Financial Report

The Financial Report, comprising the financial statements, Notes to the financial statements and a Directors' declaration, for the year ended 30 June 2023.

Statement of profit or loss and other comprehensive income

		NBN Co	
For the year ended	Notes	30 June 2023 $m	30 June 2022 $m
Revenue	B1	5,269	5,103
Other income	B2	168	73
Direct network costs		(618)	(730)
Employee benefits expenses	D1	(698)	(647)
Other operating expenses	B3	(493)	(655)
Depreciation and amortisation expense	C3 & C4	(3,082)	(3,541)
Net finance costs	C9	(1,658)	(1,470)
Gain on derivatives measured at fair value	G	3	–
Loss before income tax		**(1,109)**	**(1,867)**
Income tax (expense)/benefit	H1	(10)	399
Loss for the year		**(1,119)**	**(1,468)**
Loss attributable to the shareholder		**(1,119)**	**(1,468)**
Other comprehensive (loss)/gain			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges, net of tax	E2	(23)	905
Changes in the value of costs of hedging, net of tax	E2	2	24
Total other comprehensive (loss)/gain for the year, net of tax		**(21)**	**929**
Total comprehensive loss for the year		**(1,140)**	**(539)**
Total comprehensive loss attributable to the shareholder		**(1,140)**	**(539)**

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

Statement of financial position

As at	Notes	NBN Co 30 June 2023 $m	NBN Co 30 June 2022 $m
Current assets			
Cash and cash equivalents	C1	41	113
Trade and other receivables	C2	533	503
Derivative financial assets	G	62	28
Other current assets		127	119
Total current assets		**763**	**763**
Non-current assets			
Property, plant and equipment	C3	33,989	32,868
Intangible assets	C4	1,598	1,755
Derivative financial assets	G	1,573	1,377
Other non-current assets		20	14
Total non-current assets		**37,180**	**36,014**
Total assets		**37,943**	**36,777**
Current liabilities			
Trade and other payables	C6	1,512	1,577
Other liabilities	C7	132	128
Derivative financial liabilities	G	31	14
Lease liabilities	C8	479	440
Borrowings	C9	2,109	72
Provisions	C10	215	162
Related party borrowings	C9 & H3	5,500	-
Total current liabilities		**9,978**	**2,393**
Non-current liabilities			
Trade and other payables	C6	35	19
Other liabilities	C7	1,468	1,407
Derivative financial liabilities	G	288	155
Lease liabilities	C8	11,033	10,511
Borrowings	C9	18,207	18,132
Provisions	C10	48	64
Related party borrowings	C9 & H3	-	6,375
Total non-current liabilities		**31,079**	**36,663**
Total liabilities		**41,057**	**39,056**
Net liabilities		**(3,114)**	**(2,279)**
Equity			
Contributed equity	E1	29,805	29,500
Other reserves	E2	914	935
Accumulated losses		(33,833)	(32,714)
Total equity		**(3,114)**	**(2,279)**

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

Statement of changes in equity

	Notes	NBN Co Accumulated losses $m	Contributed equity $m	Other reserves $m	Total equity $m
Balance at 30 June 2021		**(31,246)**	**29,500**	**6**	**(1,740)**
Loss for the year		(1,468)	–	–	(1,468)
Other comprehensive gain	E2	–	–	929	929
Total comprehensive (loss)/gain for the year		**(1,468)**	**-**	**929**	**(539)**
Balance at 30 June 2022		**(32,714)**	**29,500**	**935**	**(2,279)**
Loss for the year		(1,119)	–	–	(1,119)
Other comprehensive loss	E2	–	–	(21)	(21)
Total comprehensive loss for the year		**(1,119)**	–	**(21)**	**(1,140)**
Contributions of equity	E1	–	305	–	305
Balance at 30 June 2023		**(33,833)**	**29,805**	**914**	**(3,114)**

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

Statement of cash flows

		NBN Co	
For the year ended	Notes	30 June 2023 $m	30 June 2022 $m
Cash flows from operating activities			
Receipts from customers		5,856	5,650
Payments to suppliers and employees		(2,555)	(2,829)
Government grants received		38	547
Interest received		2	1
Net cash provided by operating activities	C1	**3,341**	**3,369**
Cash flows from investing activities			
Payments for property, plant and equipment		(2,685)	(2,308)
Payments for intangible assets		(315)	(310)
Net cash used in investing activities		**(3,000)**	**(2,618)**
Cash flows from financing activities			
Principal repayment of lease liabilities		(211)	(186)
Interest paid on lease liabilities		(877)	(838)
Proceeds from borrowings (net of costs)	C9	15,110	9,981
Repayment of borrowings and other financial liabilities	C9	(13,172)	(2,231)
Repayment of related party borrowings	C9 & H3	(875)	(6,825)
Interest paid on borrowings and other financial liabilities	C9	(469)	(204)
Interest paid on related party borrowings	C9 & H3	(224)	(336)
Equity injection for ordinary shares by the Commonwealth of Australia	E1	305	-
Net cash used in by financing activities		**(413)**	**(639)**
Net increase/(decrease) in cash and cash equivalents[1]		**(72)**	**112**
Cash and cash equivalents at the beginning of the year[1]		**113**	**1**
Cash and cash equivalents at the end of the year[1]	C1	**41**	**113**

1. Cash and cash equivalents are net of bank overdrafts.

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 or the Company) 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 is comprised of the financial statements, Notes to the financial statements and a Directors' declaration, for the year ended 30 June 2023. NBN Co is a for-profit entity for the purpose of preparing the Financial Report.

Basis of preparation

This general purpose Financial Report has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB).

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

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

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

The Financial Report was authorised for issue by the Directors on 7 August 2023. The Directors have the power to amend and reissue the Financial Report.

Going concern

The Financial Report has been prepared on a going concern basis. The Directors are of the view, and the financial statements have been prepared, on the basis that the Commonwealth Government will continue to operate in accordance with the policy objectives as set out in the revised Statement of Expectations as issued by the Shareholder Ministers to NBN Co on 19 December 2022.

As at 30 June 2023, the Company's current liabilities exceeded its current assets by $9,215 million and the Company had net liabilities of $3,114 million. These metrics are in line with expectations given the significant upfront investment in the network in advance of the Company generating free cash flows. The Company's performance in financial year 2023 resulted in NBN Co achieving the stated financial targets as outlined in its Corporate Plan 2023.

NBN Co funds its business through a combination of $29.8 billion equity from the Commonwealth Government and debt funding from the Commonwealth Government and domestic and international markets.

In June 2023, $305 million of equity funding was received from the Commonwealth Government. These funds represent the first installment of the Government's agreement to provide an additional $2.4 billion in equity to the Company by 30 June 2026, to enable an additional 1.5 million homes and businesses previously served by Fibre to the Node (FTTN) to be eligible for an upgrade to Fibre to the Premises (FTTP) technology.

As at 30 June 2023, NBN Co has raised in excess of $26.8 billion in domestic and international debt. The details of the transactions are disclosed in Note C9.

During the year, the Company used its issued debt to repay $875 million of the Commonwealth loan. As at 30 June 2023, the remaining balance of the Commonwealth loan is $5.5 billion, which is due to mature in June 2024.

To finance the repayment of the Commonwealth loan within the next twelve months, and execute the strategic initiatives outlined in its Corporate Plan 2023, NBN Co is planning to continue raising additional domestic and international debt. NBN Co expects its financing strategy to be achievable based on its strong investment grade credit rating and the outcomes of recent financing transactions.

As at the date of signing the Financial Report, the Directors expect that NBN Co will be able to meet all of its obligations as and when they fall due for at least twelve months from the date of this report. This will be achieved through a combination of the Company's operational activities, the expected outcomes from the Company's future financing activities (including future equity injections), and utilisation of undrawn components of available bank facilities which is $6.5 billion as at 30 June 2023.

Dividends

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

A. About this report continued

Going concern continued

Directors' interest

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

Functional and presentation currency

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

Rounding of amounts

The Company 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

Certain reclassifications have been made to comparative balances to conform with the current year presentation.

Significant accounting policies

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

Significant accounting policies are contained in the Notes to the financial statements to which they relate and Note H5.

Operating segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, for which discrete financial information is available and whose operating results are regularly reviewed by the entity's chief operating decision maker (CODM) to allocate resources and assess the entity's performance.

NBN Co's Chief Executive Officer (CEO) has been identified as the CODM. NBN Co has determined that it operates in a single segment providing wholesale broadband services across Australia.

The CODM assesses the performance of the Company using revenue, earnings before interest, tax, other non-operating income, depreciation and amortisation (EBITDA), and net cash flows as presented in the primary statements. NBN Co's EBITDA result was $3.6 billion as at 30 June 2023 (30 June 2022: $3.1 billion).

All NBN Co's operations are provided in Australia, therefore no geographic information is disclosed.

Significant accounting estimates and judgements

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

In determining significant accounting estimates and judgements, the Company has considered changes in economic circumstances, climate change impacts, regulatory changes, government policies, business plans and strategies, expected level of usage, and future technological developments impacting specific assets or groups of assets.

Estimates and judgements which are material or have the potential to be material to the Financial Report are found in the following notes. These estimates have been consistently applied to all periods presented, unless otherwise stated.

Accounting estimates and judgements	
Determination of useful lives of property, plant and equipment	C3
Determination of useful lives of intangible assets	C4
Assessment of indicators of impairment	C5
Determination of whether a contract contains a lease	C8
Determination of the net present value of a lease	C8
Determination of lease term	C8
Determination of the fair value of derivative assets and liabilities	G

Significant events occurring after period end

Refer to Note I for significant events subsequent to reporting date.

B. Our revenue and other operating expenses

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

B1. Revenue

NBN Co generates revenue primarily from the provision of telecommunications services to its customers. Other sources of revenue include new development fees, lease and license fees and commercial works activities.

Revenue from contracts with customers

	NBN Co	
For the year ended	30 June 2023 $m	30 June 2022 $m
Telecommunications revenue	5,137	5,004
Other revenue	132	99
Total revenue	**5,269**	**5,103**

Telecommunications revenue

Telecommunications services are facilitated through contracting with Retail Service Providers (RSPs) under the Wholesale Broadband Agreement (WBA). Pricing for the various product offerings is set out in the WBA. The WBA also contains discounts and rebates that are available to all RSPs on an equal basis.

The revenue from the provision of telecommunications services includes recurring wholesale-only broadband network revenue and recurring facility access services revenue. There are also non-recurring revenues in the form of ancillary and service charges. For telecommunications revenue, NBN Co recognises revenue for the amount to which it has a right to invoice and/or when the respective performance obligations have been completed.

Recurring telecommunications revenues

Broadband network services relate to the provision of NBN Co's wholesale broadband products to RSPs which are then sold to customers. The performance obligations associated with these products are satisfied over time. NBN Co transfers control of these products to the RSPs evenly over the period, during which the RSPs are able to obtain value from NBN Co's products. Accordingly, these revenues are recognised over time. Applicable credits and rebates are recognised as a reduction to the transaction price during the period to which they relate. The Company invoices the RSPs on a monthly basis, with standard short-term payment terms and therefore no financing component exists.

Non-recurring telecommunications revenues

Telecommunications revenue includes non-recurring, non-refundable upfront fees for connection charges, installation charges, service transfers and RSP end-user contributions to connect new developments. Upfront fees will be recognised at the point in time when these services are provided as there are no further performance obligations associated with these activities.

B. Our revenue and other operating expenses continued

B1. Revenue continued

Other revenue

NBN Co generates other non-telecommunications revenue from construction and lease activities via separate contractual arrangements. The construction contracts include commercial works, technology choice, new development fees and co-investment partnerships with federal and state governments. Invoices are on standard short-term payment terms and based on the nature of the services, no financing component exists.

Commercial works are construction-type contracts based on requests from customers for NBN Co to relocate cables and network equipment, while technology choice revenues relate to application, design and construction fees from customers who opt for alternative technologies other than those being offered at their premise. New development fees represent consideration for the deployment of network infrastructure received from property developers.

For construction-type contracts, NBN Co recognises revenue on a point in time basis, with the performance obligation considered satisfied when the construction activity is completed.

NBN Co also earns non-telecommunications revenue through the licence of copper and HFC access to Telstra. Under the Revised Definitive Agreements (RDAs), NBN Co progressively takes ownership of elements of Telstra's copper and HFC networks. NBN Co assures and maintains these copper and HFC network elements and provides a licence back to Telstra for the right to access the **nbn**® network and deliver legacy services during the co-existence period. NBN Co charges Telstra recurring licence fees, which are billed quarterly, and one-off upfront fees where Telstra orders new licences from NBN Co.

Recurring licence fees paid in advance each quarter are deferred and recognised to revenue on a straight-line basis over the quarter they relate to, as this is the period that NBN Co satisfies the performance obligation.

Further disaggregation of revenue by timing

The Company has provided further disaggregation of revenue based upon the timing of recognition (i.e. whether products are transferred at a point in time or over time):

	NBN Co	
	30 June 2023 $m	30 June 2022 $m
Timing of revenue recognition		
– At a point in time	180	152
– Over time	5,089	4,951
Total revenue	**5,269**	**5,103**

Significant customers

The Company offers equivalent terms to all its RSP's. NBN Co's top five customers as at 30 June 2023 were Telstra, TPG Group, Optus, Vocus, and Aussie Broadband. These five RSPs contributed approximately 91 per cent of NBN Co's total telecommunications revenue (30 June 2022: 94 per cent).

Assets and liabilities related to contracts with customers

NBN Co has recognised the following assets and liabilities related to contracts with customers:

	Notes	NBN Co 30 June 2023 $m	NBN Co 30 June 2022 $m
Trade receivables	C2	487	467
Accrued revenue		22	12
Contract liabilities	C6	265	199

Contract liabilities for deferred revenue are recorded for performance obligations under contracts for which payment has been received in advance. Contract liabilities unwind as 'revenue from contracts with customers' upon satisfaction of the performance obligations under the terms of the contract.

NBN Co applies the practical expedient in paragraph 121 of AASB 15 *Revenue from Contracts with Customers* and does not disclose information about remaining performance obligations that have durations of one year or less. Significant changes in the contract liabilities balance during the year are as follows:

	NBN Co 30 June 2023 $m	NBN Co 30 June 2022 $m
Balance at 1 July	199	128
Revenue recognised that was included in the contract liability balance at the beginning of the year	(141)	(81)
Increases due to cash received, excluding amounts recognised as revenue during the year	207	152
Balance at 30 June	**265**	**199**

Revenue recognition policy

Revenue is measured based upon the consideration specified within a contract with a customer and recognised as the Company transfers control over an asset or service to a customer. The Company follows the five-step approach outlined in AASB 15 *Revenue from Contracts with Customers*.

B. Our revenue and other operating expenses continued

B2. Other income

	NBN Co	
For the year ended	30 June 2023 $m	30 June 2022 $m
Other operating income	133	43
Other non-operating income	35	30
Total other income	**168**	**73**

Recognition and measurement

Other operating income

NBN Co recognises other operating income in relation to various government grants. Government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises expenditure for which the grants are intended to compensate.

Government grants which are received in advance of NBN Co incurring the related expenditure are recognised in the Statement of financial position as a deferred gain when the grant is received (refer to Note C7).

Other non-operating income

Other non-operating income relates to assets received for no consideration from developers as part of the construction of the **nbn**® network in new development areas and from government entities in the form of a grant. These assets are recorded at fair value and the resulting gain is credited to deferred income (refer to Note C7). The gain is released to profit or loss on a straight-line basis, over the period the assets are expected to provide services, which is the estimated useful life of the assets.

B3. Other operating expenses

	NBN Co	
For the year ended	30 June 2023 $m	30 June 2022 $m
IT and software expenses	(191)	(196)
Communication and public information expenses	(56)	(47)
Other operating expenditure	(246)	(412)
Total	**(493)**	**(655)**

Other operating expenditure includes subscriber costs which have virtually ceased as at 30 June 2023 due to reduced Telstra disconnection and Optus migration activity.

C. Our assets and liabilities

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

C1. Cash and cash equivalents

	NBN Co	
	30 June 2023 $m	30 June 2022 $m
Cash at bank	41	113
Total	**41**	**113**

For the purpose of presentation in the Statement of cash flows, cash and cash equivalents includes cash on hand and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Statement of financial position.

Restricted cash

The cash and cash equivalents disclosed in the Statement of financial position and the Statement of cash flows include $38 million (30 June 2022: $94 million) held by the Company which is subject to contractual restrictions and therefore not available for general use.

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

	NBN Co	
For the year ended	30 June 2023 $m	30 June 2022 $m
Loss for the year	(1,119)	(1,468)
Add/(less) non-cash/non-operating items		
Depreciation and amortisation	3,082	3,541
Finance charges	1,660	1,476
Other items	(37)	(51)
Income tax expense/(benefit)	10	(399)
(Increase)/decrease in operating assets		
(Increase)/decrease in trade and other receivables	(30)	20
Increase in other assets	(14)	(55)
Increase/(decrease) in operating liabilities		
Decrease in trade and other payables	(156)	(118)
(Decrease)/increase in other liabilities	(96)	480
Increase/(decrease) in provisions	41	(57)
Net cash provided by operating activities	**3,341**	**3,369**

C. Our assets and liabilities continued

C2. Trade and other receivables

	NBN Co	
	30 June 2023 $m	30 June 2022 $m
Current		
Trade receivables	487	467
Other receivables	46	36
Total	**533**	**503**

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 cash flows are received or the rights to receive cash flows from the financial assets have expired.

For trade receivables, the Company applies a simplified approach in calculating Expected Credit Losses (ECLs). Therefore, the Company does not track changes in credit risk at an individual counterparty level, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. Further information about the Company's accounting policy for impairment of financial assets, which includes trade and other receivables, is included in Note H5.

There have been no material impairment losses. The Company did not have any material receivables that were past due or impaired at 30 June 2023 (30 June 2022: nil).

C3. Property, plant and equipment

	NBN Co					
	Land $m	Buildings and leasehold improve-ments $m	Furniture and equipment $m	IT equipment $m	Network assets $m	Total $m
Cost						
Balance at 30 June 2021	36	426	47	243	44,969	45,721
Additions	–	14	6	–	2,525	2,545
Reclassification	–	(8)	–	–	8	–
Remeasurement	–	2	–	–	251	253
Disposals	–	(6)	(3)	(1)	(2)	(12)
Balance at 30 June 2022	**36**	**428**	**50**	**242**	**47,751**	**48,507**
Additions	–	7	9	21	2,982	3,019
Remeasurement	–	(7)	2	–	713	708
Disposals	–	(77)	(2)	(28)	(694)	(801)
Balance at 30 June 2023	**36**	**351**	**59**	**235**	**50,752**	**51,433**
Accumulated depreciation						
Balance at 30 June 2021	(3)	(235)	(33)	(172)	(12,148)	(12,591)
Depreciation	(2)	(61)	(9)	(19)	(2,966)	(3,057)
Disposals	–	6	3	–	–	9
Balance at 30 June 2022	**(5)**	**(290)**	**(39)**	**(191)**	**(15,114)**	**(15,639)**
Depreciation	(1)	(29)	(7)	(22)	(2,547)	(2,606)
Disposals	–	77	2	28	694	801
Balance at 30 June 2023	**(6)**	**(242)**	**(44)**	**(185)**	**(16,967)**	**(17,444)**
Net book value at 30 June 2022	**31**	**138**	**11**	**51**	**32,637**	**32,868**
Net book value at 30 June 2023	**30**	**109**	**15**	**50**	**33,785**	**33,989**

C. Our assets and liabilities continued

C3. Property, plant and equipment continued

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

	NBN Co	
	30 June 2023 $m	30 June 2022 $m
Constructed and purchased assets	23,164	22,708
Assets in the course of construction	1,295	1,169
Right-of-use assets	8,314	7,937
Assets acquired for no consideration and under government grant	1,216	1,054
Property, plant and equipment – net book value	**33,989**	**32,868**

Assets 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.

Right-of-use assets

	NBN Co					
	Land $m	Buildings and leasehold improvements $m	Furniture and equipment $m	Network assets $m	Licences $m	Total $m
Cost						
Balance at 30 June 2021	19	250	23	9,799	62	10,153
Additions	–	1	4	44	–	49
Remeasurement	–	2	–	251	–	253
Disposals	–	(6)	(3)	(2)	–	(11)
Balance at 30 June 2022	**19**	**247**	**24**	**10,092**	**62**	**10,444**
Additions	–	–	9	35	–	44
Remeasurement	–	(7)	2	713	–	708
Disposals	–	(24)	(1)	(5)	–	(30)
Balance at 30 June 2023	**19**	**216**	**34**	**10,835**	**62**	**11,166**
Accumulated depreciation						
Balance at 30 June 2021	(3)	(100)	(13)	(1,933)	(1)	(2,050)
Depreciation	(2)	(54)	(7)	(342)	(8)	(413)
Disposals	–	6	3	–	–	9
Balance at 30 June 2022	**(5)**	**(148)**	**(17)**	**(2,275)**	**(9)**	**(2,454)**
Depreciation	(1)	(15)	(7)	(351)	(9)	(383)
Disposals	–	24	1	4	–	29
Balance at 30 June 2023	**(6)**	**(139)**	**(23)**	**(2,622)**	**(18)**	**(2,808)**
Net book value at 30 June 2022	**14**	**99**	**7**	**7,817**	**53**	**7,990**
Net book value at 30 June 2023	**13**	**77**	**11**	**8,213**	**44**	**8,358**

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 Infrastructure, Transport, Regional Development, Communications and the Arts to use certain Regional Backbone Blackspots Program assets for no consideration (refer to Note C7 for more detail).

Non-current assets pledged as security

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

Recognition and measurement

Property, plant and equipment assets are recognised and measured at historical cost less any accumulated depreciation.

NBN Co's costs include expenditures that are 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 an asset and restoring the site on which it is located. The Company does not consider that it has any qualifying assets and therefore does not currently capitalise any borrowing costs.

Assets under construction are recorded at cost based on the estimated percentage of completion. Directly attributable costs are included in the capitalised cost of an asset, only when it is probable that future economic benefits associated with the item will flow to the Company 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. Costs that are not directly attributable are recorded as an expense in profit or loss.

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, other than that held by way of right-of-use assets, is not depreciated.

Right-of-use assets are measured at cost comprising of the following:

- The amount of the initial measurement of corresponding lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs
- Initial estimate of any restoration costs.

The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's useful life or the lease term. Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

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

During the year ended 30 June 2023, NBN Co revised the estimated useful lives of certain network assets, within the existing range of 5 – 40 years, to align their expected period of use with the Company's latest business plans and upgrade strategies. The financial impact of the revised estimated useful lives is a decrease in depreciation expense of $681 million for the year to 30 June 2023. The impact in future years varies depending on the remaining useful life of each asset.

In line with its accounting policy, NBN Co reviews the useful lives of its network assets prior to each balance sheet date based on the most recent available information. This review identified additional revisions to useful lives which the Company intends to apply prospectively from 1 July 2023. The expected financial impact in FY24 due to these changes is estimated to be an increase in depreciation expense between $165 million - $175 million.

C. Our assets and liabilities continued

C3. Property, plant and equipment continued

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

Asset type	Useful lives
Network assets	Lower of lease term and/or 5–40 years
Buildings	Lower of lease term and/or 50 years
Leasehold improvements	Lower of lease term and/or 5–30 years
Furniture and equipment	3–10 years
IT equipment	3–5 years

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

Gain or loss on disposal is determined by comparing the proceeds with the carrying amount of the asset. Any 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 estimation of useful lives, residual value and depreciation methods requires 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, climate risk impacts, regulatory changes, government policies, 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.

Significant non-cash components

Acquisition of assets by means of non-cash transactions represents those assets acquired via right-of-use arrangements or contributed for no consideration.

	NBN Co	
	30 June 2023 $m	30 June 2022 $m
Acquisition of assets by means of right-of-use arrangements	44	49
Acquisition of network infrastructure by means of developer contributions and government grants	195	179
Acquisition of assets by non-cash transactions	**239**	**228**

C4. Intangible assets

	NBN Co			
	Software $m	Licenses $m	Other $m	Total $m
Cost				
Balance at 30 June 2021	4,144	238	188	4,570
Additions	284	4	8	296
Balance at 30 June 2022	**4,428**	**242**	**196**	**4,866**
Additions	316	–	2	318
Disposals	(325)	–	–	(325)
Balance at 30 June 2023	**4,419**	**242**	**198**	**4,859**
Accumulated amortisation				
Balance at 30 June 2021	(2,366)	(148)	(113)	(2,627)
Amortisation	(435)	(16)	(33)	(484)
Balance at 30 June 2022	**(2,801)**	**(164)**	**(146)**	**(3,111)**
Amortisation	(426)	(12)	(37)	(475)
Disposals	325	–	–	325
Balance at 30 June 2023	**(2,902)**	**(176)**	**(183)**	**(3,261)**
Net book value at 30 June 2022	**1,627**	**78**	**50**	**1,755**
Net book value at 30 June 2023	**1,517**	**66**	**15**	**1,598**

C. Our assets and liabilities continued

C4. Intangible assets continued

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 Company can demonstrate the following:

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

Following the initial recognition of development expenditure, the asset is carried at cost less accumulated amortisation. Any expenditure capitalised is amortised over the period of expected benefits from the related asset. 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, contract labour and services consumed
- Payroll and payroll-related costs for employees (including contractors) directly associated with the development project.

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

Acquired intangible assets

Intangible assets acquired through separate acquisition are recorded at cost.

Amortisation

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

Identifiable intangible asset type	Useful lives
Software assets	3–8 years
Telecommunications licences	Term of licence
Other intangible assets	3–10 years

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 Company.

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 $121 million (30 June 2022: $88 million).

Key estimates and judgements

Determination of useful lives of intangible assets

The estimation of useful lives, residual value and amortisation methods requires significant judgement and are reviewed at each reporting date. If they require modification, the amortisation expense is accounted for prospectively from the date of reassessment until the end of the revised useful life (for both the current and future years). Such revisions are generally required when there are changes in economic circumstances, climate risk impacts, regulatory changes, government policies, 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.

C. Our assets and liabilities continued

C5. Impairment of non-financial assets

Recognition and measurement

Tangible and intangible non-financial assets are measured using the cost basis and are considered to be impaired where their carrying value exceeds the recoverable amount.

Material intangible assets that are not yet subject to amortisation are tested on an annual basis for impairment, or when an indication of impairment exists. Property, plant and equipment and intangible assets subject to amortisation are reviewed for impairment whenever 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 of disposal or its value in use. Any reduction in the carrying value of an asset that results in the carrying value being less than its recoverable amount is recognised as an expense in profit or loss as an impairment loss.

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 Company's CGU is determined according to the lowest level of aggregation for which the cash inflows are independent of cash inflows from other assets.

Key estimates and judgements

Assessment of indicators of impairment

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

On an annual basis, the Company assesses whether there is an indicator of impairment. Indicators of impairment may include changes in economic circumstances, climate risk impacts, regulatory changes, government policies, business plans and strategies, expected level of usage of assets, and future technological developments. Where an indicator of impairment is identified, impairment testing is performed. There were no indicators of impairment as at 30 June 2023.

C6. Trade and other payables

	NBN Co	
	30 June 2023 $m	30 June 2022 $m
Current		
Trade and other payables	260	272
Contract liabilities	230	180
Accruals	1,020	1,064
GST payable	2	61
Total	**1,512**	**1,577**

	NBN Co	
	30 June 2023 $m	30 June 2022 $m
Non-current		
Contract liabilities	35	19
Total	**35**	**19**

The accruals balance includes $576 million (30 June 2022: $500 million) relating to property, plant and equipment and intangible assets.

Recognition and measurement

Trade and other payables represent liabilities for goods and services provided to the Company 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 Co	
	30 June 2023 $m	30 June 2022 $m
Current		
Deferred gain on government grants	99	100
Deferred gain on developer contributions	33	28
Total	**132**	**128**

	NBN Co	
	30 June 2023 $m	30 June 2022 $m
Non-current		
Deferred gain on government grants	325	434
Deferred gain on developer contributions	1,143	973
Total	**1,468**	**1,407**

Recognition and measurement

Government grants

NBN Co is the recipient of various government grants, which can be in the form of a cash contribution or the contribution of an asset or assets for no consideration. Grants in the form of cash are recognised as other income in the profit or loss on a systematic basis over the periods in which the Company recognises expenditure for which the grants are intended to compensate. Where the cash is received in advance of the recognition of other income, it is recognised in the Statement of financial position as a deferred gain.

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 gain. The gain is released to profit or loss on a straight-line basis over the expected period of provision of services, which is estimated to be the useful life of the relevant asset or assets.

Developer contributions for no consideration

The Company 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 gain. The gain is released to profit or loss on a straight-line basis, over the expected period of provision of services which is estimated to be the useful life of the relevant asset or assets.

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

C8. Lease liabilities

	NBN Co	
	30 June 2023 $m	30 June 2022 $m
Current		
Lease liabilities	479	440
Total	**479**	**440**

	NBN Co	
	30 June 2023 $m	30 June 2022 $m
Non-current		
Lease liabilities	11,033	10,511
Total	**11,033**	**10,511**

The majority of the Company's lease liabilities relate to right-of-use licences to access Telstra's network infrastructure, including ducts, pits, exchange rack space and dark fibre network cables. The terms of these right-of-use licences are governed by the RDAs with Telstra (refer to Note F1).

The Company also leases certain commercial properties, commercial vehicles, and wireless base stations with various terms that are due to expire within a range of between 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 periodic reviews to market-based levels.

C. Our assets and liabilities continued

C8. Lease liabilities continued

Recognition and measurement under AASB 16 *Leases*

The Company recognises leases where the Company has the right to control the use of an identified asset for a period of time in exchange for consideration.

Leases in which the Company is a lessee

Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company, except where the Company applies the practical exemption to not apply AASB 16 for leases of low-value assets.

Management considers low-value assets as those assets valued at less than $10,000, with this assessment based upon the value of the asset when it is new. The payments for these low-value assets will be recognised as operating expenditure on a straight-line basis (or other systematic basis). For the year ended 30 June 2023, $23 million (30 June 2022: $22 million) has been recognised as operating expenditure in the profit or loss for lease arrangements that have been classified as low-value assets.

Right-of-use assets and lease liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payments that are based on an index or a rate that are known at the reporting date
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The lease liability is subsequently increased by the interest charged on the lease liability and decreased by lease payments made. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease liability is remeasured when there is a change in future lease payments. The lessee shall recognise the amount of any remeasurement of the lease liability as an adjustment to the right-of-use asset. The Company is exposed to potential future changes in variable lease payments that are based on an index or rate, such as payments linked to the Consumer Price Index (CPI). Changes to these variable lease payments will result in a remeasurement of the lease liability (and corresponding adjustment to the right-of-use asset) at the point when these changes due to the movement in an index or rate become known.

The Company applies judgement to determine the lease term for some lease contracts in which it is a lessee that include purchase, renewal or termination options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which affects the value of lease liabilities and right-of-use assets recognised.

Leases in which the Company is a lessor

The Company does not have significant leases where it acts as the lessor. Under AASB 16, the Company will continue to classify each lease as either an operating lease or a finance lease.

A lease will be classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

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

Key estimates and judgements

Determination of whether a contract contains a lease

At the inception of a contract, the Company will assess whether the contract is, or contains a lease. The Company will recognise a lease where a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In making this assessment the Company primarily considers if there is an identified asset, who has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use, and who can direct how and for what purpose the asset is used throughout the period of use.

Determination of the net present value of a lease

A number of key estimates and judgements have been made in determining the net present value of applicable lease payments. In determining the net present value of a lease, the applicable lease payments are discounted using the interest rate implicit in the lease. Where this cannot be readily determined, a discount rate representing the estimated incremental borrowing rate at the commencement of the lease is used.

The incremental borrowing rate is the rate of interest the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The Company determines the incremental borrowing rate based upon the rate at which NBN Co, as a stand-alone company, can borrow funds. When determining the incremental borrowing rate for a lease, consideration is given to the term of the lease, recent credit ratings for NBN Co, comparable market transactions and the nature of the assets being leased.

Determination of lease term

Extension and termination options are included in a number of leases across the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. In determining the lease term, the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Company.

For network infrastructure right-of-use licences with Telstra, the term of each right-of-use licence, of up to 35 years, does not include possible renewal as the exercise of such options was not considered reasonably certain at inception of the agreements and also at the balance sheet date. The renewal period being two options, each for ten additional years, which are exercisable by NBN Co.

C. Our assets and liabilities continued

C9. Borrowings and other financial liabilities

	NBN Co 30 June 2023 $m	NBN Co 30 June 2022 $m
Current		
Borrowings	2,109	72
Related party borrowings – Commonwealth loan	5,500	–
Total	**7,609**	**72**

	NBN Co 30 June 2023 $m	NBN Co 30 June 2022 $m
Non-current		
Borrowings	18,207	18,132
Related party borrowings – Commonwealth loan	–	6,375
Total	**18,207**	**24,507**

NBN Co's borrowings consist of unsecured bank facilities, short-term promissory notes, Australian Medium-Term Note (AMTN) issuances, US144A/Reg S bond issuances, Euro Medium-Term Note (EMTN) issuances, private placements and related party borrowings issued under the loan with the Commonwealth Government. All of NBN Co's borrowings are fully drawn unless otherwise stated.

The loan agreement with the Commonwealth Government has a fixed interest rate of 3.96 per cent per annum and was fully drawn as at 30 June 2023. Interest is payable monthly over the life of the facility and the full principal amount of the loan is due to be repaid by 30 June 2024.

During the year ended 30 June 2023, the Company executed the following transactions in relation to its borrowings:

- Issued $800 million Australian Medium-Term Notes with a 4-year tenor
- Issued Hong Kong Dollar (HKD) 500 million and HKD 400 million private placements, both with a 10-year tenor and a Great British Pound (GBP) 50 million private placement with a 10-year tenor
- Issued Euro (EUR) 1,350 million Green Euro Medium-Term Notes under the Global Medium-Term Note (GMTN) Programme and NBN Co's Sustainability Bond Framework
- Issued short-term promissory notes in Australian Dollars (AUD) under NBN Co's Promissory Note Programme. As at 30 June 2023, a total of $1,998 million had been issued by the Company
- Entered into new committed bank facilities for $900 million and partially terminated $400 million of existing committed facilities, increasing the Company's available committed bank facilities to $11,150 million. $3,229 million of existing drawn facilities were repaid during the year, reducing the total drawn balance to $4,646 million as at 30 June 2023.

The Company utilised the proceeds from the drawdown of debt issuances and bank facilities to repay a further $875 million of the Commonwealth loan during the year to 30 June 2023. The terms of the Commonwealth loan allow NBN Co to use proceeds from debt raisings to make loan prepayments in advance of the maturity date. Once a repayment is made, the facility limit of the loan is reduced by the repaid amount, meaning it cannot be redrawn after being repaid. The Company plans to make further prepayments against the Commonwealth loan as further debt raisings are completed.

Borrowings and related party borrowings consist of the following unsecured financial arrangements at 30 June 2023:

	NBN Co			
	30 June 2023		30 June 2022	
	Current $m	Non-current $m	Current $m	Non-current $m
Commonwealth loan	5,500	–	–	6,375
AMTN[1]	–	4,375	–	3,575
US144A/Reg S[2]	–	5,347	–	5,347
EMTN[3]	–	2,132	–	–
Private placements[4]	–	1,825	–	1,562
Promissory notes	1,998	–	–	–
Bank facilities[5]	–	4,646	–	7,875
Total principal amount of borrowings	7,498	**18,325**	**–**	**24,734**
Accrued interest	111	–	72	–
Fair value hedge adjustments	–	(747)	–	(567)
Foreign exchange movements	–	720	–	431
Fees and other adjustments	–	(91)	–	(91)
Total borrowings	**7,609**	**18,207**	**72**	**24,507**

1. Includes $800 million in Green Bond issued under the Company's AMTN Program and Sustainability Bond Framework (30 June 2022: $800 million).
2. Represents United States Dollars (USD) denominated 144A notes of USD $4,050 million measured at the hedged foreign exchange rate on the issuance date (30 June 2022: USD $4,050 million).
3. Represents EUR denominated Green Euro Medium-Term Notes of EUR 1,350 million issued under the Company's GMTN Programme and Sustainability Bond Framework measured at the hedged foreign exchange rate on the issuance date (30 June 2022: nil).
4. Represents private placement issuances in Norwegian Krone (NOK) 3,750 million, USD $50 million, Hong Kong Dollar (HKD) 900 million, Great British Pounds (GBP) 50 million and Japanese Yen (JPY) 5,500 million measured at the hedged foreign exchange rate on the issuance date, and AUD $850 million (30 June 2022: NOK 3,750 million, USD $50 million, JPY 5,500 million and AUD $850 million).
5. The terms of certain bank facilities were modified during the year to 30 June 2023, increasing the tenor and reducing the overall facility limit by $400 million.

The Company's nominal weighted average cost of issued and drawn debt, taking into account hedging activities, as at 30 June 2023 is 3.18 per cent (30 June 2022: 2.55 per cent). All borrowings are repayable in full at the end of the contracted period.

C. Our assets and liabilities continued

C9. Borrowings and other financial liabilities continued

Recognition and measurement

All loans are initially recorded at fair value, which typically reflects the proceeds received, net of directly attributable transaction costs. Establishment fees paid upon entering into loan facilities are recognised as transaction costs related to the loan to the extent that it is probable that some or all of the loan facility will be drawn down. In this case, establishment fees are deferred until the draw down occurs. If it is not deemed probable that some or all of the loan facility will be drawn down, then the fee is capitalised as a prepayment and amortised over the period of the related loan facility.

After initial recognition, all interest-bearing loans are measured at amortised cost, using the effective interest method. Loans that are in a designated fair value hedge relationship are adjusted for fair value movements attributable to the hedged risk. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Borrowings are derecognised when contractual obligations are discharged, cancelled or expired.

A reconciliation of movements in NBN Co's borrowings arising from financing activities has been shown in the table below.

	NBN Co	
Borrowings	30 June 2023 $m	30 June 2022 $m
Opening balance	24,579	23,818
Net cash flows received	1,089	965
Accrued interest	39	54
Fair value hedge adjustments	(180)	(600)
Foreign exchange movements	289	357
Fees and other adjustments	-	(15)
Total	**25,816**	**24,579**

Net finance costs

Net finance costs primarily relate to the right-of-use licences to access Telstra's network infrastructure and interest charged on borrowings.

		NBN Co	
For the year ended	Note	30 June 2023 $m	30 June 2022 $m
Finance charges on lease arrangements		(900)	(869)
Interest on related party borrowings	H3	(224)	(336)
Interest on borrowings		(507)	(282)
Other finance income/(charges)[1]		(27)	17
Total		**(1,658)**	**(1,470)**

1. Other finance income/(charges) include hedge ineffectiveness.

Fair value of borrowings

At 30 June 2023, the carrying value and fair value of the Company's current and non-current borrowings (excluding the Commonwealth loan) are as follows:

	NBN Co			
	30 June 2023		30 June 2022	
	Carrying value $m	Fair value $m	Carrying value $m	Fair value $m
Borrowings	20,316	19,758	18,204	17,480
Total	**20,316**	**19,758**	**18,204**	**17,480**

The difference between the carrying value and fair value reflects the movements in underlying market interest rates between settlement date and reporting date for the Company's borrowings. The fair value of the Company's borrowings are measured using Level 2 inputs (see page 49).

The Company has determined that the carrying value of the loan from the Commonwealth of Australia is materially consistent with its fair value at the reporting date. The fair value has been estimated using both observable and hypothetical unobservable inputs to determine a hypothetical cost of debt, which includes an estimate of an appropriate execution charge should this be replaced at the reporting date. Other assumptions are consistent with the terms of the loan.

C. Our assets and liabilities continued

C10. Provisions

	NBN Co	
	30 June 2023 $m	30 June 2022 $m
Current		
Employee benefits	195	132
Other provisions	20	30
Total	**215**	**162**

	NBN Co	
	30 June 2023 $m	30 June 2022 $m
Non-current		
Employee benefits	27	44
Other provisions	21	20
Total	**48**	**64**

Recognition and measurement

Provisions are recognised when:

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

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

Refer to Note D1 for employee benefits accounting policies.

D. Our people

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

D1. Employee benefits expenses

	NBN Co	
For the year ended	30 June 2023 $m	30 June 2022 $m
Defined contribution superannuation expense	(76)	(71)
Other employee expenses, net of capitalisation	(622)	(576)
Total	**(698)**	**(647)**

Recognition and measurement

Short-term employee benefit obligations

Short-term employee benefits comprise salaries and wages, including non-monetary benefits, short-term incentives and annual and long service leave that is 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 Company 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.

Post-employment benefits

The Company 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 Company 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 intangible assets 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.

D. Our people continued

D1. Employee benefits expenses continued

D2. Key management personnel

Disclosures relating to key management personnel are set out below:

	NBN Co	
	30 June 2023 $	30 June 2022 $
Short-term employee benefits	9,759,185	9,604,904
Post-employment benefits	261,972	237,817
Long-term employee benefits	27,213	710,694
Total	**10,048,370**	**10,553,415**

E. Our equity

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 of $29.5 billion until 30 June 2021. NBN Co entered into a subsequent EFA with the Commonwealth of Australia on 27 June 2023. Under the terms of the EFA, the Commonwealth of Australia will provide $2.4 billion in equity funding to NBN Co by 30 June 2026. The equity funding is to be used to enable an additional 1.5 million homes and businesses previously served by FTTN to be eligible for an upgrade to FTTP technology, and will be provided to NBN Co as the program progresses, up to a maximum annual drawdown amount.

As at 30 June 2023, $29.8 billion of the total available equity funding of $31.9 billion from the Commonwealth of Australia had been provided to NBN Co under the terms of the EFAs (30 June 2022: $29.5 billion).

E1. Contributed equity

As at 30 June 2023, the following equity funding had been provided to the Company:

	NBN Co	
	Number of shares	Ordinary shares fully paid $m
Balance at 30 June 2021	**29,500,000,000**	**29,500**
Equity injection	–	–
Balance at 30 June 2022	**29,500,000,000**	**29,500**
Equity injection – 29 June 2023[1]	304,692,179	305
Balance at 30 June 2023	**29,804,692,179**	**29,805**

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 other 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.

Capital risk management

The Company's objectives when managing capital are to safeguard the ability of the Company 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 Company consists of cash and cash equivalents disclosed in Note C1, borrowings disclosed in Note C9 and contributed equity.

Dividends declared

No dividends were declared or paid during the year (30 June 2022: nil).

1. The equity injection was received on 29 June 2023 under the terms of the new EFA. NBN Co requires a shareholder resolution from the Commonwealth to enable the issuance of new shares to the shareholders. At the date of signing the Annual Report, NBN Co has not received this resolution and therefore formal issuance of new shares has not yet occurred.

E. Our equity continued

E2. Other reserves

	NBN Co		
	Cash flow hedging reserve $m	Cost of hedging reserve $m	Total reserves $m
Balance at 30 June 2021	**4**	**2**	**6**
Change in fair value of hedging instrument recognised in OCI	1,594	34	1,628
Reclassified from OCI to profit or loss[1]	(285)	-	(285)
Reclassified to the cost of inventory/property, plant and equipment	(16)	-	(16)
Deferred tax	(388)	(10)	(398)
Balance at 30 June 2022	**909**	**26**	**935**
Change in fair value of hedging instrument recognised in OCI	449	5	454
Reclassified from OCI to profit or loss[1]	(474)	-	(474)
Reclassified to the cost of inventory/property, plant and equipment	(9)	(2)	(11)
Deferred tax	11	(1)	10
Balance at 30 June 2023[2]	**886**	**28**	**914**

1. During the period, gains of $34 million were released from the cash flow hedge reserve for discontinued hedges (30 June 2022: $1 million).
2. During the period, certain interest rate swaps were renegotiated. This resulted in the de-designation of the related cash flow hedge relationship and the designation of the renegotiated interest rate swaps into cash flow hedge relationships. This de-designation resulted in a crystallised gain of $150 million in the cash flow hedge reserve (30 June 2022: $55 million). As at 30 June 2023, gains of $168 million relating to discontinued hedges remains in the cash flow hedge reserve (30 June 2022: $54 million).

The cash flow hedging reserve represents the effective portion of gains or losses on remeasuring the fair value of qualifying derivative instruments, which have been designated into cash flow hedging relationships. The cost of hedging reserve represents changes in the fair value of the Company's derivative financial instruments attributable to movements in the foreign currency basis spread.

The amount accumulated in the cash flow hedge reserve and cost of hedging reserve is reclassified to profit or loss in the same period or periods during which the underlying expected future cash flows to which the hedge relates affect profit or loss.

F. Our significant contractual arrangements and commitments

NBN Co has entered into a number of contracts that will underpin the delivery and operation of the **nbn**® network. In addition to entering into contractual arrangements with Delivery Partners for the build of the network, NBN Co has entered into strategic agreements with Telstra and Singtel Optus (Optus) that provide NBN Co with the required infrastructure to deliver fast broadband to all Australians.

These strategic agreements are essential to NBN Co in regard to its ability to achieve its short and long-term objectives.

F1. Telstra Revised Definitive Agreements

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

Following the completion of the 2013 Strategic Review, the Government provided NBN Co with a new Statement of Expectations under which the **nbn**® network rollout was to transition from a primarily FTTP model to a Multi-Technology Mix (MTM) model.

On 14 December 2014, NBN Co and Telstra announced they had renegotiated the DAs and entered into a number of new agreements to provide for the shift to a MTM network rollout (the Revised Definitive Agreements or the RDAs). The RDAs came into effect on 26 June 2015 after all conditions precedent were either satisfied or waived.

As with the DAs, the RDAs provide NBN Co access to certain Telstra network infrastructure including ducts, pits, lead-in conduits (ownership of lead-in conduits transfers to NBN Co), exchange rack space and dark fibre to facilitate the efficient rollout of the **nbn**® 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**® network is rolled out.[1] Telstra will continue to be entitled to payments from NBN Co for disconnecting premises from its networks, and NBN Co continues to expense these payments.

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

The payment structure remains linked to the rollout of the **nbn**® network. Under the RDAs, once NBN Co starts acquiring the assets forming part of Telstra's HFC network, NBN Co has an obligation to continue to acquire all of Telstra's HFC network. In July 2016, NBN Co commenced the acquisition of assets forming part of Telstra's HFC network.

1. Services provided over the **nbn**® 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.

F. Our significant contractual arrangements and commitments continued

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

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

The RDAs contain an arrangement relating to the **nbn**® network rollout cessation and related consequences for NBN Co. In addition, there are provisions relating to NBN Co's liability for performing work on Telstra's live networks (refer to Note H2).

F2. Optus HFC Subscriber Agreement

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

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

Under the terms of the 2011 Optus HFC Subscriber Agreement:

- Optus agreed to progressively migrate HFC customers to the **nbn**® network as it is rolled out. Optus agreed to a fixed-line network preference in favour of NBN Co for residential and small business customers served by Optus' HFC network
- NBN Co agreed to make progressive payments to Optus based on the actual number of customers that migrate from its HFC network to the **nbn**® network.

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

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

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

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

F3. Commitments

Capital commitments

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

	NBN Co	
	30 June 2023 $m	30 June 2022 $m
Within one year	529	705
Later than one year but not later than five years	64	54
Later than five years	2	11
Total	**595**	**770**

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.

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.

G. Our financial risk management

As a result of its ongoing business operations, the Company is exposed to a number of financial risks. This section sets out the nature, quantification and management of these financial risks.

Financial risk management objectives

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

The main risks arising from the Company's financial activities are market risks (interest rate risk and foreign currency risk), liquidity risk and credit risk.

Financial assets and liabilities

All of the financial assets and liabilities below are carried at amortised cost except for derivatives which are measured at fair value. Borrowings that are in a designated fair value hedge relationship are adjusted for fair value movements attributable to the hedged risk.

	NBN Co	
	30 June 2023 $m	30 June 2022 $m
Financial assets		
Cash and cash equivalents	41	113
Trade and other receivables	533	503
Derivative financial assets	1,635	1,405
Carrying amount of financial assets	**2,209**	**2,021**
Financial liabilities		
Trade and other payables	1,545	1,535
Other liabilities	384	481
Lease liabilities	11,512	10,951
Derivative financial liabilities	319	169
Borrowings	20,316	18,204
Related party borrowings	5,500	6,375
Carrying amount of financial liabilities	**39,576**	**37,715**

Net interest income or expense from financial assets and liabilities

The net interest income or expense earned from financial assets and liabilities for the year ended 30 June 2023 was a net expense of $1,656 million (30 June 2022: net expense of $1,469 million).

Derivatives and hedging activities

The Company uses derivative financial instruments in the normal course of business in order to hedge exposures to fluctuations in interest rates and foreign exchange rates in accordance with the Company's financial risk management policies. The Company's policies allow derivative transactions to be undertaken for the purpose of managing risk and not for speculative trading.

The fair value, including accrued interest, of the Company's derivative instruments at 30 June 2023 are as follows:

	NBN Co			
	30 June 2023		30 June 2022	
	Current $m	Non-current $m	Current $m	Non-current $m
Assets				
Forward exchange contracts	2	-	6	–
Interest rate options	-	3	–	2
Interest rate swaps	32	1,388	2	1,326
Cross-currency interest rate swaps	28	179	20	49
Power purchase agreements	-	3	–	–
Total derivative assets	**62**	**1,573**	**28**	**1,377**
Liabilities				
Interest rate swaps	13	81	14	14
Cross-currency interest rate swaps	18	207	–	141
Total derivative liabilities	**31**	**288**	**14**	**155**

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. Any derivative instruments that are not designated in a hedging relationship will have the subsequent fair value movement within each reporting period recognised in profit or loss.

Derivatives that are designated in a hedging relationship are designated as either:

- Cash flow hedges, being hedges of a particular risk associated with cash flows of recognised assets and liabilities and highly probable forecast transactions; or
- Fair value hedges, being hedges of the fair value of recognised assets or liabilities or a firm commitment.

At the inception of the hedging transaction, the Company documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company 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 either the fair value or cash flows of hedged items. When forward contracts are used to hedge forecast transactions, the Company generally designates the entire fair value of the forward contract as the hedging instrument. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months.

G. Our financial risk management continued

Derivatives and hedging activities continued

Cash flow hedge

Cash flow hedges are used by the Company to manage exposure to variability in expected future cash flows, which could affect profit or loss. Variability in expected future cash flows could arise from fluctuations in foreign exchange rates and interest rates on financial liabilities or highly probable forecast transactions, predominantly associated with NBN Co's foreign and domestic borrowings.

The Company uses interest rate swaps, interest rate and foreign exchange options, cross-currency interest rate swaps and forward exchange contracts to hedge against such fluctuations.

The effective portion of changes in the fair value of derivatives that are designated in a cash flow hedge relationship are recognised in other comprehensive income and accumulated in the cash flow hedge reserve within equity. The ineffective portion is recognised immediately in profit or loss within net finance costs.

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

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued. Any cumulative gain or loss related to the hedging instrument existing in the cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss 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 the cash flow hedge reserve is immediately reclassified to profit or loss, where applicable.

Fair value hedges

Fair value hedges are used by the Company to manage the variability in the fair value of foreign and domestic borrowings due to fluctuations in interest rates. The Company uses interest rate swaps and cross-currency interest rate swaps to hedge against such fluctuations.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss within net finance costs, together with any changes in the fair value of the hedged liability that are attributable to the hedged risk. Any gain or loss relating to the ineffective portion of a fair value hedge is recognised directly in the profit or loss within net finance costs.

If the hedge no longer meets the criteria for hedge accounting, it is discontinued. The adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortised to profit or loss within net finance costs over the period to maturity using a recalculated effective interest rate.

Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

Hedge ineffectiveness may occur due to:

- The credit value/debit value adjustment on the hedging instrument not being matched by a similar adjustment on the hedged item
- Differences in critical terms between the hedging instrument and hedged item, including hedging instruments with a non-zero fair value at inception of the hedge relationship.

Offsetting financial assets and liabilities

Currently there is no right or basis to present any financial assets or financial liabilities on a net basis, other than interest receivable and payable on derivative financial instruments. As such, no financial assets or financial liabilities, other than those mentioned above, have been presented on a net basis in the Company's Statement of financial position at the end of the financial year.

Power Purchase Agreements

As at 30 June 2023, the Company had entered into the following renewable energy Power Purchase Agreements (PPAs):

- A solar power purchase agreement for a solar farm situated in West Wyalong, New South Wales. The solar farm is now operational and is contracted for 10-year period which is expected to commence in August 2023
- A wind power purchase agreement for AGL wind farm situated in Victoria. The wind farm is already operational and NBN Co has contracted to obtain offtake for a 6-year period from January 2025
- A solar power purchase agreement in June 2023 for Metka solar farm situated in Queensland. The solar farm is not yet operational and is contracted for a ten-year period from the commencement of commercial production, expected in Q4 2025.

The PPAs are not physical electricity supply contracts. They operate as a 'contract for difference' (CfD), whereby the parties have agreed to a 'strike price'. If the electricity spot price is higher than the strike price, then the solar farm will pay the difference to NBN Co and vice versa if the spot price is lower than the strike price. The CfD is a derivative financial instrument and is required to be fair valued at each reporting date.

As at 30 June 2023, the derivative asset relating to the Company's PPAs was $3.4 million. Comparative information has not been disclosed as the fair value of the PPA for West Wyalong was immaterial as at 30 June 2022.

The fair value movements on the Company's PPAs are recognised in profit or loss as a gain/(loss) on derivatives measured at fair value through profit or loss.

G. Our financial risk management continued

Derivatives and hedging activities continued

Hedge Accounting

The impact of derivatives and hedging activities on the Company's financial position and performance is as follows:

	NBN Co			
	30 June 2023		30 June 2022	
Fair Value Hedges	Interest rate $m	Total $m	Interest rate $m	Total $m
Carrying amount of hedging instruments[1,2]				
Derivative assets	-	**-**	-	**-**
Derivative liabilities	(758)	**(758)**	(568)	**(568)**
Fair value hedge adjustment				
Carrying amount of hedged item recognised in the Statement of financial position	(8,780)	**(8,780)**	(5,798)	**(5,798)**
Cumulative fair value adjustment on hedged item	747	**747**	567	**567**
Hedge effectiveness				
Change in value of hedging instrument used for calculating hedge effectiveness	191	**191**	(606)	**(606)**
Change in value of hedged item used for calculating hedge effectiveness	(180)	**(180)**	600	**600**
Hedge ineffectiveness recorded in profit or loss	**11**	**11**	**(6)**	**(6)**

	30 June 2023			30 June 2022		
Cash Flow Hedges	Foreign exchange $m	Interest rate $m	Total $m	Foreign exchange $m	Interest rate $m	Total $m
Carrying amount of hedging instruments[1,2]						
Derivative asset	847	1,391	**2,238**	608	1,328	**1,936**
Derivative liabilities	(207)	-	**(207)**	(141)	-	**(141)**
Hedge effectiveness						
Change in value of hedging instrument used for calculating hedge effectiveness	(292)	52	**(240)**	404	1,290	**1,694**
Change in value of hedged item used for calculating hedge effectiveness	290	(51)	**239**	(371)	(1,289)	**(1,660)**
Hedge ineffectiveness recorded in profit or loss	**(2)**	**1**	**(1)**	**33**	**1**	**34**
Change in hedge reserves						
Change in value of hedging instrument recognised in cash flow hedge reserves	(266)	(183)	**(449)**	379	1,216	**1,595**
Change in value of the hedging instrument recognised in cost of hedge reserves	(6)	1	**(5)**	34	-	**34**
Amount reclassified from cost of hedge reserve to inventory/property, plant and equipment	2	-	**2**	-	-	**-**
Amount reclassified from cash flow hedge reserve to inventory/property, plant and equipment	9	-	**9**	(16)	-	**(16)**
Amount reclassified from cash flow hedge reserve to net finance costs for continued and discontinued hedges	290	184	**474**	(353)	68	**(285)**
Change in reserves for continued or discontinued hedges	**29**	**2**	**31**	**44**	**1,284**	**1,328**

1. Excluding accrued interest.
2. The carrying amount of the hedging instruments are grossed up to allow for the hedge designation methodology the Company applies when designating cross-currency interest rate swaps in fair value and cash flow hedges.

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 Company is exposed to foreign currency risk due to fluctuations in foreign exchange rates for certain transactions.

The carrying amount of monetary assets and liabilities for foreign exchange risk denominated in foreign currencies and notional cash outflows for derivatives that hedge foreign exchange risk, as expressed in Australian dollars, is as follows:

	NBN Co											
	30 June 2023 $m						30 June 2022 $m					
	USD	EUR	NOK	JPY	HKD	GBP	USD	EUR	NOK	JPY	HKD	GBP
Foreign exchange risk												
Trade payables	20	-	-	-	-	-	43	-	-	-	-	-
Borrowings	5,355	2,253	525	57	169	95	5,326	-	557	58	-	-
Current foreign exchange risk	**5,375**	**2,253**	**525**	**57**	**169**	**95**	**5,369**	**-**	**557**	**58**	-	-
Derivatives												
Foreign exchange options	31	-	-	-	-	-	-	-	-	-	-	-
Forward exchange contracts	89	-	-	-	-	-	118	-	-	-	-	-
Cross-currency interest rate swaps	5,416	2,132	583	61	171	93	5,416	-	583	61	-	-
Total derivatives hedging foreign exchange risk	**5,536**	**2,132**	**583**	**61**	**171**	**93**	**5,534**	**-**	**583**	**61**	**-**	**-**

The Company has entered into forward exchange contracts to hedge its exposure to currency risk in relation to highly probable forecast transactions which are denominated in foreign currency. The Company's strategy is to fully hedge all material contractually certain foreign currency exposures and to hedge highly probable material foreign exchange exposures on a sliding scale dependent upon the period of time until expected settlement.

In accordance with its risk management strategy, the Company enters into cross-currency interest rate swaps to mitigate the foreign currency exposure on all of its foreign currency denominated borrowings.

G. Our financial risk management continued

Foreign currency risk management continued

The maturity profile of the Company's derivatives that hedge foreign exchange risk are as follows:

	NBN Co					
	30 June 2023			30 June 2022		
	Within 1 year $m	1 to 5 years $m	Greater than 5 years $m	Within 1 year $m	1 to 5 years $m	Greater than 5 years $m
Cash flow hedges	120	2,757	5,699	118	2,757	3,303

As at 30 June 2023, the major currency pairs of cross-currency interest rate swaps designated in hedge relationships are receive USD/pay AUD, receive EUR/pay AUD and receive NOK/pay AUD with weighted average foreign currency rates of USD/AUD 0.75, EUR/AUD 0.63 and NOK/AUD 6.44 (30 June 2022: USD/AUD 0.75; NOK/AUD 6.44).

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

Sensitivity analysis

Sensitivity analysis to exchange rate movements based on the translation of financial instruments at the end of the period is as follows:

	NBN Co	
	Impact on post-tax profit and equity 30 June 2023 $m	Impact on post-tax profit and equity 30 June 2022 $m
Exchange rates (AUD/USD)		
+ 10 cents	(35)	(20)
- 10 cents	39	24
Exchange rates (AUD/EUR)		
+ 10 cents	1	-
- 10 cents	-	-
Exchange rates (AUD/NOK)		
+ 10 cents	(1)	-
- 10 cents	1	-

A sensitivity range of plus 10 cents and minus 10 cents has been selected as a reasonably possible shift in exchange rate movements based on the current and historical level of volatility.

Interest rate risk management

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk due to changes in market interest rates associated with interest-bearing cash and cash equivalents and long term borrowings. 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 Company manages its risk by entering into fixed and floating rate borrowings and by entering into cross-currency interest rate swaps, interest rate swaps, and interest rate options to manage the interest rate exposure in accordance with the Treasury Policy.

	NBN Co			
	Notional Amount $m	Notional swapped from fixed to floating $m	Notional swapped from floating to fixed $m	Net exposure to floating interest rate risk $m
At 30 June 2023				
Floating rate debt portfolio	7,069	8,756	(13,734)	2,091
At 30 June 2022				
Floating rate debt portfolio	8,300	5,961	(10,860)	3,401

The proportion of debt exposed to floating rates prior to any hedging is 27.37 per cent (30 June 2022: 33.56 per cent). Following consideration of the effect of hedging the proportion of debt exposed to floating rates is 8.10 per cent (30 June 2022: 13.75 per cent).

The notional maturity profile of the Company's derivatives that hedge interest rate risk are as follows:

	NBN Co					
	30 June 2023			30 June 2022		
	Within 1 year	1 to 5 years	Greater than 5 years	Within 1 year	1 to 5 years	Greater than 5 years
Cash flow hedges	-	12,884	4,350	–	7,910	4,950
Fair value hedges	400	2,757	5,600	–	3,157	2,804

As at 30 June 2023, the weighted average fixed interest rate swaps, interest rate options and fixed cross-currency interest rate swaps designated in hedge relationships is 1.66 per cent (30 June 2022: 1.14 per cent).

G. Our financial risk management continued

Interest rate risk management continued

Sensitivity analysis

Sensitivity analysis to interest rate movements, based on the translation of financial instruments at the end of the year is as follows:

	NBN Co	
	Impact on post-tax profit and equity 30 June 2023 $m	Impact on post-tax profit and equity 30 June 2022 $m
Interest rates +100 basis points	391	329
Interest rates –100 basis points	(412)	(352)

Sensitivity analysis to interest rates moving +/- 100 basis points on variable rate borrowings that are not hedged is -/+$15 million on post-tax profit (30 June 2022: -/+$24 million).

A sensitivity range of plus 100 basis points and minus 100 basis points has been selected as a reasonably possible shift in interest rates based on the current level of interest rates and historical volatility.

Credit risk exposure

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Company. 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. The Company manages its credit risk via Board approved policies that require a formal approval of new counterparties, credit limit monitoring by counterparty and ongoing monitoring and reporting to manage credit risk exposure. Credit risk arises from cash and cash equivalents and the net favourable position of derivative financial instruments, as well as credit exposures to Retail Service Providers.

The Company does not expect any significant losses from non-performance by any of these counterparties.

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

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

	NBN Co	
	30 June 2023 $m	30 June 2022 $m
Trade receivables		
Counterparties with an external credit rating		
AAA	5	7
A-	261	259
BB-	–	3
Counterparties without an external credit rating[1]		
Group 1	5	3
Group 2	208	189
Group 3	8	6
Total	**487**	**467**
Cash at bank and short-term bank deposits		
AA-	41	113
Total	**41**	**113**
Derivative financial assets		
AA-	623	485
A+	698	594
A	277	278
A-	34	48
BBB	3	–
Total	**1,635**	**1,405**

1. Group 1 – new customers (less than six months).
   Group 2 – existing customers (more than six months) with no defaults in the past.
   Group 3 – existing customers (more than six months) with defaults in the past, subsequently remediated.

The Company did not have any material receivables that were past due or impaired at 30 June 2023 (30 June 2022: nil).

Liquidity risk management

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

The Company measures and manages liquidity risk through the liquidity ratio and 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 Company prepares and reviews a rolling monthly cash forecast. The risk of refinancing is reduced by ensuring that the Company's borrowings mature across different periods.

The total drawn and undrawn amounts across all available borrowings are included in Note C9.

G. Our financial risk management continued

Liquidity risk management continued

Contractual maturities of financial assets and liabilities

Amounts shown in the table below illustrate the undiscounted cash flows for the remaining contractual maturities of financial assets and liabilities and the carrying value recorded in the Statement of financial position for NBN Co's financial assets and liabilities.

	NBN Co				
	Within 1 year $m	1 to 5 years $m	Greater than 5 years $m	Total contractual cash in/(out) flows $m	Carrying amount assets/(liabilities) $m
At 30 June 2023					
Non-derivatives					
Trade and other receivables	533	–	–	533	533
Other assets	127	20	–	147	147
Trade and other payables	(1,510)	(35)	–	(1,545)	(1,545)
Other liabilities	(96)	(288)	–	(384)	(384)
Borrowings	(2,583)	(14,948)	(5,651)	(23,182)	(20,316)
Related party borrowings	(5,718)	–	–	(5,718)	(5,500)
Lease liabilities	(1,395)	(4,415)	(19,782)	(25,592)	(11,512)
Total	**(10,642)**	**(19,666)**	**(25,433)**	**(55,741)**	**(38,577)**
Derivatives					
Derivative financial assets	297	1,089	178	1,564	1,635
Derivative financial liabilities	(147)	(358)	(38)	(543)	(319)
Total	**150**	**731**	**140**	**1,021**	**1,316**
At 30 June 2022					
Non-derivatives					
Trade and other receivables	503	–	–	503	503
Other assets	119	14	–	133	133
Trade and other payables	(1,516)	(19)	–	(1,535)	(1,535)
Other liabilities	(97)	(384)	–	(481)	(481)
Borrowings	(551)	(15,635)	(5,056)	(21,242)	(18,204)
Related party borrowings	(252)	(6,628)	–	(6,880)	(6,375)
Lease liabilities	(1,308)	(4,175)	(19,460)	(24,943)	(10,951)
Total	**(3,102)**	**(26,827)**	**(24,516)**	**(54,445)**	**(36,910)**
Derivatives					
Derivative financial assets	153	920	280	1,353	1,405
Derivative financial liabilities	(66)	(473)	(17)	(556)	(169)
Total	**87**	**447**	**263**	**797**	**1,236**

Fair value measurement of financial instruments

The Company 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). If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Level 3: If one or more of the significant inputs for the asset or liability are not based on observable market data (unobservable inputs).

Fair value of derivative assets and liabilities

The Company'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, other than the CfD derivatives within PPAs which are categorised as Level 3, as one of the key inputs, being the electricity forward prices, cannot be forecast (using observable market data) for the duration of the contract.

The changes in Level 3 derivative financial instruments for the year ended 30 June 2023 are shown in the table below. Comparative information has not been disclosed as Level 3 derivative financial instruments were not material in the prior period.

For the year ended	NBN Co 30 June 2023 $m
Derivative financial assets	
Balance at 1 July	-
Change in fair value of PPA	3
Total	**3**

There has been no change in the valuation techniques applied and there were no transfers between hierarchy levels during the year.

Key estimates and judgements

Determination of the fair value of derivative assets and liabilities

There are several assumptions used in the determination of the fair value of the Company's derivative assets and liabilities, particularly in relation to the accounting for cross-currency interest rate swaps and the valuation of CfD derivatives within NBN Co's PPAs.

The Company's cross-currency interest rate swaps use a trifurcation methodology between fair value and cash flow hedges. The fair value of derivatives used for hedging is determined using forward exchange rates at the reporting date and the present value of the estimated future cash flows based on observable yield curves, which if move significantly can cause material movements in the Statement of financial position.

The fair value of CfD derivatives with PPAs is determined using an electricity price forecasting model and inputs used include forecast electricity volumes, the electricity forward spot price, the contract period, the discount rate and the net position of the long-term generation certificates.

Fair value of other financial instruments (excluding lease liabilities)

The carrying amounts of NBN Co's other financial instruments, which are not measured at fair value, are materially consistent with their fair value as at the reporting date.

The fair value of the Company's borrowings have been disclosed in Note C9.

H. Other financial information

This section provides information on further disclosures required by the Australian Accounting Standards.

H1. Income tax expense

	NBN Co	
For the year ended	30 June 2023 $m	30 June 2022 $m
(a) Income tax (expense)/benefit		
Deferred tax	(10)	399
Total	**(10)**	**399**
(b) Numerical reconciliation of income tax (expense)/benefit to prima facie tax payable		
Loss before income tax	(1,109)	(1,867)
Tax at the Australian tax rate of 30% (2022: 30%)	333	560
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
Current year tax losses not recognised	(242)	(492)
Temporary differences not recognised	(91)	(68)
Temporary differences recognised	(10)	399
Income tax (expense)/benefit	**(10)**	**399**
(c) Tax Losses		
Unused tax losses for which no deferred tax asset has been recognised	29,568	29,226
Potential tax benefit at 30%	**8,870**	**8,768**
Net temporary differences for which deferred tax assets have not been recognised	**1,146**	**749**

Total temporary differences for which no deferred tax asset is recognised is primarily comprised of lease arrangements, provisions and accruals and deferred income.

The cumulative amount of unrecognised tax losses of $29,568 million (30 June 2022: $29,226 million) may be available to offset against future income tax assessments when the Company generates taxable income.

The Company has recognised a deferred tax expense of $10 million for the year ended 30 June 2023 (30 June 2022: deferred tax benefit of $399 million). This relates to the recognition of previously unrecognised deductible temporary differences as a deferred tax asset to offset a deferred tax liability created as a result of the movement in the cash flow hedge reserve and cost of hedging reserve, which is recognised directly in the reserves to which it relates (refer to Note E2).

Effective tax rate

The non-recognition of deferred tax assets for deductible temporary differences and tax losses has led to NBN Co having an Australian accounting effective tax rate (ETR) of 0 per cent (30 June 2022: 0 per cent). If deferred tax assets had been fully recognised for deductible temporary differences and tax losses, NBN Co's Australian ETR would have been 30 per cent.

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

Recognition and measurement

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

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

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

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

H2. Contingent assets and contingent liabilities

Recognition and measurement

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

Telstra Revised Definitive Agreements

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

Legal action

As at 30 June 2023, NBN Co had no outstanding legal action that would materially impact the 30 June 2023 financial statements. However, from time to time, the Company may be subject to lawsuits 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.

H. Other financial information continued

H2. Contingent assets and contingent liabilities continued

Contractual related claims and disputes

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

To the extent a resolution for claims or disputes is probable and could be reliably measured, and in the case of an asset the resolution is virtually certain, adequate recognition in the Statement of financial position has been made at the reporting date. The disclosure of any further information about claims or disputes would be prejudicial to the interests of the Company.

H3. Related party transactions

Parent entity

The Company's ultimate parent entity and ultimate controlling entity is the Commonwealth of Australia.

Acquisitions

There were no acquisitions in the year.

Key management personnel

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

Transactions with related parties

The following transactions occurred with related parties:

		NBN Co	
For the year ended	Note	30 June 2023 $	30 June 2022 $
Equity injections from NBN Co's Shareholder Departments			
Balance at 1 July		29,500,000,000	29,500,000,00
Equity injections during the year	E1	304,692,179	–
Balance at 30 June		**29,804,692,179**	**29,500,000,000**

		NBN Co	
For the year ended	Note	30 June 2023 $	30 June 2022 $
Loans from NBN Co's Shareholder Departments			
Balance at 1 July		6,375,000,000	13,200,000,000
Loans paid during the period	C9	(875,000,000)	(6,825,000,000)
Interest charged on government borrowings		224,079,041	336,032,038
Interest paid on government borrowings		(224,079,041)	(336,032,038)
Balance at 30 June	C9	**5,500,000,000**	**6,375,000,000**

For the year ended	NBN Co 30 June 2023 $	30 June 2022 $
Significant transactions with NBN Co's Shareholder Departments		
Recognised in the Statement of profit or loss		
Other revenue	472,744	–
Other operating income	122,722,185	42,050,349
Recognised in the Statement of financial position		
Other receivables	23,428,455	21,983,070
Contract liabilities	32,576,786	10,618,074
Other liabilities	384,000,000	480,000,000
Recognised in the Statement of cash flows		
Receipts from customers	22,431,456	10,618,074
Government grants received	25,276,800	496,492,645

During the prior period, NBN Co received $480 million grant funding from the Department of Infrastructure, Transport, Regional Development, Communications and the Arts as part of the NBN Co Fixed Wireless and Satellite Upgrade Program, with NBN Co also contributing an estimated $270 million of investment into the Program. NBN Co recognises grant income in profit or loss on a basis aligned to the expenditure incurred by the Company for which the grant is intended to compensate. As at 30 June 2023, NBN Co has recognised $96 million as other income and $384 million as a deferred gain (30 June 2022: nil and $480 million, respectively).

NBN Co has recognised income of $24 million grant income (30 June 2022: $33 million) from the Department of Infrastructure, Transport, Regional Development, Communications and the Arts on behalf of the Commonwealth Government under the Regional Broadband Scheme (RBS). The RBS was established by Government to ensure there are long-term sustainable funding arrangements in place to provide essential broadband services to regional, rural and remote Australians. As at 30 June 2023, NBN Co had accrued income for the RBS Levy of $23 million and $23 million cash payments were received during the period (30 June 2022: $22 million and $11 million, respectively).

NBN Co also received funding from the Commonwealth Government's Regional Connectivity Program (RCP) which has been recognised as a deferred gain. This will be released to other revenue as NBN Co meets its obligations as set out under the contract. Cash payments received under the RCP, along with a number of small other individual grants received from its Shareholder Departments have been included in the table above.

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 the Company'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 the Company's Conflict of Interest (Directors) (including External Securities Declaration of Interests) Policy, the Director concerned will not vote upon the decision nor take part in the consideration of the relevant transaction.

Mr Malone was a Non-Executive Director of Speedcast International Limited. During the year ended 30 June 2021, the Company entered into an agreement to purchase certain assets from Speedcast Managed Services Pty Ltd. In November 2021, a final payment was made in accordance with the settlement terms in the agreement. Mr Malone was not present when matters involving Speedcast were discussed by the Board.

H. Other financial information continued

H3. Related party transactions continued

The following aggregate payments for goods and services (excluding GST) occurred with the above related parties:

For the year ended	NBN Co 30 June 2023 $	30 June 2022 $
Payments for various goods and services (excluding GST) from entities with common key management personnel	–	2,540,000

H4. Remuneration of auditors

For the year ended 30 June 2023 and 2022, PwC was engaged as subcontract auditors on behalf of the ANAO for the audit of the financial statements of NBN Co. The fees paid to PwC for these engagements is included in the remuneration to the ANAO. In addition to the work performed by the ANAO and PwC during the year, PwC has been engaged by NBN Co to audit this non-statutory Financial Report for the year ended 30 June 2023 for a fee of $192,000 (30 June 2022: $192,000).

For the year ended	NBN Co 30 June 2023 $	30 June 2022 $
Australian National Audit Office		
Audit of annual financial statements	2,708,790	2,497,591
Review of half-year financial statements	997,049	975,552
Audit of NBN Co reporting for Whole of Government financial statements	387,115	362,401
Total remuneration for audit and other assurance services	**4,092,954**	**3,835,544**
PwC Australia		
Other assurance related services		
– *Environmental, Social, and Governance (ESG) assurance*	753,810	180,000
– *Regulatory audit and reviews*	732,000	470,000
– *Non-statutory audit and review in connection with the US debt raising*	192,000	192,000
– *Comfort letters issued in connection with the US debt raising*	1,088,351	1,000,000
– *Other services*	50,000	100,000
Total remuneration for other assurance related services	**2,816,161**	**1,942,000**
Other services		
– *Tax compliance*	–	18,000
– *Risk advisory services*	–	–
Total remuneration for other services	–	**18,000**
Total auditor's remuneration	**6,909,115**	**5,795,544**

H5. Other significant accounting policies

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 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.

The Company recognises loss allowances for Expected Credit Losses (ECLs) on financial assets measured at amortised cost and contract assets (as defined in AASB 15 *Revenue from Contracts with Customers*). Loss allowances are deducted from the gross carrying amount of the financial asset and recognised in profit or loss. ECLs are based on the difference between contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the effective interest rate of the financial asset.

NBN Co has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The provision rates are based on days past due for groupings of various customers with similar loss patterns (i.e. by geographic region, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable supportable information that is available at the reporting date about past events, current conditions, and forecasts of future economic conditions.

Foreign currency translation

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of financial position.

The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

Interest income

The Company records interest income on an accruals basis. For financial assets, interest revenue is determined by the effective yield on the instrument.

Changes in accounting policies

The Company has consistently applied the accounting policies to all periods presented in these financial statements.

New standards and interpretations available for early adoption

A number of standards, amendments and interpretations were applicable for the first time from 1 July 2022. These have not had a significant or immediate impact on the Company's financial statements.

New standards and interpretations are also available for early adoption from 1 July 2023. The amendments to these standards are not expected to have a material impact on the Company's financial statements.

H. Other financial information continued

H5. Other significant accounting policies continued

AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform- Phase 2*

The Company adopted AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform* – Phase 2 (AASB 2020-8) effective from 1 July 2020. The interest rate benchmark reform aims to discontinue Interbank Offered Rates (IBORs) and replace these interest rate benchmarks with alternate Risk-Free Rates (RFRs). Phase 2 amendments enable the Company to reflect the effects of transitioning IBORs to RFRs without giving rise to accounting impacts that would not provide useful information to users of financial statements.

Currently, the Phase 2 amendments only apply to certain currencies and as at 30 June 2023, the Company has borrowings and derivative financial instruments in both USD and JPY which are potentially impacted. Although the Company has no direct IBOR exposure to these currencies on account of the borrowings and derivative financial instruments being fixed rate in nature, some of the underlying hedge relationships reference IBOR, and as such, the Company needs to consider the impact of the IBOR reform on borrowings and derivative financial instruments issued in both these currencies.

The Company's JPY debt issuances, including associated hedging instruments, were transacted with reference to the applicable RFR and are in compliance with the reform. However, as at 30 June 2023, the Company has designated cross-currency interest rate swaps based on USD London Interbank Offered Rate (LIBOR) swap rates, which will be impact upon the discontinuation of USD LIBOR, which is expected post 30 June 2023. The impact on transition is not expected to have a material impact on NBN Co's financial statements. The Company will apply the transition relief permitted under the standard and re-designate its existing cross-currency interest rate swaps with reference to the applicable RFR.

The Company has performed an assessment of exposures linked to USD LIBOR as at 30 June 2023 below:

Notional in USD	Notional in AUD	Maturity	Hedge Relationship	Hedging Instrument (prior to transition)	Hedged Item	Transition Progress
			Fair Value Hedge	Receive benchmark interest rate (LIBOR3m) portion of USD coupon, pay LIBOR3m.	Benchmark interest rate (LIBOR3m) portion of USD coupons over the life of the bond.	The overall economics of the hedging transactions will not be modified as part of the transition process as there is no direct exposure to LIBOR, however, should any benchmark rates change this will be effected in the underlying hedge relationships. At 30 June 2023, no hedging instruments or related hedged items linked to USD LIBOR have transitioned to alternative benchmark rates.
USD 4.05 billion	**AUD 5.42 billion**	**2026 to 2032**	Cash Flow Hedge	Receive LIBOR3m, pay AUD BBSW3m combined with USD and AUD principal exchanges at effective and maturity date.	USD principal repayment of the bond from first repayment date until maturity of the bond.	
			Cash Flow Hedge	Receive USD margin above the benchmark interest component of the fixed USD coupon, pay AUD margin above the benchmark BBSW3m.	USD margin above benchmark rate component of the USD fixed coupon payable on the bond (equivalent to credit margin on borrowing) over the term of the bond.	

I. Events occurring after the reporting period

No matters or circumstances have arisen since 30 June 2023 to the date of signing of this report that has significantly affected, or may affect:

- The Company's operations in future financial years
- The results of those operations in future financial years
- The Company's state of affairs in future financial years.

Directors' declaration

In the Directors' opinion:

(1) The financial statements and Notes set out on pages 1 to 59, including:

  (i) Complying with Australian Accounting Standards and other mandatory professional reporting requirements; and

  (ii) Giving a true and fair view of the Company's financial position as at 30 June 2023 and of its performance for the financial year ended on that date.

(2) There are reasonable grounds to believe that NBN Co will be able to pay its debts as and when they become due and payable.

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.

Kate McKenzie
Chair
7 August 2023

Stephen Rue
Chief Executive Officer
7 August 2023

Independent auditor's report

pwc

Independent auditor's report

To the Board of Directors of NBN Co Limited

Our opinion

In our opinion the accompanying financial report gives a true and fair view of the financial position of NBN Co Limited (the Company) as at 30 June 2023 and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

What we have audited

The financial report comprises:

- the statement of financial position as at 30 June 2023
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the statement of profit or loss and other comprehensive income for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Emphasis of matter : basis of accounting and restriction on use

We draw attention to Note A in the financial report, which describes the basis of accounting. The financial report has been prepared by management to meet the information needs of the Company and its directors. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for NBN Co Limited and its directors and should not be used by parties other than NBN Co Limited and its directors. Our opinion is not modified in respect of this matter.

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Company, its accounting processes and controls and the industry in which it operates.

Materiality	Audit scope
• We applied a threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.	• Our audit focused on where the Company made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

Key audit matter	*How our audit addressed the key audit matter*
Accuracy and occurrence of telecommunications revenue *Refer to Note B1 Revenue and other income*	
NBN Co Limited reported telecommunications revenue of $5,137 million for the year ended 30 June 2023.	To audit the accuracy and occurrence of telecommunication revenue, We performed the following procedures:

Key audit matter	How our audit addressed the key audit matter
We consider that the recognition of telecommunication revenue is a key audit matter due to: • the high volume of transactions; and • multiple information technology (IT) systems and tools utilised in the initiation, processing and recording of transactions, including the application of product pricing, credits and rebates.	• evaluated the design, implementation and operating effectiveness of relevant manual, automated and IT general controls over NBN Co Limited's revenue recognition process. These include sample testing of the controls over the interface between the key revenue systems and the pricing controls and pricing changes; and • agreed a sample of telecommunication revenue transactions to supporting documents, such as evidence of ordering, billing and customer payment. As part of this sample test, we recalculated the price charged for each transaction and agreed it to the Wholesale Broadband Agreement that was in effect at the time of the transaction, including relevant credits and rebates.
Valuation of derivatives *Refer to Note G 'Our financial risk management'* As at 30 June 2023, NBN Co Limited had derivative financial instruments of $1,635 million assets and $319 million liabilities. NBN Co Limited has significant derivative financial instruments, specifically interest rate swaps and cross-currency interest rate swaps to hedge exposures to fluctuations in interest rates and foreign exchange rates. The accounting for derivative financial instruments is considered a key audit matter due to: • the judgements involved in determining the fair value of the derivative financial instruments, including the application of appropriate models and assumptions, such as the forward interest rate curves and credit risks; and • the significant value of the hedged items and their corresponding derivative financial instruments and the complexity in applying hedge accounting (including the disclosure requirements) under the Australian Accounting Standards.	In relation to the valuation of derivative financial instruments, we performed the following procedures, amongst others: • obtained confirmations from third parties or performed suitable alternative procedures to obtain evidence for the key terms of a sample of derivatives at balance date; • obtained an understanding of NBN Co Limited's policies and methodology in applying hedge accounting and assessed the appropriateness of the methodology against the requirements of the Australian Accounting Standards; • assessed the appropriateness of the methodology and assumptions adopted by NBN Co Limited to assess whether there was any evidence of error or bias in NBN Co Limited's calculation of the fair value of derivatives; • evaluated the hedge accounting designations and hedge relationship documentation considering the requirements of the Australian Accounting Standards for a sample of derivatives; and • examined NBN Co Limited's assessment of the effectiveness of hedging instruments in offsetting changes in cash flows of hedged items. Where there are ineffective portions of hedging instruments, we have assessed

Key audit matter	*How our audit addressed the key audit matter*
	whether that was appropriately recognised in the statement of profit or loss and other comprehensive income.
Accuracy and completeness of depreciation and amortisation expense *Refer to Note C3 'Property, plant and equipment' and Note C4 'Intangible assets'*	
NBN Co Limited's property, plant and equipment and intangible assets combined, were the largest balances on the statement of financial position at year-end of $35,587 million, with depreciation and amortisation expense for the year ended 30 June 2023 of $3,082 million. Each year NBN Co Limited reviews the useful lives of its assets. In the current year the estimated useful life of certain network assets has been revised, resulting in a reduction in depreciation expense of $681 million per annum. We consider this to be a key audit matter because the calculation of the depreciation and amortisation expense, including the estimation of useful lives and cost allocations in the depreciation and amortisation calculations involves significant judgement and the use of complex manual depreciation models by NBN Co Limited. These models are used to calculate depreciation for assets in use that are not yet transferred to the fixed asset register.	In relation to the accuracy and completeness of depreciation and amortisation, we performed the following procedures, amongst others: • evaluated the appropriateness of NBN Co Limited's method for developing the estimate in regards to useful lives applied. This was through considering both the technological and economic use of the related asset categories. External benchmarking procedures were performed in conjunction with consideration of NBN Co's internal business plans for a sample of the revised useful lives as disclosed in Note C3 to the financial statements; • re-performed the mathematical calculation of the change in depreciation as a result of the application of the revised useful lives. This included testing a sample of the models used by management to enact the revised useful lives in the fixed asset register; • re-performed the mathematical calculations for a sample of manual depreciation models; and • tested the accuracy of a sample of in-service dates, which determine the commencement of depreciation and amortisation, to external and internal source documentation showing when construction or development was completed.

Responsibilities of management for the financial report

Management of the Company is responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, management is responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

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Rosalie Wilkie

Rosalie Wilkie
Partner

Sydney
7 August 2023