trade-off between spectrum and network. As we have noted previously, at the margin the MNOs have alternative options to buying spectrum – they can substitute network investment instead of buying more spectrum if that is a less expensive option.

Such an investment trade-off is unlikely to be material in our view given that the key driver for the substance and timing of network investment is likely to be from the demand side (i.e. expectations about MSR) more so than the supply side (i.e. network upgrade costs, of which spectrum is a small share relative to network plant and equipment).

At the range of prices indicated in the ACMA's preliminary and updated views, the differential may seem material in present value terms but much less material to annual capital investment over the extensive licence period.

The present value of ESLs at these prices is material enough to warrant network operator consideration of ability to fund which we note all four network operators can manage. In comparison the question of optimal investment in network is driven by comparing total investment with expected return on investment, within which spectrum is not the main driver.

The key driver of the investment decision is likely to be service revenue outlook, which drives margins and returns. Within each mobile technology cycle the MNOs' expectations of MSR and the contestability of MSR has been the key driver of mobile network investment. This was relatively strong in the 1990s as 2G became established and grew very quickly. MSR growth expectations were relatively modest initially in 3G as datacoms revenue was initially modest until smart phones began to drive double digit MSR growth after c2006. Investment return expectations remained enhanced initially in the 4G era as MSR expectations remained high before reducing as MSR declined after 2016. And 5G network investment has been more measured over time as 5G MSR expectations were initially subdued and have increased only moderately with 5GA.

Looking ahead, the ESL licences are not likely to have an impact on the remaining 5G investment path which is already well laid out by all three MNOs for the period to 2030.

While the 6G investment outlook is relatively uncertain at this stage, the timing and substance of 6G investment is unlikely to be materially impacted by ESL prices at the indicated amount.

- The base case for 6G investment, based on the ongoing outlook for MSR at the time, is likely to be driven by the replacement cycle for transmission equipment, for instance as 6G unit costs fall and 4G kit is switched out of networks as it comes to the end of its life-cycle.
- Higher or faster rates of 6G network investment may occur where there are expectations of MSR uplift from new services supported by 6G, for instance AI-related services. Similarly, 6G might offer a strategic advantage for one or other MNO that may drive higher or earlier investment; for instance, Telstra has indicated that it intends to take the lead in 6G network investment, we consider with the purpose of maintaining its premium market position.

In either the base case for 6G investment or the case for higher or more rapid 6G investment, amounts paid for spectrum at the indicated prices are likely to be a secondary factor behind MSR and a smaller component relative to network investment.

It's also worth noting that the three MNOs typically present their capex guidance and outlook as a proportion of service revenue excluding spectrum. That may reflect that the network capex cycle is considered relative to MSR (or service revenue generally), with specific amounts for strategic investment decisions, while spectrum is considered as a series of discrete capital payments.

There is a somewhat similar investment pattern for FWA investment over technology cycles noting that much of MNO FWA capacity investment likely reflects consideration of alternative uses of spectrum and aspects of network capacity between mobile and FWA operations. The relative case for the two uses may vary as 6G technology becomes commercial and the commercial outlook for the respective operations evolve.

In the case of NBN Co, depending on the operating context of the NBN at the time (i.e. into the 2030s) the case for 6G investment is more likely to be determined by the demand side and policy around service levels in non-commercial settings. Similarly to the MNOs, the spectrum component is likely to be only a small consideration within the overall FWA network investment.

### **1.24 Should spectrum prices reflect asymmetric operating scale?**

No, ESL prices should reflect the market value of this spectrum as closely as market-based benchmarking allows, which should best support productive investment and efficient service provision.

Asymmetric operating scale is a significant feature of the mobile network industry in Australia and may be a greater issue here than elsewhere given the size of the landmass and the extent of network reach required to provide population coverage, with diminishing returns as population density declines. This tends to provide a significant and enduring first mover advantage to Telstra, within which the other two MNOs have found difficult to encroach.

**Table 1.4: Indicators of scale or operating leverage of MNOs**

	Postpaid subs (‘000)	Total subs (‘000)	MSR \$bn	Mobile EBITDA \$bn	Group EBITDA \$bn	EBITDA margin (%)	Mobile, of Group EBITDA	RoIC (%)
Telstra	8,902	17,756	8,743	5,354	8,802	38%	61%	8.6%
Optus	5,839	10,744	4,235	1,647	2,340	29%	70%	2.9%
TPG	2,846	5,742	2,423	1,150	1,650	33%	70%	5.5%
Total three MNOs	17,587	34,242	15,401	8,152	12,792	33%	64%	n.a.
<b>MNO share</b>								
Telstra	51%	52%	57%	66%	69%	n.a.	n.a.	n.a.
Optus	33%	31%	27%	20%	18%	n.a.	n.a.	n.a.
TPG	16%	17%	16%	14%	13%	n.a.	n.a.	n.a.

Note: For the 12 months to December 2025. Optus and TPG don't report mobile EBITDA; these are IMA estimates based on direct costs, reported product margins and allocated joint operating costs.

Source: MNO Annual and HY Reports, business updates and investor presentations. IMA forecasts and estimates.

In terms of end-user outcomes, there may be some benefits to this asymmetry, including more extensive network coverage into commercially marginal areas, focus on cost and capex control and differentiated pricing and service outcomes as rival MNOs compete for MSR to improve scale, operating outcomes and return on investment. Telstra draws a significant pricing premium from its market position, but Optus and TPG are keen to contest this and improve their own outcomes.

Against that there are growing claims that end users' interests may now be better served by increasing regional service competition between the MNOs, possibly with mandated roaming. A feature of such claims is that they tend to be supportive of network investment prior to investment commitment but switch to network sharing arrangements once primary network capacity is established. As things stand, mandated regional roaming would clearly undermine Optus's commitment to regional 5G coverage and the commercial case for the regional network sharing agreement with TPG.

There may be a concern, too, that the outcomes of such differential operating leverage have reached a tipping point which leads Telstra to deepen its industry position but leaves its rivals increasingly less able to contest the market and may see TPG diminish its long-term investment commitment and ability to compete.

Such an outcome is far from certain, indeed seems unlikely, but is worth monitoring in the period leading up to 6G investment in the 2030s. Notably Optus would be in a much better position financially but for a series of network outages and a lack of discipline in cost control. As a capital market enterprise, it is now addressing both issues. TPG has faced several substantial industry issues some of which were beyond its normal course of business (NBN impacts, accelerated 5G switch-out). It too has now largely responded to these issues with its EGW sale, reframing of operations and invested capital and its balance sheet restructure. These two MNOs are also in the early stages of their regional MOCN agreement.

Understanding the causes of industry operating leverage, its endurance and how it may play out in future requires more extensive analysis than we can provide here. For example, a notable driver was Telstra's 2005 decision to invest in NextG, launched in 2006 and ultimately closed in 2024. NextG extended Telstra's mobile network reach, population coverage and capacity into regional and rural Australia commencing at a time when global scale was enhanced with the consolidation of GSM and CDMA network operating systems, globalisation of production reduced unit costs and the emergence and take-up of smartphones drove double digit MSR growth. It's been a remarkably successful investment.

In 2005, MSR was more evenly shared between Telstra and Optus, with Vodafone and Hutchison jointly contesting a similar portion prior to their merger in 2010. For various reasons Optus and TPG (then Vodafone and Hutchison) were unwilling or unable to maintain their relative network contestability and scale.

Operating outcomes from those initial long-term decisions have persisted and potentially compounded. For instance, Telstra endured the operating impacts of Covid-19 lockdowns far better than its two rivals and bounced back more quickly, lifting its share of MSR from 54% in the year to December 2020 to 57% in the year to December 2023, enhancing operating leverage and outcomes. Is this a singular outcome, or a persistent one?

Looking forward, how will these differences play out over the next few years as 5G rollout is completed and 5G service expansion continues, and how might they influence investment in the next generation of networks. In the worst case, would TPG be in such a poor position that it couldn't reasonably invest in 6G networks and meaningfully contest the MNO market through the 2030s? Alternatively, the potential returns from 6G network investment may be so great that TPG is encouraged to invest meaningfully, even if it is jointly with other players that stand to benefit from such investment.

These are significant public policy issues in terms of ensuring the industry is best positioned to consider investment risk and return, and how best to manage investment decisions and market operations. These decisions and outcomes may be significantly impacted by the interests of hyper-scalers and large AI companies that have an interest in mobile networks to support distributed AI<sup>2</sup>. These evolving interests may see 6G investment and outcomes play out quite differently to those of 4G and 5G. There is, it seems, a case to monitor and review industry developments and consider industry policy on its merits, including the circumstances of the third MNO, as the case for 6G evolves.

However, any resulting policy arrangements should be forward-looking, consistent and well-signalled prior to major new investment commitments with an objective of improving investment decisions and market outcomes, rather than adjusting for previous decisions and outcomes.

In any case, none of those key industry issues would be resolved by a one-off adjustment in ESL spectrum prices. Instead, moving away from a consistent market-based approach to pricing spectrum is more likely to add a further element of uncertainty to long-term decision making by the MNOs and other potential market players.

### **1.25 At what point is the ESL price too high?**

ESL prices would be too high when they begin to distort long term investment decisions on mobile network investment and the optimal mix of investment between network infrastructure and spectrum.

Perhaps more importantly, ESL prices might distort efficient long term investment decisions where investors lose confidence in the spectrum price setting process or stakeholders consider they can influence price outcomes with calls to support one or other industry policy.

As far as efficient long term mobile network development goes, both the amount of ESL renewal prices and investor confidence in the ESL price-setting process requires ESL prices to be set as close to, and as rigorously as reasonably possible to, market benchmarks.

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<sup>2</sup> Recent industry reports suggest Starlink and Amazon are interested in developing MVNO operations, complementing their emerging satellite-based mobile services with terrestrial coverage. The established US MNOs are reported to be "not interested" in providing MVNO wholesale service to potential LT rivals. Source: Fierce Wireless, 5 May 2026.

Our assessments in this report, that the three MNOs would be able to manage ESL renewal payments at the updated preliminary prices and would be willing to pay for ESL renewal at these prices, raises two key questions. First, at what point would ESL pricing affect network investment, and the mix of investment between infrastructure and spectrum. And, at what point would ESL pricing be resisted by any of the MNOs? That is, is there an ESL renewal price which would lead to any of the MNOs not renewing some of or a substantial part of their ESLs leading to less network investment?

We consider these questions with respect to TPG which is the most marginal of the three MNOs in terms of overall network investment and the long-term case for investment in 6G networks. While we can provide some indicative responses to the question in this section, a more considered answer might require a comprehensive assessment of the investment case for a third 6G network including the portfolio of spectrum required and trade-offs between spectrum and other network components.

Our view is informed by the experience of VHA's decision not to contest the 700MHz licence auctions in 2013 when it considered the reserve price to be excessive. It subsequently found itself more constrained on network capacity as 4G technology became established and network usage increased and faced a prospect that a new entrant in TPG sought the same spectrum and may contest much of the same market opportunity VHA pursued.

In 2013 it faced cash earnings issues at a time when it sought to manage significant network issues that had seen it lose subscribers, price power and led to a significant decline in MSR and cash earnings. Ultimately, its short-term cash management issues were eclipsed by the long-term investment issue of how to best secure and maintain the network capacity and market position required to build 4G network investment returns. The reassessment came too late and the spectrum licences were ultimately acquired by TPG at a price far higher than the 2013 reserve price. The possible market entry by a prospective 4<sup>th</sup> MNO threatened to have a far greater impact on long term returns than the ESL price set in 2013.

As a guide to the marginal impact of spectrum pricing on return on invested capital, for TPG the increase in ESL prices between the upper bound of the previous price range to the updated preliminary price is \$179m, (9.3%) on a nominal basis over its five-year ESL payment period. (See table 3.7 in section 3.) Our assessment of TPG's ability to fund ESL renewal payments at the updated preliminary prices (section 3) shows that the difference in proposed ESL payment prices adds c\$76m to TPG's invested capital base at peak (FY30F) and reduces NOPAT by about \$10m pa. The change in return profile is relatively small, and the impact on its operational base of invested capital dissipates in subsequent years as amortisation reduces this capital base.

The difference in RoIC outlook between the two proposed ESL prices looks starker (relative to the other two MNOs) in part because of the change in TPG's capital structure and earnings profile in 2025.

In the case where the timing and substance of TPG's 6G network investment is primarily driven by the replacement cycle of network equipment, (i.e. more like the 5G investment cycle), that peak RoIC impact may have some influence on timing of investment but not the overall long term investment decision. Even in that case, it would be difficult to separate the impact of a higher ESL price from the broader case for 6G investment given the jointness of spectrum and network equipment in such an investment assessment.

In the case where the timing and substance of TPG's 6G network investment is primarily driven by a meaningful step up in expected demand, that is where 6G might be expected to lift MSR and EBITDA with some new service features, (i.e. more like the initial 4G

investment cycle), we consider spectrum at the proposed prices would be a minor component of such an investment assessment. Even in that case, TPG's ESL renewal decisions will likely have to be made before any such case emerged, given the timing of its main ESL licence renewals in FY28 and FY29.

### **1.26 Should ESL renewal prices be adjusted to support D2D satellite services and potential UOMO requirements?**

No, ESL prices should reflect the market value of this spectrum as nearly as market-based benchmarking allows in order to support productive investment and efficient service provision in either commercial or subsidised services.

Subsidising ESL spectrum prices would undermine efficient development and delivery of potentially commercial LEOsat-delivered direct-to-device (D2D) services and is a less efficient means of supporting non-commercial D2D services than direct subsidy or contract.

D2D services are still at a relatively early stage of development and there remains considerable technology development and commercial deployment risk. Nevertheless, there has been substantial progress on these deployment and development issues, and commercial deployment seems now to be a matter of management and timing.

Although some governments have offered financial support to various LEOsat proposals, with mixed outcomes, much of the development and the bulk of service deployment has occurred in commercial markets. Ongoing service development is likely to be predominantly market-driven albeit many governments may supplement this either to bring forward commercial timing or expand coverage to otherwise non-commercial areas or services.

We see the Australian government's Universal Outdoor Mobile Obligation (UOMO) policy in that context; predominantly commercially driven but supplemented by legislated obligations, subsidy and/or contract to meet non-commercial obligations. In that context it is important for efficient outcomes (whether commercial or non-commercial) that investment decisions including resourcing and risk assessment be market-based.

Spectrum is one key resource needed for D2D service along with satellite infrastructure (including its supporting production and delivery capacity), terrestrial network infrastructure, devices and a range of ancillary resources to support maintenance, service support and retail functions. Efficient D2D outcomes, both in terms of long-term investment and subsequent network utilisation and service provision, would be undermined if ESL spectrum pricing was adjusted with the intention of supporting timing or coverage decisions. ESL spectrum pricing that moves away from market-based benchmarks may misdirect investment in terms of timing and substance of investment, or the trade-off between spectrum, network and other resources needed to develop and deliver the service.

There is a second effect of moving away from a well-defined market-based approach to spectrum pricing which may have a more profound impact on sector productivity in the long term. Further to the direct effects of any mispricing, as we have seen with some regulated fixed network pricing, once regulated pricing moves away from a well-established market-based price approach, investors will bear in mind in their assessments a heightened risk of further potentially arbitrary regulatory reconsideration.

In general, we consider capital markets are well disposed to support investment in Australia's mobile networks, more so now that the MNOs have shown an ability to better manage 5G investment outcomes compared with 4G investment outcomes. Notably, mobile industry policy including spectrum allocation and attribution has been strongly market-based.

Investor disposition may be tested if spectrum pricing was seen to be adjusted to meet a preferred policy objective rather than dealing with such an objective directly.

Our discussion of these issues relates only to ESL renewal pricing. We haven't considered the issue of primary access to MSS spectrum by LEOsat or other operators such as by auction or administrative allocation. Similar efficiency considerations may apply (between primary and renewal prices) but evaluations may vary in the evolving industry context. In particular we note the issue of competition versus co-operation between the range of current and prospective LEOsat operators and established MNO operators. In general, we consider the three MNOs well-placed to manage their respective positions and prospects in this emerging aspect of industry structure and would be more assured in doing so where input prices and risks, including related spectrum, are clearly and consistently market based.

### **1.3 Context for, and structure of, this report.**

The ACMA is consulting on its updated preliminary views on pricing for seven bands of expiring spectrum licences. Its updated preliminary views now set single \$/MHz/pop price points for each of seven spectrum bands. These aggregate to an expected total nominal amount payable by the three MNOs and NBN Co of \$7.34bn across a five-year period from 2028 to 2032. Following consultation on its *updated preliminary views* on pricing, the ACMA will be releasing its *preferred views* on pricing.

The proposed amount is 18% to 46% higher than its previous preliminary views on price (of April 2025) with a projected nominal total range of \$5.0–\$6.2bn. However, the revised amount is about 10% lower than the total nominal amount paid for these licences of \$8.2bn.

Section 2 provides a brief overview of the operating performance of mobile industry and FWA broadband for the period to 31 December 2025 including developments in subscriber and MSR market share and pricing.

In sections 3 to 6, for each of the three MNOs and NBN Co:

- We summarise operational outcomes for the period to 31 December 2025 and summarise adjustments to our three-year outlook. For TPG we also explain the impact of the sale of its EGW business and three other key structural and capital changes on its operational outlook and financial position.
- We summarise the case for each company's willingness to pay for ESL spectrum renewal based on each MNO's operations and ROIC outlook, and for NBN its progress in meeting FWA obligations.
- We summarise each company's ability to fund ESL based on forecast cash earnings over the three-year forecast period and potential cash earnings over the period of ESL renewal, as well as balance sheet settings and capital management.

## 2 Industry operating performance in 2025

### 2.1 The three-year outlook for MSR remains good at c4% pa

#### MSR growth slowed in FY25, but lifted again in 1H26

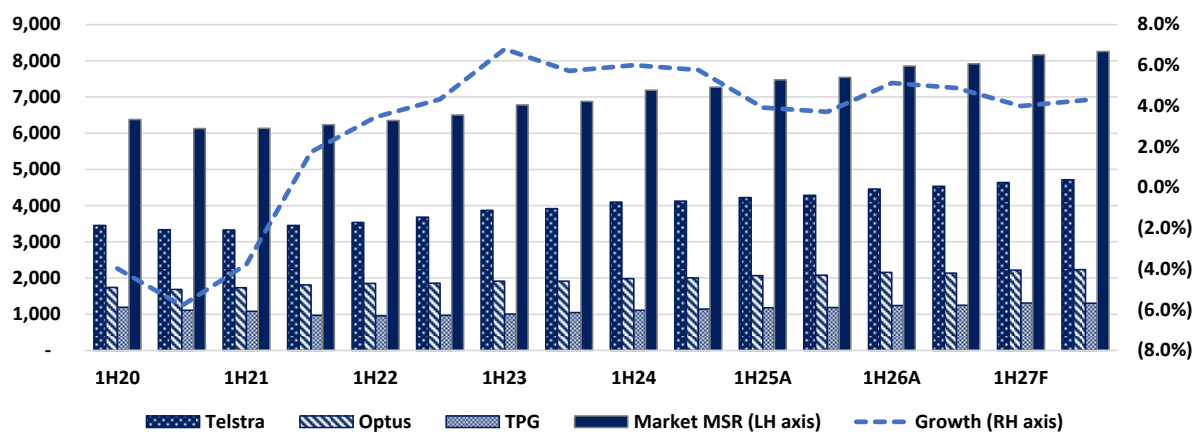
MNO MSR for the period to December 2025 was in line with aggregate forecasts with 1H26 growth lifting to 5.1% from 3.8% in 1H25 and 2H25.<sup>3</sup> The three MNOs reported aggregate MSR of \$7,855m for the 6m period to December 2025 compared with \$7,471m for the pcp.

After declining through the Covid19 years, MSR growth averaged 5.4% pa over three years of recovery growth from FY22 to FY24, largely driven by strong subscriber growth but also reflecting impacts of inflation on prices. Growth was strongest initially at Telstra which increased its share of MSR from 54.1% in 1H20 to a peak of 57.0% over three HY periods from 1H23 to 1H24. Its share eased slightly to 56.6% by 1H24 but has stabilised through good subscriber growth in FY24 (with FY MSR impact in the following year), wholesale growth and a focus on pricing and ARPU strategies.

We forecast aggregate 2H26F MSR of \$7,916m, growth of 4.9% on pcp, and lower growth in FY27 at 4.1%. Subscriber growth remains relatively low and focussed on lower ARPU prepaid, wholesale, and at entry level in postpaid brands. In the context of lower consumer sentiment, we consider this indicates some cycling down from higher tier postpaid services diluting growth in ARPU. Inflation is also a factor with MNOs facing rising operating costs and testing how best to recover these from service revenue.

Broadly, we consider the three-year market outlook is for MSR growth of c4% pa to FY28. Compared to the three-year period to FY24, MSR growth is now relatively more driven by price increases and price structures with a growing contest for subscribers at entry level in the current market circumstances and initial competition impacts arising from the Optus TPG regional MOCN agreement.

**Chart 2.1: MNO market MSR (\$m) by HY, 1H20 to 2H27F**



Note: Includes MNO wholesale MSR but excludes MVNO retail markup. We have realigned MNO reported MSR to the same HY end with 1H being the 6m period to December and 2H being the 6m period to June each year. Growth is with respect to the previous corresponding period. We have adjusted some non-handset service revenue to provide a more consistent like-for-like comparison.

Source: MNO Annual Reports and investor presentations. IMA forecasts and estimates.

For the period to December 2025:

<sup>3</sup> ie 1H26 on 1H25. Unless otherwise stated all growth rates are based on the previous corresponding period (pcp).

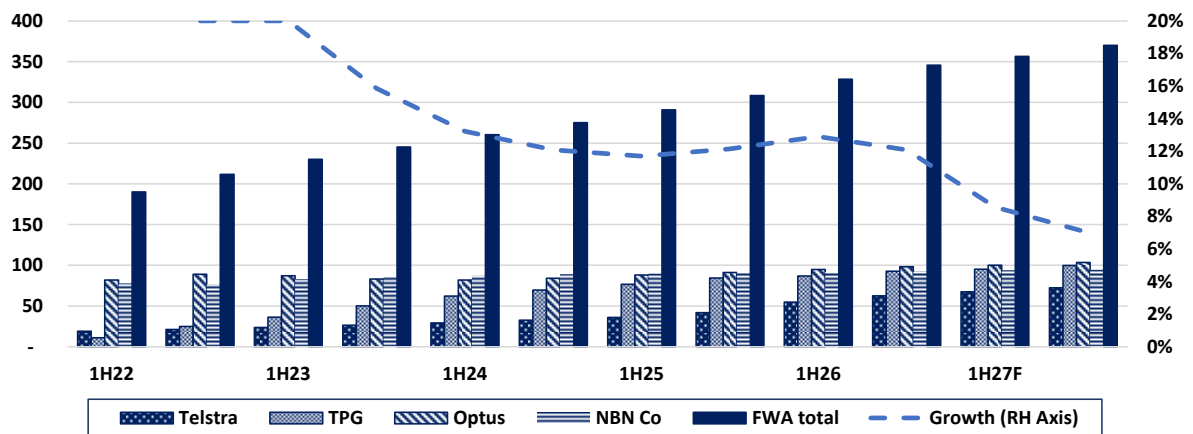
- Telstra’s share of MSR at 56.8% was down slightly from a peak of 57% in FY23, but well up on its c54% MSR share prior to Covid impacts. Given current relative pricing power, ARPU strategies and market segmentation, our respective MNO forecasts imply Telstra will maintain this share over two years to FY27.
- Optus’s share of MSR had lifted from a low of 27.2% during Covid to 29.2% in the Covid recovery period but had fallen back to 27.4% given the subscriber and price impacts of its network and security issues. While we have its share dropping further in FY27, its 3Q26 run rate suggests it may recover growth in share in the year ahead.
- TPG’s MSR was most impacted by Covid effects, and its recovery was slower than its two rivals. Its postpaid subscriber base of 5.7m is still below its pre-Covid peak of 6.0m. It lost nearly 100k postpaid subscribers in the year before its regional MOCN deal commenced. Nevertheless, a strong focus on prepaid competition and a wholesale deal has seen it recover some MSR share to c17% from a low of 15.7% in FY22.

**FWA has had good revenue growth from a low base, now moderating**

We estimate the four ESL licence holders generated \$540m in FWA revenue in the year to December 2025, growth of 8.6% on \$497m generated in the year to December 2024.

FWA service revenue growth averaged over 10% pa between June 2022 and June 2025 from a low base with good subscriber growth and network upgrades lifting service levels and ARPU. However, these effects have slowed through the last 12 months, and we expect FWA revenue growth to moderate to about 6.0% in the year to December 2026 to a total of \$573m.

**Chart 2.2: FWA revenue of ESL spectrum holders (\$m) by HY, 1H23 to 2H27F**



Note: Telstra doesn’t report FWA revenue but reported 141k 5G FWA subs at Dec 20225. Optus reports both FWA subscribers and revenue. TPG reports FWA subscribers and ARPU by HY; we have adjusted its HY results to a June YE. NBN reports FWA subscribers and we have estimated its FWA revenue based on estimated FWA ARPU. Growth is HY on previous corresponding HY. Source: MNO and NBN Co Annual Reports and investor presentations. IMA forecasts and estimates.

From the MNOs’ point of view, FWA is a useful increment to revenue but still a minor share of 3.5% relative to MNO MSR (up from 3.0% in 1H23). Optus and TPG’s share of this FWA revenue increased from c60% in 1H23 to 66% in 1H26 against a more established NBN Co FWA business. NBN Co also faces competition in its FWA operation from mobile services and LEOsat broadband services.

Telstra is yet to report material FWA revenue but has advised investors that it continues to grow its 5G fixed wireless product with subscriber growth of 36k in 2H25 and 1H26 to a total

of 141,000. It also advised that this is a factor contributing to earnings recovery in its Fixed Consumer and Small Business Segment.

### MNO subscriber growth is slowing, and more weighted to prepaid and MVNO

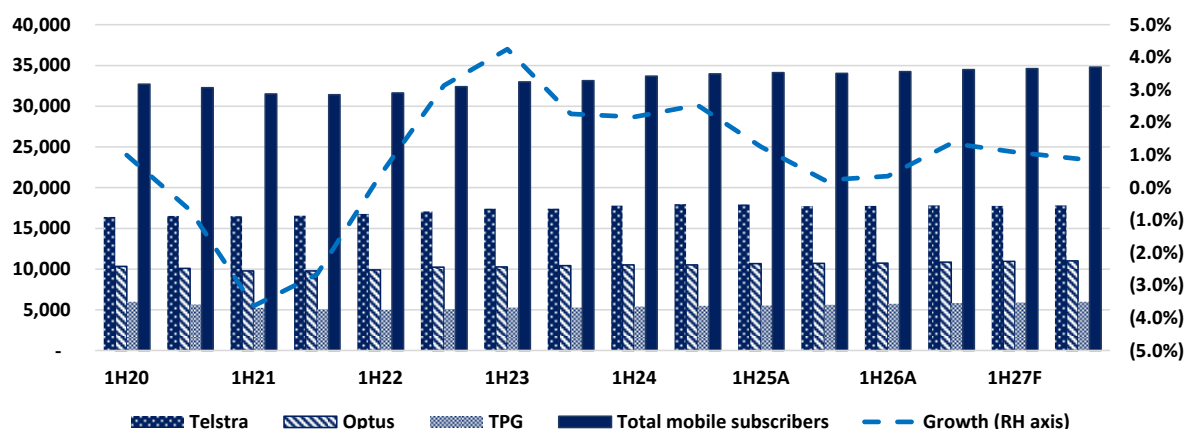
We estimate the MNO mobile subscriber base at 34.24m in December 2025, growth of 0.4% on 34.12m subscribers a year earlier. Subscriber growth averaged 2.5% pa between 1H22 and 2H24, from 31.4m in June 2021, and was a key driver of good MSR rates over those three years. That rebound period followed a 1.3m decline in the MNO subscriber base from 32.7m in June 2020.

Postpaid subscription increased by 551k over the three years to June 2024 but declined by 240k in FY25 (partly influenced by adjustments in reporting). Telstra added 164k postpaid subscribers over three half year periods to December 2024, ahead of the initiation of the Optus TPG regional MOCN agreement. Much of this was achieved at its Belong value brand. Its sharp decline of 104k in 1H25 reflected competition impacts and pricing with, we consider, some cycling down to prepaid and MVNO services.

TPG has seen a persistent decline in post paid subscription being slower to recover from Covid impacts and losing 96k postpaid subscribers in the 12 months prior to the commencement of its MOCN agreement.

With notable exceptions following its network outages and similar issues, Optus has been relatively consistent in growing its postpaid subscriber base, by 281k<sup>4</sup> since turning around Covid reductions. In net terms it has maintained postpaid market share at 33.2% or lower given the inclusion of its wholesale subscriber base.

**Chart 2.3: Mobile subscribers ('000s) by HY, 1H20 to 2H27F**



Note: Includes retail and wholesale (MVNO) subscriber categories, but not IoT where reported separately.

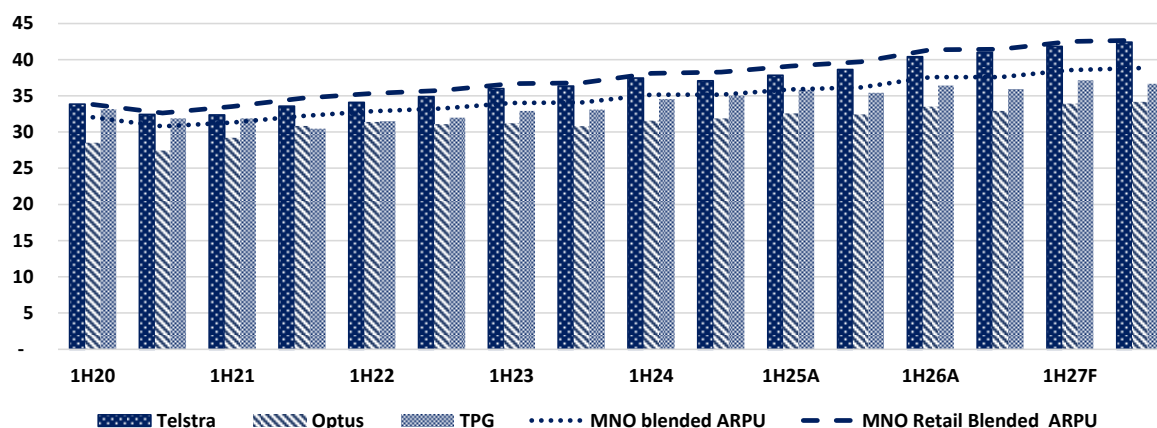
Source: MNO and NBN Co Annual Reports and investor presentations. IMA forecasts and estimates.

These competition and pricing issues as well as some reclassifications have seen the postpaid market contract slightly, from a peak of 17.8m in June 2024 to 17.6m in June 2025. As these factors wash through reported results, we forecast flat growth to 17.7m postpaid subscribers by June 2027.

<sup>4</sup> Excludes the impact of its Circles Life acquisition which led to postpaid wholesale customers reclassified as prepaid. Optus doesn't separately report its wholesale subscriber base.

## MNO ARPU has lifted despite the increased weighting of prepaid and wholesale

Chart 2.4: MNO ARPU (\$pm) by HY, 1H20 to 2H27F



Note: MNO blended ARPU includes Retail and Wholesale categories including Postpaid, Prepaid and MBB. We have exclude IoT where reported separately.

Source: MNO and NBN Co Annual Reports and investor presentations. IMA forecasts and estimates.

### Frequent increases in mobile list prices

More rapid price changes, particularly in postpaid services has been a key feature over the past three years helping to lift ARPU in subsequent reporting periods. That now seems to be a feature across the broader consumer mobile market.

In contrast the E&G mobile market 'de-priced' in 2H24 and was a factor in Telstra's slower FY25 MSR growth. This segment seems to be highly contested now including by platform-based competitors such as Zoom and a growing list of multi-service MVNOs. These include Managed SPs, supported by an emerging MVNE segment, offering traditional mobile voice and data services as part of a wider set of services offered on mobile devices such as CRM, logistics and similar business services.<sup>5</sup>

Table 2.1: MNO postpaid list prices mid-2024 and mid-2025 and March 2026

MNO	Plan	March 2026			Mid 2025			Mid 2024			Mid 2023		
		\$pm	GBpm	\$ per GB	\$pm	GBpm	\$ per GB	\$pm	GBpm	\$ per GB	\$pm	GBpm	\$ per GB
Telstra	Basic Plan	70	50	1.4	65	50	1.3	65	50	1.3	62 (58)	40 (50)	1.6 (1.2)
	Essential Plan	80	180	0.4	75	180	0.4	75	180	0.4	72 (68)	180	0.4 (0.4)
	Premium Plan	99 (79)	300	0.3	99 (79)	300	0.3 (0.3)	99	300	0.3	95 (89)	300	0.3 (0.3)
Optus	Small Choice Plus Plan	55	50	1.1	55 (44)	50	1.1 (0.9)	52	50	1.0	49	30	1.6
	Medium Choice Plus Plan	65	200	0.3	65 (52)	200	0.3 (0.3)	62	180	0.3	59	100	0.6
	Large Choice Plus Plan	85	400	0.2	85	400	0.2	82	360	0.2	69	220	0.3
	Promo Plan	79 (69)	360	0.2	79 (69)	360	0.2 (0.2)	69	360	0.2	89 (69)	500	0.2 (0.1)
Vodafone	Small Sim Only Plan	53 (39)	60	0.9	49 (39)	50 (100)	1.0 (0.4)	49	50	1.0	45	40 (80)	1.1 (0.6)
	Medium Sim Only Plan	63 (49)	200	0.3	59 (49)	180 (360)	0.3 (0.1)	59 (55)	180 (300)	0.3 (0.2)	55	150 (300)	0.4 (0.2)
	Large Sim Only Plan	73 (59)	400	0.2	69 (59)	360 (720)	0.2 (0.1)	69 (60)	360 (500)	0.2 (0.1)	65	300 (600)	0.2 (0.1)

Note: The values in brackets are widely available discounted offers for each plan which may be time-limited or subject to other conditions.

Source: Company websites. IMA estimates.

<sup>5</sup> Platform-based or cloud-based service providers may offer a mobile service as part of a CRM or similar data package including mobile numbers and handheld devices. Much of the call traffic may stay on the company's cloud platform but can switch to and from MNO networks with a small origination or termination fee. See MVNE description in Attachment A.

Inflation fell over the two years to June 2025, which seems to have limited the rate of increase in prices, ARPU and nominal MSR. That trend now seems to be reversing as inflation rates lift.

Telstra increased most Postpaid and Pre-Paid prices from 5 May “to help us keep investing in the performance, reliability and security of Australia's largest mobile network.” Most Postpaid plans will see a price increase of \$4pm while most of its Prepaid mobile plans will increase by \$5pm. It also proposes to increase data allowances, “offering better value and flexibility.”

It also proposes increases in its Postpaid MBB plans by between \$3pm and \$5pm. Its Belong brand will increase SIM-only plans by \$4pm with no changes in data allowances indicated.

Optus announced that it will increase its postpaid mobile plan prices by \$5pm from 18 May 2026, but has added to data inclusions in its plans.

TPG has also advised many customers that it will move them to new plans due to a number of factors including new wholesale costs. The advice applies across both fixed and mobile services and TPG advises prices may increase, decrease or remain the same. It continues to offer new customers significant discounts for 6 months.

#### **Will current tactical pricing lead to a response in competitive pricing?**

While we expect ongoing price discipline from the MNOs given their respective focus on lifting returns, we also saw an increase in price competition in 2025. TPG offered significant discounts for new subscribers including 50% discounts and double data at entry level. Optus seems prepared to meet this challenge, mainly through its Amaysim MVNO brand.

We see these as near-term pricing tactics to exploit the initial impacts of the two MNOs' regional MOCN deal, rather than a change in long term pricing strategy. However, they seem to have persisted since mid-2025 without rapid or significant changes in MSR share and may have ongoing impacts without necessarily destabilising or undermining the extent of MSR growth. (A comparable period may be 2017 to 2019 with MNO pricing responses to TPG's proposed market entry was one key factor that undermined MSR growth at the time.)

Generally, we consider the regional MOCN deal has, so far, had minor market share impacts on the prepaid segment and possibly in wholesale and the emerging MVNE/MSP segments. Broadly, we consider this segmented approach to price and service competition is consistent with ongoing MSR growth but at a lower rate than the three years to FY24.

A longer term but less clear risk is that the MVNO, MVNE and platform-based competition evident in the E&G segment in FY24 may apply more widely and reduce the steady growth in postpaid MSR.

#### **MNO mobile EBITDA continues to grow but reshaped by ongoing structural change**

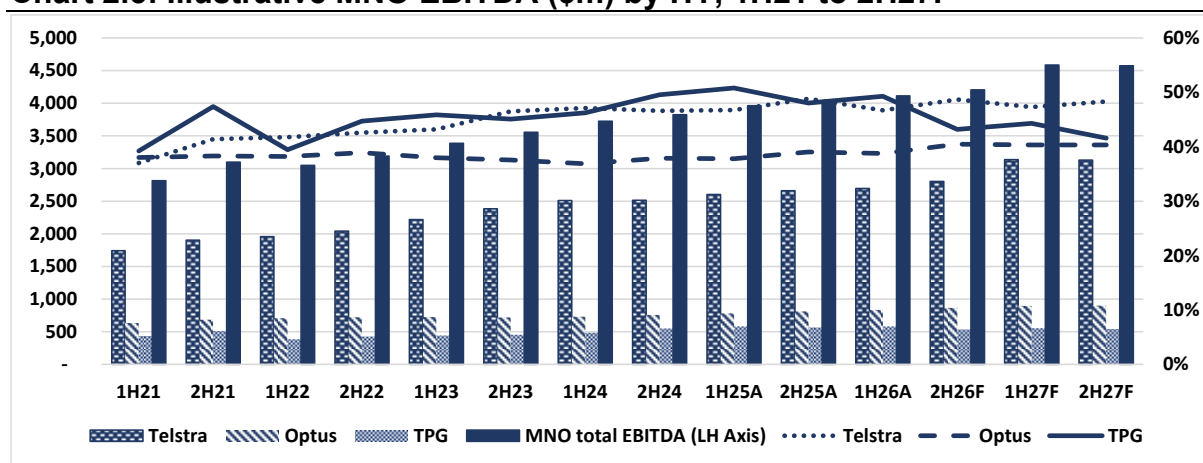
Group EBITDA for each of the MNOs is significantly impacted by extensive ongoing structural changes impacting fixed line operations, in both consumer broadband and

Enterprise and Government segments. In comparison, we estimate, mobile EBITDA has more consistently increased over the past five years and represents an increasing share of MNOs group earnings.

- Telstra’s reported mobile product EBITDA has increased from 49% of Group EBITDA in FY20 to 61% in 1H26F as the nature of its network business has changed. The increase would be higher still but for an increased allocation of joint costs as MSR has increased relative to other product revenue. We estimate Telstra’s mobile EBITDA increased by close to \$160m per HY (9% pa) over the five years to 1H26. The increase in mobile EBITDA was particularly strong in the post-Covid operating periods which also included some inflationary impacts.
- We estimate Optus mobile EBITDA based on direct costs and an allocated share of indirect costs (reconciled to group EBITDA). On this basis we estimate Optus’s mobile EBITDA has increased by \$30m per HY (c5.6%pa) over the five years to 1H26. It could have been materially higher but for the impact of network outages and other issues on subscriber growth, subscriber mix and ARPU.
- We estimate TPG’s mobile EBITDA based on reported product gross margins, direct costs and an allocated share of indirect costs (reconciled to group EBITDA). On this basis we estimate TPG’s mobile EBITDA has increased by \$14m per HY (c6.0%pa) over the five years to 1H26. However, we expect its mobile margins (on MSR) to drop from a peak of over 50% to close to 40% with its July 2025 restructure and sale and lease back arrangements.

The regional MOCN deal between Optus and TPG will change the shape of cash earnings between the two MNOs. The pattern of mobile earnings and three-year outlook may not become clear until after several periods of reporting. Similarly, TPG’s TAWFA agreement with Vocus includes some additional costs impacting EBITDA trends while it retains some costs below this line.

**Chart 2.5: Illustrative MNO EBITDA (\$m) by HY, 1H21 to 2H27F**



Note: Telstra is the only MNO to report mobile EBITDA, with cost allocations increasing as mobile grows relative to other services. We estimate Optus and TPG mobile EBITDA based on reported gross margins and direct costs and allocation of indirect costs. We consider the estimates are illustrative of underlying mobile earnings trends rather than necessarily precise. Our estimates of both Optus and TPG HY EBITDA have been adjusted to a June YE.

Source: MNO Annual Reports and investor presentations. IMA forecasts and estimates.

### 3 TPG: better placed in mobile and now with lower capital costs and a more manageable capital structure

#### 3.0 Summary: operationally in line with forecasts and capital restructuring provides more scope to manage ESL renewal payments

TPG's operating performance for the year to 31 December 2025 is close to our forecasts with MSR a little below forecast but EBITDA close to underlying forecasts (for continuing operations). Capex is running a little lower than forecast and its base of operational invested capital is also a little lower than forecast.

TPG's MSR has slowed to 4.2% and is driven more directly by prepaid services with postpaid relatively flat over the year. This likely reflects strong competition in the first year of the regional network sharing agreement, particularly in the higher value market segments, as well as macroeconomic factors that apply across the whole sector. We are also concerned that TPG's network capability may not keep pace with its rivals and this may affect perceived value-in-use and its ability to maintain comparable MSR growth in the long term.

As we modelled previously, TPG's good operating margins stepped down as a result of two key infrastructure capacity deals with Vocus and Optus. Although these dilute operating cashflow for two years, they lift free cashflow through lowering TPG's direct network capex. The extent of this in 2H25 was a little less than we modelled in part due to good control of indirect costs. The medium-term trend in mobile operating margins may not be apparent for several more operating periods.

TPG completed its major structural change in 2H25 two months earlier than we modelled. Adjusting for the two additional months of operations after the sale of its EGW business, and related capacity agreements, TPG's FY25 results were close to our FY25 forecast.

On balance, although uncertainty remains about the form, extent and timing of TPG's long-term investment in 6G networks, we consider on an operational basis TPG is no worse placed in terms of financial position and prospects than we have previously considered.

**Table 3.1: Current forecast: TPG summary financial performance, FY24A to F28F (\$m)**

	FY24A	FY25A	FY26F	FY27F	FY28F	FY25A / FY24A	FY26F / FY25A	3 yr CAGR FY28F /FY25A
Mobile service revenue	2,326	2,423	2,569	2,690	2,814	4.2%	6.0%	5.1%
Other revenue	2,579	2,618	2,646	2,718	2,788	1.5%	1.1%	2.1%
Total revenue	4,905	5,041	5,215	5,409	5,602	2.8%	3.4%	3.6%
EBITDA	1,647	1,650	1,697	1,733	1,807	0.2%	2.9%	3.1%
Capex (ex spectrum)	1,014	771	750	664	677	(24.0%)	(2.7%)	(4.2%)
Invested capital, financial	17,767	15,251	12,784	12,444	12,425	(26.5%)	(11.6%)	(100.0%)
Invested capital, operational	7,604	6,380	5,246	5,087	5,185	(30.3%)	(13.9%)	(100.0%)
Financial RoIC	2.1%	2.3%	2.8%	3.3%	3.3%	(0.4%)	1.6%	(2.2%)
Operating RoIC	4.9%	5.5%	6.9%	8.0%	7.9%	(0.8%)	4.6%	(5.2%)

Note: FY24A and FY25A restated on the basis of continuing operations post the sale of its EGW Business. See Tables 3.3 and 3.4 for summary reconciliation of reported operating results v Continuing operations v Pro Forma operations. See Table 3.6 for comparison of TPG's financial base of invested capital v operational base of invested capital.

Source: TPG 2025 Annual Report and investor presentations. IMA forecasts and estimates.

With its restructure TPG now has a better outlook for growing returns over three years with incremental investment likely to be above its cost of capital. We consider it is better placed

to deal with long term challenges including the potential case for value-enhancing 6G investment in the longer term. On that basis we consider TPG has a positive case for ESL renewal at the indicated prices.

On the question of ability to fund ESL renewal, we estimate TPG will generate between \$14bn and \$16bn in cash earnings over the eight-year period to FY33, the final year of ESL renewal. This is seven to eight times the aggregate ESL renewal amount on the ACMA's updated preliminary view. Although that is a materially higher share of operational cashflow than its two MNO rivals, its operational restructure significantly reduces its BAU capex burden, notably materially lower than that of Optus.

TPG made a significant capital return to shareholders in FY25 following its EGW sale, while still resetting balance sheet metrics to more conservative settings. It reset its balance sheet in the knowledge of upcoming ESL renewal, albeit at the previous preliminary view on pricing. We consider TPG is well placed to manage ESL renewal payments at the updated preliminary both in terms of its cash earnings outlook and its revised balance sheet settings.

### **3.1 Four major structural and financial developments in 2025 ...**

Beyond the operational performance and capex outcomes noted in the following sections, TPG completed four key structural and financial developments in the second half of 2025 which materially improve its operational and investment outlook and its ability to manage cashflow over several years.

- The sale of its fibre network assets and Enterprise, Government and Wholesale (EGW) fixed operations to Vocus Group in July 2025 generated \$4.7bn of net cash proceeds which in turn funded a \$3bn cash distribution to shareholders and a debt reduction of \$1.7 billion. The operational separation and transition of assets is expected to complete in 2026 with minimal further direct impact on capital structure.
- The Transmission & Wholesale Fibre Access (TAWFA) agreement with Vocus (concurrently with the sale of its fibre assets and EGW operations) within which TPG has leased Right of Use assets. The transaction is for an initial term of 15 years and has both direct cost and capital funding components. In terms of impact on operating performance, a key element of the deal is that it delivers 'ownership economics' in a lease format allowing TPG to improve operating leverage as customer volumes grow while improving scope to manage capex and operating cost.
- The regional mobile network sharing agreement with Optus has helped deliver a wider market opportunity with lower direct investment in network although with an increase in operating cost and some partly offsetting capital charge.
- In terms of operational financing, TPG also introduced an innovative program to finance the customer debt that arises from funding of mobile handsets over several years by way of monthly instalment plans. "Cash flow released through this program enabled us to retire a further approximately \$600m of bank borrowings in FY25, and has enabled a lasting improvement in our Return on Invested Capital." (TPG Annual Report, p. 7.)

### **Good mobile operating performance and improved market**

In its report on 2025 operations and future outlook, TPG advised shareholders, stakeholders and investors generally that "Our strengthened mobile network, market-leading position in Fixed Wireless, and national NBN footprint provide a solid foundation for growth. We have great confidence in our ability to expand market share, enhance margins, and deliver

sustainable improvements in operating earnings, free cash flow, and Return on Invested Capital.” (TPG Annual Report 2025, p. 9)

“We implemented our regional network sharing arrangement to double the reach of our mobile network coverage in January 2025. Combined with our efforts to understand and meet customer needs with simple, great value plans and products, this unprecedented increase in network coverage drove growth in our mobile market share.”<sup>6</sup>

### **Transforming for the future: “TPG ...has now passed an inflection point.”**

“We have experienced a period of investment in transformation and established our strategy following the 2020 merger of VHA and the (pre-merger) TPG Telecom. “While we continue to invest to deliver for our customers and grow our business, we are increasing our focus on strategy execution and targeting ongoing improvement in operational and financial performance.

“Following the achievements of FY25, we do all this as a more streamlined business, led by our position as a challenger in mobile.

It advised that its mobile network now comprises 7,797 mobile network sites (Dec 2025 cf ~7,700 Dec 2024 including regional network sharing). Of these 4,956 sites are 5G enabled sites and 81% of its own network is 5G enabled. Its mobile network is over 1m square kms and it has 98.5% population coverage. (TPG Annual Report 2025, p.2).

TPG has 7.72m subscribers (cf ~7.6m Dec 2024) including 5.74m mobile subscribers across several well-known brands including Vodafone, TPG, iiNet, Lebara, Felix and Kogan.com. “We are pleased to report we increased the number of subscribers using our mobile network by 228,000 in FY25, outpacing the growth of other major carriers, with a resultant increase our market share. Despite a decrease in international migration, this reflected a record proportion of Australian domestic household and business customers choosing our network.” TPG also says it has improved market share in major metro areas and large towns.<sup>7</sup>

### **Major changes in capital structure for both debt and equity**

As part of the execution of its post transaction Capital Management Plan, TPG offered a Reinvestment Plan to minority shareholders. This allowed non-strategic shareholders to directly reinvest their proceeds from the \$3bn cash distribution into new TPG Telecom shares. The reinvestment scheme raised \$373 million and increased minority ownership from c23% to 27%.

Including the \$1.7 billion debt reduction following the EGW sale, and drawing on the proceeds from the Reinvestment Plan, TPG paid down approximately \$2.7 billion of bank borrowings in FY25.

As well as reducing debt and lowering future interest charges, TPG also returned equity capital, maintained underlying dividend and outlined a new dividend policy.

### **Equity capital return and a confident new dividend policy**

The Board declared a final dividend of 9.0 cps for FY25. The total dividend for FY25 of 18.0 cps was unchanged from 2024 despite the reduction in the size of TPG Telecom’s earnings following the sale of fibre assets and EGW fixed operations. “This reflects the strengthened financial position enabled by that transaction, as well as the confidence the Board has in the Company’s cash flow outlook in the short, medium and longer term.”

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<sup>6</sup> Comments from Canning Fok, Chairman, TPG Telecom , TPG Annual Report 2025.

<sup>7</sup> Ifiaki Berroeta, CEO and Managing Director, TPG Annual Report.

In addition to the ordinary dividends of 18.0 cps “we were pleased to pay an additional \$1.61 per share to shareholders in November 2025 as a result of the \$3 billion cash distribution from the proceeds of the sale of the fibre network assets and EGW fixed operations. This return of capital comprised an unfranked special dividend of 9.0 cents per share and a capital reduction of \$1.52 per share.

TPG announced a new dividend policy in August 2025 after completing the restructure and “designed to reward shareholders” by increasing the dividend over time in line with sustainable growth in profit and cash flows.” However, it also advised that the “declaration of any specific dividend will always be subject to market conditions and at the Board’s discretion.”<sup>8</sup>

### **Confidence in the new structure and outlook: 2026 and beyond**

“We have entered FY26 in a stronger, more competitive position to provide our customers with the choice and value they deserve and deliver ongoing value for shareholders. We look forward to continuing our progress in the year ahead.” (TPG Telecom Annual Report 2025.)

TPG says its operational focus in 2026 is to further increase mobile market share, lower the ratios of opex and capex to revenue and expand EBITDA margin.

It intends to:

- Complete its 5G rollout and prepare for 6G.
- Drive efficiencies from existing partnerships and arrangements.
- Pursue further infrastructure-sharing opportunities.
- Drive on-net utilisation via MVNO and Fixed Wireless.

It considers that executing these strategies will allow it to grow FCF, RoIC and EPS and allow it to deliver attractive dividends.

As a result of this capital restructuring and a material reduction in borrowing costs, EBITDA growth and capex reduction will flow more directly into Free Cash Flow in FY26 and the following years.

Capital expenditure (capex), on an additions basis, is expected to be approximately \$750 million, down from \$847 million in FY25. We continue to target lower capex excluding spectrum payments over the medium term but expect it to be at the high end of TPG’s \$550 million to \$650 million target range in FY27. It may decrease further within that range thereafter now the significant investment in rolling out the 5G network and modernising our IT systems has passed its peak. However, a more prudent view is that capex will continue to climb, at least in nominal terms as TPG requires to maintain relative earnings capacity of its network.

### **TPG comments to investors on ESL renewal**

“During 2025, the Australian Communications and Media Authority (ACMA) ... made a number of public representations regarding spectrum renewals. The latest position released in December 2025 included higher renewal costs than previously forecast and a proposal for licence renewal costs to be paid in a lump sum and far in advance of the expiry of existing licences.

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<sup>8</sup> Canning Fok, Chairman, TPG Telecom, TPG Telecom Annual Report 2025. (p. 4.)

“This proposal is not in the best interests of customers. The government and the ACMA must work together to create a policy environment that supports continued investment, encourages infrastructure sharing, and ensures spectrum costs remain sustainable

“ACMA’s revised approach to the renewal conditions announced in December 2025 does not achieve the appropriate balance to support affordable connectivity for all Australians.

“Achieving the appropriate renewal price and conditions is key to supporting sustainable growth and investment in the sector.” (TPG Annual Report 2025, p. 8.)

### **TPG financial accounts, continuing operations and pro-forma accounts: current forecasts and comparisons with previous expectations**

TPG reported its Group FY25 result on a financial basis (i.e. as realised by the business as it was operated through the year) with revenue and EBITDA close to our forecasts after adjusting for the sale of its EGW business occurring on 31 July, two months earlier than our modelling date of 30 September.

It has also provided summary group accounts for both FY24 and FY25 for continuing operations and on a pro-forma basis, that is continuing operations results adjusted as if new commercial arrangements arising from the Vocus Transaction (both the TAWFA and the Vision Wholesale Business Agreement) had been in place for the entire period. The continuing operations and pro-forma accounts provide a more comparable basis on which to make our forecasts.

While the earlier-than-expected sale reduced reported revenue and EBITDA slightly, it had a positive impact in lowering capital cost in FY25. It also brought forward the starting date for recovery of operating leverage resulting from these capacity deals.

### **3.2 Improved operating outcome: good MSR increase and margins outlook**

TPG’s total FY25 revenue of \$5,384m was \$108m less than our previous forecast of \$5,492m. However, that is largely a result of the EGW sale occurring two months earlier than we had allowed for in previous forecasts. (An additional two months of discontinued operations at c\$50m per month would take total reported revenue close to our previous forecast.)

Notably, TPG’s Mobile Service Revenue (MSR) growth of 4.2% was a good outcome although a little lower than our forecast growth of 4.5%. The key driver of MSR growth, however, was Prepaid MSR which increased by \$62m (11.5%) in FY25 compared with our FY25F growth of \$50m (9.0%) to \$590m.

In comparison, FY25 Postpaid MSR of \$1,735m was flat (+\$4m, 0.2%) and about \$40m below our forecast. Although TPG added (net) 15k postpaid subscribers in 1H25, it dropped 15k in 2H25 possibly reflecting price increases and a \$1.50pm increase in postpaid ARPU to \$50.0pm.

In the context of a step-up in competition in the first year of the regional mobile network sharing deal the focus of price competition has been on the Prepaid segment while Telstra and Optus have been relatively more successful defending Postpaid market share.

The sale of EGW operations also led to TPG reclassifying retained MVNO and PTT revenue from wholesale as MSR along with some retained fixed service revenue. These Other MSR contributions also increased comfortably from \$54m to \$85m in FY25 largely reflecting MVNO growth. We expect this revenue line to continue to expand from a low base as TPG develops its multi-brand approach in the new geographic operating model.

**Table 3.2: TPG revenue three year outlook v previous forecasts, FY24A to F28F (\$m)**

	FY24A	FY25A	FY26F	FY27F	FY28F	FY25A / FY24A	FY26F / FY25A	FY28F / FY25A
Postpaid MSR	1,731	1,735	1,787	1,841	1,901	0.2%	3.0%	3.1%
Prepaid MSR	541	603	674	734	790	11.5%	11.7%	9.4%
Other MSR	54	85	108	116	123	57.4%	27.5%	13.2%
Mobile service revenue	2,326	2,423	2,569	2,690	2,814	4.2%	6.0%	5.1%
Previous MSR forecast	2,407	2,525	2,649	2,781	2,898	4.9%	4.9%	4.7%
Hardware	816	862	894	937	979	5.6%	3.7%	4.3%
Fixed revenue	1,691	1,702	1,710	1,739	1,765	0.7%	0.5%	1.2%
Other service revenue	72	54	42	43	43	(25.0%)	(22.0%)	(7.1%)
Total rev., continuing opns.	4,905	5,041	5,215	5,409	5,602	2.8%	3.4%	3.6%
Discontinued operations	615	343	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total reported revenue	5,520	5,384	5,215	5,409	5,602	(2.5%)	(3.1%)	1.3%
Previous revenue forecast	5,520	5,492	5,201	5,408	5,633	(0.5%)	(5.3%)	n.a.
MSR % of continuing revenue	47.4%	48.1%	49.3%	49.7%	50.2%	64bp	119bp	72bp

Note: Prior to EG&W sales we had re-classified all OSR as ongoing MSR in anticipation of the EGW sale.

Source: TPG 2025 Annual Report and investor presentations. IMA forecasts and estimates.

TPG's Mobile Service Revenue (MSR) includes Mobile Postpaid, Mobile Prepaid and Wholesale products, including data sims. Wholesale mobile products include MVNO and Push Text services reported within Other Service Revenue (OSR). Although hardware revenue continues to grow at above average rates it has little impact on cash earnings with a gross margin of c4%. Its main purpose is to support MSR and fixed service revenue growth.

In terms of the three year outlook it is also worth noting that we forecast MSR to continue to grow as a share of total revenue from 47.4% in FY24 (of continuing operations) to over 50% by FY28F. We consider that an important driver of the uplift in cash earnings given our estimated gross margin on MSR of over 80% notwithstanding some initial dilution as a result of the regional network sharing and TAWFA deals.

### Change in operations has reset margins and rebased LT margin trend

The three structural changes and financial development noted in section 3.1 have had a significant effect on operational outcomes including cost structures and operating margins. TPG has provided summary reconciliations for both FY24 and FY25 results on three bases:

- as reported on a financial basis for the Group, that is as it operated through the year;
- as reported for continuing operations, that is excluding the sale of EGW and its fibre business; and
- on Pro Forma basis as if the TAWFA arrangements with Vocus had been in place for the whole year (excluding material one-off costs associated with the transaction).

Reported group operations show a significant decline in gross profit and EBITDA and margin dilution from 58.0% to 55.2% and 35.3% to 33.8% respectively.

However, the dilution effect is more moderate considering TPG's continuing operations on a standalone basis across the two years. As noted above, the rebased (i.e. continuing) revenue has increased by 2.8% driven by good MSR growth now better reflected in aggregate revenue. Moreover, gross profit is flat across the two years although gross margin diluted to 53.2% in FY25 (from 54.5% in FY24) with the direct cost impact of the regional network sharing deal offsetting the direct effects of the EGW sale.

The effects on EBITDA are even more moderate given the flat indirect costs reported of \$1,031m (cf \$1,026m in FY24). The dilution effects of the two deals ‘wash-through’ even further at EBITDA level with a 1.6% increase in FY25 to \$1,615m.

**Table 3.3: Reconciliation of changes in TPG’s operations, FY24A and FY25A (\$m)**

	FY24A			FY25A			FY25 / FY24		
	Group	Continuing Operations	Pro Forma	Group	Continuing Operations	Pro Forma	Group	Continuing Operations	Pro Forma
Total Revenue	5,520	4,905	4,905	5,384	5,041	5,041	(2.5%)	2.8%	2.8%
Direct cost	(2,319)	(2,232)	(2,290)	(2,413)	(2,360)	(2,395)	4.1%	5.7%	4.6%
Gross Profit	3,201	2,673	2,615	2,971	2,681	2,646	(7.2%)	0.3%	1.2%
Gross margin	58.0%	54.5%	53.3%	55.2%	53.2%	52.5%	(281bp)	(131bp)	(82bp)
Operating cost	(1,251)	(1,026)	(1,026)	(1,150)	(1,031)	(1,031)	(8.1%)	0.5%	0.5%
Operating EBITDA	1,950	1,647	1,589	1,821	1,650	1,615	(6.6%)	0.2%	1.6%
Other income	12	5	2	16	10	11	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Reported EBITDA	1,962	1,652	1,596	1,837	1,660	1,626	(6.4%)	0.5%	1.9%
EBITDA margin	35.3%	33.6%	32.4%	33.8%	32.7%	32.0%	(150bp)	(85bp)	(36bp)

Note: See discussion in this section for description of Group, Continuing operations and Pro Forma reporting.  
Source: TPG 2025 Annual Report and investor presentation pages 28 & 29. IMA estimates.

The pro forma reported results provide the most appropriate base for forecasts given these allow for the full year impact of the direct cost component of TAWFA across each full year, being \$58m in FY24 and \$35m in FY25. Of the \$105m increase in direct costs in FY25, we estimate \$61m relate to services and \$44m to handsets. TPG advised that the direct cost components of the MOCN and the TAWFA are about 10% of direct costs, or about \$240m pa. It also advised that, despite the increase, “... we are confident their long-term benefits will far exceed their costs as they enable us to grow customer volumes without having to pay extra service fees.” (Annual Report p 8.)

The implication of the reconciliation and comparison of FY25 with FY24 on a like-for-like (i.e. pro forma) basis with a full year inclusion of the TAWFA deal is that, with ongoing good MSR growth and cost discipline, TPG should be able to maintain EBITDA margins above 32% and grow from this level if or as MSR grows and further operating leverage is achieved on both the regional mobile network sharing deal and the TAWFA agreement.

**Table 3.4: TPG three-year operational outlook, FY24A to FY28F (\$m)**

	FY24A	FY25A	FY26F	FY27F	FY28F	FY25A / FY24A	FY26F / FY25A	FY28F / FY25A
Total Revenue	4,905	5,041	5,215	5,409	5,602	2.8%	3.4%	3.6%
Direct cost	(2,290)	(2,395)	(2,538)	(2,677)	(2,776)	4.6%	6.0%	5.0%
Gross Profit	2,615	2,646	2,677	2,732	2,825	1.2%	1.2%	2.2%
Gross margin	53.3%	52.5%	51.3%	50.5%	50.4%	(82bp)	(116bp)	(68bp)
Operating cost	(1,026)	(1,031)	(979)	(999)	(1,019)	0.5%	(5.0%)	(0.4%)
Operating EBITDA	1,589	1,615	1,697	1,733	1,807	1.6%	5.1%	3.8%
Reported EBITDA	1,596	1,626	1,707	1,743	1,817	1.9%	5.0%	3.8%
EBITDA margin	32.4%	32.0%	32.5%	32.0%	32.2%	(36bp)	51bp	7bp

Note: FY24 and FY25A as reported on a Pro Forma basis.  
Source: TPG 2025 Annual Report and investor presentation pages 28 & 29. IMA estimates.

TPG has provided EBITDA guidance for FY26 of between \$1,665m and \$1,735m. The range is based on continued growth in MSR and operating cost discipline limiting opex growth below inflation. This would represent growth of between 2.4% and 6.7%. and could see EBITDA margins exceed 33%.

Nevertheless, until we see a clearer pattern in the direct cost impact of the two deals and how TPG manages the cost of growing MSR in a contested market while managing other revenue and cost challenges, we retain a more conservative view of EBITDA growth at 3.8% pa over three years.

### Capex a little lower than we expected previously ... improving three year outlook

Previously we noted a significant drop in TPG's capex outlook given the (then) pending sale of its EGW business to Vocus, the transmission capacity deal with Vocus and the regional network sharing deal with Optus.

Nevertheless, we took a conservative view on its three-year capex outlook given concerns about the need to maintain mobile network earnings capacity:

- TPG reported A\$863m in cash capex in FY25, \$67m less than our forecast of A\$930m. Proforma FY25 capex was \$774m.
- TPG has provided capex guidance for FY26 at c \$750m comparable to its proforma FY25 capex. This is well below our FY26 forecast of \$967m. While we noted the two network deals with Optus and Vocus would provide TPG with better scope to increase coverage and capacity with less direct capex, we were concerned that it would cost TPG more initially to maintain the earnings capacity of its fixed and mobile network.
- TPG has indicated a target to reduce capex in the long term to a range of \$550m to \$650m, but has also advised that FY27 capex is likely to be at the top end of that range. Maintaining network earnings capacity remains a concern of some investors in the context of this long term network capex target and is a reason why our three year forecasts remain at the top end of TPG's long term guidance range.

**Table 3.5: TPG capex (ex spectrum) three year outlook: current v previous forecasts, FY24A to F28F (\$m)**

	FY24A	FY25F/A	FY26F	FY27F	FY28F	FY25A / FY24A	FY26F / FY25A	FY28F / FY25A
Previous group capex	1,014	930	967	645	n.a.	(8.3%)	4.0%	n.a.
Reported/guidance pro-forma	n.a.	771	750	... 550-650p.a. ...		n.a.	(2.7%)	n.a.
Current forecast (pro-forma)	n.a.	771	750	664	677	n.a.	(2.7%)	(4.2%)

Note: Pro-forma capex for FY25A is for continuing operations as if the commercial arrangements with Vocus had applied for the entire period.

Source: TPG 2025 Annual Report and investor presentations. IMA forecasts and estimates.

Our three-year capex forecasts are a little higher than the range indicated to investors by TPG on the basis that spending pressures will be higher than indicated. In terms of impact on forecast free cashflow, this view is a little more conservative in terms of assessing ability to fund ESL renewal payments.

### 3.3 WTP: Invested capital base has dropped significantly ... supporting a step up in returns

Over the past two years TPG has achieved a significant reduction in its base of invested capital because of good operational outcomes that delivered better OpFCF as well as key structural and financing decisions.

TPG's financial base of invested capital has reduced from \$17.8bn in FY24 to, we estimate, \$12.8bn in FY26. This is a 28% reduction as the company has restructured its capital base, and delivered operational outcomes. We forecast this base of capital to stabilise at about \$12.4bn in FY27 and FY28. Beyond that this base of capital will also reflect the extent of investment in spectrum and networks for ongoing operations and TPG's approach to 6G.

**Table 3.6: TPG Invested capital and return on invested capital, FY24A to F28F (\$m)**

	FY24A	FY25F/A	FY26F	FY27F	FY28F	FY25A / FY24A	FY26F / FY25A	FY28F / FY25A
EBITDA	1,397	1,650	1,697	1,733	1,807	18.1%	2.9%	3.1%
EBIT	169	390	403	464	562	n.a.	3.3%	12.9%
Adjusted EBIT	529	501	518	579	582	(5.3%)	3.4%	5.1%
NOPAT	370	351	363	405	407	(5.3%)	3.4%	5.1%
Invested capital, Financial	17,767	15,251	12,784	12,444	12,425	(14.2%)	(16.2%)	(6.6%)
Invested capital, Operational	7,604	6,380	5,246	5,087	5,185	(16.1%)	(17.8%)	(6.7%)
Financial RoIC	2.1%	2.3%	2.8%	3.3%	3.3%	22bp	54bp	33bp
Operating RoIC	4.9%	5.5%	6.9%	8.0%	7.9%	63bp	141bp	79bp
Operating RoIC, TPG Pro Forma	4.8%	5.4%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Note: TPG's operational base of invested capital includes operating assets such as network assets, right of use (RoU or leased assets) and spectrum. TPG's financial base of invested capital includes the full base of capital contributed by investors, including operational assets as well as non-operational assets such as goodwill and brand valuations. For RoIC assessment the invested capital base is the average of opening and closing balances each year. Adjusted EBIT and NOPAT exclude customer base amortisation, material one-off items and non-operational income.

Source: TPG 2025 Annual Report and investor presentations. IMA forecasts and estimates.

TPG's operational base of invested capital has reduced from \$7.6bn in FY24 to, we estimate, \$5.2bn in FY26, a 31% reduction over two years. We forecast this base of capital to vary slightly between about \$5.0bn and \$5.2bn in FY27 and FY28. Being representative of operational assets this base of capital will also vary more directly with both further investment in spectrum with ESL renewal payments (and possibly further spectrum allocations) and networks for ongoing operations and TPG's approach to 6G.<sup>9</sup>

TPG's returns were relatively flat in FY25 with an EBIT (adjusted for non-operational items) of \$501m a little lower than FY24 at \$529m. (TPG reported EBIT of \$512m and \$534m respectively after adjusting for customer base amortisation and material one-off items. We also exclude non-operating income of \$11m and \$5m respectively.) While MSR increased 4.2%, the 5.3% EBIT decline reflects initial opex and depreciation and amortisation impacts from the regional network sharing and TAWFA deals which we expect to moderate in FY26F before improving operating leverage in the following years.

On that basis we forecast a small increase in EBIT in FY26F and a strong c5.1% pa increase over the following two years. Our forecasts are qualified by the extent of uncertainty in the nature of the costs (both opex and D&A) relating to the two capacity deals and how these will play out as MSR increases.

Despite the relatively flat earnings performance in FY25 and forecast for FY26, TPG's return on its financial base of invested capital improved from 2.1% in FY24 to 2.3% in FY25 and we

<sup>9</sup> See our explanation of the respective capital bases in Attachment A.

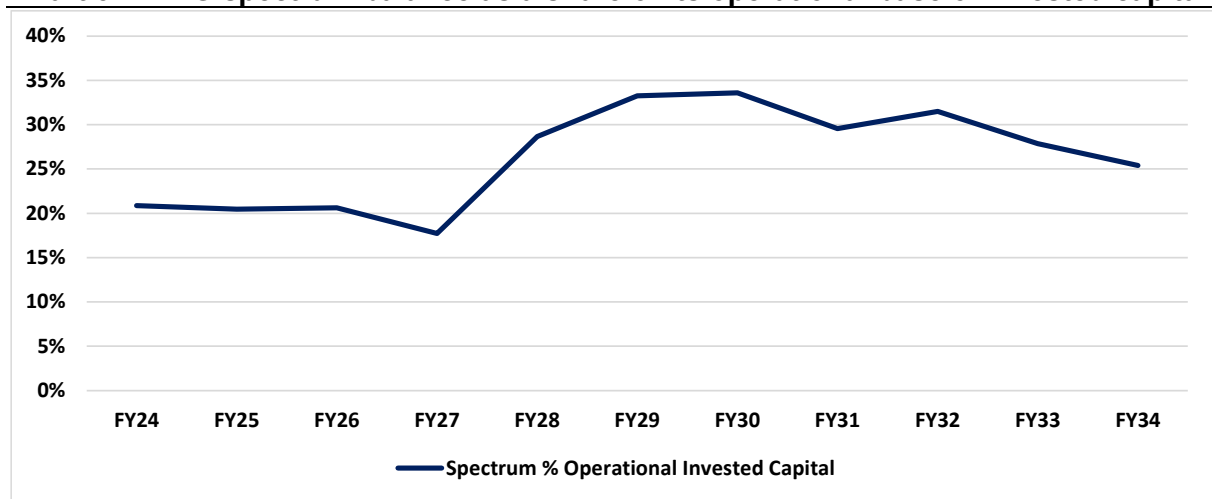
expect to step up to 2.8% in FY26F predominantly due to the lower base of invested capital. In the following two years we estimate a further step up in RoIC to 3.3% as a result of forecast steady growth in MSR and improved operating leverage derived from the two deals.

TPG's return on its operational base of invested capital improved from 4.9% in FY24 to 5.5% in FY25 and we expect to step up to materially to 6.9% in FY26F predominantly due to the lower base of capital invested in operational assets through the MOCN and sale and lease back agreements. In the following two years we estimate a further step up in RoIC to 8.0% with the forecast steady growth in MSR and improved operational earnings. The impact of these RoIC trends is mitigated in FY28F and FY29F is mitigated by a small increase in the base of invested capital resulting from ESL renewal payments in those two years.

With its revised operational structure, spectrum makes up a bigger part of TPG's operational base of invested capital. With spectrum amortisation averaging c\$270m pa, TPG's spectrum balance has dropped sharply, to \$1.3bn in December 2025. We estimate it will fall to about \$0.9bn in December 2026, before lifting with the initial impact of ESL renewal payments.

The reduction in TPG's spectrum investment in FY24 and FY25 has mirrored the reduction in its operational base of invested capital because of the 2025 EGW sale and balance sheet restructure, so has had little impact on spectrum's share of this base. With the peak of ESL renewal payments in FY28 and FY29 (a total of c\$1.44bn), spectrum will increase to about 1/3<sup>rd</sup> of this base of TPG's invested capital.

**Chart 3.1: TPG spectrum balance as a share of its operational base of invested capital**



Note: Operational Invested Capital is based on Continuing Operations as reported for FY24 and FY25. The dip in the forecast ratio in FY27 followed by the steady increase to FY30 and longer-term decline reflects both the reset of TPG's operational base of invested capital in FY25, ongoing amortisation and the subsequent ESL renewal payments being a larger relative component of direct investment. The long-term pattern will also be impacted by any further spectrum acquisitions.

Source: TPG 2025 Annual Report. ACMA ESL consultation reports. IMA estimates and forecasts.

### **3.4 Ability to fund ESL renewal ... tighter than the other two MNOs but still has good scope to manage cashflow**

With lower long term operating leverage and earnings margins than its rival MNOs, a key question is whether TPG will have the ability to fund its ESL renewal payments of around \$2.1bn at the indicated levels. We estimate it has sufficient scope in its cash earnings outlook and balance sheet management following its recent restructure to meet these payments in the normal course of its long-term capital planning.

**Table 3.7: TPG’s ESL spectrum payments at updated v previous preliminary view, FY28F to F33F (\$m)**

Financial year (Dec YE)	ESL bands	Preliminary ESL, Lower bound	Preliminary ESL, Upper bound	Updated preliminary view
FY28	850MHz, 1800MHz	575	709	795
FY29	700MHz	526	643	641
FY30	3.4GHz	287	365	374
FY31	n.a.	0	0	0
FY32	2GHz	177	221	307
FY33	n.a.	0	0	0
Total, nominal		1,566	1,937	2,117

Source: ACMA 2025. IMA forecasts and estimates.

TPG’s future ESL spectrum payments based on the updated preliminary view on pricing ESL are 9.3% higher in aggregate on a nominal basis than those based on the previous preliminary views. The two most material changes are:

- FY28 payments for 850MHz and 1800MHz ESLs, which increase in aggregate by \$85.7m (10.8% from the upper bound).
- FY32 payments for 2GHz ESLs, which increase in aggregate by \$87.0m (28.3%).

At these ESL prices TPG will have negative free cashflow in FY28 and FY29 and will need to draw down on debt (or raise equity) to meet these payments. TPG’s FY28F ESL payment would be higher than the top of its (indicated) capex range for that year, and its FY29F ESL payment may similarly be close to the peak of its capex level. Those two relatively high payment years heighten the possibility that TPG may consider moderating its capex spend in those years, or the lead up to those years. More likely, we consider, TPG has scope its long term cashflow outlook to manage both capex on a business-as-usual basis and ESL renewal payments at the indicated levels with potential capital funding in the two peak years.

Against that, while the amounts are manageable against our forecast FCF for the respective years, it’s also worth noting that (on our LT forecasts) TPG is likely to have several years of good OpFCF in the years prior to these payments with which to build and reserve necessary capital. And it also has financing options available to support peak period ESL renewal payments including both debt and equity funding with the respective cost of each being largely a function of its operating performance and outlook.

Depending on its MSR growth rate and management of operating cost in its revised operating structure, we estimate TPG will generate a cumulative total of between \$14.0bn and \$16.0bn in cash earnings over an eight-year period to 2033, the last year of ESL renewal payments.

In comparing TPG’s ESL payments to its cash generation over this period, a key difference between it and the other two MNOs is that following its FY25 restructure, it now has a capex-light operating model. It effectively substitutes much of its need for capital expenditure with operating cost in respect of payments to Optus and Vocus. (Although, much of the change remains as capital expense and retains a good degree of ownership’ economics and related operating leverage.) In long term financial terms, it now faces lower BAU capex than it might have otherwise faced but more operating cost and lower EBITDA.

**Table 3.8: Indicative TPG ESL renewal payments v cumulative EBITDA to FY33 (\$bn)**

	Eight years to FY33 low growth		Eight years to FY33 medium growth		Eleven years to FY44	
	(\$bn)	share	(\$bn)	share	(\$bn)	share
Cumulative EBITDA	14.0	n.a.	15.9	n.a.	29.3	n.a.
Cumulative OpFCF	14.0	n.a.	16.0	n.a.	-	n.a.
Cumulative BAU capex	5.9	42.1%	5.9	37.1%	-	n.a.
Nominal ESL payment	2.1	15.0%	2.1	13.2%	2.1	7.2%

Note: We forecast TPG's EBITDA, OpFCF and capex to FY28 and extrapolate to FY33 at nominal growth rates.

Cumulative indicative EBITDA to FY44 is based on the FY33 estimate capitalised at 3% pa.

Source: IMA forecasts and estimates.

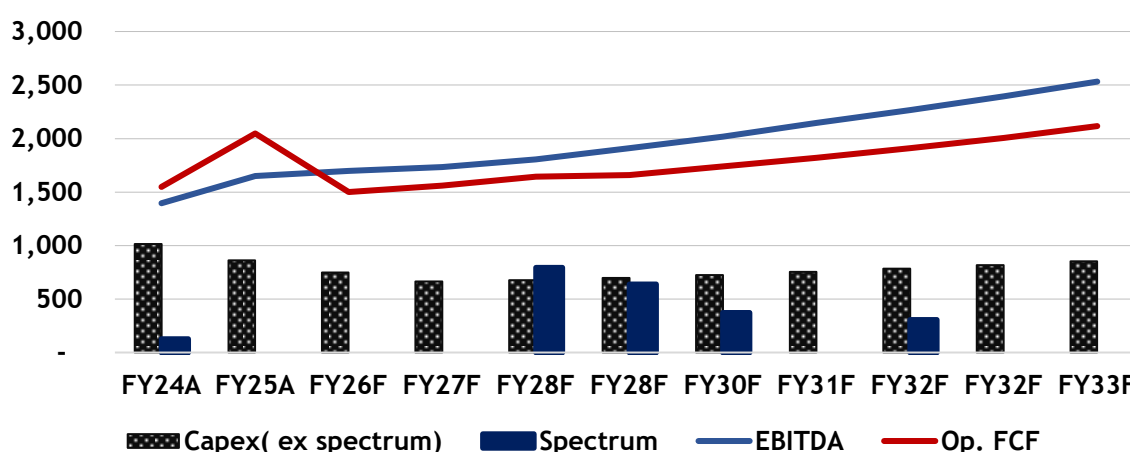
As a 3<sup>rd</sup> MNO in terms of market share TPG faced lower long term operating leverage relative to Telstra and Optus, and these structural changes reduce that further but with the benefit of substantially lower business as usual (BAU) capex. TPG expects to materially reduce its BAU capex from FY27 to between \$550m and \$650m. We take a more conservative view that's its capex will only reduce to near the top end of this range (i.e. \$664m in FY27F) and average \$734m pa over the eight-year period.

Given those changes, TPG's long term capex profile is materially lower than Optus's as a share of cumulative (nominal) cash earnings, between 37% and 42%, compared with Optus at over 50%. (See table 5.3 in section 5.3.)

On the other hand, its nominal ESL renewal payment is a higher proportion of cumulative EBITDA at between 13% and 15%. Without the change in its operating model we expect this share would be close to 10% and closer to our indicative estimate for Optus at 8.8%.

Over the period to 2044, capitalising our FY33F indicated EBITDA at a rate of 3% pa would realise nominal cumulative EBITDA over eleven years of between about \$25bn and \$29bn. On that basis the nominal value of ESL renewal payments would be between 7.2% and 8.4% of cumulative cash earnings over that period.

**Chart 3.2: TPG indicative eight-year cashflow outlook v ESL renewal payments (\$m)**



Note: For this indicative comparison, OpFCF is EBITDA less working capital and timing changes, and after tax and interest payments. TPG's FY25 OpFCF was materially higher than EBITDA as a result of structural changes to its receivables balance.

Source: TPG 2025 Annual Report. ACMA ESL consultation reports. IMA estimates and forecasts.

Chart 3.2 shows the long-term relationship between EBITDA, operating FCF (after tax and interest) and spectrum payments alongside capex. Although forecast ESL renewal

payments are a little higher than our previous forecast, the cash earnings outlook is at least as strong.

Given the tighter relationship between its OPFCF and capital payments including BAU capex and ESL renewal payments, compared with MNO rivals, TPG is more likely to need to draw on capital management over the six-year renewal period. It has significant balance sheet headroom at least sufficient to manage capital payments in our assessment, based on our operating forecasts.

TPG restructured its balance sheet extensively following its EGW sale and its handsets receivables financing. It returned equity to shareholders, although also raised new equity and widened its shareholder base. It also reduced net debt (excluding leases) by \$2,768m to \$1,289m. Its net debt (ex leases) to EBITDA was 0.7x at its Dec 2025 balance date, well within its bank covenants of 3.75x. On our forecasts, this ratio is likely to remain below 1.0x through the renewal period, well below covenants. These may vary with refinancing given the outlook for the business but is unlikely to materially diminish TPG's capital management headroom

TPG has \$1.7bn in debt facilities maturing in FY28, of which it has drawn \$868m, providing headroom until maturity of \$797m. It has a further \$500m (fully drawn) maturing in FY29. If its operational performance is in line with the outlook presented here, these facilities should be readily refinanced.

**Table 3.9: Three-year outlook for TPG's key balance sheet metrics**

	FY24A	FY25A	FY26F	FY27F	FY28F
EBITDA	1,950	1,821	1,697	1,733	1,807
Net debt	6,262	4,082	3,963	3,693	4,068
Net debt (ex lease)	4,057	1,289	1,212	983	1,399
Gearing	35.9%	32.0%	31.8%	30.6%	32.9%
Debt service ratio	3.2x	2.2x	2.3x	2.1x	2.3x
Ex lease debt service	2.1x	0.7x	0.7x	0.6x	0.8x

Note: For financial ratios we have used TPG's Reported EBITDA rather than Continuing EBITDA for FY24 and FY25. See Table 3.3 for reconciliation.

Source: TPG 2025 Annual Report. IMA forecasts and estimates.

Given the potential cash generation over the period of ESL renewal payments and the extent of headroom in its balance sheet, we consider that TPG is well positioned and well able to manage its capital position and prospects including coverage of BAU capex while meeting ESL renewal payments at the indicated ESL renewal prices as they fall due in the period between 2028 and 2033.

## **4 Telstra: Mobile looks a little stronger than previous forecasts, offsetting challenges in fixed operations**

### **4.0 Summary: The case for Telstra's ESL renewal remains strong**

Telstra's operating performance for the year to 30 June 2025 (reported in August 2025) was close to our (then) forecasts with MSR and mobile EBITDA a little above our forecasts. Although group income was lower than forecast, good cost control led to EBITDA \$127m higher than forecast.

Capex is running a little lower than forecast and its base of operational invested capital is also a little lower than forecast. Driven substantially by its mobile operations and following write-downs in FY24, Telstra's RoIC has continued to lift, and we estimate is on track to meet its Connected Future 30 strategic target of 10%. In our assessment the lift in returns is substantially if not predominantly driven by its strong mobile operating performance. We consider this as a strong indication of willingness to renew ESL spectrum at the indicated preliminary prices.

Through FY25 and FY26 Telstra is buying back c\$1.75bn in equity which tends to raise the base of invested capital but, at the margin of capital funding, replaces equity with less expensive debt. Its capacity to do this reflects strong operating cashflow which gives it great scope to manage balance sheet settings.

In summary Telstra's FY26 operational cashflow is in line with or better than we had forecast previously and, based on current forecasts, we consider the company continues to be well placed to meet ESL renewal payments at the updated preliminary prices.

### **4.1 Key FCF drivers: the case for Telstra ESL renewal remains strong**

Telstra is in a good operating position following its 1H26 result with key measures in line with or a little ahead of our forecasts of July 2025.

- 1H26 MSR was 5.6% and we expect a similar rate across FY26 given recent price rises offset lower subscriber growth.
- Other revenue lines are weaker than expected including E&G and Consumer BB leading us to lower our FY26F by c\$600m, and three year growth from 2.0% to 0.6%.
- MSR is Telstra's main driver of operating leverage and EBITDA with higher revenue lifting our forecast for FY26 by \$200m to \$300m. Nevertheless, we have retained a more conservative three year outlook given the inflation outlook and trends in operating cost.

**Table 4.1: Current forecast: Telstra summary financial performance, FY24A to F28F (\$m)**

	FY24A	FY25A	FY26F	FY27F	FY28F	3 yr CAGR		
						FY25A / FY24A	FY26F / FY25A	FY28F / FY25A
Mobile service revenue	8,224	8,508	8,993	9,358	9,633	3.5%	5.7%	4.2%
Group income	23,482	23,610	23,637	23,738	24,056	0.5%	0.1%	0.6%
Operating EBITDA	7,528	8,607	8,903	8,889	9,068	14.3%	3.4%	1.8%
Capex ex spectrum	3,780	3,817	3,659	3,473	3,368	1.0%	(4.1%)	(4.1%)
Spectrum payments	1284	57	0	0	856	n.a.	n.a.	n.a.
FCF	1,324	2,648	3,519	3,649	2,994	100.0%	32.9%	4.2%
Invested capital	32,669	32,933	32,332	31,539	31,229	0.8%	(1.8%)	(1.8%)
Underlying RoIC (TBC)	8.3%	8.5%	8.7%	9.3%	9.8%	0.2%	0.2%	0.4%

Note: FY24 EBITDA includes \$685m in E&G impairments and restructuring charges. Telstra's earnings guidance for FY26 is Underlying EBITDAaL of \$8.2bn to \$8.4bn, after c\$600m in lease charges; i.e. our FY26F is mid-guidance. Capex includes Business-as-Usual capex and Strategic Investments. Spectrum payments in FY25 include \$56m in instalment payments already booked as an asset, as well as \$0.9m in other spectrum licences. We have used Telstra's measure of invested capital, that is average net debt plus the book value of equity.

Source: Telstra 2025 Annual report and 1H26 ROR. IMA estimates.

Telstra's other indirect expenses increased by \$106m (8.2%) \$1,401m partly due to one-off impairments. However, two other ongoing cost trends are "higher than usual customer remediation and compensation ... and non-labour cost inflation" (Telstra 1H26 ROR) and operations review, p 11). These were partly offset by cost reduction initiatives. Telstra has also had relative success in managing lower power costs.

## 4.2 Telstra's mobile operations outcomes v previous expectations

Telstra's reported FY25 MSR of \$8,508m was 0.6% above forecast while its MSR result for 1H26 is running ahead of our previous FY26 forecast on a run-rate basis. The two results have lead us to raise our FY26F MSR by 3.1% to \$8,993m.

Telstra's MSR growth was even stronger in 1H26 largely due to price changes in July 2025, which applied across the full HY. These supported ARPU growth of 4.8% in postpaid, 14.7% in prepaid and 7% in wholesale (both postpaid and prepaid.) Subscriber growth was moderate in the two retail categories only 16k in postpaid (0.2% over 6m) and 21k in prepaid (0.5% 6m).

Although Telstra's retail subscriber base is below forecast, Telstra has offset this with somewhat better wholesale growth and price rises which have returned blended ARPU to FY24 levels. Pricing partly reflects inflationary pressures as well as consolidation of subscriber gains made in FY23 and FY24.

The focus of price and ARPU as MSR growth drivers compared with flat retail subscriber growth may also reflect that Telstra is running closer to network capacity given high rates of growth in subscribers and usage in recent years, and may be a key reason for Telstra's decision to boost mobile network capex.

On a three year view we expect MSR growth rates to moderate in real terms although closer to inflation and inflation-driven operating cost. On that basis we forecast MSR CAGR over three years at 4.2%. That rate, we consider, allows Telstra to continue to increase its mobile EBITDA at close to mid-single digit rates.

**Table 4.2: Telstra mobile operations, FY24A to F28F (\$m)**

	FY24A	FY25A	FY26F	FY27F	FY28F	FY25A /FY24A	FY26F /FY25A	FY28F / FY25A
Mobile service revenue (\$m)	8,224	8,508	8,993	9,358	9,633	3.5%	5.7%	4.2%
- Previous F MSR (\$m)	8,224	8,456	8,726	9,037	n.a.	2.8%	3.2%	n.a.
Mobile EBITDA (\$m)	5,026	5,261	5,498	5,739	5,914	4.7%	4.5%	4.0%
- Previous F Mobile EBITDA (\$m)	5,026	5,231	5,431	5,654	n.a.	4.1%	3.8%	n.a.
Postpaid subscribers (k)	8,942	8,886	8,911	8,931	8,961	(0.6%)	0.3%	0.3%
Prepaid subscribers (k)	3,097	3,021	3,051	3,096	3,142	(2.5%)	1.0%	1.3%
MBB subscribers (k)	2,823	2,651	2,492	2,367	2,249	(6.1%)	(6.0%)	(5.3%)
Retail subscribers (k)	15,573	15,105	14,980	14,900	14,838	(3.0%)	(0.8%)	(0.6%)
- Previous F Retail subs. (k)	15,573	15,523	15,599	15,678	n.a.	(0.3%)	0.5%	n.a.
Retail including IoT (k)	24,186	24,948	26,103	27,135	27,930	3.2%	4.6%	3.8%
Postpaid ARPU (\$pm)	52.9	54.2	56.6	58.5	60.0	2.5%	4.4%	3.5%
Prepaid ARPU (\$pm)	27.0	29.3	32.5	34.1	35.5	8.4%	11.0%	6.6%
Blended ARPU (\$pm)	29.3	28.9	29.4	29.3	29.2	(1.5%)	1.7%	0.3%
- Previous F Blended ARPU (\$pm)	29.3	28.4	27.9	27.5	n.a.	(3.1%)	(1.8%)	n.a.

Source: Telstra 2025 Annual Report, 1H26 RoR and investor presentations. IMA forecasts and estimates.

We had revised down our three year growth outlook after Telstra's FY25 result given the indications of slower subscriber growth (Table 4.3). Since then, the extent of price changes (including inflation impacts) and the timing of price changes to drive category ARPU, have partly offset that reduction in MSR outlook. Compared with earlier forecasts with year three (ie then FY26F) MSR at \$9,118m, management of price and ARPU has 'recovered' about 2/3<sup>ds</sup> of that lower MSR outlook.

**Table 4.3: Tracking changes in our FY26F Telstra MSR and mobile EBITDA (\$m)**

	FY26F	Change on previous	3 yr CAGR	IMA comment
MSR forecast of June 2023	9,118	.	5.4%	Good three year growth outlook
MSR forecast of July 2025	8,726	(392)	3.9%	Rapid slow down in subscriber growth
MSR forecast of March 2026	8,993	267	4.9%	Focus on price and ARPU
Mob EBITDA forecast of June 2023	5,367	.	5.3%	Improvement in operating leverage
Mob EBITDA forecast of July 2025	5,431	64	5.7%	Lower subscriber acquisition cost
Mob EBITDA forecast of March 2026	5,498	67	6.1%	Cost control v inflation et al

Source: Telstra 2023, 2024 and 2025 Annual Report, Telstra ROR and investor presentations. IMA forecasts and estimates.

The impacts of Telstra's responsive or pre-emptive operational management are greater in respect of cost control and mobile EBITDA. The initial impacts of lower subscriber acquisition and other costs, in the face of a lower outlook for subscriber growth, and a switch in focus to wholesale, have continued with a strong operational focus on cost in the face of inflationary pressure and growing competition.

Over the three year period from FY23 the relative change in MSR and mobile EBITDA drivers from largely retail subscriber driven to a focus on wholesale subscriber, price and ARPU and operating costs, has lifted mobile and EBITDA margin from 44.9% to 47.7% (IMA FY26F), that is 284bp over three years, a c\$900m uplift in mobile EBITDA over three years.

(Indeed, the uplift would have been somewhat higher but for the high cost of initial D2D mobile operating cost and a higher allocation of shared cost as Mobile becomes a bigger part of the overall business.)

### **Wholesale and other MSR categories**

We have previously noted increasing MSR contributions from non-retail categories MBB, wholesale and IoT.

- Although MBB subscription continues to fall (i.e. by 6.8% in 1H26) Telstra has increased ARPU significantly (ie by 9.0% in 1H26) providing low growth in MBB MSR (ie 2.0% in FY26). We consider this to be a one-off partly inflation driven adjustment and take a conservative view the MBB revenue will decline moderately over three years to FY28.
- IoT also reported anomalously high MSR growth in 1H26 (ie 8.3% in 1H26 v c2.0% in previous periods) which we consider a result of short term price effects with growth over three years likely to moderate.
- Wholesale MSR continues to grow at good double-digit rates (18.7% in 1h26), in line with our forecasts, with the wholesale service category being a key feature of Telstra's approach to increasing competition. Nevertheless, it's notable that Telstra delivered a significant step up in wholesale ARPU in 1H26 (c8.7% to \$18.6pm) in part reflecting inflationary pressures. Given the market outlook we expect comparable wholesale MSR growth on a three-year view.

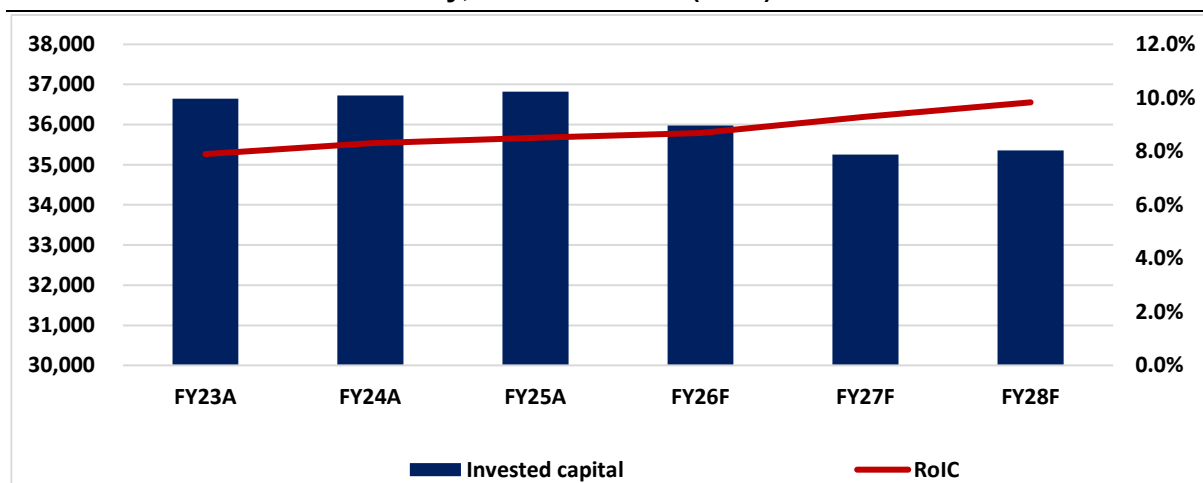
### **4.2 WTP for ESL renewal: good long term RoIC recovery**

Telstra reported a return on invested capital of 8.5% for FY25, an increase of 1.7% on FY24. This compares with a cost of capital, we estimate around 7.5% to 8.0%. Reported returns fell to c7.0% in FY22 following a disruptive period in its fixed line operations, the impacts of Covid on mobile and other operations and over investment in 4G and E&G businesses. On an underlying basis, excluding one-off receipts and other impacts, returns were even lower through that period.

Telstra's RoIC has continued to lift so far in FY26 with a 1H26 return of 8.8%, an increase of 0.8% on 1H25. We forecast Telstra's RoIC at 9.8% in FY28F and consider it is on track to meet its Connected Future 30 strategic target of 10%.

In our assessment Telstra returns are substantially if not predominantly driven by its mobile operations including strong MSR growth and ongoing development of related operating leverage. Its mobile operations have driven the recovery in returns with EBITDA margins lifting from below 30% in the Covid-impacted period to close to 48% in FY25. Over the same period mobile EBITDA has increased from less than 50% of group EBITDA to over 60%, despite now carrying a higher share of joint costs.

**Chart 4.1: Telstra ROIC recovery, FY23A to F28F (A\$m)**



Note: We haven't included Telstra's 2026 \$1bn buyback in this assessment. Buying back shares at market price above face value tends to increase the base of invested capital but may reduce the cost of capital against which RoIC is compared.  
Source: Telstra 2025 Annual Report and 1H26 ROR. IMA estimates.

The RoIC recovery also follows write-downs in Telstra E&G business in FY24, which also highlights the growing relative importance of its mobile business as the most substantial driver of returns and economic value.

There are, of course, operational and structural risks to this ongoing recovery outlook and significant investment decisions ahead. Nevertheless, we consider Telstra well able to assess and manage these risks and assess investment opportunities including that offered by emerging 6G technologies. Given the increasing importance of its mobile operations to its long-term return outlook, we consider Telstra would have a strong case for investing in ESL renewal at the proposed prices.

### 4.3 Ability to fund ESL renewal ... readily able to manage cashflow

Telstra faces seven ESL renewal payments between 4Q28, late in its FY28, and October 2032, that is in 1Q or 2Q of its FY33. At the updated preliminary ESL prices, these total \$2,420 million in nominal terms over a period of six financial years. Of these about 60% of the payments occur in a fifteen-month period between 1QFY30 and 2QFY31.

**Table 4.4: Timing of Telstra's ESL renewal payments at proposed prices (\$m)**

Financial year (Dec YE)	ESL bands	Preliminary ESL, Lower bound	Preliminary ESL, Upper bound	Updated preliminary view
FY28	850MHz, 1800MHz	643	791	856
FY29	n.a.	0	0	0
FY30	2.5GHz, 700MHz	865	1,058	1,326
FY31	2.3GHz, 3.4GHz	312	395	407
FY32	n.a.	0	0	0
FY33	2 GHz	141	176	256
<b>Total, nominal</b>		<b>1,961</b>	<b>2,420</b>	<b>2,846</b>

Source: ACMA ESL consultation reports. IMA forecasts.

We forecast that Telstra will generate about \$27bn in EBITDA over the three years to FY28 when the first of its ESL renewable payments are due. We estimate cumulative EBITDA would be about \$77bn over the eight-year period to FY33 when its final ESL payment is due.

(This estimate is based on an extrapolation of our detailed three-year forecasts at a nominal rate of c4% pa. Among other things it assumes steady growth in MSR and ongoing gains in operating leverage but does not allow for significant risk to the pattern of earning, for instance through a covid-like event.)

Allowing for working capital adjustments we forecast Telstra's operating cashflow would amount to \$23.4bn over three years to FY28. From this we expect Telstra would fund \$11.4bn in capex, including \$500m in strategic (or growth) capex and its first ESL payment of \$856m.

As a broad indication, on an eight-year extrapolation to FY33, we estimate operating cashflow would aggregate to \$65.5bn, sufficient to fund an estimated \$27.9bn in BAU capex (36.2% of cumulative OpFCF) and \$2.9bn in aggregate ESL renewal payments. On these indications that would leave Telstra with an estimated \$35bn to meet capital commitments and strategic investments.

In that long-term indicative cash earnings framework, Telstra's ESL renewal payments at the updated preliminary prices would represent 3.7% of cash earnings, compared with 3.1% based on the upper bound of the previous preliminary prices.

Looking forward, over the subsequent eleven period to 2044 covered by the renewed ESL licences, capitalising our FY33F indicated EBITDA at a rate of 3% pa would realise nominal cumulative EBITDA over the further 11 years of \$142bn.

While this estimate includes nominal growth over 11 years, ESL renewal payments are nominated at the \$ value of the period in which they are paid. The difference in real value generation v nominal investment reflects a benefit of asset acquisition and ownership by those well placed to make such investment decisions. On that basis the nominal value of ESL renewal payments is about 2.0% of cumulative cash earnings.

Against that, it is possible that capex climbs to a higher share of cumulative cash generation depending on 6G investment drivers. However, that would reflect an even more positive view about long term mobile earnings and return outcomes, reflecting better value for its investment in ESL spectrum.

On that broad indicative basis and bearing in mind the effect of uncertainty on forecast and extrapolated outcomes, we consider Telstra would be well placed to meet ESL renewal payments at the updated preliminary prices as they fall due in the period between 2028 and 2033.

**Table 4.5: Indicative Telstra ESL renewal payments v cumulative EBITDA to FY33 (\$bn)**

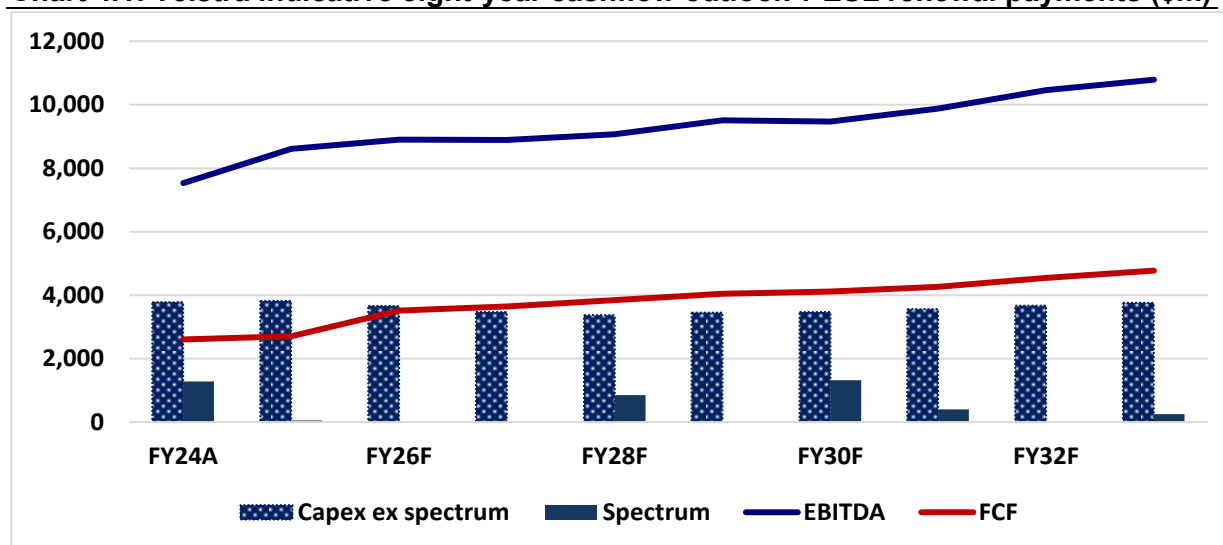
	Eight years to FY33		Eleven years to FY44	
	(\$bn)	share	(\$bn)	share
Cumulative EBITDA	77.1	n.a.	141.9	n.a.
Cumulative OpFCF	65.5	n.a.	-	n.a.
Cumulative BAU capex	(27.9)	(36.2%)	-	n.a.
Nominal ESL payment	(2.9)	(3.7%)	(2.9)	(2.0%)

Note: We forecast Telstra EBITDA, OpFCF and capex to FY28 and extrapolate to FY33 at nominal growth rates.

Cumulative indicative total from FY34 to FY44 is based on the FY33 estimate capitalised at 3% pa.

Source: IMA forecasts and estimates.

**Chart 4.1: Telstra indicative eight-year cashflow outlook v ESL renewal payments (\$m)**



Note: Telstra capex includes strategic capex program to FY27F. FCF is post capex but before spectrum payments.  
Source: Telstra financial reports. ACMA ESL consultation reports. IMA estimates and forecasts.

### Indicative balance sheet settings ... readily manageable

Telstra has a strong balance sheet despite recent write-downs, increasingly supported by the strong operating performance of its mobile operations. Its net debt was \$16.4bn on 30 June 2025, an increase of \$693m from 30 June 2024. That change reflects the buy-back of \$751m of equity shares in 2025, in turn reflecting the confidence of the board in Telstra's balance sheet settings and operational outlook. That confidence is indicated in the strong debt service coverage ratio which dropped from 2.1x EBITDA to 1.9x with the increase in earnings, despite the increase in net debt. Overall Telstra targets a coverage ratio of 1.75x to 2.25x and on our forecast outlook will readily manage this through to FY28.

**Table 4.6 Three-year outlook for Telstra's key balance sheet metrics**

	FY24A	FY25A	FY26F	FY27F	FY28F
Net debt	15.8	16.4	15.2	13.9	13.3
Gearing	47.6%	50.2%	47.5%	44.6%	42.6%
Debt service	2.1x	1.9x	1.7x	1.6x	1.5x
Average cost of debt	5.0%	5.0%	4.9%	5.0%	5.0%

Note: We haven't factored further capital management into these balance sheet metrics, which would for instance keep debt service and gearing at comparable levels to FY25 balance date. For instance, Telstra is undertaking a \$1bn buyback in FY26. Source: Telstra 2025 Annual report and RoR. IMA forecasts and estimates.

Good operating performance of its mobile operations in 1H26 continued to strengthen Telstra's balance sheet. It has commenced a further buyback of c\$1bn in FY26, and completed \$0.6bn of this in 1H26, increasing net debt to \$16.4bn.

We haven't factored the ongoing buyback into our FY26 forecast as yet which will increase net debt compared with the outlook in table 4.6. Given the operating outlook, Telstra has great scope for ongoing balance sheet management over the period to June 2028. For instance it could maintain comparable balance sheet settings as for June 2025 while meeting ESL renewal payments at the indicated levels and return further equity capital over this period.

## 5 Optus: earnings recovery is evident despite operational issues

### 5.0 Summary: FY26 operations tracking well supports our view that Optus can meet ESL renewal backed by Singtel group funding

Singtel's 1H26 result and 3Q26 Business Update show Optus is tracking close to our FY26 forecasts with cash earnings likely to beat our FY26 forecast. The emergency services outage had minor effects on subscriber growth and operating cost but does not seem to have materially impacted earnings recovery. Capex for 1H26 is a little lower than the forecast rate but may pick up in 2H26. Overall, the cash earnings and investment outlook is supportive of our three-year forecast.

In terms of willingness to pay for ESL spectrum renewal we note that Optus's operational RoIC is still below its cost of capital in part as Optus's base of investment capital lifts with its 5G rollout program. Nevertheless, incremental improvement supports our view that Optus has a clear long-term path to an economic RoIC.

In terms of ability to fund ESL renewal we consider Optus has scope in its operational cash outcomes to fund renewal over several years although it is likely to have to manage balance sheet settings through the peak period of renewal. Optus manages a strong balance sheet supported by its own operational outcomes and investment within the Singtel group. It has a record of capital contributions to the Singtel Group from which it can draw down as needed to fund investments such as large spectrum payments.

### 5.1 Operational review: FY26 operations tracking well against forecast

Singtel's 1H26 result reported in November 2025 shows Optus is tracking close to our FY26 forecasts.<sup>10</sup> High level metrics reported with its Business Update for 3Q26 also indicate EBITDA running ahead of forecast. On that basis we have made only minor adjustments to key operational drivers with minimal impact on three-year operating forecasts.

In September 2025 Optus experienced a serious outage that impacted emergency services. Being just prior to the end of 1H26 it had no material impact on 1H26 results but raised the risk that Optus might experience a set-back to operational performance in 2H26. However, metrics reported with its 3Q26 Business Update show only minor impacts on business operations. Mobile subscribers and MSR held up well in the quarter despite the outage and EBITDA is well on track to meet or beat our FY26F of A\$2,319m (previous F of A\$2,328m).<sup>11</sup>

- 1H26 MSR of \$2,125m was 4.8% growth on 1H25, and represents 49.9% of our FY26 target. MSR would ordinarily be expected to be higher in 2H26 although expectations were tempered following the emergency services outage late in 2H26. However, 1H26 net additions and resilient ARPU delivered good MSR growth of 2.3% for the 9m to December 2025. 9m MSR of \$3,200m suggests Optus would comfortably beat our FY26F of \$4,255m.
- Mobile handset revenue of \$681m was 4.6% below 1H25, with the decline possibly reflecting lower net additions and subscriber retention. This revenue line typically peaks in the 3<sup>rd</sup> quarter before dropping in 4Q. That adjustment may mean our forecast for total mobile revenue is too high, but if so, this would have little cash earnings impact given the low margins on devices.

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<sup>10</sup> Singtel is due to report Optus's FY26 result (for the year to 31 March) in mid-May.

<sup>11</sup> All Optus financial data is in A\$ terms unless otherwise indicated.

- On balance, it seems likely that Optus will comfortably exceed our estimate of mobile EBITDA and may exceed a 40% margin in 2H26. This is the key contributor to Optus group EBITDA and so a leading indication that Optus group EBITDA will exceed our FY26F of \$2,319m.
- Against that, there are inflationary pressures on some cost lines and Optus has increased its staff numbers by 2.8% partly, we consider, in response to its emergency services outage and wider customer remediation issues.
- Mobile capex was relatively high in 1H26 at \$396m, reflecting an acceleration in its regional 5G rollout, and we think will remain at comparable levels while this rollout continues. And total capex at \$726m in 1H26 is running ahead of FY26 guidance of A\$1.3bn. Given this and ongoing inflationary pressures we have taken a more conservative view than previously on capex over three years.

**Table 5.1: Optus mobile operations, FY24A to F28F (A\$m)**

	FY24A	FY25A	1H26A	FY26F	FY27F	FY28F	FY26F / FY25A	1H26A / FY26F	3 yr CAGR FY28F / FY25A
Mobile service revenue (\$m)	3,943	4,105	2,125	4,255	4,412	4,552	3.7%	49.9%	3.5%
Total mobile revenue (\$m)	5,425	5,663	2,806	5,872	6,069	6,261	3.7%	47.8%	3.4%
Mobile EBITDA (\$m, est)	1,462	1,562	837	1,670	1,791	1,868	6.9%	50.1%	6.1%
MSR EBITDA margin	37.1%	38.0%	39.4%	39.2%	40.6%	41.0%	1.2%	(0.1%)	3.0%
Mobile capex (\$m)	850	614	396	757	750	751	23.4%	52.3%	6.9%
Postpaid subscribers (k)	5,960	5,841	5,843	5,876	5,916	5,961	0.6%	99.4%	0.7%
Prepaid subscribers (k)	3,456	3,800	3,803	3,880	3,964	4,052	2.1%	98.0%	2.2%
MBB subscribers (k)	1,052	1,065	1,071	1,074	1,088	1,104	0.8%	99.7%	1.2%
Total subscribers (k)	10,468	10,706	10,717	10,830	10,968	11,117	1.2%	99.0%	1.3%
Postpaid ARPU (\$pm)	41.8	43.6	45.2	45.3	46.6	47.6	3.8%	100.0%	2.9%
Prepaid ARPU (\$pm)	19.0	19.4	20.0	19.8	20.1	20.5	2.1%	101.3%	1.9%
Blended ARPU (\$pm)	31.4	32.4	33.1	33.0	33.7	34.3	1.9%	100.2%	2.0%

Note: Mobile EBITDA is IMA estimate. Optus now reports postpaid ARPU for branded services at \$49pm for 1H26, forecast in this table are IMA estimates.

Source: Singtel 2025 Annual Report, 1H26 MD&A and 9m 2026 Business Update. IMA estimates.

On these trends we consider it is likely that both EBIT and cash earnings will be comfortably ahead of our FY26F, and supportive of our three-year forecasts. There is scope for Optus to lift earnings at a greater rate, in part as it builds operating leverage on its expanded 5G network, however the extent of management challenges suggests a more cautious rate recovery.

## 5.2 WTP to pay for ESL renewal: long term RoIC recovery

Although there are risks to its improving three year operating outlook, on reasonable growth expectations and the absence of further major setbacks, we forecast a lift in Optus's operating RoIC from 1.8% in FY24 to 2.6% in FY26F and 4.2% by FY28F. Although this is below its cost of capital (c 8.0% IMA estimate) the rate of recovery indicates positive incremental returns and a pathway to long term recovery. On that basis we consider Optus would have a strong case for investing in ESL renewal at the proposed prices.

There are a number of structural risks emerging that may influence expectations beyond the three year outlook and may come into greater consideration as 6G network investment becomes clearer. Many of these are within the scope of consideration, assessment and

preparation or response by Optus and the wider Singtel group. Notably, from a network investment viewpoint, there is scope for Optus to manage these through extending or varying its network sharing agreement with TPG.

Negotiating such arrangements, whether with TPG or other parties with interest in 6G networks is likely better based where Optus has secured relevant spectrum licences.

**Table 5.2: Current forecast: Optus summary financial performance, FY24A to F28F (A\$m)**

	FY24A	FY25A	1H26A	FY26F	FY27F	FY28F	FY26F / FY25A	1H26A / FY26F	3 yr CAGR FY28F / FY25A
Mobile service revenue	3,943	4,105	2,125	4,255	4,412	4,552	3.7%	49.9%	3.5%
Total revenue	8,062	8,177	4,090	8,386	8,628	8,883	2.6%	48.8%	2.8%
Operating EBITDA	2,103	2,223	1,187	2,319	2,470	2,558	4.3%	51.2%	4.8%
Invested capital	17,087	16,929	n.a.	16,382	16,714	15,973	(3.2%)	-	(1.9%)
Invested capital, opns	10,786	11,358	n.a.	11,140	10,929	10,817	(1.9%)	-	(1.6%)
Capex ex spectrum	1,572	1,554	726	1,525	1,552	1,579	(1.9%)	47.6%	0.5%
RoIC	1.2%	2.0%	1.9%	1.9%	2.7%	3.2%	(0.0%)	-	0.4%
RoIC operating	1.8%	2.9%	2.6%	2.6%	3.6%	4.2%	(0.3%)	-	0.5%

Note: We have made minimal changes to our previous forecasts (refer table 4.1 in our July 2025 report) which derive from adjustments to key drivers noted in the following section. Note also minor adjustments to our estimates base of invested capital will be reviewed following publication of Optus's 2026 balance sheet and cashflow.

Source: Singtel 2025 Annual Report, 1H26 MD&A and 9m 2026 Business Update. IMA estimates.

For this review we have not adjusted our indicative estimate of Optus's invested capital base from our previous assessment after its FY25 result given the company is yet to report FY26 results and is tracking close to our FY26 forecasts. As noted previously, our analysis of invested capital is indicative given Optus is funded at group level by Singtel and balance sheet data reported to shareholders differs in some respects to balance sheet data lodged with ASIC.

Our measure of Optus's Group RoIC shows initial recovery in FY25 to 2.0%. And a specific focus on an operating base of IC shows a better indication of RoIC (given the stronger operating outlook) from 1.8% in FY24 to 2.9% in FY25 and 4.2% by FY28F. Significant spectrum payments due in FY28 and FY29 will lift the base of invested capital and may inhibit the rate of recovery for a period, with further recovery beyond FY30 depending on its success in managing long term mobile operations and eventual 6G rollout.

There is a good prospect that Optus will achieve a more rapid lift in RoIC (on its operational base of invested capital) if operational outcomes are strong and depending on the ongoing level of capital investment.

### 5.3 Ability to fund ESL renewal ... scope to manage cashflow

The subsequent issue is whether Optus will be able to meet ESL renewal payments at the indicated levels, albeit Singtel may need to manage capital transfers between it and Optus from year to year. Over an eight-year period to 2033, the last year of ESL renewal payments, we expect Optus to generate c\$21.4 in cash earnings on a relative conservative operational view. On present trends we expect Optus's BAU capex to amount to just over half of these cash earnings.

In that long-term indicative cash earnings framework, Optus ESL renewal payments at the updated preliminary prices would represent 8.8% of cash earnings, up from 6.8% compared with the upper bound of the previous preliminary prices.

Looking forward, over the period to 2044 covered by the ESL renewals, capitalising our FY33F indicated EBITDA at a rate of 3% pa would realise nominal cumulative EBITDA over 11 years of \$39.4bn.

While this estimate includes nominal growth over 11 years, ESL renewal payments are nominated at the \$ value of the period in which they are paid. The difference in real value generation v nominal investment reflects a benefit of asset acquisition and ownership by those well placed to make such investments. On that basis the nominal value of ESL renewal payments is about 4.8% of cumulative cash earnings.

Against that, it is possible that capex climbs to a higher share of cumulative cash generation depending on 6G investment drivers. However, that would reflect a more positive view about long term mobile earnings and return outcomes, reflecting better value for its investment in ESL spectrum.

On that broad indicative basis and bearing in mind the effect of uncertainty on forecast and extrapolated outcomes, we consider Optus would be well placed to meet ESL renewal payments as they fall due in the period between 2028 and 2033.

**Table 5.3: Indicative Optus ESL renewal payments v cumulative EBITDA to FY33 (\$bn)**

	Eight years to FY33		Eleven years to FY44	
	(\$bn)	share	(\$bn)	share
Cumulative EBITDA	21.4	n.a.	39.4	n.a.
Cumulative OpFCF	19.2	n.a.	-	n.a.
Cumulative capex	(11.0)	(51.1%)	-	n.a.
Nominal ESL payment	(1.9)	(8.8%)	(1.9)	(4.8%)

Note: We forecast Optus EBITDA, OpFCF and capex to FY28 and extrapolate to FY33 at nominal growth rates.

Cumulative indicative to FY44 is based on the FY33 estimate capitalised at 3% pa.

Source: IMA forecasts and estimates.

With operating cashflow tracking to forecast in FY26 and the potential to manage capex somewhat compared to forecast over three years to FY28F, we maintain our forecast that Optus will comfortably rebuild operating cashflow and free cashflow after capex. This will allow Optus to build up contributions to Singtel group cashflow ahead of the peak period for ESL renewal payments (FY30 and FY31). While Optus is funded as part of group capital management, if considered on a standalone basis, Optus is increasing its balance sheet capacity to draw down capital contributions if or as needed to meet ESL renewal payments.

**Table 5.4: Timing of Optus's ESL renewal payments at proposed prices (\$m)**

Financial year (Dec YE)	ESL bands	Preliminary ESL, Lower bound	Preliminary ESL, Upper bound	Updated preliminary view
FY28	n.a.	0	0	0
FY29	1800MHz	174	216	283
FY30	2.5GHz, 700MHz	416	509	614
FY31	2.3GHz, 3.4GHz	426	536	721
FY32	n.a.	0	0	0
FY33	2 GHz	158	196	273
Total, nominal		1,174	1,457	1,891

Source: ACMA ESL consultation reports. IMA forecasts.

We forecast EBITDA to grow by 4.8% pa to FY28, largely as a result of steady MSR growth and improving cost control. As well we expect cash capex to grow modestly as Optus continues to build out 5G into regional areas. From FY26 Optus will receive significant network sharing payments from TPG and we expect these to grow steadily as more regional cell sites are switched to 5G coverage.

Assuming steady progress on these drivers and no further significant operational impacts, we expect Optus to rebuild free cashflow to close to \$1.0bn by FY28, ahead of its first ESL payment. This may see Optus book further loan amounts to Singtel on which it may draw down as needed to support ESL renewal payments and other funding needs.

We extrapolate these trends over the period to FY33 to indicate Optus's LT ability to fund ESL renewal payments. While this forecast approach assumes steady progress, over such a long period there are likely to be developments in network spending as 6G emerges, or other factors that may influence long term cash generation.

**Table 5.5: Four year cashflow outlook, FY24A to FY29F (\$m)**

	FY24A	FY25A	FY26F	FY27F	FY28F	FY29F
EBITDA	2,103	2,223	2,319	2,470	2,558	2,651
Operating cashflow	1,960	1,956	2,082	2,231	2,286	2,381
Capex (ex spectrum)	(1,604)	(1,309)	(1,321)	(1,337)	(1,355)	(1,373)
Reported free cash flow	356	647	762	894	931	1,009
Spectrum	(139)	(1,526)	0	0	0	(283)
Other investing items	(65)	(71)	(20)	(22)	(24)	41
Indicative net MOCN receipt	0	0	60	80	90	100
Free CF after investments	152	(950)	802	952	997	867
loan to holding company	(279)	(333)		Not forecast		
Repayment of loan by STAI	-	1,976		Not forecast		
Interest, lease and net borrow	81	(661)		Not forecast		
Net cashflow	(46)	32		Not forecast		

Source: Singtel MD&A and Optus financial reports. ACMA ESL consultation reports. IMA estimates and forecasts.

### Adjusting for network sharing income

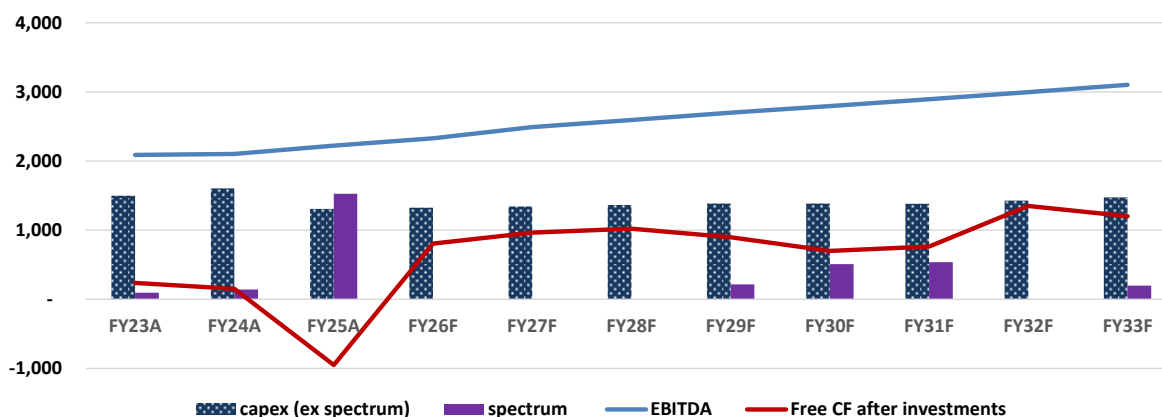
Over an 11 year period commencing in 2025 (FY26F for Optus) TPG will pay Optus a net amount of \$1.17bn (in nominal terms) for use of network, with the annual amount lifting each year to 2030 as Optus expands its regional 5G network coverage. The amount includes a network service fee aggregating to \$1.59bn less an annual spectrum payment (i.e. from Optus to TPG) of \$38m, assuming a similar spectrum contribution from TPG over the 11 year term.

FY26 is the first full year of the agreement and the extent of payments and their influence on cashflow may be reported with Optus's 2026 Annual Report due to be filed with ASIC in July. (Refer line 7 in table 5.4.)

Chart 4.1 shows much the same long term relationship between EBITDA (as an indication of the outlook for operating FCF) and spectrum payments alongside capex. Although forecast

ESL renewal payments are a little higher than our previous forecast, the cash earnings outlook is at least as strong.

**Chart 4.1: Optus indicative eight year cashflow outlook v ESL renewal payments (\$m)**



Source: Singtel MD&A and Optus financial reports. ACMA ESL consultation reports. IMA estimates and forecasts.

### Indicative balance sheet settings ... readily manageable

Although Optus is funded by Singtel at group level it maintains its own balance sheet settings and capital management. It deals with many suppliers and contractors in Australia organises much of its own debt and lease arrangements including interactions with its parent company STAI, and lodges accounts annually with ASIC.

Nevertheless, its balance sheet is ultimately overseen at group level with the parent company maintaining Optus's balance sheet settings at appropriate levels through capital payments between the two companies. Between FY16 and FY20 Optus regularly paid A\$600m in annual dividend to STAI. Since FY20 Optus's earnings and free cashflow haven't been sufficient to support an ongoing dividend payment.

As well there are loan payments and repayments between the two companies. In FY25 Optus drew down \$1,976m from STAI (a net payment in FY25 of \$1,643m) to meet its funding needs including its \$1,526m low band spectrum payment. This was booked as a repayment to Optus of advances made previously from Optus to Singtel.

Our forecast recovery in Optus's EBITDA and steady capex outlook for the period to FY28 are sufficient to generate good recovery in freecash flow with which Optus could recommence a dividend, albeit at a lower rate than the \$600m paid until FY20. More likely, we think, any capital payments from Optus to STAI in that period would occur within a policy of maintaining Optus's balance sheet settings around current levels. As in FY25, any such payments may be in the form of loans to STAI that may be repaid if Optus requires to meet peaks in capital investment funding such as ESL renewal payments.

Compared to our earnings and capex forecasts, capital transfers between Optus and STAI are relatively uncertain. For this reason we consider our estimates of balance sheet metrics in table 5.5 as indicative of Singtel's and Optus's ability to manage settings as needed.

**Table 5.5: Optus indicative balance sheet settings FY24A to FY29F (\$m)**

	FY24A	FY25A	FY26F	FY27F	FY28F
EBITDA	2,103	2,223	2,319	2,470	2,558
Net debt	6,666	6,672	6,508	6,374	6,205
Equity	9,197	9,066	9,006	8,890	8,782
Transfer payments	(279)	1,643	(180)	(350)	0
Net debt to EBITDA	3.2x	3.0x	2.8x	2.6x	2.4x
Gearing	42%	42%	42%	42%	41%
Interest cover	8.2x	8.1x	8.5x	9.6x	10.3x

Note: Gearing is net debt to total capital funding. Interest cover is EBITDA over interest expense.

Source: Singtel MD&A and Optus financial reports. IMA estimates and forecasts.

Finally, we note that Singtel itself has a very strong balance sheet supported by cashflow from Optus, its domestic market operations and dividend payments from four regional mobile associate companies. In 1H26 these cash receipts totalled S\$1.45bn, an increase of 11% on 1H25 (S\$1.30bn). (It also reported cash receipts of S\$2.3bn from asset sales.)

At its 1H26 balance date of 30 September 2025 Singtel held net debt of S\$8.7bn, with a ratio of 1.3x EBITDA and its share of associate profit. Its interest cover on the same base of income was nearly 20x. In summary, given the investment case justifies it, Optus is well supported by Singtel and well able to meet ESL renewal payments at the updated preliminary prices.

## **6 NBN Co FWA and satellite, well within budget**

### **6.0 Summary view: able to meet ESL renewal given its capex budget**

NBN Co's telecoms service revenue is increasing at a good rate close to 6% driven by an ongoing transition to higher fibre-based service speeds, albeit a little lower than the 7% we had previously forecast. Nevertheless, EBITDA is in line with forecasts given the lift in operating leverage and a good focus on cost control.

Although capex is lifting again given the recent commencement of NBN Co's latest fibre upgrade program it is no higher than we previously modelled. The program has significant upside risk but we consider NBN Co is likely to have accommodated its program capex budget.

Taking its operating cashflow and capex outlook together, NBN Co's free cashflow is at least in line with and potentially better than we previously forecast. Nevertheless, it's likely to remain FCF negative through the period to ESL renewal in FY31 given upgrade commitments, lease payments and annual capital funding costs.

Unlike the three MNOs, NBN Co's WTP for ESL renewal isn't based directly on the long-term return outlook but rather that ESL spectrum is a necessary resource to meet the key FWA component of its non-commercial service obligations. Our review of NBN Co's reported FWA operations shows it is operating close to our July 2025 outlook. Potential 6G services and the possible need for FWA network upgrades in the 2030s may reshape FWA operations and capex again but, if so, that is unlikely to reduce the need for ESL spectrum.

In terms of ability to fund ESL renewal, although NBN Co is likely to remain cashflow negative until its ESL renewal, it has well-established and enduring funding commitments, FWA-based services are likely to remain a policy priority and its key balance sheet metrics are improving and unlikely to be tested by the amount of the indicated ESL payment.

### **6.1 Update to three-year outlook: good albeit slower revenue growth offset by step up in cost control drives steady c5.0% pa EBITDA growth**

NBN Co's telecoms service revenue increased by 5.9% in FY25 largely driven by good ARPU uplift as it increased availability of fibre products and share of subscribers on higher tier products. The growth rate was lower than the 7.0% we had forecast previously given a slower rate of overall ARPU uplift and a slowdown in business service revenue growth.

We expect NBN Co's service revenue growth to be maintained at a comparable rate in FY26 following both CPI-linked price increases in July and a strong uplift in HS fibre service take-up with the launch of its Accelerate Great service profile change in September and a full period impact in 2H26.

On a three year view we estimate its service revenue growth rate will moderate to c4.5% pa the service uplift profile matures, although ongoing inflation impacts could keep it somewhat higher. This is a little lower than our previous three-year growth outlook (at 6.8% pa to FY27F) but still provides a steady uplift in operating leverage. We consider there is further scope for NBN Co to expand its HS service range over time with ongoing ARPU growth.

While telco revenue looks relatively good, other operating income has dropped as FWA grants were completed and the Government reduced the RBS levy. In aggregate we now see total revenue increasing at a lower rate of 4.5% pa over three years to FY28F (cf prev. 6.8% to FY27F), the further year reflecting more stable revenue with a more established HS service range.

Despite the slower revenue growth outlook, operating leverage continues to lift (ie higher ARPU on a largely fixed cost base) and NBN Co has continued a focus on strong cost control. FY25 EBITDA of \$4,233m was a little above our FY25F of \$4,198m and growth remains strong at 7.7% (cf 9.4% in FY24).

EBITDA growth moderated somewhat in 1H26 to 5.5% to \$2,232m and our revised forecast FY26F of \$4,471m, is close to our previous forecast of \$4,479m. NBN Co's financial guidance for FY26 is that revenue will be within the range of \$5.8 billion to \$6.0 billion and EBITDA will be within the range of \$4.2 billion and \$4.4 billion.<sup>12</sup> (That earnings range now seems conservative given the strong 1H26 result is already 50.7% of the full year target with the full 2H uplift in revenue and operating leverage to come.)

Nevertheless, we have slightly moderated our three year outlook with FY27F EBITDA dropping by \$79m (-1.7%) to \$4,696m, and 3 year growth now at 4.7% (to FY28, cf 6.7% to FY27F). That adjustment reflects the slightly lower service revenue outlook with a flow through to more moderate growth in operating leverage.

We have retained a conservative view of capex given the company is at an early stage of its remaining fibre upgrade program which is due to run through to 2030. This program covers more difficult and potentially costly geographic areas with a higher risk of overrun. Against that, it is likely that NBN Co has accommodated this uncertainty in its budgeting and financing, and the program's cash capex may be managed at a lower level.

As well, although NBN Co is due to complete its fibre expansion program by 2030 it is likely to have significant ongoing connection capex as it replaces copper connections with fibre beyond the expansion program. Indeed, there may well be a commercial case to accelerate such a program given high ongoing costs of copper maintenance and the end of copper-based USO subsidy arrangements in 2032. While that would see higher initial capex it would reduce ongoing maintenance costs.

**Table 6.1: NBN Co key operating cashflow indicators, three year outlook (\$m, June YE)**

	FY23A	FY24A	FY25A	FY26F	FY27F	FY28F	FY25A / FY24A	FY26F / FY25A	FY28F / FY25A
FWA service revenue	169	176	181	184	188	193	2.4%	2.1%	2.2%
Total telco revenue	5,137	5,220	5,526	5,845	6,099	6,306	5.9%	5.8%	4.5%
Total revenue	5,269	5,501	5,722	6,005	6,254	6,456	4.0%	4.9%	4.1%
Operating EBITDA	3,593	3,930	4,233	4,471	4,696	4,862	7.7%	5.6%	4.7%
Capex ex spectrum	3,044	3,762	3,818	3,866	3,899	3,932	1.5%	1.3%	1.0%
- of which FWA & Sat.	282	541	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Free cashflow	(1,532)	(2,156)	(2,055)	(2,022)	(1,999)	(1,737)	(4.7%)	(1.6%)	(5.4%)

Note: FWA service revenue is an IMA estimate based on average FWA subscribers and ARPU growth as a growing % of NBN aggregate ARPU. Source: NBN Co 2025 annual report and presentation. IMA forecasts and estimates.

<sup>12</sup> NBN Co Statement of Corporate Intent 2026, p 50.

**Table 6.2: Previous forecasts NBN Co key operating cashflow indicators, (\$m, June YE)**

	FY23A	FY24A	FY25F	FY26F	FY27F	FY28F	FY25F / FY24A	FY27F / FY24A
FWA service revenue	169	176	181	184	188	n.a.	2.4%	2.2%
Total telco revenue	5,137	5,220	5,585	5,965	6,365	n.a.	7.0%	6.8%
Total revenue	5,269	5,501	5,764	6,141	6,538	n.a.	4.8%	5.9%
Operating EBITDA	3,593	3,930	4,198	4,479	4,775	n.a.	6.8%	6.7%
Capex ex spectrum	3,044	3,762	3,818	3,866	3,899	n.a.	1.5%	1.2%
- of which FWA & Sat.	282	541	n.a.	n.a.	n.a.	n.a.		
Free cashflow	(1,532)	(2,156)	(2,090)	(2,014)	(1,920)	n.a.	(3.1%)	(3.8%)

Note: FWA service revenue is an IMA estimate based on average FWA subscribers and ARPU growth as a growing % of NBN aggregate ARPU. Source: NBN Co 2025 annual report and presentation. IMA forecasts and estimates.

While NBN Co's operating cashflow is strong, it carries significant annual costs of capital and an ongoing capex spend to meet ongoing rollout targets. Strong EBITDA growth in FY24 and FY25 delivered \$3.6bn and \$3.9bn respectively but insufficient to meet both capex of as well as capital payments (lease and interest payments).

Despite expected further EBITDA growth, cashflow is likely to remain negative for several years, potentially until FY31, given ongoing rollout commitments, ongoing fibre connections and growth in both lease and interest payments. Even beyond 2030, possible further FWA upgrades may see ongoing high levels of capex albeit lower than current levels.

Given that the cash outlook remains challenging, the company draws significant cash inputs from the Government both as an equity investor and through grants (including state grants) which help meet shortfalls and cash management requirements. In 2025 it received and \$58m in grants and \$1,186m in equity funding, compared with \$31m and \$771m in 2024 respectively.

## 6.2 WTP: ESLs an essential part of its FWA-based service obligations

In respect of willingness-to-pay for ESLs at the proposed prices, NBN Co is in a substantially different position to the three MNOs. Despite good gains in service revenue, operating leverage and EBITDA, its high base of invested capital means it will not have a meaningful return through the ESL renewal period in FY31. Its capital funding decisions, including ESL renewal, are not based on a return outlook through this period, but rather how it best meets the FWA component of its non-commercial service obligations.

From a cashflow point of view the FWA and satellite platforms are relatively minor contributors. We estimate FWA revenue grew by over 5% pa over the past five years as NBN Co expanded its FWA footprint, lifted FWA subscribers (from c300k in early 2020 to nearly 400k in June 2025) and lifted service range and quality. However, we estimate FWA revenue as a share of the total peaked at c3.4% in FY24 and dropped to 3.2% in FY25 given greater growth now occurring in fixed line revenue. With satellite subscription now falling below 80,000 and a with a relatively more limited service range and quality compared with fibre, satellite revenue is likely to remain less than 1%.

Moreover, these two services have significantly higher unit capex and related capital cost. They are inherently uncommercial and likely to remain so for the foreseeable future. Well recognised as such they are supported by subsidy both through nationally averaged prices which include a legislated cross-subsidy, by some direct funding as well as NBN's non-commercial capital funding.

Given that cashflow outlook and those funding arrangements, the case for NBN Co being willing and able to pay for ESL renewal at indicated prices depends on how NBN Co best meets its FWA and satellite obligations within its annual operational outcomes and ongoing funding arrangements.

FWA and satellite capex has fallen substantially following completion of the Fixed Wireless and Satellite Upgrade Program (FWSUP) in Dec 2024 (ie 1H25). FY25 capex on these platforms was \$487m, \$54m (10%) below the \$541m spent in FY24. Of this over 75% was spent in 1H25, in the final HY of the program.

However, NBN Co is still spending on FWA upgrades despite the completion of the FW&SUP, likely on more targeted upgrades. 1H26 capex on these platforms was \$58m, well below the \$376m spent in 1H25. The completion of the program was a key reason for the 8% reduction in NBN's cash capex in 1H26 (cf 1H25). Similarly, it reported other income of \$58m in 1H26 (down \$9m, c13% cf 1H25) likely driven by a fall in grants to support ongoing FWA upgrades (along with a decline in RBS levy receipts).

Following the upgrade, the FWA network was available to almost 800k premises by June 2025, up from 644k in June 2022. The uplift includes former satellite-only premises that have become eligible to access NBN Co's FWA network. Activated FWA premises also increased initially over the period from 386.5k in June 2022, peaking at 399.6 k in 1Q2024, but has since declined slightly to 394.3k.

Over the upgrade period the FWA activation rate dropped from around 57% to less than 50%. Aside from the expansion of the available premises, the decline in activations is likely to be a result of expansion of fixed network coverage and competition from rival satellite and wireless access services.

Given much of the FWA network is shared between end users, the reduction in the FWA activation rate may also support NBN Co's ability to offer higher speed FWA services. NBN advises that its upgrades to the Fixed Wireless network "have supported increased demand for higher speeds and usage..." as well as reducing congestion and improving service speeds. "Upgrades to the Fixed Wireless network increased capacity to 6.73 Tbps, up from 6.43 Tbps as at 30 June 2025, while customers consumed 11.2% more data on average per month (downloads) and 15.5 per cent (uploads) from June to December 2025."<sup>13</sup> Indeed, the program has had a significant impact on FWA network capacity lifting it by c60% over 18m from 4.20Tbps at June 2024, and several-fold from 2.12Tbps in June 2023.

The ACCC's June 2025 Measuring Broadband Australia report also noted that NBN Co's FWA Fixed Wireless upgrades "enabled the Company to offer higher-speed tier products, achieved median average download results of 166.2 Mbps and 283.5 Mbps respectively, in March 2025."<sup>14</sup> In aggregate, however, there was only a 1.8% (4.5k) increase in FWA service activations at 50Mbps or higher over the 12 months to June 2025 and only 3.6% of FWA customers (14.4k) on the highest FWA speed tier over 100Mbps.

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<sup>13</sup> NBN Co Half Year Report 2026 p6 and 1H26 results media release 12 Feb 2026.

<sup>14</sup> NBN Co Annual Report 2025 p 10.

**Table 6.3: NBN FWA premises activated by speed tier ('000s)**

Speed tier	Jun-24		Jun-25		12m change	
		%		%		%
less than 50Mbps	154.3	38.7%	148.9	37.5%	(5.3)	(3.5%)
50-100Mbps	244.2	61.3%	234.3	58.9%	(9.9)	(4.1%)
over 100Mbps	0.0	0.0%	14.4	3.6%	14.4	<i>n.a.</i>
	398.5	100.0%	397.6	100.0%	(0.9)	(0.2%)

Source: NBN Co 2025 annual report page 34. IMA estimates.

The useful life of active FWA network and access equipment is indicated by industry guidelines at around 7 to 10 years. The recently completed program includes both 4G and 5G upgrades to several thousand base station sites with further incremental 5G upgrades to come. NBN Co is likely to have to consider the timing and substance of 6G upgrades through the 2030s, through the term of renewed ESLs. Although the timing and substance of the future FWA technology is not yet established, 6G is likely to lift FWA service expectations even higher with related capex likely to encompass further spectrum and denser network build.

### **6.3 Ability to fund ESL renewal: NBN Co's cashflow and capex outlook**

We forecast that NBN Co is likely to remain cashflow negative for the next five years until FY31 when its ESL renewal payments are due, although the proposed ESL amount is small relative to our forecast of NBN Co's EBITDA and capex through that period.

NBN Co faces two ESL renewal payments in the first half of FY31 with a nominal value of \$491m at the updated preliminary ESL prices. This is about 22% higher than the upper bound of the previous preliminary ESL prices. Although NBN Co is due to complete its fibre expansion program by 2030 it is likely to have significant ongoing connection capex as it replaces copper connections with fibre beyond the completion of the expansion program.

We noted previously that NBN Co would need to give consideration in that timeframe to replacement of its SkyMuster satellites. We also noted that it was canvassing options to replace geostationary satellite capacity with LEOsat capacity. NBN now has an agreement with Amazon to deliver high-speed, wholesale fixed broadband to parts of regional, rural and remote Australia by LEOsat from mid-2026. NBN Co sees this as a replacement technology to its current SkyMuster geostationary satellite service which currently covers more than 300,000 premises. If successful, this would replace a significant satellite capex hurdle in the 2030s with either an annual operating cost or possibly a capitalised lease arrangement.

It is also possible that developments in 6G may see further long term FWA upgrades in the 2030s. That timeframe is unlikely to impact on capacity to support ESL renewal payments and the case for such an upgrade, whether commercial or subsidised is likely to require renewal of this mid-band spectrum.

**Table 6.4: Timing of NBN Co's ESL payment at proposed prices (\$m)**

Financial year (Dec YE)	ESL bands	Preliminary ESL, Lower bound	Preliminary ESL, Upper bound	Updated preliminary view
FY28	n.a.	0	0	0
FY29	n.a.	0	0	0
FY30	n.a.	0	0	0
FY31	2.3GHz, 3.4GHz	320	404	491
FY32	n.a.	0	0	0
FY33	n.a.	0	0	0
Total, nominal		320	404	491

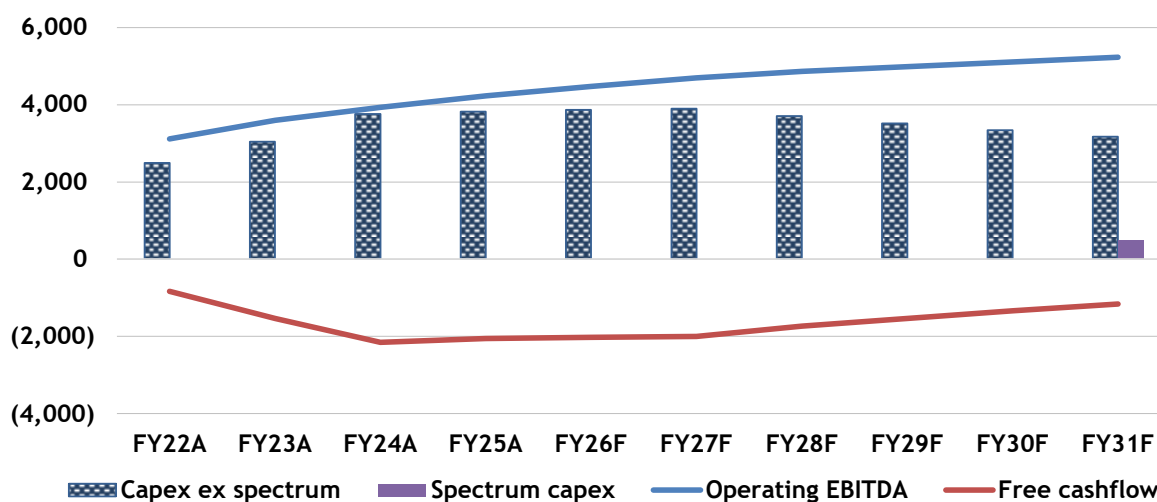
Source: ACMA ESL consultation reports. IMA estimates.

With operating cashflow tracking to forecast or better and the potential to reduce capex somewhat, NBN Co's three-year free cash flow looks better than we forecast previously.

Further, within a range of cashflow outcomes, NBN Co's FWA and satellite are recognised by the government (as both shareholder and policy driver) as non-commercial and funded by cross-subsidy and direct contributions. Considering NBN Co's ESL renewal payments in that non-commercial context, NBN Co is likely to retain significant capacity to pay for ESL spectrum in FY31 at the proposed amounts.

Its operating cashflow and funding arrangements, these support a capital budget (ex spectrum) averaging over \$3bn pa in the ten years to FY31. In that cashflow and funding context it has considerable scope to budget for and manage a one-off payment of \$491m for an essential resource.

**Chart 6.1: NBN Co indicative cashflow outlook v ESL renewal payments at proposed prices (\$m)**



Note: NBN Co has a June YE. FCF measured as operating cashflow less capex, lease and interest payments but excluding equity contributions. Source: NBN Co 2025 annual report and result presentation slide 15. IMA extrapolations.

NBN Co has recently included several key debt metrics in its results presentations including debt to EBITDA (after lease) and interest cover ratios.

- NBN Co reported a Debt to EBITDAaL ratio of 9.3x for June 2025, down from 9.9x for June 2024. These are close to our estimates of 9.3x and 9.7x.

- NBN Co reported interest cover of 2.1x for June 2025, the same ratio as for June 2024. Our estimates are somewhat higher at 3.2x and 2.9x respectively. (We haven't yet reconciled our estimates to its reported metrics.)

Forecasts of these metrics are indicative at best and derive from operating forecasts and capex, as well as funding changes. We include an indicative forecast below simply to illustrate that by FY31, on an extrapolation our three-year operational forecasts, payment of ESLs at the proposed amount of \$491m will not have a meaningful impact on these measures. In any case, NBN Co's shareholders have indicated their willingness to invest equity to maintain key balance sheet settings.

**Table 6.5: Indicative NBN debt metrics**

	FY23A	FY24A	FY25A	FY26F	FY27F	FY28F
EBITDA	3,593	3,930	4,233	4,471	4,696	4,862
EBITDA after lease	2,505	2,783	3,052	3,255	3,445	3,576
Net debt	25,823	26,888	27,163	29,250	30,215	31,212
Net debt/EBITDAaL						
- IMA estimate	10.3x	9.7x	9.3x	9.0x	8.8x	8.7x
- as reported by NBN Co	n.a.	9.9x	9.3x	n.a.	n.a.	n.a.
Interest cover						
- IMA estimate	3.6x	3.2x	2.9x	2.9x	2.9x	2.9x
- as reported by NBN Co	n.a.	2.1x	2.1x	n.a.	n.a.	n.a.

Note: We don't specifically forecast debt metrics. These indicative measures are derived from our specific operational and investment forecasts and funding expectations.

Source: NBN Co 2025 result presentation slide 15. IMA estimates and forecasts.

## Attachment A: Abbreviations

ATF	Ability to Fund. The extent to which the outlook for operating cashflow and balance sheet headroom is sufficient to fund both BAU capex and ESL spectrum renewal payments.
ARPU	Average Revenue per User, usually expressed as \$ per month (\$pm).
ASIC	Australian Securities and Investments Commission.
BAU capex	Business-as-Usual capex, that is the investment made to maintain or enhance established operations, as distinct from strategic capex intended to establish new earnings opportunities.
Capex	Capital expenditure, capital investment. Expenditure intended to generate revenue and earnings in future periods. As distinct from operating expense which is recognised and may be matched to revenue in the current reporting period.
EBIT	Earnings before interest and tax, essentially EBITDA less depreciation and amortisation.
EBITDA	Earnings before interest, tax, depreciation and amortisation, a ready measure of earnings before capital charges. Reported EBITDA often includes other non-operating income which we often adjust to provide a measure of operational EBITDA.
EBITDAaL	EBITDA after lease payments, which provides a measure of earnings with lease payments as an operating expense rather than a capital cost.  The point of measuring and adjusting EBITDA is to match reported cash earnings with the appropriate base of invested capital employed to generate these earnings.
ESL	Expiring Spectrum Licences.
EGW	TPG's Enterprise, Government and Wholesale business, sold to Vocus in July 2025.
FCF	Free cashflow, that is operating cashflow (OpFCF) less capital expenditure including payments for spectrum.
FWA	Fixed Wireless Access.
Gearing	Net debt as a ratio of total capital, that is net debt plus the book value of equity.
IC	Invested capital. (See our discussion in Attachment C of MNOs' financial v operational base of invested capital.)
Interest Cover	A measure of the ability to meet annual cost of finance from cash earnings, typically reported as the ratio of EBITDA to annual interest expense.
LEOsat	Low earth orbit satellite.
MBB	Mobile Broadband.
MOCN	Multi-Operator Core Network (MOCN), notably the agreement between Optus TPG to share regional 4G and 5G networks. MOCN arrangements allow

operators to share core network costs but operate their own radio access networks (RAN).

MDA	Singtel's annual and half yearly Management Discussion and Analysis.
MNO	Mobile Network Operator.
MSR	Mobile Service Revenue.
MVNE	Mobile Virtual Network Enabler, essentially a platform service provider to MVNOs and other service providers using mobile networks.
MVNO	Mobile Virtual Network Operator.
Net debt	Gross debt less cash and cash equivalents.
NOPAT	Net operating profit after tax. Earnings generated from services provided by operations derived from invested capital, less depreciation and amortisation of related assets and related tax.
OpFCF	Operating free cashflow, that is cashflow generated from operations.
RAN	Radio Access Network, also Open RAN, an emerging radio network architecture that allows interoperability of RAN components.
RoIC	Return on Invested Capital.
ROR	Telstra's annual and half yearly Results and Operations Review.
USO	Universal Service Obligation.
UOMO	Universal Outdoor Mobile Obligation.
WACC	Weighted average cost of capital. (See attached C.)
WTP	Willingness to Pay is the maximum price (or price range) that a customer will pay for a product. This is an established economic term for consumer goods and services. We use the concept in this report for spectrum payments recognising that these are investments rather than consumer goods. The difference is that the value of investments is based on long term expectations, for instance through the period of spectrum licence, rather than in the period of transaction. We consider the three market-based MNOs are best placed to assess, manage and realise such value expectations and consider that in the prices they are "willing to pay" for spectrum.

## Attachment B: Notes on our company forecasts

Generally, we forecast company revenue, cost and margin and capital expenditure over three distinct periods:

- **The year ahead** is generally relatively clear, and the three key cashflow elements (revenue, EBITDA and capex) typically guided by the listed companies. The operational outlook is largely based on extrapolation of recent reported trends in pricing, net additions, opex and margins, all adjusted for expected changes in market dynamics, and monitored for (a) confirmation of expectations, and/or (b) unexpected developments.
- While the year ahead is generally relatively clear, particularly for a well-established business, there is always a prospect of material one-off and / or exogenous events that may be beyond the direct influence of management. A key benefit of a robust model is to assess the likely impact of such one-off events and developments.

In the mobile sector competitive dynamics, regulations and other exogenous factors are relatively established and predictable. Capex in the year ahead is relatively certain within an indicated range given planning lead-times, commitments and guidance. Given the degree of confidence in expectations of cashflow drivers, a 'miss' of guidance targets has a big valuation impact both directly in terms of adjusting forecasts and indirectly in terms of confidence in management's ability to deliver on guided outcomes.

- **The three-year outlook** (i.e. Y2 and Y3) is less clear, but some aspects and trends are 'known' to a certain degree. The three-year operational outlook is based on extrapolation of Y1 expectations adjusted for expected changes in market dynamics, price trends, capex/capacity and other known one-off factors such as entry/exit, new products/technology, policy and regulatory developments. The capex path may be reasonably established given long-term trends, company outlook and benchmark analysis.

Given a lower degree of confidence among external stakeholders in Y2 and Y3 outlook relative to Y1 expectations, there is great interest in equity markets about the rollover from the Y2 outlook to Y1 expectations at reporting time, including changes in outlook signalled by the company.

- **The ten-year outlook** (i.e. Y4 and Y10) is even less clear, although some one-off factors and cyclical trends (such as the technology replacement cycle) may be relatively clearer. Typically, Y4 to Y10 forecasts trend back towards a long-term mean (e.g. 2-3% real growth) adjusted for one-off expectations.

Variations from such trend forecasts for new technology, changes in market dynamics such as major new network players, significant regulatory changes, new demand drivers or supply side developments such as AI, Open RAN, core network development, implementation of renewable energy policies are of interest for long term investment outcomes. To the extent these new trends can be established they may play directly into forecasts of cashflow either specifically or as variations to long term trend assumptions.

Our company analysis of Telstra, Optus, TPG and NBN Co focusses on the three-year outlook relative to recent operating performance. This period of operations will take the companies through to FY28 operating results and balance sheet outcomes, just as the first

of the ESL renewal payments fall due. As such realisation (or otherwise) of expected operating performance and cashflow generation will be important in confirming assessments of willingness to pay and supporting MNOs and NBN Co's ability to pay.

It's also a useful framework for considering risk in terms of the impact of uncertainty on expected outcomes. The bulk of uncertainty over revenue, operational earnings and capex relates to competition and pricing in the market. However, significant emerging risks such as AI, Open RAN, core network development, implementation of renewable energy policies might have ongoing impacts on both costs and the ability of MNOs to realise earnings growth in line with forecasts. Considering such developments may lead to some variation in forecasts of the ten-year outlook.

## Attachment C: Notes on return on invested capital

Invested capital reflects the amount the MNOs and NBN Co have invested in long term assets for the purpose of generating services of value to end users. In the respective markets in which they operate these services generate revenue, in the form of Mobile Service Revenue (MSR) for the MNOs and wholesale broadband income for NBN Co.

Subject to a range of market and non-market influences, this revenue should cover direct costs and a considered share of indirect costs related to the service offered. There are some exceptions including initial service provision and non-commercial services including USOs depending on subsidy arrangements. If service revenue is sufficient, this will generate operational earnings, reported as EBITDA and a return on the capital invested, reported as EBIT and a notional tax on EBIT.

Operational earnings may also fund or partly fund capital expenditure or investment that is expected to generate income and earnings in future periods. The accumulated base of such investments is measured as invested capital.

Invested capital is funded by a mix of debt and equity funding, including a range of forms of such funding each with a cost assessed as a function of debt and equity prices, including a range of risk factors and the risks associated with earnings expectations, that is the extent to which uncertainty might lead to variations from expected outcomes.

For example, Telstra's average cost of debt is about 5%pa currently, and its cost of equity, being a riskier form of funding, may be 10% or higher. Balancing its forms of funding with its ability to generate cash earnings across its product portfolio might lead to, say, a 50:50 weighting of debt funding with equity, or a gearing of 50%. This would lead to a weighted average cost of capital (WACC) between about 7.5% and 8.0%.

Assessing the extent to which expectations that investments will generate a return (ie a return on invested capital, or RoIC) greater than the cost of capital requires assessing relevant earnings against the matching base of invested capital used to generate the earnings. We measure the relevant earnings as EBITDA less the decline in the related base of invested capital and an allowance for corporate tax on these earnings, that is net operating profit after tax (NOPAT).

The three MNOs make and report such an assessment with some adjustments reflecting their consideration (or their shareholders' expectations) of the relevant base of capital invested to provide valued services and generate related revenue and earnings.

For its reported RoIC, Telstra measures invested capital as net debt plus equity on averaged through the year. This measure uses the full financial funding of assets reflecting long term investment commitments.

Optus is effectively funded at group level by Singtel which also typically measures the full funding of assets. To the extent that Optus measures and reports return separately to Singtel, we measure returns based both in the full financial base of funding as well as on the funding of the operational base of assets used to provide valued services and generate related revenue and earnings. This measure excludes several items on the balance sheet that we consider reflect funding transactions between Optus and its parent company, and some long-standing items that are unrelated to the ongoing provision of services.

TPG also has both a financial base of assets and a distinct operating base of assets. The former base was assessed, considered and funded by shareholders and debt providers with the merger of TPG and VHA in 2020, and subsequently assessed and amended each year.

It was also substantially revised in 2025 following the sale of its EGW business, with funding subsequently restructured to better reflect changes in the earnings outlook. The latter base of operating invested capital is the base reported by TPG with annual and half yearly earnings reflecting the operational base of assets (or the funding of them) used to provide valued services and generate related revenue and earnings. This measure excludes the long-term investment in goodwill, brand and customer acquisition funded in previous periods to maintain or enhance market outcomes, but no longer directly driving ongoing management of service provision, revenue and earnings.

In summary, for each of Optus and TPG we estimate two measures of invested capital:

- Group or financial invested capital measures the full base of capital contributed by investors to position the company for long term operations and earnings including both operational and non-operational assets such as goodwill and brand valuations. This broad capital base reflects long term commitments by investors including acquisitions and mergers.
- Capital invested in operating assets, or operating invested capital measures the base of capital invested in operational assets including property plant and equipment (PPE, largely network assets), right of use (RoU) and spectrum. This capital base better reflects the value of assets deployed to provide services in each year and is the measure reported to investors by TPG. Optus doesn't directly report invested capital, with capital funding and structure decisions made at group level. Instead, Optus deploys and manages capital investment and reports to its owners and other stakeholders on a similar base of operating assets excluding goodwill, the value of its telecommunications licence (which dates back over 30 years) and adjusts for a long-standing receivable amount from STAI (a subsidiary of Singtel, its ultimate owner) which is effectively a capital return.

## Attachment D: ESL renewal and amortisation trends

### How would ESL renewal payments be reflected in annual amortisation?

#### Telstra's spectrum balance and amortisation

To consider how Telstra's earnings may be impacted by spectrum amortisation following ESL renewal payments we have analysed Telstra's spectrum balance and annual amortisation charge from 2011 to 2025. We compared these values with our three-year forecasts and long-term extrapolation to 2035. (Chart D.1.)

The initial years pre-date the large payments for spectrum in 2013 and 2015 when MSR growth was high and the MNOs had high expectations for 4G-led mobile growth.

Given that the pattern of spectrum payments was driven by high expectations, the annual amortisation charge also increased to reflect these expectations and payments. However, for a period MSR didn't grow and the rate of amortisation increased as a share of MSR. However, that ratio is now reversing as MSR recovers quickly and spectrum payments have declined from peak amounts. (Chart D.2.)

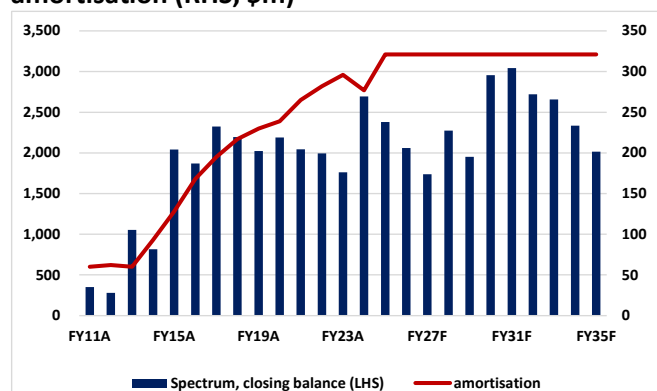
Telstra's MSR reached a peak in 2015 (\$7,929m), declined slightly over two further years (FY17 was \$7,757m), and then declined more rapidly to a low of \$6,781m in FY21. Telstra's MSR has recovered since then, eclipsing the previous peak in FY24 and achieving \$8,508m in FY25. Indeed, MSR recovery has been quite rapid averaging 6.6% pa over three years to FY24.

Telstra's MSR growth in FY25 was a more modest 3.5% but is picking up in FY26 recording 5.6% in 1H26 and we forecast 5.7% in FY26, close to \$9.0bn over the full year. We forecast average annual growth of 4.2% for the three years to FY28F, and 3.4% over ten years to FY35.

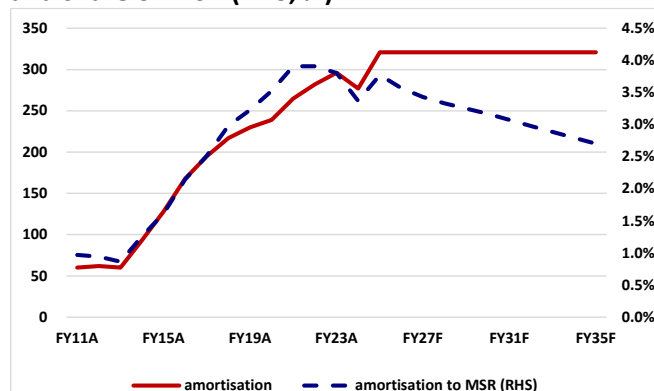
Telstra's spectrum balance also lifted rapidly following the spectrum acquisitions of 2013, 2015 and 2017, from a low value of \$279m at balance date 2012 to a peak of \$2,325m at balance date 2017, an 8-fold increase reflecting both changes in prices bid at auction and the increase in aggregate spectrum holdings.

Telstra's annual spectrum amortisation charge also lifted, by about 3-fold over the same period, to \$195m in FY17. Since 2017 Telstra has added \$2,220m in spectrum acquisitions and increased the annual amortisation charge to \$321m in FY25. (Chart D.1, RH axis.)

**Chart D.1: Telstra spectrum balance (LHS) and amortisation (RHS, \$m)**



**Chart D.2: Telstra spectrum amortisation (LHS, \$m) and share of MSR (RHS, %)**



During the period when MSR was still in decline those payments and charges saw spectrum amortisation increase as a share of MSR, from 2.5% in 2017 to a high of 3.9% in FY22, before reducing as MSR growth returned.

Our comparison of annual amortisation rates with MSR also slightly overstates the ratio as we have not included FWA revenue derived from broadband services that use spectrum.

Where will spectrum amortisation in \$ terms and as a share of MSR trend during and after the period of ESL renewal payments? Telstra's 1H26 spectrum amortisation charge was \$161m, the same as 1H25, and with no further major spectrum acquisitions we expect the FY26 charge to be about the same as FY25 at \$321m. Indeed, on the same basis we forecast the same spectrum amortisation amount in FY27F, reflecting Telstra's policy of straight-line depreciation across its various spectrum licences.

That rate will take Telstra's spectrum balance as low as \$1,738m by balance date 30 June 2027, ahead of its first ESL payment. The relatively high rate of annual charge implies an average remaining licence period of less than 5 ½ years at that point, not surprising given the bulk of its licences are about to face renewal.

Maintaining that amortisation rate, the timing and amount of ESL renewal would lift the value of Telstra's licences to a peak of \$3,043m in FY31 following the 3.4GHz renewal. However, the balance falls rapidly to \$2,015m by 2035, after the 2GHz renewal and a comparable annual rate of amortisation.

For its established portfolio of spectrum that annual rate of amortisation would be too high as it would see the value of all holdings at 2035 reach a zero balance after just over six years, that is three to four years before the ESL expiry date of 2044.

There is likely to be further spectrum licence renewals and new spectrum offered over this ten-year period, with decisions on the amounts Telstra would be willing to pay reflecting its perceptions of value at the time, particularly in the case where new spectrum is auctioned.

For its established portfolio of spectrum straight-line amortisation of a nominal licence value would also see amortisation decline as a share of MSR from 3.8% in FY25 to 2.7% by FY35 (given our 10-year MSR growth outlook of 3.4% pa). That reflects a key advantage of holding an asset acquired at a nominal value ahead of a period of (expected) rising prices and increased value-in-use. Of course, these rates would be higher to the extent Telstra acquires further spectrum licences.

The summary analysis in this attachment considers Telstra's spectrum balance and annual amortisation in aggregate, that is a top-down view. There may be more insight into the long-term amortisation trend with a detailed bottom-up assessment on a straight-line basis for each major ESL licence held considering amount paid and remaining years of licence duration. We think that would reconcile to the broad picture of ongoing value generated by spectrum with annual amortisation of spectrum payments as a reducing share of MSR.