



Half-Year Report

For the six months ended
31 December 2018



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

Date

This Half-Year Report is for the six months ended 31 December 2018.

Glossary

Defined terms within this Half-Year Report should be read in conjunction with the glossary of terms within the 2018 Annual Report.

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ABN 86 136 533 741

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Half-Year Financial Report

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About NBN Co

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

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

NBN Co has a commitment to deliver access to peak wholesale download data rates of at least 25 megabits per second (Mbps) to all premises across the network, and at least 50Mbps peak wholesale download data rates to 90 per cent of the fixed-line network¹.

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



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

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

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

Half-Year results summary

31 December 2018



Ready to
connect¹

8.1m

↑ 32%

6.1m

HY18

Premises
activated¹

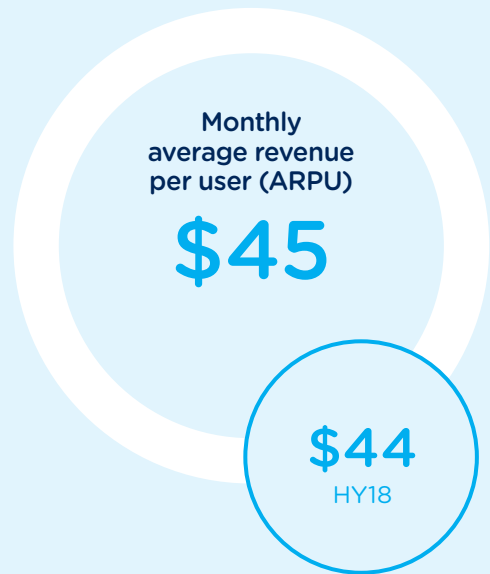
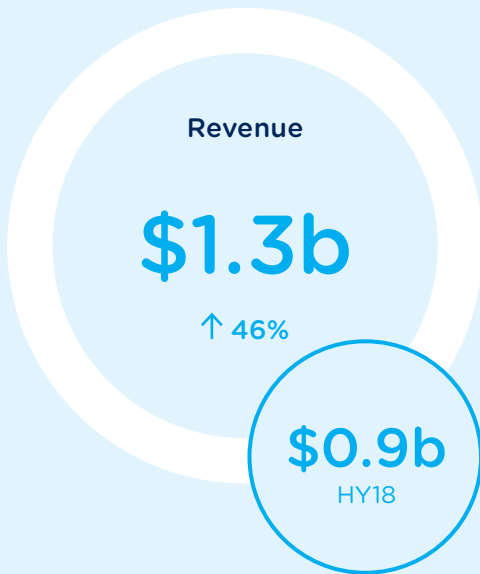
4.7m

↑ 38%

3.4m

HY18

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



Ready for service¹

9.5m

↑ 34%

7.1m
HY18

Capital expenditure

\$2.9b

↑ 2%

\$2.8b
HY18

Customer experience

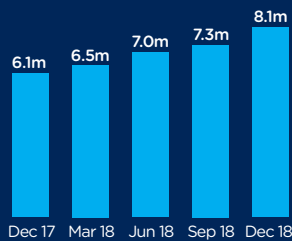
NBN Co's commitment to customer experience is showing significant progress.

To give the public a clear understanding on our progress, NBN Co is reporting key customer experience metrics publicly through a monthly progress report. Compared against 31 December 2017, the recently reported metrics show that NBN Co has made strong progress in the following areas during the period to 31 December 2018.

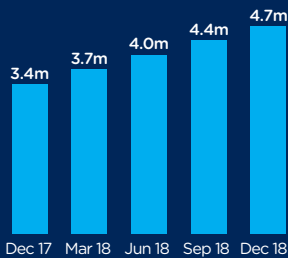
Progress



Ready to connect¹



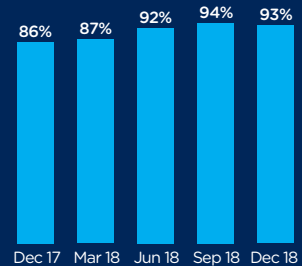
Connected homes and businesses²



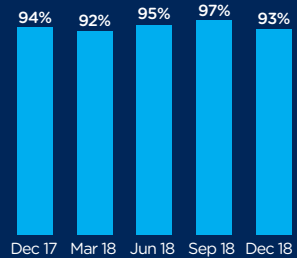
Connect



Right first time installations of nbn™ equipment³



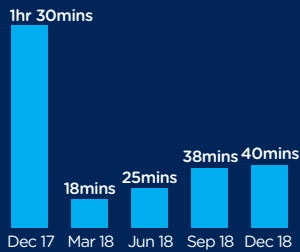
Meeting agreed installation times⁴



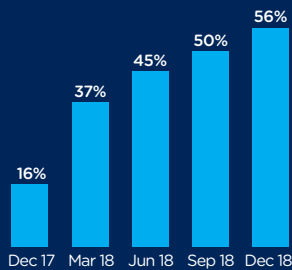
Use



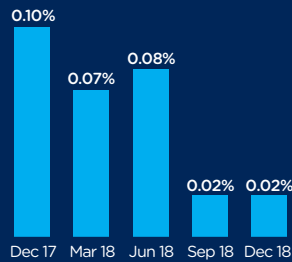
Average network bandwidth congestion (per week)⁵



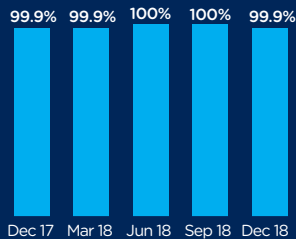
Uptake to higher peak wholesale speed plans 50Mbps or higher plans⁷



Fixed-line network congestion⁶



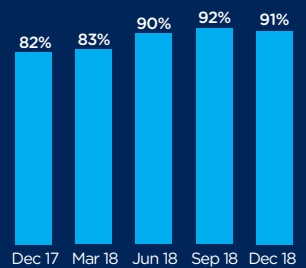
Network availability⁸



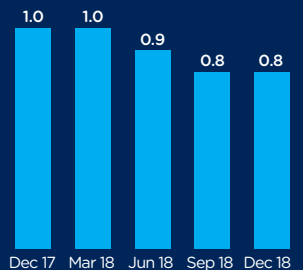
Fix



Meeting agreed fault restoration times⁹



Faults after connection completed (per 100 connected homes and businesses)¹⁰



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

3,4,5,6,7,8,9,10 Refer to page 59 for further details on how the performance against key metrics has been calculated.

Delivering social and economic benefits

The nbn™ access network is having a significant impact on Australians in connected areas.

Research conducted by leading economists AlphaBeta, commissioned by NBN Co, shows the nbn™ broadband access network is expected to contribute more than \$10.4 billion a year in economic activity nationally, of which \$5.3 billion a year will be generated in regional areas by the end of the rollout. The report indicates the nbn™ access network is helping to reshape the way Australians educate themselves, stay connected to family and friends, and how they engage with the workforce.

1 Creating new opportunities for online education

x2

nbn™ connected Australians are twice as likely to enrol in online learning courses.

Over 65

Almost four out of five over-65-year-old nbn™ connected users are engaged in non-formal education, compared with just over one in two non-nbn™ connected users.

Aged 45-64

nbn™ connected users aged 45 to 64 are 40 per cent more likely to use the internet for learning online compared to those in non-nbn™ connected areas.

Sources: Latest economic benefit reports

<https://www.nbnco.com.au/corporate-information/media-centre/media-statements/fast-broadband-helping-to-drive-greater-female-entrepreneurship>

<https://www.nbnco.com.au/corporate-information/media-centre/media-statements/nbn-co-connected-society>

<https://www.nbnco.com.au/corporate-information/media-centre/media-statements/older-australian-learners>

2 Helping Australians stay connected to family and friends

30%

nbnTM connected Australians are at least 30 per cent more likely to use the internet to stay in touch with loved ones.

3+ hours

Australians who are **nbn**TM connected are spending an additional three hours online per week keeping in touch with family and friends than those not connected.

96%

nbnTM connected users are using the internet to socialise and build relationships, compared with 74 per cent of non-**nbn**TM connected users.

3 Supporting greater female workforce participation

20 times

The number of self-employed women in **nbn**TM network connected regions is growing on average 2.3 per cent a year, or 20 times the pace of growth in the number of self-employed women in areas not yet connected to the **nbn**TM network.

x2

Self-employed women working from home grew on average at twice the pace in **nbn**TM connected regions, compared to all other self-employed women in non-**nbn**TM network regions.

x5

Self-employed women working part-time grew on average five times the pace in regions connected to the **nbn**TM network compared to non-**nbn**TM regions.

Directors' Report

The Directors of the Company present their report on NBN Co Limited (NBN Co or the Company) and its subsidiaries (the Group or the NBN Co Group), together with the Half-Year Financial Report of the Group for the six months ended 31 December 2018 and the auditor's review report thereon.

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

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

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





Our business

1

NBN Co's purpose

To connect
Australia and
bridge the
digital divide

2

What is NBN Co delivering?
Our goal

Eight
million
homes
and
businesses
connected
by 2020

3

How is NBN Co achieving it? Our five strategic imperatives

4

Supported by



1
A high-performing and reliable network



2
Effective and efficient processes and systems



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



4
Affordable wholesale products and services



5
A great place to work

6,600
NBN Co staff

24,000
external workforce

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

Operating and financial review

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

The Company has also demonstrated its commitment to working with industry to improve customer experience and has achieved further revenue growth from both residential and business end users as the Company matures.

Our progress and performance

Progress on the network build

This has been another key period for NBN Co as we work towards our goal of completing the network build by 2020 and connecting eight million homes and businesses onto the network. With less than two years of the rollout remaining there continues to be a significant amount of work being done by NBN Co employees across the Company, Delivery Partners (DPs) out in the field, and Retail Service Providers (RSPs) connecting homes and businesses to services.

At 31 December 2018, 99 per cent of Australian households and businesses were either in design, construction or already able to order a service over the **nbn**[™] access network. The network construction is three quarters complete and more than 40,000 new premises are being declared ready to connect (RTC) each week with more than 20,000 new homes and businesses activated to services on the network per week.

The **nbn**[™] access network rollout is moving at pace, and there is significant momentum towards network completion by 2020.

During the six month period to 31 December 2018, NBN Co expanded the ready for service (RFS) footprint by 1.4 million premises, from 8.1 million to 9.5 million premises. The RFS footprint includes elements of the network that have been acquired and for which optimisation and upgrade work is being completed before declaring the network RTC.

As at 31 December 2018, 8.1 million premises had been declared RTC, an increase of 15 per cent during the six month period. This means that approximately 70 per cent of Australian premises were able to order a service over the **nbn**[™] access network at the end of the half-year.

Growth in activations

During HY19, premises activated increased by 16 per cent with 0.6 million end user premises connecting to the **nbn**[™] access network

within the six month period. As a result, together with RSPs, NBN Co had activated broadband services over the **nbn**[™] access network to 4.7 million Australian premises as at 31 December 2018. This achievement means that approximately 40 per cent of Australian premises are now using a service over the **nbn**[™] access network.

Increase in Company revenue

Revenue has continued to increase from \$891 million in HY18 to \$1,301 million in HY19. Revenue growth is primarily driven by the significant increase in the number of premises activated and is further supported by a monthly Average Revenue Per User (ARPU) of \$45 in HY19.

Continued focus on customer experience initiatives

The Company has made progress on a number of customer experience related initiatives, including its pricing evolution and HFC optimisation program.

Optimised HFC premises are now being re-released back into the footprint at scale, following substantial progress on the network upgrade work that has been conducted since the HFC sales pause in late 2017.

The HFC technology - across the 'connect' and 'fix' stages - is performing strongly. This is evidenced by the reduction in the number of aged orders, the improved mean time to connect, and the higher achievement of agreed timeframes to rectify a network fault.

This progress has helped contribute to a better customer experience and end users are reporting much higher levels of satisfaction.

The Company's wholesale pricing discount changes have been integral to improving the 'use' experience for end users.

As an interim step before the new wholesale discount bundles were available, NBN Co ran a 'Focus on 50' promotion that allowed RSPs to purchase higher speeds and increased bandwidth at a discounted rate.

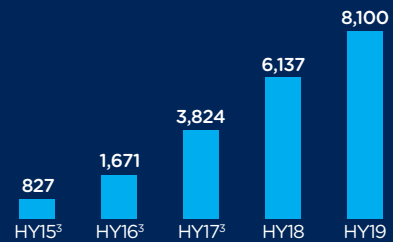
Following the conclusion of that promotion at the end of October 2018, NBN Co has been working with RSPs to migrate end users over to the new discount bundle plans.

These initiatives have helped drive the growth in the take-up of wholesale peak data download speed plans of 50Mbps and above from 16 per cent in December 2017 to 56 per cent in December 2018¹. The new wholesale pricing discounts also helped drive an improvement in average network bandwidth congestion from one hour and 30 minutes per week in December 2017 to 40 minutes per week in December 2018 (excluding the Sky Muster™ satellite service)².

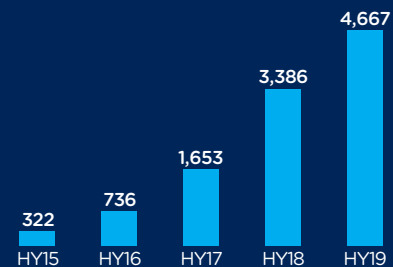
The Company also launched a new wholesale entry-level discount bundle designed for residential voice-only and basic broadband users. This provides further choice and flexibility for RSPs to sell retail plans for different types of consumer needs.

- Based on the Monthly Progress Report December 2018. This includes wholesale plans available to RSPs with download speeds of 50Mbps and 25-50Mbps. The **nbn**™ access network is being designed to provide these peak wholesale speeds to NBN Co's RSPs at NBN Co's network boundary. The **nbn**™ wholesale speed tiers available to RSPs vary depending on the **nbn**™ access network technology in your area. Refer to the uptake to higher peak wholesale speed plans footnote on page 59 for further details on how the metric is calculated.
- This is calculated across all bandwidth purchased by all RSPs across the entire network (CVC congestion). Note that while bandwidth congestion is caused by the level of provisioning of capacity by the RSP, there are also other types of congestion that may occur on the **nbn**™ access network.
- Number of RFS premises – RTC premises not reported HY15 to HY17.

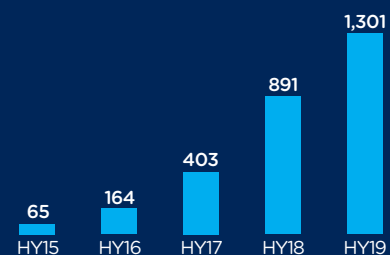
Cumulative premises ready to connect ('000)



Cumulative premises activated ('000)



Total revenue (\$m)



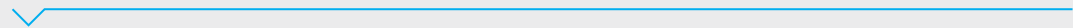


A great place to work

The success of NBN Co is not possible without the hard work and effort of its employees.

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

- Diverse workforce
- Inclusive workplace
- Engaged community



Diversity and inclusion at NBN Co

Strength in diversity
Opportunity through inclusion



Gender Balance



Accessibility



Culture



LGBTI Pride



First People

Review of financial performance and position

Financial highlights

For the six months ended 31 December	2018 \$m	2017 \$m	2016 \$m	2015 \$m	2014 \$m
Financial performance					
Total revenue	1,301	891	403	164	65
Operating expenses	(1,088)	(1,022)	(858)	(644)	(461)
Adjusted EBITDA ¹	213	(131)	(455)	(480)	(396)
Subscriber costs	(690)	(1,246)	(549)	(208)	(101)
EBITDA ²	(477)	(1,377)	(1,004)	(688)	(497)
Depreciation and amortisation	(1,240)	(1,028)	(658)	(402)	(283)
Net loss after tax	(2,152)	(2,643)	(1,829)	(1,239)	(902)
Financial position					
Total assets	30,648	26,155	20,978	15,340	10,936
Contributed equity	29,500	29,500	23,805	16,385	10,395
Capital expenditure ³	2,908	2,837	2,839	2,127	1,433
Borrowings	9,228	1,610	-	-	-

The HY19 financial results reflect the continuing progress of the rollout of the **nbn**TM access network and the growth of the business.

The Group generated total revenue of \$1,301 million in the six months to 31 December 2018, an increase of \$410 million in comparison to HY18.

- Adjusted EBITDA is defined as earnings before interest, tax, subscriber costs, depreciation and amortisation, and other income relating to network assets received for no consideration.
- EBITDA is defined as earnings before interest, tax, depreciation and amortisation, and other income relating to network assets received for no consideration.
- Capital expenditure excludes additions of leased assets, gifted assets and items of property, plant and equipment classified as inventories.

Operating expenditure of \$1,088 million has increased by \$66 million in comparison to HY18, primarily due to the growth in direct network costs and employee related expenditure.

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

In line with expectations, the Adjusted EBITDA of \$213 million has improved significantly from an Adjusted EBITDA loss of \$131 million in HY18. This is primarily driven by the 46 per cent growth in revenue compared to HY18.

In HY19, NBN Co recognised an EBITDA loss of \$477 million and a net loss after tax of \$2,152 million. These results are also in line with expectations and reflect the current stage of business maturity with significant upfront investment in the network and end user activations, illustrated through depreciation and amortisation expense and subscriber related expenditure.

As at 31 December 2018, NBN Co had generated total assets of \$30.6 billion, an increase of 17 per cent from December 2017. The increase in total assets was primarily driven by capital expenditure on property, plant and equipment, and intangible assets.

As at 31 December 2018, NBN Co had drawn down \$9.2 billion under the loan agreement with the Commonwealth Government.

Revenue

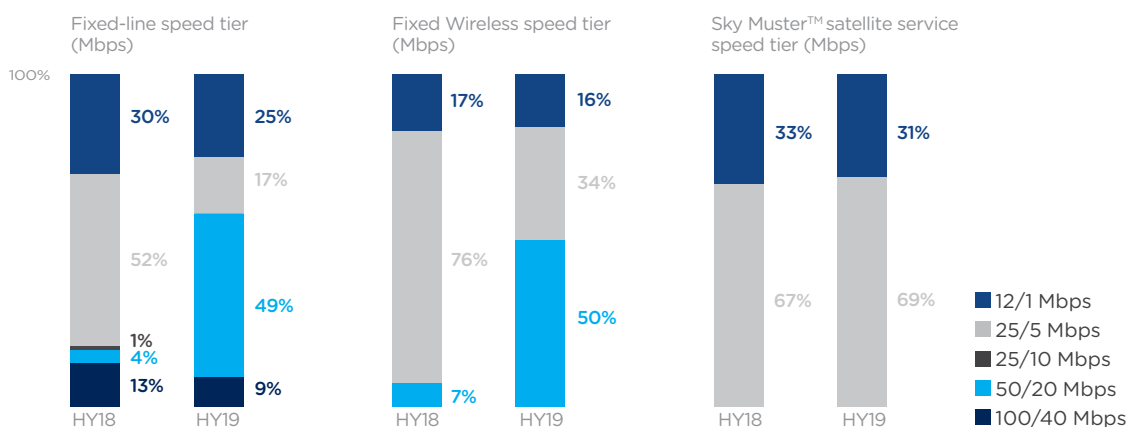
For the six months ended 31 December	2018 \$m	2017 \$m	2016 \$m	2015 \$m	2014 \$m
Telecommunications revenue	1,208	813	375	159	64
Other revenue	93	78	28	5	1
Total revenue	1,301	891	403	164	65
Average revenue per user (ARPU) - (\$)	\$45	\$44	\$43	\$43	\$39

Telecommunications revenue increased by \$395 million (49 per cent) to \$1,208 million driven by the growth in the number of homes and businesses activated to services over the **nbn**[™] access network. The number of premises activated increased from 3.4 million as at HY18 to 4.7 million as at HY19.

Telecommunications revenue was generated at a weighted average ARPU of \$45 during the period. The increase in ARPU is a result of the growth in business segment revenue and the take-up of higher wholesale speed tier plans.

The wholesale speed tier mix of end users across NBN Co's fixed-line services (inclusive of FTTP, FTTN/B, HFC and FTTC), Fixed Wireless and Satellite services is illustrated below. The Company's wholesale pricing changes have helped drive the take-up of fixed-line wholesale peak download speed plans of 50Mbps and above from 18 per cent in December 2017 to 58 per cent in December 2018¹.

Other revenue has increased by \$15 million (19 per cent) to \$93 million. Other revenue continues to grow as the **nbn**[™] access network expands and includes revenue from developers, commercial works activities and the Technology Choice Program, as well as licensing fees.



¹ Based on the Monthly Progress Report December 2018. This includes wholesale plans available to RSPs with download speeds of 50Mbps and 25-50Mbps. The **nbn**[™] access network is being designed to provide these peak wholesale speeds to NBN Co's RSPs at NBN Co's network boundary. The **nbn**[™] wholesale speed tiers available to RSPs vary depending on the **nbn**[™] access network technology in your area. Refer to the uptake to higher peak wholesale speed plans footnote on page 59 for further details on how the metric is calculated.

Operating expenditure

For the six months ended 31 December	2018 \$m	2017 \$m	2016 \$m	2015 \$m	2014 \$m
Direct network costs	359	329	246	173	130
Employee benefits expenses	430	406	362	280	195
Other operating expenses	299	287	250	191	136
Operating expenses	1,088	1,022	858	644	461
Subscriber costs	690	1,246	549	208	101
Depreciation and amortisation	1,240	1,028	658	402	283
Net finance charges	448	245	170	147	138

Operating expenditure

Operating expenditure of \$1,088 million has increased by \$66 million in comparison to HY18 due to the growth in the business and the expansion of the network. The drivers of the movements in operating expenses are outlined below.

Direct network costs increased by \$30 million (9 per cent) compared with HY18, to \$359 million. These costs directly relate to operating the **nbn**TM access network and have increased due to the expanded footprint of the network and the growth in activated premises. The costs primarily relate to network assurance, maintenance and restoration services, rental of network infrastructure, site access, and network power.

Employee benefits expenses increased by \$24 million (6 per cent) compared with HY18, to \$430 million. Employee benefits expenses include costs of NBN Co employees, as well as temporary contractors (net of amounts that have been capitalised and included in the cost base of non-current assets).

Other operating expenses increased by \$12 million (4 per cent) compared with HY18, to \$299 million. These include costs associated with IT and software applications, outsourced business operations, strategic consulting, legal and regulatory services, communication and public information, marketing, and other employee related expenditure.

Other expenditure

Subscriber costs decreased by \$556 million (45 per cent) compared with HY18, to \$690 million. The decrease reflects the lower number of disconnections and migrations from the Telstra and Optus networks as a consequence of the decision to temporarily pause new activations on to the HFC network in late 2017. Following the completion of network optimisation and upgrade work, HFC premises are now being re-released into the RTC footprint at scale.

Depreciation and amortisation expense increased by \$212 million (21 per cent) compared with HY18, to \$1,240 million due to the ongoing investment in the network.

Net finance charges include interest income and expenditure and primarily relate to interest on borrowings and finance charges relating to the accounting convention for assets under a long-term right of use arrangement. These charges have increased compared with HY18, in line with the growth in borrowings and infrastructure supplied by Telstra under right of use arrangements.

Capital expenditure¹

For the six months ended 31 December	2018 \$m	2017 \$m	2016 \$m	2015 \$m	2014 \$m
FTTP network	193	175	294	669	756
FTTN network	564	883	1,016	599	41
FTTC network	674	266	5	-	-
HFC network	836	746	631	151	-
Fixed Wireless network	204	159	177	180	145
Satellite network	43	45	158	91	175
Transit network	115	245	191	109	125
Common capital expenditure	279	318	367	328	191
Total capital expenditure	2,908	2,837	2,839	2,127	1,433

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

The largest areas of capital expenditure during the period have been on the HFC, FTTC and FTTN networks. This expenditure reflects the ongoing level of design, optimisation, construction and connection activities in relation to these technologies.

Capital expenditure has continued on the FTTP network, relating to the FTTP Greenfields network and connecting end users to the FTTP Brownfields network.

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

Capital expenditure on the satellite network primarily relates to connecting end users and the development of Business Satellite Services.

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

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

Cost per Premises

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

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

Brownfield FTTP network

The CPP has remained consistent during the period as construction on the Brownfield FTTP network nears completion.

Greenfield FTTP network

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

FTTN/B network

The CPP increase during the period is driven by more complex connection and build requirements.

HFC network

The CPP increase during the period reflects further network optimisation and node works to deliver a higher level of network quality, as well as increased connection costs.

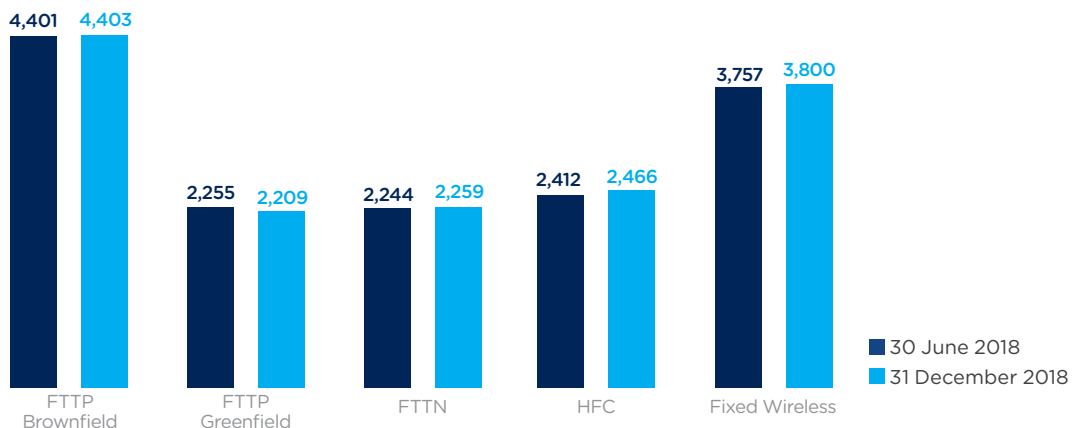
Fixed Wireless network

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

FTTC network

The CPP of \$3,058 reflects the mix of premises under construction in the early stages of the rollout of this new access technology. As the deployment of this technology continues to scale, it is anticipated that cost synergies will be realised.

Cost per Premises (\$)



Risk management

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

How does NBN Co manage its risks?

NBN Co's Group Risk team is the custodian of risk management within the Company. The team is responsible for designing and overseeing the implementation of risk management practices, processes and governance across all business areas.

Management and staff have a key role to identify, assess and manage their operational risks, and provide assurance through formal Executive Governance channels and Group Risk (including the Audit and Risk Committee).

The Audit and Risk Committee, Management and the Board review NBN Co's risk management framework and assess material risks on a bi-annual basis. In the event there are material events or changes to either, more frequent reviews will occur.

Maturing risk management

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

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



Board of Directors

Current Directors

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



Dr Ziggy Switkowski AO

Chairman/Non-Executive Director

Term of Office

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

Skills, Experience and Qualifications

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

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

Current Company Directorships

Dr Switkowski is a Director of listed companies Healthscope Ltd and Tabcorp Holdings Limited.

Other Current Appointments

Dr Switkowski is Chancellor of RMIT University.

Board Committee Memberships

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



Mr Drew Clarke AO PSM

Non-Executive Director

Term of Office

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

Skills, Experience and Qualifications

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

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

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

Current Company Directorships

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

Board Committee Memberships

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



Mr Patrick Flannigan

Non-Executive Director

Term of Office

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

Skills, Experience and Qualifications

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

Mr Flannigan established Integrated Maintenance Services in 2000 and was the founding Managing Director and Chief Executive Officer of Service Stream Ltd for six years from 2003. He then joined NBN Co as Head of Construction from 2009 to early 2011. In 2011, Mr Flannigan founded Utility Services Group and served as the Chief Executive Officer and Managing Director until 30 June 2015 when the company was acquired by an ASX listed company. Until late July 2016 Mr Flannigan held a Board position at the Australian Grand Prix Corporation.

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

Current Company Directorships

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

Other Current Appointments

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

Board Committee Memberships

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



Ms Shirley In't Veld

Non-Executive Director

Term of Office

Ms In't Veld was appointed as a Director effective 2 December 2015. Her current term will expire on 1 December 2021.

Skills, Experience and Qualifications

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

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

Current Company Directorships

Ms In't Veld is a Non-Executive Director of APA Group, Northern Star Resources Limited, Deputy Chairperson of the CSIRO and a Board member of the COAG Energy Independent Energy Appointments Selection Panel.

Other Current Appointments

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

Board Committee Memberships

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



Mr Michael Malone

Non-Executive Director

Term of Office

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

Skills, Experience and Qualifications

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

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

Current Company Directorships

Mr Malone is Chair of the Board of ASX listed Superloop Ltd and Chairman of Sky and Space Global. He is also a Director of Seven West Media Ltd, Speedcast International Ltd, and Axicom Pty Ltd. He is also the founder and Chairman of Diamond Cyber Pty Ltd and a Committee member of the Advisory Council for the Regional and Small Publishers Innovation Fund.

Board Committee Memberships

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



Ms Zoe McKenzie

Non-Executive Director

Term of Office

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

Skills, Experience and Qualifications

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

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

Current Company Directorships

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

Board Committee Memberships

Ms McKenzie is a member of NBN Co's Nominations Committee.



Mr Justin Milne

Non-Executive Director

Term of Office

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

Skills, Experience and Qualifications

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

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

Current Company Directorships

Mr Milne is Chairman of MYOB Group Ltd and NetComm Wireless Ltd. He is also a Non-Executive Director of Tabcorp Holdings Limited.

Board Committee Memberships

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



Mr Stephen Rue

Managing Director and
Chief Executive Officer

Term of Office

Mr Rue was appointed as Chief Executive Officer (CEO) and an Executive Director of NBN Co effective 1 September 2018. His current term as CEO will expire on 31 August 2023, and as an Executive Director on 31 August 2021.

Skills, Experience and Qualifications

Mr Rue joined NBN Co in July 2014 as Chief Financial Officer, bringing with him a wealth of knowledge in financial management and high profile company transformation.

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

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

Board Committee Memberships

Mr Rue attends NBN Co's Audit and Risk Committee, Nominations Committee and People and Remuneration Committee meetings ex officio.



Dr Kerry Schott AO

Non-Executive Director

Term of Office

Dr Schott was first appointed as a Director effective 28 September 2012. Her current term will expire on 5 October 2021.

Skills, Experience and Qualifications

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

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

Current Company Directorships

Dr Schott is Chairman of the Moorebank Intermodal Company Ltd and the Energy Security Board.

Other Current Appointments

Dr Schott is Chair of the Advisory Board of Sydney Metro, and a member of the Advisory Board of Sydney City and SouthEast Light Rail.

Board Committee Memberships

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



Former Directors

Mr Bill Morrow

Managing Director and
Chief Executive Officer

Term of Office

Mr Morrow was appointed as Chief Executive Officer (CEO) and a Director of NBN Co effective 2 April 2014. Mr Morrow resigned his position as CEO and a Director effective 31 August 2018.

Skills, Experience and Qualifications

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

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

Board Committees

From 1 July 2018 to 31 August 2018, Mr Morrow attended NBN Co's Nominations Committee and People and Remuneration Committee meetings ex officio.

Company Secretaries



Ms Debra Connor

Appointed in June 2010
Company Secretary

Skills, Experience and Qualifications

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

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



Ms Kylie Brown

Appointed in August 2015
Company Secretary

Skills, Experience and Qualifications

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

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

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

Other information

Directors' interests

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

Dividends

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

Significant events subsequent to reporting date

No matter or circumstance has arisen since 31 December 2018 to the date of the signing of this report that has significantly affected, or may affect:

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

Rounding of amounts

The Group is of a kind referred to in ASIC Corporation (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, amounts in the 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 declaration has been included with the Financial Report.

Corporate information

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

Signed in accordance with a resolution of the Directors.



J. E. Switkowski

Dr Ziggy Switkowski AO

Chairman

5 February 2019



Stephen Rue

Mr Stephen Rue

Chief Executive Officer

5 February 2019

Auditor's Independence Declaration



Auditor-General for Australia



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

NBN Co Limited Half-Year Financial Report for the period ended 31 December 2018
AUDITORS INDEPENDENCE DECLARATION

In relation to my review of the Half-Year Financial Report of the NBN Co Group (comprising NBN Co Limited and the entities it controlled at the period's end or from time to time during the half-year ended 31 December 2018), to the best of my knowledge and belief, there have been:

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

Australian National Audit Office

A handwritten signature in cursive script that reads 'Grant Hehir'.

Grant Hehir

Canberra
5 February 2019

Half-Year Financial Report

The Half-Year Financial Report, comprising the consolidated financial statements and condensed notes to the consolidated financial statements, for the six months ended 31 December 2018, includes the Company and its subsidiaries (together referred to as the NBN Co Group or the Group).



Consolidated financial statements

Statement of profit or loss and other comprehensive income

		NBN Co Group	
For the six months ended	Notes	31 December 2018 \$m	31 December 2017 \$m
Revenue	B1	1,301	891
Direct network costs		(359)	(329)
Employee benefits expenses		(430)	(406)
Other operating expenses	B2	(299)	(287)
Subscriber costs		(690)	(1,246)
Depreciation and amortisation expense	C1 & C2	(1,240)	(1,028)
Other income		11	8
Net finance costs	C3	(448)	(245)
Loss before income tax		(2,154)	(2,642)
Income tax benefit/(expense)		2	(1)
Loss for the year		(2,152)	(2,643)
Loss attributable to the shareholder		(2,152)	(2,643)
Other comprehensive gain/(loss)			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of cash flow hedges, net of tax		3	(2)
Total other comprehensive gain/(loss) for the period, net of tax		3	(2)
Total comprehensive loss for the period		(2,149)	(2,645)
Total comprehensive loss attributable to the shareholder		(2,149)	(2,645)

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

Statement of financial position

NBN Co Group			
As at	Notes	31 December 2018 \$m	30 June 2018 \$m
Current assets			
Cash and cash equivalents		443	593
Trade and other receivables		388	338
Inventories		37	36
Derivative financial assets		6	2
Other current assets		127	108
Total current assets		1,001	1,077
Non-current assets			
Derivative financial assets		2	1
Property, plant and equipment	C1	27,549	25,043
Intangible assets	C2	2,046	2,025
Other non-current assets		50	57
Total non-current assets		29,647	27,126
Total assets		30,648	28,203
Current liabilities			
Trade and other payables		2,359	2,361
Other liabilities		23	20
Other financial liabilities	C3	195	161
Provisions		105	121
Total current liabilities		2,682	2,663
Non-current liabilities			
Trade and other payables		6	3
Other liabilities		768	693
Other financial liabilities	C3	7,835	7,037
Provisions		66	64
Borrowings	D2	9,228	5,531
Total non-current liabilities		17,903	13,328
Total liabilities		20,585	15,991
Net assets		10,063	12,212
Equity			
Contributed equity	D1	29,500	29,500
Other reserves		7	4
Accumulated losses		(19,444)	(17,292)
Total equity		10,063	12,212

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

Statement of changes in equity

	NBN Co Group			
	Accumulated losses \$m	Contributed equity \$m	Other reserves \$m	Total equity \$m
Balance at 30 June 2017	(12,512)	27,465	6	14,959
Loss for the period	(2,643)	-	-	(2,643)
Other comprehensive loss	-	-	(2)	(2)
Total comprehensive loss for the period	(2,643)	-	(2)	(2,645)
Transactions with owners in their capacity as owners:				
Contributions of equity	-	2,035	-	2,035
Balance at 31 December 2017	(15,155)	29,500	4	14,349
Balance at 30 June 2018	(17,292)	29,500	4	12,212
Loss for the period	(2,152)	-	-	(2,152)
Other comprehensive gain	-	-	3	3
Total comprehensive (loss)/gain for the period	(2,152)	-	3	(2,149)
Balance at 31 December 2018	(19,444)	29,500	7	(10,063)

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

Statement of cash flows

		NBN Co Group	
For the six months ended	Note	31 December 2018 \$m	31 December 2017 \$m
Cash flows from operating activities			
Receipts from customers		1,393	934
Payments to suppliers and employees		(2,026)	(2,122)
Interest received		5	13
Net cash used in operating activities		(628)	(1,175)
Cash flows from investing activities			
Receipts from held to maturity assets		-	140
Payments for property, plant and equipment		(2,686)	(2,580)
Payments for intangible assets		(236)	(357)
Net cash used in investing activities		(2,922)	(2,797)
Cash flows from financing activities			
Payments for finance leases and right of use licences		(156)	(151)
Proceeds from borrowings		3,697	1,610
Interest paid on borrowings		(141)	(4)
Equity injection for ordinary shares by the Commonwealth of Australia	D1	-	2,035
Net cash provided by financing activities		3,400	3,490
Net decrease in cash and cash equivalents		(150)	(482)
Cash and cash equivalents at the beginning of the period		593	1,184
Cash and cash equivalents at the end of the period		443	702

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

Notes to the financial statements

A. About this report

NBN Co Limited (NBN Co, the Company or the parent entity) is an unlisted public company incorporated and domiciled in Australia. It is a company limited by shares and is wholly-owned by the Commonwealth of Australia. The Half-Year Financial Report, comprising the consolidated financial statements and condensed notes to the consolidated financial statements, for the six months ended 31 December 2018, includes the Company and its subsidiaries (together referred to as the NBN Co Group or the Group).

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

Basis of preparation

This non-statutory Half-Year Financial Report has been prepared in accordance with Australian Accounting Standards Board (AASB) 134 *Interim Financial Reporting*. The Half-Year Financial Report does not include notes of the type normally included in an annual Financial Report and should be read in conjunction with the most recent Annual Financial Report for the year ended 30 June 2018. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of changes in the Group's financial position and performance since the most recent Annual Financial Report.

The Half-Year Financial Report has been prepared on a going concern basis and in accordance with the historical cost convention and does not take into account changing money values or fair values of assets unless otherwise stated.

The Company is incorporated under the *Corporations Act 2001* and is subject to (inter alia) the *National Broadband Network Companies Act 2011* and the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

Going concern

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

The Group's current liabilities exceeded its current assets by \$1,681 million as at 31 December 2018. The Financial Report has been prepared on a going concern basis, which contemplates the continuity of normal operations and the availability of the \$19.5 billion loan facility agreed with the Commonwealth Government on 22 December 2016. The \$19.5 billion loan facility is available to NBN Co Limited for the period from 1 July 2017 to 30 June 2021.

The Commonwealth Government has agreed to extend the tenor of its loan by three years (from 30 June 2021 to 30 June 2024) and to allow NBN Co to access up to \$2 billion of private sector debt. The Commonwealth Government and NBN Co are currently documenting the terms of the extension to the existing loan agreement. The terms for the private sector debt are subject to the approval of the Commonwealth Government.

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

Functional and presentation currency

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

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

Comparative figures

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

Significant accounting policies

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concepts of relevance and reliability. The Group's significant accounting policies are outlined in the 2018 Annual Report. With the exception of the adoption of AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* from 1 July 2018, the Group has consistently applied these accounting policies to all periods presented in these consolidated financial statements.

The impact of the changes in accounting policies due to the adoption of AASB 9 and AASB 15 is outlined in Note F4.

Significant accounting estimates and judgements

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

Estimates and judgements which are material or have the potential to be material to the Half-Year Financial Report are consistent with those referred to on page 113 of the 2018 Annual Report.

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

B. Our revenue and other operating expenditure

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

B1 Revenue

	NBN Co Group	
	31 December 2018 \$m	31 December 2017 \$m
For the six months ended		
Telecommunications revenue	1,208	813
Other revenue	93	78
Total	1,301	891

B2 Other operating expenses

	NBN Co Group	
	31 December 2018 \$m	31 December 2017 \$m
For the six months ended		
IT and software expenses	(74)	(70)
Communication and public information	(35)	(42)
Other operating expenses	(190)	(175)
Total	(299)	(287)

C. Our assets and liabilities

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

C1 Property, plant and equipment

NBN Co Group							
	Freehold land \$m	Buildings and leasehold improve- ments \$m	Furniture and equipment \$m	IT equipment \$m	Network assets \$m	Total \$m	
At 30 June 2018							
Cost	17	445	20	166	29,006	29,654	
Accumulated depreciation	-	(161)	(15)	(118)	(4,317)	(4,611)	
Net book value	17	284	5	48	24,689	25,043	
Period ended 31 December 2018							
Opening net book value	17	284	5	48	24,689	25,043	
Additions	-	1	-	5	3,561	3,567	
Depreciation	-	(14)	(1)	(9)	(1,037)	(1,061)	
Net book value	17	271	4	44	27,213	27,549	
At 31 December 2018							
Cost	17	446	20	171	32,567	33,221	
Accumulated depreciation	-	(175)	(16)	(127)	(5,354)	(5,672)	
Net book value	17	271	5	44	27,213	27,549	

C1 Property, plant and equipment (continued)

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

	NBN Co Group	
	31 December 2018 \$m	30 June 2018 \$m
Constructed and purchased assets	17,086	15,739
Assets in the course of construction	3,226	2,700
Leased assets	6,446	5,891
Assets acquired for no consideration and under government grant	791	713
Property, plant and equipment – net book value	27,549	25,043

Assets in the course of construction

The carrying value of property, plant and equipment includes \$3,226 million (30 June 2018: \$2,700 million) of expenditure on assets which are in the course of construction. The majority of assets in the course of construction are network assets. As these assets have not been installed and are not ready for use, no depreciation is charged on these assets.

Leased assets

The net carrying amount included in property, plant and equipment is \$17 million (30 June 2018: \$17 million) for buildings and \$6,429 million (30 June 2018: \$5,874 million) for network assets.

Assets acquired for no consideration and under government grant

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

Non-current assets pledged as security

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

C2 Intangible assets

	NBN Co Group			Total \$m
	Software \$m	Licences \$m	Other \$m	
At 30 June 2018				
Cost	3,078	163	69	3,310
Accumulated amortisation	(1,134)	(129)	(22)	(1,285)
Net book value	1,944	34	47	2,025
Period ended 31 December 2018				
Opening net book value	1,944	34	47	2,025
Additions	200	-	-	200
Amortisation	(174)	(2)	(3)	(179)
Net book value	1,970	32	44	2,046
At 31 December 2018				
Cost	3,278	163	69	3,510
Accumulated amortisation	(1,308)	(131)	(25)	(1,464)
Net book value	1,970	32	44	2,046

Assets in the course of construction

The carrying amount of intangible assets includes expenditure recognised on software assets which are in the course of construction. As these assets have not been installed and are not ready for use, no amortisation is charged on these assets. Total software assets in the course of construction are \$136 million (30 June 2018: \$177 million).

C3 Other financial liabilities

Lease liabilities and right of use licences

	NBN Co Group	
	31 December 2018 \$m	30 June 2018 \$m
Current		
Lease liabilities and right of use licences	195	161
Total	195	161

	NBN Co Group	
	31 December 2018 \$m	30 June 2018 \$m
Non-current		
Lease liabilities and right of use licences	7,835	7,037
Total	7,835	7,037

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

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

C3 Other financial liabilities (continued)

Net finance costs

	NBN Co Group	
	31 December 2018 \$m	31 December 2017 \$m
For the six months ended		
Finance charges on finance lease arrangements	(311)	(255)
Unwinding of the discount on other lease related provisions	(1)	(1)
Interest on borrowings	(141)	(5)
Interest income	5	16
Total	(448)	(245)

Finance lease commitments

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

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

	NBN Co Group	
	31 December 2018 \$m	30 June 2018 \$m
Finance lease and right of use licences are payable as follows:		
Within one year	913	787
Later than one year but not later than five years	3,171	2,719
Later than five years	17,874	16,062
Minimum lease payments	21,958	19,568
Future finance and other charges	(13,928)	(12,370)
Recognised as a liability	8,030	7,198
Representing finance lease and right of use licence liabilities:		
Current	195	161
Non-current	7,835	7,037
Total	8,030	7,198

D. Our funding and capital management

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

As at 31 December 2018, the total committed equity funding of \$29.5 billion from the Commonwealth Government had been provided to NBN Co under the terms of the EFA.

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

The Commonwealth Government has agreed to extend the tenor of its loan by three years (from 30 June 2021 to 30 June 2024) and to allow NBN Co to access up to \$2 billion of private sector debt.

D1 Contributed equity

As at 31 December 2018, a total of \$29.5 billion had been provided to the Company.

	NBN Co Limited		NBN Co Limited	
	31 December 2018 Number of shares	30 June 2018 Number of shares	31 December 2018 \$m	30 June 2018 \$m
Ordinary shares				
Fully paid	29,500,000,000	29,500,000,000	29,500	29,500
Total	29,500,000,000	29,500,000,000	29,500	29,500

Movements in ordinary share capital

	NBN Co Limited		
	Number of shares	Issue price \$	Value of shares \$m
Opening balance at 30 June 2018	29,500,000,000	1.00	29,500
Equity injections	-		-
Closing balance at 31 December 2018	29,500,000,000	1.00	29,500

D2 Borrowings

	NBN Co Group	
	31 December 2018 \$m	30 June 2018 \$m
Non-current		
Loans from related parties	9,228	5,531
Total	9,228	5,531

As at 31 December 2018, \$9.2 billion had been drawn down from the aforementioned \$19.5 billion loan facility with the Commonwealth Government.

The loan agreement with the Commonwealth Government has a fixed interest rate of 3.96 per cent per annum, with interest payable monthly over the life of the facility.

E. Our significant contractual arrangements and commitments

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

NBN Co's significant contractual arrangements are set out on pages 132 – 133 of the 2018 Annual Report and have not significantly changed from 30 June 2018.

E1 Commitments

Capital commitments

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

	NBN Co Group	
	31 December 2018 \$m	30 June 2018 \$m
Within one year	3,694	3,611
Later than one year but not later than five years	443	873
Later than five years	654	1,236
Total	4,791	5,720

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

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

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

E1 Commitments (continued)

Operating leases

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

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

	NBN Co Group	
	31 December 2018 \$m	30 June 2018 \$m
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	120	108
Later than one year but not later than five years	314	308
Later than five years	716	614
Total	1,150	1,030

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

For finance lease commitment disclosures refer to Note C3.

F. Other information

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

F1 Contingent assets and contingent liabilities

NBN Co's significant contingent assets and contingent liabilities are set out on page 147 of the 2018 Annual Report. There have been no significant changes to these contingent assets and contingent liabilities during the period.

F2 Related party transactions

Parent entity

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

Acquisitions

There were no acquisitions in the period.

Subsidiaries

The interest in the subsidiaries is set out on page 143 of the 2018 Annual Report.

Transactions with related parties

The following transactions occurred with related parties:

		NBN Co Group	
For the six months ended	Note	31 December 2018 \$	31 December 2017 \$
Equity injections			
Equity injected by the Commonwealth of Australia into NBN Co Limited	D1	-	2,034,554,908

		NBN Co Group	
For the six months ended	Note	31 December 2018 \$	31 December 2017 \$
Loans from the Commonwealth of Australia			
Balance at 1 July		5,531,165,018	-
Loans advanced during the period		3,697,000,000	1,610,000,000
Loan repayments during the period		-	-
Interest charged on government borrowings		140,958,099	4,649,884
Interest paid on government borrowings		(140,846,676)	(4,463,454)
Balance at 31 December	D2	9,228,276,441	1,610,186,430

Other Directors' interests

Certain Directors of NBN Co are also Directors and/or shareholders of other companies that supply NBN Co with goods and services or acquire services from NBN Co. The contractual agreements governing these transactions are approved in line with NBN Co's delegated limits of authority. The Directors of NBN Co do not participate in the decisions to enter into these transactions, unless Board approval is required. Where Board approval is required and where a Director of NBN Co has a material personal interest, then in accordance with NBN Co's Conflict of Interest Directors' Policy, and as required by the Corporations Act 2001, the Director concerned will not vote upon the decision nor take part in the consideration of the relevant transaction. Further details of these transactions are provided below.

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

Mr Malone is a Director of Speedcast International Limited, which has a subsidiary that supplies satellite equipment, IT systems and managed services to NBN Co. Mr Malone recused himself from NBN Co Board meetings where the supply of Speedcast International Limited Group equipment, systems or services was discussed.

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

	NBN Co Group	
For the six months ended	31 December 2018	31 December 2017
	\$	\$
Payments for goods and services (excluding GST)		
Payments for various goods and services from entities with common key management personnel	63,034,288	41,563,170

F3 Fair value measurement of financial instruments

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

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

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

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

Fair value of derivative assets and liabilities

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

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

There have been no transfers between hierarchy levels during the period.

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.

F4 Changes in significant accounting policies

Except for the changes below, the Group has consistently applied the accounting policies, as outlined in the 2018 Annual Report, to all periods presented in these consolidated financial statements.

The Group adopted AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* with an initial adoption date of 1 July 2018. As a result, the Group has changed its accounting policies as detailed following.

AASB 9 Financial Instruments

AASB 9 sets out the requirements for recognising and measuring financial assets and financial liabilities and some contracts to buy or sell non-financial items. It replaces AASB 139 *Financial Instruments: Recognition and Measurement*.

AASB 9 contains three principal classification categories of financial assets: Amortised cost, Fair value through other Comprehensive Income (FVOCI) and Fair Value through Profit and Loss (FVTPL). The classification of financial assets under AASB 9 is based upon the nature of the business model in which the financial asset is managed and its contractual cash flow characteristics. AASB 9 eliminates the previous AASB 139 categories of held to maturity, loans and receivables and available for sale.

The adoption of AASB 9 has not had a significant effect on the Group's accounting policies. All non-derivative financial assets and liabilities continue to be held at amortised cost.

The Group continues to recognise derivative financial instruments as cash flow hedges and there has been no change in the Group's accounting policies in relation to cash flow hedges as a result of the adoption of AASB 9.

Impairment of financial assets

AASB 9 replaces the 'incurred loss' model in AASB 139 with an 'expected credit loss' (ECL) model. In line with the requirements of AASB 9, the Group recognises loss allowances for ECLs on financial assets measured at amortised cost and contract assets (as defined in AASB 15). Loss allowances are deducted from the gross carrying amount of the financial asset. The ECLs are discounted at the effective interest rate of the financial asset. The recognition of loss allowances is recognised as an impairment of financial assets in the Statement of profit or loss.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Given the nature of the Group's financial assets the Group has determined that the adoption of the ECL impairment model did not result in the recognition of any significant impairment losses, either upon adoption on 30 June 2018 or in the six months to 31 December 2018.

Transition

Changes in accounting policies resulting from the adoption of AASB 9 have been adopted retrospectively with the exception of the Group electing to take the exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. The adoption of AASB 9 has not had a material impact on the results of the Group.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It replaced AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related interpretations. AASB 15 requires the application of a five-step process to: identify the contract with the customer; identify performance obligations; determine the transaction price; allocate the transaction price to the performance obligations based on standalone selling prices; and recognise revenue when performance obligations are satisfied. NBN Co's accounting policy for contracts with customers reflects the five-step model outlined in AASB 15.

The Group adopted AASB 15 using the cumulative effect method – i.e. by recognising the cumulative effect of initially applying AASB 15 as an adjustment to the opening balance of equity at 1 July 2018. Therefore, comparative information has not been restated and continues to be reported under AASB 118 and AASB 111.

The adoption of AASB 15 has not had a material impact on the results of the Group. There is no adjustment to the opening balance of equity as at 1 July 2018 and there is no difference between the consolidated financial statements for the six months ended 31 December 2018 as presented using AASB 15 and the consolidated financial statements for the six months ended 31 December 2018 prepared in accordance with AASB 118 and AASB 111.

G. Events occurring after the reporting period

No matter or circumstance has arisen since 31 December 2018 to the date of signing of this report that has significantly affected, or may affect:

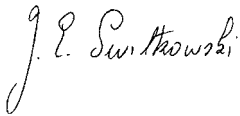
- The Group's operations in future financial years;
- The results of those operations in future financial years; and
- The Group's state of affairs in future financial years.

Directors' declaration

- (1) These non-statutory Half-Year financial statements and notes set out on pages 36 to 55 are in accordance with AASB 134 *Interim Financial Reporting*, the *Corporations Act 2001* and the *Public Governance, Performance and Accountability Act 2013*, giving a true and fair view of the NBN Co Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- (2) There are reasonable grounds to believe that the NBN Co Group will be able to pay its debts as and when they become due and payable.

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

Signed in accordance with a resolution of the Directors.



Dr Ziggy Switkowski AO
Chairman

5 February 2019



Mr Stephen Rue
Chief Executive Officer

5 February 2019

Independent Auditor's Review Report



Auditor-General for Australia



Independent Auditor's Review Report

To the members of NBN Co Limited

Conclusion

Based on my review, which is not an audit, nothing has come to my attention that causes me to believe that the Half-Year Financial Report of NBN Co Limited does not give a true and fair view of the financial position of the NBN Co Group as at 31 December 2018 and its financial performance for the half-year ended on that date, in accordance with Accounting Standard AASB 134 *Interim Financial Reporting*.

The NBN Co Group comprises NBN Co Limited and the entities it controlled at 31 December 2018 or from time to time during that half-year.

The Half-Year Financial Report of NBN Co Limited, which I have reviewed, comprises the following statements as at 31 December 2018 and for the period then ended:

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

Directors' responsibility for the Half-Year Financial Report

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

Auditor's responsibility

My responsibility is to express a conclusion on the Half-Year Financial Report based on my review. I conducted my review in accordance with the Australian National Audit Office Auditing Standards which incorporate the Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to my attention that causes me to believe that the financial report does not give a true and fair view of NBN Co Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date in accordance with Accounting Standard AASB 134 *Interim Financial Reporting*. As the auditor of NBN Co Limited, ASRE 2410 requires that I comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

Independence

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

Australian National Audit Office



Grant Hehir
Auditor-General

Canberra
5 February 2019

Additional footnotes

Outlined below are footnotes in respect to customer experience metrics disclosed on pages 6 and 7. These footnotes further explain what each metric is measuring and how each metric has been calculated.

Right first time installations of nbn™ equipment

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

Meeting agreed installation times

- The percentage of premises that NBN Co connects to the nbn™ access network within its agreed service level timeframes with phone and internet providers. The agreed service level varies by nbn™ access network type and available infrastructure at the premises. The Wholesale Broadband Agreement (WBA) includes provisions around calculation and time measurement. This metric does not include Priority Assistance connections or Accelerated Connections.

Average network bandwidth congestion (per week)

- The average number of minutes of bandwidth congestion per week/per service. This is calculated across all bandwidth purchased by all phone and internet providers across the entire network (CVC congestion). Please note that while bandwidth congestion is primarily caused by the level of provisioning of capacity by the phone and internet provider, there are also other types of congestion which may occur on the nbn™ access network.

Fixed-line network congestion

- This metric reflects the estimated monthly average percentage of homes and businesses that experience nbn™ access network congestion (as per NBN Co's congestion measures for fixed-line networks). Congestion metrics vary between fixed-line technologies. These are calculated based on the utilisation of certain parts of the nbn™ fixed-line access network that are shared by RSPs. The speeds actually achieved over the nbn™ access network also depend on factors outside NBN Co's control including your equipment quality, software, signal quality, broadband plans and how your RSP designs its network.

Uptake to higher peak wholesale speed plans

- This includes wholesale plans available to RSPs with download speeds of 50Mbps and 25-50Mbps. The nbn™ access network is being designed to provide these peak speeds to NBN Co's RSPs at NBN Co network boundary. The nbn™ wholesale speed tiers available to RSPs vary depending on the nbn™ access network technology in your area. Your experience including the speeds actually achieved over the nbn™ access network depends on the network type, technology and configuration over which services are delivered to your premises. Your experience will also be affected by some factors outside our control including your equipment quality, software, signal quality, broadband plans and how your phone and internet provider designs its network.

Network availability

- Percentage of time the nbn™ access network is available and operating. This is calculated per NBN Co's agreed service levels with phone and internet providers. This excludes planned network outages and has been rounded to the nearest one decimal place. The WBA includes detailed rules for defining and measuring network availability and includes a number of exceptions such as planned outages.

Meeting agreed fault restoration times

- The percentage of time NBN Co resolves faults within its agreed service levels with phone and internet providers. This measure tracks individual service faults, not network related faults which are tracked separately. The measure also excludes faults not related to the nbn™ access network. The agreed service levels vary depending on the location of the premises, and are different for the Sky Muster™ satellite network. The WBA includes detailed rules for defining "nbn™ faults" and measuring nbn™ access network performance. This measure does not include Priority Assistance Faults or Enhanced Faults.

Faults after connection completed (per 100 connected homes and businesses)

- The number of faults on the nbn™ access network per 100 homes or businesses per month. The calculation of this metric has changed from October 2018. The new calculation of this metric excludes faults within 10 business days of the connection. This provides a better representation of the performance of the network post any connection related issues. This metric should not be compared with the old 'Faults per 100 connected homes and businesses' metric. This measure tracks individual service faults, not network related faults which are tracked separately. It excludes faults not related to the nbn™ access network.

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