



Australia's
broadband
network

Annual Report

2015-2016





Contents

Overview

Provides an overview of **nbn**'s corporate information, purpose and goal, and the Chairman and Chief Executive Officer's message.

Strategy and Operations

Provides comprehensive information on **nbn**'s strategic imperatives, operating model, performance, risk management and outlook as well as other information required under the *Corporations Act 2001* for the Directors' report.

Governance

Provides information on the remuneration of the key management personnel and governance under the PGPA Act, GBE Guidelines, ASX Corporate Governance Principles and the *Corporations Act 2001*.

Financial report

The **nbn** Group's audited financial report for the year ended 30 June 2016.

Regulatory report

Provides information on **nbn**'s compliance with the applicable laws and regulations during FY2016.

Glossary

The financial report was authorised for issue by the Directors on 10 August 2016. The Directors have the power to amend and reissue the financial report.

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Any request or inquiry to so use the annual report should be addressed to:

The Chief Financial Officer
nbn co limited
Level 11, 100 Arthur Street
North Sydney NSW 2060
Australia

'**nbn**', 'bring it on', 'Sky Muster' and the Aurora device are trademarks of nbn co limited ABN 86 136 533 741.

Date

This annual report is for the year ended 30 June 2016.

Glossary

Defined terms within this annual report should be read in conjunction with the Glossary on pages 155 to 160.



About nbn

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

To achieve this objective, **nbn** has been structured as a wholesale-only, open-access broadband network available on equivalent terms to all access seekers. This is intended to level the playing field in Australian telecommunications, creating real and vibrant competition within the industry.

nbn is a Government Business Enterprise (GBE) incorporated under the *Corporations Act 2001* and operated in accordance with the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). **nbn'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's** current objectives are set out in the 8 April 2014 SoE.



nbn is wholly-owned
by the Commonwealth
of Australia



**nbn's key objective
is to ensure all
Australians have access
to fast broadband
as soon as possible,
at affordable prices,
and at least cost**



nbn's purpose and goal

Connecting Australia and bridging the digital divide

nbn exists to construct and operate Australia's high-speed broadband network. It is the most comprehensive and largest infrastructure development in Australia's history, using world-class technologies to provide access to fast broadband to every home and business in Australia.

It will be the nation's first national wholesale-only, open-access broadband network with a commitment to deliver access to at least 25 megabits per second (Mbps) downstream to all premises and at least 50 Mbps downstream to 90 per cent of fixed line premises.* This ambition for universal connectivity is unique to Australia considering its expansive geography and population.

Enabling an exciting future for all Australians

The **nbn**TM network will allow Australia to unleash its full digital potential. It will transform the nation and fundamentally enable Australia to become a more connected, more competitive, and more innovative nation. It will help bridge the digital divide between city and country; young and old; and Australia and the rest of the world.

This vital infrastructure will help change the way businesses operate and how people live their lives, connecting people, promoting social inclusion and equal opportunity.

It enables the use of new technologies and applications, stimulating improvement and innovation across a wide range of industries such as education, health, entertainment, media, commerce and community services.

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

Our goal
is to activate
8 million

 homes

& businesses

 by 2020





Chairman and Chief Executive Officer's message

Introduction

This year has been a pivotal year in both progressing the rollout of the **nbn**TM network and scaling the Company in readiness for the coming years of peak activity.

The **nbn** team has exceeded every key target set for the financial year, more than doubling the Ready for Service footprint while simultaneously doubling the active end-user base while steadily improving the partnerships with our Delivery Partners and Retail Service Providers.

During the same period the telecommunications market has evolved with retailers pursuing new consumer offerings centred on connectivity, and increasingly, content and applications. Market dynamics have seen data usage continue to grow, with **nbn** connected users consuming (downloading) 34 per cent more data than the Australian Bureau of Statistics (ABS) average as at 31 December 2015.



More than one in four can order an **nbn**TM service



Launched **Sky Muster**TM satellite into orbit



More than doubled the **activations** in one year



Three product launches this year



More than doubled the **Ready for Service** footprint in one year

nbn will continue to foster a broader conversation on the many possibilities of fast broadband, and the opportunities across commerce, health, education and connectivity. However, there can be no doubt that the task ahead remains formidable. Plans for the next year require us to double our run-rates again while expecting usage to continue to grow.

Progress and momentum

Today, nearly two thirds of the nation are either in design, construction or already eligible for an **nbn**TM service. More than one in four premises can order an **nbn**TM service and more than one million premises are currently enjoying their **nbn**TM network connection.

The benefits of connectivity are now being realised by more people than ever before, with three commercial product launches in the year completing the suite of offers our Retail Service Providers can now market and sell.

Perhaps the most significant contribution towards our purpose of bridging the digital

divide was the successful launch of the Sky MusterTM satellite and first activation of Sky MusterTM satellite broadband services in April 2016. This world-leading satellite service is now bringing fast broadband to some of the most remote parts of Australia, connecting those who previously had limited or no option for connectivity at speeds comparable to those enjoyed by city dwellers.

In what was a busy and complex year taking the Multi-Technology Mix model to market, **nbn delivered its ninth consecutive quarter of meeting or exceeding targets** as set by the Board, with significant growth in activations driving a strong revenue result. Nine quarters of meeting or exceeding targets is a solid performance and the trends provide some assurance that the task will be completed on time, on budget and in scope as per the agreed Corporate Plan. But again, the challenges should not be underestimated. We remain convinced that the strategy of combining the most appropriate technologies to provide the fastest, most cost effective rollout of the new network is the right one, but it is a strategy which commits the Company to agility and a willingness to pivot fast as new and better processes and technologies emerge.

Today, nearly
two thirds
of the nation
are either in design,
construction or already
eligible for an **nbn**TM service

As the footprint of the **nbn**TM network has expanded at a rapid pace, our expenditure has been in line with our projections.

We achieved our FY2016 targets thanks to the contribution of a passionate and engaged workforce, with the Company's employee engagement score climbing into the top quartile of Australian and New Zealand businesses, a very pleasing outcome given our difficult starting point. Only six per cent of companies globally are able to increase engagement by 14 percentage points or more within two years, which makes us extremely proud of our people and our progress.

Vision towards 2020

Our purpose remains to connect all Australia and bridge the digital divide, and at 30 June 2016, 70 per cent of the rollout to date has been in non-metropolitan and regional Australia.

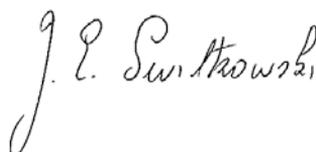
The next two years will be challenging with significant targets ahead. In fact, this time next year we plan to be nearly half way through the rollout of the **nbn**TM network.

With every connection we get better at what we do, making regular improvements to processes with the best customer experience in mind. However, there are risks with a construction challenge of this size and scale. We are increasingly confident that we are aware of the risks and have coordinated efforts to mitigate them.

We know the task ahead for FY2017 is challenging – to double the past year's incredible progress. However, the best indication of future performance remains past performance, and the **nbn** team, together with our Delivery Partners, have the capability and motivation to continue to meet performance targets.

With more than one million homes and businesses connected to the **nbn**TM network, and climbing quickly, the signs are promising for an innovative nation.

The Board and management of **nbn** commend this annual report and results to our Shareholder Departments and to the ultimate owners of Australia's broadband network, the people of Australia.

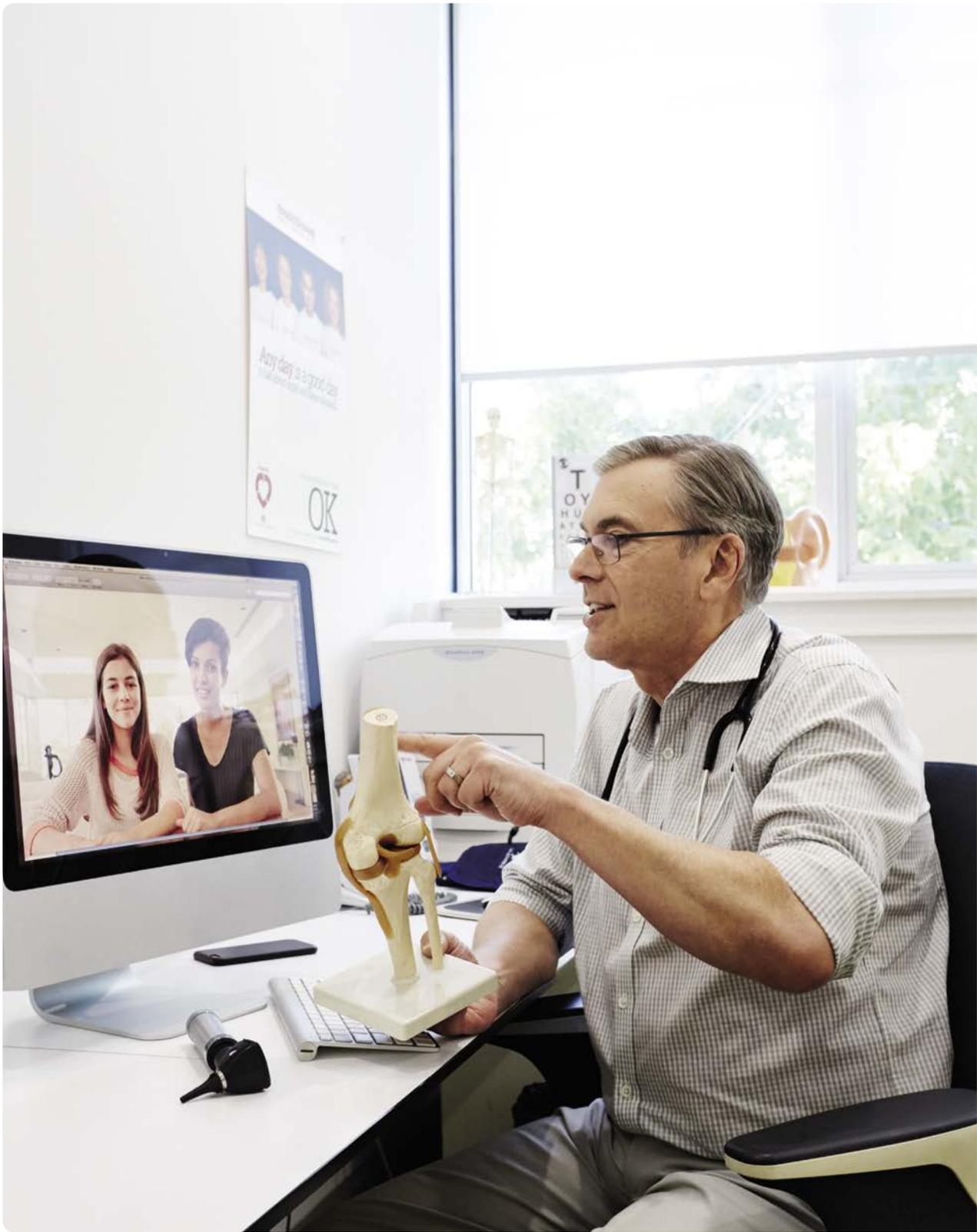


Dr Ziggy Switkowski AO
Chairman



Bill Morrow
Chief Executive Officer

10 August 2016



Directors' report

The Directors of the Company present their report on **nbn** and its subsidiaries (the Group or the **nbn** Group), together with the financial report of the Group for the year ended 30 June 2016 and the auditor's report thereon.

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

nbn's purpose and goal

Our goal is to activate 8 million homes & businesses by 2020, connecting Australia and bridging the digital divide

Commerce



Keeping in touch with the world



Health and lifestyle



Data and storage



Education



Entertainment



How nbn is achieving it

We are **One Team**

We are **Fearless**

We **Deliver**

Our five strategic imperatives



1. Build a high-performing and reliable network



2. Build effective and efficient processes and systems



3. Build a united partnership with vendors, Delivery Partners and Retail Service Providers



4. Build affordable products and services



5. Make **nbn** a great place to work

Multi-Technology Mix



Fixed Line



FTTN



FTTP



HFC



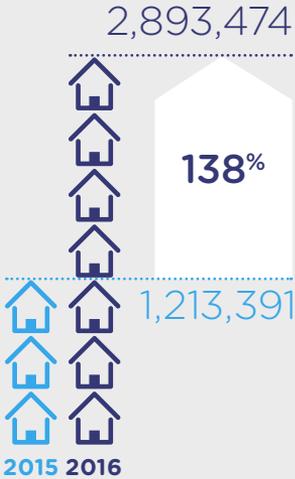
Sky Muster™ satellite



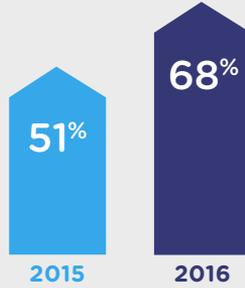
Fixed Wireless

nbn's progress to date

Ready for Service



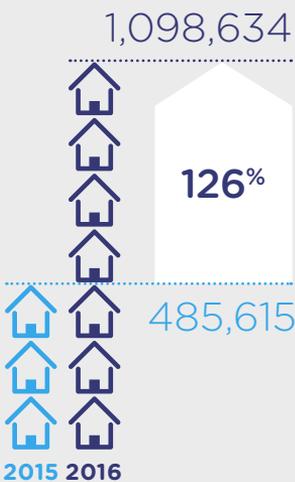
Employee engagement score



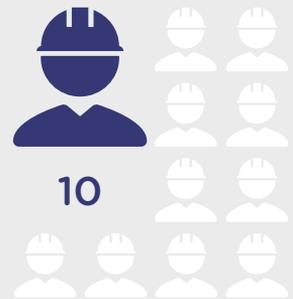
Retail Service Providers



Activations



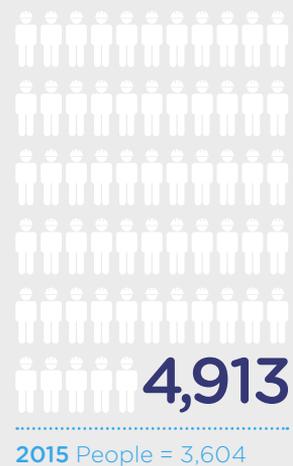
Key Delivery Partners



Customer experience metric



People



Extended workforce of c. 11,000







Operating and financial review

Our operating model: building and operating a fast broadband network for all Australians

The **nbn**TM network is designed on an outcome basis with the aim of reaching all Australians with fast broadband, as soon as possible in the most cost effective manner.

To help achieve this outcome, **nbn** has adopted a Multi-Technology Mix (MTM) model that takes full advantage of a range of technologies including Fibre-to-the-Premises (FTTP), Fibre-to-the-Node (FTTN), Hybrid Fibre Coaxial (HFC), Fixed Wireless and Sky MusterTM satellite. An explanation of each technology is set out on pages 18 to 19.

Underpinning our goal to activate 8 million homes and businesses by 2020, **nbn** has five strategic imperatives, which are outlined on the following pages.

Our strategic imperatives

To fulfil our goal, **nbn** has five strategic imperatives.

1.

Strategic imperative:
Build a high-performing and reliable network



Build a high-performing and reliable network with our Retail Service Providers (RSPs) that delivers modern internet access and experience

The benefits of the **nbn**TM network can only materialise if it is fast and reliable.

Therefore, **nbn** is building new infrastructure and modernising existing infrastructure to improve the performance and reliability of the network. The technologies being used in the **nbn**TM network have the potential to be upgraded to deliver even faster speeds and greater capacity when consumer demand calls for it.

2.

Strategic imperative:
Build effective and efficient processes and systems



Build processes and systems to optimise efficiency and effectiveness in order to keep cost low and output high

Efficiency and effectiveness are essential to deliver a fast broadband network at affordable prices and at least cost. To that effect, **nbn** continues to invest in operational capabilities and in revamping internal processes.

Significant investments in internal processes include the creation of a transformation program, which drives the progress of the most critical initiatives required to scale the business, while improving key business capabilities and processes.

3.

Strategic imperative: **Build a united partnership with vendors, Delivery Partners (DPs) and RSPs**



Build a united partnership where our vendors, DPs and RSPs work alongside us and share in our success

Delivery Partners

Building, upgrading and maintaining a fast broadband network requires partnerships with strong and resilient DPs that have capacity and can safely deliver the quantum and quality of work required when it is needed.

Underpinning this imperative is the establishment of new design master contracts and construction master contracts, as well as operations and maintenance master contracts with DPs, which are simplified, provide longer term commitments, and mechanisms to reward high performance with volume increases and new work areas.

Retail Service Providers

The **nbn**TM network is only accessible to end users via their retailer of choice, which have a critical role in driving and meeting demand.

nbn maintains an Integrated Product Roadmap that sets out the expected release of product capabilities over the next three years. This is available on the **nbn** website.

4.

Strategic imperative: **Build affordable products and services**



Build affordable products and services where our RSPs connect Australians regardless of socio-economic status or location

Affordability is important to drive end-user take-up and therefore extends the benefits of fast broadband to the maximum number of Australians. At the core of affordability, the MTM model leverages existing networks where possible to reduce costs.

nbnTM products are constructed and priced in a way that encourages migration from legacy services and promotes inclusiveness for all Australians, regardless of their location and access technology.

Through its non-discriminatory pricing, **nbn** also enables retail competition, creating choice and affordability for end users.

5.

Strategic imperative: **Make nbn a great place to work**



Make **nbn** a great place to work, where people flourish and results exceed expectations

The key to attracting and retaining talent is to make **nbn** a great place to work.

nbn is building a high-performance culture where individuals are empowered to make a significant contribution, take personal accountability for the delivery of business objectives and thrive on the experience of working at **nbn**.

Deploying the nbn™ network

The nbn™ network is deployed based on the MTM model that takes full advantage of a range of technologies including FTTP, FTTN, HFC (together defined as Fixed Line), Fixed Wireless and Sky Muster™ satellite. An explanation of each technology is set out below.

Fibre-to-the-Premises



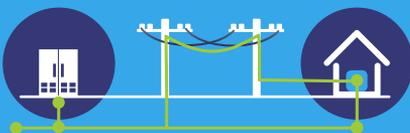
FTTP is a network in which the fibre is deployed to each premise. It involves connecting end-user premises with an optical fibre cable.

Fibre-to-the-Node



FTTN is a network in which the fibre network is deployed to the node (i.e. a VDSL cabinet), while existing copper infrastructure is used for the connection between the node and the end-user premises with the signal accelerated with upgraded vectoring technology. The acquisition of elements of Telstra's copper network is crucial to the FTTN architecture, and after commercial launch in September 2015 we have now started to deploy this technology at scale.

Hybrid Fibre Coaxial



The **HFC** network, commercially launched in June 2016, uses both optical fibre and coaxial cable for the delivery of pay-TV, internet and voice services. The HFC network is being built, operated and maintained using elements of the Telstra and Optus HFC networks and will deploy at scale over the coming years.

Fixed Wireless



The **Fixed Wireless** network connects end-user premises through wireless signals between active equipment on a base transmission station (base station) and active equipment in the end-user premises. Network traffic is connected from the base station hubs to the edge of the transit network via underground fibre.

Sky Muster™ satellite



The **Sky Muster™** satellite service operates with our purpose built satellite, working alongside ten specially built ground stations and the nationwide transit network to dramatically improve access to satellite broadband services in remote and regional Australia. Activations commenced in April 2016, connecting both new users and those migrating from the Interim Satellite Service (ISS) to the Sky Muster™ satellite service.

The **Transit** network is the backbone of the **nbn™** network. It provides the core site, transport and network capability required to deliver all the above access networks. The transit program is ongoing and delivers capacity between sites and aggregation of all access types to RSPs.

There are 121 Points of Interconnect (POI) and RSPs are able to connect to all Fibre Access Node sites.

The shift to the MTM model presents new requirements for the transit network to support the access technologies. **nbn** will continue building the transit network in coming years to support the rollout of HFC and to augment the **nbn™** network as capacity demand continues to grow from end users.

Key nbn functions

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



Health, Safety and Environment

The role of the Health, Safety and Environment (HSE) group is to support the broader **nbn** business and its partners to make tomorrow safer, healthier and more sustainable than today.

The HSE group is primarily accountable for providing the HSE strategy, systems, processes and support that will enable **nbn** to achieve its HSE objectives and proactively manage HSE risk across the whole of **nbn** and its supply chain.

Network Engineering and Deployment

The Network Engineering and Deployment group is responsible for planning, designing and building the **nbn**TM network. **nbn**'s mandate is to deliver the **nbn**TM network using the most appropriate and cost effective technology, including FTTP, FTTN, HFC, Fixed Wireless and Sky MusterTM satellite networks.

Network and Service Operations

The Network and Service Operations (NSO) group has four roles at its core: enable and activate the **nbn**TM network; maintain and restore the **nbn**TM network; activate and modify services; and assure **nbn**TM services.

NSO 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**'s service levels under the Wholesale Broadband Agreement. This includes activation response time, service availability and network response time.

Customer and Commercial

The primary role of Customer and Commercial (C&C) is to enable access to the **nbn**TM network through the delivery of wholesale products and services to RSPs, which then make them available to residential and business end users. C&C also champions the customer and end-user experience on the **nbn**TM network.

The team is responsible for the brand and develops marketing and promotional campaigns to engage with the industry and end users to promote awareness of the **nbn**TM network. The team also manages relationships with the RSPs and engages with the industry to incorporate feedback on the technical, operational and commercial aspects of the product development and delivery program, and the overall migration to the **nbn**TM network.

Information Technology

The key objective of Information Technology (IT) is to enable the flow of information through **nbn**, enabling operational activities from network build to customer activations and network monitoring.

The team builds and maintains the infrastructure required to deliver the data flow needs of the whole business, as well as integration with RSPs and DPs.

Legal and Security

The Legal Group is responsible for all **nbn**'s legal services including its company secretariat. The Legal Group provides support on all major transactions, dispute management and litigation, legal analysis and advice, and security, privacy and governance support.

nbn's role as a provider of "critical infrastructure" requires it to maintain a strong suite of security controls and detection capabilities to deliver high levels of resilience to attack. The Security Group has a clear objective to be **nbn**'s trusted security advisors and to lower the risk of business exposure through creating and sustaining a fully engaged and robust security culture. **nbn**'s security activities cover information (cyber), physical and personnel security, security investigations, privacy and security knowledge management.

People and Culture

The primary role of People and Culture (P&C) is to make **nbn** a great place to work, and to attract and retain talent that can make a significant contribution to the achievement of **nbn**'s goals. P&C leads the human resources, HSE, facilities and external (service delivery partners) workforce attraction strategies.

nbn's head count at 30 June 2016 was 4,913 (2015: 3,604). The average tenure of the workforce was 28.20 months (2015: 27.90 months) and the average age was 40.97 years (2015: 41.60 years). **nbn** employs 1.95 per cent of its workforce on a part-time basis (2015: 1.50 per cent).

Strategy and Transformation

Strategy and Transformation is responsible for creating and implementing **nbn**'s strategy, delivering the Integrated Operating Plan, adhering to regulatory requirements and developing **nbn**'s network architecture, products and technologies.

Strategy and Transformation is primarily focused on enabling **nbn** to scale in the most efficient and effective way.

Finance, Procurement and Supply

Finance, Procurement and Supply is responsible for the financial management of **nbn**'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.

Our performance: strong progress towards 2020 strategic goals

The Company's performance against rollout and operational milestones is reported weekly to the Shareholder Ministers and those reports are publicly available on **nbn's** website.

These are the key performance indicators used to monitor the progress of the rollout. Monthly reports are provided to the Board of Directors and Shareholder Ministers. Quarterly financial statements and operational briefings are made public.

We set out in our 2016 Corporate Plan our financial and non-financial strategic goals. We comment below on our performance against our 2020 strategic goals for FY2016.

Progress against our goal - 8 million homes and businesses activated by 2020

Strategic imperatives:

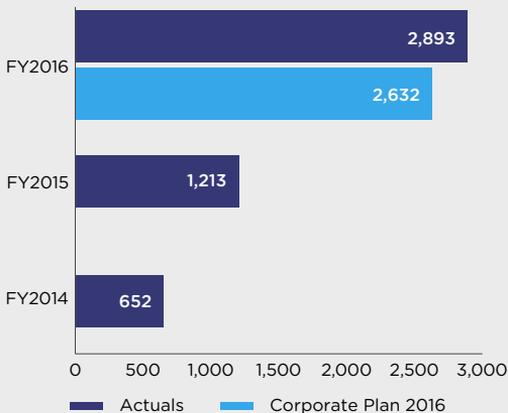


nbn has remained committed to delivering the **nbn™** network across Australia and its goal to have 8 million homes and businesses activated by 2020.

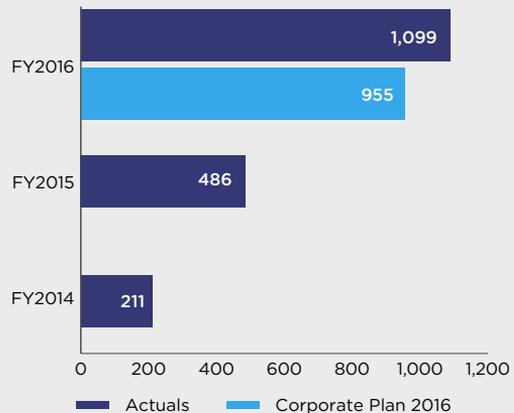
During FY2016 **nbn** made significant progress against our goal with the number of premises Ready for Service more than doubling to 2.9 million as network deployment accelerates across the country. This meant that at the end of the financial year, more than one in four Australian premises were able to order an **nbn™** service from one of our RSPs. In line with the expanding footprint and the continued rapid take-up of **nbn™** services by our RSPs, end-user activations more than doubled during the year with more than one million Australian homes and businesses connected to the **nbn™** network as at 30 June 2016.

Key milestones of 2.9 million homes and businesses able to connect to the **nbn™**

Cumulative premises Ready for Service ('000)



Cumulative premises activated ('000)



Progress against our goal - 8 million homes and businesses activated by 2020 *(continued)*

network and more than 1 million end-user activations exceeded our FY2016 corporate targets.

An overview of the contribution by each technology to the achievement of these milestones is outlined below.

FTTP: During FY2016, the number of premises Ready for Service increased by 56 per cent compared to 30 June 2015 to 1,381,800 as at 30 June 2016.

Following the growth in premises Ready for Service, during the year there was more than a twofold increase in the total number of activations on the FTTP network, with the number of end users on the FTTP network reaching 822,652 as at 30 June 2016.

FTTN: The FTTN commercial product was launched in September 2015 which is helping us connect to more homes and businesses than ever before. During FY2016, 651,150 premises were made Ready for Service using FTTN designs and 119,694 end users were activated on the FTTN network.

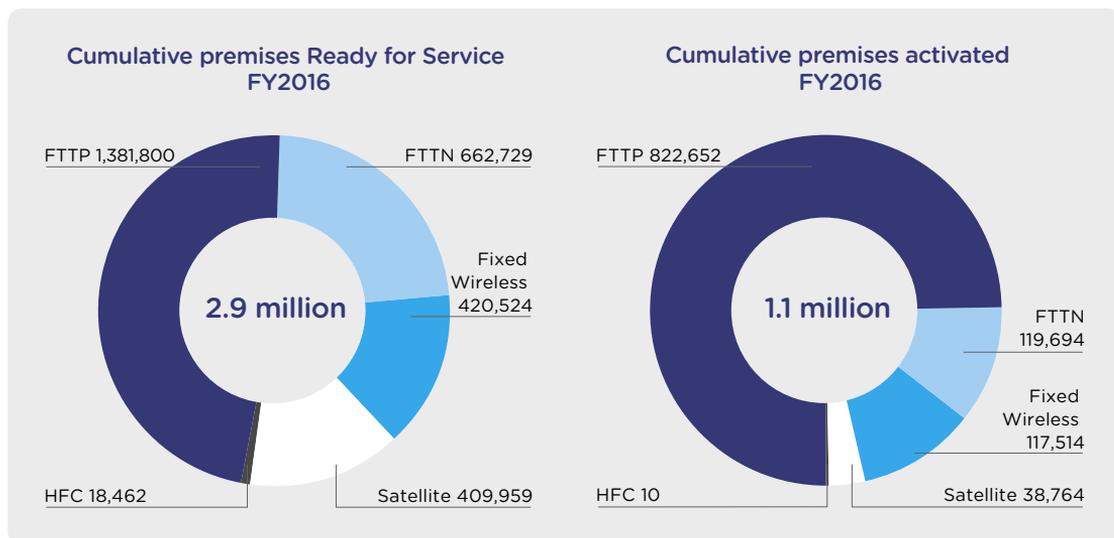
HFC: During FY2016, **nbn** successfully trialled HFC technology and launched the product to market in June 2016. In April 2016, **nbn** signed

a contract with Telstra to manage the engineering, design and construction of fast broadband to homes and businesses currently in the footprint of Telstra's pay-TV cable network (Hybrid Fibre Coaxial or HFC cable). The agreement is structured to accelerate deployment of the **nbn**TM network.

Fixed Wireless: Outside the fixed line footprint, the rollout of the Fixed Wireless program continued to accelerate during the year. The number of premises Ready for Service increased to 420,524 as at 30 June 2016. Over the same period, the number of end users activated on the Fixed Wireless network more than doubled, reaching 117,514 as at 30 June 2016.

Sky MusterTM satellite service: In October 2015, **nbn** celebrated the successful launch of Sky MusterTM I, the first of **nbn**'s two purpose built satellites with the second satellite Sky MusterTM II expected to launch later in calendar year 2016. As at 30 June 2016, 38,764 end users were activated on the satellite network.

The Sky MusterTM satellite service covers a footprint of approximately 400,000 premises and is expected to have approximately 240,000 regional and rural premises activated by 2020. With more than 600 field technicians activating homes as quickly as we can, fast broadband access for the bush is becoming a reality.



Connecting Australia and bridging the digital divide

More than one in four homes and businesses across Australia can now connect to the **nbn™** network, and over one million end users are enjoying fast broadband connection.



NT
Where: Fannie Bay
Name: Stephanie Hawkins
Technology: Fixed line
Why the nbn: Access to HD video conferencing via an **nbn** connection allows Stephanie to spend precious days with her young daughter every time rather than attend critical meetings in the southern states.

Ready for Service

- 66,892 Fixed line
- 4,831 Fixed Wireless
- 11,059 Satellite

Activations

- 31,328



Ready for Service

- 213,174 Fixed line
- 24,560 Fixed Wireless
- 59,719 Satellite

Activations

- 97,952

WA
Where: Yallingup
Name: The Girdler family
Technology: Fixed Wireless
Why nbn: From basically zero internet to the **nbn™** network has meant the family can stream, connect, communicate and educate.



Ready for Service

- 134,858 Fixed line
- 35,913 Fixed Wireless
- 33,458 Satellite

Activations

- 68,717

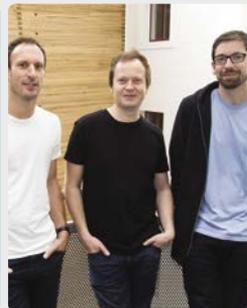
SA
Where: Victor Harbour
Name: Eco Child
Technology: Fixed line
Why nbn: The e-commerce business sells organic and environmentally friendly products for babies and children. Their integrated system over the **nbn™** network allows a smooth business process for consumers and staff.

Ready for Service

- 120,122 Fixed line
- 32,342 Fixed Wireless
- 14,231 Satellite

Activations

- 77,810



TAS
Where: Hobart
Name: Biteable
Technology: Fixed line
Why nbn: Clients globally require critical communications to occur with operations in the US and Singapore, fast broadband has enabled the young entrepreneurs to stay local.



Ready for Service

- 427,749 Fixed line
- 89,228 Fixed Wireless
- 94,822 Satellite

Activations

217,924

QLD

Where: Brisbane, Carseldine
Name: The Edridge family
Technology: Fixed line
Why nbn: The household of 5 has 15 connected devices, the nbn™ network enables everyone to experience the possibilities online.



Ready for Service

- 677,991 Fixed line
- 121,772 Fixed Wireless
- 121,017 Satellite

Activations

330,524

NSW

Where: Newcastle
Name: Hunter Water Sports
Technology: Fixed line
Why nbn: Greater engagement with customers via social media has helped expand the business.



ACT

Where: Gungahlin
Name: Tony Ozanne
Technology: Fixed line
Why nbn: Tony's business coaching company expanded to include webinars and online business coaching.

Ready for Service

- 56,511 Fixed line
- 0 Fixed Wireless
- 354 Satellite

Activations

32,810

VIC

Where: Apollo Bay
Name: The Stewart family
Technology: Sky Muster™ satellite
Why nbn: The family no longer require to commute for work or studies and the Bed-and-Breakfast business can be managed more efficiently without going into town for faster internet access.



Ready for Service

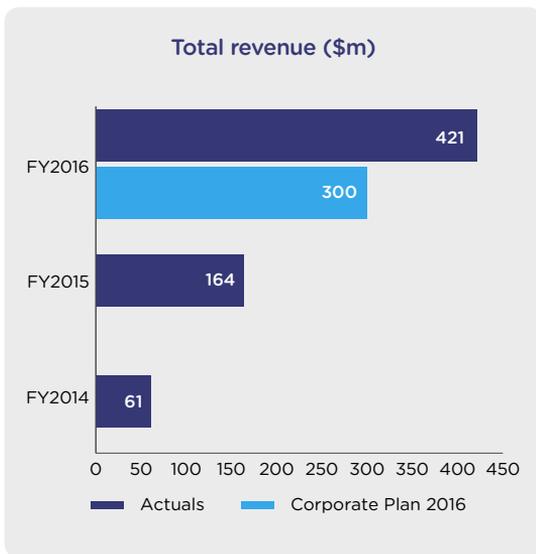
- 365,694 Fixed line
- 111,878 Fixed Wireless
- 75,299 Satellite

Activations

241,569

Progress against our goal - Annual revenue of \$4 billion by 2020

Annual revenue continues to increase in line with the number of premises activated and the underlying growth in Average Revenue Per User (ARPU). In FY2016, **nbn** exceeded its corporate revenue targets with total revenue growing by 157 per cent compared with FY2015 to \$421 million and ARPU increasing to \$43 for FY2016 (FY2015: \$40). Detailed analysis on revenue and ARPU performance is provided on pages 29 to 30.



Progress against our goal - Customer experience metric rating of at least 8 by 2020

The Customer Experience Metric (CEM) is a measure of retail and wholesale service provider customers' experience with **nbn**. While **nbn** is committed to deploying the **nbn**TM network efficiently, we also have a strong focus on ensuring the satisfaction of **nbn**'s customers is maintained throughout the process.

As part of **nbn**'s strategy to align its business to customer needs, **nbn** has implemented a holistic Customer Experience Program covering all the key strategic and operational touch points with **nbn**'s customers. The CEM is measured annually and the feedback is gathered via 1:1 interviews with approximately 100 strategic and operational contacts. The survey is conducted by an independent research partner, Forethought.

The overall CEM for FY2016 is 7.2 out of 10, compared to **nbn**'s corporate target of 6.9 and represents an improvement of 0.6 on the FY2015 result of 6.6.

This is a terrific achievement considering the volume increase in end users being added to the network at pace.

nbn utilises customer feedback to help prioritise its strategic programs for FY2017 to drive further improvements in customer experience.

Progress against our goal – nbn is a great place to work

Consistent with the previous year **nbn** had a strong participation rate of 87 per cent in the most recent employee engagement survey conducted during FY2016 (FY2015: 90 per cent) and achieved an outstanding engagement score of 68 per cent (2015: 51 per cent). This is a considerable uplift of 17 percentage points during an incredibly busy year for our staff. This puts **nbn** in the top quartile of businesses in Australia and New Zealand for employee engagement scores.

The results show a significant improvement in employee engagement, reflecting our commitment to making **nbn** a great place to work.

Making **nbn** a great place to work is also underpinned by our commitment to embracing diversity. See pages 73 to 74 for more information on **nbn**'s diversity policy.

Progress against our goal – Efficient use of Government funding to build the nbn™ network

nbn remains focused on building the **nbn**™ network in the most efficient and cost-effective way. **nbn** has continued to invest in capabilities that enable a faster rollout of the **nbn**™ network at least cost. At 30 June 2016, total funding received from the Australian Government was \$20.3 billion (30 June 2015: \$13.2 billion) out of a current equity capital commitment of \$29.5 billion.

As outlined in our Corporate Plan, following the investment of the current funding commitment from the Australian Government, additional funding will be required to complete the rollout of the **nbn**™ network. **nbn** is continuing to explore its future funding options, which include private sector debt funding.



Review of financial performance and position

Financial highlights

Key financial data for the year ended 30 June	2016 \$m	2015 \$m	2014 \$m
Total revenue	421	164	61
Adjusted EBITDA	(990)	(937)	(905)
EBITDA	(1,572)	(1,130)	(1,009)
Net loss after tax	(2,750)	(2,019)	(1,644)
Total assets	18,552	13,259	9,468
Contributed equity	20,275	13,185	8,418
Capital expenditure*	4,669	3,328	2,480

The key financial highlights reflect the progress and momentum of **nbn** for the year ended 30 June 2016.

The Group generated total revenue of \$421 million, \$257 million more than FY2015. Notwithstanding the significant growth in revenue, **nbn** recognised a loss before interest, tax, other income, depreciation and amortisation (EBITDA) of \$1,572 million and a net loss after tax of \$2,750 million. This loss is in line with expectations and reflects the early years of operation and network build as **nbn** continues to invest and build a sustainable business for the future.

Adjusted EBITDA of \$990 million excludes subscriber costs. Subscriber costs are defined as expenditure relating to Telstra and Optus customer disconnection and migration activity, medical alarm and satellite subsidy schemes. Adjusted EBITDA reflects the result for the underlying ongoing business activities of the Group.

At 30 June 2016, **nbn** had total assets of \$18,552 million, an increase of \$5,293 million (40 per cent) compared with 30 June 2015, primarily driven by \$4,669 million in capital expenditure on property, plant and equipment and intangible assets.

During FY2016, **nbn** received Commonwealth Government equity injections of \$7,090 million, which were primarily used in acquiring property, plant and equipment and intangible assets, and funding operational requirements.



Incremental equity injections of
\$7.1 billion



Funded capital expenditure* of
\$4.7 billion
driving **nbn**TM network expansion



Total assets increased to
\$18.6 billion

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

Financial Performance

Revenue

Total revenue for the year ended 30 June	2016 \$m	2015 \$m	2014 \$m
FTTP	225	93	31
FTTN	10	-	-
Fixed Wireless	27	10	2
Satellite	10	12	12
Connectivity	131	46	15
Telecommunications revenue	403	161	60
Other revenue	18	3	1
Total revenue	421	164	61
Average revenue per user (ARPU) - (\$)	\$43	\$40	\$37

Revenue for FY2016 increased by \$257 million (157 per cent) compared with FY2015, to \$421 million, driven by a 613,019 (126 per cent) increase in active end users to 1,098,634 and a \$3 increase in ARPU to \$43.

FTTP revenue for FY2016 increased by \$132 million (142 per cent) compared with FY2015 to \$225 million, driven by a 106 per cent increase in the number of end users on the FTTP network (from 399,854 to 822,652).

Following the September 2015 launch of commercial services on the FTTN network, FTTN revenue for FY2016 totalled \$10 million, generated from 119,694 end users connected to the FTTN network.

The speed tier mix of end users also contributed to the revenue result. As at 30 June 2016, 14 per cent of nbn's fixed line services (i.e. FTTP, FTTN and HFC network services) used a 100/40 Mbps wholesale speed tier (30 June 2015: 18 per cent), 49 per cent used a 25/5 Mbps wholesale speed tier (30 June 2015: 42 per cent), and 32 per cent used a 12/1 Mbps wholesale speed tier (30 June 2015: 35 per cent).

The average speed provisioned across all fixed line wholesale services was 32 Mbps, a decrease from 35 Mbps at 30 June 2015.



126%

increase in activations



7%

increase in ARPU



157%

increase in revenue

Fixed Wireless network revenue comprises revenue generated from **nbn**'s Fixed Wireless products, which are offered over three wholesale speed tiers 12/1 Mbps, 25/5 Mbps and 50/20 Mbps. Fixed Wireless revenue nearly tripled in FY2016 compared with FY2015, to \$27 million, driven by a 148 per cent increase in the number of end users on the Fixed Wireless network (from 47,473 to 117,514).

As at 30 June 2016, 81 per cent of **nbn**'s Fixed Wireless services used a 25/5 Mbps wholesale speed tier (30 June 2015: 80 per cent).

Satellite network revenue comprises revenue generated from **nbn**'s ISS and Sky Muster™ service. In FY2016, satellite revenue of \$10 million was lower than FY2015. This was in line with expectations in the lead up to the launch of commercial services from Sky Muster™ in April 2016. The Sky Muster™ service continues to grow with expected end users of around 240,000 by 2020.

Connectivity revenue increased by \$85 million (185 per cent) compared with FY2015, to \$131 million in FY2016. The increase in connectivity revenue was driven by a greater demand for connectivity virtual circuit (CVC) capacity by our RSPs as active end users continue to grow and consume more data.

Across the network in FY2016, revenue was generated from 1,098,634 active premises at a weighted ARPU of \$43 (FY2015: \$40).

The increase in ARPU was primarily due to greater demand for CVC capacity.

Other revenue includes fees from developers as well as the Technology Choice program.



Expenditure

Expenditure for the year ended 30 June	2016 \$m	2015 \$m	2014 \$m
Direct network costs	399	342	293
Subscriber costs	582	193	104
Employee benefits expenses	609	404	384
Outsourced and corporate services	93	112	87
IT and software expenses	149	126	114
Communication and public information	51	28	14
Other expenses	110	89	74
Depreciation and amortisation expense	884	631	435
Finance charges - leased assets	322	302	223
Total expenditure	3,199	2,227	1,728

Key cost drivers



4,913
Employees



1.1 million
Activations



2.9 million
Premises Ready
for Service

In line with the expansion of the **nbn**TM network and the increase in active end users, the Company has grown significantly during FY2016.

As a result of the underlying growth in the business, total expenditure in FY2016 increased by \$972 million (44 per cent) compared with FY2015, to \$3,199 million. The key drivers include:

Direct network costs grew by \$57 million (17 per cent) compared with FY2015, to \$399 million. These costs primarily relate to operational and assurance services for the access networks. The increase in these costs is primarily driven by the underlying growth of the **nbn**TM network.

Subscriber costs increased by \$389 million (202 per cent) compared with FY2015, to \$582 million. The increase in these costs reflects the greater number of end users on the **nbn**TM network as customers continue to disconnect and migrate from the Telstra and Optus networks.

Employee benefits expenses increased by \$205 million (51 per cent) compared with FY2015, to \$609 million. Employee related expenses include costs of **nbn** employees, as well as labour hire and contractors (net of amounts that have been capitalised and included in the cost base of non-current assets).

The growth in employee benefits expenses was driven by an increase in the number of employees and contractors during FY2016. Employee head count increased from 3,604 at 30 June 2015 to 4,913 at 30 June 2016 as **nbn** continues to expand and grow.

Outsourced and corporate services declined by \$19 million (17 per cent) compared with FY2015, to \$93 million. FY2015 included costs to define and establish operations as well as renegotiate significant contracts. Outsourced and corporate expenditure includes strategic consulting expenses, legal, accounting and audit expenses as well as expenditure relating to outsourced functions.

IT and software expenses increased by \$23 million (18 per cent) compared with FY2015, to \$149 million, reflecting the growth in application support, software licences and maintenance costs, as well as IT security costs.

Communication and public information costs increased by \$23 million (82 per cent) compared with FY2015, to \$51 million, reflecting the growth in available **nbn** footprint. This expenditure is associated with advertising and media campaigns as well as educating end users on how to connect to the **nbn**TM network.

Other expenses increased by \$21 million (24 per cent) compared with FY2015, to \$110 million. This is primarily driven by the growth of the **nbn** workforce and includes occupancy expenses, training, insurance and other miscellaneous expenditure.

Depreciation and amortisation expense increased by \$253 million (40 per cent) compared with FY2015, to \$884 million, reflecting the expansion of the **nbn**TM network and the increase in assets placed into service during FY2016.

Finance charges - leased assets primarily relate to the accounting convention for assets treated as finance leases under long-term right of use arrangements. These charges increased by \$20 million (7 per cent) compared with FY2015, to \$322 million, driven by additional infrastructure supplied by Telstra under right of use arrangements.

Capital expenditure*

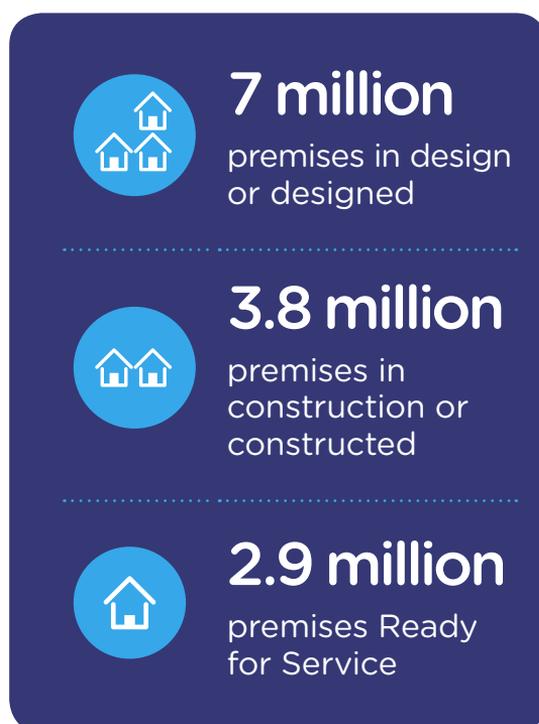
Capital expenditure for the year ended 30 June	2016 \$m	2015 \$m	2014 \$m
FTTP network	1,078	1,692	1,007
FTTN network	1,668	334	3
HFC network	448	48	-
Fixed Wireless network	354	340	278
Satellite network	135	247	517
Transit network	252	233	381
Common capital expenditure	734	434	294
Total capital expenditure	4,669	3,328	2,480

Underpinning the significant growth in network deployment, with nearly two thirds of the nation at 30 June 2016 either Ready for Service or in the design or construction phase, is our investment in capital expenditure.

Capital expenditure incurred during FY2016 was \$4,669 million, an increase of \$1,341 million (40 per cent) compared with FY2015. The key drivers of capital expenditure during the year relate to design, construction and activation activities for the deployment of **nbn's** access technologies across Australia as outlined below.

FTTP network: Capital expenditure incurred in constructing and connecting end users to the FTTP network during FY2016 was \$1,078 million, comprising capital expenditure of \$908 million on the Brownfield FTTP network and \$170 million on the Greenfield FTTP network.

FTTN network: During FY2016, \$1,668 million of capital expenditure was incurred for design and construction activities for over 651 serving area modules and over 728 serving area modules currently in design, reflecting the ongoing build of the FTTN network.



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

HFC network: During FY2016, \$448 million of capital expenditure was incurred on the development of the HFC network, predominately relating to upgrading the Data Over Cable Service Interface Specification (DOCSIS) technology as well as serving area module design and construction activities.

Fixed Wireless network: During FY2016, capital expenditure incurred for the Fixed Wireless network was \$354 million. This capital expenditure reflects the acquisition of a further 356 wireless sites during the period and the integration of an additional 420 base stations.

Sky Muster™ satellite service: Capital expenditure during FY2016 was \$135 million. This expenditure relates to activity for the build and launch services associated with nbn's two purpose built satellites, Sky Muster™ I and Sky Muster™ II.

Transit network: Investment in the transit network has continued to support the rollout of the MTM model and to augment the nbn™

network as capacity demand continues to grow from end users.

Common capital expenditure: \$734 million was incurred during FY2016 for common capital expenditure, primarily related to the development of our network platforms to support the operation of the access technologies. Other expenditure includes network operating tools to support the field workforce, developing back office systems, ongoing network releases to support product development as well as fit out costs for commercial properties.

Cost per premises

Average cost per premises (CPP) represents the life-to-date incremental capital costs incurred in building the nbn™ network from the transit network to the in-premises connection for each technology, excluding early release or pilot sites.

Cost per premises	30 June 2016 \$	30 June 2015 \$
Brownfield FTTP network	4,411	4,387
Greenfield FTTP network	2,608	2,798
FTTN network	2,257	-
Fixed Wireless network	3,559	3,595

Brownfield FTTP network

The CPP increase during FY2016 is primarily driven by higher customer connection costs due to a higher volume of complex connections.

Greenfield FTTP network

The CPP decrease during FY2016 was driven by additional premises connecting to temporary transit infrastructure (TFAN/TTFN), as new developments expand, thereby reducing CPP.

FTTN network

FTTN was launched during the year, with resultant CPP of \$2,257, which is lower than original expectations.

Fixed Wireless network

The CPP decrease during FY2016 reflects an increase in the average number of premises serviced by each wireless base station.

Equity funding

The Australian Government contributed \$7,090 million in equity during FY2016. At 30 June 2016, total Government investment was \$20,275 million.

Risk management

nbn's Board of Directors and Management are committed to proactive identification, assessment and management of material risks. The 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 of Directors.

Risks and controls are reviewed and monitored on a regular basis. nbn's risk profile has improved since last year, largely due to internal investment in process improvement activities and resource capability.

nbn has also successfully supplemented this by de-risking key design, construction and operational activities through the execution of strategic agreements with key partners who possess proven capabilities. However, even though risk prevention and mitigation strategies are being implemented, significant challenges and residual risks remain. These challenges and risks can be grouped into three main themes that nbn has identified as critical to the build and operation of the nbn™ network, and to nbn meeting its strategic imperatives.

1. Meeting the scale challenge

nbn requires further scaling, adding challenges in process complexity, resource contention, delivery of IT systems, and the ability to activate, operate and maintain the nbn™ network in a safe and environmentally-responsible manner to meet customer and end-user service expectations in line with publicly-communicated targets.

Risk description	Mitigation strategy
<p>Health, Safety and Environment (HSE): the ability of nbn and its contractors to construct, activate, operate and maintain the network in a manner that prioritises the prevention of material HSE failures, protecting workers, the environment and the community.</p> <p>Strategic imperatives:</p> 	<ul style="list-style-type: none"> • Risk-based HSE governance and assurance frameworks; • Execution and continual improvement of the HSE Management System; and • HSE consultation, communication, culture, capability frameworks, platforms and initiatives.
<p>Critical process capacity: ensuring the readiness of critical processes and IT systems to successfully scale and deliver against expected volumes and time frames.</p> <p>Strategic imperatives:</p> 	<ul style="list-style-type: none"> • Scaling up nbn workforce and investment in IT systems to meet the workload, as well as augmenting resources by procuring external service providers and contractors; • Change management programs to reshape the business and meet the evolving operational challenges; and • Establishment of nbn's scaling disciplines and targeted capability uplift program.

1. Meeting the scale challenge (continued)

Risk description	Mitigation strategy
<p>Security: providing the required level of security for critical infrastructure assets and limiting the potential for compromise of the confidentiality, integrity and availability of information and assets.</p> <p>Strategic imperatives:</p> 	<ul style="list-style-type: none"> • Security Operations Centre; • Preventative and detective access and monitoring controls across both physical and digital environments; and • Mandatory security awareness training for all nbn employees.
<p>Material adverse events: safeguarding assets and processes against events such as natural hazards (fire, flood, etc.) and other business interruptions, including network outages.</p> <p>Strategic imperatives:</p> 	<ul style="list-style-type: none"> • Business Continuity Management program and Crisis Management Team; • Insurance coverage for industrial and special risks; and • Supply-led programs to improve security of supply of key services, equipment and materials.

2. Management of partners

nbn has engaged a number of partners to assist with the design, construction, activation and assurance of the network.

nbn's success is in part dependent on the successful implementation of contractual agreements and ongoing management of these partners.

Risk description	Mitigation strategy
<p>Significant reliance on key Delivery Partners: nbn's focus on utilising Delivery Partners with proven capabilities has resulted in significant reliance being placed on a number of Delivery Partners.</p> <p>Strategic imperatives:</p> 	<ul style="list-style-type: none"> • Monitoring and management of commercial risk exposures and reliance upon key Delivery Partners; • Intensive critical supplier due diligence prior to engagement; and • Industry workforce management and field resource recruitment strategy.
<p>Partner management: operationalising contractual agreements efficiently, realising intended benefits and ensuring that partners deliver nbn's requirements.</p> <p>Strategic imperatives:</p> 	<ul style="list-style-type: none"> • Regular and ongoing performance monitoring of partners; • Close management of relationships with partners; and • Incentive-based allocation of work, driven by partner performance.

3. Competition, revenue and regulatory

nbn recognises that there are risks associated with achieving revenue and activation rates while adapting to the evolving regulatory environment, competing against other infrastructure providers and encouraging competitive dynamics among Retail Service Providers.

Risk description	Mitigation strategy
<p>Competitive dynamics: evaluating and responding to emerging technologies, other infrastructure providers and potential new entrants whilst encouraging a competitive environment for the Retail Service Providers.</p> <p>Strategic imperatives:</p> 	<ul style="list-style-type: none"> • Ongoing engagement with customers and strengthening relationships through consistently meeting commitments and considering customers' perspectives on nbn's improvement priorities; • Engagement with Australian Competition and Consumer Commission (ACCC) and other stakeholders on encouraging Retail Service Provider competitive dynamics; • Dedicated networking and engagement with technology vendors to ensure access and awareness of latest technologies; and • Investment in pilot trials of new technologies.
<p>Residential and Business ARPU: managing activation rates and ARPU to adapt to evolving sales mixes, product offerings, consumer behaviours and connectivity needs.</p> <p>Strategic imperatives:</p> 	<ul style="list-style-type: none"> • Close monitoring of market data and research; • Entry-level product value proposition to ensure competitiveness with mobile-only options for households and business premises; • Targeted business segment product development and value proposition delivery; and • Ongoing review of pricing architecture.
<p>Regulatory environment: unfavourable regulatory change.</p> <p>Strategic imperatives:</p> 	<ul style="list-style-type: none"> • Active engagement with the Government and regulatory stakeholders; and • Ongoing monitoring of the regulatory environment.



Outlook

The next two years of the network rollout are significant. While **nbn** has doubled the rollout targets year-on-year, the challenge ahead is to do this again. This puts increasing responsibility on **nbn**'s employees and Delivery Partners but it means **nbn** delivers fast broadband to more Australians sooner.

In building the network, **nbn** selects the most appropriate technology choice for the area during the detailed design phase. In some cases, once we have more clarity on the neighbourhood, existing infrastructure assessments and limitations, the technology to be deployed may change.

nbn is committed to deploying the **nbn**TM network in a cost and time efficient manner as we roll out access to fast broadband to all Australians with clear upgrade paths for the future as required.

Activations to the **nbn**TM network are driven by end-user demand. The demand outlook for fast broadband continues to be positive with data usage increasing as Australians use more connected devices at home and at work.

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:

Current Directors



Dr Ziggy Switkowski AO
(Chairman/Non-Executive Director)



Mr Patrick Flannigan
(Non-Executive Director)

Dr Switkowski was appointed Executive Chairman of **nbn** 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.

Dr Switkowski is Chairman of the Suncorp Group and a Director of listed companies Healthscope Ltd, Oil Search Ltd and Tabcorp Holdings Limited. He is Chancellor of RMIT University.

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.

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

Dr Switkowski's current term will expire on 2 October 2016.

Mr Flannigan was appointed as a Director effective 11 November 2013. Mr Flannigan brings more than 25 years' experience in infrastructure services and has held senior roles in both private and publicly listed companies.

Mr Flannigan established his own business, 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 managed network construction as **nbn**'s 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.

Mr Flannigan has a business degree from Victoria University, is a Fellow of the Australian Institute of Management and the Australian Institute of Company Directors, and until late July 2016 held a Board position at the Australian Grand Prix Corporation.

Mr Flannigan's current term will expire on 10 November 2016.



Ms Shirley In't Veld

(Non-Executive Director)

Ms In't Veld was appointed as a Director effective 2 December 2015. 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.

Ms In't Veld is currently a non-executive director of Asciano, DUET Group and Perth Airport, Deputy Chairperson of the CSIRO and in March 2016 she was appointed to the Australian Government Takeovers Panel. 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 holds a Bachelor of Laws (Hons) and a Bachelor of Commerce from the University of Melbourne.

Ms In't Veld's current term will expire on 1 December 2018.



Mr Michael Malone

(Non-Executive Director)

Mr Malone was appointed as a Director effective 20 April 2016. Mr Malone founded iiNet Limited, an ASX listed telecommunications company in 1993 and continued as CEO until his retirement in 2014.

Mr Malone is currently a director of ASX listed Seven West Media Ltd, Superloop Ltd and Speedcast International. He is also the founder and Chairman of Diamond Cyber Pty Ltd. Mr Malone's former directorships include Autism West (as founder and Vice Chairman) and .au Domain Administration (as a founder and Chairman). He 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 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. He is a Fellow of the Australian Institute of Company Directors, the Australian Institute of Management and the Australian Computer Society. Mr Malone has a Bachelor of Science (Mathematics) and a post graduate Diploma in Education both from the University of Western Australia.

Mr Malone's current term will expire on 19 April 2019.



Mr Justin Milne
(Non-Executive Director)



Mr Bill Morrow
(Managing Director and
Chief Executive Officer)

Mr Milne was appointed as a Director effective 11 November 2013. His 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, Mr Milne built significant media businesses in the online and mobile phone worlds. He has been responsible for many successful marketing campaigns and has been honoured with a number of awards.

He is Chairman of MYOB Group Ltd, Chairman of NetComm Wireless Ltd and a Non-Executive Director of Tabcorp Holdings Limited, Members Equity Bank Ltd and SMS Management & Technology Ltd. Mr Milne has a Bachelor of Arts from Flinders University.

Mr Milne's current term will expire on 10 November 2016.

Mr Morrow was appointed as Chief Executive Officer (CEO) and a Director of **nbn** effective 2 April 2014. He joined **nbn** 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.

Bill Morrow is a former non-executive board member of Broadcom and Openwave.

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

Mr Morrow's current term as a Director will expire on 1 April 2017.



Dr Kerry Schott AO

(Non-Executive Director)

Dr Schott was appointed as a Director effective 28 September 2012. Dr Schott is Chairman of the Moorebank Intermodal Company Ltd, Chairman of TransGrid, a Director of TCorp NSW and Infrastructure Australia, and a Patron and Board member of Infrastructure Partnerships Australia.

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

She holds a Doctor of Philosophy from Oxford University, a Masters 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.

Dr Schott's current term will expire on 5 October 2018.

Former Directors



Ms Alison Lansley
(Non-Executive Director)



Mr Simon Hackett
(Non-Executive Director)

Ms Lansley was appointed as a Director effective 7 December 2012. Ms Lansley is an experienced corporate lawyer and business leader, with a long standing connection with the Australian telecommunications industry. She was a partner in the mergers and acquisitions practice of Mallesons Stephen Jaques for more than 16 years. She is currently a Non-Executive Director of Schools Connect Australia Limited, Port Fairy Spring Music Festival Inc. and Community Food Marketplace Limited. Ms Lansley previously served on a number of boards and authorities, including the Melbourne 2006 Commonwealth Games Corporation, the Takeovers Panel, the Financial Services Institute of Australasia, and the national listing committee of the Australian Stock Exchange, and she headed the Victorian regional council of the Australian charity Redkite for several years.

Ms Lansley's term expired on 6 December 2015.

Mr Hackett was appointed as a Director effective 11 November 2013. Mr Hackett has more than 25 years' internet industry experience and has been a noted opinion leader in the broadband debate for many years. Mr Hackett holds a Bachelor of Science degree from the University of Adelaide. While working at the university, he became a part of the team that created the Australian Academic and Research Network (AARNet), the first emergence of the internet in Australia. He founded internet service provider, Internode in 1991 and licensed carrier Agile in 1997. The group grew to be a national provider of internet services using ADSL2+, optical fibre and fixed wireless infrastructure. Internode was one of the first companies to connect to the **nbn**TM network in 2010. The group was sold to iiNet Limited in early 2012. Mr Hackett is Executive Chairman of Redflow Limited and a Fellow of the Australian Institute of Company Directors and the Australian Computer Society.

Mr Hackett retired from the Board effective 20 April 2016.

Company Secretaries



Ms Debra Connor

Ms Debra Connor was appointed as Company Secretary of **nbn** effective from 22 June 2010.

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

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



Ms Kylie Brown

Ms Brown was appointed a Company Secretary of **nbn** 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. Ms Brown is also a General Counsel in the **nbn** Legal team reporting to the Chief Legal Counsel.

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

Directors' interests

The Directors of **nbn** have no interests in the shares of **nbn**.

Dividends

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

Board and Committee meetings

The number of Board and Committee meetings held during FY2016 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⁾	12	12	5	5	2	2	5	5
Mr Patrick Flannigan	12	11	5	5	2	2	5	5
Mr Simon Hackett ⁽²⁾	10	7	-	-	1	1	-	-
Ms Shirley In't Veld ⁽³⁾	7	5	3	2	1	1	-	-
Ms Alison Lansley ⁽⁴⁾	5	5	2	2	-	-	-	-
Mr Michael Malone ⁽⁵⁾	2	2	-	-	1	1	-	-
Mr Justin Milne	12	12	-	-	2	2	5	5
Mr Bill Morrow ⁽⁶⁾	12	12	-	-	2	2	5	5
Dr Kerry Schott AO	12	12	5	5	2	2	-	-

Note: the Communications Committee ceased effective 30 June 2015.

- (a) Number of meetings held while a Director or Committee member.
 (b) Number of meetings attended.

- (1) Dr Ziggy Switkowski AO attends the Audit and Risk Committee meetings ex officio.
 (2) Mr Simon Hackett retired from the Board effective 20 April 2016.
 (3) Ms Shirley In't Veld was appointed to the Board effective 2 December 2015.
 (4) Ms Alison Lansley's term as a Director expired on 6 December 2015.
 (5) Mr Michael Malone was appointed to the Board effective 20 April 2016.
 (6) Mr Bill Morrow attends the People and Remuneration Committee meetings ex officio.



Executive Committee

Details of the members of the Executive Committee are provided below.



Mr Bill Morrow

*Chief Executive Officer
Appointed effective April 2014*



Mr Stephen Rue

*Chief Financial Officer
Appointed in July 2014*

Mr Morrow joined **nbn** 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.

Refer to page 42 for Mr Morrow's biography.

Mr Rue is responsible for the financial management of **nbn**'s business activities, business planning, financial reporting, financial control, management reporting, taxation and treasury, as well as data governance, procurement and supply.

Mr Rue joined **nbn** 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**, 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, Diploma in Professional Accounting and is a member of Chartered Accountants Australia and New Zealand and a Fellow of the Australian Institute of Company Directors.



Mr John Simon

*Chief Customer Officer
Appointed in January 2013*

Mr Simon joined **nbn** in January 2013 and is responsible for all aspects of **nbn**'s product management, brand, marketing and sales.

His accountabilities include developing and managing the life cycle of **nbn**'s product portfolio, and ensuring that it is aligned with industry needs and underpins the **nbn** Corporate Plan.

Within his portfolio, he is also accountable for delivering **nbn**'s revenue targets and customer experience goals of its key channels to market, the Retail Service Provider community.

Mr Simon is an established executive in the converged ICT market, with over 30 years' experience.

Mr Simon spent 12 years working for Singtel Optus in various leadership roles including Managing Director of its Corporate, Government and Key Account Division (Optus Business). He also had responsibility for Optus' SMB division and prior to moving to **nbn** was the Managing Director of Strategy, Transformation and Customer Experience for Optus.

Prior to Singtel Optus, Mr Simon worked in the ICT industry for a range of companies including Telstra Multimedia and General Electric in various executive leadership roles. Mr Simon holds an MBA from the AGSM (University of NSW, Sydney).



Mr Brad Whitcomb

*Chief Strategy and Transformation Officer
Appointed in May 2014*

As **nbn**'s Chief Strategy and Transformation Officer, Mr Whitcomb is responsible for creating and implementing the Company's strategy and Integrated Operating Plan. Mr Whitcomb and his team are primarily focused on enabling the Company to scale in the most efficient and effective way.

Mr Whitcomb is also responsible for Regulatory Affairs at **nbn**.

Mr Whitcomb has extensive experience leading business operations and transforming business performance in global telecommunications, technology and energy sectors.

Prior to joining **nbn** 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.



Mr Peter Ryan

*Chief Network Engineering Officer
Appointed in December 2015*



Mr JB Rousselot

*Chief Network Operations Officer
Appointed in October 2013*

Mr Ryan leads **nbn**'s Network Engineering and Deployment function, which is accountable for the planning, engineering, design and build of the **nbn**TM network, across all satellite, wireless and fixed line technologies.

Mr Ryan joined **nbn** in January 2013 as General Manager Implementation and was accountable for the national delivery of the transit and fixed wireless networks. He moved into an Executive General Manager role in February 2014 and was responsible for the detailed design, construction and deployment of **nbn**'s regional fixed line network.

Prior to joining **nbn**, 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 deployment networks nationally and overseas, in addition to operational management experience and proven project discipline.

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

Mr Rousselot oversees **nbn**'s Network and Service Operations. Focussed on ensuring a paramount end-to-end customer experience across **nbn**TM network and services, Mr Rousselot's role covers all operations that follow the network rollout.

Mr Rousselot joined **nbn** 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).



Ms Maree Taylor

*Chief People and Culture Officer
Appointed in May 2014*

Ms Taylor joined **nbn** in May 2014 and is responsible for the People and Culture strategy of **nbn**. Her responsibilities include initiatives to ensure workforce attraction 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), 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 Justin Forsell

*Chief Legal Counsel
Appointed in March 2010*

Mr Forsell is responsible for all **nbn**'s legal services, company secretariat, freedom of information and security functions. His responsibilities include all major transactions, dispute management, litigation, legal analysis and advisory, and governance support.

An experienced legal practitioner with over 18 years' in-house experience, Mr Forsell joined **nbn** in March 2010 as the Chief Legal Counsel.

Prior to joining **nbn**, Mr Forsell was General Counsel, Company Secretary and Head of Governance at Vodafone Australia. He was responsible for legal, regulatory, government relations, company secretariat, inter-carrier relationships and corporate social responsibility across the Company.

He has previously held senior legal counsel roles at Vodafone Australia, BT Group Japan and British Telecom 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.



Mr John McInerney

*Chief Information Officer
Appointed in December 2012*

As Chief Information Officer, Mr McInerney is responsible for **nbn**'s information technology based services. His responsibilities include the customer and partner digital channels, data and information management, technology architecture and the ICT strategy and policy. Mr McInerney also sponsors the business technology planning process and the alignment of IT with the business.

An experienced technology practitioner with over 20 years' experience across a diverse range of technology environments, Mr McInerney joined **nbn** 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.

Prospects for future financial years

The operating and financial review section on pages 15 to 39 sets out information on the business strategies and prospects for future financial years, and likely developments in **nbn**'s operations and the outlook for those operations in the future.

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 FY2016.

Indemnification and insurance of Directors and Officers

nbn 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**. As at 30 June 2016, no material claims have been made.

During FY2016, 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.

Significant events subsequent to reporting date

On 29 July 2016, **nbn** received \$590 million in equity funding from the Commonwealth Government.

Except for the item noted above, no other matter or circumstance has arisen since 30 June 2016 to the date of the signing of this report that has significantly affected, or may affect:

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

Health, Safety and Environment (HSE)

Caring for the health and safety of our people and the environment is at the heart of how **nbn** operates. **nbn** requires its employees and contractors to comply with all applicable laws and regulations in relation to their work on the **nbn**TM network and has an ongoing commitment to adopt and apply ecologically sustainable development principles.

Despite favourable injury and incident trends, on 1 April 2016 a fatal workplace incident occurred on a worksite under the control of an **nbn** Delivery Partner. This tragic incident is a harsh reminder of the importance of work health and safety. As at the date of this report, the incident remains under investigation with the relevant authorities.

nbn uses both lead and lag indicators to measure its HSE performance. Lead indicators include the timely reporting of incidents, incident action closure and audit action closure. **nbn**'s lag indicators include total recordable injury frequency rate (TRIFR) and lost time injury frequency rate

(LTIFR). In FY2016 **nbn** achieved a significant overall reduction in TRIFR and LTIFR. **nbn**'s TRIFR per million hours worked was 1.9 for employees and 4.7 for contractors and LTIFR per million hours worked was 1.3 for employees and 1.4 for contractors.

Energy usage increased in FY2016 in line with the growth of the **nbn**TM network. In October 2015, **nbn** submitted its first *National Greenhouse and Energy Reporting Act 2007* (NGER) report of FY2015 greenhouse gas emissions and energy consumption data to the Clean Energy Regulator.

Throughout FY2016 **nbn** implemented targeted initiatives to enhance the HSE framework and positively impact the HSE performance of **nbn**'s scaling business. FY2016 initiatives included:

- Implementing improved governance, assurance and reporting frameworks;
- Introducing a business-wide health and wellbeing program;
- Updating internal and external training requirements;
- Introducing a self-service HSE data analysis tool to provide **nbn** with access to tailored HSE data in a simple and engaging format; and
- Expanding **nbn**'s national waste recycling program.

Refer to the Regulatory report on pages 147 to 150 for further information.

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.

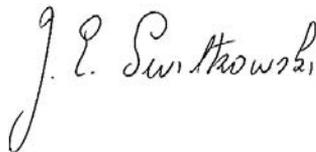
Non-audit services

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.

Corporate information

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

Signed in accordance with a resolution of the Directors.



Dr Ziggy Switkowski AO
Chairman



Bill Morrow
Chief Executive Officer

10 August 2016





Remuneration report

The purpose of the Remuneration report is to set out the principles and the remuneration strategy **nbn** 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 goals by 2020 and beyond.

As discussed in the operating and financial review, **nbn** had an outstanding year, exceeding every corporate measure.

The remuneration outcomes for FY2016 therefore reflect the strong performance of the business and progress toward **nbn**'s strategic goals by 2020.

nbn's remuneration framework aims to:



Attract and retain high calibre Executives



Foster exceptional talent and performance



Responsibly reward KMP

Letter from the Chair of the People and Remuneration Committee

On behalf of the **nbn** Board, I am pleased to present our 2015-16 Remuneration report where we summarise the achievements of this past year and the associated remuneration outcomes for **nbn**'s Chief Executive Officer (CEO) and his Senior Executive team. The fee arrangements for Board members are also provided.

This past year was always expected to be a challenging, indeed formative year, as all technologies within the Multi-Technology Mix model were initiated, and deployment in scale was demonstrated in the form of accelerated network rollout and rapid growth in customer activations.

Today, more than one in four Australian premises can order an **nbn**TM service, and more than one million have done so, ahead of the Board approved plan for the past year. Our customer numbers and their broadband usage continue to grow quickly and have helped our revenue to exceed the FY2016 budget. The working relationships with our wholesale customers continue to trend positively as measured in our annual survey. And our Retail Service Providers confirm that our network construction and marketing of broadband services are now well aligned. They also draw our attention to a number of areas where further improvements are required and these have become priorities for the year ahead. We have now established the foundations necessary to scale the organisation with a 2020 completion date in mind, while developing an engaged workforce where employees believe that **nbn** is a great place to work.

The Board views that FY2016 was a very successful year for **nbn** and is satisfied that the performance gateway for the short-term incentive program has been met. This gateway includes **nbn**'s safety record and overall performance to budget. Furthermore, despite the stretch objectives and numerous challenges that the Company faced, **nbn** exceeded its short-term incentive (STI) targets for the year. For this reason, the

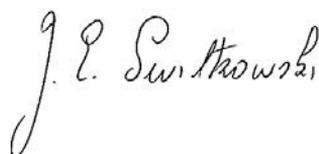
Board approved an STI payout that reflected its judgement that operating performance for the year had been exceptional.

No material change has been made to the **nbn**'s Senior Executive remuneration framework during this year. Target remuneration continues to be set with reference to the external market for similar roles where such benchmarks exist. Awards made through the STI program are 'at risk' and depend upon Company performance where targets and threshold metrics are set at the beginning of the operating year and are consistent with the approved Corporate Plan.

The next two years will see the challenge grow and the pace quicken. **nbn** looks to double this year's activations for FY2017 and to double again in FY2018.

The Board continues to believe in the validity of the strategy and has great confidence that the CEO, Bill Morrow, his executive team, and the men and women of **nbn** will deliver the goal of 8 million connected homes and businesses by 2020.

Yours sincerely,



Dr Ziggy Switkowski AO
Chair, People and Remuneration Committee

10 August 2016

Key management personnel (KMP)

This report covers **nbn**'s KMP who have authority and responsibility for planning, directing and controlling the activities of the Company directly and indirectly throughout the year. This included Non-Executive Directors of the Company and Senior Executives, as outlined in the table below for the year ended 30 June 2016.

Name	Title	2015-16 status	KMP status
Current Directors			
Mr Patrick Flannigan	Non-Executive Director	Full year	Current
Ms Shirley In't Veld	Non-Executive Director	New starter	Current from 2 December 2015
Mr Michael Malone	Non-Executive Director	New starter	Current from 20 April 2016
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
Former Directors			
Mr Simon Hackett	Non-Executive Director	Part year	Until 20 April 2016
Ms Alison Lansley	Non-Executive Director	Part year	Until 6 December 2015
Current Senior Executives			
Mr Bill Morrow	Chief Executive Officer (CEO)	Full year	Current
Mr JB Rousselot	Chief Network Operations Officer (CNOO)	Full year	Current
Mr Stephen Rue	Chief Financial Officer (CFO)	Full year	Current
Mr Peter Ryan	Chief Network Engineering Officer (CNEO)	New appointment	Acting from 14 October 2015 and appointed 16 December 2015
Mr John Simon	Chief Customer Officer (CCO)	Full year	Current
Mr Brad Whitcomb	Chief Strategy and Transformation Officer (CSTO)	Full year	Current
Former Senior Executives			
Mr Greg Adcock	Chief Operating Officer (COO)	Part year	Until 14 October 2015

There were no changes to KMP after the reporting date and before the date the Directors' report was authorised for issue.

Non-Executive Director fees

All Non-Executive Directors of **nbn** 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** 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** (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 FY2016 and FY2015.

There was no Deputy Chair appointed to **nbn**'s Board for FY2016 and FY2015.

Board position	2015-16 annual entitlement		2014-15 annual entitlement
	(from 1 January 2016)	(from 1 July 2015)	(from 1 July 2014)
Chair	\$213,830	\$209,630	\$209,630
Deputy Chair	\$172,150	\$168,770	\$168,770
Non-Executive Directors	\$106,960	\$104,860	\$104,860

Remuneration and talent governance at nbn

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** that:

- Enable **nbn** 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**TM network consistent with **nbn**'s Corporate Plan; and

- Responsibly reward employees, having regard to the performance of **nbn**, individual performance, statutory and regulatory requirements and current business norms.

The diagram below shows how Senior Executive remuneration decisions are determined at **nbn**.



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 FY2016, **nbn** received external advice in relation to remuneration from

Ernst & Young (EY). The advice included market practice and remuneration information used as input to the annual review of Senior Executive remuneration, 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*.

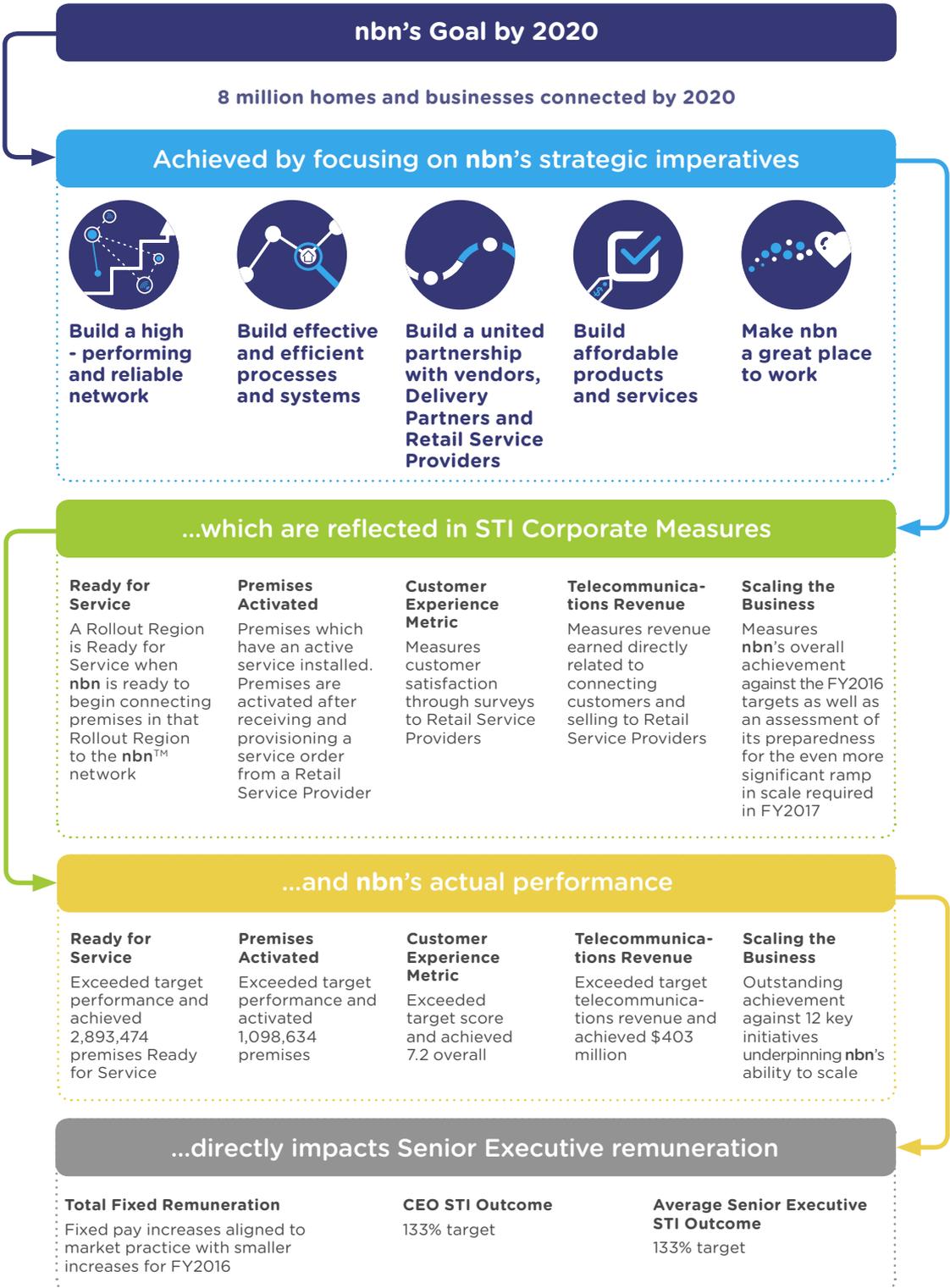
The link between Company strategy and remuneration strategy

nbn'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**'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 STI program, to ensure alignment with **nbn**'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** before any STI payments can be earned;
- Balancing Senior Executive remuneration against corporate and individual performance outcomes; and
- Linking each Senior Executive's STI award to the achievement of stretch performance conditions.

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



Senior Executive remuneration

nbn'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 a STI program, which includes a deferral component. **nbn** does not grant long-term incentive awards to its Senior Executives.

Remuneration benchmarking

nbn 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**'s strategic objectives. Senior Executives are only rewarded for delivering performance aligned to **nbn**'s strategy.

The target STI opportunity for Senior Executives during FY2016 was 32.5 per cent of the participant's TFR. The Target STI opportunity for the CEO and CCO was 40 per cent of TFR.

As 'at risk' remuneration is tied to the achievement of **nbn** and individual performance conditions, actual remuneration received may vary from the target remuneration set out above. Further detail on actual performance outcomes for FY2016 has been provided in the STI program section on page 63 and 64.

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

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

One third of any STI awarded to Senior Executives is deferred for a period of two years. Deferred amounts are not subject to performance hurdles but are subject to clawback conditions and 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 FY2016.

nbn 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**'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.

Funding approach

nbn'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 **nbn** 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 FY2016, **nbn**'s safety record and performance to budget were the performance gateway measures. The operating and financial review section provides details on **nbn**'s financial performance and non-financial performance for FY2016.

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**'s aggregate cost.

STI performance measures

nbn'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 62. For FY2016, **nbn**'s performance was assessed against five corporate measures that included:

- Ready for Service;
- Premises Activated;
- Customer (i.e. Retail Service Providers) experience metric;
- Telecommunications revenue; and
- Scaling the business.

Performance outcomes for FY2016

For FY2016, the Board was satisfied the overall financial and safety performance gateway measure for the Company was met. **nbn**'s overall financial performance and safety performance are discussed on pages 28 to 32 and 53 to 54 respectively.

nbn had an outstanding performance year, exceeding the targets set against five corporate measures linked to the STI Program.

As a result of this achievement, the Board awarded an STI award pool that was greater than the target pool. For FY2016, this equated to 133 per cent of each Senior Executive's target STI opportunity.

The list of KMP during FY2016 disclosed in this report is shown on page 58 and a summary of remuneration received during the financial year is shown on pages 66 to 67.

Summary of Executive employment contracts, termination payments and other long-term benefits

Employment agreements and termination arrangement

All Senior Executives are permanent employees of **nbn**. 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** 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**.

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

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.

Transactions with Related Parties

No transactions (subject to some exceptions for immaterial or routine standard term transactions) were undertaken involving Directors or Senior Executives, their close family members or entities they control or have significant influence over.

Equity movements

In FY2016, there were no holdings in rights, options and other equity instruments by Directors or Senior Executives, their close family members or entities they control or over which they have a significant influence.

KMP disclosures in detail

Remuneration for Non-Executive Directors for FY2016 and FY2015 is shown in the table below.

		Short-term benefits	Post-employment	Total remuneration
		Director fees	Superannuation contributions	
Note		\$	\$	\$
Non-Executive Directors				
P Flannigan	2015	104,860	9,962	114,822
	2016	105,910	10,061	115,971
S In't Veld	2015	-	-	-
	2016 1	61,838	5,875	67,713
M Malone	2015	-	-	-
	2016 2	21,222	1,609	22,831
J Milne	2015	104,860	9,962	114,822
	2016	105,910	10,061	115,971
K Schott AO	2015	104,860	9,962	114,822
	2016	105,910	10,061	115,971
Z Switkowski AO	2015	209,630	18,783	228,413
	2016	211,730	19,308	231,038
S Hackett	2015	104,860	9,962	114,822
	2016 3	85,112	8,086	93,198
A Lansley	2015	104,860	9,962	114,822
	2016 4	45,211	4,295	49,506
Total	2015	733,930	68,593	802,523
	2016	742,843	69,356	812,199

Notes:

- Ms S In't Veld was appointed as a Director on 2 December 2015.
- Mr M Malone was appointed as a Director on 20 April 2016.
- Mr S Hackett retired as a Director on 20 April 2016.
- Ms A Lansley's term ended as a Director on 6 December 2015.

Remuneration for Senior Executives for FY2016 and FY2015 is shown in the table below.

		Short-term benefits			Post-employment	Other long-term benefits		Termination benefits ⁽⁴⁾	Total remuneration
		Base salary and fees ⁽¹⁾	STI/Bonuses ⁽²⁾	Non-cash benefits	Superannuation contributions	STI deferral ⁽²⁾	Long service leave ⁽³⁾		
Note		\$	\$	\$	\$	\$	\$	\$	\$
Senior Executives									
W Morrow	2015	2,281,217	483,000	-	18,783	241,500	7,530	-	3,032,030
	2016 5	2,315,192	1,242,000	-	19,308	-	22,726	-	3,599,226
JB Rousselot	2015	770,967	165,830	-	18,783	82,915	3,381	-	1,041,876
	2016	836,109	251,100	-	19,308	125,600	9,997	-	1,242,114
S Rue	2015	901,217	193,200	-	18,783	96,600	2,624	-	1,212,424
	2016	919,092	270,500	-	19,308	135,200	2,822	-	1,346,922
P Ryan	2015	-	-	-	-	-	-	-	-
	2016 6	487,314	143,700	-	13,823	71,800	6,094	-	722,731
J Simon	2015	681,217	196,000	-	18,783	98,000	7,235	-	1,001,235
	2016	750,692	273,100	-	19,308	136,500	21,032	-	1,200,632
B Whitcomb	2015	781,217	168,000	-	18,783	84,000	2,481	-	1,054,481
	2016	796,692	235,100	-	19,308	117,600	7,639	-	1,176,339
G Adcock	2015 7	1,098,217	351,855	-	18,783	-	4,355	-	1,473,210
	2016 8	317,610	-	-	5,558	-	-	1,517,765	1,840,933
Total	2015	6,514,052	1,557,885	-	112,698	603,015	27,606	-	8,815,256
	2016	6,422,701	2,415,500	-	115,921	586,700	70,310	1,517,765	11,128,897
Total KMP	2015	7,247,982	1,557,885	-	181,291	603,015	27,606	-	9,617,779
	2016	7,165,544	2,415,500	-	185,277	586,700	70,310	1,517,765	11,941,096

Notes:

1. Base salary includes KMP's accrued annual leave entitlements and any allowances paid in cash.
2. The cash component of bonuses paid or to be paid in August 2015 and August 2016 as it relates to FY2015 and FY2016 performance, respectively. One-third of the STI bonus relating to FY2015 and FY2016 performance is deferred for a period of two years. Deferred STI payments are not discounted.
3. Long service leave relates to amounts accrued during the relevant period.
4. Termination benefits include payment of statutory benefits for long service leave and annual leave, which have previously been accrued.
5. Mr W Morrow is CEO and Managing Director of nbn. The P&RC agreed that no deferral will apply for the CEO's actual STI award for FY2016.
6. Mr P Ryan was appointed as KMP on 14 October 2015.
7. Mr G Adcock was paid his STI bonus in full in accordance with his employment contract.
8. Mr G Adcock concluded to be a KMP on 14 October 2015 and concluded employment on 15 January 2016. Base salary in the table above reflects pay until 14 October 2015 and salary received from 15 October 2015 to 15 January 2016 has been included as part of Mr G Adcock's termination benefit. A total of \$113,380.15 was paid for annual leave entitlements on termination.





Corporate governance statement

Corporate structure and governing legislation

nbn 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.

This statement, which was approved by the Board on 10 August 2016, outlines the most significant aspects of **nbn**'s corporate governance framework.

nbn 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 management personnel of **nbn**.

As **nbn** 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's governance framework is regularly reviewed to ensure it aligns to Government, regulatory and legislative requirements, and market practice. nbn'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 (August 2015)* (GBE guidelines);
- Other resource management guides issued by the Department of Finance that are applicable to **nbn**; and
- **nbn**'s voluntary adoption of those ASX Corporate Governance Principles and Recommendations (the 3rd Edition) which are relevant to **nbn**.

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**'s business;
- Open and effective communications with our Shareholder Ministers and their Departments;
- A clear tone from the top with a strong internal control framework supported by our Code of Conduct, policies and procedures; and
- 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** Board

The *Corporations Act 2001* and **nbn**'s Constitution establish and define the corporate powers of **nbn** which are exercised by the Board, unless exercised by the Shareholder Ministers under **nbn**'s Constitution. The powers of **nbn** must be exercised in accordance with the objects set out in its Constitution, in particular the object 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** 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**. The best interests of **nbn** are defined by reference to the objectives and purposes of **nbn**, Australian Government broadband policy and the GBE guidelines.

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

The Board's key responsibilities are:

- Establishing and overseeing a sound corporate governance framework;
- Approving **nbn**'s strategic direction;
- Engaging with its Shareholder Ministers on Australian Government policy requirements;
- Annually causing a Corporate Plan to be prepared and submitted to Government;
- Supervising management in the implementation of **nbn**'s strategic direction and compliance with legal and regulatory obligations;
- Taking the necessary steps to ensure compliance with duties and obligations imposed on the Board and **nbn** by law, and by **nbn**'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** including (but not limited to):

- developing, promoting and ensuring compliance with **nbn**'s values and governance framework
 - reporting on and investigating reports of unethical practice within **nbn**
 - 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**'s compliance with **nbn**'s internal and external audit requirements, including overseeing the implementation of all audits
 - monitoring the operation of each subsidiary of **nbn** and, when necessary, exercising the voting power attaching to **nbn**'s shares in the subsidiary
 - either approving or noting (where appropriate) and then monitoring those policies which bind **nbn**'s employees, Directors or, (where specifically provided for in a relevant policy) third parties dealing with **nbn**;
- Ensuring **nbn** 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; and
 - 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** (approved by the Board) and the

additional responsibilities set out in rule 12.2 of **nbn**'s Constitution. The CEO has delegated some of his powers to the members of **nbn**'s Executive Committee; and

- Established standing committees to streamline the discharge of its responsibilities.

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

Rule 8.1.1 of **nbn**'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 holds an annual strategic planning meeting attended by Directors and key executives. **nbn**'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**'s 2016 strategic planning meeting will be held in the second half of the 2016 calendar year.

nbn's Executive Committee (ExCo)

ExCo comprises the CEO and Executives. Further details about ExCo are available on pages 48 to 52.

Appointments

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

Rule 5.5.1 of **nbn**'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**'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**:

- Appoint a person to be an additional or replacement Director; and
- 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'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** executive.

Performance of the Board

The performance of **nbn's** Board is reviewed annually. Unless otherwise directed by the Shareholder Ministers, on a biennial basis the performance of the Board is assessed by an independent external service provider and the Chairman will provide the report to the Shareholder Ministers. On alternate years, the performance of the Board is assessed internally by the Chairman.

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 2015. The most recent performance review was conducted in 2015 and no areas of concern were raised by the Chairman with **nbn's** Shareholder Ministers as a result of that review.

The 2016 performance review will be undertaken internally by the Chairman in the second half of the 2016 calendar year.

The performance review process is determined by **nbn's** Nominations Committee with the final performance report to be provided to the Board.

Performance of the Senior Executives

The performance of **nbn's** Senior Executives is reviewed annually by the People and Remuneration Committee. The outcomes of the FY2016 performance evaluations and information about **nbn's** remuneration framework and policies for the Senior Executives are set out in the Remuneration report on pages 56 to 67.

Company Secretaries

In accordance with rule 5.9.1 of **nbn'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 45.

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 role and responsibilities of each Company Secretary are managed internally.

Diversity and Inclusion at nbn

At **nbn** we want to continue to create a diverse and inclusive workplace that accepts, respects and leverages differences.

nbn is committed to creating:



During FY2016, **nbn**'s diversity objectives have been focused on:

- **Gender:** 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;
- **Culture and identity:** To celebrate, engage and embrace the cultures and identities across our business;
- **Indigenous:** To incorporate the recognition and respect of Aboriginal and Torres Strait Islander people and culture into the way we do business and to ensure that the **nbn**TM network makes a positive contribution to their lives and communities; and
- **Disability:** Create an inclusive workplace with the resources and support to enable employees with disabilities to contribute at their best. Ensure that the minds, bodies and relationships of all employees are at their best.

nbn'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**'s monthly reporting dashboard, a Quarterly Diversity and Inclusion review by ExCo and annual reporting to the **nbn** Board.

Gender

Increasing the overall percentage of female representation in management levels has been a key focus for **nbn** for FY2016. Specific activities were integrated and embedded into our core Scaling, Leadership and Great Place to Work programs. These initiatives included:

- Setting lead and lag measures and embedding these in **nbn**'s people processes and systems;

- Ensuring female representation on shortlists, interview panels and participation in leadership programs;
- Continuing the Women’s Development Network to provide central support, career development, networking and engagement for women;
- Designing a targeted individual female mentor program for identified top talent to be launched in FY2017;
- Continuing to proactively manage the development of high potential female talent across the business;
- Further developing the ‘employee value proposition’ for women at **nbn**, to communicate internally and externally; and
- Continuing a comprehensive annual gender pay equity analysis, ensuring starting salaries are within the specified remuneration range for a given role and having a gender focus to the annual remuneration review process.

Through the implementation and ongoing measurement of the above initiatives, our overall female representation has increased from 30 per cent at 30 June 2015 to 32 per cent at 30 June 2016 (1,558 employees). A further breakdown of **nbn**’s female representation at the management levels of the organisation has been provided in the table below.

Role	Number	Percentage
Board	2	33%
Executive Committee	1	11%
Senior Management	69	23%
Middle Management	273	25%
Total Women in Management*	343	24%

Objectives and targets for female representation

To accelerate the representation of women in management levels*, **nbn** is committed to increasing representation of women at management levels to 33 per cent by FY2020.

Measure	Objective	Target by FY2020
Female representation in management*	Increase representation of women in management roles	Increase representation to 33%
Employee Engagement	Increase the engagement of women to equal to or greater than that of nbn -wide engagement	Equal engagement of males and females
Female representation in graduate intake	Increase female representation in graduate intake	Increase to 50% representation

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

Indigenous

nbn formed a Reconciliation Action Plan (RAP) working group, made up of a diverse selection of **nbn** employees, including employees of Aboriginal and Torres Strait Islander (ATSI) descent. **nbn** will be delivering on its Indigenous strategy through a Reconciliation Australia endorsed RAP for calendar 2016 – 2018. This is the second RAP **nbn** has produced with Reconciliation Australia’s endorsement focusing on ATSI

representation in our internal workforce and external partners and will be launched in early FY2017.

The other Diversity and Inclusion pillars, Culture and Identity and Disability, have included a range of activities in FY2016 including establishing our **nbn** Pride network and forming partnerships with the National Disability Recruitment Co-ordinator to increase the accessibility of our workplace for all.

Principle: Structure the Board to add value

(based on ASX Principle 2)

The Board

Pursuant to Rule 5.4.1 of **nbn**'s Constitution, the Board is to comprise a minimum of three and a maximum of nine Directors. The Board currently comprises six 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 (Non-Executive Director) appointed Executive Chairman of **nbn** 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 Patrick Flannigan, appointed Non-Executive Director effective 11 November 2013;
- Ms Shirley In't Veld, appointed Non-Executive Director effective 2 December 2015;
- Mr Michael Malone, appointed Non-Executive Director effective 20 April 2016;
- Mr Justin Milne, appointed Non-Executive Director effective 11 November 2013;
- Mr Bill Morrow, appointed Managing Director and CEO effective 2 April 2014; and
- Dr Kerry Schott AO, appointed Non-Executive Director effective 28 September 2012.

Of the above named Directors, Dr Switkowski, Mr Flannigan, Mr Milne, Mr Morrow and Dr Schott were in office for the full period from 1 July 2015 to 30 June 2016. Ms In't Veld and Mr Malone were in office for part of the period from 1 July 2015 to 30 June 2016.

Full details of current Directors including names, appointment dates, term expiration dates, qualifications/experience and remuneration are included in the Directors' report on pages 40 to 43 and the Remuneration report on pages 56 to 67.

Former Directors who were in office for part of the period from 1 July 2015 to 30 June 2016 who are not current Directors of the Board are Mr Simon Hackett and Ms Alison Lansley. For details of Mr Hackett and Ms Lansley's tenure as a Director during the period refer to page 44.

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**'s Board portal.

Key **nbn** executives are invited to participate in Board meetings.

The Board met 12 times during the period from 1 July 2015 to 30 June 2016. Directors' attendances are set out on page 46.

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.

Audit and Risk Committee

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

- Satisfying itself that **nbn** 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; and

- Providing a forum for communication between the Board, senior management of **nbn**, and the internal and external auditors of **nbn**. In particular, the Committee supervises: the preparation of periodic financial statements of **nbn** 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**'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 Enterprise Risk Strategy, and the Fraud Risk and Investigations Strategy; significant changes in accounting policies; the maintenance of effective and efficient internal and external audit processes; the approach followed in establishing **nbn**'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**.

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** 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 2016 the Committee comprised Dr Kerry Schott AO (Chair appointed effective 12 November 2013), Mr Patrick Flannigan (appointed effective 28 November 2013) and Ms Shirley In't Veld (appointed effective 15 December 2015). Refer to pages 40 to 43 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 2015 to 30 June 2016 are set out in the Directors' report on page 46.

In accordance with Section 4.5 (d) of its Charter, the Committee met separately with **nbn**'s external auditors during the period from 1 July 2015 to 30 June 2016.

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**'s Executive Committee, and 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 2016 the Committee comprised Dr Ziggy Switkowski AO (Chairman and Chair), Mr Patrick Flannigan, Ms Shirley In't Veld, Mr Michael Malone, Mr Justin Milne, Mr Bill Morrow and Dr Kerry Schott AO. All Committee members were appointed effective 24 March 2015 with the exception of Ms In't Veld and Mr Malone who were appointed effective 1 January 2016 and 20 April 2016 respectively.

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 2015 to 30 June 2016 are set out in the Directors' report on page 46.

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** that enable **nbn** 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**TM network consistent with **nbn**'s Corporate Plan; and responsibly reward employees, having regard to the performance of **nbn**, 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 2016 the Committee comprised Dr Ziggy Switkowski AO (Chairman and Chair appointed effective 7 February 2014), Mr Patrick Flannigan (appointed effective 7 February 2014) and Mr Justin Milne (appointed effective 7 February 2014).

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 2015 to 30 June 2016 are set out in the Directors' report on page 46.

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**'s Board portal.

Key **nbn** 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**'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** executives. Committee members receive Committee reports in advance of each meeting via **nbn**'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 a biannual 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 21 June 2016. Further, each Director's skills, experience and performance as a member of the Board is considered as part of **nbn**'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;
- Previous board experience;
- Governance;
- Board dynamics;
- Issues management;
- Ethics and integrity;
- Leadership; and
- Negotiation.

Independence of Directors

As at the date of this statement, the Board considers all current and former Directors who were members of the Board during the period from 1 July 2015 to 30 June 2016 were (in the case of former Directors) and are (in the case of all current Directors) 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's** Nominations Committee and subsequently 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 also 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 judgment when making decisions, the Board collectively and each Director individually:

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

Induction

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

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

Ongoing education for Directors is delivered through individual briefings, presentations made by key **nbn** executives, and Directors visiting some of **nbn**'s operational locations.

Directors have ongoing access to professional development opportunities which directly relate to their role as a Director of **nbn** 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** shares which are held solely by the Commonwealth of Australia.

Code of Conduct of the Board

nbn aims to carry out its business in an open and honest manner, while complying with all applicable legislation and 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; will consider the reasonable expectations of **nbn**'s stakeholders (including the Shareholder Ministers, and through them the Commonwealth and the Parliament, **nbn** employees, its customers and its suppliers, and, where applicable, given the scale of the project, the broader community); will 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** Code of Conduct to ensure any systemic issues are adequately addressed. **nbn**'s Directors' Code of Conduct is contained within the Board Charter.

nbn 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**'s values and the principle of respect. A copy of the Code of Conduct, in addition to other key **nbn** policies, including **nbn**'s Whistleblower Policy, can be found on **nbn**'s website.

Privacy

nbn has a Privacy Policy which is based on the Australian Privacy Principles that came into force on 12 March 2014 and is designed to inform individuals who interact with **nbn** how their personal information may be collected, used or disclosed by **nbn**. **nbn** also employs a Privacy Officer and has a cross functional privacy program. **nbn** is committed to compliance with privacy law in order to safeguard the personal information of individuals and to foster a corporate culture that values privacy.

Security Group

nbn has adopted a holistic security framework, measuring its overall security compliance against Australian Government security requirements and telecommunications industry obligations. The adoption of a multi-disciplinary **nbn** Security Group, supported by investment in cyber security compliance controls and independent security reviews, provides a balanced security foundation consisting of a cross-disciplinary team of security professionals who are committed to protecting **nbn**'s reputation, people, assets and information. For further information relating to **nbn**'s Security Group refer to the Regulatory report on page 146.

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** is a key focus for **nbn**.

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**'s Special Access Undertaking (SAU), as accepted by the Australian Competition and Consumer Commission (ACCC) on 13 December 2013.

Whistleblower

nbn has an established formal Whistleblower Policy (available on **nbn**'s website), which, amongst other things, meets the requirements of the *Public Interest Disclosure Act 2013* which came into operation in January 2014. The policy was created to promote and maintain an open working environment in which Directors, employees and other **nbn** 'public officials' are able to raise concerns regarding actual, unethical, unlawful or undesirable conduct, without fear of reprisal and with the support and protection of **nbn**.

Value for money

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

nbn has developed and maintained Procurement Rules (comprising Procurement Policy and Procurement Guidelines) containing processes for demand planning, sourcing and engaging suppliers, and implementing and managing supplier contracts to achieve value for money on a whole-of-life basis and also satisfies conditions of the SAU, as accepted by the ACCC on 13 December 2013.

nbn's policies relevant to procurement are mandatory so that all expenditure should comply with the Procurement Rules and be executed in accordance with **nbn**'s Delegation of Authority Policy and agreed principles, ethics and audit requirements.

Ethical behaviour encompasses the concepts of honesty, integrity, probity, diligence, fairness, trust, respect and consistency. Ethical behaviour also includes avoiding conflicts of interest and not making improper use of an individual's position. Ethical behaviour is critical in **nbn**'s procurement.

nbn's approach in achieving value for money in procurement is through specific guiding principles which encompass:

Encouraging competition – Drive supplier performance through an effective competitive framework, so that all suppliers have an opportunity to compete based on their

commercial, technical and financial capabilities. Allow supplier models to encourage competition over the long-term.

Commerciality – Select a procurement process that is efficient and most appropriate to the expenditure profile and target objectives for **nbn** and suppliers. Evaluate supplier proposals against applicable evaluation criteria, assessing all relevant costs, benefits and risks on a whole of life basis (best value for money, using total cost of ownership).

Risk management – Manage risks associated with procurement activity by applying a robust risk management framework to internal decision making and external suppliers.

Accountability and transparency – Procurement activities and transactions are open and transparent, and undertaken in an ethical manner, avoiding potential conflicts of interest and auditable as required.

Coverage – Leading procurement practices are applied to capital and operating expenditure and all external supplier expenditure.

Design efficiency – Ensuring that the equipment procured by **nbn** is designed in a manner which meets both business and cost objectives of **nbn** over the intended service life of the equipment.

Sustainability – **nbn** aims to achieve value for money on a whole-of-life basis generating benefits not only for **nbn**, but also to society and the economy whilst minimising environmental impact. **nbn** seeks to engage suppliers who are committed to diversity in their supply chain and who share the **nbn** commitment to Sustainable Procurement principles.

Our environment

nbn 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** is committed to adopting ecologically sustainable development principles. **nbn** is also committed to reducing its energy, greenhouse gas emissions, water and 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** 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; and
- Providing a forum for communication between the Board, senior management of **nbn**, and the internal and external auditors of **nbn**. Refer to pages 75 to 76 for more information on **nbn**'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; and
- 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**'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.

nbn formally adopted and implemented the Integrated Assurance Framework which links enterprise level risks to controls and assurance activities.

Internal Audit

Internal Audit is a key component of **nbn**'s Governance Framework. It provides independent and objective assurance and consulting activities designed to add value and improve **nbn**'s operations.

The Internal Audit function is independent, with **nbn**'s Chief Audit Executive, the Group General Manager Internal Audit, 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 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 3 years. Other providers are used on an as-needed basis.

Outcomes of the 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**'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** 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; and
- 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.

Fees paid by **nbn** to the external auditors 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 (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** has voluntarily adopted these requirements where appropriate. In addition, **nbn** 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** is committed to applying and adhering to these standards and as such, has a zero tolerance approach to fraudulent and/or corrupt behaviour.

nbn'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** 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 annual 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**'s operations and its financial position. The letter also includes representation to the Board in respect of the adequacy and effectiveness of **nbn**'s risk management, internal compliance and control systems.

Based on the evaluation performed as at 30 June 2016, 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 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** 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**'s other reporting commitments to the Commonwealth.

nbn's transparency and reporting obligations derive 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**'s website (see for example at <http://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 is also subject to the *Freedom of Information (FOI) Act 1982*, and information about **nbn**'s approach to FOI is separately available on its website at <http://www.nbnco.com.au/corporate-information/about-nbn-co/freedom-of-information.html>.

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

nbn 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** is also subject to Parliamentary scrutiny through Parliamentary Committees.

nbn 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 annual reports which include its financial statements; and
- Quarterly presentations on financial and operating results.

Principle: Recognise and manage risk

(based on ASX Principle 7)

Risk management

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

nbn's Board and management are committed to proactive identification, assessment and management of material risks. **nbn**'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.

Risks and controls are reviewed and monitored on a regular basis. **nbn**'s risk profile has improved since last year, largely due to internal investment in process improvement activities and resource capability. **nbn** has also successfully supplemented this by de-risking key design, construction and operational activities through the execution of strategic agreements with key partners who possess proven capabilities. However, even though risk prevention and mitigation strategies are being implemented, significant challenges and residual risks remain. A summary of **nbn**'s material business risks (including any material exposure to economic, environmental and social sustainability risks), their key drivers and **nbn**'s strategies to manage those risks are set out on pages 35 to 38.

Treasury

nbn 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**'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**'s obligations under the Amending Agreement – Equity Funding Agreement dated 19 March 2014.

Principle: Remunerate fairly and responsibly

(based on ASX Principle 8)

nbn's People and Remuneration Committee assists the Board in fulfilling its governance responsibilities in relation to establishing people management and remuneration policies for **nbn** that enable **nbn** 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**TM network consistent with **nbn**'s Corporate Plan; and responsibly reward employees, having regard to the performance of **nbn**, individual performance, statutory and regulatory requirements, and current business norms. Refer to page 77 for more information on **nbn**'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 56 to 67.

Senior Executives' remuneration

The remuneration of the Senior Executives is set by **nbn**'s People and Remuneration Committee on behalf of the Board. Full details of Senior Executives' remuneration are included in the Remuneration report on pages 56 to 67.

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
Australia

nbn co limited FINANCIAL REPORT 2015–16 AUDITOR'S INDEPENDENCE DECLARATION

In relation to my audit of the financial report of the **nbn** 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 2016, 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

Grant Hehir
Auditor-General

Canberra
10 August 2016

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Financial report

The financial report, comprising of the consolidated financial statements and notes to the consolidated financial statements, for the year ended 30 June 2016, includes the Company and its subsidiaries (together referred to as the **nbn** Group or the Group).



Revenue of
\$421 million



Property, plant and equipment of
\$15,223 million



Contributed equity of
\$20,275 million
as at
30 June 2016

Statement of profit or loss and other comprehensive income

For the year ended	Notes	nbn Group	
		30 June 2016 \$m	30 June 2015 \$m
Revenue			
Telecommunications revenue		403	161
Other revenue		18	3
Total revenue	B1	421	164
Expenses			
Interest income	B1	29	21
Other income	B1	10	8
Direct network costs		(399)	(342)
Subscriber costs		(582)	(193)
Employee benefits expenses	D1	(609)	(404)
Outsourced and corporate services		(93)	(112)
IT and software expenses		(149)	(126)
Communication and public information		(51)	(28)
Depreciation and amortisation expense	C3 & C4	(884)	(631)
Other expenses		(110)	(89)
Finance charges - leased assets	C8	(322)	(302)
Total expenses		(3,199)	(2,227)
Loss before income tax		(2,739)	(2,034)
Income tax (expense)/benefit	H1	(11)	15
Loss for the year		(2,750)	(2,019)
Loss attributable to the shareholder		(2,750)	(2,019)
Other comprehensive (loss)/income			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of cash flow hedges		(36)	51
Income tax benefit/(expense) relating to components of other comprehensive (loss)/income		11	(15)
Total other comprehensive (loss)/income for the year, net of tax		(25)	36
Total comprehensive loss for the year		(2,775)	(1,983)
Total comprehensive loss attributable to the shareholder		(2,775)	(1,983)

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

Statement of financial position

As at	Notes	nbn Group	
		30 June 2016 \$m	30 June 2015 \$m
Current assets			
Cash and cash equivalents	C1	1,287	948
Trade and other receivables	C2	160	79
Inventories		27	16
Derivative financial assets		16	57
Held to maturity investments		399	290
Other current assets		93	64
Total current assets		1,982	1,454
Non-current assets			
Property, plant and equipment	C3	15,223	10,839
Intangible assets	C4	1,334	958
Other non-current assets		13	8
Total non-current assets		16,570	11,805
Total assets		18,552	13,259
Current liabilities			
Trade and other payables	C6	1,564	1,298
Other liabilities	C7	11	9
Other financial liabilities	C8	132	148
Derivative financial liabilities		1	-
Provisions	C9	117	85
Total current liabilities		1,825	1,540
Non-current liabilities			
Trade and other payables	C6	5	22
Other liabilities	C7	371	285
Other financial liabilities	C8	4,280	3,678
Provisions	C9	48	26
Total non-current liabilities		4,704	4,011
Total liabilities		6,529	5,551
Net assets		12,023	7,708
Equity			
Contributed equity	E1	20,275	13,185
Other reserves		16	41
Accumulated losses		(8,268)	(5,518)
Total equity		12,023	7,708

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

Statement of changes in equity

For the year ended	Notes	nbn Group			Total equity \$m
		Accumulated losses \$m	Contributed equity \$m	Other reserves \$m	
Balance at 30 June 2014		(3,499)	8,418	5	4,924
Loss for the year		(2,019)	-	-	(2,019)
Other comprehensive income		-	-	36	36
Total comprehensive (loss)/ income for the year		(2,019)	-	36	(1,983)
Transactions with owners in their capacity as owners:					
Contributions of equity	E1	-	4,767	-	4,767
Balance at 30 June 2015		(5,518)	13,185	41	7,708
Loss for the year		(2,750)	-	-	(2,750)
Other comprehensive loss		-	-	(25)	(25)
Total comprehensive loss for the year		(2,750)	-	(25)	(2,775)
Transactions with owners in their capacity as owners:					
Contributions of equity	E1	-	7,090	-	7,090
Balance at 30 June 2016		(8,268)	20,275	16	12,023

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

Statement of cash flows

For the year ended	Notes	nbn Group	
		30 June 2016 \$m	30 June 2015 \$m
Cash flows from operating activities			
Receipts from customers		445	159
Payments to suppliers and employees		(1,795)	(1,210)
Interest received		27	21
Net cash used in operating activities	C1	(1,323)	(1,030)
Cash flows from investing activities			
Receipts from held to maturity investments		558	528
Payments for held to maturity investments		(667)	(573)
Payments for property, plant and equipment		(4,484)	(2,586)
Payments for intangible assets		(527)	(337)
Net cash used in investing activities		(5,120)	(2,968)
Cash flows from financing activities			
Payments for finance leases and right of use licences		(308)	(320)
Equity injection for ordinary shares by the Commonwealth of Australia	E1	7,090	4,767
Net cash provided by financing activities		6,782	4,447
Net increase in cash and cash equivalents		339	449
Cash and cash equivalents at the beginning of the year		948	499
Cash and cash equivalents at the end of the year	C1	1,287	948

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

Notes to the financial statements

A About this report

nbn co limited (the Company, **nbn** 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 2016, includes the Company and its subsidiaries (together referred to as the **nbn** Group or the Group).

nbn 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*; and 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).

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

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

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** on 8 April 2014.

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal operations and the investment of the remaining committed equity funding from the Commonwealth Government under the terms of the Amending Agreement – Equity Funding Agreement (EFA). The equity funding capital limit under the EFA is \$29.5 billion and as at 30 June 2016 a total of \$20.3 billion had been provided to the Group.

The Company's current Corporate Plan estimates a base case peak funding of \$49 billion (including the \$29.5 billion). Accordingly, **nbn** is in the early stages of undertaking the necessary preparatory work on a proposed debt raising.

At the date of signing the financial report the remaining committed equity funding under the EFA with the Commonwealth Government combined with the cash reserves and held to maturity assets of the Group is sufficient to meet the net cash flow forecasts of the Group for at least twelve months from the date of this report.

The Directors, in consultation with the Shareholder Ministers, will continue to review the Group's future funding options, which include private sector debt funding.

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 Corporation (Rounding in Financial/ Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, all financial information presented in Australian dollars has been rounded to the nearest million unless otherwise stated.

Significant accounting 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 to the financial report are found in the following notes:

Accounting estimates and judgements	Notes
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 income

This section provides the information that is most relevant to understanding our revenue and income during the year and the significant accounting policies applied.

B1 Revenue and income

For the year ended	nbn Group	
	30 June 2016 \$m	30 June 2015 \$m
Telecommunications revenue	403	161
Other revenue	18	3
Total	421	164

For the year ended	nbn Group	
	30 June 2016 \$m	30 June 2015 \$m
Interest income	29	21
Other income - gifted assets	10	8
Total	39	29

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.

Revenue is recognised for the major activities as follows:

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.

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.

C Our assets and liabilities

This section provides information relating to our working capital, network and intangible assets and their related liabilities. nbn's network assets are primarily constructed assets or items of infrastructure acquired through finance lease arrangements.

C1 Cash and cash equivalents

	nbn Group	
	30 June 2016	30 June 2015
	\$m	\$m
Cash at bank	1,026	836
Term deposits	261	112
Total	1,287	948

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 changes in value.

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

	nbn Group	
	30 June 2016	30 June 2015
	\$m	\$m
Loss for the year	(2,750)	(2,019)
Add/(less): non-cash/non-operating items		
Depreciation and amortisation	884	631
Finance charges - leased assets	322	302
Other non-cash items	7	-
Income tax expense/(benefit)	11	(15)
(Increase) in assets		
(Increase) in trade and other receivables	(51)	(30)
(Increase) in inventories	(11)	(4)
(Increase) in other assets	(34)	(33)
Increase in liabilities		
Increase in trade and other payables	249	106
Increase in provisions	50	32
Net cash used in operating activities	(1,323)	(1,030)

C Our assets and liabilities (continued)

C2 Trade and other receivables

	nbn Group	
	30 June 2016 \$m	30 June 2015 \$m
Current		
Trade receivables	57	30
Interest receivable	6	3
Other receivables	37	-
GST receivable	60	46
Total	160	79

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 Group						Total \$m
	Freehold land \$m	Buildings and leasehold improve- ments \$m	Furniture and equipment \$m	IT equipment \$m	Network assets \$m		
At 30 June 2014							
Cost	13	344	10	54	7,800		8,221
Accumulated depreciation	-	(41)	(5)	(26)	(358)		(430)
Net book value	13	303	5	28	7,442		7,791
Year ended 30 June 2015							
Opening net book value	13	303	5	28	7,442		7,791
Additions	-	16	1	8	3,481		3,506
Reclassification	-	-	-	(14)	14		-
Depreciation charge	-	(25)	(3)	(3)	(427)		(458)
Net book value	13	294	3	19	10,510		10,839
At 30 June 2015							
Cost	13	360	11	48	11,295		11,727
Accumulated depreciation	-	(66)	(8)	(29)	(785)		(888)
Net book value	13	294	3	19	10,510		10,839
Year ended 30 June 2016							
Opening net book value	13	294	3	19	10,510		10,839
Additions	-	14	3	31	5,040		5,088
Reclassification	-	-	-	36	(36)		-
Depreciation charge	-	(29)	(2)	(27)	(646)		(704)
Reclassification	-	-	-	(16)	16		-
Net book value	13	279	4	43	14,884		15,223
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

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 Group	
	30 June 2016	30 June 2015
	\$m	\$m
Constructed and purchased assets	7,850	3,972
Assets in the course of construction	3,105	3,049
Leased assets	3,886	3,524
Assets acquired for no consideration and under government grant	382	294
Property, plant and equipment - net book value	15,223	10,839

Assets in the course of construction

The carrying value of property, plant and equipment includes \$3,105 million (2015: \$3,049 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 \$20 million (2015: \$22 million) for buildings and \$3,866 million (2015: \$3,502 million) for network assets.

Assets acquired for no consideration and under government grant

Included within network assets are assets acquired from developers for no consideration and an indefeasible right of use arrangement with the Department of Communications to use certain Regional Backbone Blackspots Program assets for no consideration (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, and initial estimates of the costs of dismantling and removing the item and restoring the site on which it is located. 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 3-40 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
Equipment	5-15 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 construction 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 Group	
	30 June 2016 \$m	30 June 2015 \$m
Acquisition of network infrastructure by means of finance leases	521	408
Acquisition of network infrastructure by means of developer contributions or government grants	98	117
Acquisition of assets by non-cash transactions	619	525

C4 Intangible assets

	nbn Group			Total \$m
	Software \$m	Licences \$m	Other \$m	
At 30 June 2014				
Cost	919	143	3	1,065
Accumulated amortisation	(204)	(92)	-	(296)
Net book value	715	51	3	769
Year ended 30 June 2015				
Opening net book value	715	51	3	769
Additions	353	-	9	362
Amortisation	(142)	(27)	(4)	(173)
Net book value	926	24	8	958
At 30 June 2015				
Cost	1,272	143	12	1,427
Accumulated amortisation	(346)	(119)	(4)	(469)
Net book value	926	24	8	958
Year ended 30 June 2016				
Opening net book value	926	24	8	958
Additions	541	15	-	556
Amortisation	(171)	(3)	(6)	(180)
Net book value	1,296	36	2	1,334
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

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; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development. Costs that are not directly attributable are expensed as incurred.

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; and
- Payroll and payroll-related costs for employees (including contractors) directly associated with the project.

Costs that are not directly attributable are expensed as incurred.

Acquired intangible assets

Other intangible assets are acquired either as part of a business combination or through separate acquisition. Intangible assets acquired in a business combination are recorded at their fair value at the date of acquisition and recognised separately from goodwill. Management judgement is applied to determine the appropriate fair value of identifiable 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.

C Our assets and liabilities (continued)

C4 Intangible assets (continued)

Assets in the course of construction

The carrying amount of intangible assets includes expenditure recognised on software assets that 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 \$390 million (2015: \$278 million).

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 need to be modified, the depreciation and 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 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.

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**TM 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** CGU).

Impairment test

At the end of the reporting period, the Group performed an impairment test using fair value less cost to sell. **nbn** has determined fair value less cost to sell by reference to the depreciated replacement cost of the assets.

As a result of this test and consistent with prior periods, it has been determined that the recoverable amount of the **nbn** CGU is not less than its carrying amount as at 30 June 2016.

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** 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 Group	
	30 June 2016	30 June 2015
	\$m	\$m
Current		
Trade and other payables	377	317
Accruals	1,187	981
Total	1,564	1,298

	nbn Group	
	30 June 2016	30 June 2015
	\$m	\$m
Non-current		
Trade and other payables	5	22
Total	5	22

The accruals balance includes \$771 million (2015: \$816 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.

C Our assets and liabilities (continued)**C7 Other liabilities**

	nbn Group	
	30 June 2016 \$m	30 June 2015 \$m
Current		
Deferred gain on developer contributions and government grants	11	9
Total	11	9

	nbn Group	
	30 June 2016 \$m	30 June 2015 \$m
Non-current		
Deferred gain on developer contributions and government grants	371	285
Total	371	285

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

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 useful life of the relevant asset or assets.

There are no unfulfilled conditions or contingencies attaching 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™ 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 useful lives of the relevant assets.

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

C8 Other financial liabilities

Lease liabilities and right of use licences

	nbn Group	
	30 June 2016	30 June 2015
	\$m	\$m
Current		
Lease liabilities and right of use licences	132	148
Total	132	148

	nbn Group	
	30 June 2016	30 June 2015
	\$m	\$m
Non-current		
Lease liabilities and right of use licences	4,280	3,678
Total	4,280	3,678

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 (see Note F1).

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 fulfillment 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 profit or loss.

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'.

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

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 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 asset. 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 Group's estimated incremental cost of borrowing at the inception date of the Definitive Agreements has been applied. 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 periods as the exercise of such options was not considered reasonably certain at inception of the agreements. 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.

Finance charges - leased assets

For the year ended	nbn Group	
	30 June 2016 \$m	30 June 2015 \$m
Finance charges on finance lease arrangements	(320)	(297)
Unwinding of the discount on other lease related provisions	(2)	(5)
Total	(322)	(302)

C9 Provisions

	Note	nbn Group	
		30 June 2016 \$m	30 June 2015 \$m
Current			
Employee benefits	D1	100	65
Other provisions		17	20
Total		117	85

	Note	nbn Group	
		30 June 2016 \$m	30 June 2015 \$m
Non-current			
Employee benefits	D1	29	14
Other provisions		19	12
Total		48	26

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; and
- 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.

D Our people

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

D1 Employee benefits

The employee benefits expenses comprise:

For the year ended	nbn Group	
	30 June 2016 \$m	30 June 2015 \$m
Defined contribution superannuation expense	(50)	(37)
Other employee benefits, net of capital recoveries	(559)	(367)
Total	(609)	(404)

The components of employee benefits provisions are as follows:

	nbn Group	
	30 June 2016 \$m	30 June 2015 \$m
Current		
Short-term employee benefits	96	57
Other employee benefits	4	8
Total	100	65

	nbn Group	
	30 June 2016 \$m	30 June 2015 \$m
Non-current		
Other long-term employee benefits	5	-
Long service leave	24	14
Total	29	14

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:

For the year ended	nbn Group	
	30 June 2016 \$	30 June 2015 \$
Short-term employee benefits	9,581,044	8,805,867
Post-employment benefits	185,277	181,291
Long-term benefits	657,010	630,621
Termination benefits	1,517,765	-
Total	11,941,096	9,617,779

E Our funding and capital management

On 22 June 2011, the Commonwealth and **nbn** entered into an Equity Funding Agreement, whereby the Commonwealth provided assurances to the Company in relation to the provision of equity funding until 30 June 2021 unless terminated earlier. The total funding pursuant to the agreement was initially capped at \$27.5 billion, excluding any amounts payable in the event of termination of the Telstra and Optus agreements. This capital limit was subsequently increased to \$30.4 billion under an amendment entered into on 8 August 2012.

With effect from 19 March 2014, the Equity Funding Agreement was further amended to, inter alia, reduce the equity funding capital limit from \$30.4 billion to \$29.5 billion.

Under the Amending Agreement - Equity Funding Agreement, the Commonwealth has also committed to meet the termination and other costs of **nbn**, in the event the project is terminated or significantly reduced in scope.

E1 Contributed equity

As at 30 June 2016, a total of \$20.3 billion had been made available to the Company.

	nbn co limited		nbn co limited	
	30 June 2016 Number of shares	30 June 2015 Number of shares	30 June 2016 \$m	30 June 2015 \$m
Ordinary shares				
Fully paid	20,275,445,092	13,185,445,092	20,275	13,185
Total	20,275,445,092	13,185,445,092	20,275	13,185

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 2014	8,418,445,092	1.00	8,418
Equity injections	4,767,000,000	1.00	4,767
Closing balance at 30 June 2015	13,185,445,092	1.00	13,185
Equity injections	7,090,000,000	1.00	7,090
Closing balance at 30 June 2016	20,275,445,092	1.00	20,275

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 investments and contributed equity.

Dividends declared

No dividends were declared or paid during the year (2015: nil).

F Our significant contractual arrangements and commitments

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

F1 Telstra Revised Definitive Agreements

On 23 June 2011, **nbn** and Telstra announced that binding agreements (the Telstra Definitive Agreements or the DAs) had been entered into for the rollout of the **nbn**TM 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** with a new Statement of Expectations under which the **nbn**TM network rollout was to transition from a primarily FTTP model to an MTM model.

On 14 December 2014, **nbn** 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 continue to provide **nbn** access to certain Telstra network infrastructure including ducts, pits, lead-in conduits (ownership of lead-in conduits transfers to **nbn**), exchange rack space and dark fibre to facilitate the efficient rollout of the **nbn**TM 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**TM network is rolled out¹. Telstra will continue to be entitled to payments from **nbn** for disconnecting premises from its networks, and **nbn** will continue to expense these payments.

In addition, the RDAs will see **nbn** 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 will be 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**TM network. Under the RDAs, once **nbn** starts acquiring the assets forming part of Telstra's HFC network, **nbn** has an obligation to continue to acquire all of Telstra's HFC network. In July 2016 elements of Telstra's HFC network had been acquired. Capital commitments in respect of the RDAs are disclosed in Note F3 and reflect **nbn**'s obligation to continue to acquire all of Telstra's HFC network.

Under the RDAs, **nbn** has also agreed to reimburse Telstra for any direct, reasonable, substantiated and incremental (DRSI) costs incurred as a result of the move from the

¹ Services provided over the **nbn**TM 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 networks) and some special and business services may not be affected.

FTTP rollout to the MTM rollout, subject to certain exceptions. **nbn** 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.

The RDAs contain a new arrangement relating to the **nbn**TM network rollout cessation and related consequences for **nbn**. In addition, there are new provisions relating to **nbn**'s liability for performing work on Telstra's live networks (see Note H5).

F2 Optus HFC Subscriber Agreement

On 23 June 2011, **nbn** 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**TM network as it is rolled out. Optus agreed to a fixed line network preference in favour of **nbn** for residential and small business customers served by Optus' HFC network; and

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

On 14 December 2014, **nbn** 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** 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. In addition, the Revised HFC Subscriber Agreement continues to require Optus to progressively migrate HFC customers to the **nbn**TM network as it is rolled out.

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

F3 Commitments

Capital commitments

During FY2015, **nbn** revised the reporting of commitments to reflect core capital commitments associated with the construction of the **nbn**TM network.

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

	nbn Group	
	30 June 2016 \$m	30 June 2015 \$m
Within one year	2,551	1,464
Later than one year but not later than five years	2,064	2,236
Later than five years	3,182	3,587
Total capital commitments	7,797	7,287

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.

Under the RDAs the payment mechanism for right of use arrangements for exchange rack space and ducts was revised. In addition, the payment mechanism for acquired infrastructure (i.e. lead-in conduits) was

F Our significant contractual arrangements and commitments (continued)

F3 Commitments (continued)

also revised to incorporate the progressive ownership transfer of certain elements of Telstra's copper and HFC networks. While the estimated net present value payable to Telstra under the RDAs is equivalent to that under the DAs on a like for like basis, **nbn's** committed capital expenditure for accounting disclosure purposes increased under the terms of the RDAs.

Given the long-term nature of **nbn'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.

Finance leases

As discussed in Note F1, the agreements with Telstra provide **nbn** with access rights to various infrastructure, including dark fibre, exchange rack space in exchange buildings, ducts and associated duct infrastructure, which are recognised as finance lease liabilities. In addition, finance lease liabilities have been recognised for certain property leases of industrial buildings.

	nbn Group	
	30 June 2016 \$m	30 June 2015 \$m
Finance lease and right of use licences are payable as follows:		
Within one year	487	445
Later than one year but not later than five years	1,540	1,315
Later than five years	9,881	8,793
Minimum lease payments	11,908	10,553
Future finance charges	(7,496)	(6,727)
Recognised as a liability	4,412	3,826
Representing finance lease and right of use licence liabilities:		
Current	132	148
Non-current	4,280	3,678
Total	4,412	3,826

Operating leases

The Group leases certain properties, commercial vehicles and wireless base stations with various terms that are due

to expire within one to twenty years. Lease payments generally comprise a base amount plus an incremental contingent rental based on movements in the Consumer Price Index and reviews to market-based levels.

	nbn Group	
	30 June 2016	30 June 2015
	\$m	\$m
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	69	58
Later than one year but not later than five years	142	119
Later than five years	335	259
Total	546	436

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

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 Group	
	30 June 2016	30 June 2015
	\$m	\$m
Financial assets		
Cash and cash equivalents	1,287	948
Interest receivable	6	3
Trade and other receivables	62	30
Derivative financial asset	16	57
Held to maturity investments	399	290
Carrying amount of financial assets	1,770	1,328
Financial liabilities		
Trade and other payables	1,569	1,320
Other financial liabilities	4,412	3,826
Derivative financial liabilities	1	-
Carrying amount of financial liabilities	5,982	5,146

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 2016 was a net expense of \$291 million (2015: net expense of \$276 million).

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 2016, the carrying amount of monetary liabilities denominated in foreign currencies and notional cash outflows as expressed in Australian dollars was as follows:

	nbn Group			
	30 June 2016		30 June 2015	
	USD \$m	EUR \$m	USD \$m	EUR \$m
Foreign exchange risk				
Trade payables	19	1	51	3
Current foreign exchange risk	19	1	51	3
Forward Exchange Contracts				
Buy foreign currency (cash flow hedges)	146	-	317	-
Forward exchange contract risk	146	-	317	-

The Group has entered into forward exchange contracts to hedge its exposure to currency risk in relation to highly probable forecast transactions relating to the purchase of satellites, the construction of ground stations, associated orbital launch services and the purchase of network equipment, 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 probable 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

G Our financial risk management (continued)

Foreign currency risk management (continued)

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.

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 investments. 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 Group	
		Carrying amount	Weighted average effective interest rate
		\$m	%
	Note		
At 30 June 2016			
Cash and cash equivalents	C1	1,287	1.98%
Held to maturity investments		399	2.82%
At 30 June 2015			
Cash and cash equivalents	C1	948	2.20%
Held to maturity investments		290	2.81%

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.

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 investments, 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 Group	
	30 June 2016	30 June 2015
	\$m	\$m
Trade receivables		
A2	23	10
A3	10	3
<i>Counterparties without external credit rating*</i>		
Group 1	3	8
Group 2	19	8
Group 3	2	1
Total	57	30
Cash at bank and short-term bank deposits		
AA-	1,287	948
Total	1,287	948
Held to maturity investments		
AA-	399	290
Total	399	290
Derivative financial assets		
AA-	15	57
Total	15	57

* 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 2016 or at 30 June 2015.

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, and finance lease liabilities.

G Our financial risk management (continued)**Liquidity risk** (continued)

The following table illustrates the maturities for financial liabilities:

	nbn Group				Carrying Amount (assets)/liabilities \$m
	Within 1 year \$m	1 to 5 years \$m	Greater than 5 years \$m	Total contractual cash flows \$m	
At 30 June 2016					
Non-derivatives					
Trade and other payables	1,564	5	-	1,569	1,569
Finance lease liabilities	487	1,540	9,883	11,910	4,412
Total	2,051	1,545	9,883	13,479	5,981
Derivatives					
Gross settled (forward foreign exchange contracts - cash flow hedges)					
- inflow	161	-	-	161	-
- outflow	(146)	-	-	(146)	(15)
Total	15	-	-	15	(15)
At 30 June 2015					
Non-derivatives					
Trade and other payables	1,298	22	-	1,320	1,320
Finance lease liabilities	445	1,315	8,793	10,553	3,826
Total	1,743	1,337	8,793	11,873	5,146
Derivatives					
Gross settled (forward foreign exchange contracts - cash flow hedges)					
- inflow	375	-	-	375	-
- outflow	(317)	-	-	(317)	(57)
Total	58	-	-	58	(57)

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)/benefit

For the year ended	nbn Group	
	30 June 2016 \$m	30 June 2015 \$m
(a) Income tax (expense)/benefit		
Deferred tax	(11)	15
Total	(11)	15
(b) Numerical reconciliation of income tax (expense)/benefit to prima facie tax payable		
Loss before income tax	(2,739)	(2,034)
Tax at the Australian tax rate of 30% (2015: 30%)	822	610
Current year tax losses not recognised	(729)	(542)
Temporary differences not recognised	(104)	(53)
Income tax (expense)/benefit	(11)	15
(c) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	(7,365)	(4,937)
Potential tax benefit @ 30%	(2,210)	(1,481)

The cumulative amount of unrecognised tax losses of \$7,365 million (2015: \$4,937 million) may be available to offset against future income tax assessments when the Group generates taxable income.

Effective tax rate

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

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.

For the year ended	nbn Group	
	30 June 2016 \$m	30 June 2015 \$m
(d) Unrecognised temporary differences		
Deductible temporary differences relating to:		
Property, plant and equipment and Intangible assets	730	476
Provisions and accruals	191	133
This is offset by:		
Taxable temporary differences (deferred tax liabilities)		
Cash flow hedges	(21)	(57)
Net temporary differences for which deferred tax assets have not been recognised	900	552
Unrecognised deferred tax asset relating to the above net deductible and taxable temporary differences	270	166

Tax consolidation legislation

nbn 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 2016, 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 (2015: 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.

H Other information (continued)

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 2016	Equity holding as at 30 June 2015
nbn tasmania ltd	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 2016 and the results of all subsidiaries for the year ended 30 June 2016.

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.

H3 Parent entity disclosures

Financial position of nbn co limited

As at	nbn co limited	
	30 June 2016 \$m	30 June 2015 \$m
Assets		
Total current assets	1,981	1,454
Total non-current assets	16,605	11,873
Total assets	18,586	13,327
Liabilities		
Total current liabilities	1,895	1,608
Total non-current liabilities	4,704	4,012
Total liabilities	6,599	5,620
Net assets	11,987	7,707
Equity		
Contributed equity	20,275	13,185
Other reserves	16	41
Accumulated losses	(8,304)	(5,519)
Total equity	11,987	7,707

Financial result of nbn co limited

For the year ended	nbn co limited	
	30 June 2016 \$m	30 June 2015 \$m
Loss for the year	(2,785)	(1,992)
Total comprehensive loss for the year	(2,810)	(1,956)

Parent entity receivables and investments have been written down by a total of \$45.8 million (2015: \$1.5 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.

H Other information (continued)**H4 Deed of cross guarantee**

nbn co limited and nbn tasmania ltd 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 Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

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 ltd 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 2016 of the closed group.

Statement of profit or loss and other comprehensive income

For the year ended	nbn co & nbn tasmania	
	30 June 2016 \$m	30 June 2015 \$m
Revenue		
Telecommunications revenue	403	161
Other revenue	17	3
Total revenue	420	164
Interest income	31	22
Other income	10	8
Expenses		
Direct network costs	(399)	(343)
Subscriber costs	(582)	(193)
Employee benefits expenses	(609)	(404)
Outsourced and corporate services	(93)	(112)
IT and software expenses	(149)	(126)
Communication and public information	(51)	(28)
Depreciation and amortisation expense	(881)	(604)
Other expenses	(148)	(89)
Finance charges - leased assets	(322)	(302)
Total expenses	(3,234)	(2,201)
Loss before income tax	(2,773)	(2,007)
Income tax (expense)/benefit	(11)	15
Loss for the year	(2,784)	(1,992)
Loss attributable to the shareholder	(2,784)	(1,992)
Other comprehensive (loss)/income		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of cash flow hedges	(36)	51
Income tax benefit/(expense) relating to components of other comprehensive (loss)/income	11	(15)
Total other comprehensive (loss)/income for the year, net of tax	(25)	36
Total comprehensive loss for the year	(2,809)	(1,956)
Total comprehensive loss attributable to the shareholder	(2,809)	(1,956)

Statement of financial position

As at	nbn co & nbn tasmania	
	30 June 2016 \$m	30 June 2015 \$m
Current assets		
Cash and cash equivalents	1,287	948
Trade and other receivables	160	79
Inventories	27	16
Derivative financial assets	16	57
Held to maturity investments	399	290
Other current assets	93	64
Total current assets	1,982	1,454
Non-current assets		
Property, plant and equipment	15,224	10,839
Intangible assets	1,298	957
Other non-current assets	13	8
Total non-current assets	16,535	11,804
Total assets	18,517	13,258
Current liabilities		
Trade and other payables	1,564	1,298
Other liabilities	11	9
Other financial liabilities	132	148
Derivative financial liability	1	-
Provisions	117	85
Total current liabilities	1,825	1,540
Non-current liabilities		
Trade and other payables	5	22
Other liabilities	371	285
Other financial liabilities	4,280	3,678
Provisions	48	26
Total non-current liabilities	4,704	4,011
Total liabilities	6,529	5,551
Net assets	11,988	7,707
Equity		
Contributed equity	20,275	13,185
Other reserves	16	41
Accumulated losses	(8,303)	(5,519)
Total equity	11,988	7,707

H Other information (continued)**H4 Deed of cross guarantee** (continued)*Summary of movements in accumulated losses*

For the year ended	nbn co & nbn tasmania	
	30 June 2016 \$m	30 June 2015 \$m
Opening balance at 1 July	(5,519)	(3,527)
Loss for the year	(2,784)	(1,992)
Closing balance at 30 June	(8,303)	(5,519)

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**'s significant contingent liabilities are set out below:

ASIC deed of cross guarantee

nbn co limited and nbn tasmania ltd 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 – Customer loss

Under the Telstra Revised Definitive Agreements, **nbn** 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** 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** undertaking such works on Telstra's networks pre-asset transfer.

Legal action

As at 30 June 2016, **nbn** had no outstanding legal action that would materially impact the 30 June 2016 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.

Construction 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.

Transactions with related parties

The following transactions occurred with related parties:

		nbn Group	
	Note	30 June 2016	30 June 2015
		\$	\$
Equity injections			
Equity injected by the Commonwealth of Australia into nbn co limited	E1	7,090,000,000	4,767,000,000

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.

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.

nbn 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.

H Other information (continued)**H7 Remuneration of auditors** (continued)

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

For the year ended	nbn Group	
	30 June 2016 \$	30 June 2015 \$
Australian National Audit Office		
Audit of annual financial statements	1,740,000	1,570,000
Review of half-year financial statements	485,000	470,000
Audit of nbn reporting for whole of Government financial statements	355,000	-
Non-recurring audit fees	95,000	500,000
Total remuneration for audit and other assurance services	2,675,000	2,540,000
PwC Australia		
Other assurance related services		
- Accounting advice	75,000	50,000
- Regulatory audit and reviews	430,000	537,000
- Other reviews	50,000	117,000
Total remuneration for other assurance related services	555,000	704,000
Other services		
- Other	625,000	201,341
Total remuneration for other services	625,000	201,341
Total auditor's remuneration	3,855,000	3,445,341

H8 Other significant accounting policies**Held to maturity investments**

Held to maturity investments comprise term deposits held with financial institutions, with original maturities of over four months that management has the intention and ability to hold to maturity. 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**TM 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.

Comparative figures

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

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 2016 reporting period. These standards, amendments to existing standards and interpretations have not been early adopted by the Group. 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). Unless otherwise stated, it is not expected these amendments will materially impact the consolidated financial statements of the Group. A summary of these new standards, amendments to existing standards and interpretations that may have an impact is set out below:

AASB 9 Financial Instruments

The AASB has issued the complete AASB 9. The new standard includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and supplements the new general hedge accounting requirements previously published. It supersedes AASB 9 (issued in December 2009 – as amended) and AASB 9 (issued in December 2010 – as amended). The standard will impact the annual reporting period commencing 1 July 2018.

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. The standard will impact the annual reporting period commencing 1 July 2018.

H Other information (continued)

H8 Other significant accounting policies (continued)

AASB 2015-2 Amendments to Australian Accounting Standards-Disclosure Initiative: Amendments to AASB 101

The amendments do not require any significant changes to current practice, but should facilitate improved reporting, with an emphasis on only including material disclosures, clarity on the aggregation and disaggregation of line items, the presentation of subtotals, the ordering of notes and the identification of significant accounting policies. The amendments will impact the annual reporting period commencing 1 July 2016.

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.

There are also changes in accounting over the life of the lease. In particular, companies will now recognise a front-loaded pattern of expense for most leases, even when they pay constant annual 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. However, a full assessment of the impact is yet to be completed.

AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107

Additional disclosures to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as effects of changes in foreign exchange rates and changes in fair values). The amendments will impact the annual reporting period commencing 1 July 2017.

AASB 2014-4 Amendments to Australian Accounting Standards-Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate; provide limited opportunity for presumption to be overcome; and clarify that revenue-based depreciation for property, plant and equipment cannot be used. The amendments will impact the annual reporting period commencing 1 July 2016.

I Events occurring after the reporting period

On 29 July 2016, nbn received \$590 million in equity funding from the Commonwealth Government.

Other than the receipt of additional equity funding from the Commonwealth Government, no matter or circumstance has arisen since 30 June 2016 to the date of signing of this report that has significantly affected, or may affect:

- (a) The Group's operations in future financial years;
- (b) The results of those operations in future financial years; and
- (c) The Group's state of affairs in future financial years.

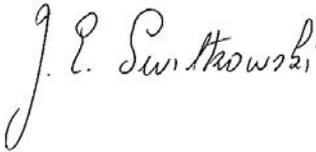
Directors' declaration

- (1) The financial statements and notes set out on pages 90 to 134 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 2016 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 Class Order 98/1418 (as amended) 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



Bill Morrow
Chief Executive Officer

10 August 2016

Independent auditor's report



Auditor-General for Australia



INDEPENDENT AUDITOR'S REPORT

To the members of nbn co limited

I have audited the accompanying financial report of nbn co limited, which comprises the Statement of financial position as at 30 June 2016, the Statement of profit or loss and other comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended, Notes to the financial statements comprising a summary of significant accounting policies and other explanatory information, and the Directors' declaration for the **nbn** Group. The **nbn** Group comprises nbn co limited and the entities it controlled at 30 June 2016 or from time to time during the year.

Opinion

In my opinion, the financial report of nbn co limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the **nbn** Group's financial position as at 30 June 2016 and of its performance for the year ended on that date;
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (c) the financial report also complies with *International Financial Reporting Standards* as disclosed in the Notes to the financial statements.

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 the Notes to the financial statements, the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards

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require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to nbn co limited's preparation of the financial report that gives a true and fair view 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 nbn co limited's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have complied with the independence requirements of the *Corporations Act 2001*.

Australian National Audit Office



Grant Hehir
Auditor-General

Canberra
10 August 2016





Regulatory report

nbn is subject to various statutory reporting requirements under the:

- *Public Governance, Performance and Accountability Act 2013;*
- *Corporations Act 2001;*
- *Freedom of Information Act 1982;*
- *Work Health and Safety Act 2011;*
- *Superannuation Benefits (Supervisory Mechanisms) Act 1990;* and
- *Environment Protection and Biodiversity Conservation Act 1999.*

The Regulatory report provides information on **nbn**'s compliance with the applicable laws and regulations during FY2016.

A number of matters are disclosed within the main body of the annual report. Other matters are disclosed in the Regulatory report.

The regulatory reporting requirements index on pages 140 to 144 shows where the relevant information can be found in this annual report.

Regulatory reporting requirements index

For the year ended 30 June 2016

Public Governance, Performance and Accountability Act 2013 (PGPA Act)			
Section	Subject	Location	Pages
s. 97	Financial report	Financial report	89-135
	Directors' report	Directors' report	11-54
	Auditor's report	Independent auditor's report	136-137

Corporations Act 2001			
Section	Subject	Location	Pages
s. 295	Financial statements	Financial report	90-93
	Notes to financial statements	Financial report	94-134
	Directors' declaration	Directors' declaration	135
s. 298 – s. 300	Directors' report	Directors' report	11-54
s. 301 and s. 308	Audit of annual report and auditor's report	Independent auditor's report	136-137

Public Governance, Performance and Accountability Amendment (Commonwealth Company Annual Reporting) Rule 2016			
Section	Subject	Location	Pages
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	145
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	146
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	147
28E (d)	Any government policy orders that applied in relation to the company during the period under section 93 of the Act	Regulatory report	145-146
28E (e)	If, during the period, the company has not complied with a direction or order referred to in paragraph (c) or (d)—particulars of the non-compliance	Not applicable	N/A

**Public Governance, Performance and Accountability Amendment
(Commonwealth Company Annual Reporting) Rule 2016**

Section	Subject	Location	Pages
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; and (ii) the qualifications of the director; and (iii) the experience of the director; and (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	40-46
28E (g)	An outline of the organisational structure of the company (including any subsidiaries of the company)	Financial report	126
28E (h)	An outline of the location (whether or not in Australia) of major activities or facilities of the company	Directors' report	15-39
28E (i)	Information in relation to the main corporate governance practices used by the company during the period	Corporate governance statement	69-85
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; and (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	N/A
28E (k)	If the annual report includes information under paragraph (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	N/A

Public Governance, Performance and Accountability Amendment (Commonwealth Company Annual Reporting) Rule 2016			
Section	Subject	Location	Pages
28E (l)	Any significant activities and changes that affected the operations or structure of the company during the period	Directors' report	53
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	150
28E (n)	Particulars of any report on the company given during the period by:		
	(i) the Auditor-General; or	Independent auditor's report	136-137
	(ii) a Committee of either House, or of both Houses, of the Parliament; or	Regulatory report	152
	(iii) the Commonwealth Ombudsman; or	Regulatory report	152
	(iv) the Office of the Australian Information Commissioner; or	Regulatory report	152
	(v) the Australian Securities and Investments Commission	Regulatory report	152
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	N/A
28E (p)	An index identifying where the requirements of this section and section 28F (if applicable) are to be found	Regulatory index	140-144
28F	Disclosure requirements for government business enterprises		
28F (1)	<i>Changes in financial conditions and community service obligations</i> The annual report for a reporting period for a government business enterprise that is a Commonwealth company must include the following information:		
	(a) an assessment of:		
	(i) significant changes in the company's overall financial structure and financial condition during the reporting period; and	Directors' report	15-34
	(ii) any events or risks that could cause financial information that is reported not to be indicative of future operations or financial condition	Directors' report	35-38

**Public Governance, Performance and Accountability Amendment
(Commonwealth Company Annual Reporting) Rule 2016**

Section	Subject	Location	Pages
	(b) dividends paid or recommended in relation to the reporting period;	Directors' report	46
	(c) details of any community service obligations the government business enterprise has, including: <ul style="list-style-type: none"> (i) an outline of actions the government business enterprise has taken to fulfil those obligations; and (ii) an assessment of the cost of fulfilling those obligations 	Not applicable	N/A
28F (2)	<i>Information that is commercially prejudicial</i> 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	Not applicable	N/A

Work Health and Safety Act 2011

Section	Subject	Location	Pages
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	Regulatory report	147-149
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 paragraph (a) or previous initiatives	Regulatory report	147-149
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	Regulatory report	147-149
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 this Act	Regulatory report	147-149
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	Regulatory report	147-149

<i>Environment Protection and Biodiversity Conservation Act 1999</i>			
Section	Subject	Location	Pages
s. 516A(4) and (6)	Report on the implementation of the Ecologically Sustainable Development program within nbn including social, economic, culture and environmental performance	Regulatory report	149-150

<i>Superannuation Benefits (Supervisory Mechanisms) Act 1990</i>			
Section	Subject	Location	Pages
s. 6(1)(b)	Report on operation of superannuation arrangement	Regulatory report	147

<i>Freedom of Information Act, 1982</i>			
Section	Subject	Location	Pages
s. 93	Provide information to the Information Commissioner (IC)	Regulatory report	150-151

Regulatory report

For the year ended 30 June 2016.

Legislation

The *National Broadband Network Companies Act 2011* (**nbn** Act) is a standalone law which establishes:

- **nbn**'s ownership arrangements and wholesale mandate;
- Certain line of business restrictions on **nbn**; and
- The framework for the eventual privatisation of **nbn**.

nbn ownership and structure

Under the **nbn** Act, the Commonwealth must retain ownership of **nbn** until at least:

- The Communications Minister has declared that the **nbn**TM 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** has examined the report; and
- The Finance Minister has declared that conditions are suitable for **nbn** sale scheme.

Corporate Plan

nbn has prepared the Corporate Plan 2017, which covers the reporting periods of FY2017 to FY2020 inclusively.

Objective

nbn'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 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'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**'s current objectives are set out in the 8 April 2014 SoE, which outlines the Australian Government's commitment to complete the **nbn**TM 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** will use flexible discretion in the design, build and operation of the **nbn**TM network, within the constraints of a public equity capital limit of \$29.5 billion to provide access to fast broadband to Australian premises. The Commonwealth Government expects **nbn** to provide download data rates of at least 25 Mbps at the wholesale level to all premises and at least 50 Mbps at the wholesale level to 90 per cent of Australian fixed line premises¹.

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

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 their end users.

The Commonwealth Government's vision for **nbn** is that it operates as a commercial entity. **nbn** has been established as a wholly-owned Government Business Enterprise (GBE), with the intention that at an appropriate time, **nbn** will raise debt on its own behalf.

The **nbn** Security Group is accountable for information (including cyber), physical and personnel security, security investigations, privacy and security knowledge management. This recognises that the boundaries between threat environments have become progressively blurred and that connections are increasingly being seen between these previously independent disciplines. **nbn**'s role as a provider of "critical infrastructure"² requires it to maintain robust controls and detection capabilities, plus high levels of resilience to attack.

nbn continues to develop its security resilience focusing on its capabilities to plan and prepare, adapt to changing circumstances, and withstand and recover rapidly from disruptions. Resilience includes the capability to withstand and/or recover from deliberate attacks, accidents, or naturally occurring threats or incidents.

nbn has adopted a holistic security framework, measuring its overall security compliance against Australian Government security requirements and telecommunications industry obligations. The adoption of a multi-disciplinary **nbn** Security Group, supported by investment in cyber security compliance controls and independent security reviews, provides a balanced security foundation where a cross-disciplinary team of security professionals commit to protecting **nbn**'s reputation, people, assets and information.

Parliamentary oversight

Responsible Minister

nbn has two Shareholder Ministers. As at the date of this report these were the Minister for Communications, 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** 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** made regular appearances before two committees: the Senate Select Committee on the National Broadband Network (two hearings) and the Senate Environment and Communications Legislation Committee (three hearings).

In addition to the questions answered during the hearings, **nbn** received 215 questions on notice arising from these hearings for FY2016.

During FY2016, **nbn** 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 (August 2015)* and

2 The Australian State and Territory governments define critical infrastructure as 'those physical facilities, supply chains, information technologies and communication networks' which, if destroyed, degraded or rendered unavailable for an extended period, would significantly impact the social or economic wellbeing of the nation or affect Australia's ability to conduct national defence and ensure national security.

the *Public Governance, Performance and Accountability Act 2013*.

No Ministerial Directions were received by **nbn** during FY2016 (FY2015: nil).

Other Commonwealth Government obligations

Superannuation

During FY2016, **nbn** complied with all relevant guidelines and made no significant changes to superannuation arrangements for employees.

Health, Safety and Environment

nbn is committed to ensuring that Health, Safety and Environment (HSE) is considered above all other business matters, in accordance with our Health, Safety and Environment Policy and Statement of Commitment. Employees and contractors are required to comply with all applicable laws and regulations in relation to their work on the **nbn**TM network. **nbn** also has an ongoing commitment to adopt and apply ecologically sustainable development principles.

nbn reports on HSE matters as per Schedule 2, Part 4 of the *Work Health and Safety Act 2011* (WHS Act), and Section 516A of the *Environment Protection and Biodiversity Conservation Act 1999*.

HSE governance

nbn's HSE Policy and HSE Statement of Commitment outline **nbn**'s commitment to a set of principles that focus on achieving safe workplaces and environments through the implementation of our HSE Management System.

During FY2016, **nbn** maintained its HSE Management System certification 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; and
- ISO 14001:2004 - Environmental Management Systems.

nbn is also an accredited organisation under the Australian Government Building and Construction OHS Accreditation Scheme.

HSE performance

Despite favourable injury and incident trends, on 1 April 2016 a fatal workplace incident occurred on a worksite under the control of an **nbn** Delivery Partner. This tragic incident is a harsh reminder of the importance of work health and safety. As at the date of this report, the incident remains under investigation with the relevant authorities.

nbn uses both lead and lag indicators to measure its HSE performance. **nbn**'s lag metrics include total recordable injury frequency rate (TRIFR) and lost time injury frequency rate (LTIFR). **nbn** tracks 12 month rolling averages for TRIFR and LTIFR for both employees and contractors. In FY2016 **nbn** achieved a significant overall reduction in TRIFR and LTIFR. See the tables below for FY2016 and FY2015 comparative TRIFR and LTIFR data.

Indicators	FY2016	FY2015
TRIFR* - employees and contractors	3.8	10.5
TRIFR* - employees	1.9	2.8
TRIFR* - contractors	4.7	14.5

* Total number of TRIs (Total Recordable Injuries) per million hours worked. Includes work-related fatalities, and work-related injuries or illnesses resulting in lost time (Lost Time Injuries or LTIs), restricted or alternate duties, and medical treatment by medical professionals (Medical Treatment Injuries or MTIs).

Indicators	FY2016	FY2015
LTIFR* - employees and contractors	1.4	2.3
LTIFR* - employees	1.3	1.2
LTIFR* - contractors	1.4	2.9

* Total number of LTIs (Lost Time Injuries) per million hours worked. Includes any work related injury or illness that results in a person losing one or more full shifts from work after the date of injury.

nbn's HSE lead indicators include but are not limited to the timely reporting of incidents, near miss reporting, incident action closure and audit action closure.

In FY2016, **nbn** notified Comcare of 30 work health and safety incidents, all of which related to contractors. **nbn** did not receive any notices under Part 10 of the WHS Act.

nbn did not receive any fines or notices under any environmental regulations. However, there were three environmental incidents of note relating to illegal waste dumping by **nbn** Delivery Partners.

In line with the growth of the **nbn**TM network, energy usage increased in FY2016 from FY2015. Last year, **nbn** submitted its first report to the Clean Energy Regulator, as required under the *National Greenhouse and Energy Reporting Act 2007* (NGER), reporting 138,166 GJ in energy use and 28,262 tCO₂-e scope 1 and 2 greenhouse gas emissions in FY2015.

The following are estimates of **nbn**'s FY2016 energy use and scope 1 and 2 greenhouse gas emissions:

- 340,327 GJ of energy use and 72,215 tCO₂-e scope 1 and 2 greenhouse gas emissions.

nbn will submit its final, externally assured NGER report for FY2016 energy and greenhouse gas emissions data to the Clean Energy Regulator in October 2016.

Key HSE improvement initiatives

In FY2016, **nbn** launched a number of initiatives to support the following HSE principles:

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

Key HSE initiatives delivered in FY2016 included:

- Implementing the myWellbeing program to improve the health and wellbeing of **nbn**'s employees. Employees have access to a range of activities and resources that promote individual wellbeing and equip the workforce with personal tools to thrive;
- Introducing revised HSE accreditation requirements for **nbn**'s external workforce to ensure contractors can competently perform "safety critical" activities. The accreditation includes the requirement to complete an online awareness module that provides a broad understanding of the likely HSE hazards that workers may experience when working on the **nbn**TM network;
- Developing and embedding a new HSE Assurance Framework to support best practice HSE risk management. The Framework utilises risk-based scheduling to prioritise assurance activities and areas of material concern for **nbn**. The Framework also uses consistent audit methodologies to consider the effectiveness of risk controls within **nbn** and the supply chain;
- Launching a self-service HSE data analysis tool. The platform provides access to tailored HSE data in a simple and engaging format;
- Deploying 623 recycling bins to 12 offices and depots as part of **nbn**'s national waste recycling program;

- Continuing to embed environment principles and minimum standards in contracts. These relate to energy efficiency, packaging, hazardous materials, the United Nations Global Compact and certified environment management systems;
- Developing environment compliance tools. These included a node cabinet siting tool for noise compliance and a mapping system to integrate environment information, including flora, fauna and heritage zones, into network design; and
- Undertaking a range of energy and carbon initiatives. These included completing Level 2 energy audits at four **nbn** facilities, developing plans for recommended efficiency improvements and developing an **nbn** energy and carbon scenario model.

Environment Protection and Biodiversity Conservation Act 1999 reporting requirements

As a Commonwealth GBE, **nbn** reports each year in compliance with Section 516A of the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act) on the following matters:

- How the activities of **nbn** accorded with the principles of ecologically sustainable development (ESD);
- The effect of **nbn**'s activities on the environment; and
- Measures being taken to minimise the impact of activities by **nbn** on the environment and the mechanisms for reviewing and increasing the effectiveness of these measures.

The build of the **nbn**TM network is largely carried out by **nbn**'s Delivery Partners (i.e. contractors). **nbn** has processes in place to ensure that its Delivery Partners consider the impacts of their operations on the environment. **nbn**'s performance in the field is monitored and environmental incidents, including those that have cultural and heritage impacts are recorded and investigated where required.

The EPBC Act 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 includes reference to the integration, precautionary, intergenerational, biodiversity and valuation ESD principles in Section 3A.

The ESD principles guide the way **nbn** operates. During FY2016 this was demonstrated by:

- Implementing the MTM model which aims to provide fast, reliable and affordable landline phone and internet services to Australians. The MTM model will benefit the health, education, wealth of Australians while also supporting a lower carbon economy. This demonstrates **nbn**'s commitment to the 'integration principle' and 'intergenerational principle';
- Adopting a range of climate change mitigation measures including efficiency projects, renewable energy generation at satellite earth stations and TAND sites. This demonstrates **nbn**'s commitment to the 'precautionary principle';
- Continuing to embed environment principles and minimum standards in contracts. These relate to energy efficiency, packaging, hazardous materials, the United Nations Global Compact and certified environment management systems. This demonstrates **nbn**'s commitment to the 'intergenerational principle';

- Preparing Planning Assessment Reports (PAR) for all major construction works to identify 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. This demonstrates **nbn**'s commitment to the 'biodiversity principle';
- Developing an energy and carbon model to support **nbn** business planning and decision making. This demonstrates **nbn**'s commitment to the 'valuation principle' and 'intergenerational principle'; and
- Adding forecasting capabilities to **nbn**'s energy management platform to improve the businesses ability to understand and manage energy and carbon emissions impacts and costs. This demonstrates **nbn**'s commitment to the 'valuation principle' and 'intergenerational principle'.

The 'HSE performance' section on pages 147 to 148 describes the effects of **nbn**'s activities on the environment. **nbn**'s integrated Health Safety and Environment Management System is the key measure used to identify, minimise and review the impact of **nbn**'s activities on the environment, and is certified to ISO 14001. The Health Safety and Environment Management System provides processes to review and continually improve the effectiveness of measures taken to reduce **nbn**'s impact on the environment.

Freedom of information report

The *Freedom of Information Act 1982* (the 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**. In addition to the general exemptions under the FOI Act, Parliament has determined that documents relating to **nbn**'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 FY2015, **nbn** received 57 new FOI requests, finalised 59 requests under the FOI Act and carried over three FOI requests into the next financial year. During FY2016, **nbn** received 77 new FOI requests, finalised 70 requests under the FOI Act and carried over 10 FOI requests into the next financial year.

Those applications were processed as follows:

Granted in full	6
Granted in part	1
Access refused	4
No documents held	5
Request transferred	3
Application withdrawn	51

During FY2016, the Office of the Australian Information Commissioner (OAIC) initiated reviews of two of **nbn**'s FOI determinations. In both instances, the FOI applicants withdrew their review requests after consultations with the OAIC, effectively upholding **nbn**'s decisions. **nbn** also finalised three Internal Review requests during this period. Each Internal Review confirmed the original decisions. In addition, the Company was not subject to any reviews or appeals at the Administrative Appeals Tribunal.

How to make FOI requests

nbn recognises that information is a vital and an invaluable resource, both for the Company and for the broader Australian community.

nbn 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**'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; and
- 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:
FOlofficer@nbnco.com.au

Or posted to:

FOI Requests
nbn co limited
Level 11, 100 Arthur Street
North Sydney NSW 2060
Australia

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** 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** 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** from releasing information relating to its commercial activities, **nbn** regularly releases information about its operations on a proactive basis. **nbn**'s objective is to continue along this path without compromising its commercial, business or operational objectives, or those of its partners.

nbn 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 FOlofficer@nbnco.com.au. If **nbn** is unable to publish the information requested, **nbn** staff will be in contact to discuss the reasons that the information was unavailable. **nbn** 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 see **nbn**'s Privacy Policy, available on the website.

Individuals may apply for access to their personal information held by **nbn** by writing to:

Privacy Officer
nbn co limited
Level 11, 100 Arthur Street
North Sydney NSW 2060
Australia

Or email to: privacyofficer@nbnco.com.au

Other matters

During FY2016, no reports on **nbn** were given by the Commonwealth Ombudsman, the Office of the Australian Information Commissioner and the Australian Securities and Investments Commission.

The Senate Select Committee on the National Broadband Network formally reported to Parliament on 4 May 2016. There were no recommendations in the report.









Glossary

Abbreviation or Term	Definition
ABS	Australian Bureau of Statistics.
ACCC	Australian Competition and Consumer Commission.
Access Seeker	A customer acquiring nbn TM wholesale services with the intention to supply broadband services to Service Providers or end users.
Access Technology	The technology used by nbn to deliver the nbn TM 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-user premises. The AVC is a virtual point to point connection from nbn 's network boundary 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 and third parties engaged on behalf of nbn .
Average Revenue Per User (ARPU)	Calculations include all telecommunications revenue generated including AVC, CVC and other products.
Brownfields	Pre-existing premises.
Capital Expenditure (Capex)	The cost of purchasing tangible and intangible assets.

Abbreviation or Term	Definition
Connectivity Serving Area (CSA)	A logical collection of end-user premises defined by nbn . 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 serve 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 management calculation used to assess the comparative incremental costs of construction of each access technology.
Customer Experience Metric (CEM)	The Customer Experience Metric (CEM) is a measure of the nbn 's Customer (RSP) sentiment of working with nbn and is conducted by an external independent agency on behalf of nbn . The CEM is measured annually on a rating scale from 0 to 10.
Customer	A customer to nbn 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.
Delivery Partner	A third party involved in the build of the nbn TM network. A Delivery Partner is a contractor, which has a contract with nbn for the delivery of a certain amount of work / activities in relation to the build and operation of the nbn TM network.
EBITDA	Earnings before Interest, Tax, Other Income, Depreciation and Amortisation.
End user	Final downstream customer to nbn '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 's engagement surveys are undertaken through Aon Hewitt, allowing nbn to track progress year on year and benchmark itself against Best Employers in the Australia and New Zealand region.

Abbreviation or Term	Definition
Fibre Network	nbn 's optical fibre telecommunications network that is owned or controlled by nbn and which has been accepted into service, ready for the provision of commercial (non-trial) nbn TM network services.
Fibre-to-the-Premises (FTTP)	Network design in which the Fibre Network is deployed to each premises. 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.
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.
Fixed Line (FL)	Delivery of voice, data and broadband services over a physical line from the exchange location to the end-user premises (with termination at those premises).
Fixed Wireless (FW)	Network design in which network connections are provided through radio signals.
Gigabits Per Second (Gbps)	A unit of measurement of transmission speeds equal to one billion bits per second. X / Y Gbps means a maximum downstream speed of X Gbps and a maximum upstream speed of Y Gbps.
Government	Reference to the Commonwealth or Cth is 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 Public Governance, Performance and Accountability Rule 2014 (Cth) (PGPA Rule).
Greenfields	A new development that can be either New Developments or Infills. Greenfields developments represent the growth of the premises market.
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 redevelopment (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 available.

Abbreviation or Term	Definition
Information Technology (IT)	Underlying operating and business systems and processes providing the platform and flow of information through nbn to enable the deployment, activation and operation of Australia's broadband network.
Interim Satellite Service (ISS)	nbn 's Interim Satellite Service was launched on 1 July 2011 to provide access to broadband services to people in homes, small businesses and indigenous communities in some of the most remote areas of Australia. The Interim Satellite Service was a temporary measure until nbn launched its own Sky Muster™ satellite service in 2016.
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 / Y Mbps means a maximum downstream speed of X Mbps and a maximum upstream speed of Y Mbps.
Multiple-Dwelling Unit (MDU)	Premises that contain more than one dwelling unit, which can range from duplexes to 200+ unit apartment blocks. MDUs come in a variety of formats and may include vertical buildings, horizontal buildings, gated communities, business parks, etc.
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 3 year period located in nbn 's long-term Fibre Footprint. For the role of nbn with regards to Greenfields developments, refer to the appropriate policy as befitting the circumstance.
Overall Satisfaction	Overall Satisfaction measures how satisfied users are overall with their experiences with the nbn ™ network on a scale from 0 to 10, where 10 is extremely satisfied and 0 extremely dissatisfied. It considers all the experiences including the installation, any support experiences and the performance of the product when online. Overall Satisfaction is measured over time at one, three and six months after installation.

Abbreviation or Term	Definition
Point of Interconnect (POI)	The connection point that allows RSPs and WSPs to connect to the nbn TM network access capability. In the field, this is the physical port on the Ethernet Fanout Switch (EFS) switch located at nbn TM network's POI, where an Access Seeker connects to establish exchange of traffic with nbn TM 's network.
Premises	Premises are defined as addressable locations which nbn is required to connect and are included at Attachment A – premises Definition, of the December 2010 Statement of Expectations. The Statement of Expectations refers to this definition as the basis for measuring nbn 's achievement of the Government's coverage objectives.
Premises Activated	Refers to premises which have an active service installed. Premises are activated after receiving and provisioning a service order from a Retail Service Provider (Service Provider) to install a new service at the premises.
Premises Covered	Premises Covered refers to Fixed Wireless and Satellite areas where premises have Fixed Wireless or Satellite coverage and can access a service via nbn 's Service Providers, but where no physical infrastructure passes the premises.
Ready for Service (RFS)	A Rollout Region is Ready for Service when nbn is ready to begin connecting premises in that Rollout Region to the nbn TM network, which is when the nbn TM network has passed at least 90 per cent of the premises in the nbn TM network fibre footprint in that Rollout Region.
Retail Service Provider (RSP)	A third party provider of retail broadband services to end users.
Rollout Region	A region served by the nbn TM network.
Service Providers	A third party provider of broadband services whether to end users and/or Retail Service Providers.
Sky Muster TM satellite service	nbn satellite service which will provide broadband services to Australians in predominantly rural locations.
Statement of Expectations (SoE)	Letter to nbn from its Shareholder Ministers dated 08 April 2014. See: http://www.nbnco.com.au/content/dam/nbnco2/documents/soe-shareholder-minister-letter.pdf

Abbreviation or Term	Definition
Strategic Reviews	Includes the December 2013 Strategic Review and the May 2014 Fixed Wireless and Satellite Strategic Review.
TAND	Transit Aggregation Nodes and Depots.
Telstra Definitive Agreements or (DAs)	The suite of agreements entered into between nbn and Telstra on 23 June 2011 and which are described in the release issued by Telstra to the ASX on that day.
VDSL	Very-High-Bit-Rate Digital Subscriber Line.
Wholesale Broadband Agreement	A document which sets out nbn '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.



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