



Annual Report 2018



Legal Notice

NBN Co

NBN Co Limited (NBN Co or the Company) 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* (Cth) (PGPA Act).

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NBN Co Limited
Level 11, 100 Arthur Street
North Sydney NSW 2060
Australia

Annual Report

This Annual Report is for the year ended 30 June 2018 and provides information about the Company and its subsidiaries (together referred to as the NBN Co Group or the Group).

The Financial report was authorised for issue by the Directors on 9 August 2018. The Directors have the power to amend and reissue the Financial report.

Glossary

Defined terms within this Annual Report should be read in conjunction with the Glossary on pages 175 to 179.

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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

Contents

Annual Report 2018

| | | | | | |
|----------|--|----------|----------|--|------------|
| 1 | Overview | 2 | 3 | Remuneration report | 71 |
| | About NBN Co | 2 | | | |
| | 2018 Results summary | 4 | 4 | Corporate governance statement | 84 |
| | Chairman and Chief Executive Officer's message | 6 | 5 | Auditor's independence declaration | 105 |
| 2 | Directors' report | 8 | 6 | Financial report | 106 |
| | Our business | 10 | | Consolidated financial statements | 107 |
| | Operating and financial review | 16 | | Notes to the consolidated financial statements | 111 |
| | Improving customer experience | 18 | | Directors' declaration | 152 |
| | Progress towards 2020 goal | 24 | | Independent auditor's report | 153 |
| | Our contribution to Australia | 28 | 7 | Regulatory report | 159 |
| | Our approach to health, safety and the environment | 34 | 8 | Additional information | 173 |
| | Our financial results | 41 | 9 | Glossary | 175 |
| | Our approach to risk management | 47 | | | |
| | Outlook | 53 | | | |
| | Board of Directors | 55 | | | |
| | Executive committee | 61 | | | |
| | Our key functions | 68 | | | |
| | Other information | 70 | | | |

About NBN Co

NBN Co is the company helping Australia transition to a digital future by building and operating Australia's new high-speed, wholesale local access broadband network.

NBN Co's purpose is to connect Australia and bridge the digital divide to ensure all Australians have access to a fast, reliable broadband network, as soon as possible, at affordable prices and at least possible cost.



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 50Mbps peak wholesale download data rates to 90 per cent of the fixed-line network¹.

As the network wholesaler, NBN Co provides wholesale broadband to all Retail Service Providers (RSPs) on a non-discriminatory basis. This approach is intended to level the playing field in the Australian telecommunications industry – enhancing competition and providing greater choice for consumers across the country. It is through RSPs that end users connect to the **nbn**[™] access network for access to fast broadband.

Building the **nbn**[™] access network remains one of the largest and most complex infrastructure initiatives in Australia's history, and one of the most ambitious in any telecommunications market around the world.

With our goal of eight million homes and businesses connected by 2020, the network will fundamentally enable Australia to become a more connected, competitive and innovative nation.

NBN Co has a commitment to deliver at least

25Mbps
Peak wholesale

download data rates to all premises¹

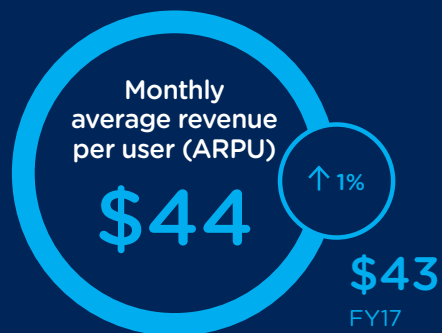
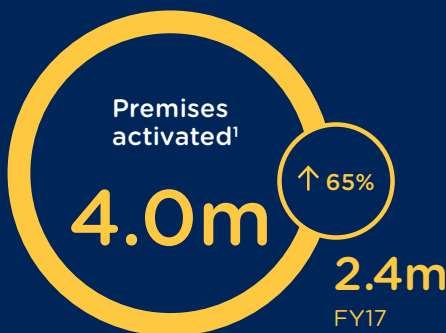
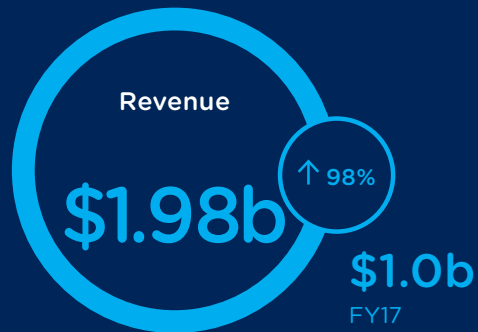
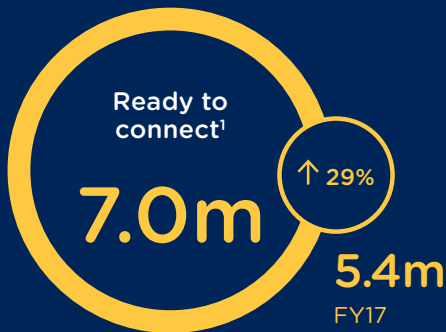


50Mbps
Peak wholesale

download data rates to 90 per cent of the fixed-line network¹

¹ The **nbn**[™] access network is being designed to provide these peak speeds to NBN Co Retail Service Providers at NBN Co's network boundary. The **nbn**[™] wholesale speed tiers available to RSPs vary depending on the **nbn**[™] access network technology in your area.

2018 Results summary



Ready for service¹

8.1m

↑ 42%

5.7m
FY17

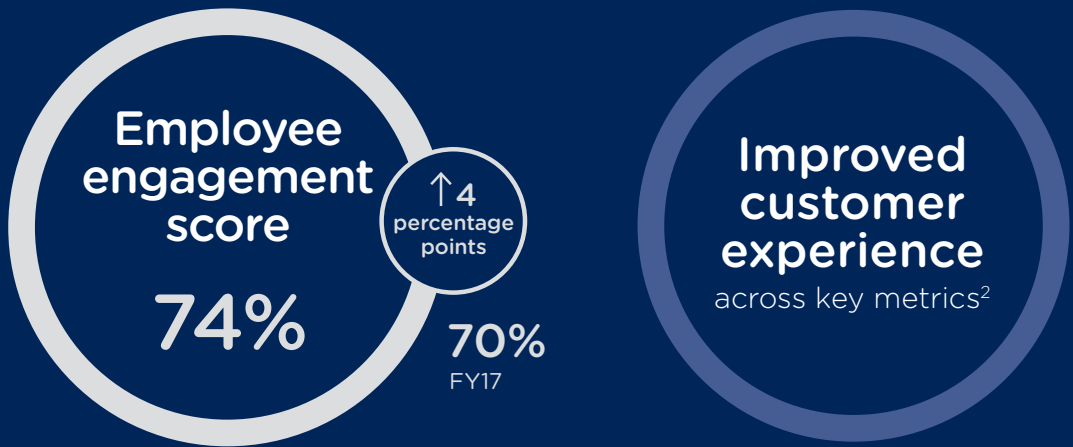
Capital expenditure

\$5.7b

↓ 2%

\$5.8b
FY17

¹ Cumulative number of premises activated, ready to connect and ready for service.



² Refer to pages 22 to 23 for progress against key customer experience metrics.

Chairman and Chief Executive Officer's message

A year of solid progress toward 2020



J. E. Switkowski
**Dr Ziggy
Switkowski AO**
Chairman

FY18 has been a significant year for the Company as we've balanced our commitment to get the network built as quickly as possible with our enhanced focus on improving end-user customer experience.

There has been a number of highlights this financial year. We almost doubled revenue on FY17 to reach \$1.98 billion, improved industry-wide customer satisfaction by nearly 12 per cent, and passed the 70 per cent construction milestone. At the end of FY18, more than 90 per cent of the network footprint was in design, construction or complete.

Customer experience is the heart of all decision making and our continued improvements in this area will define our success this financial year.

Improvements in customer experience

We listened to end users and knew we had to improve the factors we could control.

This year, we're pleased to have reduced average network bandwidth congestion from more than five hours per week per service in June 2017 to approximately 25 minutes by end of FY18 (excluding the Sky Muster™ satellite service).¹ We're getting 92 per cent of installations of **nbn**™ equipment right the first time. Our individual service fault

rate is now below one per cent per 100 premises per month² and, when things go wrong, we're fixing 90 per cent of individual service faults within agreed timeframes with RSPs³.

Behind these headline improvements is an extensive program of initiatives.

We introduced a wholesale pricing promotion to help incentivise RSPs to move end users onto higher speed plans. By June, 45 per cent of end users connected to services over the **nbn**™ access network were on 25Mbps to 50Mbps or 50Mbps or higher, compared to just 16 per cent a year ago⁴.

Our focus also resulted in some tough calls, including the pause on HFC sales to conduct optimisation work to help improve the experience on this part of the network. By the end of FY18, we were well-progressed on the upgrade and had begun releasing premises in the **nbn**™ HFC network footprint. We know the HFC network is in better shape today than it was previously.

Due to higher consumer demand across our fixed wireless network, we invested in capacity increases on congested towers to help RSPs give regional Australians an improved experience. That work continues and we're seeing good improvements.



Bill Morrow
Bill Morrow
Chief Executive Officer
9 August 2018

Making progress towards our 2020 goals

We continued to drive revenue growth and reported total revenue of \$1.98 billion for the financial year. An ARPU increase to \$44 combined with strong activations during 1HY18 set the Company up well to achieve its total revenue target.

We also continued to make solid progress on build and activations, declaring 8.1 million premises ready for service, seven million ready to connect and four million activated at 30 June 2018.

FTTC – our new technology – launched commercially and now forms an important part of our Multi-Technology Mix. This brings fibre closer to the home and by network completion is planned to service more than 1.4 million premises.

We've scaled network construction and activations and are well-positioned for FY19 to be another significant year for NBN Co on the build side.

Initiatives such as the HFC pause have naturally impacted deployment and activations across the network. Although we did not reach our forecasts outlined in the 2018-21 Corporate Plan, we made conscious decisions to prioritise the experience of end users connected.

The remainder of the build remains complex, however we're prepared to meet the challenges of rolling out the network across a vast and unique continent like Australia. We're making solid progress towards our 2020 goal and remain on track for network completion.

Strength of the business and outlook

None of what the Company has achieved during FY18 could be done without the incredible team of employees and partners we have at NBN Co.

Motivated by our purpose to connect Australia and help bridge the digital divide, all 6,850 employees and temporary staff and our 24,000-strong field workforce are driving the rollout to completion and working hard to support the Company's extensive customer experience program.

The Board continues its consideration of the right candidate to replace CEO Bill Morrow, and very much appreciates his continued focus and determination to lead the business until an extensive executive search is completed.

There will be challenges in the coming financial year, but we have no doubt that the right team is in place to deliver on our goals and ensure all Australians have access to fast broadband by 2020.

- 1 This is calculated across all bandwidth purchased by all RSPs across the entire network (CVC congestion). Bandwidth congestion is caused by the level of provisioning of capacity by the RSP, but there are also other types of congestion which may occur on the **nbn**[™] access network.
- 2 This measure tracks individual service faults, not network related faults which are tracked separately. It excludes faults not related to the **nbn**[™] access network.
- 3 Relates to individual service faults on the **nbn**[™] access network. Agreed service levels vary by premises location, and differ for the Sky Muster[™] satellite network. The Wholesale Broadband Agreement (WBA) includes detailed rules for defining "**nbn** faults" and this metric excludes Priority Assistance Faults or Enhanced Faults.
- 4 The **nbn**[™] access network is being designed to provide these peak speeds to NBN Co's Retail Service Providers at NBN Co's network boundary. The **nbn**[™] wholesale speed tiers available to RSPs vary depending on the **nbn**[™] access network technology in your area.

Directors' report

The Directors of the Company present their report on NBN Co Limited (NBN Co or the Company) and its subsidiaries (the Group or the NBN Co Group), together with the Financial report of the Group for the year ended 30 June 2018 and the auditor's report thereon.

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* (Cth) (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.





Principal activities

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

Our business

1

NBN Co's purpose

To connect
Australia and
bridge the
digital divide

2

What is NBN Co delivering?
Our goal

Eight million
homes
and
businesses
connected
by 2020

3

How is NBN Co achieving it? Our five strategic imperatives



1
A high-performing and
reliable network



2
Effective and efficient
processes and systems



3
United partnership with vendors,
Delivery Partners and Retail
Service Providers



4
Affordable wholesale
products and services



5
A great place
to work

4

Supported by

6,850
NBN Co
employees and
temporary staff

24,000
external
workforce

More than 100
Retail Service
Providers selling
services over the
nbn™ access
network

Establishing world-class network technology



The **nbn**TM access network is designed to deliver access to **high-speed** broadband to all Australians as quickly as possible and at the least possible cost.

By 2020, 90 per cent of the fixed-line footprint is expected to be capable of achieving peak wholesale download speeds of at least 50Mbps¹.

NBN Co strives to deliver world-class technology to its customers and end users by continually pursuing innovation to implement potential upgrade paths as demand increases.

¹ The **nbn**TM access network is being designed to provide these peak speeds to NBN Co's Retail Service Providers at NBN Co's network boundary. The **nbn**TM wholesale speed tiers available to RSPs vary depending on the **nbn**TM access network technology in your area.

Establishing world-class network technology

Premises ready for service Premises ready to connect Premises activated

Fibre-to-the-Premises (FTTP)

Deploys fibre optic cable all the way to premises. Available in a variety of existing locations as well as most large new developments, and to end users who can select FTTP through the Technology Choice program.



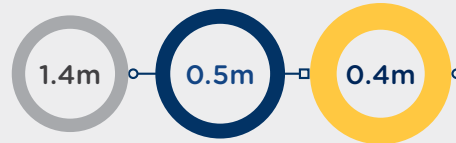
Fibre-to-the-Node/ Basement/ Curb (FTTN/B/C)

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 premises.



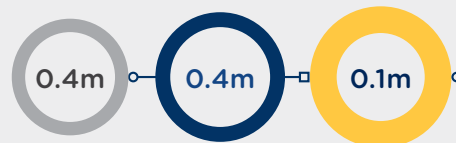
Fixed Wireless

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

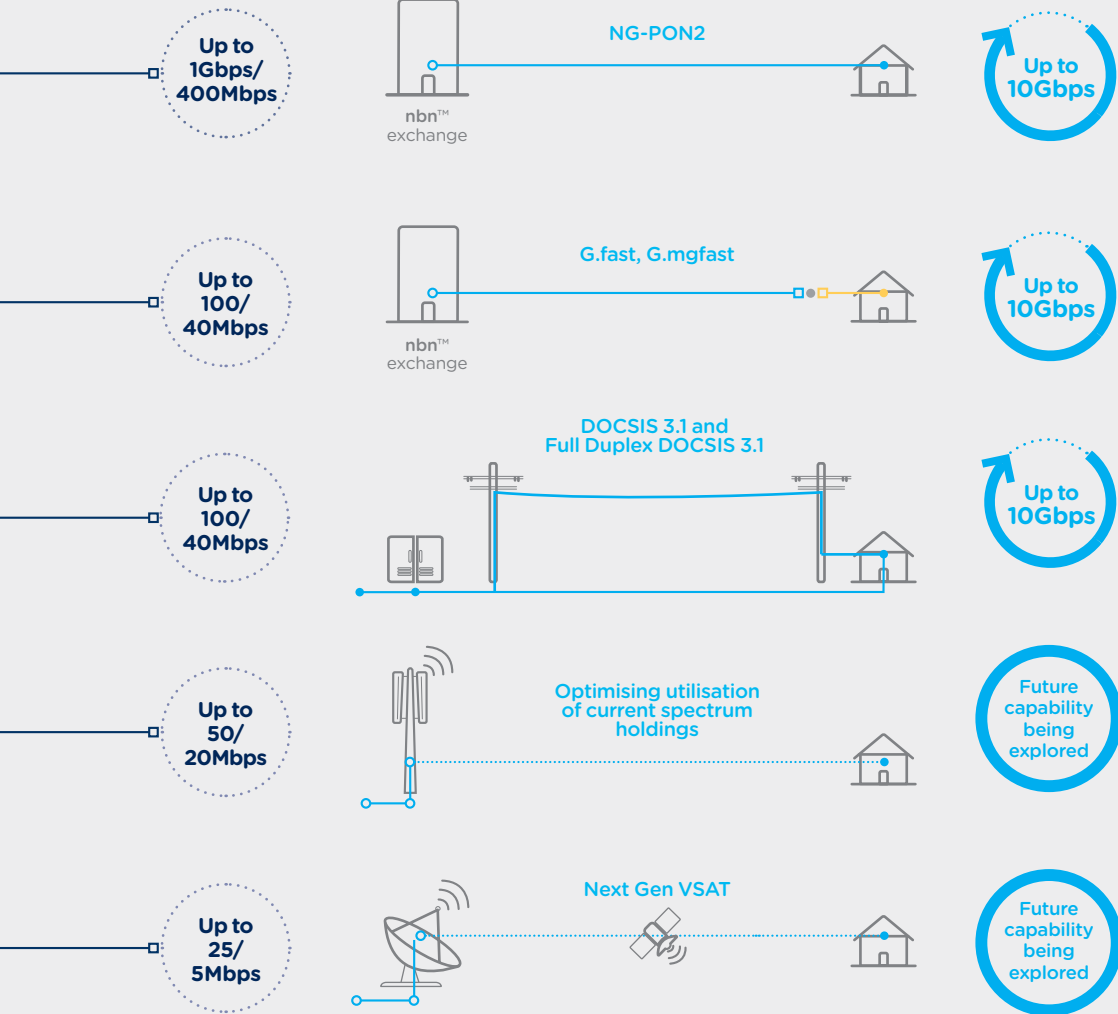
Among the world's largest and most advanced communication satellites. The satellite service allows the **nbn**™ network to reach remote areas.



**Current
wholesale
products**

Potential upgrade path

**Potential
mid-term
upgrade
path
peak-speed¹**



¹ These speeds were achieved in the context of a trial and are not necessarily reflective of the speeds that will be experienced by end users. Your experience, including the speeds actually achieved over the nbn™ access network, depends on: the configuration over which services are delivered to your premises, whether you are using the internet during typical busy periods, such as evenings, when more people are online, and some factors outside our control (like how far away your premise is located from nbn™ network equipment, your equipment quality, software, broadband plans, signal reception, the plan you choose from your provider, the performance of your modem, Wi-Fi, cabling, other devices in your premises and how your service provider designs its network). Speeds may be impacted by network congestion on NBN Co's network, including during busy periods.

Operating and financial review

NBN Co is dedicated to helping ensure all Australians have a **positive experience** when connecting and using services over the **nbnTM** access network.

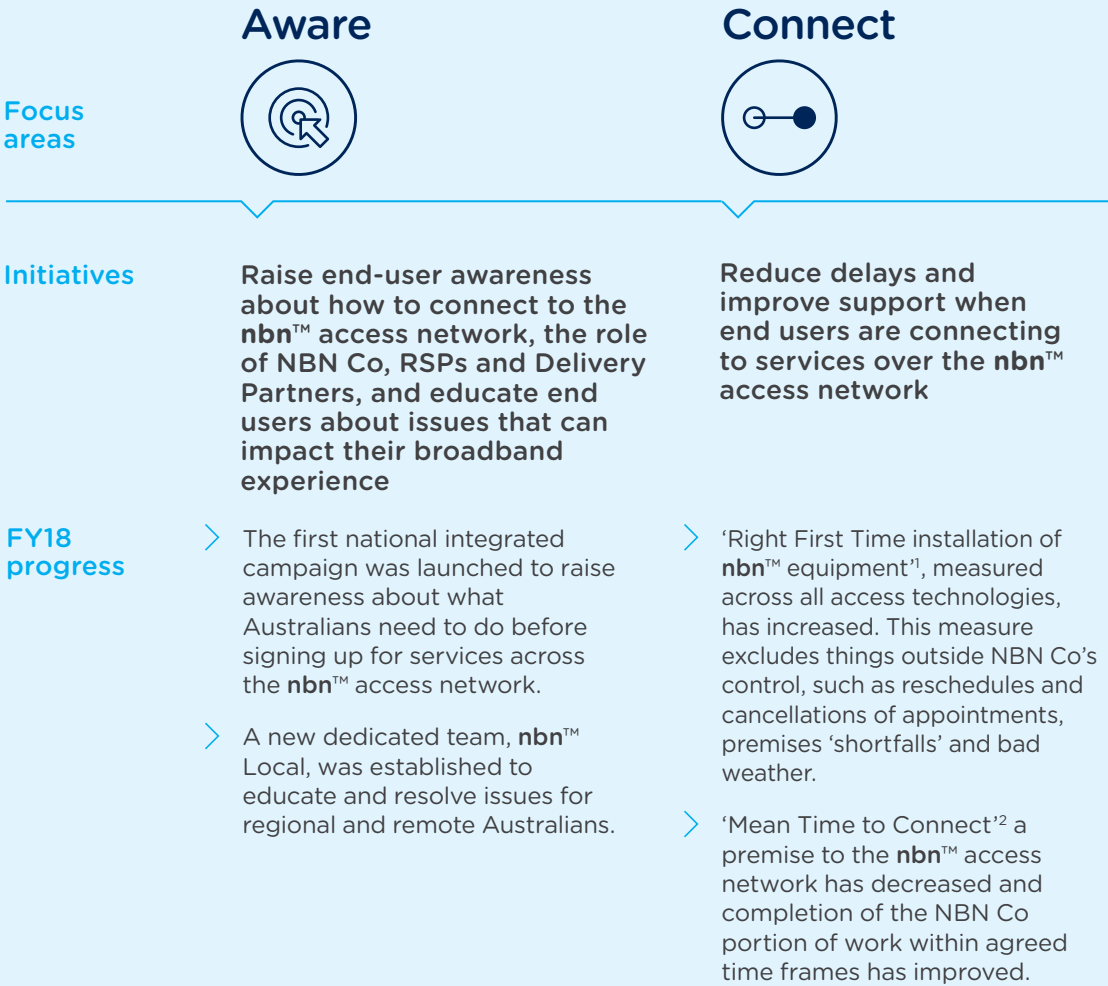
FY18 has been a significant year for NBN Co as solid progress continued towards its 2020 goal, while prioritising customer experience.

NBN Co's priority to improve the service of connected end users has required management to make some tough decisions during FY18. HFC orders were paused and an optimisation program put in place to improve end-user experience on the wholesale part of the network. The Company also evolved its wholesale pricing to introduce new bundled discount options that encourage RSPs to offer higher speeds and provide more capacity to end users. Investments were also made to upgrade capacity on the Fixed Wireless network.

NBN Co also implemented an extensive program of initiatives targeted at four distinct focus areas of the end-user experience and has made strong progress in these during FY18, as outlined on the following pages.



Improving customer experience together with RSPs



1 'Right First Time installation of **nbn**[™] equipment', is the percentage of homes and businesses that have their **nbn**[™] equipment installed without additional work from NBN Co the first time the installation is attempted. Typically NBN Co excludes end-user cancellations, end-user or RSP initiated reschedules, end-user premises 'shortfalls' and other things outside of NBN Co's control such as bad weather. This measure covers the installation of equipment that does not require more than one appointment. It does not cover successful connections to a plan over the **nbn**[™] access network through an RSP.

2 'Mean Time to Connect' (MTTC) is the time in calendar days from the receipt of an NBN Co order via an RSP to when the NBN Co order has been completed. This includes installation of any NBN Co equipment as required to complete the order. It does not include any additional time it may take for the RSP to complete their activity, such as install an RSP modem or gateway.

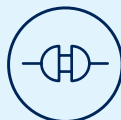
Use



Improve the experience of internet access when customers need it most

- > New wholesale pricing discount options were introduced to help RSPs improve broadband speeds and reduce congestion for end users.
- > The HFC network optimisation program was launched to improve the experience for RSPs and their end users.
- > Fixed Wireless network upgrades commenced to expand network capacity to address congestion and improve end-user experience.

Fix



Improve the time to resolve issues and ensure issues are fixed as quickly as possible

- > 'Mean Time to Resolve'³ reduced during FY18.
- > 'Right First Time fault restoration'⁴ improved.

3 'Mean Time to Resolve' (MTTR) is the time from when an incident is reported to NBN Co to when the incident is resolved to the customer's satisfaction. The MTTR measure currently excludes contributions due to customer caused delays, weather, force majeure, network incidents and remediation, and is measured in calendar hours.

4 'Right First Time fault restoration' measures whether a service was restored on the first appointment date associated with Incident and whether the associated NBN Co resolution was accepted by the RSP (i.e. no RSP Rejection of NBN Co's resolution). This measure excludes misses due to network outages/ incidents, weather, force majeure and customer caused reschedules/cancellations. It also excludes 'Not In Attendance' scenarios, when the end user is not present at the premise, and is considered to be a customer-caused miss.

Improving customer experience together with RSPs

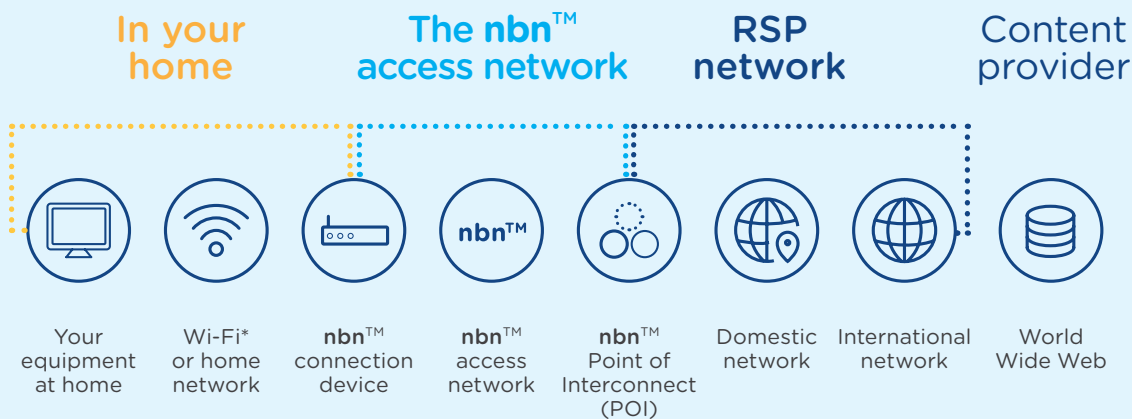
Improving the experience of all end users on the nbn™ access network must be managed in collaboration with RSPs and other industry stakeholders, as NBN Co is only one link in the internet value chain. The customer experience of end users can be impacted by other factors outside NBN Co's control, including the RSPs' network or customer-owned equipment.

NBN Co's customer experience program assists RSPs and the rest of the industry to deliver outcomes across this value chain. A new Wholesale Broadband Agreement (WBA) contract was signed with phone and internet providers, designed to improve the quality and timeliness of the wholesale services offered. Various programs were launched to collaborate with RSPs and other industry stakeholders. The principles of an end-to-end communication program have been agreed with the aim of addressing end users' pain points resulting from a misalignment in industry communications.

NBN Co is also collaborating with the industry to address unresolved issues faced by end users to identify ways to work together to resolve them more efficiently.

In addition, the industry is taking action to improve customer experience, with the Australian Communications and Media Authority (ACMA) recently releasing a suite of new rules for the industry that includes steps to ensure continuity of service during the migration process, revised standards on complaints-handling and enhanced testing capabilities. These rules gradually come into effect between July and September 2018.

NBN Co's place in the value chain



* Your Wi-Fi device may be provided by your RSP or you can choose to purchase your own. The quality or type of device may affect your experience.

Demonstrating our progress on customer experience

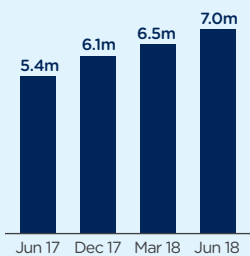
NBN Co's commitment to customer experience is showing significant progress.

To give the public a clear understanding on our progress, NBN Co is reporting key customer experience metrics publicly through a monthly progress report. Compared against 30 June 2017, the recently reported metrics show that NBN Co has made strong progress in the following areas during the period to 30 June 2018.

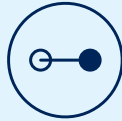
Progress



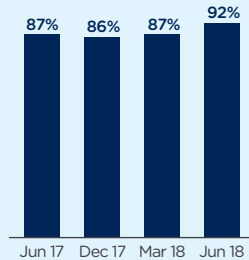
Ready to connect¹



Connect



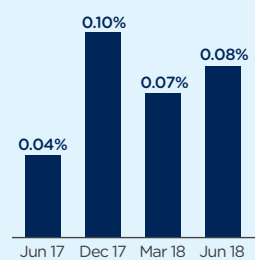
Right first time installations of nbn™ equipment³



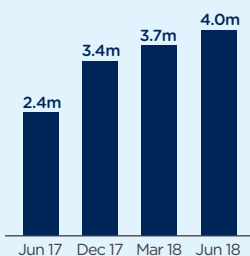
Use



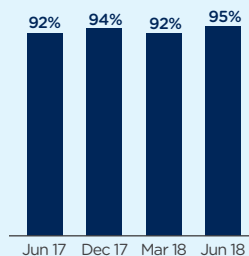
Fixed-line network congestion⁵



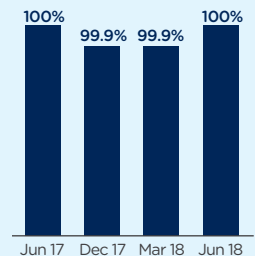
Connected homes and businesses²



Meeting agreed installation times⁴



Network availability⁶



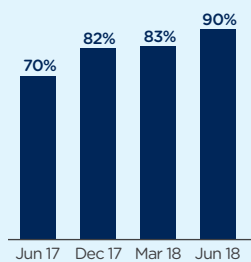
1,2 Cumulative number of premises ready to connect and connected homes and businesses.

3,4,5,6,7,8,9,10 Please refer to page 174 for further details on how the performance against key metrics have been calculated.

Fix



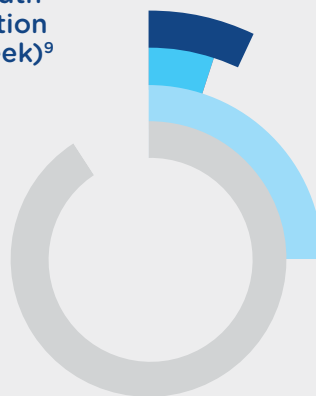
Meeting agreed fault restoration times⁷



Faults per 100 connected homes and businesses⁸



Average network bandwidth congestion (per week)⁹



25 mins

Jun 18

Jun 18 25 mins

Mar 18 18 mins

Dec 17 1 hr : 30 mins

Jun 17 5 hrs : 23 mins

Uptake to higher peak wholesale speed plans¹⁰



45%
50Mbps or higher plans

Jun 18

Jun 18 45%

Mar 18 37%

Dec 17 16%

Jun 17 16%

Solid progress towards 2020 goal — Eight million homes and businesses connected

In addition to the significant improvements in customer experience metrics NBN Co has continued to make solid progress towards its goal to have eight million homes and businesses connected by 2020.

In FY18, NBN Co made a critical decision to pause HFC orders in order to undertake upgrade work to help improve customer experience on the HFC network. This decision, together with the decision to increase the FTTC footprint, has impacted the ready for service (RFS), ready to connect (RTC) and activations phasing over the rollout period. As a result, there was a lower RFS profile and fewer activations at the end of the year than estimated in the Corporate Plan 2018-21. The shift in phasing does not impact the target build completion date of 2020 or NBN Co's goal to connect eight million homes and businesses to services over the **nbn**[™] access network by 2020.

While customer experience initiatives implemented during FY18 impacted the

phasing of network deployment and activations, NBN Co demonstrated solid performance against its long-term goals. NBN Co has steadily grown activations, progressed on network construction and continued to drive revenue growth during the fiscal year.

During FY18, NBN Co expanded the RFS footprint by 2.4 million premises from 5.7 million premises to 8.1 million premises. This represented a 42 per cent increase year-on-year.

To further support NBN Co's customer-centric business approach, the reporting methodology has transitioned from RFS to RTC metrics. RTC is a more relevant measure for the end user as it refers to when

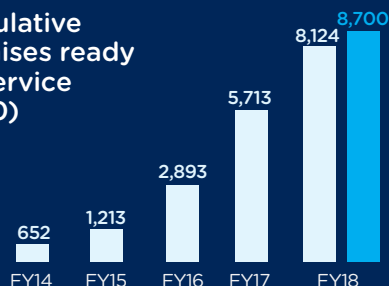
premises within an area can place an order for **nbn**™ services with the end users preferred RSP. By comparison, RFS indicates when RSPs can start selling **nbn**™ services within an area, although some premises within that area may require further work to enable connection. RFS is still an important measure of progress, as it is related to the majority of construction.

As at 30 June 2018, 7.0 million premises had been declared RTC, an increase of 29 per cent year-on-year. This means that about 60% of Australian premises were able to order a service over the **nbn**™ access network at the end of the financial year.

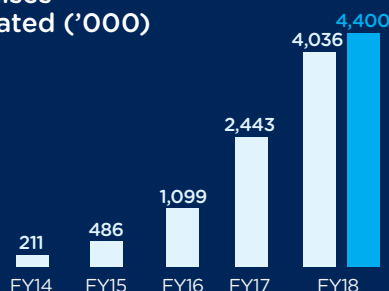
During FY18, premises activated increased by 65 per cent with 1.6 million end-user premises connecting to the **nbn**™ access network within the twelve month period. As a result, together with RSP's, NBN Co had activated broadband services over the **nbn**™ access network to 4.0 million Australian premises as of 30 June 2018. This achievement means that more than one third of Australian premises are now using a service over the **nbn**™ access network.

Revenue has continued to increase during the year, driven by the significant growth in the number of premises activated. Annual revenues have almost doubled from \$1,001 million in FY17 to \$1,978 million in FY18. Monthly Average Revenue Per User (ARPU) increased from \$43 in FY17 to \$44 in FY18. The growth in ARPU was driven by increased demand for connectivity virtual circuit (CVC) capacity by RSPs as end users continue to consume more data.

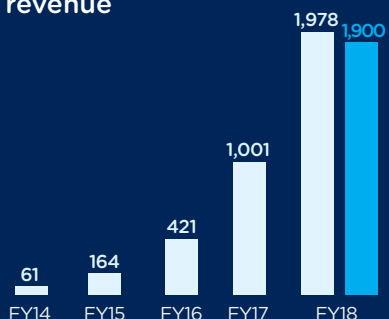
Cumulative premises ready for service ('000)



Cumulative premises activated ('000)



Total revenue (\$m)



During FY18, NBN Co introduced new bundled discounts to its wholesale pricing for RSPs to help drive take-up of higher speed plans and incentivise higher capacity provisioning to reduce the levels of bandwidth congestion experienced by some end users. Transition to the new wholesale bundled discounts has so far been undertaken in two phases. The initial temporary phase was the 'Focus on 50' campaign, under which NBN Co provided eligible RSPs with the 50/20Mbps peak wholesale speed tier at the same price as the 25/5Mbps peak wholesale speed tier combined with a 50 per cent CVC boost until October 2018. This was designed to bridge the economics of this promotion to the longer term bundled discounts and encourage RSPs to offer higher speeds and more capacity to improve their service for end users.

On 1 May 2018, NBN Co launched the second stage of changes to wholesale pricing plans primarily aimed at the 100Mbps and 50Mbps fixed-line products, which make available bundled discounts that include minimum CVC levels as part of the product. These changes are expected to follow on from the success of the 'Focus on 50' campaign by encouraging RSPs to continue to deliver on customer experience given current demand for bandwidth.

These campaigns have helped drive the growth in the take-up of wholesale peak download speed plans of 50Mbps and above from 16 per cent in June 2017 to 45 per cent in June 2018.¹ The new wholesale pricing discounts also helped drive average network bandwidth congestion from five hours and 23 minutes per week as of June 2017 to 25 minutes per week as of June 2018 (excluding the Sky Muster™ satellite service).²

NBN Co's revenue performance is further outlined on page 42.

NBN Co's performance is further demonstrated by a number of key achievements in FY18.

These include:

- Completion of pilot testing and commencement of the scale re-launch of the HFC network.
- Successful trial and launch of FTTC technology, which is NBN Co's latest addition to the Multi-Technology Mix (MTM) toolkit, building fibre deeper into the network in what is one of the world's first mass deployments of this technology.
- Further investment in the upgrade of Fixed Wireless network capacity.
- Release of larger capacity wholesale plans over the **nbn**™ Sky Muster™ service for rural and regional Australians.
- Launch of a number of products and services dedicated to supporting business and government customers, and a dedicated team supporting the needs of Australian businesses.

1 Based on the Monthly Progress Report June 2018. The **nbn**™ access network is being designed to provide these peak wholesale speeds to NBN Co's Retail Service Providers at NBN Co's network boundary. The **nbn**™ wholesale speed tiers available to RSPs vary depending on the **nbn**™ access network technology in your area.

2 This is calculated across all bandwidth purchased by all RSPs across the entire network (CVC congestion). Please note that while bandwidth congestion is caused by the level of provisioning of capacity by the RSP, there are also other types of congestion that may occur on the **nbn**™ access network.

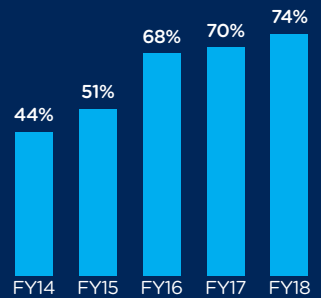


A great place to work

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 employee engagement survey conducted during the year. The results showed a year-on-year increase of 4 percentage points, reflecting effort and commitment to making NBN Co a great place to work.

Employee engagement



Changing the lives of Australians

NBN Co's performance to date is delivering more than just a broadband network. The connectivity enabled by fast broadband is **helping reshape** the way Australians work and educate themselves.

The **nbn**TM access network helps enable Australia to be more productive, more creative and more efficient than ever before. Research conducted by leading economists at AlphaBeta¹, commissioned by NBN Co indicated that the benefits of the **nbn**TM access network are taking hold across connected areas.

¹ AlphaBeta Analysis (2017), Census (2006, 2011, 2016), ABS Business Counts. The estimation is based on 2017 statistics. <http://www.connectingaustralia.com.au/>

1

Working flexibly and remotely

The 'nbn™ effect' in connected regions by 2017 is estimated to have helped enable:

Up to 3,000

additional people working from home.

Up to 6,400

additional people to be self-employed.

Up to 3,500

additional women to launch their own business last year in nbn™ regions. If this trend continues, it is estimated that up to 52,000 additional Australian women could be self-employed by 2021.

2

Harnessing education opportunities

Close to 80%

of older Australians, aged 65 years and above, in nbn™ regions are using the internet for online learning, compared to 52 per cent of older Australians in non-nbn™ regions.

Aged 16-24

Younger Australians, aged 16-24 years, remain the highest users of both nbn™ and non-nbn™ access network based internet for non-formal online learning.

60%

nbn™ access network users are 60 per cent more likely to spend more than one hour a day on the internet to engage in non-formal learning.

2x

nbn™ access network users are twice as likely to be enrolled in an online course than non-nbn™ access network users.

Bridging the digital divide

The rollout of the **nbn**TM access network covers even the **most remote** and inaccessible areas of Australia, helping bridge the divide between city and country, young and old, Australia and the rest of the world.

NBN Co has prioritised regions where internet quality and availability is the lowest (classified as 'underserved') where commercially and operationally feasible as per the 2016 SoE. The 'Broadband Availability and Quality Report', published by the Department of Communications and the Arts in February 2014, identified approximately 1.8 million underserved premises.

As of 30 June 2018, NBN Co has made significant advancements to address underserved premises and serve rural and remote Australians, such as:

1.3 million premises

previously identified as underserved, now have access to broadband.

86 per cent

of premises in non-metropolitan areas, or 4.5 million, have access to nbn™ access network, with 77 per cent of non-metropolitan areas covered by fixed-line technologies.

% of non-metropolitan areas with access to fixed-line



Enhancing Australia's economy

In FY17
NBN Co is estimated
to have delivered

With more than 70 per cent of the build complete, the benefits of connectivity are readily apparent.

The **nbn**TM access network enriches the lives of today's Australians and **enables** Australia's future economic growth and the workplace evolution for tomorrow.

The first comprehensive impact study of areas with and without access to the **nbn**TM access network indicates that the **nbn**TM access network is paying dividends through a significant boost to Australia's economy. The study, which used FY17 data, conducted by leading economists at AlphaBeta¹ and commissioned by NBN Co, indicates that industries are enjoying the productivity gains that come from higher internet speeds and a more digitally connected workforce.

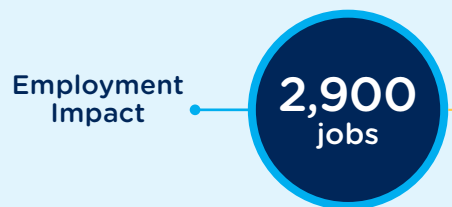


GDP
Impact

p.a. of additional
GDP in FY17



contributing
percentage points
to FY17 GDP growth



Employment
Impact

additional jobs enabled
as of end-FY17

¹ AlphaBeta Analysis (2017), Census (2006, 2011, 2016), ABS Business Counts. The estimation is based on 2017 statistics. <http://www.connectingaustralia.com.au/>

In FY21
NBN Co is estimated
to deliver



\$10.4b

p.a. of additional
GDP in FY21



0.07
%pts

contributing
percentage points
to FY21 GDP growth



31,000
jobs

additional jobs enabled
as of end-FY21

During FY17, the 'nbn™ effect' helped drive an estimated \$1.2 billion in additional economic activity by helping create new jobs and new business and improving productivity. The 'nbn™ effect' is estimated to drive an additional \$10.4 billion gross domestic product (GDP) per annum in FY21. It is expected to add an estimated \$122 billion to Australian GDP on a net present value basis¹.

Business in nbn™ access network-connected areas has grown at twice the annual rate compared to the national average since 2011. NBN Co's estimated GDP impact today is driven by productivity improvements across industries, as well as through labour force impacts such as teleworking, job search and online education.

Nationally, productivity gains are expected across a range of industries from 2017 to 2021, with anticipated benefits varying by industry due to the different levels of reliance on IT. For example, the healthcare industry is expected to experience productivity gains through telehealth and hospital applications, while financial and professional services industries will experience productivity gains due to their heavy reliance on IT. Labour force effects of the nbn™ access network, such as teleworking and remote education, are expected to become significant in future years as people's behaviours shift in response to improved broadband.

¹ Net present value (NPV) has been calculated for the period 2017 - 2035.

Our approach to health, safety and the environment

In FY18, as the business continued to grow, NBN Co has remained focused on its performance against key health, safety and environmental objectives.

Our approach

At NBN Co we value our employees, contractors, customers and the environment. The way NBN Co operates is guided by the following principles:

- Our people and those we work with go home safely every day.
- Our employees' health and wellbeing is valued and enhanced.
- Our leadership position for protecting the environment is visible and evident by our actions.

Our governance

NBN Co has two key documents that govern how NBN Co manages health, safety and the environment (HSE):

- The HSE Statement of Commitment describes NBN Co's dedication to ensuring that health, safety and the environment are considered above all other business matters.
- The HSE Policy describes NBN Co's approach to achieving safe workplaces and protecting the environment.

These documents are endorsed by the NBN Co Board of Directors and are operationalised in the business through our HSE Management System. They require that all employees and contractors comply with any applicable laws and regulations in relation to their work on the **nbn**[™] access network.

At NBN Co, HSE is governed through the following forums:

- The Executive Committee has accountability for HSE governance and oversight.
- The Board of Directors reviews HSE performance and compliance.
- The Audit and Risk Committee reviews HSE risk and assurance.

In FY18, NBN Co's HSE management system was independently recertified to the following Australian and international standards:

- AS/NZS 4801:2001 Occupational Health and Safety Management Systems
- OHSAS 18001:2007 Occupational Health and Safety Management Systems
- ISO 14001:2015 Environmental Management Systems.

Our performance

NBN Co has a number of lead and lag metrics that NBN Co tracks against targets. They measure HSE performance and help to ensure:

- HSE incidents are reported on time.
- Actions from HSE incidents, hazards and audits are closed in an appropriate and reasonable timeframe.
- Programs are implemented to support the health and wellbeing of our workforce.
- The total recordable injury frequency rate (TRIFR) for employees and contractors declines over time.
- The frequency of HSE incidents with the potential to cause serious harm to people or the environment decreases over time.
- Energy savings in the **nbn™** access network and facilities are realised.

The NBN Co Executive Committee tracks lead and lag metrics monthly.

In FY18, and for the second consecutive year, NBN Co did not record any serious harm HSE incidents¹. Unfortunately as the volume of construction increased, so did the Total recordable injury frequency rate (TRIFR) and the frequency of HSE incidents with the potential to cause serious harm. The increase in both injuries and incidents with the potential to cause serious harm was associated with the construction work of NBN Co Delivery Partners. Injury trends were similar to previous years with a rise in musculoskeletal injuries and lacerations. Underground asset strikes were the most common type of incidents with the potential to cause serious harm.

To address this NBN Co implemented a series of initiatives through FY18:

- Developing and implementing the HSE Critical Controls for internal and contractor workforce.
- Updating the HSE inspection framework to align with the refreshed HSE Critical Risk Controls. This helps to make sure assurance activities are assessing control effectiveness for the most critical health, safety and environmental risks that affect NBN Co's Delivery Partners, the community and the environment.
- Developing a safety improvement framework that was endorsed by the Executive Committee.

Key priorities for the coming year will build on the existing framework to further strengthen risk controls and shift performance.

| | NBN Co overall TRIFR ² | NBN Co overall frequency of HSE incidents with the potential to cause serious harm ³ |
|------|-----------------------------------|---|
| FY18 | 3.5 | 2.0 |
| FY17 | 2.8 | 1.7 |
| FY16 | 3.8 | 3.7 |

Refer to the Regulatory report on pages 161 to 162 for further information.

- 1 Serious harm HSE incidents are those resulting in a severe consequence such as fatality or permanent disabling injury.
- 2 Total recordable injury frequency rate (TRIFR) is the total number of recordable injuries per million hours worked. This includes work-related fatalities and permanent disability injury/illness (PDI), and work-related injuries or illnesses resulting in lost time (Lost Time Injuries or LTIs), restricted or alternate duties (Restricted Work Injuries or RWIs), and medical treatment by medical professionals (Medical Treatment Injuries or MTIs). It does not include any first aid injury/illness.
- 3 Total number of potential serious harm HSE incidents per million hours worked includes incidents with a potential consequence of 'severe' but excludes incidents with an actual consequence of 'severe'.

Critical Controls

In FY18 NBN Co launched a refreshed suite of HSE Critical Controls.

The Critical Controls are a set of mandatory minimum requirements for controlling HSE risk across the nbn™ access network.

They help to ensure NBN Co is working to make tomorrow safer, healthier and more sustainable than today.



The HSE Critical Controls are made up of both **risk** and **planning** controls:

Risk controls

There are 11 critical risk controls that cover physical HSE risks which exist in the rollout of the **nbn**[™] access network. The Critical Risk Controls are mandatory for both NBN Co and our Delivery Partners.

NBN Co has also published guidance material to support our field workforce and Delivery Partners in understanding and implementing the HSE Critical Risk Controls.

Planning controls

There are five critical planning controls that cover HSE requirements for our internal business processes.

Risk

The HSE Critical Risk Controls cover the following material topics:

- Asbestos Containing Material (ACM)
- Confined Spaces and Manholes
- Driving and Remote Work
- Electrical Safety
- Electromagnetic Emissions (EME)
- Environment Protection
- Laser Safety
- Mobile Plant
- Traffic and Pedestrian Management
- Underground and Concealed Services
- Work at Height.

Planning

The HSE Critical Planning Controls are mandatory for NBN Co employees and cover the following topics:

- Risk Management
- HSE in Design
- Supplier and Contractor Management
- Incident Management
- Assurance.

Our people

Caring for the health and safety of our people is at the heart of how NBN Co operates.

In FY18, NBN Co provided the following opportunities for its employees, aligned to health risk factors of the general Australian population:

- A suite of proactive health initiatives such as heart health checks, skin checks and flu vaccinations aimed at managing health risks of our employees. As a result of these checks, a number of employees sought further advice from a medical professional.
- Mental health and wellbeing online and face-to-face training that shared insights, information and practical advice relating to mental health conditions that may be encountered at home or in the workplace. In the last year we saw an increase in training participation rates.
- A series of nutrition videos designed to provide employees with information on their eating habits and opportunities for improvements when it comes to food choices, helping to promote healthy dietary behaviour.
- A company-wide challenge to promote movement and engagement that achieved the health benefit of increasing physical activity.

NBN Co also offers an Employee Assistance Program (EAP) that provides confidential counselling services for a range of issues that may be experienced by employees. During FY18 we saw an increase in the utilisation of our EAP service.

Policy Launches

In FY18, NBN Co was proud to launch two important policies:

Domestic and Family Violence Policy

NBN Co understands that anyone, irrespective of gender or background, could experience domestic or family violence or be impacted by it in some way.

NBN Co is committed to providing an inclusive, safe and supportive working environment to ensure any NBN Co staff member who is experiencing domestic or family violence feels supported and empowered. NBN Co will assist them by providing information, support and a safe place of work.

NBN Co's Domestic and Family Violence Policy outlines a range of services and resources available for affected employees.

Mental Wellbeing Policy

NBN Co recognises that the mental wellness of employees is equally as important as their physical health.

The Mental Wellbeing Policy outlines NBN Co's commitment to establishing, promoting and maintaining the mental health and wellbeing of all staff. NBN Co offers workplace support, resources and practices including the EAP, mental health training, flexible working arrangements and return to work assistance.

A great place to work

NBN Co is committed to ensuring NBN Co is a great place to work.

Behind NBN Co stands a talented, multi-disciplinary team from a wide range of backgrounds and experiences. Diverse teams are working in the field, in operations centres and in state and head offices.

Ensuring NBN Co is a great place to work and fostering the continued development and performance of its workforce is integral to NBN Co's success. NBN Co is committed to embracing diversity and increasing inclusion as part of its focus on building a high-performing, collaborative organisation.

NBN Co's diversity policy is further outlined on pages 88 to 90.

This year NBN Co experienced its highest participation rate yet in the annual Great Place to Work engagement survey of 92 per cent and an engagement score of 74 per cent. This ensures NBN Co maintains its place in the top quartile of all companies in Australia and New Zealand.

Workforce Statistics

6,184

NBN Co head count at 30 June 2018
(FY17: 5,965)

38.64 months

The average tenure of the workforce
(FY17: 31.56 months)

40.68 years

The average age of the workforce
(FY17: 40.23 years)

32 per cent

The female gender mix representation of the workforce
(FY17: 32 per cent)

Employee Engagement Score

74%

FY18

FY17 70%

FY16 68%

FY15 51%

FY14 44%



Our environment

At NBN Co we value the environment. NBN Co is committed to implementing sustainable development principles to protect the natural environment and areas of heritage significance.

Energy efficiency

NBN Co aims to build a network that minimises energy use and can be operated with minimal impact on the environment.

Energy usage and carbon emissions are important environmental issues as NBN Co rolls out the **nbn™** access network and connects an increasing number of end users.

NBN Co integrates energy considerations into network planning, design and operational processes. In FY18, NBN Co implemented the following initiatives to minimise the end of build energy demand:

- Improving the cooling efficiency at TAND sites by installing blanking panels in equipment racks.
- Reducing the air conditioning demand at satellite earth stations by raising the temperature set points.
- Enabling office printer standby energy saving functions.

Climate Resilience

NBN Co seeks to build a sustainable, resilient network. To support this objective, NBN Co participated in the following initiatives:

- **XDI Sydney:** Cross Dependency Initiative. The XDI Platform provides utility managers with climate related physical risk analytics to improve investment scenario planning and target setting for climate resilience.
- **Australian Renewable Energy Agency:** Renewable Energy and Load Management REALM project. The project aims to understand how businesses can cut energy bills and carbon emissions by combining energy storage, demand management and smart controls with onsite renewables. It included an investigation of one of NBN Co's largest power consuming sites.

Corporate Social Responsibility

In December 2017, NBN Co launched its Corporate Social Responsibility (CSR) program.

NBN Co is committed to making the nation a better place through our work in helping to bridge the digital divide, making a positive difference in our communities and caring for our environment.

NBN Co's approach to corporate responsibility is founded across three pillars – Inclusion, Prosperity and Environment – and informed by the UN Sustainable Development Goals.

NBN Co is proud to work with a number of leading organisations, who share our aspiration to increase digital and workforce participation in at risk groups. These include ABCN Scholarship Foundation, Headspace, AMES Australia and Work Ventures.

NBN Co provides employees with one annual paid day of volunteer leave. Since the program's launch, 313 employees have participated in a variety of volunteering opportunities including mentoring high school students, working on digital literacy programs and providing professional capabilities and knowledge to community groups.

NBN Co also encourages employees to give back by donating and raising funds to help others who are less fortunate. Through the **nbn™** Giving program, all employees can make single or regular financial donations to charities of their choice. In the six months since the launch of the **nbn™** Giving program, NBN Co employees have donated over \$25,000.

Our financial results

Financial highlights

| For the year ended 30 June | 2018 \$m | 2017 \$m | 2016 \$m | 2015 \$m | 2014 \$m |
|------------------------------|-------------|-------------|-------------|-------------|-------------|
| Financial performance | | | | | |
| Total revenue | 1,978 | 1,001 | 421 | 164 | 61 |
| Operating expenses | (2,081) | (1,827) | (1,411) | (1,101) | (966) |
| Adjusted EBITDA ¹ | (103) | (826) | (990) | (937) | (905) |
| Subscriber costs | (1,948) | (1,573) | (582) | (193) | (104) |
| EBITDA ² | (2,051) | (2,399) | (1,572) | (1,130) | (1,009) |
| Net loss after tax | (4,780) | (4,244) | (2,750) | (2,019) | (1,644) |
| Financial position | | | | | |
| Total assets | 28,203 | 24,127 | 18,552 | 13,259 | 9,468 |
| Contributed equity | 29,500 | 27,465 | 20,275 | 13,185 | 8,418 |
| Capital expenditure | 5,713 | 5,838 | 4,669 | 3,328 | 2,480 |
| Borrowings | 5,531 | - | - | - | - |

1 Adjusted EBITDA is defined as earnings before interest, tax, other income, subscriber costs, depreciation and amortisation

2 EBITDA is defined as earnings before interest, tax, other income, depreciation and amortisation

FY18 financial results reflect progression of the **nbn**[™] access network rollout and the underlying growth of the business.

Adjusted EBITDA is a non-IFRS metric used to manage the underlying profitability of the business. Adjusted EBITDA excludes subscriber costs, which primarily relate to contractual payments to Telstra regarding the disconnection of existing services and to Optus regarding the migration of subscribers to services over the **nbn**[™] access network. These costs are expected to cease by FY22 and therefore do not reflect the ongoing activities of the Group.

The Adjusted EBITDA loss of \$103 million has improved by 88 per cent year-on-year, driven by the 98 per cent growth in revenue to \$1,978 million.

In FY18 NBN Co recognised an EBITDA loss of \$2,051 million and a net loss after tax of \$4,780 million. These results are in line with expectations and reflect the current stage of business maturity with significant upfront investment in the network and end-user

activations, illustrated through depreciation and amortisation expense and subscriber related expenditure.

At the end of the financial year, NBN Co had generated total assets of \$28,203 million, an increase of 17 per cent year-on-year. The increase in total assets was primarily driven by capital expenditure on property, plant and equipment, and intangible assets.

During the year, NBN Co received equity injections of \$2,035 million from the Commonwealth of Australia. At the end of the financial year, 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 during the year. At the end of the financial year NBN Co had drawn down \$5.5 billion of the available \$19.5 billion under this agreement. The loan agreement has a fixed interest rate of 3.96 per cent per annum.

Revenue

| Total revenue for the year ended 30 June | 2018 \$m | 2017 \$m | 2016 \$m | 2015 \$m | 2014 \$m |
|--|--------------|--------------|-------------|-------------|-------------|
| Telecommunications revenue | 1,818 | 922 | 403 | 161 | 60 |
| Other revenue | 160 | 79 | 18 | 3 | 1 |
| Total revenue | 1,978 | 1,001 | 421 | 164 | 61 |
| Average revenue per user (ARPU) - (\$) | \$44 | \$43 | \$43 | \$40 | \$37 |

The significant growth in revenue is driven by the increased take-up of services over the **nbn**[™] access network as the rollout progresses.

Total revenue for the financial year increased by \$977 million (98 per cent) to \$1,978 million.

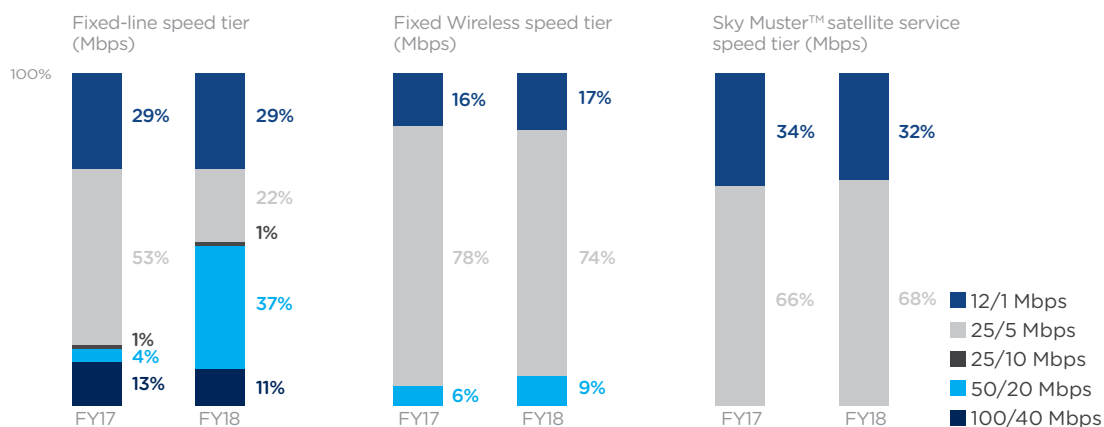
Telecommunications revenue increased by \$896 million (97 per cent) to \$1,818 million driven by the increase in the number of homes and businesses activated to services over the **nbn**[™] access network.

Telecommunications revenue was generated at a weighted average ARPU of \$44, increasing from \$43 in the prior year. The increase in ARPU during the period was driven by the demand for CVC capacity by RSPs as end users continue to consume more data.

In December 2017, NBN Co introduced new wholesale pricing bundle discounts to help drive take-up of higher speed plans and incentivise higher capacity provisioning by RSPs to reduce the levels of bandwidth congestion experienced by some end users. These discounts helped drive the take-up of fixed-line wholesale peak download speed plans of 50Mbps and above from 17 per cent in June 2017, to 48 per cent in June 2018.

The wholesale speed tier mix of end users across NBN Co's fixed-line services (inclusive of FTTP, FTTN/B, HFC and FTTC), Fixed Wireless and Satellite services is illustrated below.

Other revenue has increased by \$81 million (103 per cent) to \$160 million. Other revenue continues to grow as the **nbn**[™] access network expands and includes revenue from developers, commercial works activities and the Technology Choice Program, as well as licensing fees.



Operating and other expenditure

| Operating and other expenditure for the year ended 30 June | 2018 \$m | 2017 \$m | 2016 \$m | 2015 \$m | 2014 \$m |
|--|--------------|--------------|--------------|--------------|-------------|
| Operating expenditure | | | | | |
| Direct network costs | 691 | 537 | 407 | 350 | 300 |
| Employee benefits expenses | 787 | 751 | 601 | 422 | 393 |
| Other operating expenses | 603 | 539 | 403 | 329 | 273 |
| Total operating expenditure | 2,081 | 1,827 | 1,411 | 1,101 | 966 |
| Other expenditure | | | | | |
| Subscriber costs | 1,948 | 1,573 | 582 | 193 | 104 |
| Depreciation and amortisation expense | 2,167 | 1,488 | 884 | 631 | 435 |
| Net finance charges | 580 | 368 | 293 | 281 | 188 |

In line with the expansion of the **nbn**[™] access network and the increase in premises activated, annual expenditure has increased.

Operating expenditure

- Direct network costs increased by \$154 million (29 per cent) to \$691 million. These costs directly relate to operating the **nbn**[™] access network and have increased due to the expanded footprint of the network and the growth in activated premises. The increase in these costs primarily relate to assurance, maintenance and restoration services, rental of network infrastructure, site access, and network power.
- Employee benefits expenses increased by \$36 million (5 per cent) to \$787 million. Employee benefits expenses include costs of NBN Co employees, as well as temporary contractors (net of amounts that have been capitalised and included in the cost base of non-current assets). These costs have increased in line with the number of employees and temporary contractors.

The number of employees have increased from 5,965 to 6,184. In addition, NBN Co is supported by approximately 670 temporary contractors.

- Other operating expenses increased by \$64 million (12 per cent) to \$603 million. These include costs associated with IT and software applications, outsourced business operations, strategic consulting, legal and regulatory services, communication and public information, marketing, and other employee related expenditure. The increase in these costs has resulted from the underlying growth in the business.

Other expenditure

- Subscriber costs increased by \$375 million (24 per cent) to \$1,948 million. This increase reflects the greater number of end users connected to the **nbn**[™] access network as subscribers continue to disconnect and migrate from the Telstra and Optus networks.
- Depreciation and amortisation expense increased by \$679 million (46 per cent) to \$2,167 million due to the ongoing investment in the network.
- Net finance charges include interest income and expenditure and primarily relate to interest on borrowings and finance charges relating to the accounting convention for assets under a long-term right of use arrangement. These charges have increased in line with the growth in borrowings and infrastructure supplied by Telstra under right of use arrangements.

Cash flows

| Cash flows for the year ended 30 June | 2018 \$m | 2017 \$m |
|--|--------------|--------------|
| Net cash flows used in operating activities (excluding subscriber costs) | (27) | (692) |
| Payments for subscriber costs (excluding GST) | (2,045) | (1,138) |
| Net cash flows used in operating activities (including subscriber costs) | (2,072) | (1,830) |
| Net cash flows used in investing activities | (5,718) | (5,167) |
| Net cash flows provided by financing activities | 7,199 | 6,894 |
| Net decrease in cash and cash equivalents | (591) | (103) |

- Net cash flows used in operating activities (excluding subscriber costs) has improved during the year driven by the significant growth in revenue.
- Payments for subscriber costs have increased due to the growth in the number of end users connected to services over the **nbn**[™] access network.
- Net cash flows used in investing activities reflect NBN Co's ongoing capital investments in the network.
- Net cash flows provided by financing activities reflect the final equity injections from the Commonwealth of Australia (\$2,035 million), the drawdown of debt to fund capital expenditure and subscriber costs (\$5,531 million) offset by interest payments on borrowings and payments for finance leases primarily relating to right of use arrangements over infrastructure provided by Telstra.

Capital expenditure¹

| Capital expenditure for the year ended 30 June | 2018 \$m | 2017 \$m | 2016 \$m | 2015 \$m | 2014 \$m |
|--|--------------|--------------|--------------|--------------|--------------|
| FTTP network | 350 | 431 | 1,078 | 1,692 | 1,007 |
| FTTN network | 1,639 | 2,259 | 1,668 | 334 | 3 |
| FTTC network | 827 | 93 | - | - | - |
| HFC network | 1,306 | 1,260 | 412 | 37 | - |
| Fixed Wireless network | 353 | 317 | 354 | 340 | 278 |
| Satellite network | 72 | 201 | 135 | 247 | 517 |
| Transit network | 451 | 527 | 288 | 244 | 381 |
| Common capital expenditure | 715 | 750 | 734 | 434 | 294 |
| Total capital expenditure | 5,713 | 5,838 | 4,669 | 3,328 | 2,480 |

Capital expenditure during the year represents the continued investment in the deployment of the **nbn**[™] access network.

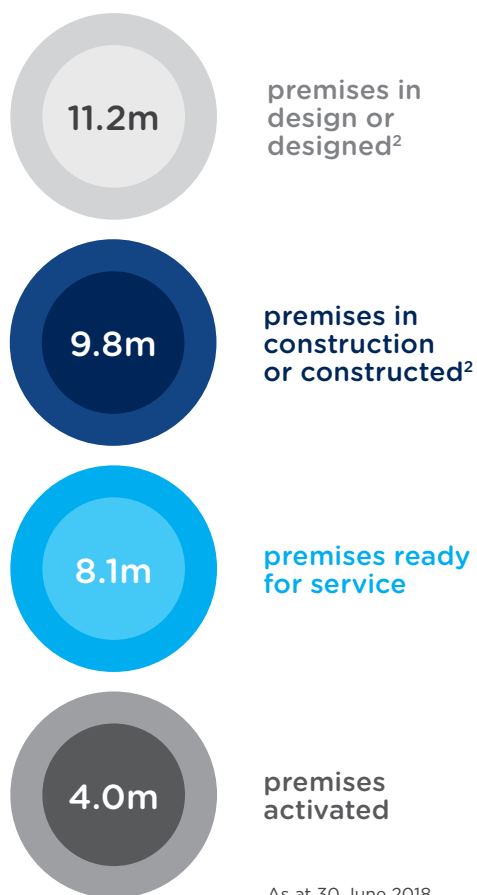
The largest areas of capital expenditure during the year have been on the FTTN and HFC networks. Capital expenditure on the FTTN network reflects design, construction and connection activities as the rollout of this network continued at scale during the year.

Notwithstanding the decision to pause orders on the HFC network, construction on the HFC network has continued in addition to remediation and optimisation work to improve network quality before declaring the network RTC.

Capital expenditure has also continued on the FTTP network, relating to the FTTP Greenfields network and connecting end users to the FTTP Brownfields network. The FTTC access technology was successfully launched in March 2018. The capital expenditure during the period on this network related to design and construction activities.

Capital expenditure on the Fixed Wireless network reflects the acquisition of wireless sites and the integration of base stations, end-user connections and additional capital investment to uplift capacity. Capital expenditure on the satellite network primarily related to connecting end users.

Investment in the Transit network has continued to support new technologies and to increase capacity across the network as demand increases. In addition, investment has continued in network platforms, business support systems, product development and data quality, which is reflected in common capital expenditure.



¹ Capital expenditure excludes additions of leased assets, gifted assets and items of property, plant and equipment classified as inventories.

² Excludes Sky Muster[™] satellite services.

Cost per Premises

Cost per Premises (CPP) is an internal management calculation used to assess the comparative incremental costs of initial construction of each access technology. The CPP reported is a weighted average over the full period of the build and depends on some factors such as geographic build conditions, distances from exchanges, the population density of the area considered, the number of premises per multi-dwelling unit, and the extent of re-use of existing infrastructure.

The CPP reflects capital and lease costs associated with the initial construction of each access network and excludes common capex (such as IT and transit network), early release or pilot sites, subsequent capital investment in network capacity, and net operating losses.

Brownfields FTTP network

The CPP has remained in line with the prior year as construction on the Brownfields FTTP network nears completion.

Greenfields FTTP network

The CPP decrease during the year is driven by lower design and construction costs as well as new sites utilising temporary infrastructure as the program expands.

FTTN/B network

The CPP increase during the year was anticipated and is primarily driven by higher construction and connection costs associated with more complex build requirements.

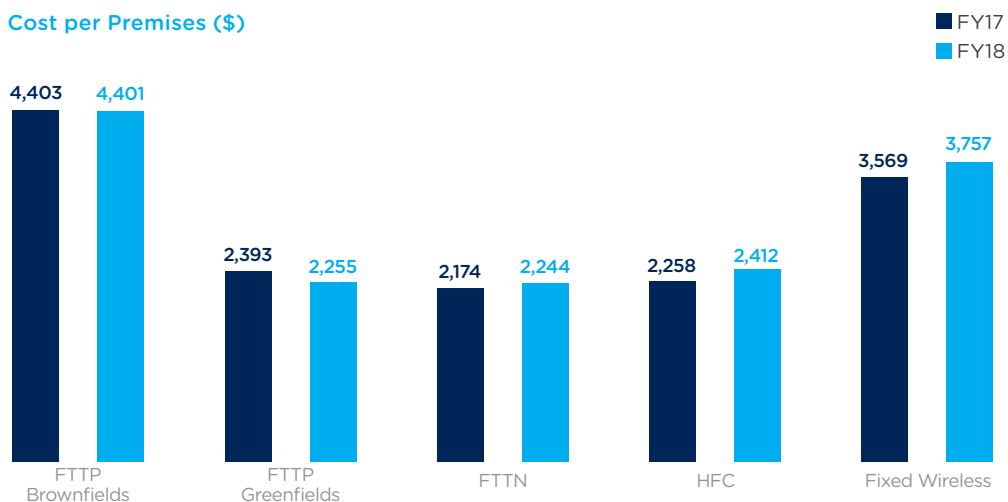
HFC network

The CPP increase during the year reflects further network optimisation and node works to deliver a higher level of network quality.

Fixed wireless network

The CPP increase during the year reflects more complex build requirements in the latter part of the program and the extension of the network to less densely populated areas.

Cost per Premises (\$)



Our approach to risk management

Risk management framework

The deployment of the **nbn**[™] access network across Australia and scaling of activations is a unique challenge that requires a comprehensive approach to risk management. NBN Co's Board of Directors and Management support this approach by committing the Company to a robust risk management framework to enable effective identification, quantification, mitigation, and management of business risks.

How does NBN Co manage its risks?

NBN Co's Group Risk team is the custodian of risk management within the Company. The team is responsible for designing and overseeing the implementation of risk management practices, processes and governance across all business areas. Management and staff have a key role to identify, assess and manage their operational risks, and provide assurance through formal Executive Governance channels and Group Risk (including the Audit and Risk Committee). The Audit and Risk Committee, Management and the Board review NBN Co's risk management framework and assess material risks on a bi-annual basis. In the event there are material events or changes to either, more frequent reviews will occur.

Maturing risk management

NBN Co's approach to risk management is aligned with the international standard for risk management: 'AS/NZS ISO 31000:2009 Risk Management - Principles and Guidelines on Implementation'. As NBN Co matures, the Group Risk function continues to enhance the Company's risk management framework with emphasis on:

- Refinement and formalisation of key first line risk management accountabilities through risk maturity assessments
- Enhanced risk reporting at governance and executive level management
- Enhanced alignment between first line and second line risk assurance
- Improved risk training, tools and compliance management capability.

Overview of risks

NBN Co has identified significant risks in the management of the complexity and scale of network design, such as build, activation and assurance processes across multiple technologies. It recognised the increasing influence that rapidly evolving competition, new business models and disruptive technology would have on NBN Co and its business objectives. These challenges manifested in FY18 and in response NBN Co has driven a range of strategic initiatives to uplift the customer experience, and this focus continues.

These risk themes have remained consistent with scaling of processes, technology and delivery partner capabilities for HFC and FTTC being the central challenge to achieve rollout targets. These rollout risks are amplified by customer behaviour, competition and technology trends. NBN Co's revenue forecasts are sensitive to changes in take-up and data growth usage assumptions. As mobile operators continue to focus on wireless development, mobile substitution remains a key risk to long-term revenue that the Company will continue to actively monitor. The key risk themes and areas of focus for NBN Co include:

1. Rollout of New Technologies

The timing of the deployment of the HFC and FTTC network technologies contains risk due to internal and industry scaling challenges. NBN Co continues to actively manage and tightly govern delivery partner resourcing and internal technology constraints that might impact performance. NBN Co's enhanced optimisation program for HFC and a measured approach to FTTC deployment reflect the commitment to a quality network performance and positive experience across the end-user connection journey.

2. Customer and End-User Experience

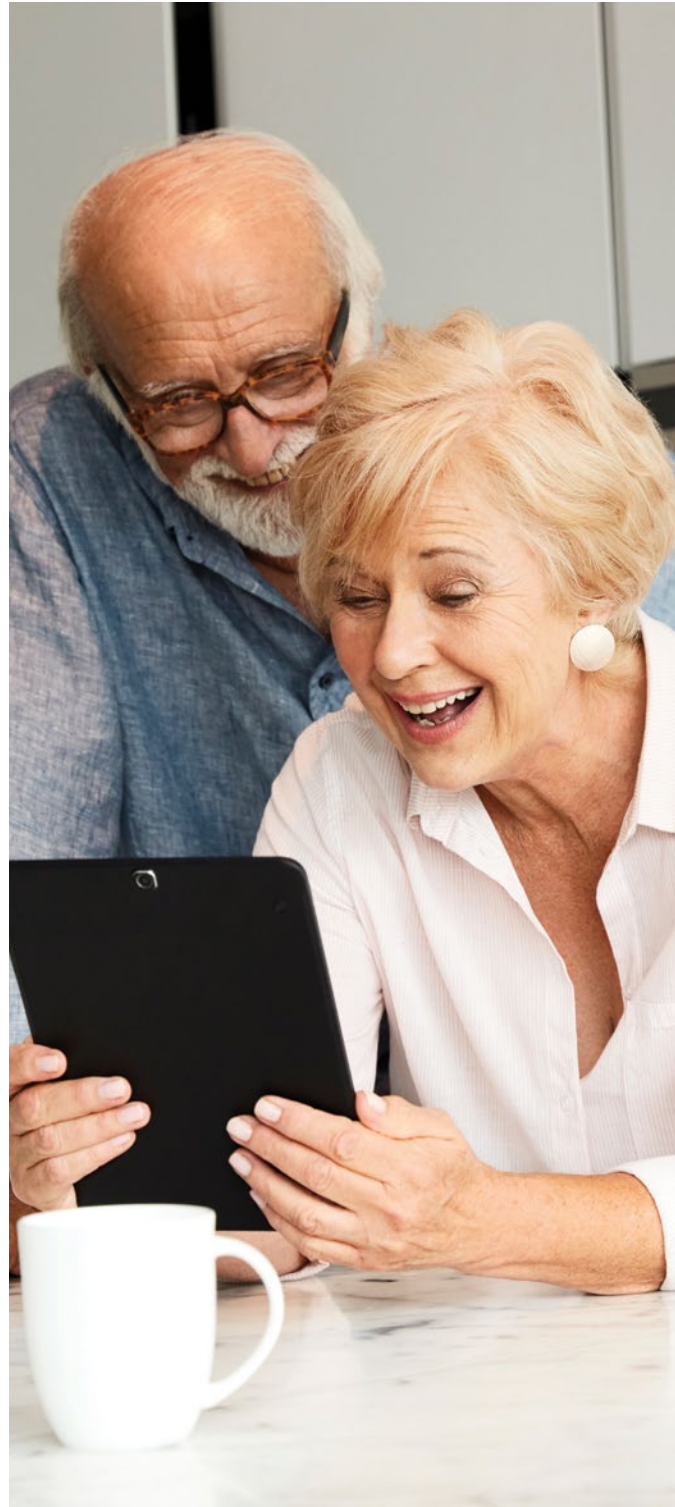
NBN Co's value proposition and brand evolved considerably in FY18 as the focus on customer experience increased. While significant improvements in end-user connect and assurance have been achieved, NBN Co will continue to focus on customer experience and address customer sentiment, which in turn impact the Company's ability to achieve take-up and ARPU targets. NBN Co continues to embed customer experience metrics and targets into its operating model to help drive a positive uplift in customer and end-user satisfaction, and to assist in the lift in ARPU over time.

3. Operating Model Transformation

NBN Co's operating model and workforce is structured to deliver the initial network rollout while simultaneously transitioning to a network operating company. The deployment of proactive programs to transition the workforce, optimise NBN Co's cost base and build sustainable processes and systems all form part of NBN Co's approach of managing this transition risk. Even with this focus, the challenges associated with transitioning the operating model remain a key risk over the short to medium term.

4. Market Disruption

A number of converging external factors expose NBN Co to market disruption. Addressing network constraints in the face of wireless substitution and 4.9/5G evolution emerges as a central challenge. Market disruption is prominent in the business segment as competitors offer their customer base new products and service offerings. NBN Co will continue to monitor market developments and will address competitive risks as they emerge.



Key corporate risks and mitigation strategies

Throughout the transformation from a build to operation-focused business, it is critical that NBN Co focuses on deploying **sustainable** controls that scale for the network.

Risk governance design is embedded into program and management initiatives, to enable management oversight of key risks.

Key risks and mitigations

| Key Risk | How the risk is managed |
|---|--|
| <p>Health and safety of staff, contractors and end users</p> <p>NBN Co and its delivery partners must construct, activate, operate and maintain a network in a manner that prioritises the prevention of material HSE failures impacting NBN Co staff, contractors, members of the public and end users.</p> | <p>NBN Co takes a risk-based approach to HSE, with control standards that are consistently applied to staff, contractors and third parties, and underpinned by dedicated processes, systems and HSE experts. NBN Co also maintains a mature operating model and governance arrangements for end-user migration and disconnection arrangements.</p> |
| <p>Rapidly evolving infrastructure competition and technology to impact product and pricing constructs</p> <p>As technologies evolve and drive trends such as wireless substitution and greater data consumption, new business models and competition may create exposures that impact NBN Co's network upgrade options, product offerings and pricing constructs, leading to unacceptable long-term revenue and ARPU.</p> | <p>NBN Co regularly reviews its strategy to adjust for changes in the external environment. Market insight programs and scenario analysis are used to stress test technology and competition trends, with insights being incorporated into product development and technology upgrade plans.</p> |
| <p>Ability to monetise data growth</p> <p>Potential wireless substitution and retail market focus on market share retention/growth drives increased price pressure into the market and changes in data consumption behaviour that may make data monetisation more challenging.</p> | <p>NBN Co actively uses market insights and analytics to monitor data consumption and future use cases to stress test its product and pricing constructs to enhance the value of data in future products for customers.</p> |
| <p>Scaling partner resources, technology and processes to enable peak FTTC and HFC deployment</p> <p>NBN Co relies on its key Delivery Partners and vendors to ensure critical resources, processes and IT systems are able to scale effectively and deliver FTTC and HFC deployment, activation and customer experience targets within budget.</p> | <p>NBN Co maintains an extensive industry engagement program, and actively works with Delivery Partners to ensure resources are available. This includes training and co-creation initiatives. These activities, plus internal strategic initiatives, are tightly governed to ensure alignment and efficiencies between business areas.</p> |

| Key Risk | How the risk is managed |
|--|---|
| <p>Uplifting customer satisfaction to enhance reputation, brand and achieve revenue targets</p> <p>NBN Co must build, activate, assure and maintain a network that supports a positive customer experience, while scaling rapidly to achieve deployment and activation targets, and responding to evolving competition, technology and the impact these factors may have on achieving take-up and ARPU targets.</p> | <p>NBN Co has programs in place to educate community and stakeholders on the role of NBN Co, RSPs and the broader industry. This includes monthly progress reports, where key performance metrics are published to show the Company's commitment to achieving network rollout targets and helping improve the customer experience. Internally, NBN Co integrates extensive customer experience metrics into key operational deliverables and strategic initiatives.</p> |
| <p>Operating model transformation and optimisation</p> <p>While NBN Co's operating model is structured to successfully deliver the network rollout, the Company must also concurrently transform legacy capabilities and structures toward a lean digital telecommunications business with an optimised cost base.</p> | <p>NBN Co undertakes a range of formally governed executive sponsored initiatives to address key transition and optimisation challenges, including its future digital operating model, cost management, talent and culture and scaling the business segment.</p> |
| <p>Security of critical network assets, information and people</p> <p>NBN Co must manage exposure to cyber and physical threats that could compromise the security of critical network infrastructure, the welfare and safety of staff and the confidentiality, integrity and availability of sensitive information.</p> | <p>NBN Co takes a risk-based approach to manage its security, with defined structures, processes and systems for the security of critical infrastructure assets and sensitive information. The external and internal environment is continuously monitored and new security measures are deployed in response to emerging threats.</p> |
| <p>Resilience of operating environment to adverse events</p> <p>As an operator of critical communications infrastructure, NBN Co must design resilience into its network, IT systems and business operations to safeguard people, assets, systems and processes against adverse events such as extreme weather.</p> | <p>NBN Co has a centrally managed business resilience program that emphasises robust continuity strategies for critical processes and defined incident management arrangements for major network and IT outages, third party disruptions and incidents impacting the welfare and safety of staff and contractors.</p> |

| Key Risk | How the risk is managed |
|---|--|
| <p>Regulatory scrutiny and adverse action</p> <p>NBN Co operates in a highly regulated environment governing pricing, product and customer experience amongst other things. In the light of current industry transformation, these increase the potential for adverse actions in the short term. In the longer term, regulatory constraints and policy decisions may limit the ability to meet evolving customer and market needs.</p> | <p>NBN Co undertakes regular and proactive engagement with regulatory and Government stakeholders. This engagement model is supported by ongoing monitoring of the regulatory environment to identify emerging issues and opportunities to engage with regulators.</p> |
| <p>Growth in consumer data consumption and concurrency</p> <p>Cost of capacity management in the Fixed Wireless network may increase significantly from current estimates as consumer data consumption continues to grow, along with concurrency.</p> | <p>NBN Co actively monitors network capacity and performance and the level of investment required for the Company's network upgrade path. These activities underpin future spectrum planning, and the impact that planned versus acquired spectrum will have on future network strategies.</p> |

Outlook

The new financial year will be another step towards achieving the Company's **2020 goals.**

Improving customer experience and satisfaction will remain an important priority and the Company will continue to report monthly on its progress on a number of metrics. This remains at the heart of management decision making and we will continue to work with the industry closely.

FY19 will be a significant year as construction of the network continues at scale and more of the country is connected to the **nbn**[™] access network. However, with more than 70 per cent of the build complete and more than four million homes and businesses connected, the **nbn**[™] access network is already making an enormous contribution to Australia's economy and the way people learn, live and connect. This will continue to grow as the network rollout continues and the number of Australian homes and businesses connected to fast broadband increases.

The **nbn**[™] access network rollout remains one of the most complex infrastructure initiatives undertaken in Australia and an important investment in its social and economic future. There will be challenges, and the Company has demonstrated its ability to scale and deliver. NBN Co has an excellent team in place to deliver the completion of the build and connect eight million homes and businesses by 2020.



Board of Directors

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



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 30 June 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 APA Group, Northern Star Resources Limited, Deputy Chairperson of the CSIRO and a Board member of the COAG Energy Independent Energy Appointments Selection Panel.

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.



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.



Ms Zoe McKenzie

Non-executive Director

Term of Office

Ms McKenzie was appointed as a Director effective 1 July 2018. Her current term will expire on 30 June 2021.

Skills, Experience and Qualifications

Ms McKenzie is principal of Trade and Investment Advisory, a firm which advises Australian and international entities on their market expansion into Australia or into one of Australia's current or future Free Trade Agreement partners.

Prior to this role, Ms McKenzie was Chief of Staff to the Trade and Investment Minister and has held senior policy development roles in Federal and State Governments. Before working in Government, Ms McKenzie practiced as an employment and industrial relations lawyer at Herbert Smith Freehills LLP and was a strategic adviser to the CEO of a major professional services firm.

Current Company Directorships

Ms McKenzie is a board member of the Australia Council for the Arts and the French Australian Chamber of Commerce and Industry.

Board Committee Memberships

Ms McKenzie is a member of NBN Co's 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.

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 Nominations Committee and People and Remuneration 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, 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 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.

Board and Committee meetings

The number of Board and Committee meetings held during FY18 and the attendance by Directors at those meetings are shown below.

| | Board | | Audit and Risk Committee | | Nominations Committee | | People and Remuneration Committee | |
|-------------------------------------|-------|-----|--------------------------|-----|-----------------------|-----|-----------------------------------|-----|
| | (a) | (b) | (a) | (b) | (a) | (b) | (a) | (b) |
| Dr Ziggy Switkowski AO ¹ | 10 | 10 | 05 | 04 | 02 | 02 | 06 | 06 |
| Mr Drew Clarke AO PSM ² | 08 | 08 | - | - | 02 | 02 | 04 | 03 |
| Mr Patrick Flannigan | 10 | 10 | 05 | 05 | 02 | 02 | 06 | 06 |
| Ms Shirley In't Veld | 10 | 10 | 05 | 05 | 02 | 02 | - | - |
| Mr Michael Malone ³ | 10 | 09 | 03 | 02 | 02 | 02 | 03 | 03 |
| Mr Justin Milne | 10 | 09 | - | - | 02 | 02 | 06 | 06 |
| Mr Bill Morrow ⁴ | 10 | 10 | - | - | 02 | 02 | 06 | 06 |
| Dr Kerry Schott AO | 10 | 10 | 05 | 05 | 02 | 02 | - | - |

(a) Number of meetings held while a Director of the Board or a Committee member.

(b) Number of meetings attended.

- 1 Dr Ziggy Switkowski AO attends NBN Co's Audit and Risk Committee and People and Remuneration Committee meetings ex officio.
- 2 Mr Clarke was appointed as a member of the Board effective 22 August 2017 and as a member of the People and Remuneration Committee effective 20 November 2017.
- 3 Mr Malone retired from the People and Remuneration Committee effective 21 November 2017 and was appointed as a member of the Audit and Risk Committee effective 21 November 2017.
- 4 Mr Bill Morrow attends NBN Co's Nominations Committee and People and Remuneration Committee meetings ex officio.

Executive Committee

Members of the Executive Committee include:



Mr Bill Morrow

Appointed in April 2014
Chief Executive Officer

Skills, Experience and Qualifications

Mr Morrow joined NBN Co in April 2014 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.

To fulfil his remit, Mr Morrow is supported by a very experienced executive leadership team.

Mr Morrow's biography is further outlined on page 59.



Ms Kathrine Dyer

Appointed in July 2017
Chief Network Deployment Officer

Skills, Experience and Qualifications

Ms Dyer leads the Network Planning and Deployment function and is responsible for planning, designing and building the **nbn**TM access network.

Ms Dyer joined NBN Co from Telstra in November 2010 and she has since provided oversight of the design and build of the **nbn**TM access network from both an operational and strategic perspective.

Ms Dyer's knowledge and expertise within telecommunications is formidable, having more than 20 years working in the sector. She was at the forefront of fibre optics development and Greenfields strategic planning while at Telstra and has an extensive background in telecommunications legislative and regulatory management.

Ms Dyer has a Bachelor of Business from RMIT University (Australia).



Mr Justin Forsell

Appointed in May 2014
Chief Legal Counsel

Skills, Experience and Qualifications

Mr Forsell is responsible for all NBN Co's legal and security functions plus the company secretariat, privacy and freedom of information offices. His responsibilities include all major transactions, dispute management, litigation, legal analysis and advisory, and governance support.

An experienced legal practitioner with more than 20 years' in-house experience, Mr Forsell joined NBN Co in March 2010 as Chief Legal Counsel.

Prior to joining NBN Co, Mr Forsell was General Counsel, Company Secretary and Head of Governance at Vodafone Australia, where he was responsible for legal, regulatory, government relations, company secretariat, inter-carrier relationships and corporate social responsibility.

He has also previously held senior legal counsel roles at BT Group Japan and British Telecom plc in the UK. He commenced his career in telecommunications law at Hutchison Telecom in Hong Kong after several years in private practice.

Mr Forsell has an MBA from Macquarie Graduate School of Management in Sydney, and a Bachelor of Laws (LLB) from Victoria University in Wellington, New Zealand.



Ms Karina Keisler

Appointed in July 2017
Chief Corporate Affairs Officer

Skills, Experience and Qualifications

Ms Keisler joined NBN Co in July 2014 and has led all aspects of media relations, social media, government relations, employee communications and Corporate Social Responsibility.

Appointed to the executive committee in 2017, Ms Keisler has taken on the additional responsibility of **nbn**™ Local which is accountable for national industry stakeholders and regional and remote engagement.

With proven experience leading sophisticated Corporate Affairs functions, Ms Keisler has acquired more than 20 years' knowledge in the industry, advising some of Australia's highest profile CEOs, including at Telstra and Vodafone.

Ms Keisler specialises in managing communication strategies for complex organisations and reputation recovery. At NBN Co, she is responsible for elevating the conversation above the politics and getting Australians excited about a connected future.

Ms Keisler holds a Masters in Communications from Deakin University.



Mr John McInerney

Appointed in April 2015
Chief Systems Engineering Officer

Skills, Experience and Qualifications

As Chief Systems Engineering Officer, Mr McInerney is responsible for NBN Co's information technology (IT) based services and network engineering solutions. His responsibilities include Information and Communications Technology (ICT) strategy and policy, the design and delivery of IT and network engineering based solutions, the operations of both business and operational support systems, the enablement of customer and partner digital channels and management of data and information management. Mr McInerney also sponsors the business technology planning process and the alignment of technology with the business.

An experienced technology practitioner with more than 20 years' experience across a diverse range of technology environments, Mr McInerney joined NBN Co in December 2012 as the Chief Information Officer. Previously, Mr McInerney was Vice President of Strategic Enterprise Services at Hewlett Packard where his portfolio included cloud, security and analytics products and services across Asia Pacific and Japan. He began his career in telecommunications at Telstra where he was Group CIO and led one of the largest technology transformation projects in Australia.

Mr McInerney has a Bachelor of Business from Monash University and is a member of Chartered Accountants Australia and New Zealand.



Ms Felicity Ross

Appointed in July 2018
Chief Corporate Affairs Officer

Skills, Experience and Qualifications

Ms Ross was appointed Chief Corporate Affairs Officer on 18 July 2018, replacing Ms Keisler.

Ms Ross brings more than 20 years' experience managing stakeholder relations and communications across the private and public sectors. She has deep expertise in large, high-profile, complex organisations in Australia and overseas, including: London's Metropolitan Police at Scotland Yard, the UK Home Office, Serco, Westpac and the NSW Government. Prior to joining NBN Co, Ms Ross was Advocacy Director at Jobs for NSW, in the NSW Department of Industry.

Ms Ross holds a Post Graduate Diploma in Communications Management from London Metropolitan University, and a BA from Macquarie University, Sydney.



Mr JB Rousselot

Appointed in October 2013
Chief Strategy Officer

Skills, Experience and Qualifications

Mr Rousselot was appointed Chief Strategy Officer on 1 July 2017 after formerly overseeing NBN Co's network and service operations.

As NBN Co's Chief Strategy Officer, Mr Rousselot is responsible for creating and implementing the Company's business, technology, and regulatory strategy, delivering the Integrated Operating Plan, and enabling the Company to scale in the most efficient and effective way.

Mr Rousselot joined NBN Co in October 2013, bringing extensive experience in the telecommunications and media sectors.

As well as holding senior roles at Telstra including the Executive Director of Voice, BigPond and Media, Mr Rousselot was the CEO of IP telephony start up Interline, an Executive Director of the Australasian Media and Communications Fund and has worked in consulting and investment banking.

Mr Rousselot holds an MBA from the MIT Sloan School of Management (USA) and a Masters Degree in Engineering from Ecole Nationale des Ponts et Chaussées (France).



Mr Stephen Rue

Appointed in July 2014
Chief Financial Officer

Skills, Experience and Qualifications

Mr Rue is responsible for the financial management of NBN Co's business activities, business planning, financial reporting, financial control, management reporting, taxation and treasury, audit and risk services as well as data governance, procurement and supply.

Mr Rue joined NBN Co in July 2014 as a member of the Executive Committee, bringing with him a wealth of knowledge in financial management and high profile company transformation.

Prior to joining NBN Co, Mr Rue spent 17 years in various leadership roles at News Corp Australia including a decade as Chief Financial Officer. He also served as a Director on a number of associated boards, including Foxtel, Fox Sports, REA Group and Australian Associated Press, as well as Chairman of the Community Newspaper Group in Perth and Melbourne Storm Rugby League Club.

Mr Rue holds a Bachelor of Business Studies from Trinity College Dublin, a Diploma in Professional Accounting from University College Dublin and is a member of Chartered Accountants Australia and New Zealand and a Fellow of the Australian Institute of Company Directors.



Mr Peter Ryan

Appointed in December 2015
Chief Network Engineering Officer

Skills, Experience and Qualifications

Mr Ryan's tenure as Chief of Network Engineering and Operations began on 1 July 2017. The Network Engineering and Operations unit lead by Mr Ryan is responsible for activating and assuring services onto the **nbn**TM access network, maintaining and restoring the network, delivering ongoing engineering capacity management and customer experience excellence.

Mr Ryan previously headed up NBN Co's Network Engineering and Deployment function and was responsible for leading the planning, engineering, design and build of the **nbn**TM access network. Prior to joining NBN Co in January 2013, Mr Ryan worked at Vodafone for 15 years in Australia, Kenya and the UK, and at Maunsell Australia Pty Ltd. His career has spanned roles across network engineering, technology deployment and service operations.

Mr Ryan has solid experience in engineering and deploying networks nationally and overseas, in addition to operational management experience and proven project discipline.

Mr Ryan has a Bachelor of Engineering from the University of Sydney.



Ms Maree Taylor

Appointed in April 2015
Chief People and Culture Officer

Skills, Experience and Qualifications

Ms Taylor is responsible for the People and Culture strategy of NBN Co. Her responsibilities include initiatives to ensure workforce appeal and capability, a safety focused and values based culture and the optimisation of employee engagement.

Her areas of focus include resourcing strategies (internal and external service delivery partners), culture, organisational design, talent, performance management, leadership development, learning, reward and recognition, facilities, health, safety and environment and employee relations.

She has held senior executive roles including Head of HR/HSE at Origin, Head of Human Resources for Computer Science Corporation (CSC) Australia prior to CSC Europe in London, as well as Head of Human Resources Apple Asia Pacific.

Ms Taylor has a Bachelor of Arts degree, a Diploma of Education and a Master of Management from Macquarie Graduate School of Management in Sydney.



Mr Paul Tyler

Appointed in February 2018
Chief Customer Officer – Business

Skills, Experience and Qualifications

Mr Tyler was appointed Chief Customer Officer – Business on 19 February 2018, bringing more than two decades' experience leading Information and Communication Technology businesses across Australia, Europe and the Asia Pacific region.

As the Chief Customer Officer – Business, Mr Tyler is responsible for all aspects of NBN Co's product management, brand, marketing, sales and customer experience in the business and government segment. Mr Tyler has substantial experience, relationships and track record of delivering business development outcomes and excellent customer experiences.

Prior to joining NBN Co in February 2018, Mr Tyler built a distinguished international reputation working for and managing global businesses. Previous roles included President of Nokia's business for the Asia Pacific Region and Group Managing Director of Telstra International. Most recently prior to joining NBN Mr Tyler held the role of Group Managing Director of Telstra Business where he was responsible for Telstra's small and medium enterprise segment. Mr Tyler has previously held several non executive director roles including BigAir (chair) (ASX:BGL) and Autohome (NYSE: ATHM).

Mr Tyler holds an Executive MBA from the National University of Ireland, a Bachelor of Electrical Engineering from the University of New South Wales and holds a Membership in the Australian Institute of Company Directors.



Mr Brad Whitcomb

Appointed in May 2014
Chief Customer Officer – Residential

Skills, Experience and Qualifications

Mr Whitcomb was appointed Chief Customer Officer – Residential on 1 July 2017 after previously holding the role of NBN Co's Chief Strategy and Transformation Officer.

As the Chief Customer Officer – Residential, Mr Whitcomb is responsible for all aspects of NBN Co's product management, brand, marketing, sales and customer experience in the residential segment.

Mr Whitcomb has extensive experience setting strategy and transforming business performance across the telecommunications, technology and energy sectors.

Prior to joining NBN Co in May 2014, Mr Whitcomb was the Chief Strategy and Business Transformation Officer at Vodafone Hutchinson Australia where he was responsible for the whole-of-business turnaround including diagnosis, strategy, planning, execution and governance.

Mr Whitcomb holds an MBA from Saint Mary's College of California and a Bachelor of Economics from the University of California, Santa Barbara.

Company Secretaries



Ms Debra Connor

Appointed in June 2010
Company Secretary

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

Appointed in August 2015
Company Secretary

Skills, Experience and Qualifications

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

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 a General Counsel in NBN Co's 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.

Our key functions

The following key organisational groups and functions are instrumental to the success of the **nbn™** access network rollout.

Network Planning and Deployment

The Network Planning and Deployment function is responsible for planning, designing and building the **nbn™** access network. NBN Co's mandate is to deliver the network using the most appropriate and cost effective technology.

Systems Engineering and Operations

The Systems, Engineering and Operations (SEO) function provides end-to-end information technology (IT) and network engineering solutions that support and enable NBN Co's core processes, products and technologies. The SEO function also builds and maintains the infrastructure required to deliver the data flow needs of the whole business, as well as integration with RSPs and DPs.

Network Engineering and Operations

The Network Engineering and Operations (NEO) unit manages key processes within NBN Co that include: activation of services; network assurance; maintenance and restoration activities; as well as on-going engineering capacity and optimisation of the **nbn™** access network. NEO is committed to providing the highest level of service to its RSP customers, enabling them to provide a quality end-user experience, within the framework of NBN Co's service levels under the Wholesale Broadband Agreement. This includes activation response time, service availability and network response time.

Strategy, Transformation, Regulatory and Technology

The Strategy, Transformation, Regulatory and Technology group is responsible for creating and implementing NBN Co's business and regulatory strategy, delivering the Integrated Operating Plan, scaling the business, and developing the **nbn™** access network architecture and advanced technologies.

Sales and Marketing

The primary role of the Residential Sales and Marketing and the Business Sales and Marketing teams is to enable access to the **nbn™** access network through the delivery of wholesale products and services to RSPs, who in turn make them available to residents and businesses. These teams also champion the customer and end-user experience on the **nbn™** access network and are responsible for the brand and the development of marketing and promotional campaigns to engage with the industry and end users to increase awareness of the **nbn™** access network. The teams also manage the relationships with RSPs and engage with the industry to incorporate feedback on technical, operational and commercial aspects of the product development and delivery program, and the overall migration to the **nbn™** access network.

Corporate Affairs

The Corporate Affairs team is responsible for engaging and communicating with NBN Co's stakeholders. The team effectively communicates with employees, the Australian public, government entities, the media, industry groups and regional stakeholders regarding the company's plans and progress. The team also engages with Shareholder Ministers and Departments to advise and disclose required information. In December, NBN Co launched its Corporate Social Responsibility program to help make a positive difference to the community and environment.

People and Culture

NBN Co's People and Culture (P&C) team enables the achievement of business goals through great people, delivering extraordinary results every day, to connect Australia. P&C leads the human resources, Health Safety and Environment, facilities and external (service delivery partners) workforce attraction strategies.

Finance, Procurement and Supply

Finance, Procurement and Supply is responsible for the financial management of NBN Co's business activities, including business planning, financial and management reporting, financial control, commercial finance activities in support of the business, taxation and treasury, audit and risk services as well as data governance, procurement and supply activities.

Legal and Security

The Legal group is responsible for all NBN Co's legal services including its company secretariat and freedom of information functions. The Legal group provides support on all major transactions, dispute management and litigation, legal analysis and advice, and governance.

The role of the Security group is to protect NBN Co's people and assets from personnel, physical and cyber security threats and to comply with security-related regulatory obligations. NBN Co is building a network that will give Australians access to reliable and fast broadband. Part of being reliable is being trusted and secure. The convergence of physical and cyber security within the Security group enables NBN Co to better protect its people and assets against evolving security threats.



Other information

Corporate information

NBN Co is an unlisted 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.

Operating and financial review

The operating and financial review is contained on pages 16 to 53 of the Directors' report.

Significant changes in the state of affairs

Other than the information set out in the operating and financial review section, there were no significant changes in the state of affairs of the Group during FY18.

Dividends

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

Directors' interests

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

Indemnification and insurance of Directors and Officers

NBN Co has indemnified each of the Directors of the Company against any legal proceedings, loss or liability that arises in their capacity as a Director of NBN Co. As at 30 June 2018, no material claims have been made.

During FY18, the Company paid insurance premiums for contracts insuring Directors and Officers against liabilities (including costs and expenses) arising from the performance of their duties.

The Directors have not included the details of the nature of the liabilities covered or the amount of the premiums paid in respect of these insurance contracts, as such disclosure is prohibited under the terms of the contracts.

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 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 Financial report.

Significant events subsequent to reporting date

No matter or circumstance has arisen since 30 June 2018 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
- The Group's state of affairs in future financial years.

Non-audit services

No non-audit services have been provided by the Auditor-General or the Australian National Audit Office. Non-audit services provided by the contract auditor, PwC, are detailed in Note H7 to the consolidated financial statements.

Signed in accordance with a resolution of the Directors, approving the Annual Report.



J. P. Switkowski

Dr Ziggy Switkowski AO
Chairman



Bill Morrow

Bill Morrow
Chief Executive Officer
9 August 2018

Remuneration report

The purpose of the Remuneration report is to set out the principles and the remuneration strategy NBN Co applies to remunerate key management personnel (KMP).

The report also aims to demonstrate how the remuneration policy is aligned to our goals and strategic imperatives, enabling performance-based reward and supporting the retention of high calibre Executives to achieve our targets by 2020 and beyond.

As discussed in the operating and financial review section, NBN Co had a significant year, making tough, but necessary decisions to make customer experience our priority.

The remuneration outcomes for FY18 therefore reflect a focus on customer experience and continued progress towards NBN Co's 2020 targets.



1

Attract and retain high calibre Executives



2

Foster exceptional talent and performance



3

Responsibly reward key management personnel

Letter from the Chair of the People and Remuneration Committee

On behalf of the NBN Co Board, I am pleased to present our 2018 Remuneration report where we summarise the achievements of this past year and the associated remuneration outcomes for NBN Co's Chief Executive Officer (CEO) and Senior Executives. The fee arrangements for Board members are also provided.

This year was a significant one for NBN Co. A heightened focus on customer experience and the decision to pause the HFC rollout were taken during the year. This impacted our construction and activation progress as we re-phased our schedule. However these decisions were vital in ensuring end-user customer experience was the priority and the **nbn™** access network is in better shape than this time last year.

There are now more than four million premises actively using the **nbn™** access network today, further highlighting the critical need for the telecommunications industry to deliver on end-user experience and network performance. NBN Co remains focused on collaborating with our industry partners to ensure end-user customer satisfaction and continues to provide, clear, timely, factual information on the network.

In evaluating the 2018 fiscal year performance, the Board is satisfied that the gateway for the Short-Term Incentive (STI) program has been met. This gateway includes NBN Co's safety record and overall performance to budget. Furthermore, despite the significant challenges the NBN Co has faced and the re-phasing, NBN Co hit critical milestones in premises ready to connect and premises activated, exceeded its revenue budget and made substantial progress in customer experience and reputation related measures. For this reason, the Board approved an STI payout that appropriately reflects its judgement of performance for the year.

No material change has been made to the NBN Co's Senior Executive remuneration framework during this year. In this regard NBN Co continues to set target remuneration with reference to the external market for similar roles. NBN Co also continues to place awards made through the STI program 'at risk' where these are dependent on the achievement of NBN Co performance relative to targets set at the beginning of the operating year, consistent with the approved Corporate Plan.

As consumer demand evolves, the year ahead will continue to pose challenges with respect to end-user customer experience as the roll out continues. The Board has every confidence in the people of NBN Co, who remain committed to deliver on the current strategy and goal of eight million connected homes and businesses by 2020.

Yours sincerely,



Mr Justin Milne
Chair, People and Remuneration Committee
9 August 2018



Key management personnel (KMP)

This report covers the remuneration of NBN Co's KMP, including Non-Executive Directors of the Company, and those Senior Executives deemed to be KMP by the Board, as outlined in the table below for the year ended 30 June 2018.

| Name | Title | FY18 Status | KMP Status |
|---|---|-------------|------------|
| Current Senior Executives deemed to be KMP | | | |
| Mr. Bill Morrow | Chief Executive Officer (CEO) | Full year | Current |
| Mr. JB Rousselot | Chief Strategy Officer (CSO) | Full year | Current |
| Mr. Stephen Rue | Chief Financial Officer (CFO) | Full year | Current |
| Mr. Peter Ryan | Chief Network Engineering Officer (CNEO) | Full year | Current |
| Mr. John Simon | Chief Customer Officer - Business (CCOB) | Part year | Former |
| Mr Paul Tyler | Chief Customer Officer - Business (CCOB) | Part year | Current |
| Mr. Brad Whitcomb | Chief Customer Officer - Residential (CCOR) | Full year | Current |
| Current Non-Executive Directors | | | |
| Mr. Drew Clarke AO PSM | Non-Executive Director | Part year | Current |
| Mr. Patrick Flannigan | Non-Executive Director | Full year | Current |
| Ms. Shirley In't Veld | Non-Executive Director | Full year | Current |
| Mr. Michael Malone | Non-Executive Director | Full year | Current |
| Mr. Justin Milne | Non-Executive Director | Full year | Current |
| Dr. Kerry Schott AO | Non-Executive Director | Full year | Current |
| Dr. Ziggy Switkowski AO | Non-Executive Chairman | Full year | Current |

The following changes were made in KMP during the year and up to the date the Remuneration report was released:

- Mr J Simon ceased to be KMP on 23 February 2018
- Mr P Tyler was appointed as KMP on 19 February 2018
- Mr D Clarke was appointed as a Non-Executive Director on 22 August 2017
- Ms Z McKenzie was appointed as a Non-Executive Director on 1 July 2018

Remuneration and talent governance at NBN Co

The role of the People and Remuneration Committee (P&RC) is to assist the Board in fulfilling its governance responsibilities in relation to establishing people management and remuneration policies for NBN Co that:

- Enable NBN Co through its executive leadership to attract and retain capable employees who can help deliver its vision.
- Foster exceptional talent and performance while motivating and supporting employees to pursue the growth and success of the **nbn**[™] access network consistent with NBN Co's Corporate Plan.
- Responsibly reward employees, having regard to the performance of NBN Co, individual performance, statutory and regulatory requirements and current business norms.

Support from management and external advisors

To inform decisions of the Committee, the P&RC sought advice and, at times, recommendations from the CEO and other management throughout the year.

During FY18, NBN Co received external advice in relation to remuneration from Ernst & Young (EY). The advice included market practice, current and emerging trends in executive remuneration design and relevant legislative and regulatory developments. None of the advice provided by EY included a remuneration recommendation as defined in the *Corporations Act 2001*.

The diagram below shows how Senior Executive remuneration decisions are determined at NBN Co.



Strategic imperatives and remuneration strategy

NBN Co's remuneration strategy supports the strategic imperatives of the organisation, enables performance-based reward and recognition of highly capable employees whilst remaining aligned to market practice and in the interests of our shareholders and the Australian public.

Senior Executive remuneration is designed to attract, motivate and retain the calibre of executives required to achieve our goals by 2020 and beyond. To enable this, NBN Co's Senior Executive remuneration strategy establishes an effective link between pay and performance achieved through:

- Annually reviewing the Senior Executive remuneration framework, including the performance measures under the Short-Term Incentive (STI) Program, to ensure alignment with NBN Co's evolving business strategy and corporate objectives.
- Consideration of market remuneration practices when determining Senior Executive remuneration.
- Ensuring a minimum level of performance is achieved by NBN Co before any STI payments can be earned.
- Balancing Senior Executive remuneration against corporate and individual performance outcomes.
- Linking each Senior Executive's STI award to the achievement of stretch performance conditions.

The following diagram outlines the link between NBN Co's strategy and remuneration for Senior Executives.

NBN Co's goal by 2020

8 million homes and businesses connected by 2020

Achieved by focusing on NBN Co's strategic imperatives



1

A high-performing and reliable network



2

Effective and efficient processes and systems



3

United partnership with vendors, Delivery Partners and Retail Service Providers



4

Affordable products and services



5

A great place to work

...which are reflected in STI Corporate Measures

Ready to Connect

A rollout region is ready for service when NBN Co is ready to begin connecting premises in that rollout region to the nbn™ access network

Premises Active

Premises which have an active service installed. Premises are activated after receiving and provisioning a service order from a Retail Service Provider

Total Revenue

Total revenue earned in the year

NBN Co Controlled End-User Customer Experience

Improvement in key lead indicators in NBN Co controlled end-user satisfaction metrics

Reputation

Improvement in Ipsos reputation score and declines in Telecommunications Industry Ombudsman (TIO) complaints relative to activations and active users

...and NBN Co's actual performance

Ready to Connect

Achieved 7,036,838 premises ready to connect

Premises Active

Achieved 4,035,870 premises activated

Total Revenue

Achieved \$1.978 billion

NBN Co Controlled End-User Customer Experience

Improved outcomes in all five NBN Co controlled experience indicators

Reputation

Improvement in Ipsos score from 44 to 48 and a reduction in the rate of TIO complaints for services delivered over the nbn™ access network

...and directly impacts Senior Executive remuneration

| Total Fixed Remuneration | CEO STI Outcome | Average Senior Executive STI Outcome |
|--|-----------------|--------------------------------------|
| Fixed pay increases aligned to market practice with smaller increases for FY18 | 70% target | 70% target |

Senior Executive remuneration

NBN Co's remuneration structure is designed to responsibly, fairly and competitively reward Senior Executives while complying with all of our regulatory obligations. To accomplish these goals, each Senior Executive's remuneration package consists of Total Fixed Remuneration (TFR) and 'at risk' remuneration delivered through an STI program, which includes a deferral component. NBN Co does not grant long-term incentive awards to its Senior Executives.

Remuneration benchmarking

NBN Co aims to position target total remuneration competitively against comparable organisations. Independent remuneration advisors directly benchmark Senior Executive roles to comparable roles in the market. External market benchmarks are determined by researching disclosed data from relevant Australian listed companies and Government Business Enterprises, supplemented by survey data where necessary. Target total remuneration for each Senior Executive role is informed by the benchmark data and internal relativities.

To ensure consideration of individual and company performance and market conditions, remuneration levels of each Senior Executive are reviewed annually by the P&RC.

Remuneration mix

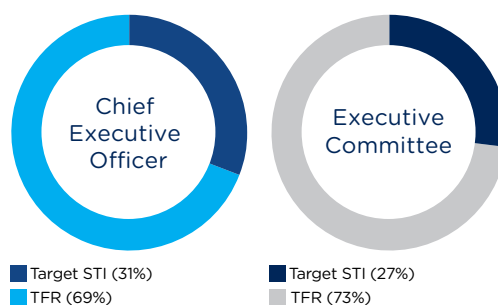
A portion of Senior Executive remuneration is 'at risk' to ensure alignment with NBN Co's strategic objectives. Senior Executives are only rewarded for delivering performance aligned to NBN Co's strategy.

The target STI opportunity for Senior Executives during FY18 was 37.5 per cent of the participant's TFR. The Target STI opportunity for the CEO was 45 per cent of TFR.

As 'at risk' remuneration is tied to the achievement of NBN Co and individual performance conditions, actual remuneration received may vary from the target remuneration set out above.

Further detail on actual performance outcomes for FY18 has been provided in the STI program section below.

Chief Executive Officer and Executive Committee remuneration is illustrated in the graphs below. These show the Total Fixed Remuneration and target STI components as a percentage of the total target annual remuneration for FY18.



Total fixed remuneration

Base salary, superannuation contributions and non-cash benefits comprise a Senior Executive's TFR. Factors taken into account when setting the appropriate TFR for any Senior Executive include:

- Market data for comparable roles
- Complexity of the role
- Internal relativities
- An individual's skills and experience
- Individual performance assessments.

Once hired, Senior Executives have no guarantee of TFR increases within their contracts. The TFR of all Senior Executives is reviewed annually, to ensure alignment with market practice.

Short-Term Incentive program

NBN Co's STI program provides all Senior Executives the opportunity to receive 'at risk' remuneration based first on NBN Co's performance and then on individual performance during the performance year. The STI program is designed to:

- Reward Senior Executives who contribute to NBN Co's success during the performance year
- Ensure a portion of total remuneration is linked to the achievement of corporate performance
- Through its STI funding approach, provides NBN Co with the flexibility to manage the overall cost of the program in line with the achievement of corporate performance outcomes.

Short-Term Incentive deferral

A key element of our STI program for Senior Executives is the deferral of one quarter of any STI awarded for a period of two years. While deferred amounts are not subject to performance hurdles, they are subject to clawback provisions which allow the P&RC to withhold the deferred cash award in the

instance of a material misstatement of the results upon which an incentive award has been made. Deferred amounts may be released early at the discretion of the P&RC. The P&RC agreed that no deferral will apply for the CEO's actual STI award for FY18.

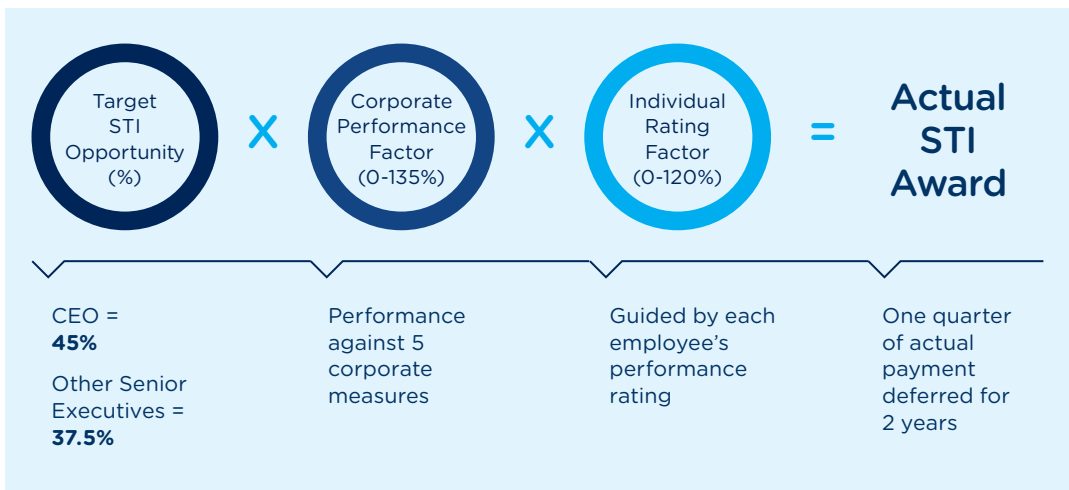
NBN Co reviews its incentive program annually to ensure it remains aligned to market practice and continues to incentivise participants in alignment with the evolution of NBN Co's business strategy.

Role of the People and Remuneration Committee

Each year, the P&RC determines the performance measures and objectives of the STI program, participant eligibility, performance outcomes and the STI award pool, application of clawback provisions to previous awards (where relevant) and any changes or adjustments needed to continually improve the plan.

The P&RC retains discretion under the program rules to adjust STI payments in light of unforeseen circumstances or unintended outcomes.

NBN Co's Senior Executive Short-Term Incentive (STI) program



Funding approach

NBN Co's performance determines the size of the target STI pool for the applicable year. The P&RC can eliminate the entire target STI pool if it determines that NBN Co has not met a gateway measure. In such circumstances, the P&RC retains the discretion to recognise exceptional contributions from individuals and can form a STI pool of up to 20 per cent of the entire target STI pool. The P&RC determines the gateway measure at the start of the performance period. For FY18, NBN Co's safety record and performance to budget were the performance gateway measures. The operating and financial review section provides details on NBN Co's financial performance and non-financial performance for FY18.

If a gateway measure is met during the performance period, the P&RC determines whether to adjust the target STI pool up or down (by a range between zero per cent and 135 per cent of the target STI pool) based on achievement of corporate objectives, resulting in an actual STI award pool. The STI award pool is the maximum cost of the STI program for that year, thus limiting NBN Co's aggregate cost.

STI performance measures

NBN Co's performance has a direct impact on the STI award pool and therefore the level of STI payments received by participants. Performance measures and targets are set at the start of the performance period and considered stretch targets against the measures in the Corporate Plan and outlined in the diagram on page 76.

For FY18, NBN Co's performance was assessed against five corporate measures that included:

- Ready to connect
- Premises active
- Total revenue
- NBN Co controlled end-user customer experience
- Reputation.

Performance outcomes for FY18

For FY18, the Board was satisfied the overall financial and safety performance gateway measure for the Company was met. NBN Co's overall financial and safety performance are discussed on pages 41 to 46 and 34 to 40, respectively.

Despite prioritising customer experience, NBN Co continued to make progress on network build and activations towards our 2020 goals. Growth in average revenue per user and strong activations during FY18 set the Company up well for performance against the total revenue target.

As a result of this achievement, the Board on 24 July 2018 awarded an STI award pool of 70 per cent. For FY18, this equated to 70 per cent of each Senior Executive's target STI opportunity and 43 per cent of each Senior Executive's maximum STI opportunity.

The list of KMP during FY18 disclosed in this report is shown on page 73 and a summary of remuneration received during the financial year is shown on pages 81 to 83.

Total STI Payments for FY18 and FY17

The total STI awards at NBN Co for FY18 was \$42.78 million across 4,254 employees in the annual remuneration review process. This included \$1.96 million for KMP, including the 25% deferred for two years. This compares to total STI payments for FY17 of \$60.04 million across 4,278 employees, including \$2.88 million for KMP.

Employment agreements and termination arrangement

All Senior Executives are permanent employees of NBN Co. Remuneration and other terms of employment for all Senior Executives are formalised in employment agreements, which are subject to law and include termination arrangements. For the CEO, the notice for termination that must be provided by either NBN Co or the CEO is six months. The CEO is entitled to a termination payment of twelve months' TFR, where the CEO is terminated by NBN Co.

For Senior Executives, the standard notice for termination that must be provided by either NBN Co or the Senior Executive is three months. Where a Senior Executive is terminated by NBN Co, he/she is entitled to a termination payment of 6 months' TFR. Termination payments are determined by policy and the contractual entitlements in place for employees ceasing employment with NBN Co.

Non cash benefits

Executives are able to utilise salary packaging arrangements in line with Company policies. The cost of any benefit, as well as any associated Fringe Benefits Tax (FBT) is deducted from the executive's salary.

Other long-term benefits

The remaining long-term benefit is the accrual of statutory long service leave for employees.

Post-employment benefits

Superannuation contributions are included in individuals' TFR. There are currently no additional benefits, entitlements or arrangements in place for any Senior Executive.



Remuneration of Key Management Personnel

Remuneration of Senior Executives

Remuneration for Senior Executives deemed to be KMP for FY18 and FY17 is shown in the table below. No termination benefits were paid to KMP in 2017 or 2018.

| | | Short-term benefits | | Post-employment | Other long-term benefits | | Total remuneration |
|---|-------------|----------------------|------------------------|-------------------------------|---------------------------------|---------------------------------|--------------------|
| | | Base salary and fees | STI award ¹ | Super-annuation contributions | STI award deferral ¹ | Long service leave ² | |
| | | \$ | \$ | \$ | \$ | \$ | \$ |
| Senior Executives deemed to be KMP | | | | | | | |
| B Morrow ³ | 2017 | 2,361,584 | 1,157,300 | 19,615 | - | 24,310 | 3,562,809 |
| | 2018 | 2,408,775 | 765,080 | 20,049 | - | (55,322) | 3,138,582 |
| JB Rousselot | 2017 | 879,984 | 273,225 | 19,615 | 91,075 | 9,985 | 1,273,884 |
| | 2018 | 888,551 | 178,881 | 20,049 | 59,627 | 18,243 | 1,165,351 |
| S Rue | 2017 | 937,584 | 290,775 | 19,615 | 96,925 | 7,883 | 1,352,782 |
| | 2018 | 956,251 | 192,209 | 20,049 | 64,070 | 14,781 | 1,247,360 |
| P Ryan | 2017 | 694,384 | 216,900 | 19,615 | 72,300 | 13,234 | 1,016,433 |
| | 2018 | 800,951 | 161,635 | 20,049 | 53,878 | 24,507 | 1,061,020 |
| J Simon | 2017 | 824,784 | 256,500 | 19,615 | 85,500 | 19,525 | 1,205,924 |
| | 2018 | 550,319 | 147,424 | 13,115 | - | 58,878 | 769,736 |
| P Tyler ⁴ | 2017 | - | - | - | - | - | - |
| | 2018 | 310,809 | 117,765 | 10,024 | - | 411 | 439,009 |
| B Whitcomb | 2017 | 812,684 | 252,825 | 19,615 | 84,275 | 8,568 | 1,177,967 |
| | 2018 | 828,851 | 167,127 | 20,049 | 55,709 | 15,888 | 1,087,624 |
| Total | 2017 | 6,511,004 | 2,447,525 | 117,690 | 430,075 | 83,505 | 9,589,799 |
| | 2018 | 6,744,507 | 1,730,121 | 123,384 | 233,284 | 77,386 | 8,908,682 |

Notes:

- 1 The cash component of the STI award paid in August 2018, with one quarter of the STI award relating to FY18 performance deferred for a period of two years. Deferred STI award payments are not discounted.
- 2 Long service leave amounts relate to the movement in the provision for long service leave during the relevant period, which is calculated in accordance with Australian Accounting Standards. In estimating the provision consideration is given to expected future wage and salary levels, fulfilment of service level milestones and periods of service. Expected future payments are discounted using market yields at the balance date on national corporate bonds. Long service leave provisioning is adjusted for cessation of employment, including retirement, to reflect the settlement of any entitlements.
- 3 Mr B Morrow is CEO and Managing Director of NBN Co. The P&RC agreed that no deferral will apply for the CEO's actual STI award for FY17 and FY18.
- 4 FY18 STI is inclusive of contractual obligations on joining NBN Co including no deferral of STI for FY18.

Non-Executive Directors

Non-Executive Director fees

All Non-Executive Directors of NBN Co are appointed by the Commonwealth of Australia through the Shareholder Ministers.

Fees for Non-Executive Directors are set through the determinations of the Commonwealth Remuneration Tribunal (the Tribunal), an independent statutory body overseeing the remuneration of key Commonwealth offices. NBN Co is regulated to comply with the Tribunal's determinations and plays no role in the consideration or determination of Non-Executive Director fees.

The Tribunal sets annual Chair, Deputy Chair and Board fees (exclusive of statutory superannuation contributions) which are inclusive of all activities undertaken by Non-Executive Directors on behalf of NBN Co (i.e. inclusive of Committee participation). Fee packaging may be made available to Non-Executive Directors within the fees specified. Statutory superannuation is paid in addition to the fees set by the Tribunal.

The following table sets out the Non-Executive Director fees (excluding superannuation) as directed by the Tribunal for FY18 and FY17.

| Board position | 2017-18 annual entitlement | | 2016-17 annual entitlement | |
|-------------------------|----------------------------|---------------------|----------------------------|-----------|
| | from 1 July 2017 | from 1 January 2017 | from 1 July 2016 | |
| Chair | \$218,110 | \$213,830 | \$213,830 | \$213,830 |
| Deputy Chair | \$175,600 | \$172,150 | \$172,150 | \$172,150 |
| Non-Executive Directors | \$109,100 | \$106,960 | \$106,960 | \$106,960 |

Remuneration of Non-Executive Directors

Remuneration for Non-Executive Directors for FY18 and FY17 is shown in the table below:

| | | Short-term benefits | Post- employment | Total remuneration |
|--------------------------------|------|------------------------|---------------------------------------|-----------------------|
| | | Director fees \$ | Superannuation contributions \$ | \$ |
| Non-Executive Directors | | | | |
| D Clarke ¹ AO PSM | 2017 | - | - | - |
| | 2018 | 94,079 | 8,938 | 103,017 |
| P Flannigan | 2017 | 106,960 | 10,161 | 117,121 |
| | 2018 | 109,100 | 10,365 | 119,465 |
| S In't Veld | 2017 | 106,960 | 10,161 | 117,121 |
| | 2018 | 109,100 | 10,365 | 119,465 |
| M Malone | 2017 | 106,960 | 10,161 | 117,121 |
| | 2018 | 109,100 | 10,365 | 119,465 |
| J Milne | 2017 | 106,960 | 10,161 | 117,121 |
| | 2018 | 109,100 | 10,365 | 119,465 |
| K Schott AO | 2017 | 106,960 | 10,161 | 117,121 |
| | 2018 | 109,100 | 10,365 | 119,465 |
| Z Switkowski AO | 2017 | 213,830 | 19,615 | 233,445 |
| | 2018 | 218,110 | 20,049 | 238,159 |
| Total | 2017 | 748,630 | 70,420 | 819,050 |
| | 2018 | 857,689 | 80,812 | 938,501 |

Notes:

¹ Mr D Clarke AO PSM was appointed as a Director on 22 August 2017.

Corporate governance statement

NBN Co is committed to meeting high standards of corporate governance which it considers essential to its long-term performance and sustainability, and to be in the best interests of its shareholder.

Corporate structure and governing legislation

This statement, which was approved by the Board on 9 August 2018, outlines the most significant aspects of NBN Co's corporate governance framework.

NBN Co and its subsidiaries together are referred to as the Group in this statement. The activities of each subsidiary in the Group are overseen by its own Board of Directors. These Boards currently comprise senior NBN Co management personnel.

As NBN Co is wholly-owned by the Commonwealth of Australia, under Section 250N (4) of the *Corporations Act 2001*, it is not required to hold an Annual General Meeting.

NBN Co's governance framework is regularly reviewed to ensure it aligns to Government, regulatory and legislative requirements, and market practice. NBN Co's governance practices continue to evolve, having regard to the:

- *National Broadband Network Companies Act 2011*
- *PGPA Act and Public Governance, Performance and Accountability Rule 2014* (PGPA Rule 2014)
- *Corporations Act 2001*
- *Telecommunications Act 1997*
- *Competition and Consumer Act 2010*
- Commonwealth Government Business Enterprise Governance and Oversight Guidelines (January 2018) (GBE guidelines)
- Other resource management guides issued by the Department of Finance that are applicable to NBN Co
- NBN Co's voluntary adoption of those ASX Corporate Governance Principles and Recommendations (the 3rd Edition) which are relevant to NBN Co.

Our governance framework is underpinned by:

- A skilled, experienced, diverse and independent Board supported by Board Committees dedicated to achieving high corporate governance standards
- Clear delegation, authorisation and accountability frameworks
- A robust risk management framework used to identify and manage risks to NBN Co's business
- Open and effective communications with Shareholder Ministers and their Departments
- A clear tone from the top with a strong internal control framework supported by NBN Co's Code of Conduct, policies and procedures
- An embracement of diversity and inclusion.

Principle: Lay solid foundations for management and oversight

(based on ASX Principle 1)

The role and responsibilities of the NBN Co Board

The *Corporations Act 2001* and NBN Co's Constitution establish and define the corporate powers of NBN Co which are exercised by the Board, unless exercised by the Shareholder Ministers under NBN Co's Constitution. The powers of NBN Co must be exercised in accordance with the objects set out in its Constitution, in particular to roll out, operate and maintain a national wholesale broadband network, and facilitate the implementation of Australian Government broadband policy and regulation.

The Board regards NBN Co as bound by and required to implement Australian Government broadband policy as set out in formal communications from its Shareholder Ministers as well as to exercise its powers in the best interests of NBN Co. The best interests of NBN Co are defined by reference to the objectives and purposes of NBN Co, Australian Government broadband policy and the GBE guidelines.

NBN Co's Board Charter sets out the powers and responsibilities of the Board. The Charter is reviewed annually by the Board and available on NBN Co's website.

The Board's key responsibilities are:

- Establishing and overseeing a sound corporate governance framework
- Approving NBN Co's strategic direction
- Engaging with its Shareholder Ministers on Australian Government policy requirements
- Annually causing a Corporate Plan to be prepared and submitted to the Australian Government
- Supervising management in the implementation of NBN Co's strategic direction, the Corporate Plan and compliance with legal and regulatory obligations.

- Taking the necessary steps to ensure compliance with duties and obligations imposed on the Board and NBN Co by law, and by NBN Co's Constitution (including in particular compliance and financial reporting requirements and the supervision of the development of risk management and internal control systems).
- Setting work health, safety and environmental performance objectives, developing appropriate policies and controls, ensuring legal compliance, and ongoing progress monitoring.
- Approving and supervising the implementation of an appropriate internal governance framework for NBN Co including (but not limited to):
 - Developing, promoting and ensuring compliance with NBN Co's values and governance framework
 - Reporting on and investigating reports of unethical practice within NBN Co
 - Setting diversity objectives, developing a diversity policy and monitoring progress towards achieving such objectives
 - Approving policies and frameworks for, and monitoring, internal control systems
 - Approving and monitoring NBN Co's compliance with NBN Co's internal and external audit requirements, including overseeing the implementation of all audits
 - Monitoring the operation of each subsidiary of NBN Co and, when necessary, exercising the voting power attaching to NBN Co's shares in the subsidiary
 - Either approving or noting (where appropriate) and then monitoring those policies which bind NBN Co's employees, Directors or, (where specifically provided for in a relevant policy) third parties dealing with NBN Co.

- Ensuring NBN Co acts within its powers as set out in rule 4 of its Constitution.
- Regularly monitoring the ongoing independence of each Director and the Board generally.
- Establishing and maintaining a register of interests to ensure potential conflicts can be managed and identified.

Delegation of powers

The Board may delegate its powers as it considers appropriate and has:

- Established a formal delegation of authority framework.
- Delegated many of its powers to the Chief Executive Officer (CEO) who is responsible for implementing strategic objectives, policies, the Corporate Plan and budget of NBN Co (approved by the Board) and the additional responsibilities set out in rule 12.2 of NBN Co's Constitution. The CEO has delegated some of his powers to the members of NBN Co's Executive Committee.
- Established standing committees to streamline the discharge of its responsibilities.

Matters specifically reserved for the Board are detailed in Section 3.4 of NBN Co's Board Charter.

Rule 8.1.1 of NBN Co's Constitution states that the Commonwealth may pass a resolution, to the extent permitted by law, where the Ministers sign the resolution and provide it to the Company for its records and that any power exercisable by the Company may be exercised in that manner.

NBN Co holds an annual strategic planning meeting attended by Directors and key executives. NBN Co's Shareholder Ministers and representatives of its Shareholder Ministers' Departments are invited to attend the meeting. External guest speakers may also be invited to present at the meeting. NBN Co's 2018 strategic planning meeting was held on 8 March 2018.

NBN Co's Executive Committee (ExCo)

ExCo comprises the CEO and Executives. Further details about ExCo are outlined on pages 61 to 66.

Appointments

Directors are appointed by the Commonwealth in a formal letter of appointment setting out the key terms and conditions, including certain information prescribed in the GBE guidelines to ensure each Director clearly understands NBN Co's expectations of the Director.

Rule 5.5.1 of NBN Co's Constitution states that the term of office of a Director is to be determined by the Commonwealth at the time of appointment, with the maximum term of office to be three years. Rule 5.5.2 of NBN Co's Constitution states that a Director retires, but is eligible for re-appointment on the expiry of his or her term of office. The Commonwealth may at any time by written notice to NBN Co:

- Appoint a person to be an additional or replacement Director
- Remove a Director from his or her office without compensation, whether or not the Director's appointment was expressed to be for a specified period.

Rule 7.3.1 of NBN Co's Constitution states the Chairman must be appointed by the Commonwealth from amongst the Directors. In accordance with section 2.7(b) of the GBE guidelines, the current Chairman is not an NBN Co Executive.

Performance of the Board

The effectiveness of the process and the performance of NBN Co's Board are reviewed annually. The review process is determined by NBN Co's Nominations Committee and the final report is provided to the Board.

Annual reviews of the performance of the whole of Board, Board Committees and individual Directors (including the Chairman) have been undertaken each year from 2011 to 2017.

In accordance with the GBE Guidelines, the 2018 review will be undertaken by an independent external party and the Chairman will provide a report on the outcomes of the 2018 review to NBN Co's Shareholder Ministers. The report will inform the Board's continuous improvement process.

Performance of the Senior Executives

The performance of NBN Co's Senior Executives is reviewed annually by the People and Remuneration Committee. The outcomes of the FY18 performance evaluations and information about NBN Co's remuneration framework and policies for the Senior Executives are set out in the Remuneration report on pages 71 to 83.

Company Secretaries

In accordance with rule 5.9.1 of NBN Co's Constitution, the Company Secretaries hold office on terms and conditions determined by the Board. The appointment or removal of the Company Secretaries is to be made or approved by the Board. Details of the Company Secretaries are included on page 67.

The responsibilities of the Company Secretaries are detailed in Section 7 of the Board Charter. Each Director has access to the Company Secretaries.

The Company Secretaries are accountable to the Board through the Chairman on all matters relating to the proper functioning of the Board and also have a management reporting line to the CEO or his delegate.

The roles and responsibilities of each Company Secretary are managed internally.

Diversity and Inclusion at NBN Co

At NBN Co we believe there is strength in diversity and opportunity through inclusion. We want to continue to create a diverse and inclusive workplace that accepts, respects and leverages differences.

NBN Co is committed to creating:

- Diverse workforce
- Inclusive workplace
- Engaged community.

NBN Co's ExCo has overall accountability for the Diversity and Inclusion strategy, policy and underpinning initiatives, with a select number of ExCo members taking internal and external sponsorship roles for the key focus areas.

The implementation of the policy and initiatives are reviewed regularly and progress towards greater diversity and inclusion is communicated through NBN Co's monthly reporting dashboard, a Quarterly Diversity and Inclusion review by ExCo and annual reporting to the NBN Co Board.

Our policy is available on our website at: www.nbnco.com.au.

During FY18, NBN Co's diversity objectives have been focused on five key areas: Gender Balance, Accessibility, Culture, LGBTI Pride and First People.

Creating championship teams through Gender Balance

NBN Co's objectives are:

- To increase the participation of women in the workforce with a specific focus on female representation at senior management level.
- To build an external profile as an employer of choice for women.

To support the achievement of these objectives, the following initiatives have been put in place:

- Setting lead and lag measures and embedding these in NBN Co's people processes and systems.
- Providing an inclusive, safe and supportive working environment through a range of policies including our Flexible Work, Parental Leave, and Domestic and Family Violence Support Policies.
- Targeted programs for all employees on unconscious bias and for leaders on leading an inclusive workforce.
- Introducing the goal of 40:40:20 ratio of females: males: either female or male for all executive teams by 2022.
- Growing the Women@nbn network and business diversity action groups to provide support, networking and engagement for women.
- Ensuring female representation on shortlists, interview panels and participation in leadership programs.
- Targeted programs for female talent including career development, sponsorship and transition coaching.
- Commitment to pay equity at point of hire and throughout an employees' career including a comprehensive gender pay equity analysis through the annual remuneration review process.

Diversity and inclusion at NBN Co

Strength in diversity opportunity through inclusion



Gender
Balance



Accessibility



Culture



LGBTI
Pride



First
People

Creating championship teams

We believe there is strength in diversity and opportunity through inclusion.
33% of leadership roles to be held by women by 2020.

33%
by 2020

Best in market policies, practices and culture

Hire and retain more

Develop and promote more

- Zero Tolerance for disrespect
- Targets set and tracked
- Policies to attract women
- Culture of inclusiveness
- Aligned employer brand
- Focused development for talented women

Through the implementation and ongoing measurement of the above initiatives, our overall female representation is 32 per cent at 30 June 2018 (1,991 employees). In addition, the female engagement score is close to parity, with female engagement at 73 per cent compared to 75 per cent male engagement in the most recent employee survey.

A further breakdown of NBN Co's female representation at the management levels of the organisation, as at 30 June 2018, has been provided in the table to the right.

| Role | Number | Percentage |
|---------------------------|--------|------------|
| Non-Executive Directors | 2 | 29% |
| Executive Committee | 3 | 27% |
| Senior Management | 130 | 30% |
| Middle Management | 410 | 29% |
| Total Women in Management | 543 | 29% |

Objectives and targets for female representation

| Measure | Objective | Target for FY20 |
|--|---|---------------------------------------|
| Female representation in management ¹ | Increase representation of women in management roles | Increase representation to 33% |
| Employee engagement | Increase engagement of women to equal to, or greater than, that of NBN Co-wide engagement | Equal engagement of males and females |
| Female representation in graduate intake | Maintain female representation in graduate intake | Maintain 50% female representation |

¹ Including Executive, Senior and Middle Management, excluding Board.

Accessibility

NBN Co's objective is to continue to create an inclusive and accessible workplace with the resources and support to enable employees with disabilities to contribute at their best.

NBN Co is partnering with the Australian Network on Disability to improve the accessibility of our workplace for all.

Culture

NBN Co's objective is to continue to create a workplace in which all cultures are respected and our employees feel free to explore, express and celebrate their unique culture and identity.

In FY18 the cultural diversity activities included celebrating days of cultural significance including Harmony Day and Diwali.

LGBTI Pride

NBN Co's objective is to continue to build a workplace to connect, support and celebrate awareness of Lesbian, Gay, Bisexual, Transgender, Intersex (LGBTI) employees and their allies.

LGBTI Pride achievements included winning Bronze employer status at the Australian Workplace Equality Index Awards 2018, celebrating International Day Against Homophobia, Biphobia & Transphobia, updating our people policies to be inclusive of LGBTI employees and launching a LGBTI inclusion eLearning module for all staff.

First People

NBN Co's objective is to further incorporate the recognition and respect of Aboriginal and Torres Strait Islander people and culture into the way we do business and to ensure that NBN Co makes a positive contribution to their lives and communities.

NBN Co's vision for reconciliation is to connect all communities across Australia, so First People can share in the benefits of the **nbn**[™] access network. NBN Co has recently launched its Liakukana ("lee-ah-kooh-kâh-nah") community, which is comprised of a diverse selection of NBN Co employees including First People representatives. This community is helping NBN Co to deliver on its First People strategy through its second Reconciliation Action Plan (RAP) endorsed by Reconciliation Australia for calendar years 2016-2018.

NBN Co has developed its third RAP for endorsement by Reconciliation Australia; it is expected to be launched in October 2018, focusing on improving our community engagement and innovative solutions to deliver the **nbn**[™] access network to First People communities. Other activities included launching a Reconciliation Awareness eLearning module, collaborating with external partners to deliver Cyber Safety awareness to First People schools, a future traineeship program and, through NBN Co Delivery Partners, focusing on hiring First People staff and using indigenous suppliers.

Principle: Structure the Board to add value

(based on ASX Principle 2)

The Board

Pursuant to Rule 5.4.1 of NBN Co's Constitution, the Board is to comprise a minimum of three and a maximum of nine Directors. The Board currently comprises eight Non-Executive Directors and one Managing Director who is the CEO. Membership of the Board as at the signing date comprises:

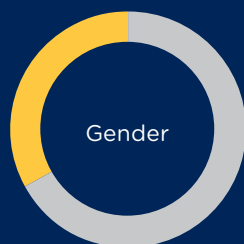
- Dr Ziggy Switkowski AO, Chairman as (Non-Executive Director) appointed as Executive Chairman of NBN Co effective 3 October 2013 who reverted to the role of Non-Executive Chairman from 2 April 2014 following the appointment of Mr Bill Morrow as CEO
- Mr Drew Clarke AO PSM, appointed as a Non-Executive Director effective 22 August 2017
- Mr Patrick Flannigan, appointed as a Non-Executive Director effective 11 November 2013
- Ms Shirley In't Veld, appointed as a Non-Executive Director effective 2 December 2015
- Mr Michael Malone, appointed as a Non-Executive Director effective 20 April 2016
- Ms Zoe McKenzie, appointed as a Non-Executive Director effective 1 July 2018
- Mr Justin Milne, appointed as a Non-Executive Director effective 11 November 2013
- Mr Bill Morrow, appointed as Managing Director and CEO effective 2 April 2014
- Dr Kerry Schott AO, appointed as a Non-Executive Director effective 28 September 2012.

With the exception of Mr Clarke and Ms McKenzie, the above named Directors were in office for the full period from 1 July 2017 to 30 June 2018.

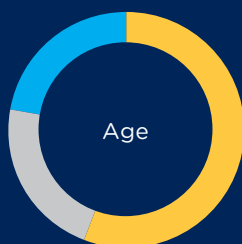
Full details of current Directors including names, appointment dates, term expiration dates, qualifications, experience and remuneration are included in the Directors' report on pages 55 to 60 and Remuneration report on pages 71 to 83.

Board Diversity

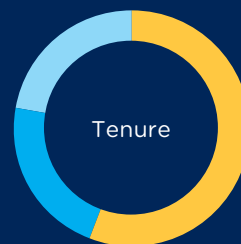
The NBN Co Board seeks to ensure it has an appropriate mix of skills, experience and diversity to enable it to effectively discharge its responsibilities



■ Males (6)
■ Females (3)



■ 61 or over (5)
■ 51-60 (2)
■ 40-50 (2)



■ 4 to <6 years (5)
■ 2 to <4 years (2)
■ 0 to <2 years (2)

Meetings

Agendas for all Board meetings are prepared and finalised by the nominated Company Secretary in consultation with the Chairman and the CEO. Directors receive Board reports in advance of each meeting via NBN Co's Board portal.

Key NBN Co Executives are invited to participate in Board meetings.

The Board met 10 times during the period from 1 July 2017 to 30 June 2018. Directors' attendances are set out on page 60.

Standing Committees - an overview

To assist in the performance of its responsibilities, the Board currently has three Committees, each of which is governed by a formal charter setting out its purpose, role, responsibilities, composition, structure and membership.

NBN Co's governance framework

Board of Directors



Audit and Risk
Committee



Nominations
Committee



People and
Remuneration
Committee

NBN Co Board and Committee membership:

| | Board | Audit and Risk Committee | Nominations Committee | People and Remuneration Committee |
|------------------------|-------|-----------------------------|--------------------------|---|
| Dr Ziggy Switkowski AO | ● | ● | ● | ● |
| Mr Drew Clarke AO PSM | ● | — | ● | ● |
| Mr Patrick Flannigan | ● | ● | ● | ● |
| Ms Shirley In't Veld | ● | ● | ● | — |
| Ms Zoe McKenzie | ● | — | ● | — |
| Mr Michael Malone | ● | ● | ● | — |
| Mr Justin Milne | ● | — | ● | ● |
| Mr Bill Morrow | ● | — | ● | ● |
| Dr Kerry Schott AO | ● | ● | ● | — |

● Board or Committee chair

● Board or Committee member

● Attends Board or Committee ex officio

Audit and Risk Committee

The Audit and Risk Committee was established on 13 August 2009 and assists the Board in:

- Satisfying itself that NBN Co and its subsidiaries comply with their financial management, performance reporting, risk oversight and management, reporting obligations, and internal control and compliance with relevant laws and policies
- Providing a forum for communication between the Board, senior management of NBN Co, and the internal and external auditors of NBN Co. In particular, the Committee supervises: the preparation of periodic financial statements of NBN Co to comply with its financial reporting requirements; the delivery and effective implementation of an annual strategic internal audit plan; an annual external audit plan; NBN Co's risk management system; a plan setting out procedures and strategies for the effective prevention, detection and management of fraud and other inappropriate practices; a system for the integration and alignment of assurance processes; the delivery of the Internal Audit and Fraud Plan and Enterprise Risk Strategy, significant changes in accounting policies; the maintenance of effective and efficient internal and external audit processes; the approach followed in establishing NBN Co's business continuity planning arrangements; the steps Management takes to embed a culture that promotes the proper use of Commonwealth resources and its commitment to ethical and lawful behaviour; Auditor independence and performance; and compliance with laws and regulations by NBN Co.

Subject always to the PGPA Act and PGPA Rule the Committee is appointed by the Board, and is to consist of at least three members, the majority of whom are independent Non-Executive Directors. At least one member is to have financial expertise and the necessary technical knowledge and understanding of the industry in which NBN Co operates so as to be able to assist the Committee to effectively discharge its risk related mandate. For independence purposes, the Chair of the Committee is an independent Non-Executive Director appointed by the Board who is not the Chairman of the Board.

As at 30 June 2018, the Committee comprised:

- Dr Kerry Schott AO (Chair appointed effective 12 November 2013)
- Mr Patrick Flannigan (appointed effective 28 November 2013)
- Ms Shirley In't Veld (appointed 15 December 2015 effective 1 January 2016)
- Mr Michael Malone (appointed effective 21 November 2017).

Dr Ziggy Switkowski AO, Chairman attends the Committee meetings ex officio.

Refer to pages 55 to 59 of the Directors' report for the relevant qualifications and experience of the Committee members.

The Committee will normally schedule four meetings each year. Details of the number of Committee meetings each Director was eligible to attend and the number of Committee meetings attended during the period from 1 July 2017 to 30 June 2018 are set out in the Directors' report on page 60.

In accordance with Section 4.5 (d) of its Charter, the Committee met separately with NBN Co's external auditors during the period from 1 July 2017 to 30 June 2018.

Nominations Committee

The Nominations Committee was established on 24 March 2015 and assists the Board in fulfilling its governance responsibilities in relation to:

- The appointment, induction, independence and ongoing assessment of the skills and experience of Directors
- Board composition
- CEO recruitment
- Succession planning for Directors, the CEO and members of NBN Co's Executive Committee
- Evaluating the performance of the Board, its Committees and Directors.

The Committee is to consist of at least three members including the Chairman of the Board, and Chairs of the Board's other sub committees with a majority of independent Non-Executive Directors. The Chair of the Committee is an independent Non-Executive Director appointed by the Board and may be the Chairman of the Board.

As at 30 June 2018 the Committee comprised:

- Dr Ziggy Switkowski AO (Chairman and Chair) (appointed effective 24 March 2015)
- Mr Drew Clarke AO PSM (appointed effective 22 August 2017)
- Mr Patrick Flannigan (appointed effective 24 March 2015)
- Ms Shirley In't Veld (appointed effective 1 January 2016)
- Mr Michael Malone (appointed effective 20 April 2016)
- Mr Justin Milne (appointed effective 24 March 2015)
- Dr Kerry Schott AO (appointed effective 24 March 2015).

Mr Bill Morrow attends the Committee meetings ex officio.

Ms McKenzie became a member of the Committee effective 1 July 2018.

The Committee will schedule a minimum of one meeting each year. Details of the number of Committee meetings each Director was eligible to attend and the number of Committee meetings attended during the period from 1 July 2017 to 30 June 2018 are set out in the Directors' report on page 60.

People and Remuneration Committee

The People and Remuneration Committee (formerly Remuneration and Nominations Committee) was established on 7 February 2014. Following a Board resolution at the Board meeting held on 24 March 2015 the Committee changed its name from Remuneration and Nominations Committee to People and Remuneration Committee, effective 24 March 2015. The remit for the Committee was also updated at this time.

The Committee assists the Board in fulfilling its governance responsibilities in relation to:

- Establishing people management and remuneration policies for NBN Co that enable NBN Co through its executive leadership to attract and retain capable employees who can help deliver its vision.
- Fostering exceptional talent and performance while motivating and supporting employees to pursue the growth and success of the **nbn**TM access network consistent with NBN Co's Corporate Plan.
- Responsibly rewarding employees, having regard to the performance of NBN Co, individual performance, statutory and regulatory requirements, and current business norms.

The Committee is to consist of at least three members, the majority of whom are independent Non-Executive Directors.

As at 30 June 2018 the Committee comprised:

- Mr Justin Milne (Chair appointed effective 26 July 2016)
- Mr Drew Clarke AO PSM (appointed effective 20 November 2017)
- Mr Patrick Flannigan (appointed effective 7 February 2014)
- Mr Michael Malone (appointed effective 26 July 2016).

Dr Ziggy Switkowski AO continues to attend Committee meetings ex officio.

Mr Bill Morrow also attends Committee meetings ex officio.

The Committee will schedule a minimum of three meetings each year. Details of the number of Committee meetings each Director was eligible to attend and the number of Committee meetings attended during the period from 1 July 2017 to 30 June 2018 are set out in the Directors' report on page 60.

Standing Committees - in general

Committee members are appointed by the Board for a term that coincides with the member's term of appointment as a Director or any lesser period that coincides with the termination of the Committee. The Chair of each Committee is appointed by the Board.

All Directors who are not Committee members are entitled to attend any Committee meeting, subject to conflicts of interest. All Directors have access to all Board and Committee reports via NBN Co's Board portal.

Key NBN Co Executives are invited to participate in Committee meetings.

Each Committee operates pursuant to a Board approved Charter which is reviewed annually by the Committee and any proposed changes to a Charter must be approved by the Board. Each Committee Charter is available on NBN Co's website.

Agendas for all Committee meetings are prepared and finalised by the nominated Company Secretary in consultation with the Committee Chair and appropriate key NBN Co Executives. Committee members receive Committee reports in advance of each meeting via NBN Co's Board portal.

At the Board meeting immediately following a Committee meeting, the Board is provided with a report by the Chair of the Committee on the Committee's deliberations, conclusions, resolutions and recommendations. The nominated Company Secretary, in consultation with the Board and Committee members, sets Board and Committee meeting dates at least 12 months in advance.

Board skills

The Board seeks to ensure it has an appropriate mix of skills, experience and diversity to enable it to effectively discharge its responsibilities. This is supported through one of the Board's standing committees, the Nominations Committee, which undertakes an annual review of Directors' skills and experience in the form of a skills matrix, and a review of the composition of the Board which is reported upon annually to the Shareholder Ministers in the form of an annual Board Plan.

The most recent review of the Directors' skills matrix was undertaken by the Nominations Committee on 19 June 2018. Further, each Director's skills, experience and performance as a member of the Board is considered as part of NBN Co's annual Board performance review.

Collectively the Board's high level of skills and expertise are in the following areas:

- Strategy
- Executive leadership
- Major projects or construction
- Information technology
- Network technology
- Financial or commerce or accounting
- Risk management, compliance and regulatory
- Human resources or workplace relations
- Health, safety and environment
- Marketing
- Legal or regulatory
- Government relations
- Policy setting
- Governance
- Board dynamics
- Issues management
- Ethics and integrity
- Negotiation.

Independence of Directors

As at the date of this statement, the Board considers all Directors are independent and have remained so throughout the term of their appointment.

At least annually, each Director is requested to complete a declaration of personal interests which is subject to review by NBN Co's Nominations Committee and subsequently by the Board.

In addition, an assessment of independence is made at any time a Director discloses any new interest or relationship. The Board, through the Chairman, evaluates the materiality of any declared interest or relationship that could be perceived to compromise the independence of a Director on a case-by-case basis having regard to the Director's circumstances.

Further, Directors are cognisant of their ongoing obligations to keep the Board and any Committee informed of an interest which could potentially conflict with the interests of the Group. Where a Director has a declared material personal interest and/or may be presented with a potential material conflict of interest in a matter being presented to the Board or a Committee, the Director does not receive copies of Board/Committee reports relating to the matter and generally recuses himself/herself from the Board or Committee meeting at the time the matter is being considered. Consequently, the Director also does not vote on the matter. Any disclosures made by a Director at a meeting are minuted.

NBN Co has a Director's Conflicts of Interest Policy.

Independent advisors

In so far as it relates to enabling Directors to fulfil their responsibilities and to exercise independent judgement when making decisions, the Board collectively and each Director individually:

- Has access to:
 - Any information in the possession of NBN Co
 - Any information relating to NBN Co subsidiaries
 - Management to seek explanations and information in relation to NBN Co and its subsidiaries, and to NBN Co's auditors (both internal and external) to seek explanations and information from them in relation to the management of NBN Co.
- With the prior written consent of the Chairman, may seek any independent professional advice in accordance with NBN Co's Funding Director Access to Independent Advice Policy.
- May seek any advice or services to be provided to NBN Co by third party advisers in accordance with applicable NBN Co policies and procedures, as amended from time to time.

Induction

NBN Co has an induction program for new Directors. Upon appointment, each Director receives a letter from NBN Co confirming his/her appointment which includes Directors' and Officers' liability insurance details; references to extensive reading material via NBN Co's Board portal and a list of formal induction sessions with key NBN Co Executives.

The induction program is reviewed at least annually by the nominated Company Secretary in consultation with Shareholder Ministers' Departments, by NBN Co's Nominations Committee, and subsequently by the Board.

Ongoing education for Directors is delivered through individual briefings, presentations made by key NBN Co Executives, and Directors visiting some of NBN Co's operational locations.

Directors have ongoing access to professional development opportunities which directly relate to their role as a Director of NBN Co and that will benefit their performance as a member of the Board.

Principle: Act ethically and responsibly

(based on ASX Principle 3)

Directors' shareholding interests

The Directors have no interests in NBN Co shares which are held solely by the Commonwealth of Australia.

Code of Conduct of the Board

NBN Co aims to carry out its business in an open and honest manner, while complying with all applicable laws.

The Directors are committed to the promotion of ethical, honest and responsible decision-making and the observance of their fiduciary duties. Directors will:

- At all times bring independent judgment to bear on matters before the Board.
- Consider the reasonable expectations of NBN Co's stakeholders (including the Shareholder Ministers, and through them the Commonwealth and the Parliament, NBN Co employees, its customers and its suppliers, and, where applicable, given the scale of the project, the broader community).
- Investigate reports of breaches by any Director of the Directors' Code of Conduct and will monitor the investigation by Management of breaches by employees of the NBN Co Code of Conduct to ensure any systemic issues are adequately addressed.

NBN Co's Directors' Code of Conduct is contained within the Board Charter.

NBN Co also has in place numerous policies including a Code of Conduct, which governs its employees, contractors and consultants who are expected to be aware of and comply with this code as well as obligations set out in relevant legislation. The purpose of the code is to promote a safe, healthy and productive workplace. The code is underpinned by NBN Co's values and the principle of respect. A copy of the Code of Conduct, in addition to other key NBN Co policies, including NBN Co's Whistleblower Policy, can be found on NBN Co's website.

Privacy

Taking a respectful and transparent approach to the way that personal information is collected, used, disclosed and protected by NBN Co is essential to building trust and supports the important work that we do in delivering Australia's National Broadband Network. NBN Co's Privacy Officer is supported by a team of privacy professionals who work in partnership with the business to deliver to our privacy related objectives;

1. We are driven by a purpose to connect Australia and bridge the digital divide to put access to information in the hands of all Australians. In this context, we recognise the value of all information and we strive to protect it as an important asset of individuals, communities and enterprises.
2. We strive for best practice in complying with the Australian Privacy Principles, which are contained in Schedule 1 the Privacy Act, in our handling of personal information.
3. We embed privacy into the development, innovation and improvement of specifications, standards, systems and services.
4. We are transparent about the ways in which we collect, use and disclose personal information.
5. When we handle personal information, we do so in a way that aligns with NBN Co's values.

Security Group

NBN Co has adopted a holistic security framework, aligning its overall security compliance with Australian Government security requirements and telecommunications regulatory obligations. The multi-disciplinary NBN Co Security Group, supported by investment in cyber security and independent security reviews, provides a balanced security team committed to protecting NBN Co's reputation, people, assets and information.

Competition law

Compliance with the *Competition and Consumer Act 2010*, the *National Broadband Network Companies Act 2011* and the other regulatory obligations applying to NBN Co is a key focus for NBN Co.

This includes the supply of certain services and the undertaking of related activities on a non-discriminatory basis, as well as implementing and complying with NBN Co's Special Access Undertaking (SAU), as accepted by the Australian Competition and Consumer Commission (ACCC) on 13 December 2013.

Whistleblower

NBN Co has an established formal Whistleblower Policy (available on NBN Co's website), which, amongst other things, meets the requirements of the *Public Interest Disclosure Act*. The policy was created to promote and maintain an open working environment in which Directors, employees and other NBN Co 'public officials' are able to raise genuine concerns regarding actual, unethical, unlawful or undesirable conduct, without fear of reprisal and with the support and protection of NBN Co.

Value for money

As a GBE, key principles regarding value for money, efficiency, transparency and competition are central to NBN Co's buying decisions.

NBN Co has developed and maintained Purchasing Rules to facilitate a fair, competitive process that achieves value for money on a whole-of-life-basis. The rules ensure NBN Co achieves efficient and competitive outcomes, reduces the risk of anti-competitive conduct, makes value based decisions and effectively manages contracts.

The Purchasing Rules are supported by policies and processes for demand planning, sourcing and engaging suppliers, and implementing and managing supplier contracts. The rules are also the means by which NBN Co satisfies conditions set out in NBN Co's Special Access Undertaking (SAU), as accepted by the ACCC on 13 December 2013.

All expenditure at NBN Co should comply with the Procurement Rules and be executed in accordance with NBN Co's Delegation of Authority Policy, agreed principles and audit requirements.

Our environment

NBN Co aims to build a network that can be operated and used in a way that lowers environmental impact. Through the implementation of its Health, Safety and Environment Management System, NBN Co is committed to adopting ecologically sustainable development principles. NBN Co is also committed to reducing its energy, greenhouse gas emissions, natural resource consumption and waste; preventing pollution; seeking and respecting the views of our stakeholders and community consultation.

Principle: Safeguard integrity in corporate reporting

(based on ASX Principle 4)

The Audit and Risk Committee assists the Board in:

- Satisfying itself that NBN Co and its subsidiaries are complying with their financial management, performance reporting, risk oversight and management, reporting obligations, and internal control and compliance with relevant laws and policies.
- Providing a forum for communication between the Board, senior management of NBN Co, and the internal and external auditors of NBN Co. Refer to page 93 for more information on NBN Co's Audit and Risk Committee.

Internal Control Framework

The Board is responsible for the overall Internal Control Framework and for reviewing its effectiveness but recognises that even best practice internal control systems are unlikely to preclude all errors and irregularities. The framework is intended to provide appropriate assurance on:

- Accuracy and completeness of financial reporting against the key performance indicators in the GBE Guidelines
- Safeguarding of assets
- Maintenance of proper accounting records
- Segregation of roles and responsibilities
- Compliance with applicable legislation, regulation and best practice
- Effectiveness and efficiency of operations and information technology systems.

Internal controls have been implemented to identify, evaluate and manage significant risks to the achievement of NBN Co's objectives. These internal controls cover financial, operational and compliance risk, and take the form of appropriate financial delegations, financial planning and reporting, compliance with appropriate procurement standards, strategic and operational planning, and internal audit practices.

Internal audit

Internal audit is a key component of NBN Co's governance framework. It provides independent and objective assurance and consulting activities designed to add value and improve NBN Co's operations.

The Internal Audit function is independent, with NBN Co's Chief Audit Executive, the General Manager Group Internal Audit and Fraud reporting directly to the Chair of the Audit and Risk Committee to ensure free and unrestricted access to the Audit and Risk Committee and Board. The Audit and Risk Committee, in turn, has been constituted by the Board under Section 92 of the PGPA Act to review and endorse an annual internal audit plan. The Internal Audit function operates in accordance with a Board approved charter which is reviewed annually by the Audit and Risk Committee and the Board.

NBN Co operates a co-sourced internal audit model. Following a competitive tender process, Ernst & Young was appointed as principal co-sourced provider on 1 January 2016 for a period of three years. Other providers are used on an as-needed basis.

Outcomes of internal audit reviews are provided to the Audit and Risk Committee for its review in compliance with Section 28 of the PGPA Rule 2014. The internal audit activity also seeks to meet or exceed the mandatory guidance provided in the International Professional Practices Framework, published by the Institute of Internal Auditors.

External audit

Under Section 98 of the PGPA Act, the Auditor-General is responsible for auditing the financial statements of Commonwealth companies. In addition, NBN Co's annual report is tabled in Parliament and its financial accounts lodged with the Australian Securities and Investments Commission. The Australian National Audit Office has contracted with PwC to audit the Group on behalf of the Auditor-General.

NBN Co applies audit independence principles in relation to the external auditors.

The Audit and Risk Committee meets with the external auditor during the year to:

- Discuss the external audit plans, identify any significant changes in structure, operations, internal controls or accounting policies likely to impact the consolidated financial statements.
- Review the results and findings of the external auditor, the appropriateness of accounting and financial reporting, performance reporting, risk oversight and management, the internal control system and the implementation of any recommendations made.
- Finalise annual reporting, review the preliminary Financial report prior to sign-off and any significant adjustments required as a result of the external auditor's findings.
- Review fees paid by NBN Co to the external auditors which are provided in Note H7 to the financial statements.

Fraud risk and reporting

The Commonwealth Fraud Control Framework, which includes Section 10 of the PGPA Rule 2014 (the 'Fraud Rule'), Fraud Policy and Fraud Guidance, outlines the Government's requirements for fraud control, including that Government entities put in place a comprehensive fraud control program that covers prevention, detection, investigation and reporting strategies. NBN Co has voluntarily adopted these requirements where appropriate. In addition, NBN Co has adopted a methodology consistent with the relevant recognised Australian Standards AS 8001-2008: Fraud and Corruption Control and the AS/NZS ISO 31000:2009 Risk Management – Principles and Guidelines.

As a GBE, NBN Co is committed to applying and adhering to these standards and as such, has a zero tolerance approach to fraudulent and/or corrupt behaviour.

NBN Co's Fraud and Corruption Control Policy and the Fraud and Corruption Control Plan also contribute to the sound management of fraud risk, and detail the requirements and responsibilities for the prevention, detection and response to fraud and corruption. In addition, the Fraud and Corruption Control Policy seeks to promote behaviour that is consistent with the Code of Conduct and allows NBN Co to act appropriately and consistently in the investigation and reporting of suspected fraudulent or corrupt activity.

Certification by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO)

Prior to the approval of the Financial report by the Board, the CEO and the CFO provide confirmation in writing that the financial statements represent a true and fair view of NBN Co's operations and its financial position. The letter also includes representation to the Board in respect of the adequacy and effectiveness of NBN Co's risk management, internal compliance and control systems.

Based on the evaluation performed as at 30 June 2018, the CEO and the CFO concluded that, as of the evaluation date, such risk management, internal compliance and control systems were reasonably designed so that the Group's financial statements and notes are in accordance with the PGPA Act and the *Corporations Act 2001* and there are reasonable grounds to believe the Group will be able to pay its debts as and when they fall due.

Principle: Make timely and balanced disclosure

(based on ASX Principle 5)

Continuous disclosure

NBN Co recognises that information is a vital and invaluable resource, both for the Company and for the broader Australian community which is why it fosters and promotes a pro-disclosure culture, with the goal of creating an organisation that is open, transparent and accountable.

As a GBE, NBN Co has continuous disclosure obligations to its Shareholder Ministers similar to the continuous disclosure obligations of a publicly listed company. These continuous disclosure obligations to its Shareholder Ministers are set out in the GBE guidelines as amended from time to time, and the PGPA Act and are reinforced by NBN Co's other reporting commitments to the Commonwealth.

NBN Co's transparency and reporting obligations are derived from its financial reporting obligations under the *Corporations Act 2001* and requirements imposed by its Shareholder Ministers, for example, the requirement to publish weekly rollout information on NBN Co's website (see for example at <https://www.nbnco.com.au/corporate-information/about-nbn-co/corporate-plan/weekly-progress-report.html>). The Company also publicly releases financial and operating results on a quarterly basis together with a presentation from Management.

NBN Co is also subject to the *Freedom of Information (FOI) Act 1982*, and information about NBN Co's approach to FOI is separately available on its website at <https://www.nbnco.com.au/corporate-information/about-nbn-co/freedom-of-information.html>.

NBN Co has a Continuous Disclosure Policy which came into effect following approval by the Board on 13 October 2015.

Principle: Respect the right of shareholders

(based on ASX Principle 6)

Shareholder communication

NBN Co keeps its Shareholder Ministers and their departments informed of any significant developments on an ongoing basis.

NBN Co regularly reports to its Shareholder Ministers based on the best practice reporting timetable detailed in the GBE guidelines and other requests from the Shareholder Ministers.

The Shareholder Ministers are publicly accountable, and NBN Co is also subject to Parliamentary scrutiny through Parliamentary Committees.

NBN Co has a dedicated governance section on its website. The governance section provides information about, or links relating to the following:

- The names, photographs and biographical information for each of its Directors and Senior Executives
- Its Constitution, Board Charter and the charters of each of its Board Committees
- Its corporate governance policies
- Its Corporate Plan
- Its annual reports which include its financial statements
- Quarterly presentations on financial and operating results.

Principle: Recognise and manage risk

(based on ASX Principle 7)

Risk management

NBN Co is required to address risk management in the context of its status as a GBE. The PGPA Act and the GBE guidelines prescribe the requirements NBN Co must meet to fulfil its obligations to its Shareholder Ministers to enable them to exercise their accountability to Parliament and to the general public.

As a GBE, NBN Co is responsible for providing a Corporate Plan to its Shareholder Ministers, of which risk identification, measurement and risk management strategies are key elements. NBN Co's Risk Management Policy and Framework communicate objectives, approach and responsibilities with regard to risk management throughout NBN Co. The policy and framework also communicate NBN Co's commitment to support the development of a sound risk management culture.

NBN Co's Board and Management are committed to proactive identification, assessment and management of material risks. NBN Co's Risk Management Policy articulates the Company's objectives, approach and responsibilities with regard to risk management and is reviewed annually by the Audit and Risk Committee and the Board.

NBN Co has a formal risk operating model that involves active management of business risks by line management and staff, with regular reporting of material risks to the Audit and Risk Committee and the Board. A summary of NBN Co's material business risks, their key drivers and NBN Co's strategies to manage those risks are set out on pages 47 to 52.

Treasury

NBN Co has adopted a formal Treasury Policy, which is approved annually by the Audit and Risk Committee and establishes a prudential framework providing guidelines, controls and reporting systems for the management of NBN Co's treasury operations. Amongst other things, the Treasury Policy provides clear guidelines for managing treasury risk and making investment and hedging decisions which comply with the PGPA Act and NBN Co's obligations under the Amending Agreement Equity Funding Agreement dated 19 March 2014, and Government Loan Agreement dated 22 December 2016.

Principle: Remunerate fairly and responsibly

(based on ASX Principle 8)

NBN Co's People and Remuneration Committee assists the Board in fulfilling its governance responsibilities in relation to:

- Establishing people management and remuneration policies for NBN Co that enable NBN Co through its executive leadership to attract and retain capable employees who can help deliver its vision.
- Fostering exceptional talent and performance while motivating and supporting employees to pursue the growth and success of the **nbn**[™] access network consistent with NBN Co's Corporate Plan.
- Responsibly reward employees, having regard to the performance of NBN Co, individual performance, statutory and regulatory requirements, and current business norms.

Refer to page 94 for more information on NBN Co's People and Remuneration Committee.

Directors' remuneration

The Remuneration Tribunal determines the remuneration and travel allowances payable to Non-Executive Directors. Full details of Directors' remuneration are included in the Remuneration report on pages 71 to 83.

Senior Executives' remuneration

The remuneration of the Senior Executives is set by NBN Co's People and Remuneration Committee on behalf of the Board. Full details of Senior Executives' remuneration are included in the Remuneration report on pages 71 to 83.

Auditor's independence declaration



Auditor-General for Australia



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

**NBN Co Limited FINANCIAL REPORT 2017-18
AUDITOR'S INDEPENDENCE DECLARATION**

In relation to my audit of the financial report of the NBN Co Group (comprising NBN Co Limited and the entities it controlled at the year's end or from time to time during the year) for the year ended 30 June 2018, 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 contravention of any applicable code of professional conduct.

Australian National Audit Office

A handwritten signature in black ink that reads 'Grant Hehir'.

Grant Hehir
Canberra
9 August 2018

Financial report

The Financial report, comprising of the consolidated financial statements and notes to the consolidated financial statements, for the year ended 30 June 2018, 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

| | | NBN Co Group | |
|---|---------|---------------------|---------------------|
| For the year ended | Notes | 30 June 2018 \$m | 30 June 2017 \$m |
| Revenue | B1 | 1,978 | 1,001 |
| Direct network costs | | (691) | (537) |
| Employee benefits expenses | D1 | (787) | (751) |
| Other operating expenses | B2 | (603) | (539) |
| Subscriber costs | | (1,948) | (1,573) |
| Depreciation and amortisation expense | C3 & C4 | (2,167) | (1,488) |
| Other income | B1 | 19 | 16 |
| Net finance costs | C8 | (580) | (368) |
| Loss before income tax | | (4,779) | (4,239) |
| Income tax expense | H1 | (1) | (5) |
| Loss for the year | | (4,780) | (4,244) |
| Loss attributable to the shareholder | | (4,780) | (4,244) |
| 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) | (10) |
| Total other comprehensive loss for the year, net of tax | | (2) | (10) |
| Total comprehensive loss for the year | | (4,782) | (4,254) |
| Total comprehensive loss attributable to the shareholder | | (4,782) | (4,254) |

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

Statement of financial position

| NBN Co Group | | | | |
|--------------------------------------|-------|---------------------|---------------------|--|
| As at | Notes | 30 June 2018 \$m | 30 June 2017 \$m | |
| Current assets | | | | |
| Cash and cash equivalents | C1 | 593 | 1,184 | |
| Trade and other receivables | C2 | 338 | 334 | |
| Inventories | | 36 | 32 | |
| Derivative financial assets | | 2 | - | |
| Held to maturity assets | | - | 140 | |
| Other current assets | | 108 | 114 | |
| Total current assets | | 1,077 | 1,804 | |
| Non-current assets | | | | |
| Derivative financial assets | | 1 | - | |
| Property, plant and equipment | C3 | 25,043 | 20,508 | |
| Intangible assets | C4 | 2,025 | 1,760 | |
| Other non-current assets | | 57 | 55 | |
| Total non-current assets | | 27,126 | 22,323 | |
| Total assets | | 28,203 | 24,127 | |
| Current liabilities | | | | |
| Trade and other payables | C6 | 2,361 | 2,595 | |
| Other liabilities | C7 | 20 | 14 | |
| Other financial liabilities | C8 | 161 | 134 | |
| Derivative financial liabilities | | - | 1 | |
| Provisions | C9 | 121 | 133 | |
| Total current liabilities | | 2,663 | 2,877 | |
| Non-current liabilities | | | | |
| Trade and other payables | C6 | 3 | 5 | |
| Other liabilities | C7 | 693 | 483 | |
| Other financial liabilities | C8 | 7,037 | 5,755 | |
| Provisions | C9 | 64 | 48 | |
| Borrowings | E2 | 5,531 | - | |
| Total non-current liabilities | | 13,328 | 6,291 | |
| Total liabilities | | 15,991 | 9,168 | |
| Net assets | | 12,212 | 14,959 | |
| Equity | | | | |
| Contributed equity | E1 | 29,500 | 27,465 | |
| Other reserves | | 4 | 6 | |
| Accumulated losses | | (17,292) | (12,512) | |
| Total equity | | 12,212 | 14,959 | |

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

Statement of changes in equity

| NBN Co Group | | | | |
|--|------------------------------|------------------------------|--------------------------|------------------------|
| | 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 | (4,244) | - | - | (4,244) |
| Other comprehensive loss | - | - | (10) | (10) |
| Total comprehensive loss for the period | (4,244) | - | (10) | (4,254) |
| Transactions with owners in their capacity as owners: | | | | |
| Contributions of equity | - | 7,190 | - | 7,190 |
| Balance at 30 June 2017 | (12,512) | 27,465 | 6 | 14,959 |
| Loss for the period | (4,780) | - | - | (4,780) |
| Other comprehensive loss | - | - | (2) | (2) |
| Total comprehensive loss for the period | (4,780) | - | (2) | (4,782) |
| Transactions with owners in their capacity as owners: | | | | |
| Contributions of equity | - | 2,035 | - | 2,035 |
| Balance at 30 June 2018 | (17,292) | 29,500 | 4 | 12,212 |

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

Statement of cash flows

| | | NBN Co Group | |
|---|-------|---------------------|---------------------|
| For the year ended | Notes | 30 June 2018 \$m | 30 June 2017 \$m |
| Cash flows from operating activities | | | |
| Receipts from customers | | 2,128 | 1,048 |
| Payments to suppliers and employees | | (4,220) | (2,908) |
| Interest received | | 20 | 30 |
| Net cash used in operating activities | C1 | (2,072) | (1,830) |
| Cash flows from investing activities | | | |
| Receipts from held to maturity assets | | 140 | 818 |
| Payments for held to maturity assets | | - | (559) |
| Payments for property, plant and equipment | | (5,222) | (4,715) |
| Payments for intangible assets | | (636) | (711) |
| Net cash used in investing activities | | (5,718) | (5,167) |
| Cash flows from financing activities | | | |
| Payments for finance leases and right of use licences | | (297) | (296) |
| Proceeds from borrowings | E2 | 5,531 | - |
| Interest paid on borrowings | C8 | (70) | - |
| Equity injection for ordinary shares by the Commonwealth of Australia | E1 | 2,035 | 7,190 |
| Net cash provided by financing activities | | 7,199 | 6,894 |
| Net decrease in cash and cash equivalents | | (591) | (103) |
| Cash and cash equivalents at the beginning of the year | | 1,184 | 1,287 |
| Cash and cash equivalents at the end of the year | C1 | 593 | 1,184 |

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

Notes to the consolidated financial statements

| | |
|--|------------|
| A. About this report | 112 |
| B. Our revenue and other operating expenditure | 114 |
| B1. Revenue and other income | 114 |
| B2. Other operating expenditure | 114 |
| C. Our assets and liabilities | 115 |
| C1. Cash and cash equivalents | 115 |
| C2. Trade and other receivables | 116 |
| C3. Property, plant and equipment | 117 |
| C4. Intangible assets | 120 |
| C5. Impairment of non-financial assets | 122 |
| C6. Trade and other payables | 123 |
| C7. Other liabilities | 123 |
| C8. Other financial liabilities | 124 |
| C9. Provisions | 127 |
| D. Our people | 128 |
| D1. Employee benefits expenses | 128 |
| D2. Key management personnel | 129 |
| E. Our funding and capital management | 130 |
| E1. Contributed equity | 130 |
| E2. Borrowings | 131 |
| F. Our significant contractual arrangements and commitments | 132 |
| F1. Telstra Revised Definitive Agreements | 132 |
| F2. Optus HFC Subscriber Agreement | 133 |
| F3. Commitments | 133 |
| G. Our financial risk management | 135 |
| H. Other information | 141 |
| H1. Income tax expense | 141 |
| H2. Subsidiaries | 143 |
| H3. Parent entity disclosures | 144 |
| H4. Deed of cross guarantee | 145 |
| H5. Contingent assets and contingent liabilities | 147 |
| H6. Related party transactions | 147 |
| H7. Remuneration of auditors | 149 |
| H8. Other significant accounting policies | 150 |
| I. Events occurring after the reporting period | 151 |

A. About this report

NBN Co Limited (NBN Co, the Company 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 Financial report, comprising of the consolidated financial statements and notes to the consolidated financial statements, for the year ended 30 June 2018, 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 Financial report.

Basis of preparation

This general purpose financial report has been prepared in accordance with:

- (1) Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB)
- (2) the *Corporations Act 2001*
- (3) the *Public Governance, Performance and Accountability Act 2013* (PGPA Act)

The consolidated financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The 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.

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.

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 \$1,586 million as at 30 June 2018. The 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 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.

Comparative figures

As part of the ongoing approach to make the financial statements easier to read and more understandable, this year the presentation of the financial statements has continued to be refined. This has resulted in certain comparative balances being aggregated together to conform to the current year presentation.

Significant accounting policies

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concepts of relevance and reliability. Except where otherwise stated, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

Significant accounting policies are contained in the notes to the financial statements to which they relate and Note H8.

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 or have the potential to be material to the Financial report are found in the following notes:

| <u>Accounting estimates and judgements</u> | <u>Notes</u> |
|--|--------------|
| Determination of useful lives of property, plant and equipment | C3 |
| Estimation of percentage of completion for assets under construction | C3 |
| Estimation of liabilities for construction claims | C3 |
| Determination of useful lives of intangible assets | C4 |
| Determination of fair value less costs to sell when considering impairment | C5 |
| Finance lease determination | C8 |

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 and other income

| NBN Co Group | | |
|----------------------------|--------------|--------------|
| | 30 June 2018 | 30 June 2017 |
| For the year ended | \$m | \$m |
| Telecommunications revenue | 1,818 | 922 |
| Other revenue | 160 | 79 |
| Total | 1,978 | 1,001 |

| NBN Co Group | | |
|--|--------------|--------------|
| | 30 June 2018 | 30 June 2017 |
| For the year ended | \$m | \$m |
| Other income - gifted assets and government grants | 19 | 16 |
| Total | 19 | 16 |

Recognition and measurement

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and rebates.

Telecommunications revenue

Revenue from the provision of telecommunications services includes network access and other services and facilities provided, such as voice, data and connectivity components.

Telecommunications revenue is recognised in the accounting period in which the services are rendered.

B2 Other operating expenditure

| NBN Co Group | | |
|--------------------------------------|--------------|--------------|
| | 30 June 2018 | 30 June 2017 |
| For the year ended | \$m | \$m |
| IT and software expenses | (140) | (125) |
| Communication and public information | (80) | (79) |
| Other operating expenditure | (383) | (335) |
| Total | (603) | (539) |

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 Cash and cash equivalents

| | NBN Co Group | |
|---------------|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Cash at bank | 593 | 863 |
| Term deposits | - | 321 |
| Total | 593 | 1,184 |

For the purpose of presentation in the Statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of four months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Reconciliation of loss for the year to net cash used in operating activities

| For the year ended | NBN Co Group | |
|--|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Loss for the year | (4,780) | (4,244) |
| Add/(less) non-cash/non-operating items | | |
| Depreciation and amortisation | 2,167 | 1,488 |
| Finance charges | 606 | 402 |
| Other items | (34) | (1) |
| Income tax expense | 1 | 5 |
| (Increase)/Decrease in operating assets | | |
| (Increase) in trade and other receivables | (70) | (88) |
| (Increase) in inventories | (4) | (5) |
| Decrease/(Increase) in other assets | 16 | (63) |
| Increase in operating liabilities | | |
| Increase in trade and other payables | 24 | 659 |
| Increase in provisions | 2 | 17 |
| Net cash used in operating activities | (2,072) | (1,830) |

C Our assets and liabilities *continued***C2 Trade and other receivables**

| | NBN Co Group | |
|---------------------|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Current | | |
| Trade receivables | 212 | 128 |
| Interest receivable | 1 | 4 |
| Other receivables | 43 | 129 |
| GST receivable | 82 | 73 |
| Total | 338 | 334 |

Recognition and measurement

Trade and other receivables are considered financial assets. They are initially recorded at the fair value of the amounts to be received and are subsequently measured at amortised cost using the effective interest method. These financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Any allowance for doubtful debts raised to reduce the carrying amount of receivables is based on a review of outstanding amounts at the reporting date and is recognised in profit or loss. Bad debts specifically provided for in previous periods are eliminated against the allowance for doubtful debts. In all other cases, bad debts are eliminated directly against the carrying amount and written off as an expense in profit or loss.

C3 Property, plant and equipment

| NBN Co Group | | | | | | |
|--------------------------------|-------------------------|---|--------------------------------------|------------------------|--------------------------|---------------|
| | Freehold land \$m | Buildings and leasehold improve- ments \$m | Furniture and equipment \$m | IT equipment \$m | Network assets \$m | Total \$m |
| At 30 June 2016 | | | | | | |
| Cost | 13 | 374 | 14 | 115 | 16,299 | 16,815 |
| Accumulated depreciation | - | (95) | (10) | (72) | (1,415) | (1,592) |
| Net book value | 13 | 279 | 4 | 43 | 14,884 | 15,223 |
| Year ended 30 June 2017 | | | | | | |
| Opening net book value | 13 | 279 | 4 | 43 | 14,884 | 15,223 |
| Additions | - | 24 | 5 | 19 | 6,467 | 6,515 |
| Depreciation | - | (33) | (2) | (17) | (1,172) | (1,224) |
| Transfers | 4 | - | - | (13) | 3 | (6) |
| Net book value | 17 | 270 | 7 | 32 | 20,182 | 20,508 |
| 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 |
| Year ended 30 June 2018 | | | | | | |
| Opening net book value | 17 | 270 | 7 | 32 | 20,182 | 20,508 |
| Additions | - | 47 | 1 | 34 | 6,266 | 6,348 |
| Depreciation | - | (33) | (3) | (18) | (1,759) | (1,813) |
| Net book value | 17 | 284 | 5 | 48 | 24,689 | 25,043 |
| At 30 June 2018 | | | | | | |
| Cost | 17 | 445 | 20 | 166 | 29,006 | 29,654 |
| Accumulated depreciation | - | (161) | (15) | (118) | (4,317) | (4,611) |
| Net book value | 17 | 284 | 5 | 48 | 24,689 | 25,043 |

C Our assets and liabilities *continued*
C3 Property, plant and equipment *continued*

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

| | NBN Co Group | |
|---|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Constructed and purchased assets | 15,739 | 12,103 |
| Assets in the course of construction | 2,700 | 2,917 |
| Leased assets | 5,891 | 4,990 |
| Assets acquired for no consideration and under government grant | 713 | 498 |
| Property, plant and equipment - net book value | 25,043 | 20,508 |

Assets in the course of construction

The carrying value of property, plant and equipment includes \$2,700 million (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 \$17 million (2017: \$19 million) for buildings and \$5,874 million (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 and the Arts to use certain Regional Backbone Blackspots Program assets for no consideration (Refer to Note C7).

Non-current assets pledged as security

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

Recognition and measurement

Property, plant and equipment are stated at historical cost less accumulated depreciation.

Cost includes expenditure that is directly attributable to the acquisition of the asset, including the costs of materials and direct labour, borrowing costs of a qualifying asset and initial estimates of the costs of dismantling and removing an asset and restoring the site on which it is located. The Group does not consider that it has any qualifying assets and therefore does not currently capitalise any borrowing costs.

Cost that is not directly attributable is recorded as an expense in profit or loss.

Assets under construction are recorded at cost based on the estimated percentage of completion. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All repairs and maintenance costs are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on network and non-network assets commences when they are installed and ready for use, otherwise termed as 'in service'. Buildings are depreciated from the date of acquisition. Land is not depreciated.

Depreciation on assets is calculated using the straight-line method to allocate the cost, net of residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter of the lease term or useful life.

The Group has assessed the current useful lives of assets as follows:

| Asset type | Useful lives |
|------------------------|---------------------------------------|
| Network assets | Lower of lease term and/or 5-40 years |
| Buildings | Lower of lease term and/or 50 years |
| Leasehold improvements | Lower of lease term and/or 5-35 years |
| Furniture and fittings | 3-10 years |
| IT equipment | 3-5 years |

Residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date.

Gain or loss on disposal is determined by comparing the proceeds with the carrying amount of the asset. Gain or loss on disposal is recognised in profit or loss.

Key estimates and judgements:

Determination of useful lives of property, plant and equipment

The estimations of useful lives, residual value and depreciation methods require significant judgement and are reviewed at each reporting date. If they need to be modified, the depreciation expense is accounted for prospectively from the date of reassessment until the end of the revised useful life (for both the current and future periods). Such revisions are generally required when there are changes in economic circumstances, business plans and strategies, expected level of usage and future technological developments impacting specific assets or groups of assets. It is possible that future results of operations could be materially affected by changes in these estimates.

Estimation of percentage of completion for assets under construction

Estimating the percentage of completion requires an estimate of costs incurred to date as a percentage of total estimated costs of constructing an asset. In estimating the percentage of completion of an asset under construction, management uses inputs such as milestone information from Delivery Partners and average build duration periods. The estimate of total costs are based on contractual costing arrangements applied to detailed designs and are adjusted for estimates for variation, claims and incentive payments. Changes in these estimation methods or assumptions could have a material impact on the financial statements of the Group.

Estimation of liabilities for contractual claims

The Group is subject to claims and other obligations arising from its contractual arrangements. The recognition of liabilities for claims is subject to a significant degree of estimation. Provision is made for loss when it is considered probable that an adverse outcome will occur and the amount of the loss can be estimated reliably. In making estimates, management takes into account the advice of legal counsel and internal specialists. Any ultimate resolution may differ from the amount provided depending on the outcome of negotiations and/or court proceedings.

C Our assets and liabilities *continued*
C3 Property, plant and equipment *continued*

Significant non-cash components

Acquisition of assets by means of non-cash transactions represents those assets acquired via finance leases or contributed for no consideration.

| | NBN Co Group | |
|--|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Acquisition of network infrastructure by means of finance leases | 1,145 | 1,292 |
| Acquisition of network infrastructure by means of developer contributions or government grants | 233 | 129 |
| Acquisition of assets by non-cash transactions | 1,378 | 1,421 |

C4 Intangible assets

| | NBN Co Group | | | |
|--------------------------------|-----------------|-----------------|--------------|--------------|
| | Software \$m | Licenses \$m | Other \$m | Total \$m |
| At 30 June 2016 | | | | |
| Cost | 1,813 | 158 | 12 | 1,983 |
| Accumulated amortisation | (517) | (122) | (10) | (649) |
| Net book value | 1,296 | 36 | 2 | 1,334 |
| Year ended 30 June 2017 | | | | |
| Opening net book value | 1,296 | 36 | 2 | 1,334 |
| Additions | 643 | 1 | 40 | 684 |
| Amortisation | (259) | (4) | (1) | (264) |
| Transfers | 6 | - | - | 6 |
| Net book value | 1,686 | 33 | 41 | 1,760 |
| 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 |
| Year ended 30 June 2018 | | | | |
| Opening net book value | 1,686 | 33 | 41 | 1,760 |
| Additions | 589 | 4 | 26 | 619 |
| Reclassification | 12 | - | (12) | - |
| Amortisation | (343) | (3) | (8) | (354) |
| Net book value | 1,944 | 34 | 47 | 2,025 |
| At 30 June 2018 | | | | |
| Cost | 3,078 | 163 | 69 | 3,310 |
| Accumulated amortisation | (1,134) | (129) | (22) | (1,285) |
| Net book value | 1,944 | 34 | 47 | 2,025 |

Recognition and measurement

Internally generated intangible assets

Research costs are expensed as incurred.

An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete and its ability to use or sell the asset.
- How the asset will generate future economic benefits.
- The availability of resources to complete the development of the asset.
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following the initial recognition of development expenditure, the asset is carried at cost less any accumulated amortisation. Any expenditure capitalised is amortised over the period of expected benefits from the related project. The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use or more frequently when an indication of impairment arises during the reporting period.

Software assets

Directly attributable costs associated with the development of business software for internal use are recorded as software assets if the development expenditure satisfies the criteria for capitalisation as outlined above. Costs included in software assets developed for internal use are:

- External direct costs of materials and services consumed
- Payroll and payroll-related costs for employees (including contractors) directly associated with the development project.

Costs that are not directly attributable are expensed as incurred. The Group does not consider that it has any qualifying assets and therefore does not currently capitalise any borrowing costs.

Acquired intangible assets

Intangible assets acquired through separate acquisition are recorded at cost.

Amortisation

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The estimated useful lives of identifiable intangible assets are as follows:

| Identifiable intangible asset type | Useful lives |
|------------------------------------|-----------------|
| Software assets | 3–8 years |
| Telecommunications licences | Term of licence |

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

Amortisation of intangible assets does not commence until the assets are installed and ready for use, as intended by the Group.

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 \$177 million (2017: \$360 million).

C Our assets and liabilities *continued*

C4 Intangible assets *continued*

Key estimates and judgements: Determination of useful lives of intangible assets

The estimations of useful lives, residual value and amortisation methods require significant judgement and are reviewed at each reporting date. If they require modification, the amortisation expense is accounted for prospectively from the date of reassessment until the end of the revised useful life (for both the current and future years). Such revisions are generally required when there are changes in economic circumstances, business plans and strategies, expected level of usage and future technological developments, impacting specific assets or groups of assets. It is possible that future results of operations could be materially affected by changes in these estimates.

C5 Impairment of non-financial assets

Recognition and measurement

Tangible and intangible assets are measured using the cost basis and are written down to their recoverable amount where their carrying value exceeds the recoverable amount.

Intangible assets that are not yet subject to amortisation are tested on an annual basis for impairment, or where an indication of impairment exists. Property, plant and equipment and intangible assets subject to amortisation are reviewed for impairment wherever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use. Any reduction in the carrying value is recognised as an expense in profit or loss in the reporting period in which the impairment loss occurs.

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit (CGU) to which that asset belongs. The Group's CGU is determined according to the lowest level of aggregation for which the cash inflows are independent of cash inflows from other assets.

The Group has determined that assets which form part of the **nbn**[™] access network, work together to achieve the delivery of products and services in order to generate cash inflows. As a result, the Group has determined that the ubiquitous broadband network is a single CGU (the NBN Co CGU).

Impairment test

At the end of the reporting period, the Group performed an impairment test using fair value less cost to sell. NBN Co has determined fair value less cost to sell by reference to the depreciated replacement cost of the assets given there is no active market for the **nbn**[™] access network assets. As part of assessing the depreciated replacement cost of the assets, NBN Co has considered the risks of both technological and economic obsolescence.

As a result of this test and consistent with prior periods, it has been determined that the recoverable amount of the NBN Co CGU is not less than its carrying amount as at 30 June 2018.

Key estimates and judgements: Determination of fair value less costs to sell when considering impairment

In performing the impairment test, the Group estimated the depreciated replacement cost (DRC) of the assets within the NBN Co CGU. DRC is an estimate of what it would cost to acquire or construct a substitute national broadband network, on a like for like basis, to the stage of current completion, adjusted for any obsolescence of the existing assets. In determining DRC, the Group considers the cost of recently constructed assets, current purchase prices and the current estimates of cost at completion of assets under construction.

C6 Trade and other payables

| | NBN Co Group | |
|--------------------------|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Current | | |
| Trade and other payables | 325 | 331 |
| Accruals | 2,036 | 2,264 |
| Total | 2,361 | 2,595 |

| | NBN Co Group | |
|--------------------------|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Non-current | | |
| Trade and other payables | 3 | 5 |
| Total | 3 | 5 |

The accruals balance includes \$985 million (2017: \$1,195 million) relating to property, plant and equipment and intangible assets under construction, based on an assessment of the estimated cost to complete and percentage of completion of assets at the reporting date.

Recognition and measurement

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the reporting date and which are unpaid. The amounts are unsecured. Trade and other payables are initially recognised at their fair value and subsequently carried at amortised cost using the effective interest method.

C7 Other liabilities

| | NBN Co Group | |
|--|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Current | | |
| Deferred gain on developer contributions and government grants | 20 | 14 |
| Total | 20 | 14 |

| | NBN Co Group | |
|--|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Non-current | | |
| Deferred gain on developer contributions and government grants | 693 | 483 |
| Total | 693 | 483 |

Other liabilities comprise government grants and developer contributions for no consideration.

C Our assets and liabilities *continued*

C7 Other liabilities *continued*

Recognition and measurement

Government grants

Government grants are recognised in the Statement of financial position as a deferred gain when the grant is received.

When the grant relates to an asset or assets received for no consideration, the asset is recorded at fair value and the resulting gain is credited to deferred income. The gain is released to profit or loss on a straight line basis, over the expected period of provision of services which is estimated to be the useful life of the relevant asset or assets.

There are no unfulfilled conditions or contingencies attached to the government grants.

Developer contributions for no consideration

The Group receives network assets for no consideration from developers as part of the build of the **nbn**[™] access network in new development areas. Assets received for no consideration are recorded at fair value and the resulting gain is credited to deferred income. The gain is released to profit or loss on a straight line basis, over the expected period of provision of services which is estimated to be the useful life of the relevant asset or assets.

There are no unfulfilled conditions or contingencies attached to the developer contributions.

C8 Other financial liabilities

Lease liabilities and right of use licences

| | NBN Co Group | |
|---|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Current | | |
| Lease liabilities and right of use licences | 161 | 134 |
| Total | 161 | 134 |

| | NBN Co Group | |
|---|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Non-current | | |
| Lease liabilities and right of use licences | 7,037 | 5,755 |
| Total | 7,037 | 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.

Recognition and measurement

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets.

Leases of property, plant and equipment (including network infrastructure), where the Group as lessee has substantially all the risks and rewards of ownership, are classified as finance leases.

Finance leases are capitalised at the inception of the lease at the fair value of the leased property or, if lower, the present value of the minimum lease payments. Incremental contingent rentals such as movements in the Consumer Price Index (CPI) are excluded from minimum lease payments and are therefore, not included in lease liabilities. Contingent rentals paid during the year are included as an expense in the Statement of profit or loss and other comprehensive income.

At inception, key elements of the lease arrangement such as interest rate, lease term and valuation methodology are assessed. Each lease payment is allocated between the liability and finance charges. The finance charges are expensed to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment (including network infrastructure) acquired under finance leases are depreciated over the shorter of the asset's useful life or the lease term. Depreciation on network and non-network assets under lease commences when they are installed and ready for use, otherwise termed as 'in service'.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line

basis over the lease term. Lease incentives are recognised in profit or loss as an integral part of the total lease expense.

Operating leases include leases over certain properties, commercial vehicles, pole infrastructure and wireless base stations.

Lease income from operating leases where the Group is a lessor, is recognised as income on a straight-line basis over the lease term.

Key estimates and judgements: Finance lease determination

The Group classifies leases between finance and operating depending on whether the Group holds substantially all of the risks and rewards incidental to ownership or not. In making this assessment, the Group primarily considers the asset ownership at the end of the lease term, any purchase options, the lease term in respect to the assets' life, the present value of future lease payments in relation to the assets' fair value and the nature of the assets. A number of key estimates and judgements have been made in determining the present value of minimum lease payments (MLP) associated with network infrastructure right of use licences with Telstra, which are accounted for as finance leases. In determining the present value of the MLP, a discount rate representing the estimated implicit rate of return at the inception date of the Definitive Agreements. The discount rate remains unchanged under the Revised Definitive Agreements. For lease accounting purposes, the term of each right of use licence, of up to 35 years, does not include possible renewal as the exercise of such options was not considered reasonably certain at inception of the agreements. The renewal period being two options exercisable by NBN Co of ten more years each. A proportion of the MLP is expensed directly to profit or loss as an estimate of the cost of the repairs and maintenance activities undertaken by the lessor.

C Our assets and liabilities *continued*
C8 Other financial liabilities *continued*

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.

| | NBN Co Group | |
|---|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| For the year ended | | |
| Finance charges on finance lease arrangements | (534) | (400) |
| Unwinding of the discount on other lease related provisions | (2) | (2) |
| Interest on borrowings | (70) | - |
| Interest income | 26 | 34 |
| Total | (580) | (368) |

Finance lease commitments

As disclosed in Notes C8 and F1, the agreements with Telstra provide NBN Co with access rights to various infrastructure, including dark fibre, exchange rack space in exchange buildings, ducts and associated duct infrastructure. These right of use Licences are accounted for as finance leases and result in the recognition of finance lease liabilities. In addition, finance lease liabilities have been recognised for certain property leases of industrial buildings.

Lease payments comprise of 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 | |
|---|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Finance lease and right of use licences are payable as follows: | | |
| Within one year | 787 | 650 |
| Later than one year but not later than five years | 2,719 | 2,186 |
| Later than five years | 16,062 | 13,456 |
| Minimum lease payments | 19,568 | 16,292 |
| Future finance and other charges | (12,370) | (10,403) |
| Recognised as a liability | 7,198 | 5,889 |
| Representing finance lease and right of use licence liabilities: | | |
| Current | 161 | 134 |
| Non-current | 7,037 | 5,755 |
| Total | 7,198 | 5,889 |

C9 Provisions

| | NBN Co Group | |
|-------------------|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Current | | |
| Employee benefits | 104 | 112 |
| Other provisions | 17 | 21 |
| Total | 121 | 133 |

| | NBN Co Group | |
|--------------------|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Non-current | | |
| Employee benefits | 42 | 31 |
| Other provisions | 22 | 17 |
| Total | 64 | 48 |

Recognition and measurement

Provisions are recognised when:

- There is a present legal or constructive obligation to make a future sacrifice of economic benefits as a result of past transactions or events.
- It is probable that a future sacrifice of economic benefits will arise.
- A reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Refer to Note D1 for employee benefits accounting policies.

D. Our people

This section describes employment and post-employment benefit expenses provided to our people.

D1 Employee benefits expenses

| | NBN Co Group | |
|--|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| <i>For the year ended</i> | | |
| Defined contribution superannuation expense | (70) | (66) |
| Other employee expenses, net of capital recoveries | (717) | (685) |
| Total | (787) | (751) |

Recognition and measurement

Short-term employee benefit obligations

Short-term employee benefits include salaries and wages, including non-monetary benefits, short-term incentives and annual leave expected to be settled within 12 months of the reporting date. Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Long-term employee benefit obligations

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using high quality corporate bond rates at the reporting date with terms to maturity and currency to match, as closely as possible to, the estimated future cash flows. Remeasurement as a result of experience adjustments and changes in assumptions are recognised in profit or loss.

Retirement benefit obligations

The Group pays superannuation guarantee contributions into nominated defined contribution plans as advised by employees. Superannuation contributions are recognised as an expense as they become payable.

Termination benefits

Termination benefits are payable when employment is terminated, and an expense is recognised when the Group is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without likelihood of withdrawal.

Capitalisation of employee benefits expenses

Employee benefits expenses are capitalised and included in the cost of property, plant and equipment, and software upon initial recognition to the extent that they are directly attributable to constructing and bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

D2 Key management personnel

Disclosures relating to key management personnel are set out below:

| | NBN Co Group | |
|------------------------------|--------------------|--------------------|
| | 30 June 2018 \$ | 30 June 2017 \$ |
| Short-term employee benefits | 9,332,317 | 9,707,159 |
| Post-employment benefits | 204,196 | 188,110 |
| Long-term benefits | 310,670 | 513,580 |
| Termination benefits | - | - |
| Total | 9,847,183 | 10,408,849 |



E. 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 30 June 2018 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.

E1 Contributed equity

As at 30 June 2018, a total of \$29.5 billion had been provided to the Company.

| | NBN Co Limited | | NBN Co Limited | |
|-----------------|-------------------------------------|-------------------------------------|---------------------|---------------------|
| | 30 June 2018 Number of shares | 30 June 2017 Number of shares | 30 June 2018 \$m | 30 June 2017 \$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 |

Recognition and measurement

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Transactions with the Commonwealth of Australia, as owner, that are designated as equity injections for the financial period, are recognised directly in contributed equity and do not form part of comprehensive income in that financial period.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number and amounts paid on the shares held.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Movements in ordinary share capital

| | NBN Co Limited | | |
|---------------------------------|---------------------|-------------------|------------------------|
| | Number of shares | Issue Price \$ | Value of Shares \$m |
| Closing balance at 30 June 2016 | 20,275,445,092 | 1.00 | 20,275 |
| Equity injections | 7,190,000,000 | 1.00 | 7,190 |
| Closing 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 30 June 2018 | 29,500,000,000 | 1.00 | 29,500 |

Capital risk management

The Group's objectives when managing capital are to safeguard the ability of the Group to continue as a going concern while maximising the return to the Commonwealth Government and maintaining an optimal capital structure. The capital structure of the Group consists of cash and cash equivalents disclosed in Note C1, held to maturity assets, borrowings and contributed equity.

Dividends declared

No dividends were declared or paid during the year (2017: nil).

E2 Borrowings

| | NBN Co Group | |
|----------------------------|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Non-current | | |
| Loans from related parties | 5,531 | - |
| Total | 5,531 | - |

As at 30 June 2018, \$5.5 billion 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 per annum, 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.

Recognition and measurement

All loans and are initially recorded at fair value, which typically reflects the proceeds received, net of directly attributable transaction costs.

After initial recognition, all interest bearing loans are stated at amortised cost, using the effective interest method.

F. Our significant contractual arrangements and commitments

NBN Co has entered into a number of contracts that will underpin the delivery of the **nbn**[™] access 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) that provide NBN Co with the required infrastructure to deliver fast broadband to all Australians. These strategic agreements are essential to NBN Co in regard to its ability to achieve its short and long-term objectives.

F1 Telstra Revised Definitive Agreements

On 23 June 2011, NBN Co and Telstra announced that binding agreements (the Telstra Definitive Agreements or the DAs) had been entered into for the rollout of the **nbn**[™] access network. The DAs became unconditional following the satisfaction of conditions precedent including Telstra shareholder approval in November 2011 and ACCC acceptance of Telstra's Migration Plan and Structural Separation Undertaking in March 2012.

Following the completion of the 2013 Strategic Review, the Government provided NBN Co with a new Statement of Expectations under which the **nbn**[™] access network rollout was to transition from a primarily FTTP model to an MTM model. On 14 December 2014, NBN Co and Telstra announced they had renegotiated the DAs and entered into a number of new agreements to provide for the shift to an MTM network rollout (the Revised Definitive Agreements or the RDAs). The RDAs came into effect on 26 June 2015 after all conditions precedent were either satisfied or waived.

As with the DAs, the RDAs provide NBN Co access to certain Telstra network infrastructure including ducts, pits, lead-in conduits (ownership of lead-in conduits transfers to NBN Co), exchange rack space and dark fibre to facilitate the efficient rollout of the **nbn**[™] access network. The RDAs also continue to require Telstra to progressively disconnect premises connected to its copper and Hybrid Fibre Coaxial (HFC) networks (subject to exceptions for certain copper-based services and pay-TV services provided over parts of the spectrum on the HFC network) as the **nbn**[™] access network is

rolled out.¹ Telstra will continue to be entitled to payments from NBN Co for disconnecting premises from its networks, and NBN Co continues to expense these payments.

In addition, the RDAs allow NBN Co to progressively take ownership of, and the operational and maintenance responsibility for, elements of Telstra's copper and HFC networks and use of those network elements where it represents the fastest and most cost effective way to deliver fast broadband to families and businesses. These copper and HFC network elements are being used as access technologies as part of the overall design of the MTM rollout.

The payment structure remains linked to the rollout of the **nbn**[™] access network. Under the RDAs, once NBN Co starts acquiring the assets forming part of Telstra's HFC network, NBN Co has an obligation to continue to acquire all of Telstra's HFC network. In July 2016 NBN Co commenced the acquisition of assets forming part of Telstra's HFC network. Capital commitments in respect of the RDAs are disclosed in Note F3 and reflect NBN Co's obligation to continue to acquire all of Telstra's HFC network.

Under the RDAs, NBN Co has also agreed to reimburse Telstra for any direct, reasonable, substantiated and incremental (DRSI) costs incurred as a result of the move from the FTTP rollout to the MTM rollout, subject to certain exceptions. NBN Co is capitalising these costs as they are incurred.

As with the DAs, the estimated value of the RDAs is based on a range of dependencies and assumptions over the long-term life of the agreements. On a like for like basis, the estimated net present value payable to Telstra under the RDAs is equivalent to that under the DAs.

1 Services provided over the **nbn**[™] access network will replace phone and internet services provided over most of the existing landline networks, including copper and the majority of HFC networks within the fixed-line footprint. Services provided over existing fibre networks (including in-building, health and education fibre networks) and some special and business services may not be affected.

The RDAs contain an arrangement relating to the **nbn**[™] access network rollout cessation and related consequences for NBN Co. In addition, there are provisions relating to NBN Co's liability for performing work on Telstra's live networks (refer to Note H5).

F2 Optus HFC Subscriber Agreement

On 23 June 2011, NBN Co executed an agreement with SingTel Optus Pty Ltd and other Optus entities (Optus) (the 2011 Optus HFC Subscriber Agreement).

On 19 July 2012, the ACCC published a final determination granting authorisation of the 2011 Optus HFC Subscriber Agreement.

Under the terms of the 2011 Optus HFC Subscriber Agreement:

- Optus agreed to progressively migrate HFC customers to the **nbn**[™] access network as it is rolled out. Optus agreed to a fixed-line network preference in favour of NBN Co for residential and small business customers served by Optus' HFC network.

- NBN Co agreed to make progressive payments to Optus based on the actual number of customers that migrate from its HFC network to the **nbn**[™] access network.

On 14 December 2014, NBN Co and Optus announced they had signed agreements (the Revised HFC Subscriber Agreement) amending the 2011 Optus HFC Subscriber Agreement. On 19 September 2015, all of the conditions precedent to the Revised HFC Subscriber Agreement with Optus were satisfied.

The Revised HFC Subscriber Agreement provides NBN Co with the option to acquire elements of Optus' HFC network where it is efficient and/or cost effective to do so, as part of the overall design and implementation of the MTM rollout.

The Revised HFC Subscriber Agreement continues to require Optus to progressively migrate HFC customers to the **nbn**[™] access network as it is rolled out.

Payments to Optus for the migration of customers to the **nbn**[™] access network are expensed as incurred.

F3 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 | |
|---|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Within one year | 3,611 | 3,210 |
| Later than one year but not later than five years | 873 | 1,477 |
| Later than five years | 1,236 | 2,134 |
| Total capital commitments | 5,720 | 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 to Telstra 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.

F. Our significant contractual arrangements and commitments *continued*
 F3 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 | |
|---|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year | 108 | 94 |
| Later than one year but not later than five years | 308 | 170 |
| Later than five years | 614 | 439 |
| Total | 1,030 | 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 C8.

G. Our financial risk management

As a result of its operation, the Group is exposed to a number of financial risks. This section sets out the nature of the financial risks, their quantification and management.

Financial risk management objectives

The Group's risk management policy is to identify, assess and manage risks which are likely to adversely affect the Group's financial performance, continued growth and ability to continue as a going concern. In terms of financial risk management, the Group takes a risk-averse approach as it seeks to minimise risk, provided it is cost effective to do so.

The Group's principal financial instruments are outlined in the following table. The main risks arising from the Group's financial instruments are market risks (interest rate risk, foreign currency risk), liquidity risk and credit risk.

Financial assets and liabilities

All the financial assets and liabilities below are carried at amortised cost except for derivative financial assets and liabilities which are measured at fair value.

| | NBN Co Group | |
|---|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Financial assets | | |
| Cash and cash equivalents | 593 | 1,184 |
| Interest receivable | 1 | 4 |
| Trade and other receivables | 225 | 143 |
| Derivative financial asset | 3 | - |
| Held to maturity assets | - | 140 |
| Carrying amount of financial assets | 822 | 1,471 |
| Financial liabilities | | |
| Trade and other payables | 2,364 | 2,600 |
| Other financial liabilities | 7,198 | 5,889 |
| Derivative financial liabilities | - | 1 |
| Borrowings | 5,531 | - |
| Carrying amount of financial liabilities | 15,093 | 8,490 |

Net income and expenses from financial assets and liabilities

The net income and expenses earned from financial assets and liabilities for the year ended 30 June 2018 was a net expense of \$578 million (2017: net expense of \$366 million).

G Our financial risk management *continued*

Foreign currency risk management

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to foreign currency risk due to fluctuations in foreign exchange rates for certain transactions.

The Group operates US dollar (USD) and Euro (EUR) foreign currency denominated bank accounts.

As at 30 June 2018, the carrying amount of monetary liabilities denominated in foreign currencies and notional cash outflows as expressed in Australian dollars was as follows:

| | NBN Co Group | | | |
|---|--------------|------------|--------------|------------|
| | 30 June 2018 | | 30 June 2017 | |
| | USD \$m | EUR \$m | USD \$m | EUR \$m |
| Foreign exchange risk | | | | |
| Trade payables | 48 | 4 | 42 | 3 |
| Current foreign exchange risk | 48 | 4 | 42 | 3 |
| Forward exchange contracts | | | | |
| Buy foreign currency (cash flow hedges) | 85 | - | 83 | - |
| Forward exchange contract risk | 85 | - | 83 | - |

The Group has entered into forward exchange contracts to hedge its exposure to currency risk in relation to highly probable forecast transactions which are denominated in foreign currency. In order to protect against exchange rate movements, the Group has entered into forward exchange contracts to purchase US dollars. All forward exchange contracts are designated as hedging items in the cash flow hedges. The Group's strategy is to hedge any material foreign currency exposure committed by contract to at least 80 per cent of the highly probably forecast purchase.

The Group has not entered into foreign currency positions that are not supported by underlying purchasing transactions that are certain or highly probable as to timing, quantum and currency.

Derivatives and hedging activities

Recognition and measurement

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The Group only has derivatives which are designated as cash flow hedges, being hedges of a particular risk associated with cash flows of recognised assets and liabilities and highly probable forecast transactions.

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, as to whether the derivatives used in hedging transactions have been, and will continue to be effective, in offsetting changes in cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The ineffective portion is recognised immediately in profit or loss within other income or other expenses.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. When the hedged forecast transaction results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss, where applicable.

Sensitivity analysis of monetary liabilities denominated in foreign currencies and derivatives

The possible fluctuations in foreign exchange rates would not have a material impact on the measurement of monetary liabilities denominated in foreign currencies and profit or loss for the current and prior periods. In addition, possible fluctuations in exchange rates would not have a material impact on the measurement of derivatives and equity for the year.

Interest rate risk management

The Group is exposed to interest rate risk due to changes in market interest rates associated with interest-bearing cash and cash equivalents, and held to maturity assets. Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument. The Group's exposure to interest rate risks and the weighted average effective interest rates of interest-bearing financial assets is set out below:

| NBN Co Group | | | |
|---------------------------|-------------|------------------------------------|---|
| | Note | Carrying Amount \$m | Weighted average effective interest rate % |
| At 30 June 2018 | | | |
| Cash and cash equivalents | C1 | 593 | 1.94% |
| Held to maturity assets | | - | - |
| At 30 June 2017 | | | |
| Cash and cash equivalents | C1 | 1,184 | 1.85% |
| Held to maturity assets | | 140 | 2.53% |

Cash flow sensitivity analysis

Given the nature and quantum of interest-bearing instruments, any possible movements in interest rates would have an immaterial impact on profit or loss. The interest rate applicable to the loan facility with the Commonwealth of Australia is fixed for the term of the facility. As a result there is no interest rate risk associated with the facility.

G Our financial risk management *continued***Credit risk exposure**

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Group. Counterparty exposure is measured as the total value of the exposures to all obligations of any single legal or economic entity (e.g. a group of companies).

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, the net favourable position of derivative financial instruments, and held to maturity investment assets, as well as credit exposures to Retail Service Providers.

The Group's maximum exposure to credit risk at the end of the reporting period is the carrying amount of the financial assets as recorded in the Statement of financial position.

The credit quality of financial assets can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

| | NBN Co Group | |
|---|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Trade receivables | | |
| <i>Counterparties with an external credit rating</i> | | |
| AAA | 1 | - |
| A1 | 29 | - |
| A2 | 97 | 58 |
| A3 | 1 | 17 |
| <i>Counterparties without an external credit rating¹</i> | | |
| Group 1 | 5 | 5 |
| Group 2 | 66 | 43 |
| Group 3 | 13 | 5 |
| Total | 212 | 128 |
| Cash at bank and short-term bank deposits | | |
| AA- | 593 | 1,184 |
| Total | 593 | 1,184 |
| Held to maturity assets | | |
| AA- | - | 140 |
| Total | - | 140 |
| Derivative financial (liabilities)/assets | | |
| AA- | 3 | (1) |
| Total | 3 | (1) |

1 Group 1 - new customers (less than 6 months).

Group 2 - existing customers (more than 6 months) with no defaults in the past.

Group 3 - existing customers (more than 6 months) with defaults in the past, subsequently remediated.

The Group did not have any material receivables that were past due or impaired at 30 June 2018 (2017: nil).

Liquidity risk

Liquidity risk refers to the risk of encountering difficulties in meeting obligations associated with financial liabilities. Liquidity risk management is associated with ensuring sufficient funds are available to meet financial commitments in a timely manner and planning for unforeseen events which may curtail cash flows and cause pressure on liquidity. The Group measures and manages liquidity risk by forecasting liquidity and funding requirements for the next four years as a minimum, which is reviewed annually by the Board as part of the Corporate Plan. In addition, the Group prepares and reviews a rolling monthly cash forecast.

The Group's financial liabilities are trade and other payables, finance lease liabilities, and borrowings.

The following table illustrates the maturities for financial liabilities:

| NBN Co Group | | | | | |
|---|-------------------------|------------------------|-----------------------------------|---|---|
| | Within 1 year \$m | 1 to 5 years \$m | Greater than 5 years \$m | Total contractual cash flows \$m | Carrying amount (assets)/ liabilities \$m |
| At 30 June 2018 | | | | | |
| Non-derivatives | | | | | |
| Trade and other payables | 2,361 | 3 | - | 2,364 | 2,364 |
| Finance lease liabilities | 787 | 2,719 | 16,062 | 19,568 | 7,198 |
| Borrowings | 219 | 5,969 | - | 6,188 | 5,531 |
| Total | 3,367 | 8,691 | 16,062 | 28,120 | 15,093 |
| Derivatives | | | | | |
| Gross settled (forward foreign exchange contracts - cash flow hedges) | | | | | |
| - inflow | 43 | 45 | - | 88 | - |
| - outflow | (41) | (44) | - | (85) | (3) |
| Total | 2 | 1 | - | 3 | (3) |
| At 30 June 2017 | | | | | |
| Non-derivatives | | | | | |
| Trade and other payables | 2,595 | 5 | - | 2,600 | 2,600 |
| Finance lease liabilities | 650 | 2,186 | 13,456 | 16,292 | 5,889 |
| Total | 3,245 | 2,191 | 13,456 | 18,892 | 8,489 |
| Derivatives | | | | | |
| Gross settled (forward foreign exchange contracts - cash flow hedges) | | | | | |
| - inflow | 82 | - | - | 82 | - |
| - outflow | (83) | - | - | (83) | 1 |
| Total | (1) | - | - | (1) | 1 |

G Our financial risk management *continued*

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.

H. Other information

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

H1 Income tax expense

| For the year ended | NBN Co Group | |
|---|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| (a) Income tax expense | | |
| Deferred tax | (1) | (5) |
| Total | (1) | (5) |
| (b) Numerical reconciliation of income tax expense to prima facie tax payable | | |
| Loss before income tax | (4,779) | (4,239) |
| Tax at the Australian tax rate of 30% (2017: 30%) | 1,434 | 1,272 |
| Current year tax losses not recognised | (1,214) | (1,121) |
| Temporary differences not recognised | (221) | (156) |
| Income tax expense | (1) | (5) |
| (c) Tax Losses | | |
| Unused tax losses for which no deferred tax asset has been recognised | (15,142) | (11,102) |
| Potential tax benefit @ 30% | (4,543) | (3,331) |
| (d) Unrecognised temporary differences | | |
| Deductible temporary differences relating to: | | |
| Property, plant and equipment and Intangible assets | 1,926 | 1,205 |
| Provisions and accruals | 235 | 222 |
| This is offset by: | | |
| Taxable temporary differences (deferred tax liabilities) | | |
| Cash flow hedges | (3) | (6) |
| Net temporary differences for which deferred tax assets have not been recognised | 2,158 | 1,421 |
| Unrecognised deferred tax asset relating to the above net deductible and taxable temporary differences | 647 | 426 |

The cumulative amount of unrecognised tax losses of \$15,142 million (2017: \$11,102 million) may be available to offset against future income tax assessments when the Group generates taxable income.

H Other information *continued*

H1 Income tax expense *continued*

Effective tax rate

The non-recognition of deferred tax assets for deductible temporary differences and tax losses has led to NBN Co having an Australian accounting effective tax rate (ETR) of 0 per cent. If deferred tax assets had been fully recognised for deductible temporary differences and tax losses, NBN Co's Australian ETR would have been 30 per cent.

The above ETR has been calculated on the basis of income tax expense divided by accounting profit, in accordance with the requirements of the Board of Taxation's Tax Transparency Code.

Tax consolidation legislation

NBN Co and its wholly-owned subsidiaries have formed a tax consolidated group. The head entity, NBN Co Limited, and the subsidiaries in the tax consolidated group account for their own current and deferred tax amounts arising from temporary differences. In addition, NBN Co Limited accounts for any deferred tax assets arising from unused tax losses and tax credits for all entities in the tax consolidated group.

Members of the group have not yet entered into tax funding or tax sharing arrangements. As at 30 June 2018, no contributions to subsidiaries' equity accounts have been recognised for subsidiaries' tax losses assumed by the head entity because no amounts of unused tax losses have been recognised as deferred tax assets (2017: nil).

Recognition and measurement

The income tax expense or benefit for the period is the tax payable or receivable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax expense or benefit is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

H2 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries:

| Name of entity | Country of incorporation | Class of shares | Equity holding as at 30 June 2018 | Equity holding as at 30 June 2017 |
|-------------------------|--------------------------|-----------------|-----------------------------------|-----------------------------------|
| NBN Tasmania Limited | Australia | Ordinary | 100% | 100% |
| NBN Co Spectrum Pty Ltd | Australia | Ordinary | 100% | 100% |

The proportion of ownership interest is equal to the proportion of voting power held.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of NBN Co Limited as at 30 June 2018 and the results of all subsidiaries for the year ended 30 June 2018.

Subsidiaries are all those entities (including special purpose entities) over which the Group has control. Control is achieved when and only when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. The accounting policies of subsidiaries are consistent with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost, net of any accumulated impairment losses, in the Statement of financial position of NBN Co Limited.

H Other information *continued***H3 Parent entity disclosures**

Financial position of NBN Co Limited

| As at | NBN Co Limited | |
|-------------------------------|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Assets | | |
| Total current assets | 1,077 | 1,804 |
| Total non-current assets | 27,168 | 22,362 |
| Total assets | 28,245 | 24,166 |
| Liabilities | | |
| Total current liabilities | 2,735 | 2,950 |
| Total non-current liabilities | 13,328 | 6,291 |
| Total liabilities | 16,063 | 9,241 |
| Net assets | 12,182 | 14,925 |
| Equity | | |
| Contributed equity | 29,500 | 27,465 |
| Other reserves | 4 | 6 |
| Accumulated losses | (17,322) | (12,546) |
| Total equity | 12,182 | 14,925 |

Financial result of NBN Co Limited

| For the year ended | NBN Co Limited | |
|--|---------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Loss for the year | (4,776) | (4,242) |
| Total comprehensive loss for the year | (4,778) | (4,252) |

Parent entity receivables and investments have been written down by a total of \$0.9 million (2017: \$0.3 million) to reflect the net assets of the subsidiaries. There is no impact on the consolidated position.

Commitments by the parent entity for the acquisition of property, plant and equipment

Commitments disclosed in Note F3 represent the total commitment of the parent entity for the acquisition of property, plant and equipment.

Guarantees entered into by the parent entity in relation to debts of its subsidiaries

Other than the deed of cross guarantee as disclosed in Note H4, no guarantees have been entered into by the parent entity in relation to debts of its subsidiaries.

Contingent liabilities of the parent entity

The contingent liabilities disclosed in Note H5 all relate to the parent entity.

H4 Deed of cross guarantee

NBN Co Limited and NBN Tasmania Limited (NBN Tasmania) are parties to a deed of cross guarantee under which each company guarantees the debts for the other. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a Financial report and Directors' report under the ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

Statement of profit or loss and other comprehensive income, Statement of financial position and Summary of movements in accumulated losses

NBN Co Limited and NBN Tasmania Limited represent a 'closed group' for the purpose of the Class Order and as there are no other parties to the deed of cross guarantee, they also represent the 'extended closed group'.

Set out on the following pages are a Statement of profit or loss and other comprehensive income, Statement of financial position and a Summary of movements in accumulated losses for the year ended 30 June 2018 of the closed group.

Statement of profit or loss and other comprehensive income

| | NBN Co & NBN Tasmania | |
|---|-----------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| <i>For the year ended</i> | | |
| Revenue | 1,977 | 1,000 |
| Direct network costs | (691) | (537) |
| Employee benefits expenses | (787) | (751) |
| Other operating expenses | (603) | (539) |
| Subscriber costs | (1,948) | (1,573) |
| Depreciation and amortisation expense | (2,165) | (1,486) |
| Other income | 19 | 16 |
| Net finance costs | (578) | (366) |
| Loss before income tax | (4,776) | (4,236) |
| Income tax expense | (1) | (5) |
| Loss for the year | (4,777) | (4,241) |
| Loss attributable to the shareholder | (4,777) | (4,241) |
| 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) | (10) |
| Total other comprehensive loss for the year, net of tax | (2) | (10) |
| Total comprehensive loss for the year | (4,779) | (4,251) |
| Total comprehensive loss attributable to the shareholder | (4,779) | (4,251) |

H Other information *continued*H4 Deed of cross guarantee liabilities *continued*

Statement of financial position

| As at | NBN Co & NBN Tasmania | |
|--------------------------------------|-----------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| Current assets | | |
| Cash and cash equivalents | 593 | 1,184 |
| Trade and other receivables | 338 | 334 |
| Inventories | 36 | 32 |
| Derivative financial assets | 2 | - |
| Held to maturity assets | - | 140 |
| Other current assets | 108 | 114 |
| Total current assets | 1,077 | 1,804 |
| Non-current assets | | |
| Derivative financial assets | 1 | - |
| Property, plant and equipment | 25,043 | 20,508 |
| Intangible assets | 1,996 | 1,728 |
| Other non-current assets | 57 | 55 |
| Total non-current assets | 27,097 | 22,291 |
| Total assets | 28,174 | 24,095 |
| Current liabilities | | |
| Trade and other payables | 2,361 | 2,595 |
| Other liabilities | 20 | 14 |
| Other financial liabilities | 161 | 134 |
| Derivative financial liabilities | - | 1 |
| Provisions | 121 | 133 |
| Total current liabilities | 2,663 | 2,877 |
| Non-current liabilities | | |
| Trade and other payables | 3 | 5 |
| Other liabilities | 693 | 483 |
| Other financial liabilities | 7,037 | 5,755 |
| Provisions | 64 | 48 |
| Borrowings | 5,531 | - |
| Total non-current liabilities | 13,328 | 6,291 |
| Total liabilities | 15,991 | 9,168 |
| Net assets | 12,183 | 14,927 |
| Equity | | |
| Contributed equity | 29,500 | 27,465 |
| Other reserves | 4 | 6 |
| Accumulated losses | (17,321) | (12,544) |
| Total equity | 12,183 | 14,927 |

Summary of movements in accumulated losses

| | NBN Co & NBN Tasmania | |
|-----------------------------------|-----------------------|---------------------|
| | 30 June 2018 \$m | 30 June 2017 \$m |
| For the year ended | | |
| Opening balance at 1 July | (12,544) | (8,303) |
| Loss for the period | (4,777) | (4,241) |
| Closing balance at 30 June | (17,321) | (12,544) |

H5 Contingent assets and contingent liabilities

Recognition and measurement

Contingent assets and contingent liabilities are not recognised in the Statement of financial position but are reported in this note. They may arise from uncertainty as to the existence of an asset or liability or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when the likelihood of settlement is greater than remote but not probable. The details of NBN Co's significant contingent liabilities are set out below:

ASIC deed of cross guarantee

NBN Co Limited and NBN Tasmania Limited are parties to a deed of cross guarantee as disclosed in Note H4. Each company guarantees the payment in full of the debt of the other named company in the event of their winding up.

Telstra Revised Definitive Agreements

Under the Telstra Revised Definitive Agreements, NBN Co has a right to undertake copper, HFC and associated passive infrastructure (API) pre-construction and construction works on Telstra's networks pre-asset transfer. NBN Co has indemnified Telstra against any loss or claim for death, personal injury or damage as well as contractual liabilities of Telstra to its customers arising as a result of NBN Co undertaking such works on Telstra's networks pre-asset transfer. To the extent that claims or damages could be reliably measured, adequate allowance has been made for resultant liabilities at the reporting date.

Legal action

As at 30 June 2018, NBN Co had no outstanding legal action that would materially impact the 30 June 2018 financial statements. However, from time to time the Group may be subject to a lawsuit or proceedings for which it may be required, either by law or based on its business judgement, to make payments to settle or otherwise resolve matters.

Contractual related claims and disputes

Various claims and disputes arise from time to time in the ordinary course of business. Where the costs of resolution (if any) cannot be measured with sufficient reliability, no allowance for these claims or disputes is made.

To the extent claims or disputes could be reliably measured, adequate allowance has been made for resultant liabilities at the reporting date. The disclosure of any further information about claims or disputes would be prejudicial to the interests of the Group.

H6 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 Note H2.

Key management personnel

Disclosures relating to key management personnel are presented in Note D2.

H Other information *continued*H6 Related party transactions *continued*

Transactions with related parties

The following transactions occurred with related parties:

| NBN Co Group | | | |
|--|------|--------------------|--------------------|
| For the year ended | Note | 30 June 2018 \$ | 30 June 2017 \$ |
| Equity injections | | | |
| Equity injected by the Commonwealth of Australia into NBN Co Limited | E1 | 2,034,554,908 | 7,190,000,000 |

| NBN Co Group | | | |
|---|-----------|----------------------|--------------------|
| For the year ended | Note | 30 June 2018 \$ | 30 June 2017 \$ |
| Loans from the Commonwealth of Australia | | | |
| Balance at 1 July | | - | - |
| Loans advanced during the period | | 5,531,000,000 | - |
| Loan repayments during the period | | - | - |
| Interest charged on government borrowings | | 69,894,736 | - |
| Interest paid on government borrowings | | (69,729,718) | - |
| Balance at 30 June | E2 | 5,531,165,018 | - |

Other directors' interests

Mr Milne is a Director of NetComm Wireless Ltd which is a supplier of telecommunications equipment to NBN Co. During the year Mr Milne recused himself from NBN Co Board meetings when the supply of NetComm Wireless Ltd or competitive telecommunications equipment was discussed.

At the Board meeting held on 20 June 2017, the Board approved a contract for the supply of satellite equipment, IT systems and managed services with delegation to the Chief Executive Officer to progress the procurement and negotiation of the contract. A contract was subsequently entered into between NBN Co and Speedcast Limited on 31 January 2018. As a Director of Speedcast Limited, Mr Malone recused himself from the 20 June 2017 NBN Co Board meeting.

The following aggregate payments for goods and services occurred with the above related parties:

| NBN Co Group | | | |
|--|--|--------------------|--------------------|
| For the year ended | | 30 June 2018 \$ | 30 June 2017 \$ |
| Payments for goods and services (excluding GST) | | | |
| Payments for various goods and services from entities with common key management personnel | | 107,810,253 | 1,953,007 |

H7 Remuneration of auditors

Under Section 98 of the PGPA Act, the Auditor-General is responsible for auditing the financial statements of NBN Co Limited and its subsidiaries. On 4 December 2015, the Australian National Audit Office (ANAO) reappointed PwC as contractors to the financial statement audit process.

NBN Co has engaged PwC on assignments additional to their contract auditor duties and may decide to continue to do so, where their expertise and experience with the Group is important and no potential conflicts of interest exist. Any such engagement with PwC is subject to prior approval by the ANAO and having regard to their independence policies.

The Directors are satisfied that the provision of advisory services by PwC did not compromise auditor independence requirements, having a specific regard to PwC's role as the contractor to the ANAO.

During the year the following fees were paid or payable for services provided by the auditor and PwC:

| | NBN Co Group | |
|--|--------------------|--------------------|
| | 30 June 2018 \$ | 30 June 2017 \$ |
| For the year ended | | |
| Australian National Audit Office | | |
| Audit of annual financial statements | 1,788,000 | 1,665,000 |
| Review of half-year financial statements | 526,000 | 470,000 |
| Audit of NBN Co reporting for whole of Government financial statements | 327,700 | 272,000 |
| Non-recurring audit fees | - | - |
| Total remuneration for audit and other assurance services | 2,641,700 | 2,407,000 |
| PwC Australia | | |
| Other assurance related services | | |
| - <i>Accounting advice</i> | - | - |
| - <i>Regulatory audit and reviews</i> | 404,000 | 435,000 |
| - <i>Other reviews</i> | 340,000 | - |
| Total remuneration for other assurance related services | 744,000 | 435,000 |
| Other services | | |
| - <i>Other</i> | 307,000 | 40,000 |
| Total remuneration for other services | 307,000 | 40,000 |
| Total auditor's remuneration | 3,692,700 | 2,882,000 |

H Other information *continued*

H8 Other significant accounting policies

Held to maturity assets

Held to maturity assets comprise term deposits held with financial institutions, with original maturities of over four months. These assets are initially recognised at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Impairment of financial assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Significant financial assets are tested for impairment individually. The remaining financial assets are assessed in groups that share similar credit risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Inventories

Inventories include spare parts to be used in maintaining the **nbn**[™] access network. Costs are assigned to individual items of inventory on the basis of weighted average costs. Inventories are valued at the lower of cost and net realisable value.

Foreign currency translation

Foreign currency transactions are translated into the functional currency of the Group using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of financial position.

The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

Interest income

The Group records interest income on an accruals basis. For financial assets, interest revenue is determined by the effective yield on the instrument.

Gifted assets and government grants

Government grant income is recognised when the performance obligations of the grant are satisfied.

When the grant relates to an asset or assets received for no consideration, the gifted asset is recorded at fair value and the resulting gain is credited to deferred income.

The gain is released to profit or loss on a straight line basis, over the expected period of provision of services which is estimated to be the useful life of the relevant asset or assets.

Subscriber costs

Subscriber costs primarily include contractual payments to Telstra regarding the disconnection of services and to Optus regarding the migration of subscribers as well as expenditure for medical alarm and satellite subsidy schemes. Expenditure is recognised in the period as the disconnection or migration service is rendered.

New standards and interpretations available for early adoption

Certain new accounting standards, amendments to existing standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period. These standards, amendments to existing standards and interpretations have not been early adopted by the Group. Notwithstanding the impact of AASB15 Revenue from Contracts with Customers, the Directors have not fully assessed the impact of these new and amended standards and interpretations (to the extent that they are relevant to the Group). A summary of these new standards, amendments to existing standards and interpretations that may have an impact is set out below:

AASB 15 Revenue from Contracts with Customers and AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. An assessment of AASB 15 on the recognition and measurement of revenue has been completed with no material differences noted. As a result, the standard is not expected to materially impact the consolidated Group. The standard is mandatory for the Group from the annual reporting period beginning 1 July 2018.

AASB 9 Financial Instruments

The standard includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and supplements hedge accounting requirements.

An assessment of the impact of the standard has been completed with no material differences noted. As a result, the standard is not expected to materially impact the consolidated Group. The standard is mandatory for the Group from the annual reporting period beginning 1 July 2018.

AASB 16 Leases

AASB 16 removes the classification of leases as either operating leases or finance leases for the lessee – effectively treating all leases as finance leases.

Short-term leases (less than 12 months) and leases of low value assets (such as personal computers) are exempt from the lease accounting requirements.

Lessees will recognise an asset (the right to use the leased asset) and a financial liability to pay future rentals.

Lessor accounting remains similar to the current practice – i.e. lessors continue to classify leases as finance and operating leases.

The standard will impact the annual reporting period commencing 1 July 2019, and may materially impact the financial statements of the consolidated Group. NBN Co has established a project team, focused on the identification and evaluation of the requirements of AASB 16 which are expected to have the greatest impact on the NBN Co Group. However, a full assessment of the impact is yet to be completed.

I. Events occurring after the reporting period

No matter or circumstance has arisen since 30 June 2018 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
- The Group's state of affairs in future financial years.

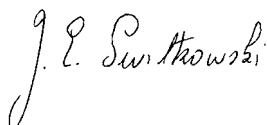
Directors' declaration

- (1) The financial statements and notes set out on pages 107 to 151 are in accordance with the *Corporations Act 2001* and the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), including:
- (i) Complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date.
- (2) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (3) At the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note H4 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 described in Note H4.

Note A confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

9 August 2018



Mr Bill Morrow
Chief Executive Officer

9 August 2018

Independent auditor's report



Auditor-General for Australia



INDEPENDENT AUDITOR'S REPORT

To the members of NBN Co Limited

Opinion

In my opinion, the financial report of NBN Co Limited and its subsidiaries (together the NBN Co Group) for the year ended 30 June 2018 is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the NBN Co Group's financial position as at 30 June 2018 and of its performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

The financial report of the NBN Co Group, which I have audited, comprises the following statements as at 30 June 2018 and for the year then ended:

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

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of the NBN Co Group in accordance with the *Corporations Act 2001* and the relevant ethical requirements for financial report audits conducted by me. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code.

I confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of NBN Co Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. These matters were addressed in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Key audit matter

Valuation of property, plant and equipment and intangible assets - impairment

Refer to Note C3 'Property, plant and equipment,' Note C4 'Intangible assets' and Note C5 'Impairment of assets'

NBN Co Group's assets include intangibles currently under construction and as such NBN Co Group is required to conduct an annual impairment assessment over these assets.

The NBN Co Group's network property, plant and equipment and intangible assets combined were the largest balances on the balance sheet at year-end \$25,043m. This is a key audit matter for me, as due to the nature of the NBN Co Group's business and assets and emergence of new technologies, determining the recoverable amount of these assets was complex and required significant professional judgement.

How the audit addressed the matter

To audit the impairment of property, plant and equipment and intangible assets, I assessed the appropriateness of key factors of NBN Co Group's approach to assessing impairment including the identification of Cash Generating Units and determination of methodology. This included consideration of industry practice for entities with large assets under construction and alternative valuation techniques.

I engaged valuation experts to help me assess and perform the following procedures on NBN Co Group's valuation models used to assess impairment:

- assessed on a sample basis the appropriateness of how the current replacement cost, a key input to determine the recoverable amount, was estimated based on the nature of each technology type and the data sources;
- assessed whether the useful lives used to convert the current replacement cost to a depreciable replacement cost were reasonable and consistent with those used for testing depreciation and amortisation expenses for a sample of models;
- as part of assessing NBN Co's depreciated replacement cost, I have performed a sensitivity analysis varying certain inputs in NBN Co's economic obsolescence test including revenue and discount rates to other outcomes that I considered reasonably possible; and
- assessed key technological advancements for a sample of technology types and assessed the impact on the current replacement cost.

In addition, I performed the following procedures on NBN Co Group's valuation models used to assess impairment:

- assessed the appropriateness of the year-on-year change in current replacement cost for each technology type, by considering a sample of the changes in costs (e.g. materials and labour) and other relevant factors during the year, including movements in indices;

| | |
|--|---|
| | <ul style="list-style-type: none"> • tested the mathematical accuracy of a sample of models used to calculate the recoverable amount; and • tested for a sample of models, the accuracy of key inputs in determining the current replacement cost, from the fixed asset register, including quantities, location and asset type to supporting accounting records including final design documents, invoices and delivery partner contracts. |
| <p>Key audit matter</p> <p>Accuracy and completeness of depreciation and amortisation expense</p> <p><i>Refer to Note C3 'Property, plant and equipment' and Note C4 'Intangible Assets'</i></p> <p>NBN Co Group's property, plant and equipment and intangible assets combined were the largest balances on the balance sheet at year-end \$27,068m with depreciation and amortisation expense for the year ended 30 June 2018 of \$2,167m.</p> <p>This is a key audit matter for me because the calculation of the depreciation and amortisation expense of the network property, plant and equipment and intangibles involves significant professional judgement and complex manual accounting by the NBN Co Group.</p> | <p>How the audit addressed the matter</p> <p>In relation to the calculation of depreciation and amortisation, I undertook the following procedures:</p> <ul style="list-style-type: none"> • performed industry benchmarking to assess the appropriateness of the useful lives of NBN Co Group's assets; • assessed the appropriateness of a sample of cost allocations in the manual depreciation models, by comparison with the historical allocation of asset costs. These models are used to calculate depreciation for assets in use that are not yet transferred to the fixed asset register; • re-performed the mathematical calculations for a sample of manual depreciation models; and tested the accuracy of a sample of in-service dates, which determines the commencement of the depreciation, to external and internal source documentation showing when construction was completed. |
| <p>Key audit matter</p> <p>Valuation of construction liabilities estimates</p> <p><i>Refer to Note C3 'Property, plant and equipment' and Note C6 'Trade and other payables'</i></p> <p>The liability balance at 30 June 2018 was \$985m.</p> <p>This is a key audit matter for me as NBN Co Group's process for estimating construction liabilities due to delivery partners involves significant professional judgement due to the complexity of the unique network build.</p> <p>In line with industry practice, NBN Co Group calculated construction liabilities by estimating the total cost at construction completion and applying their estimate to the stage of their completion to determine the costs incurred to date. This estimate is dependent on a number of key estimates and judgements.</p> <p>NBN Co Group continues to develop and roll out</p> | <p>How the audit addressed the matter</p> <p>I performed the following procedures:</p> <ul style="list-style-type: none"> • tested key controls over approval of a sample of construction purchase orders; • tested whether forecast construction costs had been accurately recorded for a sample of projects, by comparing forecast costs to approved construction purchase orders; • tested variations to original forecast construction costs by obtaining a sample of corroborating evidence including correspondence with delivery partners and changes to schedules of rates. I compared the level of costs included to those from similar completed construction sites to assess whether the NBN Co Group costs reflected the uncertainty in overall costs; • assessed whether there were additional construction liabilities that needed to be recognised from legal claims and disputes |

new technologies. During the early stages of the roll out of such technologies, there is a limited history of costs resulting in a greater level of estimation. Where possible, NBN Co Group leverages from the work completed on other technology types.

by enquiry with management of NBN Co Group and obtaining confirmations of legal claims directly from NBN Co Group's legal advisors;

- tested the appropriateness of the stage of completion applied at 30 June 2018 for a selection of construction projects through enquiries with NBN Co Group's management and assessing the reliability of historical estimates of the stage of completion, by comparing estimates and actuals every six months; and
- assessed whether relevant projects were appropriately included or excluded from those accrued as part of the construction liabilities by comparing the list of ongoing projects (tested as part of property, plant and equipment and intangibles) with the list of construction sites.

Key audit matter

Accounting treatment of rights and obligations under significant contractual arrangements.

Refer to Note F1 'Telstra Revised Definitive Agreements' and Note C8 'Other financial liabilities'

The Telstra Revised Definitive Agreements (RDAs) are significant arrangements with a critical service partner, representing the largest source of individual assets and expenses for NBN Co Group. The RDAs provide NBN Co Group with access to certain Telstra infrastructure through leases and transfer of ownership.

This is a key audit matter for me as the RDAs give rise to complex accounting considerations and estimation procedures, including:

- whether the arrangements should be accounted for as service arrangements or lease arrangements; the treatment of future contingent rentals; the proportion of cash lease payments that are expenses in nature; and the appropriate discount rate used to calculate the present value of the minimum lease payments for leased assets; and
- estimating the number of disconnected Telstra services within an agreed period for which NBN Co Group is required to make payments. Judgements are involved to enable NBN Co Group to estimate how many Telstra services have been disconnected and hence the amount to

How the audit addressed the matter

I performed the following procedures:

- assessed whether any changes in the RDAs in the current year would result in changes to the accounting judgements determined at inception of the lease agreement;
- tested a sample of new leases acquired in the period to assess whether the accounting policies determined at inception of the lease continue to be appropriately and consistently applied;
- tested a sample of leased and owned asset additions to external source documentation to assess whether these sample assets were recognised at the appropriate time;
- assessed the NBN Co Group's accrual balance with reference to the possible ranges of current period disconnection levels and past Telstra disconnection history; and
- tested a sample of the key inputs used in the accrual calculation by agreeing to external source documentation, including invoices received from Telstra.

accrue as at 30 June 2018. This requires an estimation of disconnection levels, based upon historical information.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, but does not include the financial report and my auditor's report thereon.

My opinion on the financial report does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial report, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Directors' Responsibility for the Financial Report

The directors of NBN Co Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the NBN Co Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the NBN Co Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

My objective is to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NBN Co Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the NBN Co Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to

the date of my auditor's report. However, future events or conditions may cause the NBN Co Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the NBN Co Group to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the NBN Co Group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Australian National Audit Office



Grant Hehir
Auditor-General

Canberra
9 August 2018

Regulatory report

For the year ended 30 June 2018

NBN Co is subject to various reporting requirements including (but not limited to) under the:

- *Public Governance, Performance and Accountability Act 2013*
- *Corporations Act 2001*
- *Freedom of Information Act 1982*
- *Superannuation Benefits (Supervisory Mechanisms) Act 1990*
- *Work Health and Safety Act 2011*
- *Environment Protection and Biodiversity Act 1999*
- *National Greenhouse and Energy Reporting Act 2007.*

The Regulatory report provides information on NBN Co's compliance with the applicable laws and regulations.

A number of matters are disclosed in the main body of the annual report. Other matters are disclosed in this Regulatory report.

The regulatory reporting requirement index on pages 166 to 172 shows where the relevant information can be found in this annual report.

Legislation

The *National Broadband Network Companies Act 2017* (NBN Co Act) is a standalone law which establishes:

- NBN Co's ownership arrangements and wholesale mandate
- Certain line of business restrictions on NBN Co
- The framework for the eventual privatisation of NBN Co.

NBN Co ownership and structure

Under the NBN Co Act, the Commonwealth must retain ownership of NBN Co until at least:

- The Communications Minister has declared that the **nbn**TM access network is built and fully operational.
- The Productivity Minister has tabled a Productivity Commission inquiry report in both Houses of Parliament.
- The Parliamentary Joint Committee on the ownership of NBN Co has examined the report.
- The Finance Minister has declared that conditions are suitable for NBN Co sale scheme.

Corporate Plan

NBN Co published the Corporate Plan 2018-21, which covers the reporting periods of FY18 to FY21 inclusively, in August 2017. NBN Co has also prepared a draft Corporate Plan for the reporting periods 2019-22.

Objective

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, the **nbn**TM access network has been structured as a wholesale-only access network available on equivalent terms to all access seekers. This is intended to level the playing field for Australian telecommunications and create real and vibrant competition within the industry.

Commonwealth Government policies

NBN Co's objectives are set by the Shareholder Ministers in a document referred to as 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, which outlines the Australian Government's commitment to complete the **nbn**TM access network and ensure all Australians have access to fast broadband as soon as possible, at affordable prices and at least cost.

The Commonwealth Government expects that NBN Co will use flexible discretion in the design, build and operation of the **nbn**TM access network, within the constraints of a public equity capital limit of \$29.5 billion and debt capital funding of up to \$19.5 billion to provide access to fast broadband to Australian premises. The Commonwealth Government expects NBN Co to provide download data rates of at least 25Mbps at the wholesale level to all premises and at least 50Mbps at the wholesale level to 90 per cent of Australian fixed-line premises¹.

The Commonwealth Government expects the Company to operate in an appropriately transparent manner and to take proportionate responsibility for the quality, consistency and continuity of service experienced by Retail Service Providers and end users.

The Commonwealth Government's vision for NBN Co is that it operates as a commercial entity. NBN Co has been established as a wholly-owned Government Business Entity (GBE).

NBN Co has adopted a holistic security framework, aligning its overall security compliance with Australian Government security requirements and telecommunications regulatory obligations. The multi-disciplinary NBN Co Security Group, supported by investment in cyber security and independent security reviews,

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

provides a balanced security team committed to protecting NBN Co's reputation, people, assets and information.

Parliamentary oversight

Responsible Minister

NBN Co has two Shareholder Ministers. As at the date of this report these were the Minister for Communications and the Arts, Senator the Hon Mitch Fifield and the Minister for Finance, Senator the Hon Mathias Cormann.

Reporting requirements and transparency

As part of regular reporting to the Commonwealth Government and Parliament, NBN Co provides regular reporting to its Shareholder Ministers and the public in accordance with the Government's requirement for a high degree of transparency of the project. This includes weekly online reporting of key network deployment metrics, monthly reports to Shareholder Ministers and quarterly financial and operational briefings of stakeholders and the media.

Parliamentary and other Committees

During the year, NBN Co made appearances at the Senate Environment and Communications Legislative Committee (6 hearings).

NBN Co made three appearances at the Joint Standing Committee on the National Broadband Network.

In addition to the questions answered during the hearings, NBN Co received 425 questions on notice arising from these hearings for FY18.

During FY18, NBN Co lodged a number of 'significant event notices' with the Commonwealth Government in accordance with its obligations under the *Commonwealth Government Business Enterprise Governance and Oversight Guidelines (January 2018)* and the *Public Governance, Performance and Accountability Act 2013*. No Ministerial directions were received by NBN Co during FY18 (FY17: nil).

Superannuation Benefits

During FY18, NBN Co complied with all relevant guidelines and made no significant changes to superannuation arrangements for employees.

Work Health and Safety Act 2011

Our safety performance

While many of our leading metrics performed strongly, in FY18 we saw an unfavourable increase in our lag metrics. Our TRIFR increased from 2.8 to 3.5 and our Lost Time Injury Frequency Rate increased from 0.7 to 1.0 for employees and contractors.

To address this performance we undertook several initiatives including:

- Developing and implementing the HSE Critical Controls for our internal and contractor workforce.
- Updating our HSE inspection framework to align with our refreshed HSE Critical Risk Controls. This helps to make sure our assurance activities are controlling the most critical health, safety and environmental risks that affect our workforce, the community and the environment.
- Developing a safety improvement framework that was endorsed by our Executive Committee.

Key priorities for the coming year will build on our existing framework to further strengthen risk controls and shift performance.

| Indicators | FY18 | FY17 |
|--|------|------|
| TRIFR ¹ - employees and contractors | 3.5 | 2.8 |
| TRIFR ¹ - employees | 2.3 | 1.1 |
| TRIFR ¹ - contractors | 3.9 | 3.6 |

¹ Total recordable injury frequency rate (TRIFR) is the total number of recordable injuries per million hours worked. This includes work-related fatalities and permanent disability injury/illness (PDI), and work-related injuries or illnesses resulting in lost time (Lost Time Injuries or LTIs), restricted or alternate duties (Restricted Work Injuries or RWIs), and medical treatment by medical professionals (Medical Treatment Injuries or MTIs). It does not include any first aid injury/illness.

In FY18, NBN Co notified Comcare of 34 work health and safety incidents. NBN Co did not receive any notices under Part 10 of the WHS Act.

Where appropriate, we conducted investigations in line with our NBN Co HSE Incident Management Procedure. NBN Co's Delivery Partners also conduct investigations in line with our HSE Incident Management Procedure for Contractors.

Refer to pages 34 to 39 for further information on NBN Co's health and safety performance.

Environment Protection and Biodiversity Conservation Act 1999

As a Commonwealth GBE, NBN Co reports each year in compliance with Section 516A of the EPBC Act 1999 on the following matters:

- How the activities of NBN Co accorded with the principles of ecologically sustainable development (ESD).
- The effect of NBN Co's activities on the environment.
- Measures being taken to minimise the impact of activities by NBN Co on the environment and the mechanisms for reviewing and increasing the effectiveness of these measures.

Accordance with and contribution to Ecologically Sustainable Development (ESD)

At NBN Co we value the environment. NBN Co aims to build a network that minimises energy use and can be operated with minimal impact on the environment.

The National Strategy for Ecologically Sustainable Development defines the goal of ESD as 'development that improves the total quality of life, both now and in the future, in a way that maintains the ecological processes on which life depends' and therefore references to the integration, precautionary,

intergenerational, biodiversity and valuation ESD principles. NBN Co has an ongoing commitment to ESD principles as articulated in our HSE Policy and embedded into the business activities via our management system and standards.

During FY18, this was demonstrated by:

- Continuing to build the **nbn**TM access network which aims in conjunction with our RSPs to deliver access to high-speed broadband to all Australians. The **nbn**TM access network will support Australia's future economic growth and evolution towards a more digitally connected workforce. Access to faster broadband will help to improve resource efficiency and reduce reliance on travel. The **nbn**TM access network will support innovation and act as a digital enabler for a lower carbon future. (Integration and Intergenerational Principle).
- Participating in the XDI Sydney – Cross Dependency Initiative. The XDI Platform provides utility managers with climate related physical risk analytics to optimise investment scenario planning and target setting for climate resilience. (Precautionary Principle).
- Implementing a national program of field-based environmental assurance through our HSE assurance framework. (Precautionary Principle).
- Launching our refreshed Environment Protection Critical Risk Control to NBN Co employees and Delivery Partners. The purpose of this Critical Control is to prevent harm to the environment and heritage values to ensure these are protected for future generations. (Intergenerational Principle).
- Updating our environmental inspection tool to align with the refreshed NBN Co Environment Critical Risk Control. This helps to make sure our assurance activities are controlling the most critical environmental risks. (Precautionary Principle).

- Continuing to prepare Planning Assessment Reports (PAR) for all major construction works to identify heritage places and areas of environmental significance. PARs help ensure compliance with the EPBC Act and that statutory permits are secured. PARs also help ensure that designs reflect issued conditions or environmental constraints before construction commences. (Biodiversity Principle).
- Continuing to improve our energy cost data, forecasting and planning capabilities including consideration in decision making when material. (Valuation Principle).

Refer to page 40 for further information on NBN Co's environmental performance.

Our Environment Performance

In line with the growth of the **nbn**[™] access network, energy usage increased in FY18.

The table below provides an estimate of NBN Co's scope 1 and 2 greenhouse gas emissions and energy consumption for FY18 in comparison with prior years' externally assured data (as reported to the Clean Energy Regulator).

| Indicator | FY18 estimate | FY17 | FY16 | FY15 |
|---|---------------|---------|---------|---------|
| Scope 1 emissions (tCO ₂ -e) | 4,141 | 4,106 | 6,378 | 2,680 |
| Scope 2 emissions (tCO ₂ -e) | 199,998 | 152,758 | 69,413 | 25,582 |
| Total scope 1 and 2 emissions (tCO ₂ -e) | 204,139 | 156,864 | 75,791 | 28,262 |
| Energy consumed (GJ) | 923,915 | 718,277 | 379,750 | 138,166 |

NBN Co is subject to the reporting requirements in the National Greenhouse and Energy Reporting Act 2007. The Act requires NBN Co to report its annual Australian greenhouse gas emissions, energy consumption and energy production. NBN Co will submit its final, externally assured report for FY18 energy and greenhouse gas emissions data to the Clean Energy Regulator in October 2018.

During FY18 NBN Co did not receive any fines or prosecutions under any environmental regulations.

Freedom of information report

The *Freedom of Information Act 1982* (FOI Act) gives members of the public a general right of access to documents held by Australian Government agencies, Ministers and Government Business Enterprises, such as NBN Co. In addition to the general exemptions under the FOI Act, Parliament has determined that documents relating to NBN Co's commercial activities are exempt from the operation of the FOI Act. Similar exemptions operate for other Commonwealth businesses, and research and other organisations, such as Australia Post, CSIRO and Comcare.

During FY18, NBN Co received 113 new FOI requests, carried forward 4 from FY17, finalised 108 requests under the FOI Act and carried over 9 FOI requests into the next financial year.

Those applications were processed as follows:

| | |
|-----------------------|----|
| Granted in full | 2 |
| Granted in part | 1 |
| Access refused | 10 |
| No documents held | 9 |
| Request transferred | 1 |
| Application withdrawn | 85 |

The Office of the Australian Information Commissioner (OAIC) initiated reviews concerning two of NBN Co's FOI determinations in FY18. While one OAIC review is still pending, the Information Commissioner chose not to continue with a substantive review in relation to the other matter – effectively upholding NBN Co's decision. The same matter was also subject to an Internal Review and upheld during this period. In addition, NBN Co was not subject to any reviews or appeals at the Administrative Appeals Tribunal.

How to make FOI requests

NBN Co recognises that information is a vital and an invaluable resource, both for the Company and for the broader Australian community. NBN Co promotes a pro-disclosure culture, with the goal of creating an organisation that is open, transparent and accountable. As such, a large amount of information is freely available on NBN Co's website.

To make an FOI request, applicants should apply in writing and:

- Specify that documents are being sought for the purposes of the FOI Act.
- Provide a postal or email address where correspondence can be sent. A telephone number will also help in case further information is required.
- Describe as clearly as possible the information being sought, including any reference numbers or details that may assist in identifying specific material.

FOI applications can be emailed to:

FOIofficer@nbnco.com.au

Or posted to:

FOI Requests
NBN Co Limited
Level 11, 100 Arthur Street
North Sydney NSW 2060

Information publication scheme

Part 2 of the FOI Act requires Commonwealth Government agencies, Ministers and certain Government Business Enterprises to establish an Information Publication Scheme (IPS). As a GBE, NBN Co is required to adhere to the IPS provisions and outline the Company's obligations to provide the Australian community with access to information regarding the Company's operations, activities and other matters. In addition to publishing a broad range of information on the website, NBN Co has published its IPS Plan, which explains how the Company implements and administers its publication scheme. This may be found at the following:

<http://www.nbnco.com.au/corporate-information/about-nbn-co/freedom-of-information/information-publication-scheme.html>.

While section 7(2) and section 7(3A) of the FOI Act exempts NBN Co from releasing information relating to its commercial activities, NBN Co regularly releases information about its operations on a proactive basis. NBN Co's objective is to continue along this path without compromising its commercial, business or operational objectives, or those of its partners.

NBN Co welcomes input from the community regarding its IPS, along with suggestions regarding information that our Company might consider publishing. In that regard, please forward any comments or suggestions to the FOIofficer@nbnco.com.au. If NBN Co is unable to publish the information requested, NBN Co staff will be in contact to discuss the reasons that the information was unavailable. NBN Co will also endeavour to provide other options regarding information that may be available.

Privacy and access to personal information

Under the *Privacy Act 1988* individuals have, subject to certain exceptions permitted by law, a right to request access to their personal information. For further information, please refer to NBN Co's Privacy Policy, available on our website.

Individuals may apply for access to their personal information held by NBN Co by writing to:

Privacy Officer
NBN Co Limited
Level 11, 100 Arthur Street
North Sydney NSW 2060

Or email to: privacyofficer@nbnco.com.au

Other matters

During FY18, no reports on NBN Co were given by any of the Commonwealth Ombudsman, Office of the Australian Information Commissioner or Australian Securities and Investment Commission. The following reports were published during FY18 by relevant third parties:

- 'The rollout of the National Broadband Network: 1st report of the 45th Parliament' by the Joint Standing Committee on the National Broadband Network (29 September 2017).
- 'Administration of the National Broadband Network Satellite Support Scheme' by the Auditor-General (28 November 2017, Report No. 16 2017-18).

Regulatory reporting requirements index

For the year ended 30 June 2018



| Section | Subject | Location | Pages |
|---|---|------------------------------|----------------|
| <i>Public Governance, Performance and Accountability Act 2013 (PGPA Act)</i> | | | |
| s. 97 | Financial report | Financial report | 106-152 |
| | Directors' report | Directors' report | 8-70 |
| | Auditor's report | Independent auditor's report | 153-158 |
| <i>Corporations Act 2001</i> | | | |
| s. 295 | Financial statements | Financial report | 107-110 |
| | Notes to financial statements | Financial report | 111-151 |
| | Directors' declaration | Directors' declaration | 152 |
| s. 298 – s. 300 | Directors' report | Directors' report | 8-70 |
| s. 301 and s. 308 | Audit of annual report and auditor's report | Independent auditor's report | 153-158 |
| <i>Public Governance, Performance and Accountability Rule 2014</i> | | | |
| 28E | Contents of annual report | | |
| 28E (a) | The purposes of the company as included in the company's corporate plan for the period | Regulatory report | 160 |
| 28E (b) | The names of the persons holding the position of responsible Minister or responsible Ministers during the period, and the titles of those responsible Ministers | Regulatory report | 161 |
| 28E (c) | Any directions given to the entity by a Minister under the company's constitution, an Act or an instrument during the period | Regulatory report | 161 |
| 28E (d) | Any government policy orders that applied in relation to the company during the period under section 93 of the PGPA Act | Regulatory report | 160-161 |
| 28E (e) | If, during the period, the company has not complied with a direction or order referred to in section 28E(c) or 28E(d)—particulars of the non-compliance | Not applicable | Not applicable |

| Section | Subject | Location | Pages |
|--|---|--------------------------------|----------------|
| <i>Public Governance, Performance and Accountability Rule 2014</i> | | | |
| 28E (f) | Information on each director of the company during the period, including: <ul style="list-style-type: none"> (i) the name of the director; (ii) the qualifications of the director; (iii) the experience of the director; (iv) the number of meetings of the board of the company attended by the director during the period; and (v) whether the director is an executive director or non-executive director. | Directors' report | 55-60 |
| 28E (g) | An outline of the organisational structure of the company (including any subsidiaries of the company). | Financial report | 143 |
| 28E (h) | An outline of the location (whether or not in Australia) of major activities or facilities of the company. | Directors' report | 16-53 |
| 28E (i) | Information in relation to the main corporate governance practices used by the company during the period. | Corporate governance statement | 84-104 |
| 28E (j) | The decision-making process undertaken by the directors of the company for making a decision if: <ul style="list-style-type: none"> (i) the decision is to approve the company paying for a good or service from a Commonwealth entity or a company, or providing a grant to a Commonwealth entity or a company; (ii) the company, and the Commonwealth entity or the company, are related entities; and (iii) the value of the transaction, or if there is more than one transaction, the aggregate value of those transactions, is more than \$10 000 (GST inclusive). | Not applicable | Not applicable |
| 28E (k) | If the annual report includes information under section 28E (j): <ul style="list-style-type: none"> (i) if there is only one transaction—the value of the transaction; and (ii) if there is more than one transaction—the number of transactions and the aggregate of value of the transactions. | Not applicable | Not applicable |

| Section | Subject | Location | Pages |
|--|--|------------------------------|----------------|
| <i>Public Governance, Performance and Accountability Rule 2014</i> | | | |
| 28E (l) | Any significant activities and changes that affected the operations or structure of the company during the period. | Directors' report | 70 |
| 28E (m) | Particulars of judicial decisions or decisions of administrative tribunals made during the period that have had, or may have, a significant effect on the operations of the company. | Regulatory report | 164 |
| 28E (n) | Particulars of any report on the company given during the period by: | | |
| | (i) the Auditor-General; or | Independent auditor's report | 153-158 |
| | (ii) a Committee of either House, or of both Houses, of the Parliament; or | Regulatory report | 165 |
| | (iii) the Commonwealth Ombudsman; or | Regulatory report | 165 |
| | (iv) the Office of the Australian Information Commissioner; or | Regulatory report | 165 |
| | (v) the Australian Securities and Investments Commission. | Regulatory report | 165 |
| 28E (o) | If the directors have been unable to obtain information from a subsidiary of the company that is required to be included in the annual report—an explanation of the information that was not obtained and the effect of not having the information on the annual report. | Not applicable | Not applicable |
| 28E (p) | An index identifying where the requirements of this section and section 28F (if applicable) are to be found. | Regulatory index | 167-172 |

| Section | Subject | Location | Pages |
|------------|--|--|---|
| 28F | Disclosure requirements for government business enterprises. | | |
| 28F (1) | <p><i>Changes in financial conditions and community service obligations</i></p> <p>The annual report for a reporting period for a government business enterprise that is a Commonwealth company must include the following information:</p> <p>(a) an assessment of:</p> <p>(i) significant changes in the company's overall financial structure and financial condition during the reporting period; and</p> <p>(ii) any events or risks that could cause financial information that is reported not to be indicative of future operations or financial condition.</p> <p>(b) dividends paid or recommended in relation to the reporting period.</p> <p>(c) details of any community service obligations the government business enterprise has, including:</p> <p>(i) an outline of actions the government business enterprise has taken to fulfil those obligations; and</p> <p>(ii) an assessment of the cost of fulfilling those obligations.</p> | <p>Directors' report</p> <p>Directors' report</p> <p>Directors' report</p> <p>Not applicable</p> | <p>41-46</p> <p>47-52</p> <p>70</p> <p>Not applicable</p> |
| 28F (2) | <p><i>Information that is commercially prejudicial</i></p> <p>However, information may be excluded if the directors of the government business enterprise believe, on reasonable grounds, that the information is commercially sensitive and would be likely to result in unreasonable commercial prejudice to the government business enterprise. The annual report must state whether such information has been excluded.</p> | Not applicable | Not applicable |

| Section | Subject | Location | Pages |
|---|--|--|------------------|
| <i>Work Health and Safety Act 2011</i> | | | |
| Sch 2, cl 4(2)(a) | Initiatives taken during the year to ensure the health, safety and welfare of workers who carry out work for the entity. | Directors' report and Regulatory report | 34-38 161-162 |
| Sch 2, cl 4(2)(b) | Health and safety outcomes (including the impact on injury rates of workers) achieved as a result of initiatives mentioned under clause 4(2)(a) or previous initiatives. | Directors' report and Regulatory report | 34-38 161-162 |
| Sch 2, cl 4(2)(c) | Statistics of any notifiable incidents of which the entity becomes aware during the year that arose out of the conduct of businesses or undertakings by the entity. | Directors' report and Regulatory report | 34-38 161-162 |
| Sch 2, cl 4(2)(d) | Any investigations conducted during the year that relate to businesses or undertakings conducted by the entity, including details of all notices given to the entity during the year under Part 10 of the <i>Work Health and Safety Act 2011</i> . | Directors' report and Regulatory report | 34-38 161-162 |
| Sch 2, cl 4(2)(e) | Such other matters as are required by guidelines approved on behalf of the Parliament by the Joint Committee of Public Accounts and Audit. | Directors' report and Regulatory report | 34-38 161-162 |
| <i>Environment Protection and Biodiversity Conservation Act 1999</i> | | | |
| s. 516A(4) and (6) | Report on the implementation of the Ecologically Sustainable Development program within NBN Co including social, economic, culture and environmental performance. | Regulatory report | 162-163 |
| <i>Superannuation Benefits (Supervisory Mechanisms) Act 1990</i> | | | |
| s. 6(1)(b) | Report on establishment and operation of the superannuation arrangement under which the benefits are provided. | Regulatory report | 161 |

| Section | Subject | Location | Pages |
|--|---|--|---------|
| <i>The Freedom of Information Act, 1982</i> | | | |
| s. 93 | Provide information to the Information Commissioner (IC) | Regulatory report | 164-165 |
| <i>National Greenhouse and Energy Reporting Act 2007</i> | | | |
| s. 19 | <p>Report to be given to the Regulator:</p> <p>(1) A corporation registered under Division 3 of Part 2 must, in accordance with this section and in respect of each financial year mentioned in subsection (2), provide a report to the Regulator relating to the:</p> <p>(a) greenhouse gas emissions;</p> <p>(b) energy production;</p> <p>(c) energy consumption.</p> <p>from the operation of facilities under the operational control of the corporation and entities that are members of the corporation's group, during that financial year</p> <p>(2) A report under subsection (1) is required for:</p> <p>(a) the corporation's trigger year (within the meaning of subsection 12(1) or (3)); and</p> <p>(b) any financial year in which the corporation is registered at the end of that year.</p> | <p>The Regulatory report contains estimated FY18 greenhouse gas emissions, energy consumption and energy production data.</p> <p>Actual FY18 data will be subject to external assurance and will be submitted to the Clean Energy Regulator in October 2018.</p> | 163 |

Additional information

For the year ended 30 June 2018



Additional footnotes

Outlined below are footnotes in respect to customer experience metrics disclosed on pages 22 and 23. These footnotes further explain what each metric is measuring and how each metric has been calculated.

Right first time installations of nbn™ equipment

3. The percentage of homes and businesses that have their nbn™ equipment installed without additional work from NBN Co the first time the installation is attempted. Typically NBN Co excludes end-user cancellations, end-user or RSP initiated reschedules, end-user premises 'shortfalls' and other things outside of NBN Co's control such as bad weather. This measure covers the installation of equipment that does not require more than one appointment. It does not cover successful connections to a plan over the nbn™ access network through an RSP.

Meeting agreed installation times

4. The percentage of premises that NBN Co connects to the nbn™ access network within its agreed service level timeframes with phone and internet providers. The agreed service level varies by nbn™ access network type and available infrastructure at the premises. The WBA includes provisions around calculation and time measurement. This metric does not include Priority Assistance connections or Accelerated Connections.

Fixed-line congestion

5. This metric reflects the estimated monthly average percentage of homes and businesses that experience nbn™ access network congestion (as per NBN Co's congestion measures for fixed-line networks). Congestion metrics vary between fixed-line technologies. These are calculated based on the utilisation of certain parts of the nbn™ fixed-line access network that are shared by RSPs. The speeds actually achieved over the nbn™ access network also depend on factors outside NBN Co's control including your equipment quality, software, signal quality, broadband plans and how your RSP designs its network.

Network availability

6. Percentage of time the nbn™ access network is available and operating. This is calculated per NBN Co's agreed service levels with phone and internet providers. This excludes planned network outages and has been rounded to the nearest one decimal place. *The Wholesale Broadband Agreement (WBA) includes detailed rules for defining and measuring network availability and includes a number of exceptions such as planned outages.*

Meeting agreed fault restoration times

7. The percentage of time NBN Co resolves faults within its agreed service levels with phone and internet providers. *This measure tracks individual service faults, not network related faults which are tracked separately. The measure also excludes faults not related to the nbn™ access network. The agreed service levels vary depending on the location of the premises, and are different for the Sky Muster™ satellite network. The Wholesale Broadband Agreement (WBA) includes detailed rules for defining "nbn™ faults" and measuring nbn™ access network performance. This measure does not include Priority Assistance Faults or Enhanced Faults.*

Faults per 100 connected homes and businesses

8. The number of faults on the nbn™ access network per 100 premises per month. *This measure tracks individual service faults, not network related faults which are tracked separately. It excludes faults not related to the nbn™ access network.*

Average network bandwidth congestion (per week)

9. The average number of minutes of bandwidth congestion per week/ per service. This is calculated across all bandwidth purchased by all phone and internet providers across the entire network (CVC congestion). Please note that while bandwidth congestion is caused by the level of provisioning of capacity by the phone and internet provider, there are also other types of congestion which may occur on the nbn™ access network.

Uptake to higher peak wholesale speed plans

10. This includes wholesale plans available to RSPs with download speeds of 50Mbps and 25-50Mbps. The nbn™ access network is being designed to provide these peak speeds to NBN Co's Retail Service Providers at NBN Co network boundary. The nbn™ wholesale speed tiers available to RSPs vary depending on the nbn™ access network technology in your area. Your experience including the speeds actually achieved over the nbn™ access network depends on the network type, technology and configuration over which services are delivered to your premises. Your experience will also be affected by some factors outside our control including your equipment quality, software, signal quality, broadband plans and how your phone and internet provider designs its network.

Glossary

| Abbreviation or term | Definition |
|---|--|
| ABS | Australian Bureau of Statistics. |
| ACCC | Australian Competition and Consumer Commission. |
| Access Seeker | A customer acquiring NBN Co wholesale services with the intention to supply broadband services to Service Providers or end users. |
| Access Technology | The technology used by NBN Co to deliver the nbn [™] access network from the exchange location to the network distribution point. |
| Access Virtual Circuit (AVC) | The bandwidth acquired by RSPs which can be allocated to end users' premises. The AVC is a virtual point-to-point connection from NBN Co's network boundary point associated with end-user premises back to the POI. |
| Australia's broadband network | The nation-wide wholesale-only access network, available on equivalent terms to all access seekers, that will be deployed by NBN Co and third parties engaged on behalf of NBN Co. |
| Average Revenue Per User (ARPU) | Calculations include all telecommunications revenue generated including AVC, CVC and other products. |
| Brownfields | Pre-existing premises. |
| Business Process Excellence (BPE) | Optimisation of business processes through adoption of best practices and frameworks to standardise work processes to improve business performance and efficiency. |
| Capital Expenditure (Capex) | The cost of purchasing tangible and intangible assets. |
| Complex premises | Premises categorised as requiring bespoke engagement, cabling or project management. These include premises such as offices and apartment blocks. |
| Connectivity Serving Area (CSA) | A logical collection of end-user premises defined by NBN Co. Each CSA has approximately the same number of end-user premises. |
| Connectivity Virtual Circuit (CVC) | Determines the capacity of an RSP to be able to service each CSA. The CVC is virtual Ethernet broadband capacity acquired by an RSP that can be allocated by them to their aggregated AVCs at a CSA. |
| Copper Network | Telstra's copper-based customer access network, which is used to deliver standard voice telephony and broadband services. |
| Cost per premises (CPP) | An internal NBN Co management calculation used to assess the comparative incremental costs of construction of each access technology. |
| Customer | A customer is a retailer or third party acquiring NBN Co wholesale services with the intention to supply broadband services to end users. It is also defined as an Access Seeker or a Service Provider. |
| Dark Fibre | Optical fibre with no active electronics attached. |
| Data Over Cable Service Interface Specification (DOCSIS) | A telecommunications standard that permits the addition of high-speed data transfer and internet access through HFC infrastructure. |

| Abbreviation or term | Definition |
|--------------------------------------|---|
| Delivery Partner | A third party involved in the build of the nbn TM access network. A Delivery Partner is a contractor, which has a contract with NBN Co for the delivery of a certain amount of work/activities in relation to the build and operation of the nbn TM access network. |
| Distribution Point Unit (DPU) | The DPU is one of the main components used in FTTC architecture. A DPU is typically connected to a GPON network and uses either VDSL2 or G.fast technology for the last run of copper into the premises. |
| EBITDA | Earnings Before Interest, Taxes, Other Income, Depreciation and Amortisation. |
| End user | Final downstream customer to NBN Co's Service Providers. |
| Engagement score | Measure of the total number of engaged employees as a percentage of the total number of respondents to a bi-annual engagement survey. NBN Co's engagement surveys are undertaken by Culture Amp, allowing NBN Co to benchmark itself against other enterprises. |
| Enterprise Satellite Services | Services providing Sky Muster TM capacity for remote businesses and enterprise customers. |
| Fibre Network | NBN Co's optical fibre telecommunications network that is owned or controlled by NBN Co and which has been accepted into service, ready for the provision of commercial (non-trial) nbn TM access network services. |
| Fibre-to-the-Basement (FTTB) | Network design in which the Fibre Network is deployed to the basement of a building and copper lines are used for the connection to the end-user premises. |
| Fibre-to-the-Curb (FTTC) | Network design in which the Fibre Network is deployed to a distribution point near the premises and copper lines are used for the connection between the distribution point and the premises. |
| Fibre-to-the-Node (FTTN) | Network design in which the Fibre Network is deployed to the node (i.e. a VDSL cabinet), while copper lines are used for the connection between the node and the premises. |
| Fibre-to-the-Premises (FTTP) | Network design in which the Fibre Network is deployed to each premise. It involves connecting homes and businesses with an optical fibre cable which can be used to provide a range of high-speed broadband services and phone services. |
| Fixed Line | Delivery of voice, data and broadband services over a physical line from the exchange location to the end-user premises (with termination at that premises). |
| Fixed Wireless (FW) | Network design in which network connections are provided through radio signals. |
| FYXX | The financial year ending 30 June 20XX. |
| G.fast | A technology similar to DSL for carrying broadband signals over copper pairs. It uses different signalling method and much higher frequency spectrum to deliver potential speeds higher than traditional DSL. |

| Abbreviation or term | Definition |
|--|---|
| Gigabits Per Second (Gbps) | A unit of measurement of transmission speeds equal to one billion bits per second. X/YGbps means a maximum downstream speed of XGbps and a maximum upstream speed of YGbps. |
| Government | Reference to the Commonwealth of Australia, the Commonwealth or Cth are used interchangeably with Government. |
| Government Business Enterprise (GBE) | Commonwealth entity or wholly-owned Commonwealth company as defined by the PGPA Act and as prescribed as a GBE under the PGPA Rule. |
| Greenfields | A new development that can be either New Developments or Infills. Greenfields developments represent the growth of the premises market. |
| Health, Safety & Environment (HSE) | The activities responsible for establishing and maintaining policies regarding employee health, safety and environment issues. |
| Hybrid Fibre Coaxial (HFC) Cable Networks | Networks utilising both optical fibre and coaxial cable for the delivery of Pay TV, internet and voice services. |
| Infills | A type of Greenfields development where new premises or a development (i.e. demolition and rebuild) are planned to be built on currently developed land that is surrounded by established areas, where Telstra copper services are currently unavailable. |
| Information Technology (IT) | Underlying operating and business systems and processes providing the platform and flow of information through NBN Co to enable the deployment, activation and operation of Australia's broadband network. |
| Internet of Things (IoT) | Technology that connects to the internet. |
| Lead-in | The part of the network from the pit in the street to the end-user premises. |
| Local Network | The part of the network from the Fibre Distribution Hub down each street. |
| Megabits Per Second (Mbps) | A unit of measurement of transmission speeds equal to one million bits per second. X/YMbps means a maximum downstream speed of XMbps and a maximum upstream speed of YMbps. |
| Multi-Technology Mix (MTM) | An approach used to determine which technologies to be utilised on an area-by-area basis to maximise the speed of the rollout and build the network most effectively. |
| NBN Co | NBN Co Limited. |
| Network Engineering Operations (NEO) | The NBN Co team responsible for the operation and activation of nbn™ services on the nbn™ access network. |

| Abbreviation or term | Definition |
|---|--|
| New Developments (Greenfields Estates) | A New Development is defined as an estate that complies with the New Development Policy statements released by the Government. New Developments includes commercial, industrial and residential estates comprising of more than 100 lots with development approval to be released within a three year period located in NBN Co's long-term Fibre Footprint. For the role of NBN Co with regards to Greenfields developments, refer to the appropriate policy as befitting the circumstance. |
| Next Generation Passive Optical Network (NG-PON) | A telecommunications network standard capable of increasing speeds over the fibre cables. |
| Point of Interconnect (POI) | The connection point that allows RSPs and WSPs to connect to the nbn TM access network access capability. In the field, this is the physical port on the Ethernet Fanout Switch (EFS) switch located at the nbn TM access network's POI, where an Access Seeker connects to establish exchange of traffic with the nbn TM access network. |
| Premises | A premises which NBN Co is required to connect is: <ul style="list-style-type: none"> • an addressable location currently used on an ongoing basis for residential, business (whether for profit or not), government, health or educational purposes; • a school as defined by the Department of Education, Employment and Workplace Relations; • within a new development at an addressable location for which NBN Co is the wholesale provider of last resort; or • a standard telephone service activated in compliance with the USO. |
| Premises activated | Refers to premises which have an active service installed. Premises are activated after receiving and provisioning a service order from a RSP to install a new service at the premises. |
| Ready for service (RFS) | A Rollout Region is ready for service when the majority of premises are passed by the nbn TM access network and RSPs are able to begin selling services over the nbn TM access network in that Rollout Region. |
| Ready to connect (RTC) | A premise is ready to connect when an nbn TM service order can be placed, and the service can be connected within an area that has been declared ready for service. |
| Retail Service Provider (RSP) | A third-party provider of retail broadband services to end users. |
| Rollout Region | A region served by the nbn TM access network. |
| Special Access Undertaking (SAU) | A document that sets out the 30-year regulatory framework via which NBN Co plans to set price and non-price terms to recover rollout costs, subject to the oversight of the Australian Competition and Consumer Commission (ACCC). |
| Service providers | A third party provider of broadband services whether to end users and/or Retail Service Providers. |

| Abbreviation or term | Definition |
|---|---|
| Sky Muster™ satellite service | NBN Co satellite service which will provide broadband services to Australians in predominantly rural locations. |
| Statement of Expectations (SoE) | Letter to NBN Co from its Shareholder Ministers dated 24 August 2016. See http://www.nbnco.com.au/content/dam/nbnco2/documents/soe-shareholder-minister-letter.pdf |
| Systems Engineering Operations (SEO) | The NBN Co team that provides converged network and information technology (IT) engineering solutions to digitally enable NBN Co's customers. |
| Technology Choice Program | A program which provides individual or groups of premises with the option to pay for a switch to a different nbn™ access network technology. |
| Temporary Staff | On-hire personnel. |
| VDSL | Very-High-Bit-Rate Digital Subscriber Line. |
| Wholesale Broadband Agreement (WBA) | A document which sets out NBN Co's supply terms for the nbn™ Ethernet Bitstream Service and other related products and services. |
| Wholesale Service Provider (WSP) | A provider of wholesale services to Service Providers. |
| 4K/8K TV | Ultra High Definition of video content: 4000 pixels (4K UHD) or 8000 pixels (8K UHD). |
| 5G | Fifth-generation wireless technology. |

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