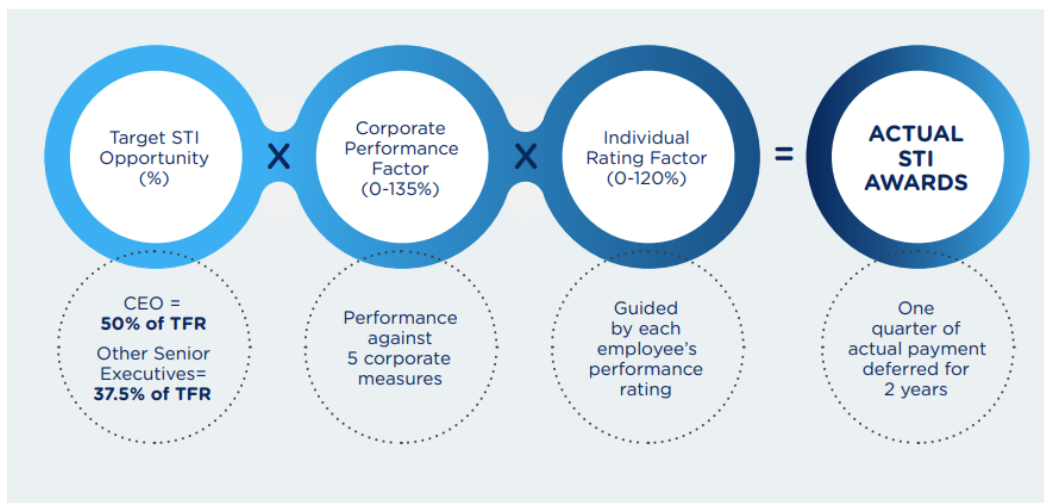


Further information on changes to NBN Co employee remuneration

Since 2011, the NBN Co Board has administered a short-term incentive (STI) program for eligible employees. These eligible employees had a fixed remuneration component, referred to as the total fixed remuneration (TFR), and an 'at risk' component, which may or may not have been awarded. The 'at risk' component (or Target STI opportunity) varied depending on the level of the eligible employee, and the amount (if any) paid was determined by a combination of the Board's assessment of overall company performance (Corporate Performance Factor) and the employee's performance (Individual Rating Factor) as assessed by their manager.



Source: **nbn Annual Report 2021**

On 13 August 2021, the previous Government released the [Performance Bonus Guidance](#). The Guidance specifically states that "Commonwealth entities and companies should avoid the broad use of performance bonuses" and makes it clear that an 'at risk' scheme as administered by NBN Co is considered to be a 'performance bonus'. Given the clear nature of this Guidance and the incompatibility with NBN Co's STI program, in FY22 the Board made significant changes, including reducing the employee eligibility to a much smaller cohort of the Company's most senior executives so that the scheme was no longer 'broad' and also reducing the at-risk component of total remuneration for those executives.

The changes to NBN Co's remuneration meant that for previously eligible employees, Target STI opportunity was reduced in the following manner in respect of FY22:

- Chief Executive Officer 50 per cent to 30 per cent
- Executive Committee 37.5 per cent to 20 per cent; and
- Executive General Managers 32.5 per cent to 15 per cent.
- For all other previously eligible and participating employees, STI opportunity was reduced to 0 per cent.

In making these changes, the Board needed to ensure the company would still be able to attract and retain the skills and experience needed to operate, protect, and improve the national broadband network over time. Up to 87 per cent of the foregone **Target** STI opportunity (equivalent to 64 per cent of **maximum** STI opportunity) for previously eligible employees was transferred into TFR. This proportion was based on a three-year and five-year view of historical STI awards and a review of market practice. In reviewing NBN Co's remuneration framework the Board consulted with independent remuneration and governance advisors to ensure they had conducted appropriate due diligence in coming to their position. The Board continues to undertake regular reviews of remuneration and the performance management framework to ensure it is fit for purpose given these changes and these regular reviews also are undertaken with input from independent remuneration advisors.

To illustrate these changes at an individual level, for a hypothetical employee with a TFR of \$120,000 (including superannuation) and an 'at risk' target STI component of 7.5% (or \$9,000), approximately \$7,800 was rolled into their base salary, bringing that employee's revised TFR to \$127,800. While this is an increase to TFR, it does

represent a decrease of approximately \$1,200 in what a previously eligible employee had the opportunity to receive if the employee had performed at a satisfactory level and the company had achieved the NBN Co Board-approved targets. Previously, the eligible employee may have been entitled to more than \$9,000 if the Corporate Performance Factor and/or the Individual Rating Factor was above 100% (see chart above).

If the changes had not been made, in FY22 that employee would have been eligible for 89 per cent of target STI (the Board-approved Corporate Performance factor for FY22). Assuming satisfactory individual performance, this would have been \$8,000, bringing the employee's total estimated remuneration under the previous remuneration structure to \$128,000 for FY22 compared to \$127,800 under the new remuneration structure.

To illustrate the impact of these changes to the remuneration structure at an aggregate level, NBN Co has estimated the amount of TFR and STI that would have been paid under the previous remuneration structure. If the changes had not been made, NBN Co estimates that in FY22, the Company would have recognised expenditure of \$744m related to fixed salaries and wages and superannuation contributions (equivalent to TFR) and \$58m in STI for employees (total \$802m). This compares to the actual expense recognised of \$797m in salaries and wages (including superannuation) and \$4m in STI (total \$801m).

Further details on remuneration, including in regard to the changes made, the Board's consideration of performance against FY22 targets and actual payments to key management personnel are available in the Annual Report 2022.