



Half-Year Report

For the
six months ended
31 December 2017



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The Half-Year Financial Report was authorised for issue by the Directors on 6 February 2018. The Directors have the power to amend and reissue the Half-Year Financial Report.

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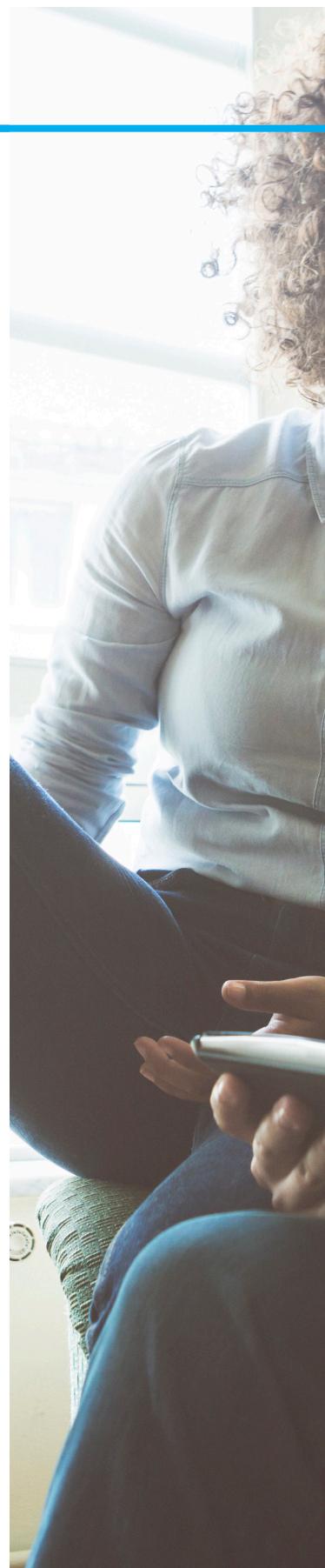
'nbn', 'bring it on', 'Sky Muster', 'gen nbn' and the Aurora device are trademarks of NBN Co Limited ABN 86 136 533 741.

Date

This Half-Year Report is for the six months ended 31 December 2017.

Glossary

Defined terms within this Half-Year Report should be read in conjunction with the glossary of terms within the 2017 Annual Report.







About NBN Co

NBN Co Limited (NBN Co or the Company) was established in 2009 to design, build and operate Australia's new high-speed, wholesale local access broadband network. Underpinned by a purpose to connect Australia and bridge the digital divide, NBN Co's key objective is to ensure all Australians have access to fast broadband as soon as possible, at affordable prices, and at least cost.

To achieve this objective, NBN Co has been structured as a wholesale-only, open-access broadband network. NBN Co provides services on equivalent terms to all Retail Service Providers (RSPs) to provision for end user needs. This is intended to level the playing field in Australian telecommunications, creating real and vibrant competition within the industry and providing choice for consumers.

NBN Co is wholly owned by the Commonwealth of Australia as a Government Business Enterprise (GBE), incorporated under the *Corporations Act 2001* and operating in accordance with the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

Since establishment, the Government has presented NBN Co's mandate through a Statement of Expectations (SoE) which is supplemented from time to time by policy directives and correspondence. NBN Co's current objectives are set out in the 24 August 2016 SoE.

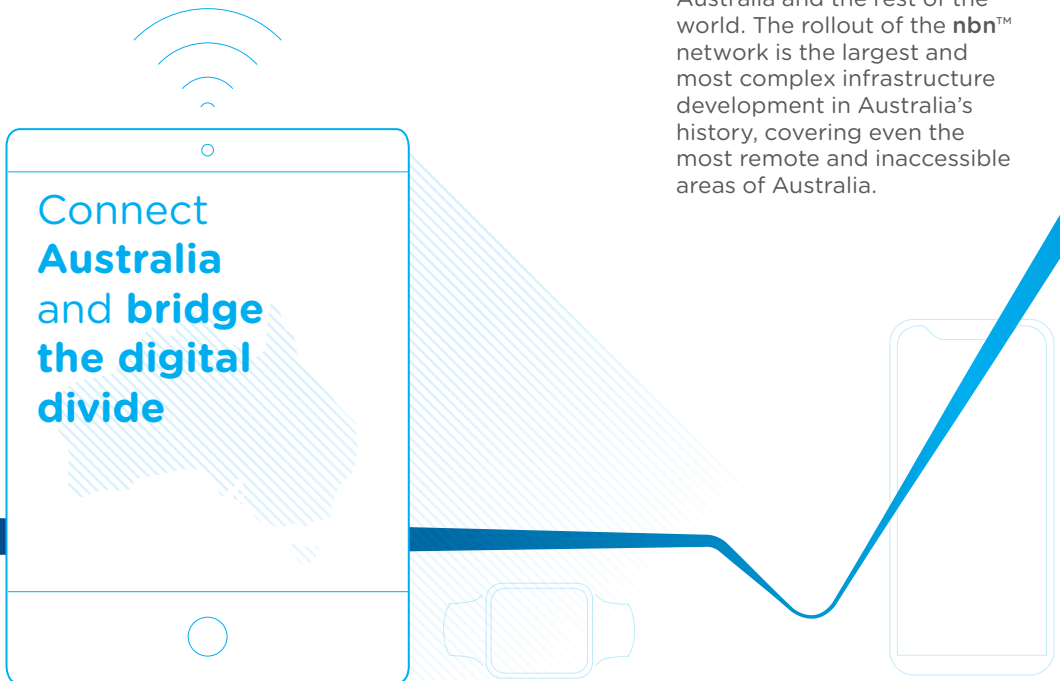
NBN Co's purpose and goal

NBN Co's purpose is to connect Australia and bridge the digital divide. NBN Co exists to provide local network access to fast broadband to every home and business in Australia. The **nbn™** local access network connects with RSPs domestic transmission networks and international networks to deliver fast broadband.

NBN Co has a commitment to deliver access to peak wholesale download data rates of at least 25 megabits per second (Mbps) to all premises, and at least 50 Mbps peak wholesale download data rates to 90 per cent of the fixed line network*. This ambition of universal connectivity is unique to Australia given its expansive geography and population.

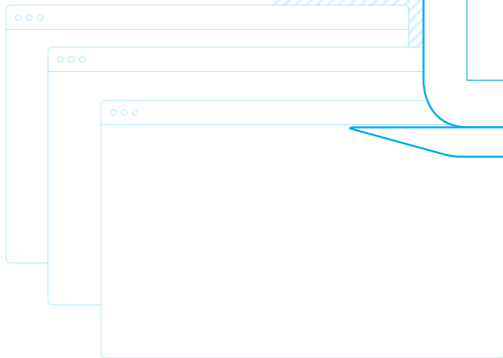
NBN Co, together with RSPs, is bringing fast broadband to all Australians and will allow the nation to unleash its full digital potential. It will fundamentally enable Australia to become a more connected, more competitive and more innovative nation.

NBN Co, in conjunction with RSPs, is helping bridge the divide between city and country; young and old; Australia and the rest of the world. The rollout of the **nbn™** network is the largest and most complex infrastructure development in Australia's history, covering even the most remote and inaccessible areas of Australia.



* The **nbn™** network is being designed to provide these peak speeds to NBN Co's Retail Service Providers at NBN Co's network boundary.

In line with this purpose, Australia is well on its way to becoming a truly connected continent. As at 31 December 2017, more than 95 per cent of households and businesses are in design, construction or are already able to order a service over the **nbn**TM network. The rollout of the network has been concentrated where greater access to broadband is most needed – as at 31 December 2017, 77 per cent of the non-metro build is complete, compared to 48 per cent of the build in metro areas.



NBN Co's Half-Year results summary

31 December 2017



Ready for service

7.1 million

3.8m
HY2017

+87%
Growth

Capital expenditure

\$2.8

billion

\$2.8b
HY2017

Ready to connect

6.1 million

3.7m
HY2017

+64%
Growth

Activations

3.4

+105%
Growth

1.7m
HY2017

million

Revenue

\$0.9

billion

+121%
Growth

\$0.4b
HY2017

ARPU

\$44

+2%
Growth

\$43
HY2017

Customer experience

While NBN Co remains committed to deploying the **nbn**[™] access network at scale, the Company is working in partnership with industry and RSPs to improve customer experience.

NBN Co is implementing an extensive program of initiatives targeted at four distinct focus areas of the end user experience, and has made strong progress on these during the six months to 31 December 2017.

Aware



NBN Co is raising end user awareness which encompasses how to connect to the **nbn**[™] access network, the role of NBN Co versus RSPs, and understanding issues that can impact broadband experience.

During the period, NBN Co launched the first national integrated communications campaign aimed at helping Australians better understand what they need to do before signing up to retail services and how to get the best out of their broadband service in regards to issues, such as speed. This is supported by ongoing communications and stakeholder engagement.

Connect



NBN Co is committed to ensuring fewer delays and improving support when end users are connected to services over the **nbn**[™] access network.

NBN Co took steps to improve the installation experience, accelerating in-house training for field workers to help ensure installations are right the first time. The Company also enhanced its case management activities with RSPs to more efficiently respond and resolve end user issues during the installation process.

The Company also announced new initiatives set to improve the connection and issues resolution process for businesses on the **nbn**[™] broadband access network

Use



NBN Co is working hard to address issues raised by RSPs on behalf of end users connected to the network.

Most significantly, NBN Co paused all activations over its HFC access network in order to perform advanced network testing and remediation before declaring the HFC network ready to connect.

Optimisation of the HFC network will facilitate a better experience for end users currently connected and further improve the quality for future end users.

In December 2017, NBN Co also announced new wholesale pricing options designed to improve end user customer experience and meet the growing demand for fast broadband during peak hours.

New wholesale speed tier bundles will be offered to RSPs, a 50/20 Mbps speed tier bundle at \$45 a month with 2 Mbps of wholesale capacity included and a 100/40 Mbps speed tier bundle at \$65 a month with 2.5 Mbps wholesale capacity included. This represents potential discounts for RSPs of more than 10 per cent.

Until the new pricing options are available, new wholesale discounts for RSPs apply to the 50/20 Mbps wholesale speed plan, which include bandwidth discounts.

A new business wholesale pricing model was also developed for small and medium enterprises aimed at making business-grade services more competitive and flexible.

For satellite customers, the Company increased the maximum monthly wholesale data limits and average wholesale peak download plans by up to 50 per cent on the Sky Muster™ service.

Fix



NBN Co is committed to improving the time to resolve issues and ensuring they are fixed first time.

The Company developed more advanced fault detection technology to determine whether faults can be resolved remotely and immediately, or whether a field technician is required to visit a home.

A new Wholesale Broadband Agreement (WBA), designed to further improve the quality and timeliness of wholesale services, was signed with RSPs.

The agreement requires NBN Co to meet enhanced service performance commitments for activations and fault restoration that will help further improve the experience of end users on the **nbn**™ access network.

Directors' report

The Directors of the Company present their report on NBN Co Limited and its subsidiaries (the Group or the NBN Co Group), together with the financial report of the Group for the six months ended 31 December 2017 and the auditor's review report thereon.

The principal activities of the Group are to build and operate the **nbn**[™] network, which has been structured as a wholesale-only access network available on equivalent terms to all access seekers.



NBN Co's business

NBN Co is deploying vital infrastructure across Australia, which will change the way the nation operates and how people live their lives.

our purpose

Connect Australia
and bridge the
digital divide

our goal

8 million homes
and businesses
connected by 2020

our strategic imperatives



A high-performing and reliable network



Effective and efficient processes and systems



United partnership with vendors, Delivery Partners and Retail Service Providers



Affordable products and services



A great place to work

our 2020 targets



Footprint



Connected homes and businesses



Revenue

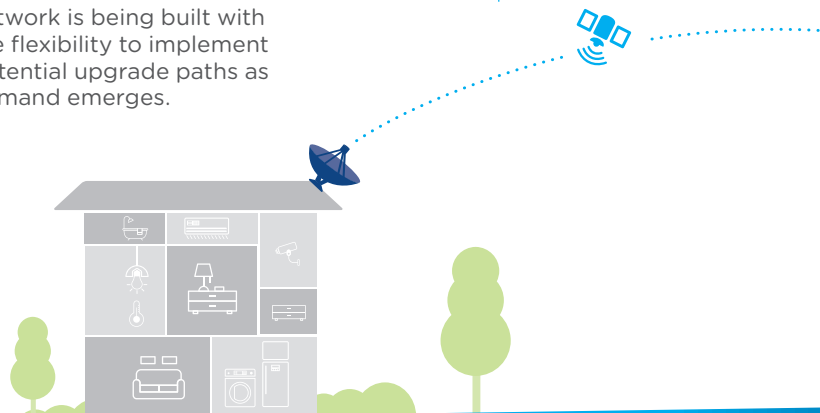
Delivered by world-class network technology

NBN Co has established an agile and flexible network that can react and evolve alongside technological innovation and a dynamic broadband market.

The **nbn™** network is designed to deliver access to fast broadband to all Australians as fast as possible and at least possible cost, using existing infrastructure where appropriate. NBN Co achieves this through its Multi-Technology Mix (MTM) model. The **nbn™** access network is being built with the flexibility to implement potential upgrade paths as demand emerges.

Transit network

The **Transit** network is the backbone of the **nbn™** network. It provides the transport and network capability required to deliver all the access networks described opposite.



As at 31 December 2017

Fibre-to-the-Premises (FTTP)

Deploys fibre optic cable directly to premises. Now used for most new developments and end users who can select FTTP through the Technology Choice Program.

Fibre-to-the-Node/Basement/Curb (FTTN/B/C)

Deploys fibre into neighbourhoods and then makes use of the existing copper into the premises.

Hybrid Fibre Coaxial (HFC)

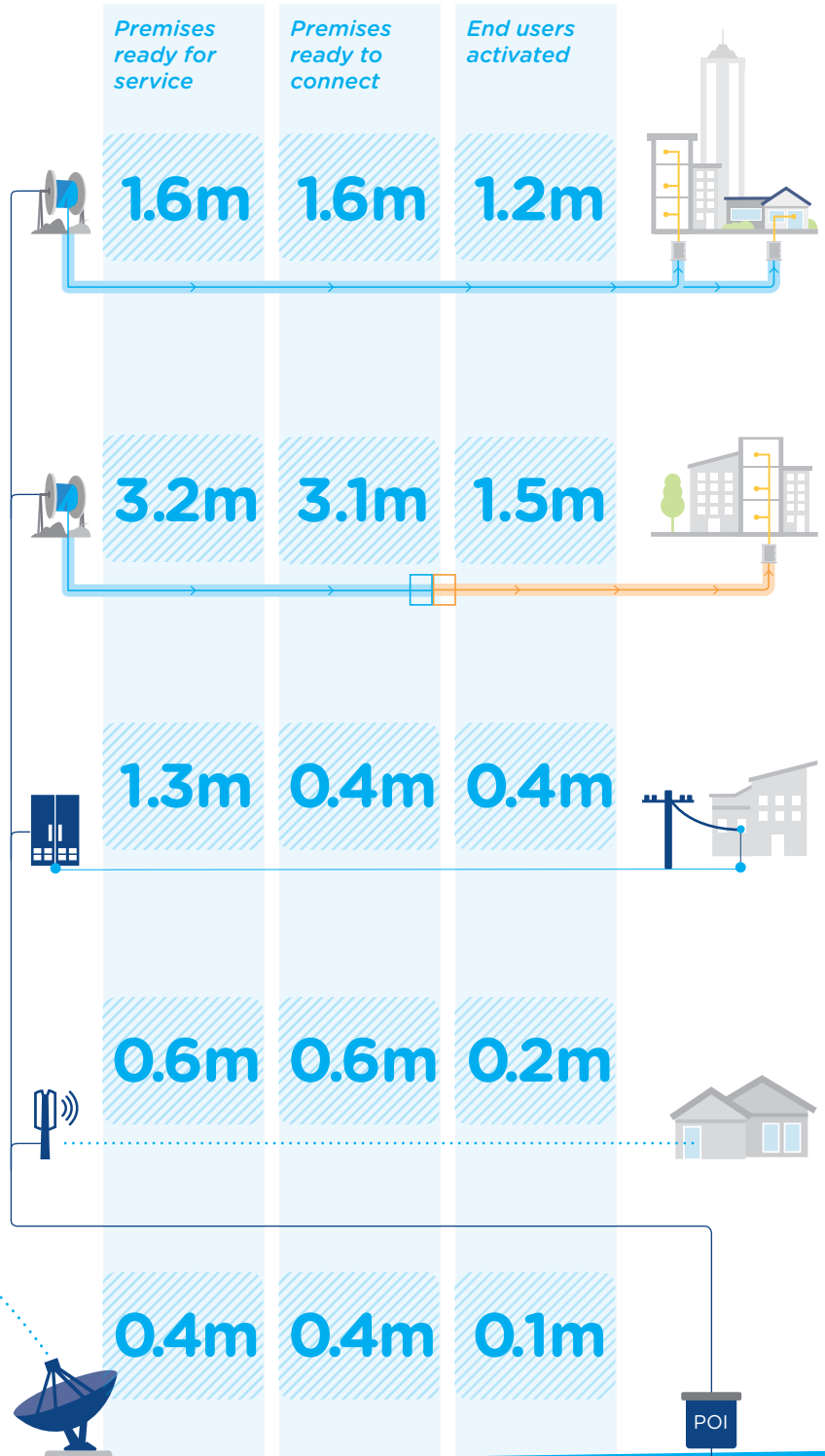
Leverages existing networks of fibre and coaxial cable to deliver broadband services into the home.

Fixed Wireless

Largely targeted at regional communities and provides the means for fast broadband to extend to Australians outside the reach of the fixed line network.

Sky Muster™ satellite

Among the world's largest and most advanced satellites. The satellite service allows the nbn™ network to reach remote areas.



Operating and financial review

The financial and operational highlights reflect the progress and momentum of NBN Co for the six months ended 31 December 2017.



Our performance

Customer experience initiatives

During the six months to 31 December 2017, NBN Co made two significant decisions to help improve the experience and satisfaction of its customers and end users on the **nbn**[™] network: a temporary pause on all activations on the HFC network and a new wholesale pricing model.

These initiatives form part of NBN Co's larger program of activity to address customer experience. While this work is a priority, the Company is continuing network deployment and activation at scale across the country.

HFC optimisation

On 27 November 2017, NBN Co announced new initiatives aimed at raising the standard of service quality before declaring the HFC network ready to connect. To help ensure the best possible customer experience for RSPs and end users, NBN Co temporarily paused all orders over its HFC network. The pause is anticipated to be in effect until fieldwork is undertaken to uplift service quality before declaring the HFC network ready to connect.

In order to achieve this, NBN Co is performing advanced network testing and remediation where needed, connector replacements, signal amplification calibration, lead-in work, and other works as required.

While the pause in activations is disappointing, customer experience challenges arose following the large volume of end users connected to the HFC network. Therefore, this decision was necessary to ensure the high quality experience we know the network can deliver. Notwithstanding this decision, the Company remains on track to complete the initial build by 2020 and the peak funding forecast continues to be consistent with the guidance provided in the Corporate Plan 2018.

Wholesale pricing evolution

In December 2017, NBN Co announced discounts on its top-tier wholesale internet access plans. The new wholesale pricing aims to not only deliver significant savings for wholesale customers, but help them to improve broadband speeds and the service for end users during peak hours. The new wholesale pricing is expected to come into effect this year.

The new wholesale plans include nearly double the average wholesale capacity from October 2017 that was previously being purchased by RSPs for services over the fixed line access technologies.

Until the new wholesale pricing comes into effect, NBN Co is offering the wholesale plans based on the 50/20 Mbps speed tier at the same price as the wholesale plans based on the 25/5 Mbps speed tier for a promotional period for fixed line services. The immediate wholesale discount is designed to deliver savings for RSPs and allow them to improve the service for end users. The Company is already seeing less congestion on the network and increased take-up of the wholesale plans based on the 50/20 Mbps wholesale speed tier.

Progress towards 2020 goal

NBN Co's Corporate Plan outlines the Company's financial and non-financial targets to be achieved by 2020.

NBN Co's goal is to complete the initial build of the **nbn™** access network and connect eight million homes and businesses by 2020.

8 million homes and businesses connected by 2020

NBN Co has continued to make progress towards its goal to have eight million homes and businesses connected by 2020.

During the first half of FY2018 (HY2018) operational, financial and deployment milestones were achieved as NBN Co continued to deploy the **nbn™** footprint at pace with an increased focus on customer experience.

A great place to work

The success of NBN Co is not possible without the hard work and effort of its employees. NBN Co had a strong participation rate in the recent interim employee engagement survey conducted during the period. The results are pleasing, reflecting effort and commitment to making NBN Co a great place to work.

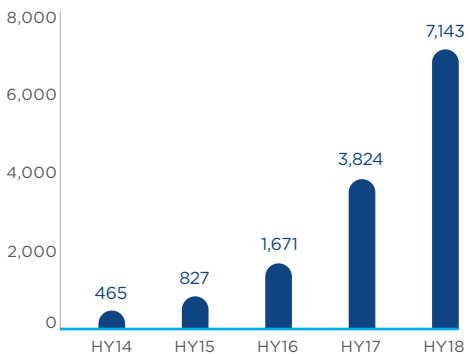
Premises ready for service grew significantly to 7.1 million

NBN Co reached new heights in the pace of the network rollout during the period, declaring 7.1 million premises ready for service. This represents nearly two thirds of Australian premises. The milestone reflects an additional 1.4 million premises made ready for service during the six month period to 31 December 2017.

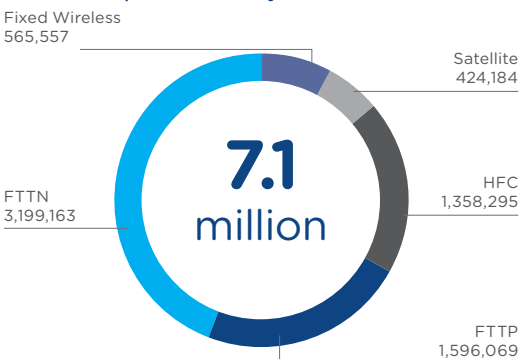
When NBN Co declares an area ready for service, RSPs are able to start selling **nbn™** services in that area. Some premises within the area may require further work to enable them to connect to the **nbn™** access network and to be declared ready to connect.

Ready to connect refers to the premises within an area declared ready for service that are able to connect after placing an order for a **nbn™** service with the end user's preferred RSP. As at 31 December 2017, 6.1 million premises were declared ready to connect. This represents more than one in two Australian premises able to connect to a **nbn™** service.

Cumulative premises ready for service ('000)



Cumulative premises ready for service HY18



Activations more than doubled year-on-year to 3.4 million

During HY2018, end user activations continued to grow significantly with more than 940,000 end user premises connecting to the **nbn™** access network within the six month period. At 31 December 2017, 3.4 million Australian premises were activated to services over the **nbn™** access network. This represents more than double the number of end user activations as at 31 December 2016.

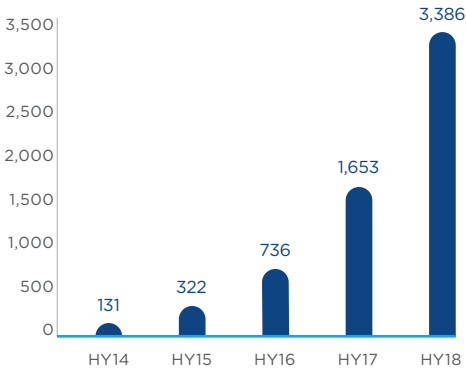
Revenue more than doubled year-on-year to \$0.9 billion

Revenue continues to grow in line with the number of premises activated to services over the **nbn™** access network, driving an increase in revenue from \$403 million in HY2017 to \$891 million in HY2018.

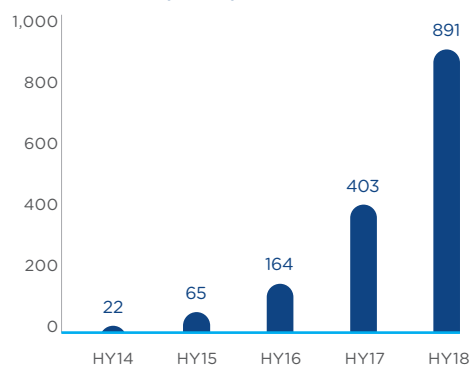
ARPU increased to \$44 for the period ended 31 December 2017 from \$43 for the period ended 31 December 2016.

Detailed analysis on revenue performance is provided on page 22.

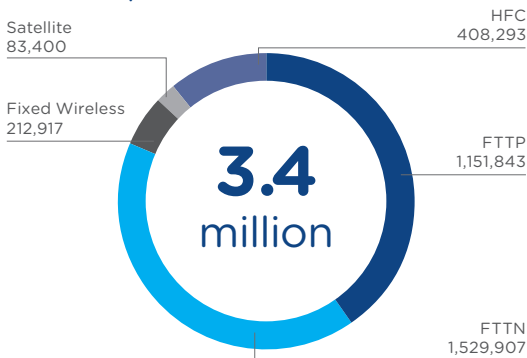
Cumulative premises activated ('000)



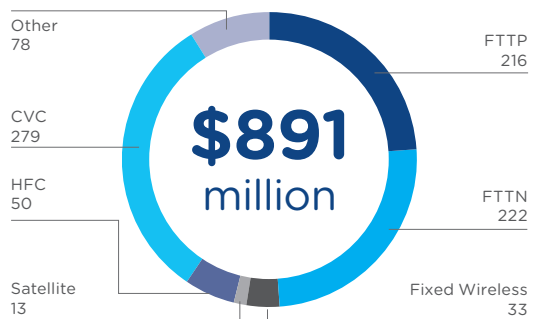
Total revenue by half-year (\$m)



Cumulative premises activated HY18



Total revenue by technology HY18 (\$m)



Review of financial performance and position



Financial highlights

Key financial metrics

For the six months ended
31 December

	2017 \$m	2016 \$m	2015 \$m	2014 \$m	2013 \$m
Financial performance					
Total revenue	891	403	164	65	22
Operating expenses	(1,022)	(858)	(644)	(461)	(461)
Adjusted EBITDA ¹	(131)	(455)	(480)	(396)	(439)
Subscriber costs	(1,246)	(549)	(208)	(101)	(39)
EBITDA ¹	(1,377)	(1,004)	(688)	(497)	(478)
Depreciation and amortisation	(1,028)	(658)	(402)	(283)	(169)
Net loss after tax	(2,643)	(1,829)	(1,239)	(902)	(716)
Financial position					
Total assets	26,155	20,978	15,340	10,936	7,674
Contributed equity	29,500	23,805	16,385	10,395	6,478
Capital expenditure ²	2,837	2,839	2,127	1,433	1,188
Borrowings	1,610	-	-	-	-

The financial highlights reflect the progress and momentum of NBN Co for the six months ended 31 December 2017.

The Group generated total revenue of \$891 million, \$488 million more than HY2017.

The adjusted EBITDA¹ loss of \$131 million excludes subscriber costs which are expected to cease by FY2022 and therefore do not reflect the ongoing activities of the Group. Subscriber costs include contractual payments to Telstra regarding the disconnection of services and to Optus regarding the migration of subscribers, as well as expenditure related to medical alarm and satellite subsidy schemes.

Adjusted EBITDA¹ has improved 71 per cent year-on-year.

Notwithstanding the significant growth in revenue, NBN Co recognised an EBITDA¹ loss of \$1,377 million and a net loss after tax of \$2,643 million. This loss is in line with expectations and reflects the current stage of business maturity with significant upfront investment in the network and end user activations, illustrated through increasing depreciation and amortisation expense and subscriber related expenditure.

At 31 December 2017, NBN Co had total assets of \$26,155 million, an increase of \$2,028 million (8 per cent) compared with 30 June 2017, primarily driven by capital expenditure on property, plant and equipment and intangible assets.

During HY2018, NBN Co received Commonwealth Government equity injections of \$2,035 million, which were primarily used in acquiring property, plant and equipment and intangible assets, as well as funding operational requirements. At 31 December 2017, the total committed equity funding of \$29.5 billion from the Commonwealth Government had been provided to NBN Co.

The first drawdown under the loan agreement with the Commonwealth Government occurred in the period. As at 31 December 2017, NBN Co had drawn down \$1.6 billion of the available \$19.5 billion under this agreement.

1. EBITDA is defined as loss before interest, tax, other income, depreciation and amortisation.

2. Capital expenditure excludes additions of leased assets, gifted assets and items of property, plant and equipment classified as inventories.

Financial Performance

Revenue

For the six months ended
 31 December

	2017 \$m	2016 \$m	2015 \$m	2014 \$m	2013 \$m
Telecommunications revenue	813	375	159	64	22
Other revenue	78	28	5	1	-
Total revenue	891	403	164	65	22
Average revenue per user (ARPU) - (\$)	\$44	\$43	\$43	\$39	\$36

Total revenue for HY2018 increased by \$488 million (121 per cent) compared with HY2017 to \$891 million. The most significant driver of revenue is the expansion of the **nbn™** network and the resulting increase in active end users.

Telecommunications revenue for HY2018 increased by \$438 million (117 per cent) compared with HY2017, to \$813 million, primarily driven by a 105 per cent increase in active end users from 1,652,564 to 3,386,360.

Other revenue primarily includes revenue from developers, commercial work activities and the Technology Choice Program, as well as licensing fees. Other revenue continues to grow as the **nbn™** network expands.

Across the **nbn™** network in HY2018, telecommunication revenue was generated at a weighted average ARPU of \$44 (HY2017: \$43). The increase in ARPU during the period was driven by the demand for connectivity virtual circuit (CVC) capacity by RSPs as end users continue to consume more data.

The wholesale speed tier mix of end users across NBN Co's fixed line services (inclusive of FTTP, FTTN and HFC network services) is illustrated below. The average wholesale download speed provisioned across all fixed line wholesale services was consistent in comparison to HY2017 at 32 Mbps.

The average wholesale download speed provisioned across Fixed Wireless wholesale services was 25 Mbps and Sky Muster™ satellite services was 21 Mbps. NBN Co's Fixed Wireless and Sky Muster™ satellite services are also illustrated below.

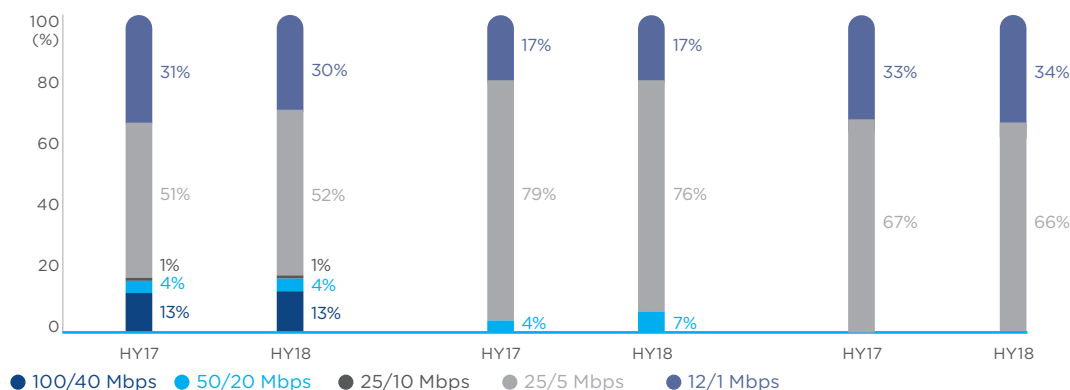
The new wholesale pricing options announced during the period are designed to stimulate the take up of plans based on higher wholesale speed tiers.

Peak and off-peak satellite broadband packages were also released increasing the maximum monthly wholesale data limits on the Sky Muster™ satellite service.

Fixed line speed tier (Mbps)

Fixed Wireless speed tier (Mbps)

Sky Muster™ satellite service speed tier (Mbps)



Operating expenditure*

For the six months ended
31 December

	2017 \$m	2016 \$m	2015 \$m	2014 \$m	2013 \$m
Direct network costs	329	246	173	130	129
Employee benefits expenses	406	362	280	195	193
Other operating expenses	287	250	191	136	139
Operating expenses	1,022	858	644	461	461
Subscriber costs	1,246	549	208	101	39
Depreciation and amortisation expense	1,028	658	402	283	169
Net finance charges	245	170	147	138	69

In line with the expansion of the **nbn™** access network and the increase in active end users, the Company has continued to grow during HY2018. As a result of the underlying growth in the business, expenditure in HY2018 has also increased.

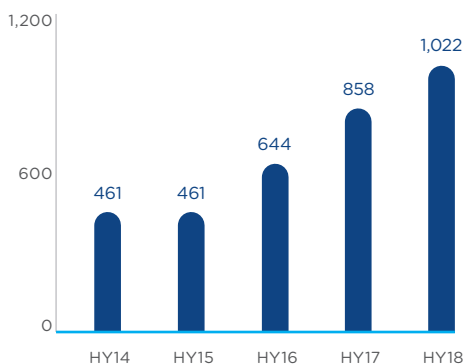
The key drivers include:

Direct network costs grew by \$83 million (34 per cent) compared with HY2017, to \$329 million. The increase in direct network costs primarily relates to operational and assurance services of the access networks, rental of network infrastructure, network power, as well as logistics and freight activities.

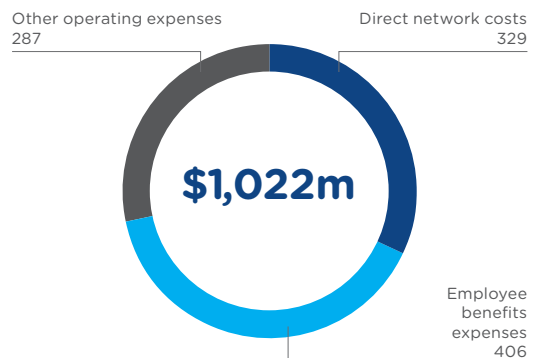
Employee benefits expenses increased by \$44 million (12 per cent) compared with HY2017, to \$406 million. Employee related expenses include costs of NBN Co employees, as well as labour hire and contractors (net of amounts that have been capitalised and included in the cost base of non-current assets). Employee benefit expenses have increased in line with the number of employees and temporary contractors.

Employee numbers increased from 5,444 at 31 December 2016 to 6,025 (11 per cent) at 31 December 2017 as NBN Co continues to expand and grow. In addition, NBN Co is supported by more than 600 temporary contractors.

Total operating expenses by half-year (\$m)



Total operating expenses by category HY18 (\$m)



* Prior year comparatives have been restated where applicable.

Operating expenditure (continued)

Other operating expenses increased by \$37 million (15 per cent) compared with HY2017, to \$287 million. This includes costs to define, establish and support ongoing outsourced business operations, strategic consulting, legal and regulatory services as well as IT and software expenses. Other operating expenses also include communication and public information costs and other employee related expenditure.

Subscriber costs increased by \$697 million (127 per cent) compared with HY2017, to \$1,246 million. This increase reflects the greater number of end users connected to the **nbn**TM access network as subscribers continue to disconnect and migrate from the Telstra and Optus networks.

Depreciation and amortisation expense increased by \$370 million (56 per cent) compared with HY2017, to \$1,028 million, reflecting NBN Co's expanded network and the greater number of assets placed into service during the period.

Net finance charges includes interest income and expenditure. The charges primarily relate to the accounting convention for assets under a long-term right of use arrangement. These charges have continued to grow in line with the increase in infrastructure supplied by Telstra under right of use arrangements.



Capital expenditure*

For the six months ended
31 December

	2017 \$m	2016 \$m	2015 \$m	2014 \$m	2013 \$m
FOTP network	173	294	669	756	398
FOTN network	870	1,014	599	41	-
FOTC network	266	5	-	-	-
HFC network	794	631	151	-	-
Fixed Wireless network	159	177	180	145	125
Satellite network	35	158	91	175	287
Transit network	207	190	109	125	236
Common capital expenditure	333	370	328	191	142
Total capital expenditure	2,837	2,839	2,127	1,433	1,188

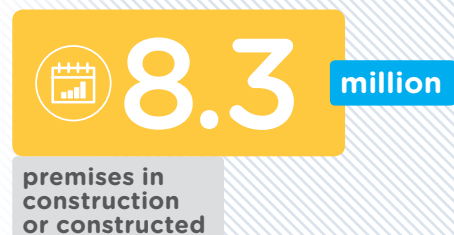
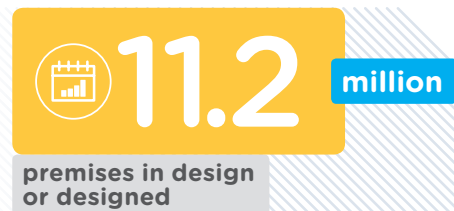
Underpinning the significant growth in network deployment, with more than 95 per cent of the nation at 31 December 2017 either ready for service or in the design or construction phase, is our investment in capital expenditure.

Capital expenditure incurred during HY2018 was \$2,837 million. The key cost drivers were the design, construction and activation activities for the deployment of **nbn's**[™] access technologies, as well as the continued investment in information technology and network software development.

FOTP network: Capital expenditure on the FOTP network during HY2018 was \$173 million. The expenditure primarily related to design, construction and connection activity of the Greenfield FOTP network and connecting end users to the Brownfield FOTP network.

FOTN network: During HY2018, \$870 million of capital expenditure was incurred for design, construction and activation activities, resulting in an additional 702,783 premises ready for service and an additional 571,988 premises activated. As at 31 December 2017, there were 1,384,854 premises currently in design or construction, reflecting the ongoing build of the FOTN network.

As at 31 December 2017



*Capital expenditure excludes additions of leased assets, gifted assets and items of property, plant and equipment classified as inventories.

Capital expenditure (continued)

FTTC network: During HY2018, \$266 million of capital expenditure was incurred for design and construction activities. As at 31 December 2017, there were 1,093,654 premises currently in design or construction.

HFC network: During HY2018, \$794 million of capital expenditure was incurred for design, construction and activation activities. As at 31 December 2017, there were 1,358,295 premises ready for service and 408,293 end users activated with 1,194,288 premises currently in design or construction.

Fixed Wireless network: During HY2018, capital expenditure incurred for the Fixed Wireless network was \$159 million. This expenditure included the acquisition of a further 98 wireless sites during the period and the integration of an additional 130 base stations.

Sky Muster™ satellite service: Capital expenditure during HY2018 was \$35 million. This expenditure primarily related to end user connections associated with Sky Muster™ satellite services.

Transit network: Investment in the transit network has continued to support the rollout of the **nbn™** access network and to increase capacity, as the number of end users and data consumption volume continues to grow.

Common capital expenditure: \$333 million was incurred during HY2018 for common capital expenditure, primarily related to developing network platforms to support the operation of the access technologies, network operating tools to support the field workforce, building back office systems and data quality, ongoing product development, as well as commercial property leasehold improvements.

Cost per Premises

The Cost per Premises (CPP) is an internal NBN Co management calculation used to assess the comparative incremental costs of initial construction of each access technology. The CPP reported represents the life-to-date incremental capital costs incurred in building the **nbn™** access network from the transit network to the in-premises connection for each technology, excluding early release or pilot sites.

	31 December 2017	30 June 2017
Cost per Premises	\$	\$
Brownfield FTTP network	4,392	4,403
Greenfield FTTP network	2,264	2,393
FTTN network	2,222	2,174
HFC network	2,403	2,258
Fixed Wireless network	3,645	3,569

Brownfield FTTP network

The CPP decrease during HY2018 reflects lower construction costs in less complex areas.

Greenfield FTTP network

The CPP decrease during HY2018 reflects lower design and construction costs as well as the utilisation of existing temporary transit infrastructure (TFAN/TTFN), as the program expands.

FTTN network

The CPP increase during HY2018 is primarily driven by higher construction costs due to longer local network build distances.

HFC network

The CPP increase during HY2018 reflects further pre-ready to connect network optimisation and node works to facilitate a better experience for end users connected to the HFC network and further improve the quality of the HFC network usage and connection experience for future end users.

Fixed Wireless network

The CPP increase during HY2018 is in line with expectations as the Fixed Wireless network extends to less densely populated areas.

Risk management

Risk management is central to NBN Co's ability to successfully manage the challenges of deploying and operating the **nbn**[™] access network. NBN Co's Board of Directors and Management are committed to implementing a robust risk management framework that will enable proactive identification, assessment and management of all risks.

NBN Co's approach to risk management

Both the Risk Management Policy and the Audit and Risk Committee Charter provide the mandate from the Board and Management for NBN Co's risk management. The Risk Management Policy outlines NBN Co's commitment to operating a robust system of risk oversight and management, responsibilities for risk across the Company and the essential behaviours for a strong risk culture.

NBN Co's Group Risk function is responsible for designing and overseeing the implementation of NBN Co's risk management framework, which includes providing advice to the Board and Management on approaches to identifying, assessing and managing risks. The effectiveness of NBN Co's risk management framework and an assessment of material risks are reviewed bi-annually by NBN Co Management, Audit and Risk Committee and the Board.

To enable the identification, assessment and management of risks, NBN Co adopts a risk management approach that is aligned with the international standard for risk management: 'AS/NZS ISO 31000:2009 Risk Management - Principles and Guidelines'.

Maturing risk management

As NBN Co matures, there is an emphasis on continually enhancing the company's risk management framework.

For further detail on NBN Co's risk profile as well as NBN Co's key corporate risks and mitigations, refer to pages 42 to 45 of the 2017 Annual Report.

Board of Directors

The names and details of the Directors in office during the half-year and the period until the date of this report are as follows:

Current Directors



Dr Ziggy Switkowski AO
Chairman/Non-Executive Director

Term of Office

Dr Switkowski was first appointed Executive Chairman of NBN Co effective 3 October 2013, and reverted to the role of Non-Executive Chairman from 2 April 2014 following the appointment of Mr Bill Morrow as Chief Executive Officer. His current term will expire on 2 October 2019.

Skills, Experience and Qualifications

Dr Switkowski is a former Chairman of the Australian Nuclear Science and Technology Organisation and Opera Australia. He has previously held positions as Chief Executive Officer of Telstra Corporation Limited and Optus Communications Ltd.

Dr Switkowski is a Fellow of the Australian Academy of Technological Sciences, the Australian Academy of Science and the Australian Institute of Company Directors. He has a Bachelor of Science (Honours) and PhD (Nuclear Physics).

Current Company Directorships

Dr Switkowski is Chairman of the Suncorp Group and a Director of listed companies Healthscope Ltd and Tabcorp Holdings Limited.

Other Current Appointments

Dr Switkowski is Chancellor of RMIT University.

Board Committee Memberships

Dr Switkowski is Chair of NBN Co's Nominations Committee and attends NBN Co's Audit and Risk Committee and People and Remuneration Committee meetings ex officio.



Mr Drew Clarke AO PSM
Non-Executive Director

Term of Office

Mr Clarke was appointed as a Director effective 22 August 2017. His current term will expire on 21 August 2020.

Skills, Experience and Qualifications

Mr Clarke has extensive public policy experience, having served in a range of senior government positions. These include Secretary of the Department of Resources, Energy and Tourism from 2010 to 2013, Secretary of the Department of Communications from 2013 to 2015, and Chief of Staff in the Office of the Prime Minister from 2015 to 2017. Mr Clarke's earlier public sector career included leadership roles in energy policy and in mapping, science and innovation agencies.

Mr Clarke was awarded the Order of Australia in 2016 for distinguished service to public administration and the Public Service Medal in 2009 for his energy policy work.

Mr Clarke is a Fellow of the Australian Academy of Technological Sciences and Engineering. He has a Master of Science from Ohio State University, a Bachelor of Applied Science (Surveying) from RMIT, and a Diploma from the Australian Institute of Company Directors.

Current Company Directorships

Mr Clarke is Chairman of the Australian Energy Market Operator and a Non-Executive Director of the CSIRO.

Board Committee Memberships

Mr Clarke is a member of NBN Co's Nominations Committee and People and Remuneration Committee.



Mr Patrick Flannigan
Non-Executive Director

Term of Office

Mr Flannigan was first appointed as a Director effective 11 November 2013. His current term will expire on 10 November 2019.

Skills, Experience and Qualifications

Mr Flannigan brings more than 25 years' experience in infrastructure.

Mr Flannigan established Integrated Maintenance Services in 2000 and was the founding Managing Director and Chief Executive Officer of Service Stream Ltd for six years from 2003. He then joined NBN Co as Head of Construction from 2009 to early 2011. In 2011, Mr Flannigan founded Utility Services Group and served as the Chief Executive Officer and Managing Director until 31 December 2015 when the company was acquired by an ASX listed company. Until late July 2016 Mr Flannigan held a Board position at the Australian Grand Prix Corporation.

Mr Flannigan is a Fellow of the Australian Institute of Management and the Australian Institute of Company Directors. He has a business degree from Victoria University.

Current Company Directorships

Mr Flannigan is Managing Director of Urban Maintenance Systems Pty Ltd, effective 1 August 2016.

Other Current Appointments

Mr Flannigan was appointed as a member of the Melbourne and Olympic Parks Trust effective 13 December 2016.

Board Committee Memberships

Mr Flannigan is a member of NBN Co's Audit and Risk Committee, Nominations Committee and People and Remuneration Committee.



Ms Shirley In't Veld
Non-Executive Director

Term of Office

Ms In't Veld was appointed as a Director effective 2 December 2015. Her current term will expire on 1 December 2018.

Skills, Experience and Qualifications

Ms In't Veld has extensive experience as a senior executive including as Managing Director of Verve Energy, Vice President of Primary Business Development for Alcoa Australia and Managing Director of Alcoa Australia Rolled Products. In 2014, Ms In't Veld was Chairman of the Queensland Government Expert Electricity Panel and a member of the Renewable Energy Target Review Panel for the Department of Prime Minister and Cabinet and was until recently a Council member of the Australian Institute of Company Directors (WA) and an Advisory Board member of the SMART Infrastructure Facility (University of Wollongong).

She has a Bachelor of Laws (Hons) and a Bachelor of Commerce from the University of Melbourne.

Current Company Directorships

Ms In't Veld is a Non-Executive Director of Northern Star Resources Limited and Deputy Chairperson of the CSIRO.

Other Current Appointments

Ms In't Veld is a member of the Australian Government Takeovers Panel.

Board Committee Memberships

Ms In't Veld is a member of NBN Co's Audit and Risk Committee and Nominations Committee.

Board of Directors (continued)



Mr Michael Malone
Non-Executive Director

Term of Office

Mr Malone was appointed as a Director effective 20 April 2016. His current term will expire on 19 April 2019.

Skills, Experience and Qualifications

Mr Malone founded iiNet Limited, an ASX listed telecommunications company in 1993 and continued as CEO until his retirement in 2014. Mr Malone's former directorships include Autism West (as founder and Vice Chairman) and .au Domain Administration (as a founder and Chairman). Mr Malone has received a number of prestigious industry recognitions including 2012 Australian Entrepreneur of the Year, Communications Alliance Ambassador and is a holder of the Telecommunications Society Charles Todd Medal.

Mr Malone is also a past Advisory Council Member of the Australian Institute of Management (WA) and a past member of the Commonwealth Consumer Affairs Advisory Council and the WA State Training Board. Mr Malone is a Fellow of the Australian Institute of Company Directors, the Australian Institute of Management and the Australian Computer Society. He has a Bachelor of Science (Mathematics) and a post graduate Diploma in Education both from the University of Western Australia.

Current Company Directorships

Mr Malone is Chair of the Board of ASX listed Superloop Ltd and a Director of Seven West Media Ltd, Speedcast International Ltd and Dreamscape Networks Limited. He is also the founder and Chairman of Diamond Cyber Pty Ltd.

Board Committee Memberships

Mr Malone is a member of NBN Co's Audit and Risk Committee and Nominations Committee.



Mr Justin Milne
Non-Executive Director

Term of Office

Mr Milne was first appointed as a Director effective 11 November 2013. His current term will expire on 10 November 2019.

Skills, Experience and Qualifications

Mr Milne's career combines experience in telecommunications, marketing and media. As Chief Executive Officer of three of Australia's largest internet service providers, OzEmail, MSN and BigPond, he built significant media businesses in the online and mobile phone worlds.

Mr Milne has been responsible for many successful marketing campaigns and has been honoured with a number of awards. He has a Bachelor of Arts from Flinders University.

Current Company Directorships

Mr Milne is Chairman of Australian Broadcasting Corporation, MYOB Group Ltd and NetComm Wireless Ltd. He is a Non-Executive Director of Tabcorp Holdings Limited and Members Equity Bank Ltd.

Board Committee Memberships

Mr Milne is Chair of NBN Co's People and Remuneration Committee and a member of NBN Co's Nominations Committee.



Mr Bill Morrow
Managing Director and Chief Executive Officer

Term of Office

Mr Morrow was appointed as Chief Executive Officer (CEO) and a Director of NBN Co effective 2 April 2014. His current term as a Director will expire on 1 April 2020.

Skills, Experience and Qualifications

Mr Morrow joined NBN Co with a remit to ensure all homes, businesses and communities across Australia can access fast broadband as soon as possible, at affordable prices and at least cost.

Mr Morrow is known for his global expertise in leading complex turnarounds and capital intensive start-ups. His industry experience spans fixed line broadband services, fixed wireless, mobile wireless, and gas and electric utilities.

Prior to his present role Mr Morrow served as CEO of Vodafone Hutchison Australia in Sydney, CEO of Clearwire Corporation in Seattle, CEO of Pacific Gas & Electric Co., CEO of Vodafone Europe, and CEO of Japan Telecom. He is a former Non-Executive Board member of Broadcom and Openwave.

Mr Morrow has an Associate of Science degree in Electrical Engineering from Condie College and a BA in Business Administration from the National University in San Diego, California.

Board Committees

Mr Morrow attends NBN Co's People and Remuneration Committee meetings ex officio. Mr Morrow was a member of NBN Co's Nominations Committee up to 30 June 2017. From 1 July 2017 he attends Nominations Committee meetings ex officio.



Dr Kerry Schott AO
Non-Executive Director

Term of Office

Dr Schott was first appointed as a Director effective 28 September 2012. Her current term will expire on 5 October 2018.

Skills, Experience and Qualifications

Dr Schott has worked in numerous senior executive roles including as Managing Director and CEO of Sydney Water, CEO of the NSW Government Commission of Audit, Managing Director of Deutsche Bank and Executive Vice President of Bankers Trust Australia. Prior to becoming an investment banker, Dr Schott was a public servant and an academic.

Dr Schott has a Doctorate of Philosophy from Oxford University, a Master of Arts from the University of British Columbia, Vancouver, a Bachelor of Arts (First Class Honours) from the University of New England, and Honorary Doctorates from the University of Sydney and the University of Western Sydney.

Current Company Directorships

Dr Schott is Chairman of the Moorebank Intermodal Company Ltd and the Energy Security Board, and a Director of TCorp NSW.

Other Current Appointments

Dr Schott is on the advisory boards of Sydney Metro, HealthShare NSW and Sydney Light Rail.

Board Committee Memberships

Dr Schott is Chair of NBN Co's Audit and Risk Committee and a member of NBN Co's Nominations Committee.

Company Secretaries



Ms Debra Connor

Ms Connor joined NBN Co as Company Secretary, effective June 2010.

Skills, Experience and Qualifications

Ms Connor has a Bachelor of Laws from the Queensland University of Technology and a Graduate Diploma in Corporate Governance from the Governance Institute of Australia. She has also completed post graduate courses through Stanford and Columbia Universities in the US and Italy, respectively.

Prior to joining NBN Co, Ms Connor was Board Secretary of Port of Melbourne Corporation from January 2007, and prior to that she was in-house Counsel and Company Secretary with SMS Management & Technology Limited, a publicly listed management consulting company based in Melbourne with an international presence in the UK and Asia. Ms Connor joined SMS in January 2000.



Ms Kylie Brown

Ms Brown joined NBN Co in June 2011. She was appointed as a Company Secretary of NBN Co in August 2015.

Skills, Experience and Qualifications

Ms Brown has a Bachelor of Laws and Bachelor of Arts from Macquarie University and a Certificate in Governance Practice from the Governance Institute of Australia. She is currently General Counsel in the NBN Co Legal team.

Prior to joining NBN Co in 2011, Ms Brown was a Senior Associate in private practice at Corrs Chambers Westgarth from 2000 to 2010 and a lawyer at Moray & Agnew from 1997 to 2000.

Directors' interests

The Directors of NBN Co have no interests in the shares of NBN Co.

Dividends

No dividends have been paid or declared since the Group was established in April 2009.

Significant events subsequent to reporting date

No matter or circumstance has arisen since 31 December 2017 to the date of the signing of this report that has significantly affected, or may affect:

- The Group's operations in future financial years;
- The results of those operations in future financial years; and
- The Group's state of affairs in future financial years.

Rounding of amounts

The Group is of a kind referred to in ASIC Corporation (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, amounts in the Half-Year Financial Report and Directors' report have been rounded off to the nearest million dollars, unless otherwise stated.

Auditor independence

The Directors received an independence declaration from the Auditor-General. A copy of this report has been included with the Half-Year Financial Report.

Corporate information

NBN Co is a public company limited by shares that is incorporated and domiciled in Australia. The registered office of the Company is Level 40, 360 Elizabeth Street, Melbourne Victoria 3000. NBN Co is wholly-owned by the Commonwealth of Australia.

Signed in accordance with a resolution of the Directors.



J. Z. Switkowski

Dr Ziggy Switkowski AO
Chairman



Bill Morrow

Mr Bill Morrow
Chief Executive Officer

6 February 2018



Auditor's independence declaration



Auditor-General for Australia



Dr Ziggy Switkowski AO
Chairman
NBN Co Limited
Level 11, 100 Arthur Street
North Sydney NSW 2060
Australia

NBN Co Limited Half-Year Financial Report for the period ended 31 December 2017
AUDITORS INDEPENDENCE DECLARATION

In relation to my review of the Half-Year Financial Report of the NBN Co Group (comprising NBN Co Limited and the entities it controlled at the period's end or from time to time during the half-year ended 31 December 2017), to the best of my knowledge and belief, there have been:

- i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- ii) no contraventions of any applicable code of professional conduct.

Australian National Audit Office

A handwritten signature in black ink, appearing to read 'Grant Hehir'.

Grant Hehir

Canberra
6 February 2018

Half-Year financial report

The Half-Year Financial Report, comprising of the consolidated financial statements and condensed notes to the consolidated financial statements, for the six months ended 31 December 2017, includes the Company and its subsidiaries (together referred to as the NBN Co Group or the Group).





Statement of profit or loss and other comprehensive income

For the six months ended	Notes	NBN Co Group	
		31 December 2017 \$m	31 December 2016 \$m
Revenue	B1	891	403
Direct network costs		(329)	(246)
Employee benefits expenses		(406)	(362)
Other operating expenses	B2	(287)	(250)
Subscriber costs		(1,246)	(549)
Depreciation and amortisation expense	C1 & C2	(1,028)	(658)
Other income		8	7
Net finance costs	C3	(245)	(170)
Loss before income tax		(2,642)	(1,825)
Income tax expense		(1)	(4)
Loss for the period		(2,643)	(1,829)
Loss attributable to the shareholder		(2,643)	(1,829)
Other comprehensive loss			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of cash flow hedges, net of tax		(2)	(9)
Total other comprehensive loss for the period, net of tax		(2)	(9)
Total comprehensive loss for the period		(2,645)	(1,838)
Total comprehensive loss attributable to the shareholder		(2,645)	(1,838)

The above statement should be read in conjunction with the accompanying notes.

Statement of financial position

As at	Notes	NBN Co Group	
		31 December 2017	30 June 2017
		\$m	\$m
Current assets			
Cash and cash equivalents		702	1,184
Trade and other receivables		415	334
Inventories		33	32
Held to maturity assets		-	140
Other current assets		93	114
Total current assets		1,243	1,804
Non-current assets			
Property, plant and equipment	C1	22,927	20,508
Intangible assets	C2	1,927	1,760
Other non-current assets		58	55
Total non-current assets		24,912	22,323
Total assets		26,155	24,127
Current liabilities			
Trade and other payables		2,748	2,595
Other liabilities		17	14
Other financial liabilities	C3	144	134
Derivative financial liabilities		-	1
Provisions		104	133
Total current liabilities		3,013	2,877
Non-current liabilities			
Trade and other payables		4	5
Other liabilities		583	483
Other financial liabilities	C3	6,538	5,755
Provisions		58	48
Borrowings	D2	1,610	-
Total non-current liabilities		8,793	6,291
Total liabilities		11,806	9,168
Net assets		14,349	14,959
Equity			
Contributed equity	D1	29,500	27,465
Other reserves		4	6
Accumulated losses		(15,155)	(12,512)
Total equity		14,349	14,959

The above statement should be read in conjunction with the accompanying notes.

Statement of changes in equity

	NBN Co Group				
	Notes	Accumulated losses \$m	Contributed equity \$m	Other reserves \$m	Total equity \$m
Balance at 30 June 2016		(8,268)	20,275	16	12,023
Loss for the period		(1,829)	-	-	(1,829)
Other comprehensive loss		-	-	(9)	(9)
Total comprehensive loss for the period		(1,829)	-	(9)	(1,838)
Transactions with owners in their capacity as owners:					
Contributions of equity		-	3,530	-	3,530
Balance at 31 December 2016		(10,097)	23,805	7	13,715
Balance at 30 June 2017					
Balance at 30 June 2017		(12,512)	27,465	6	14,959
Loss for the period		(2,643)	-	-	(2,643)
Other comprehensive loss		-	-	(2)	(2)
Total comprehensive loss for the period		(2,643)	-	(2)	(2,645)
Transactions with owners in their capacity as owners:					
Contributions of equity	D1	-	2,035	-	2,035
Balance at 31 December 2017		(15,155)	29,500	4	14,349

The above statement should be read in conjunction with the accompanying notes.

Statement of cash flows

NBN Co Group

For the six months ended		31 December 2017	31 December 2016
	Notes	\$m	\$m
Cash flows from operating activities			
Receipts from customers		934	423
Payments to suppliers and employees		(929)	(838)
Payments for subscriber costs		(1,193)	(477)
Interest received		13	15
Net cash used in operating activities		(1,175)	(877)
Cash flows from investing activities			
Receipts from held to maturity assets		140	351
Payments for held to maturity assets		-	(481)
Payments for property, plant and equipment		(2,580)	(2,479)
Payments for intangible assets		(357)	(375)
Net cash used in investing activities		(2,797)	(2,984)
Cash flows from financing activities			
Payments for finance leases and right of use licences		(151)	(144)
Proceeds from borrowings from the Commonwealth of Australia	D2	1,610	-
Interest paid on borrowings from the Commonwealth of Australia		(4)	-
Equity injection for ordinary shares by the Commonwealth of Australia	D1	2,035	3,530
Net cash provided by financing activities		3,490	3,386
Net decrease in cash and cash equivalents		(482)	(475)
Cash and cash equivalents at the beginning of the period		1,184	1,287
Cash and cash equivalents at the end of the period		702	812

The above statement should be read in conjunction with the accompanying notes.

Notes to the financial statements

A About this report

NBN Co Limited (the Company, NBN Co or the parent entity) is an unlisted public company incorporated and domiciled in Australia. It is a company limited by shares and is wholly-owned by the Commonwealth of Australia. The Half-Year Financial Report, comprising of the consolidated financial statements and condensed notes to the consolidated financial statements, for the six months ended 31 December 2017, includes the Company and its subsidiaries (together referred to as the NBN Co Group or the Group).

NBN Co is a for-profit entity for the purpose of preparing the Half-Year Financial Report.

Basis of preparation

This non-statutory Half-Year Financial Report has been prepared in accordance with Australian Accounting Standards Board (AASB) 134 *Interim Financial Reporting*. The Half-Year Financial Report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report for the year ended 30 June 2017.

This Half-Year Financial Report has been prepared on a going concern basis and in accordance with the historical cost convention and does not take into account changing money values or fair values of assets unless otherwise stated. Cost is the fair value of the consideration given in exchange for net assets acquired.

The Company is incorporated under the *Corporations Act 2001* and is subject to (inter alia) the *National Broadband Network Companies Act 2011* and the *PGPA Act*.

The accounting policies have been consistently applied to all periods presented in these consolidated financial statements and are as outlined in the 2017 Annual Report.

The Group has not early adopted any standard, interpretation or amendment that has been issued, but is not yet effective.

Comparative figures have been adjusted to conform to the presentation of the financial statements and notes for the current financial period where required.

Going concern

The Directors are of the view that the Commonwealth Government will continue to operate in accordance with the policy objectives as set out in the Statement of Expectations as issued by the Shareholder Ministers to NBN Co on 24 August 2016.

The Group's current liabilities exceeded its current assets by \$1,770 million as at 31 December 2017. The Half-Year Financial Report has been prepared on a going concern basis, which contemplates the continuity of normal operations and the availability of the \$19.5 billion loan facility agreed with the Commonwealth Government on 22 December 2016. The \$19.5 billion loan facility is available to NBN Co Limited for the period from 1 July 2017 to 30 June 2021.

At the date of signing the Half-Year Financial Report the debt funding that is available through the aforementioned loan facility is sufficient to meet the net cash flow forecasts of the Group for at least twelve months from the date of this report.

Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, all financial information presented in Australian dollars has been rounded to the nearest million unless otherwise stated.

Significant accounting estimates and judgements

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates and assumptions to future events.

Estimates and judgements which are material to the Half-Year Financial Report are consistent with those referred to on page 101 of the 2017 Annual Report.

These estimates have been consistently applied to all periods presented, unless otherwise stated.

B Our revenue and other operating expenditure

This section provides information that is most relevant to understanding our revenue and other operating expenditure during the period.

B1 Revenue

For the six months ended	NBN Co Group	
	31 December 2017	31 December 2016
	\$m	\$m
Telecommunications revenue	813	375
Other revenue	78	28
Total	891	403

B2 Other operating expenses

For the six months ended	NBN Co Group	
	31 December 2017	31 December 2016
	\$m	\$m
IT and software expenses	(70)	(63)
Communication and public information	(42)	(36)
Other operating expenses	(175)	(151)
Total	(287)	(250)

C Our assets and liabilities

This section provides information relating to our financial, tangible and intangible assets and their related liabilities. NBN Co's tangible assets are primarily constructed assets or items of infrastructure acquired through finance lease arrangements.

C1 Property, plant and equipment

NBN Co Group

	Freehold land \$m	Buildings & leasehold improvements \$m	Furniture & equipment \$m	IT equipment \$m	Network assets \$m	Total \$m
At 30 June 2017						
Cost	17	398	19	132	22,740	23,306
Accumulated depreciation	-	(128)	(12)	(100)	(2,558)	(2,798)
Net book value	17	270	7	32	20,182	20,508
Period ended 31 December 2017						
Opening net book value	17	270	7	32	20,182	20,508
Additions	-	6	-	14	3,261	3,281
Depreciation	-	(17)	(1)	(10)	(834)	(862)
Net book value	17	259	6	36	22,609	22,927
At 31 December 2017						
Cost	17	404	19	146	26,001	26,587
Accumulated depreciation	-	(145)	(13)	(110)	(3,392)	(3,660)
Net book value	17	259	6	36	22,609	22,927

C1 Property, plant and equipment (continued)

Property, plant and equipment at net book value is analysed as follows:

	NBN Co Group	
	31 December 2017 \$m	30 June 2017 \$m
Constructed and purchased assets	14,368	12,103
Assets in the course of construction	2,396	2,917
Leased assets	5,563	4,990
Assets acquired for no consideration and under government grant	600	498
Property, plant and equipment - net book value	22,927	20,508

Assets in the course of construction

The carrying value of property, plant and equipment includes \$2,396 million (30 June 2017: \$2,917 million) of expenditure on assets which are in the course of construction. The majority of assets in the course of construction are network assets. As these assets have not been installed and are not ready for use, no depreciation is charged on these assets.

Leased assets

The net carrying amount included in property, plant and equipment is \$18 million (30 June 2017: \$19 million) for buildings and \$5,545 million (30 June 2017: \$4,971 million) for network assets.

Assets acquired for no consideration and under government grant

Included within network assets are assets acquired from developers for no consideration and an indefeasible right of use arrangement with the Department of Communications to use certain Regional Backbone Blackspots Program assets for no consideration.

Non-current assets pledged as security

None of the non-current assets have been pledged as security by the Group.

C Our assets and liabilities (continued)

C2 Intangible assets

	NBN Co Group			Total \$m
	Software \$m	Licences \$m	Other \$m	
At 30 June 2017				
Cost	2,477	159	55	2,691
Accumulated amortisation	(791)	(126)	(14)	(931)
Net book value	1,686	33	41	1,760
Period ended 31 December 2017				
Opening net book value	1,686	33	41	1,760
Additions	333	-	-	333
Amortisation	(164)	(1)	(1)	(166)
Net book value	1,855	32	40	1,927
At 31 December 2017				
Cost	2,810	159	55	3,024
Accumulated amortisation	(955)	(127)	(15)	(1,097)
Net book value	1,855	32	40	1,927

Assets in the course of construction

The carrying amount of intangible assets includes expenditure recognised on software assets which are in the course of construction. As these assets have not been installed and are not ready for use, no amortisation is charged on these assets. Total software assets in the course of construction are \$211 million (30 June 2017: \$360 million).

C3 Other financial liabilities

Lease liabilities and right of use licences

	NBN Co Group	
	31 December 2017	30 June 2017
	\$m	\$m
Current		
Lease liabilities and right of use licences	144	134
Total	144	134

	NBN Co Group	
	31 December 2017	30 June 2017
	\$m	\$m
Non-current		
Lease liabilities and right of use licences	6,538	5,755
Total	6,538	5,755

The majority of other financial liabilities relates to right of use licences to access Telstra's network infrastructure, including ducts, pits, exchange rack space and dark fibre. The terms of the right of use licences are governed by the Revised Definitive Agreements (RDAs) with Telstra.

These right of use licences are accounted for as finance leases. The Group also leases industrial buildings under finance leases with various occupancy terms of up to 20 years.

Net finance costs

Net finance costs primarily relate to the right of use licences to access Telstra's network infrastructure, which are accounted for as finance leases.

For the six months ended	NBN Co Group	
	31 December 2017	31 December 2016
	\$m	\$m
Finance charges on finance lease arrangements	(255)	(186)
Unwinding of the discount on other lease related provisions	(1)	(1)
Interest on government borrowings	(5)	-
Interest income	16	17
Total	(245)	(170)

C Our assets and liabilities (continued)

C3 Other financial liabilities (continued)

Finance lease commitments

Lease payments comprise a base amount and an incremental contingent rental amount, which is based on movements in the Consumer Price Index (CPI). Contingent rent, representing the portion of the lease payments made that were not fixed and subject to CPI contract clauses, are expensed in the period in which they were incurred. Current levels of CPI at the reporting date are included in future finance and other charges for disclosure purposes only.

	NBN Co Group	
	31 December 2017	30 June 2017
	\$m	\$m
Finance lease and right of use licences are payable as follows:		
Within one year	732	650
Later than one year but not later than five years	2,513	2,186
Later than five years	15,157	13,456
Minimum lease payments	18,402	16,292
48 Future finance and other charges	(11,720)	(10,403)
Recognised as a liability	6,682	5,889
Representing finance lease and right of use licence liabilities:		
Current	144	134
Non-current	6,538	5,755
Total	6,682	5,889

D Our funding and capital management

On 22 June 2011, the Commonwealth Government and NBN Co entered into an Equity Funding Agreement (EFA), whereby the Commonwealth provided assurances to the Company in relation to the provision of equity funding until 30 June 2021, unless terminated earlier.

As at 31 December 2017 the total committed equity funding of \$29.5 billion from the Commonwealth had been provided to NBN Co under the terms of the EFA.

On 22 December 2016, a \$19.5 billion loan agreement with the Commonwealth Government was signed. The loan agreement sets out the terms of the commercial facility that will be available to NBN Co Limited for up to \$19.5 billion for the period from 1 July 2017 to 30 June 2021.

D1 Contributed equity

As at 31 December 2017, a total of \$29.5 billion had been provided to the Company.

	NBN Co Limited		NBN Co Limited	
	31 December 2017	30 June 2017	31 December 2017	30 June 2017
	Number of shares	Number of shares	\$m	\$m
Ordinary shares				
Fully paid	29,500,000,000	27,465,445,092	29,500	27,465
Total	29,500,000,000	27,465,445,092	29,500	27,465

Movements in ordinary share capital

	NBN Co Limited		
	Number of shares	Issue price \$	Value of shares \$m
Opening balance at 30 June 2017	27,465,445,092	1.00	27,465
Equity injections	2,034,554,908	1.00	2,035
Closing balance at 31 December 2017	29,500,000,000	1.00	29,500

D2 Borrowings

	NBN Co Group	
	31 December 2017	30 June 2017
	\$m	\$m
Non-current		
Loans from related parties	1,610	-
Total	1,610	-

As at 31 December 2017, \$1,610 million had been drawn down from the aforementioned \$19.5 billion loan facility with the Commonwealth Government. The loan agreement with the Commonwealth Government has a fixed interest rate of 3.96 per cent, with interest payable monthly over the life of the facility. The full principal amount of the loan is to be repaid by 30 June 2021.

E Our significant contractual arrangements and commitments

NBN Co has entered into a number of contracts that will underpin the delivery of the **nbn**[™] network. In addition to entering into contractual arrangements with Delivery Partners for the build of the network, NBN Co has entered into strategic agreements with Telstra and SingTel Optus (Optus). These strategic agreements are essential to NBN Co in regard to its ability to achieve its short and long-term objectives.

NBN Co's significant contractual arrangements are set out on pages 120 – 121 of the 2017 Annual Report and have not significantly changed from 30 June 2017.

E1 Commitments

Capital commitments

Total capital expenditure contracted for at the reporting date but not provided for in the Statement of financial position is as follows:

	NBN Co Group	
	31 December 2017 \$m	30 June 2017 \$m
Within one year	3,164	3,210
Later than one year but not later than five years	1,096	1,477
Later than five years	1,596	2,134
Total capital commitments	5,856	6,821

Capital commitments include committed right of use and infrastructure ownership payments under the RDAs with Telstra, fixed term commercial contracts and other ordered capital expenditure.

Given the long-term nature of NBN Co's capital commitments under the RDAs, which include right of use payments that will occur until 2047 and scheduled infrastructure ownership payments throughout the rollout period, capital expenditure commitments relating to the RDAs in periods beyond 12 months have been discounted for the purpose of the disclosure above. Other capital commitments beyond 12 months have also been discounted.

Payments in exchange for Telstra disconnecting premises from its copper and HFC networks are excluded from the disclosure above as the payments do not constitute capital expenditure.

E1 Commitments (continued)

Operating leases

The Group leases certain properties, commercial vehicles, poles infrastructure and wireless base stations with various terms that are due to expire within one to thirty years.

Lease payments generally comprise a base amount plus an incremental contingent rental amount based on movements in the Consumer Price Index and reviews to market-based levels. Contingent rentals paid during the year are included as an expense in the Statement of profit or loss and other comprehensive income.

	NBN Co Group	
	31 December 2017 \$m	30 June 2017 \$m
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	103	94
Later than one year but not later than five years	317	170
Later than five years	588	439
Total	1,008	703

Not included in the above commitments are contingent rental amount payments which may arise. Furthermore, operating lease commitments have not been discounted.

For finance lease commitment disclosures refer to Note C3.

F Other information

This section provides information on further disclosures required by the Australian Accounting Standards and the *Corporations Act 2001*.

F1 Contingent assets and contingent liabilities

NBN Co's significant contingent assets and contingent liabilities are set out on page 136 of the 2017 Annual Report. There have been no significant changes to these contingent assets and contingent liabilities during the period.

F2 Related party transactions

Parent entity

The parent entity within the Group is NBN Co Limited. The ultimate parent entity and ultimate controlling entity is the Commonwealth of Australia.

Acquisitions

There were no acquisitions in the year.

Subsidiaries

The interest in the subsidiaries is set out in on page 131 of the 2017 Annual Report.

Transactions with related parties

The following transactions occurred with related parties:

For the six months ended	Notes	NBN Co Group	
		31 December 2017	31 December 2016
		\$	\$
Equity injections			
Equity injected by the Commonwealth of Australia into NBN Co Limited	D1	2,034,554,908	3,530,000,000

For the six months ended	Notes	NBN Co Group	
		31 December 2017	31 December 2016
		\$	\$
Loans from the Commonwealth of Australia			
Balance at 1 July		-	-
Loans advanced during the period		1,610,000,000	-
Loan repayments during the period		-	-
Interest charged on government borrowings		4,649,884	-
Interest paid on government borrowings		(4,463,454)	-
Balance at 31 December	D2	1,610,186,430	-

F2 Related party transactions (continued)

Other directors' interests

In FY2017, NBN Co executed an agreement with NetComm Wireless Ltd, for the supply of Distribution Point Units (DPUs) in the FTTC network. Mr Justin Milne is the Chairman of NetComm Wireless Ltd. Mr Milne recused himself from the Board meeting for the period of time whereby the Directors approved the award of the contract. NBN Co also receives certain other goods and services from NetComm Wireless Ltd in the normal course of business.

The following aggregate payments for good and services occurred with the above party:

For the six months ended	NBN Co Group	
	31 December 2017	31 December 2016
Notes	\$	\$
Payments for goods and services (excluding GST)		
Payments for goods and services from entities with common key management personnel	41,563,170	624,349

F3 Fair value measurement of financial instruments

The Group uses the following fair value hierarchy for determining and disclosing the fair value of financial instruments.

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value of derivative assets and liabilities

The Group's derivative financial assets and liabilities are the only assets and liabilities carried at fair value in the Statement of financial position. The fair value of these instruments is determined using valuation techniques with observable market data, categorised as Level 2.

The fair value of derivatives used for hedging is determined using forward exchange rates at the reporting dates.

There has been no transfer between hierarchy levels during the year.

Fair value of other financial instruments

The Group has a number of financial instruments which are not measured at fair value in the Statement of financial position. Their carrying amounts are materially consistent with their fair value as at the reporting date.

G Events occurring after the reporting period

No matter or circumstance has arisen since 31 December 2017 to the date of signing of this report that has significantly affected, or may affect:

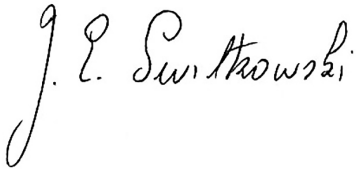
- The Group's operations in future financial years;
- The results of those operations in future financial years; and
- The Group's state of affairs in future financial years.

Directors' declaration

- 1) These non-statutory Half-Year financial statements and notes set out on pages 38 to 54 are in accordance with AASB 134 *Interim Financial Reporting*, the *Corporations Act 2001* and the *Public Governance, Performance and Accountability Act 2013*, giving a true and fair view of the NBN Co Group's financial position as at 31 December 2017 and of its performance for the Half-Year ended on that date; and
- 2) There are reasonable grounds to believe that the NBN Co Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

Signed in accordance with a resolution of the Directors.



Dr Ziggy Switkowski AO
Chairman

6 February 2018



Mr Bill Morrow
Chief Executive Officer

6 February 2018

Independent auditor's review report



Auditor-General for Australia



Independent Auditor's Review Report

To the members of NBN Co Limited

Conclusion

Based on my review, which is not an audit, nothing has come to my attention that causes me to believe that the Half-Year Financial Report of NBN Co Limited does not give a true and fair view of the financial position of the NBN Co Group as at 31 December 2017 and its financial performance for the half-year ended on that date, in accordance with Accounting Standard AASB 134 *Interim Financial Reporting*.

The NBN Co Group comprises NBN Co Limited and the entities it controlled at 31 December 2017 or from time to time during that half-year.

The Half-Year Financial Report of NBN Co Limited, which I have reviewed, comprises the following statements as at 31 December 2017 and for the year then ended:

- Statement of financial position;
- Statement of profit or loss and other comprehensive income;
- Statement of changes in equity;
- Statement of cash flows;
- Notes to the financial statements, comprising a summary of significant accounting policies and other explanatory notes; and
- Directors' Declaration.

Directors' responsibility for the Half-Year Financial Report

The Directors of NBN Co Limited are responsible for the preparation of the Half-Year Financial Report that gives a true and fair view in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and for such internal control as the Directors determine is necessary to enable the preparation of the Half-Year Financial Report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

My responsibility is to express a conclusion on the Half-Year Financial Report based on my review. I conducted my review in accordance with the Australian National Audit Office Auditing Standards which incorporate the Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to my attention that causes me to believe that the financial report does not give a true and fair view of NBN Co Group's financial position as at 31 December 2017 and its performance for the half-year ended on that date in accordance with Accounting Standard AASB 134 *Interim Financial Reporting*. As the auditor of NBN Co Limited, ASRE 2410 requires that I comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-Year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing

Standards and consequently does not enable me to obtain assurance that I would become aware of all significant matters that might be identified in an audit. Accordingly, I do not express an audit opinion.

Independence

In conducting my review, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Australian National Audit Office



Grant Hehir
Auditor-General

Canberra
6 February 2018

NBN Co Limited

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