

# Annual Report

2011  
2012

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The financial statements were authorised for issue by the directors on 14 September 2012. The directors have the power to amend and reissue the financial statements.

**NBN Co Limited**  
**Consolidated Financial Report for the year ended 30 June 2012**

ABN 86 136 533 741

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The Chief Financial Officer  
NBN Co Limited,  
Level 11, 100 Arthur Street, North Sydney NSW 2060, Australia

Date: This Annual Report is dated 30 June 2012





# About NBN Co

NBN Co Limited (the company or NBN Co) was established on 9 April 2009 to implement the Australian Government's policy initiative of providing a National Broadband Network (**NBN**). As such, NBN Co is designing, building and operating a new National Broadband Network to provide access to high-speed broadband to all Australian premises.



NBN Co is a wholly-owned Commonwealth company incorporated under the *Corporations Act 2001* and subject to that Act and the *Commonwealth Authorities and Companies Act 1997*.

The Commonwealth is represented by two Shareholder Ministers; the Minister for Finance and Deregulation, Senator the Hon Penny Wong, and the Minister for

Broadband, Communications and the Digital Economy, Senator the Hon Stephen Conroy (together, the **Shareholder Ministers**). NBN Co is prescribed as a Government Business Enterprise as set out in Regulation 4(2) of the *Commonwealth Authorities and Companies Regulations 1997*.



# NBN Co Objectives

The Shareholder Ministers issued a Statement of Expectations in December 2010 stating the central objectives of the National Broadband Network. These objectives have been translated into a Statement of Corporate Intent that outlines NBN Co's mission, objectives, values and ethics, reporting, disclosure and performance management measures. A full copy of the Statement of Corporate Intent is available on NBN Co's website.



NBN Co's goal is to deliver significant improvements to the nation's broadband service. NBN Co will enable retail service providers (**RSPs**) to provide high-speed broadband services for all Australian premises, wherever they are located. The building of a National Broadband Network is occurring against a background of significant change in the regulation of the telecommunication sector. The NBN is Australia's first wholesale-only, open-access communications network, and it will be rolled out nationwide during the life of the project.

NBN Co will be responsive to the needs of customers and communities during the construction and rollout processes and will operate as efficiently and cost-effectively as possible.

### **NBN Co's specific objectives are to:**

- Establish a wholesale, open-access network
- Comply with the Statement of Expectations coverage requirements for provision of fibre-to-the premises technology to Australian homes, schools and businesses designed to offer its retail service provider customers wholesale broadband speeds of up to 100 megabits per second. NBN Co's product roadmap also includes a fibre service with speed options of up to 1 Gbps (1000/40 Mbps downstream/upstream)\* aimed for enterprise-grade services

- Serve all remaining premises with a combination of fixed wireless and satellite technologies designed to offer its retail service provider customers wholesale download speeds of up to 12 megabits per second\*
- Act as a wholesale provider of last resort for new developments and if requested by the developer, provide an NBN installation for premises in each new development of 100 or more premises which receives stage five planning approval from 1 January 2011
- Offer open access to wholesale services via layer 2 bit stream services in accordance with the regulatory principles of non-discrimination, which in turn will help enable multi-operator delivery of data, voice and video services
- Charge its retail service provider customers a uniform national wholesale access price of \$24 per month for the basic services designed to offer those RSPs broadband speeds of up to 12Mb downlink\* and up to 1Mb uplink\* across fibre, fixed wireless and satellite platforms, consistent with the Government's objective of providing uniform national wholesale prices

\* NBN Co is designing the NBN to be capable of delivering these speeds to NBN Co's retail service providers (**RSPs**) and wholesale service providers (**WSPs**) via fibre, fixed wireless and satellite. Speeds actually achieved by retail end users will depend on a number of factors including the quality of their equipment and in-premises connection, the broadband plans offered by their service provider and how their service provider designs its network to cater for multiple end users.

# Chairman's Message



This year NBN Co emerged from a period of intense planning to cement commercial agreements that are supporting the ramp up to full scale rollout. Having announced in March the scheduled rollout of the network to around a third of Australian

premises over the next three years, NBN Co is pushing ahead with the task of delivering this major project as efficiently and effectively as possible.

While the investment is significant, the network will provide enduring benefits. It will support faster broadband speeds and greater capacities to meet the needs of Australians for decades to come.

Over the past year NBN Co has moved to a position of commercial service delivery. It is now enabling the shift to a new telecommunications environment focused on competition at the retail level, based on non-discriminatory access to our wholesale-only, open-access network. NBN Co is creating a single platform over which telephone and internet service providers can compete on an even infrastructure playing field.

In fulfilling its objectives NBN Co is accountable to the government and operates in accordance with government business enterprise governance processes. These include submission of a Statement of Corporate Intent and an annually-updated Corporate Plan, both of which provide high levels of transparency.

NBN Co delivered an updated Corporate Plan to Shareholder Ministers in August 2012, including key financial and rollout metrics based on the latest information and projections, that confirmed the robustness of the underlying business case.

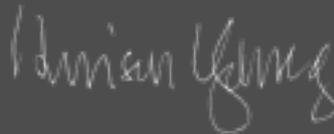
NBN Co is regulated by a number of statutes including the *Competition and Consumer Act 2010*, the *Telecommunications Act 1997* and the *National Broadband Network Companies Act 2011*. It is audited by the Australian National Audit Office and submits its annual report and other documents to the Australian Securities and Investments Commission.

The company's senior managers have appeared before the Senate Estimates and Joint Committee on the National Broadband Network on numerous occasions; and frequently spoken publicly on product, industry engagement and implementation issues.

Risk management systems were updated and developed significantly in 2011–12. NBN Co has established an enterprise-wide risk management framework to facilitate the identification of different levels of business risk and has implemented an appropriate risk management process.

Our progress would not have been possible without NBN Co's dedicated work force. The National Broadband Network is being built by an outstanding professional team, and the contractors that work for them. On behalf of the Board, I would like to acknowledge their commitment, which has allowed NBN Co to achieve so much in the short time it has been in existence.

Lastly, I thank my fellow Board members and the senior executives at NBN Co for their persistent engagement and considered oversight of the work of the company. I would particularly like to acknowledge the contributions of outgoing board members Gene Tilbrook, Peter Hay and Clem Doherty, and welcome new Board member Brad Orgill.



**Harrison Young**

# Chief Executive Officers Message



The announcement of the three-year rollout plan in March 2012 was a major milestone for NBN Co. It was the culmination of a number of important commercial agreements and policy decisions,

allowing NBN Co to give more clarity and certainty to the industry and public. Key to this was the Telstra Definitive Agreements becoming wholly unconditional in early March 2012, giving access to Telstra's infrastructure to help make the rollout easier and less disruptive for communities.

NBN Co plans to have construction commenced or completed for approximately 3.5 million premises spread across every state and territory in Australia by June 2015 or up to approximately one third of the nation's homes and businesses.

The three-year plan is based on policy and engineering principles that aim to deliver the most efficient and effective rollout. They include the need to continue construction where work has already begun, achieve a balance of construction across states and territories, and between metropolitan and non-metropolitan locations.

To ensure the efficiency of the network rollout, we are making use of sophisticated optimisation software to help generate the rollout sequence.

We had a strong response to the announcement of the three-year plan. Understandably the tenor of this response was dependent on whether a community was inside or outside the three years.

As part of the network design and construction process, NBN Co has started to release maps on the tenth working day of each month that detail street-level information for individual Fibre Serving Access Modules (FSAMs). These modules are the building blocks of the fibre component of the national broadband fibre network. The release of these maps indicates the commencement of construction, starting with site surveys, detailed design development, remediation, construction, active equipment installation and finally the activation of services.

One of the biggest challenges for NBN Co is our role as fibre provider of last resort for any new development with 100 premises or more approved for development after 1 January 2011. The scale and difficulty of this responsibility should not be underestimated. NBN Co has received thousands of applications from developers in locations right across Australia. We are working to provide a service to these estates by building infrastructure, in most cases well ahead of our planned rollout. This has necessitated the deployment of extensive temporary transit links and fibre access nodes while the permanent connections are still under construction. To help address our needs, during the year we signed an agreement to provide additional new development construction capacity.

The financial year 2011–12 also saw the start of our fixed wireless rollout following testing and acceptance of our first fixed wireless customers. Fixed wireless, together with satellite, is part of our plan to serve rural and remote homes and businesses outside the fibre footprint. Also this year we signed a deal for two Ka Band satellites, announced the sites of three of our planned ten ground stations and, just into the new reporting year, announced the contract for the supply of earth station equipment.

NBN Co also met major commercial milestones over the year. In November 2011 we executed our Wholesale Broadband Agreement (**WBA**) after extensive industry consultation, and by the end of the reporting year 41 telecommunications and internet service providers had signed this agreement. This represents about 94 per cent of the retail broadband market.

To provide additional certainty in relation to pricing and other access terms, NBN Co is developing a Special Access Undertaking (**SAU**) which will be considered by the Australian Competition and Consumer Commission. In June, following feedback from industry, NBN Co advised the ACCC that we would submit a new SAU using a modular format. NBN Co continues to develop the SAU in parallel with improvements to the WBA through our contract development process.

In sourcing the necessary equipment and services needed to rollout the network, NBN Co has established a supply chain that ensures we minimise our costs while also leveraging spending where possible to support Australian investment in manufacturing and services. Up to the end of June 2012 almost \$10 billion in contracts had been entered into (excluding the Telstra and Optus contracts). Of these, just over 50 per cent of the value was Australian content and around 20 per cent with Australian-owned businesses.

NBN Co earned its first commercial revenue this year, marking the first step toward delivering a return on this important investment.

NBN Co regards the safety of its people and the environment as a core value. In May 2012 NBN Co was accredited to the International Environmental Standard ISO14001 and the Health and Safety Standards AS4801 and OHSAS18001. These standards help to ensure NBN Co's health, safety and environment systems and processes are of an international quality. We are also committed to the ecologically sustainable development of the network and we are working on new ways of introducing sustainable programs and processes into the building of the NBN.

Rolling out a national infrastructure project stretching to every corner of Australia is a major undertaking. NBN Co has shown that it is up to the challenge and we look forward to making high-speed broadband a reality for a large number of Australians over the coming years.

I too would like to thank my executive team and all the dedicated people of NBN Co for another year of hard work, achievement and delivery.



**Mike Quigley**

# Executive Committee

The Executive Committee as at 30 June 2012 comprised:



**Mike Quigley**

Chief Executive Officer

Mr Quigley is Chief Executive Officer of NBN Co, and has overall responsibility for the design, rollout and operation of the National Broadband Network throughout Australia.



**Robin Payne**

Chief Financial Officer

Mr Payne is Chief Financial Officer in charge of strategic business planning as well as financial controls, management accounting, taxation, treasury, risk and internal audit.

Mr Payne oversees program management across the company.



**Ralph Steffens**

Chief Operations Officer

Mr Steffens oversees network planning, construction, service activation and service assurance, IT infrastructure and end-user technology.

Mr Steffens also has the lead on health, safety and the environment.



**Gary McLaren**

Chief Technology Officer

Mr McLaren is responsible for network architecture and technology, planning and design as well as product engineering. Mr McLaren manages the projects to deliver the fixed wireless and satellite networks.



### Kieren Cooney

Chief Communications Officer

Mr Cooney is responsible for the company's government, media and stakeholder relations. Mr Cooney will also oversee a nationwide consumer information program covering the migration from copper and HFC based telecommunications networks to the fibre based NBN.



### James Hassell

Head of Product Management and Industry Relations

Mr Hassell is responsible for the development of products to offer over the network, for industry consultation and the management of customer relationships and sales. Mr Hassell is also responsible for pricing and regulation.



### Mike Kaiser

Head of Quality

Mr Kaiser oversees the quality strategy that is being integrated into all the systems and processes used by NBN Co. Mr Kaiser is also responsible for the management of the NBN Co Contact Centre.

Members of the Executive Committee have additional responsibilities in sponsoring the delivery of major projects.



### Kevin Brown

Head of Corporate

Mr Brown is responsible for the company secretariat, human resources including training strategy and internal communications, procurement, commercial services, facilities, security and legal.

# Operational Review

NBN Co's rollout and operational milestones are reported on a quarterly basis to the Shareholder Ministers. These are the key performance indicators by which progress on the rollout is being assessed. There are also a number of commercial, regulatory and policy milestones noted in the summaries below.





# Operational Review

Cumulative metrics	Cumulative current year Cumulative as at 30 Jun 2012	Cumulative previous year Cumulative as at 30 Jun 2011
Construction commenced <sup>1</sup>		
Brownfields	280,142	11,127
New development lots	13,885	-
Fixed wireless and interim satellite service	7,062	-
Premises passed/covered		
Brownfields	28,860	18,243
New development lots	10,054	-
Fixed wireless and interim satellite service	173,885	165,000
Premises activated		
Brownfields	3,364	622
New development premises	503	-
Fixed wireless and interim satellite service	9,669	-

## Corporate overview

### Key milestones to 30 June 2012:

#### Fibre Network

- A contract for construction in NSW, Queensland and the ACT was signed with Silcar (July 2011)
- Construction agreements signed enabling the rollout of the NBN in Western Australian (Syntheo) and Victoria (Transfield) (September 2011)
- The first 12-month rollout schedule, subsequently updated each quarter, was released (October 2011)
- A contract to build the first stage of the NBN in South Australia (SA) and the Northern Territory (NT) awarded to Syntheo (November 2011)
- The first three year rollout plan for the fibre network was released which has an objective of construction commenced<sup>1</sup> or completed for approximately 3.5 million premises by 30 June 2015 (March 2012)
- Announcement that Visionstream Australia Pty Ltd will undertake construction of the remaining fibre network in Tasmania (March 2012)

\* NBN Co is designing the NBN to be capable of delivering these speeds to NBN Co's retail service providers (RSPs) and wholesale service providers (WSPs) via fibre, fixed wireless and satellite. Speeds actually achieved by retail end users will depend on a number of factors including the quality of their equipment and in-premises connection, the broadband plans offered by their service provider and how their service provider designs its network to cater for multiple end users.

## Fixed Wireless

- Announced First Release Fixed Wireless Sites (August 2011) – Ballarat, Geraldton, Darwin, Toowoomba, Tamworth
- The first fixed wireless test sites brought into service in Armidale (February 2012). Business readiness testing commenced with the initial installation and activation of fixed wireless services in Armidale with five access seekers<sup>2</sup>
- Fixed wireless services achieved initial release in April 2012, with services available for the public to order from participating RSPs in Armidale
- By 30 June 2012 services were also available in active coverage areas around Tamworth, Toowoomba and Ballarat from 12 RSPs

## Satellite

- Interim Satellite Service (**ISS**) launched offering RSPs customers a 6/1Mbps\* service at the wholesale level (July 2011)
- 11 RSPs providing commercial services to eligible homes, farms, small businesses and Indigenous communities
- Space Systems/Loral awarded contract to build two next-generation Ka band satellites (February 2012)
- Ground station locations announced for Bourke and Wolumla (NSW) and Geeveston (TAS)

## New Developments

- The first new housing development was switched on in Western Sydney (September 2011)

- Signed contracts with Visionstream and Service Stream to provide additional construction capacity for greenfield rollout (June 2012)

## Commercial agreements

- Definitive Agreements between NBN Co and Telstra became wholly unconditional (March 2012)
- Wholesale Broadband Agreement (**WBA**) published November 2011. As at 30 June 2012, 41 retail service providers<sup>3</sup> (**RSPs**) had signed the WBA covering 94% of the retail market

## Regulation

- Special Access Undertaking (**SAU**) lodged with the Australian Competition and Consumer Commission (**ACCC**) (December 2011). NBN Co advises new approach to the SAU development (June 2012)
- The ACCC accepted Telstra's Structural Separation Undertaking (**SSU**) and draft Migration Plan (February 2012)
- The ACCC issued a draft determination in relation to authorisation of the deal between NBN Co and Singtel Optus Pty Limited and related companies (**Optus**) (May 2012). This was formally authorised in July 2012

## Operations

- Network Operations Centre (**NOC**) opened in Melbourne's Docklands (November 2011) incorporating the Network Service Operations Centre (**NSOC**) and the National Test Facility (**NTF**)
- First business-to-business order was completed in May 2012 within the operational support systems (**OSS**)

<sup>1</sup> Construction commenced: contract instructions have been issued together with the initial Network Design Document (**NDD**) so that construction partners can commence work on the detailed design, field inspections and rodding / roping activities in an FSAM. This is followed by the release of a rollout map for the FSAM on the NBN Co web site showing the coverage area for that FSAM and the estimated number of premises to be passed / covered.

<sup>2</sup> An access seeker is a customer acquiring NBN Co wholesale services with the intention to supply broadband services to retail service providers (RSPs) or end-users.

<sup>3</sup> A retail service provider (RSP) is a third party provider of retail broadband services to end-users.

# Operational Review

## Communications

- NBN Co launched two demonstration facilities: the Discovery Centre in Docklands, Melbourne and the NBN Co demonstration truck to travel across Australia (November 2011)
- Commenced large scale community information activity (March 2012)
- Developed a program of community information sessions as part of the engagement process around the rollout

## Financial overview

The full audited financial accounts of NBN Co appear later in the report. However, key figures are outlined below.

An updated Corporate Plan was delivered to Government on 6 August 2012 reflecting the impact of policy and commercial changes since the previous plan was submitted in December 2010.

Consistent with being in the start-up phase of its evolution, the group generated an operating loss for the twelve months to 30 June 2012, of \$520 million and operational revenues of \$2 million. The main areas of operating expenditure during the twelve months were in building core capabilities. Specifically, the significant expenditures were:

- \$222 million of employee-related expenses
- \$136 million for IT and direct telecommunication costs
- \$89 million for outsourced technical and legal advice expenses

Property, plant and equipment included additions of \$823 million for the year to 30 June 2012.

This included network assets of \$714 million for the construction of the transit, fibre, satellite and wireless networks. Buildings and leasehold improvements additions were \$81 million which included aggregation depots held under finance leases and additional property improvements. Intangible asset included additions of \$299 million, primarily for the development of the business support system (**BSS**) and operational support system (**OSS**) environments.

As at 30 June 2012, NBN Co had \$779 million cash on hand (an increase of \$241 million in comparison to June 2011), following payments for property, plant and equipment and intangible assets of \$776 million and \$377 million in payments to support operational requirements. The Australian Government contributed \$1,470 million in equity during the 12 months to 30 June 2012.

Commitments payable increased during the year by \$3,555 million to \$3,929 million. Since 30 June 2011:

- Network asset commitments increased by \$719 million, largely due to the execution of the satellite contract with Space Systems/Loral
- Finance lease commitments increased by \$2,731 million due to the confirmation of orders for additional network infrastructure

## The policy/regulatory environment

In February 2012, the Australian Competition and Consumer Commission (**ACCC**) accepted Telstra's plans for structural separation of its copper customer access network. This was a key condition precedent to the finalisation of the Definitive Agreements with Telstra. The deal with Telstra will allow NBN Co to rollout the network faster and with less disruption to the community. The agreements also support the achievement of NBN Co's revenue targets. However the nine-month delay in the Commencement Date of the Definitive Agreements contributed to a delay in the start of the volume rollout.

NBN Co published a final executable version of the Wholesale Broadband Agreement (**WBA**) in November 2011, setting out the commercial terms for retail service providers (**RSPs**) to sell services using the National Broadband Network and the obligations for each party. The final version followed extensive industry consultation.

The WBA is a 12-month contract designed to allow providers to enter into a commercial agreement with NBN Co while the ACCC considers the longer-term regulatory framework for the NBN.

The WBA strikes a balance between the needs of NBN Co and the needs of its customers.

By 30 June 2012, 41 retail service providers, representing about 94% of the retail market, had signed a WBA with NBN Co, providing a positive sign for the future of retail-based competition.

During the year, a significant focus has been the development of a proposed Special Access Undertaking (**SAU**). A draft SAU was lodged with the ACCC in December 2011. NBN Co has continued to work carefully through feedback received from the ACCC and access seekers in relation to the proposed SAU.

## The commercial environment

### Telstra

NBN Co has entered into a number of commercial agreements designed to facilitate the rollout and support achievement of the business case.

The Definitive Agreements with Telstra became wholly unconditional on 7 March 2012, allowing the National Broadband Network to be built more efficiently. The agreements provide for the reuse of suitable Telstra infrastructure so that infrastructure is not duplicated and community disruption is minimised.

With the agreements in place, NBN Co and Telstra continued constructive dialogue to develop and implement processes to ensure the necessary Telstra infrastructure can be made available to NBN Co when required.

NBN Co and Telstra have defined and documented the processes, requirements and technical specifications which clarify roles, responsibilities and the flow of information.

Significant work has been undertaken in relation to Network Design Documents (**NDD**) and detailed processes developed. NDDs are the desktop designs provided by NBN Co to the construction contractors in order for them to complete the Detailed Design Documents (**DDD**).

# Operational Review

## Optus

NBN Co and Optus reached an agreement in June 2011 that will see Optus progressively migrate customers from its Hybrid Fibre Coaxial (**HFC**) network to the National Broadband Network.

Optus has also agreed to a fixed-line network preference in favour of NBN Co for residential and small business customers served by the Optus HFC network.

In May 2012, the Australian Competition and Consumer Commission (**ACCC**) issued a draft determination to authorise the agreement between NBN Co and Optus based on the public benefit to be derived from the deal. On 19 July 2012, the ACCC authorised the agreement between NBN Co and Optus to migrate Optus' HFC subscribers to the National Broadband Network.

## NBN Co supply chain

NBN Co has put in place equipment supply arrangements that will be needed for the initial rollout and plans to source additional equipment from the market as the rollout ramps up.

Where economically possible, NBN Co has sourced equipment domestically and used its buying power to encourage investment in domestic production.

Local content was 51% at 30 June 2012. Future Australian construction and operations contracts are expected to increase the proportion of local content.

NBN Co is deploying a Logistics Coordination Centre to be the operations centre for all fibre activities.

## Product, pricing and industry engagement

### Pricing

As the National Broadband Network is designed to provide a network across Australia, RSPs will for the first time have access to a nationally available set of capabilities and prices on which to build their services.

In accordance with Government policy, the network is designed to create a platform to encourage greater retail-based competition, which is expected to lead to flow on benefits for end users with a range of high quality offerings and a greater variety of services being available.

NBN Co in its SAU has proposed to fix wholesale prices for key products for the next five years, and to limit later increases to less than inflation, to provide real wholesale price reductions over time.

Since the commercial launch of NBN Co's first product, a range of retail products and various pricing options have been released.

### Product

NBN Co has developed a product roadmap that enables new features and capabilities over a series of releases.

RSPs are delivering quality voice services over the network across both the data (using VoIP technology) and voice ports. In April 2012, NBN Co entered into a trial with Primus of new software designed to make it easier for RSPs to integrate analogue telephone services provided over the voice port (**UNI-V**) into their networks.

The multicast product, which can be used to broadcast high-quality video over the National Broadband Network, is currently being tested by RSPs in the NBN Co test facility, and is due to launch in the second half of 2012.

Two projects have commenced to address concerns raised by end users regarding the aesthetic aspects and usability of National Broadband Network equipment, specifically the battery back-up unit and network termination device (**NTD**).

During the year, NBN Co's facilities access product became available for service providers to order. The service allows RSPs to establish and maintain a physical presence in each of the 121 points of interconnect around Australia as they become available.

The product is designed to also be used by providers of long-distance transmission links to enable them to carry traffic to and from each of NBN Co's points of interconnect.

Throughout the year NBN Co held forums for the industry to update its customers on product development, pricing, contract development and other operational issues.

## Construction

Following the activation of the mainland First Release Sites in the second half of FY2011, construction work continued on the second stage of works in Tasmania, and construction got underway on the Second Release Sites on the mainland.

Construction contracts were signed for work in every state and territory meaning NBN Co could commence construction in Fibre Serving Access Modules (**FSAM**) as the rollout ramps up. Each month further modules are released to construction companies to begin the average 12-month design and construction process, and the FSAM maps are made available to the community through the NBN Co website. Significant focus was also put on the rollout of the fixed wireless network.

## Transit network

NBN Co is constructing a transit network, which is an important part of providing a connection to the fibre, fixed wireless or satellite services that are within reach of every household and business in Australia.

During the year, NBN Co awarded a transit contract to Visionstream to build the first stage of the transit network. The first transit ring was completed in the Berkley Vale area in NSW.

## Fibre-to-the-premises (FTTP) network

In October 2011 NBN Co released its first 12-month fibre rollout plan marking the start of the ramp up in the construction process.

This was followed by a quarterly update to the 12-month fibre rollout plan in February 2012, and then at the end of March 2012 the release of the first three-year fibre rollout plan which has an objective of construction commenced or completed for approximately 3.5 million fibre premises by 30 June 2015.

To determine the communities that will receive access to the National Broadband Network over the next three years, NBN Co followed design principles that balanced the Government's aim of providing the National Broadband Network to every Australian premises and the need to work efficiently and cost effectively.

These principles include first extending the network in areas where work has already begun; balancing construction across states and territories and between metropolitan and non-metropolitan locations; and making use of available exchange and transit infrastructure as it becomes available from Telstra.

NBN Co has also prioritised growth corridors that are likely to contain a high number of greenfield or new development sites. It also prioritised links to support the fixed wireless and satellite networks. Finally, there was a need to spread construction contracts across geographies and prevent local community congestion.

# Operational Review

## Tasmania – stage two

Work on further sites in Tasmania – Triabunna, Sorell, Deloraine, Georgetown, St Helens and Kingston Beach began in May 2011 and as of 30 June 2012 construction of these sites had been completed adding approximately 9,000 residents and businesses who are now able to order a service from their chosen RSP.

In March 2011 NBN Co awarded a contract to Visionstream Australia, which is part of the Leighton Holdings group of companies, to complete the fibre network rollout in Tasmania. This will cover around 200,000 homes and businesses in towns and suburbs across Tasmania.

## New Developments

NBN Co is the fibre provider of last resort for new developments containing more than 100 premises over three years that reached Stage 5 planning approval after 1 January 2011.

As at 30 June 2012, NBN Co had received 2,589 applications from developers, covering 132,090 new development lots; 10,054 new development lots had been passed and there were 503 new development premises receiving active services.

Bunya Estate, at Doonside in Sydney's west, was the first new broad-acre development to receive high speed broadband over NBN Co's network.

With a contraction in the traditional 'metro expansion' developments, this has meant demand from new developments for the fibre network has been more dispersed and skewed to regional areas. This has presented some challenges in servicing developments in part because of the requirement for extensive transit network. For example, one development in the mining

community of Newman in north-west Western Australia required the deployment of a temporary managed service for transit until the permanent transit links can be completed.

NBN Co also signed contracts with Visionstream and Service Stream to provide additional construction capacity to supplement the work of Fujitsu and to allow the design and construction of the transit network to be decoupled from the construction of in-estate cabling and the fibre access nodes.

## Fixed Wireless and Satellite Network

The fixed wireless network is an important part of the suite of technologies NBN Co will use to ensure that all Australians have access to high speed broadband services.

NBN Co conducted field tests in Armidale and Tamworth that confirmed the fixed wireless technology that it planned to use would meet its technical and operational requirements.

Business Readiness Testing (**BRT**) commenced with the initial installation and activation of fixed-wireless services at this location with five access seekers.

NBN Co launched a major planning and engagement exercise to find and secure suitable locations for fixed wireless base stations. While it is estimated up to half of the sites will be collocated on existing facilities, new sites are required. NBN Co encountered pockets of community objection to some of its proposals, however NBN Co remains committed to working with councils and communities to find workable solutions.

NBN Co's interim satellite service was launched 1 July 2011, delivering reliable high-speed broadband services to eligible homes and businesses in rural and

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remote parts of Australia. An enhancement to network and rollout capacity was completed in February 2012 following the commissioning of all Optus and IPStar satellite capacity and beams. The interim satellite network now covers the country with 11 VSAT hubs in operation in Kalgoorlie, Broken Hill and Belrose (Sydney).

The service offers retail service providers' customers wholesale speeds of up to 6Mbps download and 1Mbps upload\*.

As at 30 June 2012, there were 11 RSPs selling services over the interim satellite network.

In the first half of the financial year, NBN Co conducted research to assess the overall experience of access seekers and end users in using the interim satellite service, and to uncover opportunities for improvement. Overall, NBN Co's interim satellite service delivered to expectations. The interim service is planned to operate until 2015 when NBN Co plans to launch two satellites of its own, which will provide wholesale speeds offered to RSP customers of up to 12 Mbps\*.

Delivery of the spacecraft to NBN Co from Space Systems/Loral is scheduled for the first quarter of 2015 following the February 2012 signing of a contract for the spacecraft and for telemetry, tracking and control valued at approximately \$620 million.

Three ground station sites Wolumla on the Far South Coast of New South Wales, Bourke in North West New South Wales and Geeveston in Tasmania were selected in 2011–12 with a further seven locations to be announced.

Frequency coordination associated with the International Telecommunications Union orbital slot confirmation process continued. NBN Co has continued active dialogue with the Australian Communications and Media Authority on the availability of further spectrum, and with owners of existing spectrum licences.

NBN Co has developed a robust backbone that is supporting the network rollout, including operational and test facilities staffed by a highly technical and competent workforce.

## Operations update

### Operations Centre and Test Facilities

In November 2011, NBN Co opened its \$32.5m operations centre in Melbourne's Docklands. The centre houses facilities to manage day-to-day operations and allows telecommunications companies and internet service providers to test the products and equipment they plan to make available as the National Broadband Network rolls out.

The Network Service and Operations Centre (**NSOC**) enables NBN Co to monitor the network across the country, detect faults, manage orders and support the telephone and internet service providers that will sell broadband services to the public.

The National Test Facility (**NTF**) allows telephone and internet service providers to test new services before they are rolled out across the NBN. It will also be used to test NBN Co's new products such as the planned multicast capability that is being designed to give telephone and internet providers the ability to deliver high-quality video to help support a wave of services such as IPTV in high-definition.

### Enterprise resource planning (ERP) and business support systems (BSS)

Business support systems (**BSS**) are the IT-based systems used to manage access seeker requests, take orders, process bills and collect payments.

Enterprise resource planning (**ERP**) is the system used to manage enterprise functions including finance, fixed assets, human resources, project management, supply chain management and contract management.

# Operational Review

These systems had improved functionality added throughout the year in a series of releases. Major milestones during 2011–12 saw the successful deployment of new contract management systems, supply-chain management, and systems to store, track and manage quality compliance activities and for rostering, time and attendance.

## Operational support systems (OSS)

Operational support systems (OSS) provide NBN Co with the capabilities to provide, configure, manage and operate the National Broadband Network.

Progressive delivery of additional OSS functions supported greater automation in a range of activities including location-based service qualification, ordering and provisioning.

The operational support systems program delivered initial order capture and billing capabilities for the Facilities Access Product in April 2012. Support for the NBN Co Fibre Access Product was also enhanced by automated physical design and order assignment for the installation of a network termination device (NTD) into a premise, billing enhancements to support notifications to access seekers when billing documents are available and ready to be retrieved and providing additional capabilities to support visibility of Telstra's Physical Network Inventory.

## NBN Co people

NBN Co relies on a highly competent and technical workforce and continues to spend significant time and resources in workforce planning and development.

As part of the continuing performance management process, manager feedback sessions and mid-year and full-year ratings were completed for applicable employees.

The induction program was refreshed through the update of three modules and the simplification of all manager and new starter communications.

As part of NBN Co's ongoing commitment to creating a flexible and collaborative work environment *Flexible Working* and *Home Based Work Arrangements* policies were launched and the relevant training provided to relevant managers and employees.

At 30 June 2012, NBN Co's headcount was 1,674 (1,620 employees, 19 contractors and 35 labour hires). This is an increase from 906 as at 30 June 2011.

Of the current workforce, 794 are based in NSW, 693 in Victoria, 6 in the ACT, 20 in Tasmania, 94 in Queensland, 29 in South Australia, 2 in Northern Territory and 36 in Western Australia.

The average tenure of the workforce is 12.9 months and the average age is 40.6 years. NBN Co has 1% of the workforce employed on a part-time basis, with 28% of the workforce being women. Also, 20% of management roles and 17% of general manager and above roles are filled by women.

## Enterprise Agreements

NBN Co has four enterprise bargaining agreements which cover classifications of employees in the technical, professional, clerical/administration and contact centre areas.

These enterprise bargaining agreements are in place until 2014 and provide competitive terms and conditions for NBN Co employees covered by the agreements. They also provide certainty for NBN Co.

During 2011–12, there was no lost time due to industrial relations disputes.

## Planning the future external workforce

NBN Co commenced the next phase of implementing a workforce development strategy, with the Tasmanian Government providing a 40% increase in the level of funding for employment-based NBN Co traineeships and new funding for up to 300 training places for unemployed job seekers and school leavers.

Further discussions were held during March 2012 with senior representatives of training departments of a number of state governments in conjunction with the Federal Department of Education, Employment and Workplace Relations.

## Health, Safety & Environment (HSE)

NBN Co holds the safety of people and the environment as a core value. The company is committed to providing a safe and healthy working environment for its employees, contractors and visitors to NBN Co's workplaces and takes all reasonable steps to control hazards and minimise risk. NBN Co targets high standards of commitment and compliance with legislative requirements and community expectations.

NBN Co continues to operate its iSafe HSE Management System which includes incident and hazard reporting capability, risk assessment, investigations, auditing, case management and reporting modules.

In May 2012, NBN Co was accredited to the International Environmental Standard ISO14001 and the Health and Safety Standards AS4801 and OHSAS18001. These standards help ensure NBN Co's health, safety and environmental systems and processes are of an international quality.

NBN Co is proud of its annual lost time injury record over the past 12 months of 0.4 lost time injuries per million work hours for employees and 0.6 lost time injuries per million work hours for contractors. NBN Co has had no environmental incidents recorded over the past 12 months.

NBN Co continues to operate a comprehensive drug and alcohol testing program to contribute to the safety of all people working at NBN Co. For further information refer to the Regulatory Reporting Requirements section at page 122.

## Ecologically sustainable development (ESD)

NBN Co's approach to ecologically sustainable development (**ESD**) involves the baseline measurement of consumption materials such as electricity, fuels and paper. This eco-efficiency data is captured via our new online environmental reporting tool. This software will also assist in generating assorted greenhouse gas reports.

NBN Co strives to act according to the ESD principles at all stages of its operations, starting at the design phase.

## Environmental best practice

In April 2012, the Australian National Audit Office published a report titled the *Public Sector Environmental Management Better Practice Guide* and NBN Co is looking at this guide to assist in developing environmental and sustainability targets and programs for the coming year. Furthermore, industry benchmarking and best practice will assist NBN Co in determining the level of environmental performance. For further information refer to the Regulatory Reporting Requirements section at page 125.

## Engagement with the community

### Corporate communications

As full scale rollout ramps up, NBN Co is ensuring that all Australians are aware of the rollout and what actions they may want or need to take now and in the future to access the NBN.

During the year, NBN Co significantly increased its communications activity to raise awareness of the construction schedule and how end users connect to the network when it is available in their area.

# Operational Review

Alongside campaigns to raise awareness, NBN Co is working in individual communities where the network is being rolled out to increase understanding of the potential benefits that services provided over the network are expected to bring, encourage people in those communities to activate services delivered over the network, and thereby support the operations of RSPs.

NBN Co conducted its first large-scale awareness activity to coincide with the release of the three-year rollout plan encouraging people to log on to the NBN Co website and use their location or postcode to find out if their home or business is within the three year plan.

Of particular importance is engagement with communities where works are to commence to raise understanding of the construction process and what actions people need to take to connect to the network at the appropriate time. NBN Co carried out 24 community information sessions during the reporting year in places including: Geraldton WA, Launceston TAS, Gungahlin ACT, Darwin NT, Modbury SA, and Toowoomba QLD. Sessions on average were attended by between 150 and 200 people.

## Demonstration facilities

NBN Co launched in November 2011, two hands-on demonstration facilities to raise understanding of the National Broadband Network – an experience centre at Docklands and a mobile demonstration vehicle.

The Discovery Centre allows visitors to see what the National Broadband Network will look like and what they will be able to do with it. Key infrastructure components that make up the fibre network are also available to look at, touch and open. There are also interactive demonstrations that make it easy to picture how the NBN would fit into a home and show the potential of its high-speed broadband services.

The NBN Co demonstration truck also enables Australians to see for themselves key NBN equipment that would be installed in their homes and to ask questions about the rollout and the service.

As at 30 June 2012, the demonstration truck had visited 77 towns in Tasmania, Victoria, NSW and the ACT and hosted more than 15,210 visitors with an average of 147 visitors a day. The NBN Co Discovery Centre at the Docklands was open for more than 80 days and conducted more than 131 tours comprising more than 1,000 visitors.

## Stakeholder and industry relations

NBN Co continued to engage with state-based National Broadband Network taskforces, local government and regional interest groups, industry associations, education, community and business groups and presented to a wide range of audiences. NBN Co drafted policy recommendations and a six-month pilot proposal for connecting public interest premises: schools, hospitals and aged care facilities. NBN Co initiated discussions with several state government departments and state taskforces to discuss the recommended connection approach.

## Contact centre

In April 2012, NBN Co announced that its new customer contact centre would be located on the Gold Coast. The customer contact centre started taking calls in July 2012, with the capacity to employ approximately 130 people, of which up to 100 may be employed within twelve months depending on demand. Prior to this NBN Co had operated a call centre based on a contract arrangement.

During the year the contact centre received a total of 35,024 contacts from the public. Of that number 31,941 were enquiries, 2,846 were complex enquiries requiring additional information and 237 were complaints, some of which required further investigation and resolution.

All enquiries were responded to on the same day, complex enquiries took 7.2 days on average to resolve and complaints on average took 9.2 days to resolve.

## Regulation and oversight

### Reporting requirements and transparency

As part of regular reporting to Government and Parliament, NBN Co provides reports to the Government which form the basis of six monthly reports by the Government to the Joint Committee on the NBN.

It also submitted the 2010–11 Annual Report on 14 October 2011 and an updated Corporate Plan on 6 August 2012.

### Parliamentary and other committees

During the year, NBN Co made regular appearances before two committees: the Joint Committee on the National Broadband Network (five hearings) and the Senate Environment and Communications Legislation Committee (three hearings).

In addition to the questions answered during the hearings, NBN Co later responded to 399 questions on notice arising from these hearings.

The company has also met with and provided information to the Regional Telecommunications Independent Review Committee.

### Freedom of Information (FOI)

The *Freedom of Information Act 1982* (**FOI Act**) gives members of the public a general right of access to documents held by Australian Government agencies, Ministers and government business enterprises (**GBEs**), such as NBN Co. The FOI Act also enables individuals to access personal records held by government bodies and correct information that is incomplete, incorrect, out-of-date or misleading.

By 30 June 2011, NBN Co had finalised three requests under the FOI Act and carried over 12 requests into the following financial year. By 30 June 2012, NBN Co received 19 new requests and had finalised 28 requests under the FOI Act. Further information is set out in the Regulatory Reporting Requirements section at page 123.

During the financial year, the Attorney General commissioned Mr Stuart Morris, QC, to undertake a review into the operation of the FOI Act at NBN Co. Mr Morris is a former justice of the Supreme Court of Victoria and a former President of the Victorian Civil and Administrative Tribunal, with very wide experience in freedom of information matters. The review is required under s100A(1) of the *National Broadband Network Companies Act 2011*. On 16 August 2012, the Attorney-General tabled the report by Stuart Morris, QC on the review of the operation of the *Freedom of Information Act 1982*, insofar as it applies to documents held by NBN Co Limited. The key findings included that NBN Co has not only fulfilled its lawful responsibilities under the FOI Act but has also achieved a high standard in its administration of the FOI Act and adopted a pro-disclosure attitude.



# Directors' Report

The directors of NBN Co Limited (the company or NBN Co) present their report on NBN Co and its subsidiaries (the NBN Group), together with the consolidated financial statements of the NBN Group for the year ended 30 June 2012 and the auditor's report thereon.



# Directors' Report

## Board of Directors

The names and details of the directors in office at any time during the financial year, and the period until the date of this report, are as follows.

### Current Directors



**Mr Harrison Young – Chairman (Non-Executive Director and Chair of the Nominations Committee)** who was appointed as a director and Chairman of NBN Co on 15 March 2010. Mr Young is

currently a Director of the Commonwealth Bank of Australia, Chairman of Better Place (Australia) Pty Limited, Director of the New York based Financial Services Volunteer Corps and a member of the Board of Humanities 21 Inc. From 1997 to 2003 he was a Managing Director and Vice Chairman of Morgan Stanley Asia, based in Hong Kong, and in 2007 retired as Chairman of Morgan Stanley Australia. From 1995 to 1997, Mr Young was based in Beijing as Chief Executive of China International Capital Corporation, a joint venture investment bank in which Morgan Stanley had an investment. From 1991 to 1994 he was a senior officer of the Federal Deposit Insurance Corporation in Washington DC. Mr Young was a director of the Bank of England until May 2012. Mr Young holds a BA and Honorary LLD. Mr Young's current term will expire on 14 March 2013.



**Ms Diane Smith-Gander (Non-Executive Director and Chair of the People and Performance Committee)**

was appointed as a director on 5 August 2009 and as Deputy Chair on 15 December 2011. She was reappointed as a director and Deputy Chair on 5 August 2012. Ms Smith-Gander is a non-executive director of Wesfarmers Limited, Transfield Services Limited and CBH Group Limited and, is on the advisory Board of the

University of Western Australia Business School. She will become a commissioner of Tourism WA on 1 July 2012. Ms Smith-Gander was previously the head of Westpac's Business & Technology Solutions & Services Division. Before joining Westpac, Ms Smith-Gander was a partner with McKinsey & Company in the USA, where she led major transformation projects with a focus on post-merger integration and organisational restructuring. Ms Smith-Gander is a past Chair of the Board of Basketball Australia and of the Australian Sports Drug Agency. She is a Fellow of the Australian Institute of Company Directors and of Chartered Secretaries of Australia. Ms Smith-Gander holds a B.EC and MBA. Ms Smith-Gander's current term will expire on 4 August 2015.



**Mr Michael (Mike) Quigley – Chief Executive Officer (Executive Director)**

was appointed as the interim chairman and a director of NBN Co on 24 July 2009 after a 36-year career at the French telecommunications company Alcatel. Mr Quigley's term as a director and the interim chairman of NBN Co concluded with the appointment of Mr Harrison Young as chairman on 15 March 2010 at which time Mr Quigley was reappointed as a director. Mr Quigley's current term as a director will expire on 14 March 2013. Mr Quigley was appointed as Chief Executive Officer of NBN Co on 20 July 2009.

After starting his career in research and development, Mr Quigley took on progressively more senior positions in Alcatel culminating in his appointment as Alcatel's President and Chief Operating Officer in 2005. Mr Quigley was educated at the University of NSW and graduated with a Bachelor of Science majoring in mathematics and physics, and a Bachelor of Engineering in telecommunications. Mr Quigley is also a director of Neuroscience Research Australia and an Honorary Professorial Fellow of the University of Wollongong.



**Mr Clement (Clem) Doherty (Non-Executive Director)** was appointed as a director on 22 December 2009. Mr Doherty is Chairman of Like Minded Individuals, an early stage technology investor.

He retired as a director of McKinsey & Company in 1996, where he led the Asia-Pacific telecommunications, electronics, media and multimedia sector and was jointly responsible for the global telecommunications sector. Mr Doherty was interim CIO of ResMed during 2006. He is an Advisory Board member of the Australian Innovation Research Centre and the Network Insight Group. Mr Doherty is also a member of the Australian Statistical Advisory Council. Mr Doherty holds a BSc. BE (Elec) University of NSW and MBA, Stanford University. Mr Doherty resigned from the Board effective 14 August 2012.



**Mr Terrence (Terry) Francis (Non-Executive Director, Chair of the Implementation Committee to 4 August 2012 and Chair of the Audit Committee effective from 5 August 2012)** was

appointed as a director on 22 December 2009. Mr Francis commenced his career in infrastructure and mine design and project management. This was followed by over twenty years in corporate finance including as Senior Vice President and CEO of Bank of America in Australia, Executive Director of Deutsche Bank Australia and Vice President of Continental Illinois National Bank. Over the past ten years Mr Francis has worked as a non-executive director and as an advisor to government and business, especially in project financing and delivery. He is currently a board member of ANZ Specialist Asset Management Limited and Boom Logistics Limited. He is a fellow of the Australian Institute of Company Directors, the Institution of Engineers Australia and the Financial Services Institute of Australasia. Mr Francis' current term will expire on 21 December 2012.



**Mr Peter Hay (Non-Executive Director)** was appointed as a director on 5 August 2009. Mr Hay is a professional company director serving on the boards of Australia and New Zealand Banking Group

Limited, Alumina Limited, GUD Holdings Limited, Myer Holdings Limited and the Epworth Foundation. He is a part-time member of the Takeovers Panel and also Chairman of the Advisory Board of Lazard in Australia. Mr Hay has served on the Australian Institute of Company Directors' Corporate Governance Committee from 1 January 2012. He is a former Chief Executive Officer of law firm Freehills and has had a distinguished 35 year legal and investment banking career. For many years Mr Hay practiced company law specialising in mergers and acquisitions and has advised many of Australia's largest corporations. Mr Hay has also advised governments and government-owned enterprises on industry reform and energy sector privatisation. Mr Hay retired from the Board at the end of his term effective 4 August 2012.



**Ms Siobhan McKenna (Non-Executive Director, Chair of the Communications Committee)**

was appointed as a director on 5 August 2009 and reappointed on 5 August 2012. Ms McKenna is a director of Ten Network Holdings, DMG Radio Australia and The Australian Ballet. She is the managing partner of Illyria Pty Ltd and is on a leave-of-absence as a Commissioner of the Productivity Commission. Previously Ms McKenna was a partner at international management consulting firm McKinsey & Company where she specialised in advising telecommunications and media companies. She was also a member of the advisory board of the Australian Bureau of Meteorology. Ms McKenna's current term will expire on 4 August 2015.

# Directors' Report



**Mr Gene Tilbrook (Non-Executive Director and Chair of the Audit Committee)** was appointed as a

director on 5 August 2009.

Mr Tilbrook is Chairman of TransPacific Industries and a

member of the boards of Fletcher Building, QR National, and GPT Group (each ASX listed). From 2002 to May 2009, Mr Tilbrook was an executive director of Wesfarmers Limited, where for a long period he led its business development group with responsibilities across acquisitions, investments, corporate planning and systems. He is a councillor of Curtin University and the Australian Institute of Company Directors, WA, and a member of the boards of the Perth International Arts Festival, the Bell Shakespeare Company and the Committee for Perth. Mr Tilbrook's term as a director and as chair of the Audit Committee ended on 4 August 2012. He was appointed as an interim independent member of NBN Co's Audit Committee effective from 5 August 2012.



**Mr Richard (Rick) Turchini (Non-Executive Director and Chair of the Implementation Committee effective from 5 August 2012)**

was appointed as a director on

14 September 2011. Mr Turchini is a civil engineer who has more than 40 years experience in the construction industry. He retired from the construction firm Leighton Contractors in 2003, leaving his position as a company director and general manager for New South Wales and the ACT. From mid 2005 until the end of 2010 Mr Turchini was Managing Director of Baulderstone, a construction company with more than 1,300 employees. Mr Turchini served on the board of directors for Hastie Group from 1 January 2012 to 2 May 2012. Mr Turchini was an honorary board member of Infrastructure Partnerships Australia. Mr Turchini's current term will expire on 13 September 2014.



**Mr Brad Orgill (Non-Executive Director)** was appointed as a

director on 5 August 2012. Mr Orgill worked for the UBS group and its global investment bank for 22 years. He retired in 2008 as Chairman of

UBS Australia having previously been CEO and/or UBS Country Head in each of Australia, Hong Kong, China and Singapore. From 1998–2005 he concurrently was Head of the Asia and then Asia/Japan/Australia Equities business, UBS's largest in Asia Pacific and from 2006–8 he was a member of the UBS Group Managing Board. Post retirement, Mr Orgill has completed a Masters degree in environmental science and law, travelled extensively, been involved in philanthropic and think tank activities and chaired a task force (2010–11) to examine the \$16 billion Building the Education Revolution GFC stimulus program. He currently represents the Commonwealth on the Queensland Reconstruction Authority Board and is a member of the Regional Development Australia Fund advisory panel. Mr Orgill is a past member of the BCA and past Board member of AFMA. Mr Orgill's current term will expire on 4 August 2015.

## Company secretary

Ms Debra Connor was appointed as company secretary of NBN Co effective from 22 June 2010.

Ms Connor has a Bachelor of Laws and Graduate Diploma in Corporate Governance and has completed post graduate courses through Stanford and Columbia Universities in the USA and Italy respectively.

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

## Board meetings

The number of meetings of board of directors held during the period from 1 July 2011 to 30 June 2012 and the number of meetings attended was as follows:

Director	Number of directors meetings eligible to attend	Total number of meetings attended
Harrison Young (Chairman)	10	10
Mike Quigley	10	10
Clement Doherty	10	9
Terry Francis	10	9
Peter Hay	10	9
Siobhan McKenna	10	10
Diane Smith-Gander	10	10
Gene Tilbrook	10	9
Rick Turchini	8	7

In March 2012, the Board held its first strategic planning meeting in Canberra. All nine directors attended the meeting as did the Shareholder Ministers.

## Board committee meetings

### Audit Committee

The membership of the committee, the number of meetings the committee held during the period from 1 July 2011 to 30 June 2012 and the number of meetings attended was as follows:

Director	Number of Audit Committee meetings eligible to attend	Total number of meetings attended
Gene Tilbrook (Chair) <sup>1</sup>	5	5
Peter Hay <sup>2</sup>	5	5
Clement Doherty <sup>3</sup>	5	5

<sup>1</sup> Mr Gene Tilbrook's term as a director and as chair of the Audit Committee ended on 4 August 2012. He was appointed as an interim independent member of NBN Co's Audit Committee effective from 5 August 2012

<sup>2</sup> Mr Peter Hay's term as a director and member of the Audit Committee ended on 4 August 2012.

<sup>3</sup> Mr Clement Doherty resigned as a director and member of the Audit Committee effective 14 August 2012.

Mr Terry Francis was appointed chair of the Audit Committee and Mr Brad Orgill was appointed as a member of the committee effective from 5 August 2012.

### Communications Committee

The membership of the committee, the number of meetings the committee held during the period from 1 July 2011 to 30 June 2012 and the number of meetings attended was as follows:

Director	Number of Communications Committee meetings eligible to attend	Total number of meetings attended
Siobhan McKenna (Chair)	6	6
Harrison Young	6	6

# Directors' Report

## Implementation Committee

The membership of the committee, the number of meetings the committee held during the period from 1 July 2011 to 30 June 2012 and the number of meetings attended was as follows:

Director	Number of Implementation Committee meetings eligible to attend	Total number of meetings attended
Terry Francis (Chair) <sup>1</sup>	7	7
Diane Smith-Gander	7	7
Rick Turchini <sup>2</sup>	5	5

- 1 Mr Francis ceased in the role of chair of the Implementation Committee effective 4 August 2012. He remains a member of the committee.
- 2 Mr Turchini was appointed to the Implementation Committee on 16 September 2011. He was appointed chair of the Implementation Committee effective from 5 August 2012.

## Nominations Committee

The membership of the committee, the number of meetings the committee held during the period from 1 July 2011 to 30 June 2012 and the number of meetings attended was as follows:

Director	Number of Nomination Committee meetings eligible to attend	Total number of meetings attended
Harrison Young (Chair)	4	4
Terry Francis	4	4
Diane Smith-Gander	4	4

## People and Performance Committee

The membership of the committee, the number of meetings the committee held during the period from 1 July 2011 to 30 June 2012 and the number of meetings attended was as follows:

Director	Number of People and Performance Committee meetings eligible to attend	Total number of meetings attended
Diane Smith-Gander (Chair)	5	5
Siobhan McKenna	5	5
Harrison Young	5	4

## Directors' and officers' remuneration

### Letter from the chair of the People and Performance Committee

NBN Co is committed to ensuring its remuneration strategy and practices continue to align with company strategy, attract and retain key talent and appropriately reward employees for contributions to NBN Co's success.

We are also committed to transparent disclosure of our corporate governance and remuneration policies and practices. In addition to complying with the statutory disclosure requirement applicable to Government Business Enterprises, we have voluntarily adopted additional remuneration report disclosures above these requirements. These efforts help provide an enhanced understanding of our remuneration practices.

Our commitment to strategic and leading governance and remuneration practices is evidenced by:

- The role of the People and Performance Committee in oversight and approval of remuneration practices
- Our remuneration framework's strong link to NBN Co's evolving business strategy
- Remuneration practices that prudently apply public resources to rewarding employees fairly, reasonably and competitively
- A remuneration structure that challenges the organisation as a whole, and our employees individually, to contribute to the company's success
- Remuneration arrangements aligned with company performance and reflective of emerging corporate governance practices



**Diane Smith-Gander**  
**Chair of the People and Performance Committee**

This remuneration report includes information related to remuneration of NBN Co's Key Management Personnel (KMP). KMP are persons having authority and responsibility for planning, directing, and controlling the activities of the company. KMP of NBN Co includes directors and senior executives.

### The KMP in 2011–12 were:

#### *Non-Executive Directors*

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C Doherty

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T Francis

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P Hay

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S McKenna

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D Smith-Gander

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G Tilbrook

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R Turchini

---

H Young

#### *Executive Director*

---

M Quigley

#### *Senior Executives*

---

J Beaufret

---

C Boyce

---

K Brown

---

S Christian

---

K Cooney

---

J Hassell

---

M Kaiser

---

G McLaren

---

R Payne

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T Smeallie

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R Steffens

### Changes during the reporting period

Changes to the KMP during the reporting period were:

- Mr Richard Turchini was appointed as a director on 14 September 2011
- The Chief Financial Officer, Mr Jean-Pascal Beaufret retired from the role on 5 February 2012. He remained employed by NBN Co as an advisor until 17 February 2012

- Ms Christy Boyce's employment with NBN Co concluded on 15 September 2011
- Mr Ralph Steffens and Mr Kieren Cooney commenced on 28 November 2011
- Mr Robin Payne was appointed Chief Financial Officer on 2 April 2012

The restructure of the company effective 24 August 2011 had the following changes to the management team:

- Mr Tim Smeallie and Mr Steve Christian are no longer considered KMP members.
- Mr Michael Kaiser is now considered a KMP member

Changes to the KMP since the end of the reporting period:

- Mr Brad Orgill was appointed as a director effective 5 August 2012
- Mr Peter Hay's and Mr Gene Tilbrook's appointments as directors ended on 4 August 2012
- Mr Clement Doherty resigned as director effective 14 August 2012

### Non-executive director fees

Directors of the company are appointed by the Commonwealth of Australia, in accordance with NBN Co's Constitution.

Fees for non-executive directors are set in accordance with the determinations of the Remuneration Tribunal, the independent statutory body overseeing the remuneration of key Commonwealth offices.

The Remuneration Tribunal provides the company with fee levels for company directors. NBN Co plays no role in considering or determining non-executive director fees, and is bound by law to comply with the Tribunal's determinations regarding fees.

# Directors' Report

The Remuneration Tribunal determined an adjustment of 3% in the remuneration of public offices with effect from 1 July 2011. The 2011–12 annual entitlement reflects the adjustment.

The Remuneration Tribunal set the following non-executive director fees during 2010–11 and 2011–12:

Board position	2012–13 annual entitlement (from 1 July 2012)	2011–12 annual entitlement (from 1 July 2011)	2010–11 annual entitlement (from 1 Aug 2010)
Chairman	\$204,710	\$198,740	\$192,950
Deputy Chair <sup>1</sup>	\$164,810	\$160,000	N/A
Non-executive directors	\$102,400	\$99,410	\$96,510

<sup>1</sup> Deputy Chair 2011–12 annual entitlement was effective 15 December 2011

The Remuneration Tribunal has set Chairman, Deputy Chair and non-executive director fees. No determination regarding Committee Chair or member fees has been made. As a result, the fees shown in the table above are the total fees payable.

## Remuneration governance at NBN Co

The People and Performance Committee (P&PC) of the Board is committed to and responsible for:

- Overseeing senior executive remuneration
- Monitoring NBN Co's reward strategies and remuneration structures with the goal of putting the appropriate reward models in place and
- Reviewing other critical human resources policies and programs

Remuneration at the company is used to support the achievement of corporate objectives by attracting, retaining and rewarding the individuals and teams needed to make the organisation successful. The P&PC retains final discretion on the remuneration framework and individual payments for the senior executive team.

## Support from management and external advisors

In making remuneration decisions, the P&PC sought advice and, at times, recommendations from the CEO and other management regarding remuneration issues. In addition to management support, remuneration advisors are engaged by and report directly to the P&PC, providing independent review and advice regarding remuneration.

During the 2012 financial year, NBN Co received external advice in relation to remuneration from Ernst & Young. The advice included market practice regarding remuneration and key considerations. Ernst & Young also provided immigration and tax compliance advice in relation to expatriate arrangements for select NBN Co employees. None of the advice provided during the year by Ernst & Young included a remuneration recommendation (as defined in the Corporations Amendment (Improving Accountability on Directors and Executive Remuneration) Act 2011).

## Company remuneration strategy and framework

NBN Co's remuneration strategy establishes and maintains an effective link between pay and performance. This is achieved by:

- Annually reviewing the remuneration framework, including appropriateness of the performance measures under the short-term incentive (STI) plan, to ensure alignment with the company's evolving business strategy
- Taking into account market remuneration practices for comparable roles when determining employee remuneration levels
- Requiring the company to achieve a minimum level of performance before any STI payments can be earned
- Ensuring a portion of executives' remuneration depends on company and individual performance
- Linking each executive's STI award to achievement of stretch performance conditions

## Remuneration structure

NBN Co's remuneration structure aims to responsibly, fairly and competitively reward employees, while complying with all relevant regulatory requirements. To accomplish these goals, the remuneration framework consists of fixed and 'at risk' remuneration:

- **Fixed remuneration:** Each NBN Co employee receives a base salary, plus employer contributions to superannuation funds. Non-cash benefits may also be provided to select employees
- Base salary, superannuation contributions and non-cash benefits comprise an employee's Total Fixed Remuneration (TFR)
- **'At risk' remuneration:** NBN Co grants 'at risk' remuneration, the payment of which is dependent on attainment of strategic performance measures. Select employees are eligible to receive an annual STI linked to company and individual performance conditions
- NBN Co does not grant long-term incentives to its employees. However, starting with the 2011–12 year, select participants in the STI plan are required to defer a portion of the STI payments. Deferred amounts are subject to claw back

NBN Co's employee remuneration framework is based on employee pay bands. An employee's pay band is determined using a role evaluation rating system. Pay bands are set with reference to the external market through survey data, and are based on job function and accountability level. Once a pay band has been assigned to a role, a target TFR amount for the role is established. Actual TFR received by an individual in a particular role can vary from the target TFR for the role within a reasonable range based on their relative experience, ability and responsibilities. While no employee (excluding those subject to an enterprise bargaining agreement) has been guaranteed TFR movements, NBN Co annually reviews employee remuneration levels to reflect skill, performance and market conditions. Overall remuneration levels of senior executives are reviewed annually by the Board to ensure consideration of individual and company performance and market conditions.

NBN Co aims to pay its employees at the median of the market for comparable companies. Senior executive roles undergo a direct benchmark to comparable roles by independent remuneration advisors. External market benchmarks are determined by researching disclosed data from relevant Australian listed companies and Government Business Enterprises, supplemented by

## Senior executive remuneration

Senior executives included in KMP during 2011–12 are:

Name	Position	KMP status
JP Beaufret	Chief Financial Officer	Concluded as KMP on 5 February 2012; employment ended on 17 February 2012
C Boyce	Head of Business Development	Concluded as KMP and employment ended on 15 September 2011
K Brown	Head of Corporate	Current
S Christian	Head of Network Operations	Concluded as KMP on 23 August 2011
K Cooney	Chief Communications Officer	Current
J Hassell	Head of Product Management and Industrial Relations	Current
M Kaiser	Head of Quality	Current
G McLaren	Chief Technology Officer	Current
R Payne	Chief Financial Officer	Current
T Smeallie	Head of Commercial Strategy	Concluded as KMP on 23 August 2011; employment ended in May 2012
R Steffens	Chief Operations Officer	Current

# Directors' Report

survey data where necessary. Target TFR for each senior executive role is based on the benchmark data and internal relativities.

## Determining senior executive remuneration

Senior executive remuneration is determined within the company's remuneration framework, and considers:

- Pay levels competitive in the market, enabling the company to attract and retain key talent;
- 'At risk' remuneration dependent on NBN Co results; and
- Remuneration payments impacted by the company's assessment of individual performance.

Senior executives receive TFR, and are eligible to participate in the STI plan.

## Remuneration mix

NBN Co's remuneration structure aims to provide senior executives a mixture of TFR and 'at risk' remuneration.

All KMP have a remuneration mix at target of 77% fixed and 23% STI. Because receipt of 'at risk' remuneration is tied to achievement of company and individual performance conditions, actual remuneration may vary from the target remuneration.

A summary of remuneration received by KMP in 2011–12 is shown on pages 41.

## Total fixed remuneration

TFR is the foundation reward element for competent contribution in the role. It consists of base salary, superannuation and non-cash benefits (including associated FBT costs to the company).

Factors taken into account when setting TFR levels at NBN Co are:

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

Once hired, there is no guarantee of TFR increases within executives' contracts. The TFR of all executives is reviewed annually for internal relativities and competitiveness against the external market.

## Short-term incentive

The P&PC believe an essential element of the company's remuneration framework should be an incentive program that:

- Appropriately focuses participants on objectives and behaviours critical to the success of the company
- Unifies efforts in pursuit of NBN Co's Corporate Plan
- Increases the value of the Company to Australians

To accomplish this, NBN Co introduced in 2010–11 an STI plan that provides senior executives the opportunity to receive 'at risk' remuneration directly linked to company and individual performance during the financial year.

The STI plan:

- Rewards senior executives who contribute to NBN Co's success during the performance year
- Ensures a portion of total remuneration is linked to achievement of corporate performance
- Through its STI funding approach, provides the company with the flexibility to manage total employee cost

The CEO elected not to participate in the 2011–12 STI plan.

## Role of the P&PC in the STI plan

Each year, the P&PC determines the following key aspects of the STI plan:

- Whether it is offered and who will be eligible to participate
- Performance against objectives, the ‘award pool’ and final payments
- The portion of the STI payments to be deferred
- Application of the claw back provision
- Which changes or adjustments are needed to continually improve the plan

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

## Incentive opportunities

A participant’s STI opportunity is a percentage of the employee’s TFR. Taking into account the funding approach of the STI plan, the target and maximum STI opportunities for 2011–12 are:

	As a percentage of TFR
Target STI opportunity	30%
Maximum STI opportunity	43%

## Funding approach

The sum of each participant’s individual target STI amount determines the size of the target STI pool for the applicable year. The entire target STI pool can be eliminated if the P&PC determines the company has not met a gateway measure. The gateway measure is set at the start of the performance period.

If a gateway measure is met during the performance period, the P&PC determines whether to adjust the target STI pool up or down (ranging between 60% and 120% of the target STI pool) based on achievement of

corporate objectives, resulting in an ‘award pool’.

The STI award pool is the maximum cost of the STI program for that year, thus limiting NBN Co’s aggregate employee cost.

Regardless of performance outcome, the P&PC retains discretion over 20% of the target STI pool.

## STI performance measures

Company and individual performance impact the level of STI payments received by senior executives.

Performance measures align to the Corporate Plan.

The required level of achievement against each measure is set at the start of the performance period.

STI payments are based on the following measures:

- **Gateway measure** determines whether the target STI pool is funded
- For the 2011–12 awards, the gateway measure was NBN Co’s safety performance
- **Corporate performance measures** including:
  - Number of premises passed with fibre optic cable or covered by the fixed wireless network
  - Number of premises activated through all platforms
  - Management of operational expenditure
  - Achievement of strategic communication measures
  - Gateway performance based on safety and overall financial performance

The 2011–12 outcome reflects the strength of the STI plan, which rewards participants for achievement against objectives critical to the success of the company and challenges the company and participants to meet stretch performance goals.

# Directors' Report

## Post-employment benefits

Statutory and salary sacrifice superannuation payments are made on behalf of executives, and align with applicable requirements.

## Other long-term benefits

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

## Termination payments

Termination payments comply with statutory requirements and are determined by the policy and contractual entitlements in place for employees terminated by NBN Co. Further information regarding the contractual entitlements for senior executives is shown in the remuneration table below.

Termination payments made to KMP during 2011–12 are listed below.

KMP	Termination payment <sup>1</sup>
C Boyce	\$286,221

<sup>1</sup> T Smeallie received a termination payment of \$375,000 due to contractual obligations after he concluded being a KMP.

## Service agreements

Remuneration and other terms of employment for senior executives are formalised in service agreements, which include the termination arrangements. Key employment terms for senior executives are shown in the table below.

Position and name	Notice period by executive	Notice period by NBN Co	Normal termination payment (based on TFR)
CEO (Mike Quigley)	6 months	12 months	Not applicable
Former CFO (Jean Pascal Beaufret) and Head of Corporate (Kevin Brown)	6 months	6 months	6 months
Current CFO and remaining KMP	3 months	3 months	3 months

## Loans to directors and seniors executives

No loans were provided to directors or senior executives during 2011–12.

## Remuneration tables

Remuneration for KMP for 2011–12 and 2010–11 is shown in the tables below.

## Year ending 30 June 2012

Position	Note	Short-term benefits			Post-employment	Other long-term benefits		Termination benefits <sup>4</sup>	Total remuneration
		Base salary and fees <sup>1</sup>	STI / bonuses <sup>2</sup>	Other benefits	Superannuation contributions	STI Deferral <sup>2</sup>	Long service leave <sup>3</sup>		
		\$	\$	\$	\$	\$	\$	\$	\$
<b>Non-Executive Directors</b>									
C Doherty		99,410	-	-	8,947	-	-	-	108,357
T Francis		99,410	-	-	8,947	-	-	-	108,357
P Hay		99,410	-	-	8,947	-	-	-	108,357
S McKenna		99,410	-	-	8,947	-	-	-	108,357
D Smith-Gander	5	165,640	-	-	14,063	-	-	-	179,703
G Tilbrook		99,410	-	-	8,947	-	-	-	108,357
R Turchini	6	79,453	-	-	7,151	-	-	-	86,604
H Young	7	172,991	-	-	14,841	-	-	-	187,832
Executive Director									
M Quigley	8	1,912,000	-	-	50,000	-	11,303	-	1,973,303
<b>Senior Executives</b>									
JP Beaufret	9	592,991	106,300	-	9,390	-	-	-	708,681
C Boyce	10	65,880	-	-	3,856	-	-	270,680	340,416
K Brown		860,000	109,200	-	50,000	54,600	5,072	-	1,078,872
S Christian	11	98,088	19,826	-	6,256	-	578	-	124,748
K Cooney	12, 13	392,563	54,400	50,000	11,831	27,200	522	-	536,516
J Hassell		713,225	91,500	-	48,775	45,700	3,202	-	902,402
M Kaiser	14	402,826	50,791	-	18,668	25,396	2,499	-	500,180
G McLaren		681,672	84,900	-	25,828	42,500	11,242	-	846,142
R Payne	15	149,556	22,450	-	37,944	11,300	870	-	222,120
T Smeallie	16	106,409	19,565	-	2,286	-	-	-	128,260
R Steffens	12, 13	606,653	83,200	50,000	11,831	41,600	805	-	794,089
<b>Total</b>		<b>7,496,997</b>	<b>642,132</b>	<b>100,000</b>	<b>357,455</b>	<b>248,296</b>	<b>36,093</b>	<b>270,680</b>	<b>9,151,653</b>
Non Executive Directors									
		915,134	-	-	80,790	-	-	-	995,924
Executive and KMPs									
		6,581,863	642,132	100,000	276,665	248,296	36,093	270,680	8,155,729
<b>Total</b>		<b>7,496,997</b>	<b>642,132</b>	<b>100,000</b>	<b>357,455</b>	<b>248,296</b>	<b>36,093</b>	<b>270,680</b>	<b>9,151,653</b>

### Notes:

- Base salary includes executive's accrued annual leave entitlements and any allowances paid in cash.
- The cash component of bonuses paid in September 2012 relating to FY11-12 performance. One-third of the STI bonus relating to FY11-12 performance is deferred for a period of two years, except in certain circumstances under "good leaver" provisions (i.e. JP Beaufret, S Christian and T Smeallie). STI payments in the table above have been prorated for individuals who were not a KMP member for the full year.
- Long service leave relates to amounts accrued during the relevant period.
- Termination benefits exclude payment of statutory benefits such as annual leave and long service leave, which have previously been accrued.
- Ms Smith-Gander received higher fees as Acting Chairman for additional services and attendance at meetings during Mr Young's temporary three month reduction in duties. During the year Ms Smith-Gander's role was also changed from Director to Deputy Chair effective 15 December 2011.
- Mr Turchini was appointed as a Director on 14 September 2011.
- Mr Young temporarily reduced his duties from Chairman to Director for three months during the financial year.
- Mr Quigley elected to not receive any payment from the STI Plan. Mr Quigley's election resulted in him declining an award of \$335,160.
- Mr Beaufret was in the Chief Financial Officer role until 5 February 2012, when he concluded to be part of the KMP. Mr Beaufret remained employed by NBN Co as an advisor until 17 February 2012. Total remuneration in the table above reflects pay until 5 February 2012, total remuneration until termination was \$745,385 (includes \$23,360 related to statutory annual leave entitlement received upon termination).
- Termination benefits include payout notice period and termination payment as per service agreement.
- Mr Christian concluded to be a KMP on 23 August 2011. Total remuneration in the table above reflects pay until 24 August 2011, total remuneration for the full year was \$900,786.
- Mr Cooney and Mr Steffens commenced employment on 28 November 2012.
- Base salary includes a one-time \$50,000 relocation payment.
- Mr Kaiser was a KMP from 24 August 2011.
- Mr Payne was appointed Chief Financial Officer on 2 April 2012, when he became a KMP. Total remuneration in the table above reflects pay from that date; total remuneration for the full year was \$744,069.
- Mr Smeallie concluded to be a KMP on 23 August 2011 and concluded employment on 11 May 2012. Total remuneration in the table above reflects pay until 24 August 2011, total remuneration until termination was \$1,204,168 (includes \$418,910 related to statutory annual leave entitlement and contractual termination benefits received upon termination).

# Directors' Report

Year ending 30 June 2011

Position	Note	Short-term benefits			Post-employment	Other long-term benefits	Termination benefits	Total remuneration
		Base salary and fees <sup>1</sup>	STI / bonuses <sup>2</sup>	Non-cash benefits <sup>3</sup>	Superannuation contributions	Long service leave <sup>4</sup>		
		\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors</i>								
D Campbell	5	136,749	-	-	10,423	-	3,802	150,974
C Doherty		96,193	-	-	8,657	-	-	104,850
T Francis		96,193	-	-	8,657	-	-	104,850
P Hay		96,193	-	-	8,657	-	-	104,850
S McKenna		96,193	-	-	8,657	-	-	104,850
D Smith-Gander		96,193	-	-	8,657	-	-	104,850
G Tilbrook		96,193	-	-	8,657	-	-	104,850
H Young		192,255	-	-	15,199	-	-	207,454
<i>Executive Director</i>								
M Quigley	6	1,912,000	-	-	50,000	2,558	-	1,964,558
<i>Senior Executives</i>								
J Beaufret	7	996,801	-	-	15,199	1,261	-	1,031,261
C Boyce	8	126,293	53,120	-	11,023	161	-	190,597
K Brown		844,708	145,600	-	49,999	1,182	-	1,041,489
S Christian		635,419	109,920	-	44,279	679	-	790,297
P Flannigan	9	627,621	-	-	12,666	819	190,399	831,505
J Hassell	10	851,801	121,920	-	15,951	792	-	990,464
G McLaren		682,499	113,200	-	25,000	926	-	821,625
T Smeallie		720,601	120,000	-	29,399	968	-	870,968
<b>Total</b>		<b>8,303,905</b>	<b>663,760</b>	<b>-</b>	<b>331,080</b>	<b>9,346</b>	<b>194,201</b>	<b>9,502,292</b>
<i>Summary</i>								
Non-Executive Directors		906,162	-	-	77,564	-	3,802	987,528
Executives and KMPs		7,397,743	663,760	-	253,516	9,346	190,399	8,514,764
<b>Total</b>		<b>8,303,905</b>	<b>663,760</b>	<b>-</b>	<b>331,080</b>	<b>9,346</b>	<b>194,201</b>	<b>9,502,292</b>

Notes:

- 1 Base salary includes executive's annual leave entitlements and any allowances paid in cash
- 2 Bonuses paid in September 2011 relate to FY10/11 performance
- 3 Non-cash benefits were not provided during the year
- 4 Long service leave relates to amounts accrued during the relevant period
- 5 Includes fees paid for role as Executive Chair of NBN Tasmania Limited. Termination benefits represent payout for statutory annual leave entitlement in December 2010

- 6 Mr Quigley elected not to participate in the STI program. Mr Quigley's decision resulted in his declining an award of up to \$314,000
- 7 Mr Beaufret elected to not participate in the STI program, forfeiting an award of \$162,920
- 8 Ms Boyce was on unpaid parental leave for a portion of the year
- 9 Termination benefits include payout for two months of the notice period plus statutory annual leave entitlement in April 2011
- 10 Cash salary includes a one-time \$105,000 sign on bonus.

## Indemnification and insurance of Directors and Officers

NBN Co has indemnified each of the directors of NBN Co against any legal proceedings, loss or liability that arises in their capacity as a director of NBN Co. As at 30 June 2012, no claims have been made.

During the financial year the company paid insurance premiums for contracts insuring directors and officers against liabilities (including costs and expenses) arising from the performance of their duties.

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

## Corporate information

NBN Co is a public company limited by shares that is incorporated and domiciled in Australia. The registered office of the company is Level 40, 360 Elizabeth Street, Melbourne Victoria 3000.

NBN Co is wholly-owned by the Commonwealth of Australia.

## Principal activities

The principal activities of the group are to build and operate the open access wholesale National Broadband Network to deliver connections capable of delivering high speed broadband to Australian premises.

## Operating results

The consolidated loss of the group after income tax was \$520,205,000 (2011: \$323,221,000).

## Dividends

No dividend has been paid or declared since the group was established in April 2009.

## Review of operations

A review of the operations of the group and the results of those operations are contained in the Chairman's Message on pages 8–9 and the Operational Review on pages 14–27 of the Annual Report and such information is incorporated into this Directors' Report.

## Significant changes in state of affairs

Significant changes in the state of affairs of the group during the financial year were as follows:

- Contributed equity increased by \$1.470 billion as a result of government equity injections. Details of the changes in contributed equity are disclosed in note 19(b) to the financial report.
- On 7 March 2012, the Definitive Agreements with Telstra became wholly unconditional. On the terms of those agreements, NBN Co can access Telstra's ducts and pits, dark fibre and rack spaces and acquires Telstra's lead in conduits. NBN Co and Telstra also reached an agreement for Telstra to progressively disconnect premises from its copper and HFC networks as the National Broadband Network is rolled out.

## Significant events subsequent to reporting date

Between 3 and 12 July 2012, NBN Co unveiled the local government areas in the Central West and Mid-Western regions of NSW, Rockhampton, Townsville and Mackay regions of Queensland where planning proposals would be lodged to deliver fixed wireless broadband. Subject to final radio frequency planning and other approvals the fixed wireless network plans to cover up to 54,500 premises across more than 24 councils in these locations.

# Directors' Report

On 12 July 2012, NBN Co announced that ViaSat of Carlsbad, California had been selected as provider of the long term satellite service (**LTSS**) ground systems. In addition, ViaSat will supply the equipment to be installed in end user premises. The ground systems contract is in US dollars and has been hedged in line with group policy. The initial contract value in Australian dollars is approximately \$280 million.

On 19 July 2012, NBN Co received \$290 million of Commonwealth equity funding.

On 19 July 2012, the ACCC authorised the agreement between NBN Co and Optus to migrate Optus HFC subscribers to the National Broadband Network. As the migration progresses, Optus will decommission parts of the HFC network. The agreement is now unconditional.

On 3 August 2012, Senator Stephen Conroy (Minister for Broadband, Communications and the Digital Economy) and Senator Penny Wong (Minister for Finance and Deregulation) announced the appointment of Brad Orgill to NBN Co's Board, as well as the reappointments of Diane Smith-Gander and Siobhan McKenna are effective from 5 August 2012.

Mr Peter Hay's term as a director and Mr Gene Tilbrook's term as a director and as Chair of the Audit Committee ended on 4 August 2012. Mr Terry Francis was appointed Chair and Mr Tilbrook was appointed as an interim independent member of NBN Co's Audit Committee effective from 5 August 2012.

On 8 August 2012, the Australian Government released NBN Co's updated Corporate Plan for 2012–15.

On 14 August 2012, Mr Clement Doherty resigned as a director.

On 16 August 2012, NBN Co received \$290 million of Commonwealth equity funding.

Except items noted above, no other matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may affect:

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

## Likely developments and results

### Funding

On 22 June 2011, the Commonwealth and NBN Co entered into an equity funding agreement whereby the Commonwealth provided assurances to the company to provide equity funding to the company until 30 June 2021 unless terminated earlier. The Commonwealth has committed to provide funding sufficient to meet the forecast expenditure of the company in the Corporate Plan (which is defined to mean the most recent Corporate Plan of NBN Co endorsed by the Shareholder Ministers).

Following the release of the 2012–15 Corporate Plan on 8 August 2012, the Commonwealth has increased the total funding pursuant to the original equity funding agreement from \$27.5 billion to \$30.4 billion.

### Special Access Undertaking (SAU)

NBN Co lodged a Special Access Undertaking (**SAU**) with the ACCC on 5 December 2011. The proposed SAU covers the NBN Access Service and sets out for a 30 year term, the service description and certain price related and non price related terms and conditions of access.

The proposed SAU has two key objectives:

- Provide an appropriate degree of regulatory certainty to access seekers and NBN Co
- Provide the long term framework reasonably necessary to achieve Uniform National Wholesale Pricing (**UNWP**)

The proposed SAU requires NBN Co to comply with price and non price commitments and to ensure that the standard form of Access Agreements remains aligned with the SAU.

The proposed SAU provides NBN Co with the opportunity to recover prudently incurred costs over time including a rate of return.

In June 2012 NBN Co announced it would submit a revised SAU to take account of industry and ACCC feedback.

### Wholesale Broadband Agreement (WBA)

NBN Co's Wholesale Broadband Agreement (**WBA**) was published as a Standard Form of Access Agreement (**SFAA**) on 30 November 2011 with an initial term that will run for 12 months, unless extended by agreement between the access seeker and NBN Co.

NBN Co has also published the Wireless Trial Agreement, the Interim Satellite Services Agreement, the Satellite Wholesale Broadband Agreement and Testing Terms and Conditions as Standard Form of Access Agreements.

### Other developments

The directors have not included any further information on likely developments or expected future results of the operations of the group where the directors have reasonable grounds to believe that such information would prejudice the interests of the group if such information was included.

### Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

### Environmental issues

The group strives to reduce the impact on the environment in the way the company operates. Business practices have focuses on environmental sustainability and social responsibility, while any business operation including construction is to be implemented in a way that minimises pollution and complies with relevant environmental legislation, industry standards and codes of practice.

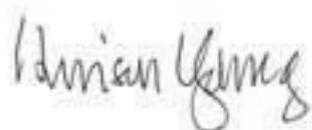
### Auditor independence

The directors received an Independence Declaration from the Auditor-General. A copy of this report has been included with the financial report.

### Non-audit services

No non-audit services have been provided by the Auditor-General or the Australian National Audit Office. Non-audit services provided by the contract auditor, PricewaterhouseCoopers are detailed in Note 21 to the Financial Statements.

Signed in accordance with a resolution of Directors.



**Harrison Young**  
**Chairman**

14 September 2012

# Corporate Governance Statement

NBN Co is a wholly owned Commonwealth Company as defined in the *Commonwealth Authorities and Companies Act 1997*, a Government Business Enterprise (GBE) and a company subject to the *Corporations Act 2001*.



# Corporate Governance Statement

The company and its subsidiaries together are referred to as the group in this statement. The Board of Directors of the company is responsible for the governance practices of the group. A description of the group's main corporate governance practices is set out below.

NBN Co is committed to meeting high standards of corporate governance and its governance practices continue to be designed having regards to amongst other laws:

- *National Broadband Network Companies Act 2011*
- *Commonwealth Authorities and Companies Act 1997*
- *Corporations Act 2001*
- *Telecommunications Legislation Amendment (National Broadband Network Measures – Access Arrangements) Act 2011*
- *Commonwealth Government Business Enterprises Governance and Oversight Guidelines (October 2011) (GBE Guidelines)*
- NBN Co's voluntary adoption of those ASX Corporate Governance Principles and Recommendations (2nd Edition) relevant to NBN Co

A dedicated corporate governance section on the NBN Co website ([www.nbnco.com.au](http://www.nbnco.com.au)) provides information about the company's governance framework and associated practices.

## Our Shareholder

### Ownership

NBN Co is wholly owned by the Commonwealth of Australia.

## Shareholder Ministers

The Shareholder Ministers are the Minister for Broadband, Communications and the Digital Economy and the Minister for Finance and Deregulation.

## Shareholder communication

In compliance with the *Commonwealth Authorities and Companies Act 1997* and GBE Guidelines, NBN Co regularly reports to its Shareholder Ministers. The Shareholder Ministers are publicly accountable and NBN Co is subject to parliamentary scrutiny through parliamentary committees.

Under the GBE guidelines NBN Co submitted its first three year Corporate Plan to its Shareholder Ministers in December 2010 and its second three year Corporate Plan on 6 August 2012. NBN Co intends to continue to present an updated Corporate Plan to its Shareholder Ministers on an annual basis.

NBN Co's Annual Report is submitted to the responsible Minister in accordance with section 36 of the *Commonwealth Authorities and Companies Act 1997*.

The Auditor-General has continued as NBN Co's External Auditor. The Australian National Audit Office (**ANAO**) has contracted with PricewaterhouseCoopers to audit the company and the group on behalf of the Auditor-General.

## Board of Directors

### Role and responsibilities

Establishing and overseeing a sound corporate governance framework is a primary responsibility of the Board.

The Board is responsible for the company meeting its accountability obligations to the Australian Government by submitting corporate plans and annual reports, monitoring compliance with Australian Government policies, and for overseeing the development and implementation of a robust risk management framework.

The Board of Directors for NBN Co is responsible for:

- Monitoring that NBN Co acts within its powers as set out in rule 4.1.2 of NBN Co's constitution
- Supervising and appraising NBN Co's strategies, policies and performance
- Protecting and optimising NBN Co's performance in accordance with any duties and obligations imposed on the directors by law and NBN Co's Constitution

In furthering its governance responsibilities, on 16 March 2012 the Board adopted a charter to describe the respective roles, responsibilities and powers of:

- The Commonwealth and
- The Board, including those matters reserved to the Board and those matters which have been delegated to NBN Co management in the governance of NBN Co

The Board charter is available in the corporate governance section of the NBN Co website.

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

### Board composition

Under rule 5.4.1 of the NBN Co constitution, the Board is to consist of a minimum of three and a maximum of nine directors, including the Chairman. The Chairman is appointed by the Commonwealth from amongst the directors in accordance with rule 7.3.1 of the constitution. Further, section 2.7(b) of the GBE guidelines states that the Chair shall not also be an executive of the GBE, unless otherwise agreed by the Shareholder Ministers. The Board Chairman is not an executive of NBN Co.

Directors are appointed by the Commonwealth and, under rule 5.5.1 of the NBN Co constitution, the term of office of a director is determined by the Commonwealth at the time of appointment, up to a maximum term of three years.

The current Board comprises six non-executive directors and one executive director as at signing date. Details of the current directors and company secretary, including names, appointments dates and term expiration dates, together with directors' remuneration are included in the Directors' Report on pages 28 to 45 of the Annual Report.

### Board, committees and individual directors' performance

The Board has agreed that there should be regular reviews of its performances and processes. The first annual review of the performance of the whole of Board, Board committees and individual directors was completed in 2011.

### Board diversity

In accordance with its obligations under the *Commonwealth Government Business Enterprise Governance and Oversight Guidelines (October 2011)* and cognisant of the Commonwealth Government's commitment to forty percent representation of women on Government boards by 2015, the Board of Directors of NBN Co through its Nominations Committee, provides its Shareholder Ministers with recommendations on Board composition and membership. In making recommendations to the Shareholder Ministers, the Board endeavors to achieve a balance of relevant skills in the areas of telecommunications, civil construction, financial, legal, media/public relations and information technology.

# Corporate Governance Statement

## Director induction and education

NBN Co has an induction program for new directors which is reviewed periodically by the company secretary. Mr Richard (Rick) Turchini was appointed as a director on 14 September 2011, other than this appointment there were no other appointments to the Board of NBN Co during the period 1 July 2011 to 30 June 2012. Ongoing education for directors was delivered through individual briefings, presentations made by NBN Co senior executives and directors visiting some of NBN Co's operational locations.

## Subsidiaries

The activities of each subsidiary in the group are overseen by their own board of directors. These boards comprise senior management personnel of NBN Co and directors appointed by the Australian Government and NBN Co.

## Conflict of interest

Directors with a material personal interest in a matter being presented to the Board or a committee for consideration are required to declare this interest and absent themselves while this matter is being considered. Any disclosures made by directors are minuted.

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

## Independent professional advice

With the prior written consent of the Chairman, a director may seek independent professional advice at NBN Co's expense on a matter related to the director's responsibilities.

Each director has the right to access senior management and all group information as is relevant to meet the director's responsibilities.

## Board committees

To assist in the performance of its responsibilities, the Board has established a number of Board committees, being the:

- Audit Committee established on 13 August 2009
- Communications Committee established on 21 April 2011
- Implementation Committee established on 16 July 2010
- Nomination Committee established on 11 February 2011
- People and Performance Committee established on 11 September 2009

Committee charters are made available in the corporate governance section of the NBN Co website as they become available. Each committee must review its charter annually. Any proposed changes to a committee charter must be approved by the Board.

All directors have access to committee papers and minutes via NBN Co's Board portal.

## Audit Committee

The committee provides assurance to the directors that NBN Co is complying with its financial management and reporting obligations under the *Commonwealth Authorities and Companies Act 1997* and the *Corporations Act 2001* and provides a forum for communication between the directors, senior managers and auditors (internal and external) of NBN Co. The committee consists of at least three members, the majority being independent non-executive directors. For independence purposes, the chair of the Audit Committee is neither the chair of the company nor an executive director of NBN Co.

The committee supervises and reviews the effective management of financial risks, the establishment and maintenance of effective and efficient internal and external audit processes and management's establishment and operation of an enterprise-wide risk management framework.

The membership of the committee, the number of meetings of the committee held during the period from 1 July 2011 to 30 June 2012 and the number of meetings attended is set out in the Directors' Report on page 33.

### Communications Committee

The committee assists the Board in fulfilling its governance responsibilities by supervising the external communications of the company and of its subsidiaries to all stakeholders other than Retail Service Providers.

The committee consists of two independent non-executive directors.

The membership of the committee, the number of meetings of the committee held during the period from 1 July 2011 to 30 June 2012 and the number of meetings attended is set out in the Directors' Report on page 33.

### Implementation Committee

The committee assists the Board in fulfilling its governance responsibilities by monitoring and supporting management of NBN Co in the areas of procurement, construction, activation, maintenance and other matters relating to health, safety and environmental risks or issues.

The committee consists of at least three members, two of whom are to be independent non-executive directors.

The membership of the committee, the number of meetings of the committee held during the period from 16 July 2011 to 30 June 2012 and the number of meetings attended is set out in the Directors' Report on page 34.

### Nominations Committee

Through the Board, the committee provides the Shareholder Ministers with recommendations on Board composition, the appointment and re-election of directors, preferred candidates for CEO and succession planning for directors and the CEO.

The committee is chaired by the Chairman of the Board and comprises two additional non-executive directors.

The membership of the committee, the number of meetings of the committee held during the period from 1 July 2011 to 30 June 2012 and the number of meetings attended is set out in the Directors' Report on page 34.

### People and Performance Committee

The committee assists the Board in fulfilling its governance responsibilities in relation to establishing people management and remuneration policies for NBN Co and its subsidiaries. Summaries of these policies are available on the corporate governance section of the NBN Co website.

The committee consists of at least two members, and where more the majority being independent non-executive directors.

The membership of the committee, the number of meetings of the committee held during the period from 1 July 2011 to 30 June 2012 and the number of meetings attended is set out in the Directors' Report on page 34.

# Corporate Governance Statement

## Accountability and audit

### External audit

Under section 35 of the *Commonwealth Authorities and Companies Act 1997*, the Auditor-General is responsible for auditing the financial statements of NBN Co and its subsidiaries. In addition, NBN Co's Annual Reports are tabled in Parliament and its financial accounts lodged with the Australian Securities and Investments Commission. The Australian National Audit Office (ANAO) has contracted with PricewaterhouseCoopers to audit the company and the group on behalf of the Auditor-General.

The group applied audit independence principles in relation to the external auditors.

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

- Discuss the external audit plans, identify any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements
- Review the results and findings of the auditor, the adequacy of accounting and financial controls, and monitor the implementation of any recommendations made
- Finalise annual reporting, review the preliminary financial report prior to sign-off and any significant adjustments required as a result of the auditor's findings

### Internal control framework

The Board is responsible for the overall internal control framework and for reviewing its effectiveness, but recognises that no cost effective internal control system will preclude all errors and irregularities. The systems are intended to provide appropriate assurance on:

- Accuracy and completeness of financial reporting
- Safeguarding of assets
- Maintenance of proper accounting records
- Segregation of roles and responsibilities
- Compliance with applicable legislation, regulation and best practice
- Identification and mitigation of business risks

A number of internal controls have been implemented to provide for the accuracy of financial reporting and business system integrity. These internal controls take the form of appropriate financial delegations, financial planning and reporting, compliance with appropriate procurement standards, strategic planning and operational planning and internal audit practices.

Prior to the approval of the annual financial statements by the Board of Directors, the CEO and the CFO provide confirmation in writing that the statements are of the highest integrity. This confirmation is based on risk management and internal compliance and control systems that have been implemented.

### Internal audit

During the year NBN Co appointed a General Manager – Internal Audit. The General Manager – Internal Audit has transitioned the internal audit function from an outsource function to a co-source model. Following a tender process, KPMG has been appointed NBN Co's primary co-sourced Internal Audit provider from 1 July 2012 for a period of 3.5 years.

An annual internal audit plan is presented to, and endorsed annually, by the Audit Committee. Outcomes of the internal audit reviews are provided to the Committee for its review. The General Manager – Internal Audit has the opportunity to meet with Committee members to discuss matters *in camera*.

## Risk management

A Risk Management Policy consistent with *Standards Australia AS/NZS ISO 31000: 2009 Risk management – Principles and Guidelines*, an international benchmark for the implementation of enterprise wide risk management, has been adopted. The policy will contribute to the development of a sound system of risk identification, review, management and internal control together with the associated culture, processes and structures to support achievement of NBN Co's business objectives.

A summary of the Risk Management Policy can be found in the corporate governance section of the NBN Co website.

It is the role of the Audit Committee to oversee the risk management framework. The Board of Directors confirms that management has reported as to the effectiveness of the management of the key business risks facing NBN Co.

## Treasury

A Treasury Policy, which establishes a prudential framework providing guidelines, controls and reporting systems for the management of the company's treasury operations has been adopted. The primary objectives of the Treasury Policy is to provide clear guidelines for making investment decisions, allow for operational guidelines within the Treasury function for approval and management, and provide accurate and timely reporting.

## Certification by Chief Executive Officer and Chief Financial Officer

In accordance with NBN Co's Risk Management Policy, the Chief Executive Officer and the Chief Financial Officer provide a letter of representation to the Board in respect of the adequacy and effectiveness of NBN Co's risk management, internal compliance and control systems.

Based on the evaluation performed as at 30 June 2012, the Chief Executive Officer and the Chief Financial Officer concluded that, as of the evaluation date, such risk management, internal compliance and control systems were reasonably designed so that the Financial Statements and notes of the group are in accordance with the *Commonwealth Authorities and Companies Act 1997* and the *Corporations Act 2001* and there are reasonable grounds to believe the group will be able to pay its debts as and when they fall due.

## Ethical standards

### Code of Conduct

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

NBN Co has put in place a Code of Conduct, which outlines expected standards of workplace behaviour. The Code of Conduct was created to promote a safe, healthy and productive workplace and is underpinned by the NBN Co values; in particular, trust and integrity through behaviours that encourage respect. A copy of the Code of Conduct can be found in the corporate governance section of the NBN Co website.

### Fraud reporting

The *Commonwealth Fraud Control Guidelines – 2011* outline the Government's requirements for Commonwealth agencies to put in place a comprehensive fraud control program that covers prevention, detection, investigation and reporting strategies. In addition, NBN Co has adopted a methodology consistent with the relevant recognised standards of AS 8001-2008: *The Australian Standard on Fraud and Corruption Control* and the AS/NZS ISO 31000:2009 *Risk Management – Principles and Guidelines*. As a Government Business Enterprise (GBE), NBN Co is committed to applying and adhering to these standards and as such, has a zero tolerance approach to fraudulent and/or corrupt behaviour.

# Corporate Governance Statement

NBN Co's Fraud Policy contributes to the development of a system for the sound management of fraud risk and details the requirements and responsibilities for the prevention, detection and response to fraud. In addition, the policy seeks to promote behaviour that is consistent with the Code of Conduct and allows NBN Co to act appropriately and consistently in the investigation and reporting of suspected fraudulent activity.

## Whistleblowing Policy

NBN Co has a Whistleblowing Policy. The policy was created to promote and maintain an open working environment in which employees and directors (whether they are full-time, part-time or casual) are able to raise concerns regarding actual, unethical, unlawful or undesirable conduct. An open working environment is underpinned by the NBN Co core values including trust and integrity.

## Privacy

NBN Co has a detailed Privacy Policy which is published on the NBN Co website. The Privacy Policy is designed to tell those who interact with NBN Co what will happen to the information they provide through the website or through any other form of communication with NBN Co, its wholly owned subsidiaries, agents or contractors. NBN Co has a privacy officer who responds to enquiries and requests for personal information as they arise. NBN Co is committed to compliance with privacy law in order to safeguard the personal information of individuals and to foster a corporate culture that values privacy.

## Competition Law

Compliance with the *Competition and Consumer Act 2010* (previously the *Trade Practices Act 1974*) and the other regulatory obligations applying to NBN Co is a key focus for NBN Co, including NBN Co's obligations to supply certain services and undertake related activities on a non-discriminatory basis.

## Gender diversity

The People and Performance Committee as part of its review of key policies, agreed to voluntarily adopt the ASX Corporate governance guidelines with respect to diversity.

As at 30 June 2012 diversity metrics showed that within NBN Co's workforce, women comprised:

- 28% of all employees
- 20% of all managers
- 17% of senior managers

## Value for money

NBN Co is a Government Business Enterprise and as such key principles regarding, for example, value for money, efficiency, transparency and competition are central to its buying decisions.

NBN Co policies relevant to procurement are mandatory so that all NBN Co expenditure should comply with the Delegations of Authority and agreed principles, ethics and audit requirements.

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

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

**Encouraging competition** – Drive supplier performance through an effective competitive framework, so that all suppliers have an opportunity to compete based on their legal, commercial, technical and financial capabilities. Allow supplier models to encourage competition over the long-term.

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

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

**Accountability and transparency** – Any procurement process is open and transparent, undertaken in an ethical manner, avoiding potential conflicts of interest and auditable as required.

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

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



Harrison Young  
Chairman of the Board  
NBN Co Limited  
Level 11, 100 Arthur Street  
North Sydney NSW 2060  
Australia

**NBN CO LIMITED FINANCIAL REPORT 2011-12  
AUDITOR'S INDEPENDENCE DECLARATION**

In relation to my audit of the consolidated financial report of the NBN Group (comprising NBN Co Limited and the entities it controlled at the year's end or from time to time during the financial year) for the year ended 30 June 2012, to the best of my knowledge and belief, there have been:

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

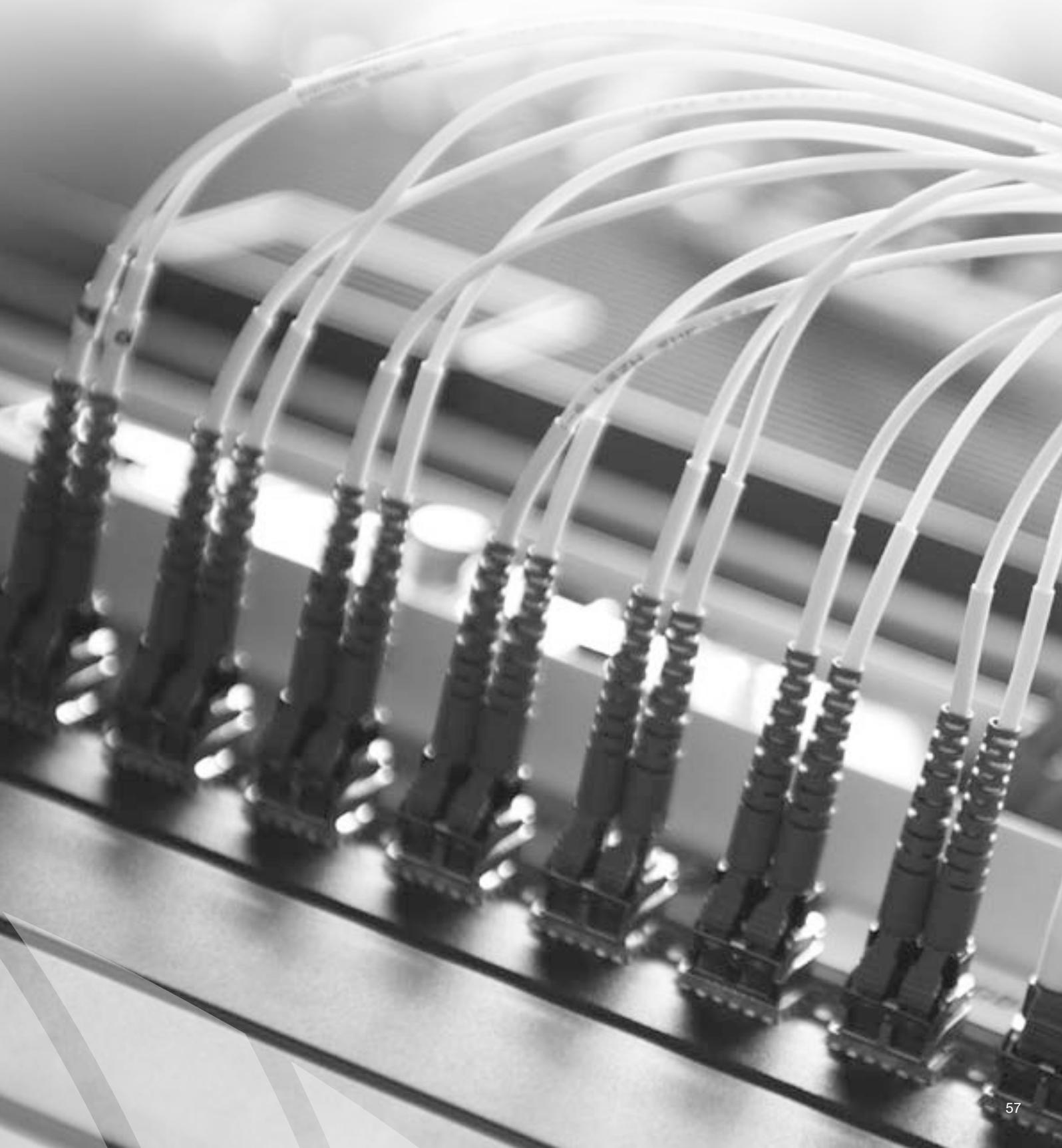
Australian National Audit Office

Warren J. Cochrane  
Group Executive Director

Delegate of the Auditor-General

Sydney  
14 September 2012

# Financial Statements



## Statement of Comprehensive Income

For the year ended 30 June 2012

	Notes	NBN Group	
		Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
<b>Revenue</b>			
Telecommunication revenue	3	1,924	-
Other revenue	3	19	-
Interest income	3	60,164	32,616
<b>Total Revenue</b>		<b>62,107</b>	<b>32,616</b>
Direct telecommunications costs		(64,991)	(5,591)
Employee benefits expenses	4	(222,110)	(118,883)
External services costs – systems and organisation costs		(67,809)	(107,095)
Legal and negotiation support costs		(21,472)	(54,082)
IT and communications expenses		(71,497)	(23,873)
Occupancy expenses		(24,801)	(13,279)
Travel costs		(12,615)	(6,777)
Insurance expense		(2,846)	(1,242)
Depreciation and amortisation expense	4	(73,940)	(19,249)
Other expenses	4	(20,828)	(5,766)
Finance costs	4	(6,143)	-
<b>Total Expenses</b>		<b>(589,052)</b>	<b>(355,837)</b>
<b>(Loss) before income tax</b>		<b>(526,945)</b>	<b>(323,221)</b>
Income tax (expense)/benefit	5	6,740	-
<b>(Loss) for the year</b>		<b>(520,205)</b>	<b>(323,221)</b>
<b>(Loss) attributable to the shareholders</b>		<b>(520,205)</b>	<b>(323,221)</b>
<b>Other comprehensive income/(loss)</b>			
Changes in the fair value of cash flow hedges	20	22,466	-
Income tax relating to components of other comprehensive income		(6,740)	-
<b>Total other comprehensive income/(loss) for the year, net of tax</b>		<b>15,726</b>	<b>-</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>(504,479)</b>	<b>(323,221)</b>
<b>Total comprehensive income/(loss) attributable to the shareholders</b>		<b>(504,479)</b>	<b>(323,221)</b>

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

## Balance Sheet

For the year ended 30 June 2012

	<i>Notes</i>	<b>NBN Group</b>	
		Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
<b>Current assets</b>			
Cash and cash equivalents	6	778,952	538,237
Trade and other receivables	7	26,865	19,005
Inventory	8	1,672	1,660
Derivative financial assets	9	11,938	-
Held to maturity investment	10	75,000	-
Other	11	21,452	35,665
<b>Total current assets</b>		<b>915,879</b>	<b>594,567</b>
<b>Non-current assets</b>			
Trade and other receivables	7	1,029	2,214
Derivative financial assets	9	10,528	-
Property, plant & equipment	12	1,027,745	232,765
Intangible assets	13	504,162	250,803
Other	11	8,068	2,325
<b>Total non-current assets</b>		<b>1,551,532</b>	<b>488,107</b>
<b>Total assets</b>		<b>2,467,411</b>	<b>1,082,674</b>
<b>Current liabilities</b>			
Trade and other payables	15	276,991	109,356
Other financial liabilities	16	4,942	-
Provisions	18	16,265	7,115
<b>Total current liabilities</b>		<b>298,198</b>	<b>116,471</b>
<b>Non-current liabilities</b>			
Other financial liabilities	16	232,441	-
Provisions	18	12,446	7,398
<b>Total non-current liabilities</b>		<b>244,887</b>	<b>7,398</b>
<b>Total liabilities</b>		<b>543,085</b>	<b>123,869</b>
<b>Net assets</b>		<b>1,924,326</b>	<b>958,805</b>
<b>Equity</b>			
Contributed equity	19	2,832,000	1,362,000
Other reserves	20	15,726	-
(Accumulated losses)	20	(923,400)	(403,195)
<b>Total equity</b>		<b>1,924,326</b>	<b>958,805</b>

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

## Statement of Changes in Equity

For the year ended 30 June 2012

	<i>Notes</i>	<b>NBN Group</b>			Total equity \$'000
		Accumulated losses \$'000	Contributed equity \$'000	Other reserves \$'000	
<b>Balance at 30 June 2010</b>		<b>(79,974)</b>	<b>312,000</b>	-	<b>232,026</b>
Loss for the year	20	(323,221)	-	-	(323,221)
Contributions of equity, net of transaction costs	19	-	1,050,000	-	1,050,000
<b>Balance at 30 June 2011</b>		<b>(403,195)</b>	<b>1,362,000</b>	-	<b>958,805</b>
Loss for the year	20	(520,205)	-	-	(520,205)
Other comprehensive income	20	-	-	15,726	15,726
Contributions of equity, net of transaction costs	19	-	1,470,000	-	1,470,000
<b>Balance at 30 June 2012</b>		<b>(923,400)</b>	<b>2,832,000</b>	<b>15,726</b>	<b>1,924,326</b>

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

## Statement of Cash Flows

For the year ended 30 June 2012

	<i>Notes</i>	<b>NBN Group</b>	
		Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (incl GST)		1,655	-
Payments to suppliers and employees (incl GST)		(482,917)	(367,693)
GST received		48,978	23,451
Other revenue		1,286	-
Interest received		53,736	27,623
Interest paid		(15)	-
<b>Net cash (used in) operating activities</b>	<b>26</b>	<b>(377,277)</b>	<b>(316,619)</b>
<b>Cash flows from investing activities</b>			
Payment for held to maturity investments		(75,000)	-
Payment for property, plant and equipment		(462,439)	(167,364)
Payment for intangibles		(314,027)	(240,110)
<b>Net cash (used in) investing activities</b>		<b>(851,466)</b>	<b>(407,474)</b>
<b>Cash flows from financing activities</b>			
Payment for finance leases and right of use licences		(542)	-
Equity injection for ordinary shares by the Commonwealth of Australia		1,470,000	1,050,000
<b>Net cash provided by financing activities</b>		<b>1,469,458</b>	<b>1,050,000</b>
<b>Net increase in cash and cash equivalents</b>		<b>240,715</b>	<b>325,907</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>6</b>	<b>538,237</b>	<b>212,330</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>6</b>	<b>778,952</b>	<b>538,237</b>

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

## Schedule of Commitments

For the year ended 30 June 2012

	Notes	NBN Group	
		Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
<b>By type</b>			
<b>Equity Funding</b>			
Expected equity funding	24	24,668,000	26,138,000
<b>Total equity funding</b>		<b>24,668,000</b>	<b>26,138,000</b>
<b>Commitments payable - Capital</b>			
Leasehold Improvements		1,026	1,742
Network Assets		837,253	118,396
<b>Total capital commitments</b>		<b>838,279</b>	<b>120,138</b>
<b>Commitments payable - Intangible</b>			
Software		32,422	114,703
<b>Total intangible commitments</b>		<b>32,422</b>	<b>114,703</b>
<b>Commitments payable - Other</b>			
Operating leases		169,895	96,324
Finance leases and right of use licences		2,730,944	-
Other commitments		157,937	43,612
<b>Total other commitments</b>		<b>3,058,776</b>	<b>139,936</b>
<b>Total commitments payable</b>		<b>3,929,477</b>	<b>374,777</b>
<b>By maturity</b>			
<b>Expected equity funding</b>			
Within one year		5,788,000	3,438,000
From one to five years		17,500,000	18,700,000
Over five years		1,380,000	4,000,000
<b>Total expected equity funding</b>		<b>24,668,000</b>	<b>26,138,000</b>
<b>Commitments payable - Capital</b>			
Within one year		427,254	109,409
From one to five years		411,025	10,728
<b>Total capital commitments</b>		<b>838,279</b>	<b>120,138</b>
<b>Commitments payable - Intangible</b>			
Within one year		17,605	105,691
From one to five years		14,817	9,013
<b>Total intangible commitments</b>		<b>32,422</b>	<b>114,703</b>
<b>Commitments payable - Operating lease</b>			
Within one year		24,421	13,494
From one to five years		82,422	57,334
Over five years		63,052	25,495
<b>Total operating lease commitments</b>		<b>169,895</b>	<b>96,324</b>
<b>Commitments payable - Finance lease and right of use licences</b>			
Within one year		2,145	-
From one to five years		616,457	-
Over five years		2,112,342	-
<b>Total other commitments</b>		<b>2,730,944</b>	<b>-</b>
<b>Commitments payable - Other</b>			
Within one year		143,811	40,694
From one to five years		13,528	2,918
Over five years		598	-
<b>Total other commitments</b>		<b>157,937</b>	<b>43,612</b>
<b>Total commitments payable</b>		<b>3,929,477</b>	<b>374,777</b>

The above statement should be read in conjunction with the accompanying notes, with specific reference to Notes 22, 23 and 24.

## Notes to the Financial Statements

### 1. Summary of significant accounting policies

NBN Co Limited (**the company, NBN Co or parent entity**) is an unlisted public company incorporated and domiciled in Australia. It is a company limited by shares and is wholly owned by the Commonwealth of Australia. The consolidated financial statements for the year ended 30 June 2012 comprise the company and its subsidiaries (together referred to as **the NBN Group or the consolidated entity**).

#### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with 1) Australian Accounting Standards (including Australian Interpretations) issued by the Australian Accounting Standards Board; 2) the *Corporations Act 2001* and 3) the *Commonwealth Authorities and Companies Act 1997*. NBN Co Limited is a for-profit entity for the purpose of preparing the financial report.

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

The financial report is presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise stated.

#### (b) Statement of Compliance

The consolidated financial report of the NBN Group complies with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

NBN Co is incorporated under the *Corporations Act 2001* and is subject to (inter alia) the *National Broadband Network Companies Act 2011*. Financial Statements are also required by section 36 of the *Commonwealth Authorities and Companies Act 1997*.

The following reforms and new or revised standards are applicable to the company for the current reporting period and had a financial impact on the group:

- AASB 124 Related party disclosures
- AASB 1054 Australian Additional Disclosures
- AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project

None of the items in the financial statements had to be restated as the result of applying the standards.

### *Future Australian Accounting Standard Requirements*

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The group's assessment of the impact of these new standards and interpretations is set out below.

(i) *AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)*

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 (In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 shortly but it is available for early adoption).

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The group has not yet decided when to adopt AASB 9.

(ii) *AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)*

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

(iii) *AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013).*

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both.

Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships.

The group does not expect the new standard to have a significant impact on its composition.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted.

Parties to a joint operation will account for their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

AASB 11 will not have any impact on the amounts recognised in the NBN Group's financial statements because there are no joint arrangements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements as the group does not have investments.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. This does not have any impact on the group because there are no joint arrangements.

New accounting standards, amendments to standards, or interpretations for the current reporting period which are not disclosed have no material financial impact and are not expected to have a future financial impact on the group.

### **(c) Principles of consolidation**

#### *Subsidiaries*

The consolidated financial report incorporates the assets and liabilities of all subsidiaries of NBN Co Limited as at 30 June 2012 and the results of all subsidiaries for the year then ended. NBN Co Limited and its subsidiaries together are referred to in this financial report as the NBN Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the NBN Group has the power to govern the financial and operating policies, generally accompanied by a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

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

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

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

Investments in subsidiaries are accounted for at cost in the financial report of NBN Co Limited.

**(d) Revenue recognition**

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

Revenue is recognised for the major activities as follows:

*(i) Telecommunication revenue*

Revenue from the provision of telecommunications services includes network access and other services and facilities provided, such as voice, data and connectivity components. Telecommunication revenue is recognised in the accounting period in which the services are rendered.

*(ii) Interest income*

NBN Group records interest revenue on an accruals basis. For financial assets, interest revenue is determined by the effective yield on the instrument.

*(iii) Other revenue*

Lease income from operating leases where the NBN group is a lessor is recognised on a straight line basis over the lease term.

**(e) Foreign currency translation**

Foreign currency transactions are translated into the functional currency 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 the Statement of Comprehensive Income.

**(f) Cash and cash equivalents**

For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid

investments with original maturities of four months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**(g) Trade and other receivables**

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

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

**(h) Inventory**

Finished goods include spare parts to be used in maintaining the telecommunication network. Costs are assigned to individual items of inventory on the basis of weighted average costs. NBN Co values inventories at the lower of cost and net realisable value.

**(i) Derivatives and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The NBN Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges), or
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges)

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 27. Movements in the hedging reserve in shareholders' equity are shown in Note 20. 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; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

### *Cash flow hedge*

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

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast purchase that is hedged takes place). When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset.

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

### **(j) Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost comprises expenditure that is directly attributable to the acquisition of the items.

Cost includes expenditure that is directly attributable to the acquisition of the asset including the costs of materials and direct labour, and initial estimates of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets under construction are recorded at cost.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All repairs and maintenance are charged to the Statement of Comprehensive Income during the reporting period in which they are incurred.

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

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

NBN Co has assessed the useful life of assets as follows:

Asset type	Useful life
Network assets	
Active network assets	6-35 years
Passive network assets	15-35 years
Civil works	30-40 years
Wireless assets	6-15 years
Satellite assets	5-15 years
Leasehold improvements	Lower of lease term and/or 5-35 years
Buildings	Lower of lease term and/or 50 years
Machinery and equipment	5-15 years
Furniture and fittings	3-10 years
IT equipment	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Statement of Comprehensive Income.

**(k) Intangible assets**

*(i) Internally generated intangible assets*

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the group can demonstrate the 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 and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

*(ii) Software assets*

Direct costs associated with the development of business software for internal use are recorded as software assets if the development costs satisfy the criteria for capitalisation described above. Costs included in software assets developed for internal use are:

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

Software assets developed for internal use have a finite life and are amortised on a straight line basis over their useful lives. Amortisation commences once the software is ready for use in the manner intended by the NBN Group.

*(iii) Acquired intangible assets*

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

Intangible assets that are considered to have a finite life are amortised on a straight line basis over the period of expected benefit.

*(iv) Amortisation*

The amortisation periods of identifiable intangible assets are as follows:

<b>Identifiable intangible assets</b>	<b>Useful life</b>
Software assets	3-8 years
Telecommunications licences	Term of licence

The service lives of identifiable intangible assets are reviewed each year. Any reassessment of service lives in a particular year will affect the amortisation expense through to the end of the reassessed useful life for both that current year and future years.

In relation to acquired intangible assets, management judgement is applied to determine the amortisation period based on the expected useful lives of the respective assets. In some cases, the useful lives of certain acquired intangible assets are supported by external valuation advice on acquisition.

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

**(I) Impairment of assets**

*(i) Non-financial assets*

Tangible and intangible assets (excluding inventories, assets arising from current and deferred tax assets and financial assets) are measured using the cost basis and are written down to recoverable amount where their carrying value exceeds recoverable amount.

Assets with an indefinite useful life and assets which are not yet subject to amortisation are tested on an annual basis for impairment, or where an indication of impairment exists. Assets that are subject to amortisation are reviewed for impairment wherever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use. Value in use represents the present value of the future amount expected to be recovered through the cash inflows and outflows arising from the asset's continued use and subsequent disposal. Any reduction in the carrying value is recognised as an expense in the income statement in the reporting period in which the impairment loss occurs.

In determining value in use, management judgement is used in establishing forecasts of future operating performance, as well as the selection of growth rates, terminal rates and discount rates. These judgements are applied based on the group's understanding of historical information and expectations of future performance.

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 NBN Group's CGUs are determined according to the lowest level of aggregation for which the cash inflows are independent of cash inflows from other assets.

Management judgement has been used to establish the NBN Group's CGUs. NBN Co has determined that assets which form part of the national telecommunications network work together to generate net cash flows. No one item of telecommunications equipment is of any value without the other assets to which it is connected in order to achieve the delivery of products and services. As a result, NBN Co has determined that the ubiquitous telecommunications network is a single CGU. This CGU is referred as the NBN Co Entity CGU in the financial report.

#### **(m) Leases**

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

Leases of property, plant and equipment (including network infrastructure), where the NBN Group as lessee has substantially all the risks and rewards of ownership are classified as finance leases (Note 16). Finance leases are capitalised at the lease's inception or on hand over of relevant infrastructure (Note 23) at the fair value of the leased property or, if lower, the present value of the minimum lease payments. At inception key elements of the lease arrangements such as interest rate, lease term and valuation methodology are assessed. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment (including network infrastructure) acquired under finance leases are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the NBN group will obtain ownership at the end of the lease term. Depreciation on network and non-network assets under lease commences when they are installed and ready for use, otherwise termed as "in service". Depreciation on buildings under lease commences on the date of lease commencement.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the NBN Group as lessee are classified as operating leases (Note 17). Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

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

#### **(n) Commitments**

The value of commitments as disclosed in the Schedule of Commitments includes:

- i) amounts which represent an open purchase order in accordance with a supply contract
- ii) the value of the purchase order to the extent that NBN Co would be required to pay for goods or services to be delivered, subject to any termination rights
- iii) amounts payable under non-cancellable operating leases for premises
- iv) future finance charges for finance lease arrangement of premises and infrastructure
- v) any contracted amounts subject to a minimum order quantity
- vi) any non-cancellable fixed price contracts

The value of commitments has been determined in accordance with the judgement and estimates as disclosed in Note 2 of the financial report.

#### **(o) Financial liabilities**

Trade payables and accruals are recognised at amortised cost using the effective interest method. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

#### **(p) Contingent assets and contingent liabilities**

Contingent assets and contingent liabilities are not recognised in the Balance Sheet but are reported in Note 22. 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 probability of settlement is greater than remote.

#### **(q) Trade and other payables**

These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are initially recognised at their fair value and carried at amortised cost using the effective interest method.

## **(r) Provisions**

Provisions are recognised when the NBN Group has:

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

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

## **(s) Employee Benefits**

### *(i) Short term employee benefit obligations*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised as provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

### *(ii) Long-term employee benefit obligations*

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and 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 expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency to match, as closely as possible, the estimated future cash flows.

The obligations are presented as current liabilities in the balance sheet if the NBN Group does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

### *(iii) Retirement benefit obligations*

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

### *(iv) Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date. The NBN Group recognises termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal.

**(t) Share capital**

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 are designated as equity injections for the financial period, are recognised directly in contributed equity and do not form part of comprehensive income in that financial period.

**(u) Taxation**

*(i) Income tax*

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

*(ii) Tax consolidation legislation*

NBN Co Limited and its wholly owned subsidiaries have formed a tax consolidated group, with NBN Co Spectrum Pty Ltd joining the consolidated group from the time of its acquisition by NBN Co Limited. The head entity, NBN Co Limited, and the subsidiaries in the tax consolidated group account for their own current and deferred tax amounts arising from temporary differences. In addition NBN Co Limited accounts for any deferred tax assets arising from unused tax losses and tax credits for all entities in the tax consolidated group. Refer to Note 5 for further tax consolidation disclosures.

*(iii) 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 Balance Sheet.

Cash flows are presented on a gross basis. 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.

**(v) Financial assets**

The NBN Group classifies financial assets as 'cash and cash equivalents', 'interest receivable', 'other receivables' and 'held to maturity investments'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Interest receivable and other receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Held to maturity investments are non derivative financial assets with fixed maturities that the NBN Group's management has the intention and ability to hold to maturity.

**(w) Acquisition of assets**

Assets are recorded at cost on acquisition. The cost of acquisition includes the fair value of assets transferred in exchange for liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

**(x) Rounding of amounts**

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

**(y) Segment reporting**

AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 require segment information to be reported based on the information that is provided internally to the chief operating decision maker. These standards apply to for-profit entities whose debt or equity instruments are traded in a public market or that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market. As the NBN Group does not fall under this definition, segment information is not required.

**(z) Parent entity financial information**

The financial information for the parent entity, NBN Co Limited, disclosed in Note 30 has been prepared on the same basis as the consolidated financial statements except as those set out below.

*(i) Investments in subsidiaries, associates and joint ventures entities*

Investments in subsidiaries, associates and joint ventures entities are accounted for at cost in the financial statements of NBN Co Limited.

*(ii) Tax consolidation legislation*

NBN Co Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, NBN Co Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, NBN Co Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused credits assumed from controlled entities in the tax consolidated group.

## 2. Significant accounting judgements, estimates and assumptions

### *Accounting estimates*

In the process of applying the accounting policies listed in this note, the NBN Group has made certain judgements on the amounts recorded in the financial report. Estimates made in relation to the NBN Group financial report are to non-financial assets, employee provisions and disclosures of off balance sheet arrangements, including lease liabilities, contingent assets and contingent liabilities.

The principal accounting estimates adopted in the preparation of this financial report are set out below. These estimates have been consistently applied to all the periods presented, unless otherwise stated.

### *Make good provisions*

Assumptions have been made in arriving at the best estimate of the likely costs to “make good” premises which are currently occupied under an operating or finance lease and to decommission very small aperture terminals (**VSATs**) installed under the First Release Satellite Solution. For leased premises such estimates involve forecasting the average restoration cost per square metre and are dependent on the nature of the premises occupied. For VSATs NBN Group have forecast the average restoration cost per VSAT installed. The provisions recognised are periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs are recognised in the balance sheet by adjusting both the expense or asset and provision. The related carrying amount is disclosed in Note 18(b).

### *Employee benefits*

As discussed in Note 1(s)(ii), the liability for long service leave is recognised as the present value of the estimated future long service leave cash flows to be made in respect of all employees as at balance date. In determining the present value of the liability, attrition rates and pay increases through inflation have been taken into account.

### *Capitalisation of labour*

Assumptions have been made in arriving at the rate at which internal labour is recovered against capital projects. Such estimates involve a review of the average employee benefits for those employees directly involved in bringing the construction or acquisition of the item of property, plant and equipment or the internal generated intangible assets to its intended location and condition for it to be capable of operating in the manner intended by management. The labour rates are periodically reviewed and updated based on the facts and circumstances available at the time. The NBN Group tests annually whether any asset has suffered any impairment in accordance with the accounting policy stated in Note 1(l).

#### *Estimate of the present value of minimum lease payments*

A number of assumptions have been made in arriving at the present value of minimum lease payments (**MLP**) associated with network infrastructure right of use licences. In determining the present value of the MLP, a discount rate representing the company's estimated incremental cost of debt has been applied, over a term of up to 35 years. A proportion of the MLP has been expensed directly to network infrastructure repairs and maintenance costs. Where lease commitments extend beyond the following twelve months, expected liabilities have not been indexed where they are subject to a variable rate of change.

#### *Estimate of depreciation and amortisation of in-service assets yet to be fully capitalised*

Estimates have been made of the amount of depreciation and amortisation that is expected to have been incurred for assets that have been placed into service for which the asset capitalisation process is not fully complete. The amount of depreciation or amortisation recognised as an expense is based on the estimated capital cost expected to be incurred in bringing the assets to its intended location and condition for it to be capable of operating in the manner intended. The rates applied to the expected capital costs to be incurred are the same as those applied to capitalised assets. Depreciation and amortisation is calculated in line with Note 1(j) and 1(k) and further detail per asset category is disclosed in Note 12 and 13.

#### *Impairment*

The NBN Group assesses annually whether there is any indicator that its national telecommunications network has suffered any impairment, in accordance with the accounting policy stated in Note 1(l). At 30 June 2012, the NBN Group was carrying \$97,403,000 of intangible assets not yet available for use and the recoverable amount has been determined based on fair value calculations. These calculations require the use of assumptions. Refer to Note 14 for impairment detail.

#### *Deferred tax*

The NBN Group is in the early stages of its life cycle, and accordingly significant judgement is required in determining the provision for income taxes, including the accounting for deferred income tax benefits arising from losses incurred during the establishment and development of the network. The group only recognises the deferred tax benefits relating to carried forward tax losses to the extent there are sufficient taxable profits in the foreseeable future against which unused tax losses can be utilised. The utilisation of tax losses also depends on the ability of the group to satisfy certain tests at the time the losses are recouped. Management has internal models forecasting future taxable profits which are, by the nature of the business model, many years into the future. Accordingly, at the current time the group has not recognised a deferred tax asset relating to current tax losses.

#### *Commitments*

The NBN Group has assessed its commitments on the basis that it is a going concern and that the current objectives of the NBN Co Corporate Plan will be realised. Where commitments extend beyond the following twelve months, expected liabilities have not been indexed where they are subject to a variable rate of change.

### 3. Income

	<b>NBN Group</b>	
	Year ended	Year ended
	30 June 2012	30 June 2011
	\$'000	\$'000
Telecommunication revenue	1,924	-
Other revenue	19	-
Interest income	60,164	32,616
<b>Total</b>	<b>62,107</b>	<b>32,616</b>

## 4. Expenses

	<b>NBN Group</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
Employee benefits		
Defined contribution superannuation expense	(15,056)	(6,302)
Other employee benefits	(207,054)	(112,581)
<b>Total employee benefits</b>	<b>(222,110)</b>	<b>(118,883)</b>
Other expenses		
Accounting and audit fees	(1,823)	(752)
Communication and marketing campaigns	(11,226)	(2,598)
Directors fees and board expenses	(2,633)	(561)
Occupational, health and safety	(1,105)	(356)
Printing, postage and courier	(1,163)	(499)
Other expenses	(2,878)	(1,000)
<b>Total other expenses</b>	<b>(20,828)</b>	<b>(5,766)</b>
Depreciation		
Buildings	(234)	-
Buildings under finance leases	(902)	-
Leasehold improvements	(7,404)	(1,629)
Furniture, fittings & equipment	(680)	(88)
Machinery and Equipment	(33)	(8)
IT Equipment	(3,479)	(1,065)
Network equipment	(13,713)	(3,096)
Network equipment under finance leases	(1,494)	-
<b>Total depreciation</b>	<b>(27,938)</b>	<b>(5,886)</b>
Amortisation		
Computer software	(19,932)	(2,255)
Telecommunication licence	(26,070)	(11,108)
<b>Total amortisation</b>	<b>(46,002)</b>	<b>(13,363)</b>
<b>Total depreciation and amortisation</b>	<b>(73,940)</b>	<b>(19,249)</b>
Finance Costs		
Interest and finance charges paid/payable for financial liabilities	(5,179)	-
Provisions: unwinding of discount	(964)	-
<b>Finance costs expended</b>	<b>(6,143)</b>	<b>-</b>
Rental expense relating to operating leases	(19,429)	(8,975)

## 5. Income tax expense

	<b>NBN Group</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
<b>(a) Income tax expense/(benefit)</b>		
Current tax	-	-
Deferred tax	(6,740)	-
<b>Total</b>	<b>(6,740)</b>	<b>-</b>
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Loss from continuing operations before income tax benefit	(526,945)	(323,221)
Tax at the Australian tax rate of 30% (2011: 30%)	(158,084)	(96,966)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income	10	11
Current year tax losses not recognised	143,603	93,540
Temporary differences not recognised	7,730	3,415
Adjustments for current tax for prior periods	3,518	(3,105)
Prior year tax losses and temporary differences not recognised	(3,518)	3,105
<b>Income tax expense/(benefit)</b>	<b>(6,740)</b>	<b>-</b>
<b>(c) Tax losses</b>		
Unused tax losses for which no deferred asset has been recognised	863,441	396,490
<b>Potential tax benefit @ 30%</b>	<b>259,032</b>	<b>118,947</b>

### i) *Unrecognised tax losses*

The cumulative amount of unrecognised tax losses of \$863,441,000 (2011: \$396,490,000) may be available to offset against future income tax assessments when the company becomes profitable and satisfies the requirements as outlined in Note 1(u).



## 5. Income tax expense (continued)

arising from unused tax losses and tax credits for all entities in the tax consolidated group. Members of the group have not yet entered into tax funding or tax sharing arrangements. As at 30 June 2012, no contributions to subsidiaries' equity accounts have been recognised for subsidiaries' tax losses assumed by the head entity because no amounts of unused tax losses have been recognised as deferred tax assets.

## 6. Current assets – Cash and cash equivalents

	<b>NBN Group</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
Cash at bank	26,896	56,191
Term deposits	752,056	482,046
<b>Total</b>	<b>778,952</b>	<b>538,237</b>

### a) Risk exposure

The NBN Group's risk exposure to interest rate risk is discussed in Note 27(f). The maximum exposure to credit risk at the end of the reporting period is disclosed in Note 27(g).

## 7. Trade and other receivables

	<b>NBN Group</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
<b>Current</b>		
Trade receivable	469	-
Interest receivable	11,978	5,690
Other receivable	912	860
GST receivable	13,506	12,455
<b>Total</b>	<b>26,865</b>	<b>19,005</b>
<b>Non-Current</b>		
Other receivable	1,029	2,214

### a) Other receivables

These amounts arise from transactions outside of the usual operating activities of the NBN Group.

### b) Interest rate risk exposure

Information about the NBN Group's exposure to interest rate risk in relation to receivables is provided in Note 27(f).

### c) Fair value and credit risk

Due to the nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of the receivables mentioned above.

## 8. Inventory

	<b>NBN Group</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
Inventory on Hand - Spares	1,672	1,660
<b>Total</b>	<b>1,672</b>	<b>1,660</b>

### a) Inventory expense

Inventories recognised as an expense during the year ended 30 June 2012 amounted to \$5,601 (2011 - \$12,600). There were inventories of \$90,325 written off during the period (2011 - \$Nil).

## 9. Derivative financial instruments

	NBN Group	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
<b>Current</b>		
Forward foreign exchange contracts (a)	11,938	-
<b>Non-Current</b>		
Forward foreign exchange contracts (a)	10,528	-

### a) Forward exchange contracts – cash flow hedges

The NBN Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates in accordance with the NBN Group's financial risk management policies.

The construction of the Long Term Satellite Service (**LTSS**) requires the purchase of satellites and services from the United States. In order to protect against exchange rate movements, the NBN Group has entered into forward exchange contracts to purchase US dollars.

These contracts are hedging highly probable forecasted purchases for the ensuing financial years. The contracts are timed to mature when payments for major contractual milestones are scheduled to be made.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. When the cash flows occur, the NBN Group adjusts the initial measurement of the component recognised in the balance sheet by removing the related amount from other comprehensive income.

During the year ended 30 June 2012 a gain of \$110,923 was reclassified from other comprehensive income and included in the acquisition cost of components. A loss of \$Nil was recognised in profit or loss for the ineffective portion of these hedging contracts.

### b) Risk exposures and fair value measurements

Information about the NBN Group's exposure to credit risk, foreign exchange and interest rate risk and about the methods and assumptions used in determining fair values is provided in Note 27. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial assets.

## 10. Held to maturity investments

	<b>NBN Group</b>	
	Year ended 30 June 2012	Year ended 30 June 2011
	\$'000	\$'000
<b>Current</b>		
Term deposit	75,000	-

The term deposit held matures on 21 February 2013. Interest accrues at 5.27% per annum.

## 11. Other assets

	<b>NBN Group</b>	
	Year ended 30 June 2012	Year ended 30 June 2011
	\$'000	\$'000
<b>Current</b>		
Prepayments	21,443	15,665
Other deposits	9	20,000
<b>Total</b>	<b>21,452</b>	<b>35,665</b>
<b>Non-Current</b>		
Prepayments	8,068	2,325

## 12. Non-current assets - Property, plant and equipment

### a) Property, plant and equipment

	NBN Group							Total
	Freehold Land	Buildings	Leasehold improvements	Furniture and fittings	Machinery and Equipment	IT equipment	Network assets	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>As at 1 July 2010</b>								
Cost	-	-	6,121	786	-	3,487	20,797	31,191
Accumulated depreciation	-	-	-	(16)	-	(191)	-	(207)
Net book value	-	-	<b>6,121</b>	<b>770</b>	-	<b>3,296</b>	<b>20,797</b>	<b>30,984</b>
<b>Year ended 30 June 2011</b>								
Opening net book value	-	-	6,121	770	-	3,296	20,797	30,984
Additions	33	-	15,194	-	336	2,460	189,648	207,671
Adjustments	-	-	-	(4)	-	-	-	(4)
Depreciation charge	-	-	(1,629)	(88)	(8)	(1,065)	(3,096)	(5,886)
Net book value	<b>33</b>	-	<b>19,686</b>	<b>678</b>	<b>328</b>	<b>4,691</b>	<b>207,349</b>	<b>232,765</b>
<b>At 30 June 2011</b>								
Cost	33	-	21,315	782	336	5,947	210,445	238,858
Accumulated depreciation	-	-	(1,629)	(104)	(8)	(1,256)	(3,096)	(6,093)
Net book value	<b>33</b>	-	<b>19,686</b>	<b>678</b>	<b>328</b>	<b>4,691</b>	<b>207,349</b>	<b>232,765</b>
<b>Year ended 30 June 2012</b>								
Opening net book value	33	-	19,686	678	328	4,691	207,349	232,765
Additions	12,986	42,541	38,938	4,601	926	9,179	714,083	823,253
Adjustments	-	-	-	-	(336)	-	-	(336)
Depreciation charge	-	(1,136)	(7,404)	(680)	(33)	(3,479)	(15,207)	(27,938)
Net book value	<b>13,019</b>	<b>41,405</b>	<b>51,219</b>	<b>4,599</b>	<b>885</b>	<b>10,391</b>	<b>906,225</b>	<b>1,027,745</b>
<b>At 30 June 2012</b>								
Cost	13,019	42,541	60,253	5,382	926	15,126	924,528	1,061,775
Accumulated depreciation	-	(1,136)	(9,034)	(784)	(41)	(4,734)	(18,303)	(34,032)
Net book value	<b>13,019</b>	<b>41,405</b>	<b>51,219</b>	<b>4,599</b>	<b>885</b>	<b>10,392</b>	<b>906,225</b>	<b>1,027,745</b>

## 12. Non-current assets - Property, plant and equipment (continued)

### b) *Assets in the course of construction*

The carrying amounts of property, plant and equipment includes expenditure recognised as assets which are in the course of construction.

	<b>NBN Group</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
Network assets	505,234	143,181
Leasehold improvements	1,732	5,033
<b>Total assets in the course of construction</b>	<b>506,966</b>	<b>148,214</b>

### c) *Leased assets*

Buildings and network assets includes the following amounts where the substance of the underlying contractual arrangement is considered to be a finance lease.

	<b>NBN Group</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
<b>Buildings</b>		
Cost	26,348	-
Accumulated depreciation	(902)	-
<b>Net book value</b>	<b>25,446</b>	-
<b>Network assets</b>		
Cost	206,414	-
Accumulated depreciation	(1,494)	-
<b>Net book value</b>	<b>204,920</b>	-

### d) *Non-current assets pledged as security*

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

### 13. Non-current assets – Intangible assets

a) *Intangible assets*

	NBN Group		
	Software	Licences	Total
	\$'000	\$'000	\$'000
<b>As at 1 July 2010</b>			
Cost	10,054	-	10,054
Accumulated amortisation	-	-	-
Net book value	<b>10,054</b>	<b>-</b>	<b>10,054</b>
<b>Year ended 30 June 2011</b>			
Opening net book amount	10,054	-	10,054
Additions	130,624	123,488	254,112
Amortisation	(2,255)	(11,108)	(13,363)
Net book value	<b>138,423</b>	<b>112,380</b>	<b>250,803</b>
<b>As at 30 June 2011</b>			
Cost	140,678	123,488	264,166
Accumulated amortisation	(2,255)	(11,108)	(13,363)
Net book value	<b>138,423</b>	<b>112,380</b>	<b>250,803</b>
<b>Year ended 30 June 2012</b>			
Opening net book amount	138,423	112,380	250,803
Additions	296,241	3,120	299,362
Amortisation	(19,932)	(26,070)	(46,002)
Net book value	<b>414,732</b>	<b>89,430</b>	<b>504,162</b>
<b>As at 30 June 2012</b>			
Cost	436,919	126,608	563,527
Accumulated amortisation	(22,187)	(37,178)	(59,365)
Net book value	<b>414,732</b>	<b>89,430</b>	<b>504,162</b>

As at 30 June 2012, NBN Co had intangible assets under development amounting to \$97,403,000 (2011: \$86,464,000). As these assets were not installed and ready for use there is no amortisation being charged on these amounts.

Amortisation of \$46,002,000 (2011: \$13,363,000) is included in depreciation and amortisation expense in the profit or loss.

### 13. Non-current assets – Intangible assets (continued)

#### b) Assets in the course of construction

The carrying amounts of the intangible assets disclosed in Note 13(a) includes expenditure recognised on assets which are in the course of construction.

	<b>NBN Group</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
Software	90,171	81,464
Licences	7,232	5,000
<b>Total assets in the course of construction</b>	<b>97,403</b>	<b>86,464</b>

#### c) Telecommunications Licences

The licences are radio communication licences issued under the Radiocommunications Act 1992, valid until June 2015.

### 14. Impairment

As at 30 June 2012, NBN Co had intangible assets under development amounting to \$97,403,000 (2011: \$86,464,000) which require testing for impairment. For the purposes of the NBN Group's impairment testing, NBN Co has identified one cash generating unit (**CGU**) in accordance with Note 1(l). The CGU is determined according to the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Using a fair value less costs to sell method no impairment loss was identified (2011: Nil).

### 15. Trade and other payables

	<b>NBN Group</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
<b>Current</b>		
Trade payables	103,489	25,555
Accruals	173,502	83,801
<b>Total</b>	<b>276,991</b>	<b>109,356</b>

Information about the group's exposure to foreign exchange risk is provided in Note 27(e).

## 16. Other financial liabilities

	<b>NBN Group</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
<b>Current</b>		
Lease liabilities and right of use licences	4,942	-
<b>Non Current</b>		
Lease liabilities and right of use licences	232,441	-
<b>Total</b>	<b>237,383</b>	-

The NBN Group accounts for various infrastructure assets and premises as finance leases and right of use licences. The finance leases and right of use licences have terms expiring within twenty to thirty five years.

Included within the carrying amount of property, plant and equipment in Note 12 an amount for infrastructure assets (including duct, rack spaces and dark fibre acquired under the Telstra Definitive Agreements refer to Note 23) of \$204,920,000 (2011: Nil) and premises (aggregation node depots) of \$25,446,000 (2011: Nil).

Property and network infrastructure finance leases and right of use licences provide for the payment of incremental contingent rentals based on movements in a relevant variable price index. Contingent rentals are not included in lease liabilities or right of use licence liabilities. Contingent rentals paid during the year are disclosed in Note 4.

The future finance charges applicable to NBN Group's finance leases and right of use licences are disclosed in the Schedule of Commitments.

### *(i) Property Leases*

The NBN Group leases a total of 6 industrial properties under finance leases with various occupancy terms that are due to expire within 20 years.

### *(ii) Network Infrastructure*

The Telstra Definitive Agreements refer to Note 23 provides access to various infrastructure including dark fibre links, rack spaces in exchanges, ducts and associated duct infrastructure (pits and manholes) which have been recognised as finance leases.

The rights of access have an initial term of 35 years, with two options each exercisable at NBN Co's discretion, of 10 further years each. Key elements of the lease arrangement including interest rate, lease term and valuation methodology was assessed at the inception of the lease. Inception date for the finance lease arrangements has been determined as 7 March 2012 when the Telstra Definitive Agreements became unconditional.

## 16. Other financial liabilities (continued)

	<b>NBN Group</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
<b>Commitments in relation to finance leases are payable as follows:</b>		
Within one year	23,352	-
Later than one year but not later than five years	81,468	-
Later than five years	581,813	-
<b>Minimum lease payments</b>	<b>686,633</b>	-
Future finance charges	(449,250)	-
<b>Recognised as a liability</b>	<b>237,383</b>	-
<b>Representing lease liabilities:</b>		
Current (Note 16)	4,942	-
Non-current (Note 16)	232,441	-
	<b>237,383</b>	-

## 17. Operating Leases

### *Operating Leases*

The NBN Group leases 27 properties and 132 commercial vehicles under operating leases with various occupancy terms that are due to expire within one to ten years.

Leases generally provide the NBN Group with a right of renewal, at which time the commercial terms are renegotiated with reference to market benchmarks. Lease payments generally comprise a base amount plus an incremental contingent rental based on movements in the Consumer Price Index and reviews to market-based levels.

The NBN Group sub-licenses 2 properties with various short term occupancy periods.

## 17. Operating Leases (continued)

	<b>NBN Group</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
<b>Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:</b>		
Within one year	24,421	13,494
Later than one year but not later than five years	82,422	57,334
Later than five years	63,052	25,495
<b>Total</b>	<b>169,895</b>	<b>96,323</b>
<b>Sub-lease payments</b>		
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	24	-

Full details of the NBN Group's operating leases are also contained in the Schedule of Commitments.

## 18. Provisions

	<b>NBN Group</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
<b>Current</b>		
Employee benefits	15,234	6,884
Make good provision	1,031	231
<b>Total</b>	<b>16,265</b>	<b>7,115</b>
<b>Non-Current</b>		
Employee benefits	1,418	175
Make good provision	11,028	7,223
<b>Total</b>	<b>12,446</b>	<b>7,398</b>

## 18. Provisions (continued)

### a) Amount not expected to be settled within the next 12 months

The non-current provision for employee benefits includes long service leave and deferred short term incentives not expected to be settled in the next 12 months.

### b) Make good provision

Where NBN Co is required to restore the leased premises to their original condition at the end of the respective lease terms and to decommission VSATs installed under the First Release Satellite Solution, a provision has been recognised for the present value of the estimated expenditure to remove any lease hold improvements and to decommission installed very small aperture terminals (VSATs). These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets. A VSAT retirement obligation asset has been recognised and is being amortised to 30 June 2015.

	<b>NBN Group</b>	
	Year ended 30 June 2012	Year ended 30 June 2011
	\$'000	\$'000
Carrying amount at start of year	7,454	-
Charged/credited to property, plant & equipment	3,667	7,454
Charged/credited to the profit and loss - unwinding of discount	938	-
Amounts used during the year	-	-
<b>Carrying amount at end of year</b>	<b>12,059</b>	<b>7,454</b>

## 19. Contributed equity

### a) Share capital

	NBN Group		NBN Group	
	Year ended 30 June 2012	Year ended 30 June 2011	Year ended 30 June 2012	Year ended 30 June 2011
	Number of	Number of	\$'000	\$'000
<b>Share capital</b>				
Ordinary shares				
<i>Fully paid</i>	2,832,000,010	1,362,000,010	2,832,000	1,362,000
<b>Total consolidated contributed equity</b>			<b>2,832,000</b>	<b>1,362,000</b>

### b) Movements in ordinary share capital

Date	NBN Group		NBN Group	
	Details	Number of Shares	Issue \$	Value of Shares \$
30 June 2010	Balance	312,000,010		312,000,010
20 July 2010	Equity injection	350,000,000	1.00	350,000,000
21 December 2010	Equity injection	350,000,000	1.00	350,000,000
19 April 2011	Equity injection	350,000,000	1.00	350,000,000
30 June 2011	Balance	1,362,000,010		1,362,000,010
5 July 2011	Equity injection	350,000,000	1.00	350,000,000
31 August 2011	Equity injection	450,000,000	1.00	450,000,000
18 November 2011	Equity injection	320,000,000	1.00	320,000,000
15 February 2012	Equity injection	350,000,000	1.00	350,000,000
<b>Total consolidated contributed equity</b>		<b>2,832,000,010</b>		<b>2,832,000,010</b>

### c) Ordinary shares

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

## 19. Contributed equity (continued)

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to vote, and upon a poll each share is entitled to one vote.

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

### d) Capital risk management

The company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide benefits for other stakeholders and to maintain an optimal capital structure.

## 20. Reserves and accumulated losses

### a) Movements in reserves:

	<b>NBN Group</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
Cash flow hedges	15,726	-
<b>Total</b>	<b>15,726</b>	<b>-</b>

### Movements

#### Cash flow hedges

Balance 1 July	-	-
Revaluation - gross	22,577	-
Deferred tax	(6,740)	-
Transfer to other asset - gross	(111)	-
<b>Balance at 30 June</b>	<b>15,726</b>	<b>-</b>

### b) Nature and purpose of reserves

The cash flow hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit and loss.

## 20. Reserves and accumulated losses (continued)

### c) *Movements in accumulated losses:*

	<b>NBN Group</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
Balance at 1 July	(403,195)	(79,974)
Net (loss) for the year	(520,205)	(323,221)
<b>Balance at 30 June</b>	<b>(923,400)</b>	<b>(403,195)</b>

### d) *Dividends declared*

No dividends were declared or paid during the year.

## 21. Remuneration of auditors

Under section 35 of the *Commonwealth Authorities and Companies Act 1997* the Auditor-General is responsible for auditing the financial statements of NBN Co Limited and its subsidiaries. On 31 March 2011, the Australian National Audit Office appointed PricewaterhouseCoopers (**PwC**) as contractors to the financial statement audit process.

PwC was previously retained by NBN Co Limited as internal auditor, and a condition of their appointment as contractor to the Australian National Audit Office was the transition of the internal audit role. This transition was completed by 30 June 2011 and is now managed directly by NBN Co Limited with other providers.

Prior to PwC's appointment as contract auditor, PwC had been separately engaged by NBN Co in various advisory capacities, further details of which are provided below. After their appointment on 31 March 2011, PwC was engaged in relation to the continuation of advisory services to which they were already committed. With regards to these residual advisory services provided by PwC it is noted that they did not involve partners or staff acting in a managerial or decision-making capacity, or being involved in the processing or originating of transactions, nor did the partners and staff involved in the provision of non-audit services participate in NBN Co's associated approval or authorisation processes.

In the current year the company has employed PwC on assignments additional to their contract auditor duties, and may decide to continue to do, where their expertise and experience with the NBN Group is important and no potential conflicts of interest exist. Any such engagement with PwC is subject to prior approval by the Australian National Audit Office and having regard to their independence policies.

## 21. Remuneration of auditors (continued)

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

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

	<b>NBN Group</b>	
	Year ended 30 June 2012	Year ended 30 June 2011
<b>Australian National Audit Office</b>		
Audit of financial statements	935,460	200,000
Other assurance services		
- <i>Audit of regulatory returns</i>	-	-
<b>Total remuneration for audit and other assurance services</b>	<b>935,460</b>	<b>200,000</b>
<b>PwC Australia</b>		
Other audit related services		
- <i>Accounting advice</i>	-	16,160
- <i>Other reviews (fraud policy, model review)</i>	-	80,063
<b>Total remuneration for other audit related services</b>	<b>-</b>	<b>96,223</b>
Other services		
- <i>HR service delivery support</i>	103,094	729,992
- <i>IT advisory support</i>	502,500	2,696,272
- <i>Tax advice</i>	-	15,000
- <i>Internal audit and other</i>	26,489	296,044
<b>Total remuneration for other services</b>	<b>632,083</b>	<b>3,737,308</b>
<b>Total auditor's remuneration</b>	<b>1,567,543</b>	<b>4,033,531</b>

## 22. Contingent Liabilities

The details of NBN Co's significant contingent liabilities are set out below:

### *(a) Telstra Definitive Agreements – Take or Pay*

Under the Telstra Definitive Agreements (see Note 23 (a)) NBN Co has committed to pay for and Telstra has committed to make available, certain minimum quantities of infrastructure which meet agreed fitness standards. These minimum quantities reflect large volume levels of usage and availability and large scale access to each infrastructure type. The quantities can be reduced under specified circumstances.

The payment and availability commitments are based on mechanisms known as "Provide or Pay" and "Take or Pay". Provide or Pay is an incentive mechanism to encourage Telstra to maximise the amount of infrastructure it makes available to NBN Co up to the agreed minimum quantities. Take or Pay is a mechanism to encourage NBN Co to maximise the use of the infrastructure that Telstra makes available. The Take or Pay and Provide or Pay mechanisms may result in a price adjustment during several key points during rollout.

In the case of transit network infrastructure (dark fibre and exchange rack spaces) there is no Take or Pay because there is a committed order for that infrastructure. For the other infrastructure types, the Take or Pay/Provide or Pay (and payments based on those mechanisms) are assessed when NBN Co reaches rollout completion, and are assessed and pro-rated if the rollout to premises ceases early based on the level of NBN Co rollout at the relevant time.

NBN Co's obligations under the Take or Pay provisions are contingent upon Telstra's ability to make the relevant infrastructure available.

### *(b) Telstra Definitive Agreements – Permanent Cessation*

Under the Telstra Definitive Agreements (see Note 23(a)), if a permanent cessation of rollout or very slow rollout occurs NBN Co will, subject to limited exceptions, compensate Telstra for Telstra being left with a geographically dispersed network. This compensation is on a sliding scale from a maximum of \$500 million (if the event occurs when NBN Co's fibre rollout has reached 20% of NBN Co's current coverage target of 93% of premises in Australia) reducing to zero (if the event occurs when NBN Co's rollout has reached that current coverage target). Compensation is not payable if the event occurs before the rollout has reached that 20% threshold.

### *(c) Contracts contingent on future events*

The NBN Co group has entered into contracts whereby the group may be exposed to possible obligations, which can only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are beyond the control of the Group and it is not probable that an outflow of resources will be required to settle any obligation arising under contract. These contingent liabilities are not recognised in the financial statements.

## 22. Contingent Liabilities (continued)

### *(d) ASIC deed of cross guarantee*

NBN Co Limited and NBN Tasmania Limited are parties to a deed of cross guarantee as disclosed in Note 31. Each of the companies guarantees the payment in full of the debt of the other named companies in the event of their winding up.

### *(e) Legal Action*

As at 30 June 2012 NBN Co had no outstanding legal action however from time to time the company may be subject to a lawsuit or proceedings. Although no assurances can be given and no determination can be made at this time as to the outcome of any particular lawsuit or proceeding, the company believes there are meritorious defences available to the company in respect to all claims of which the company is aware and that any liability which may finally be determined should not have a material adverse effect on the company's consolidated financial position, results of operations or cash flows which may result from any finally determined liability.

## 23. Significant Contractual Arrangements

The NBN Group has entered into a large number of contracts that will underpin the delivery of the network infrastructure. The NBN Group will progressively incur further commitments through the life of these contractual arrangements as they are executed and delivered during the build of the network. NBN Co's schedule of commitments on page 62 is prepared on the basis that the company is a going concern and will deliver the network infrastructure.

Should future circumstances or conditions arise that change this view, the value of commitments incurred at that point in time, will be reassessed with reference to relevant contractual termination obligations. These obligations would be typically lower than those disclosed in the schedule of commitments.

Details of significant contractual arrangements are outlined below.

### *(a) Telstra Definitive Agreements*

NBN Co and Telstra announced on 23 June 2011 that binding agreements (the **Telstra Definitive Agreements**) had been entered into, subject to various conditions precedent (including Telstra Shareholder approval, regulatory and other approvals).

The Telstra Definitive Agreements provide NBN Co access to certain Telstra facilities comprising ducts, pits, lead-in conduits (ownership of which transfers to NBN Co), exchange space and Dark Fibre to facilitate the efficient rollout of the National Broadband Network. The Telstra Definitive Agreements also require Telstra to progressively disconnect premises from its copper and Hybrid Fibre Coaxial (**HFC**) networks (except for certain pay-TV services over the HFC networks). All conditions precedent to the Telstra Definitive Agreements have been met, with Commencement occurring on 7 March 2012.

There are four documents signed by NBN Co and Telstra (the Definitive Agreements) that form the core of Telstra's participation in the rollout of the National Broadband Network.

## 23. Significant Contractual Arrangements (continued)

- **Subscriber Agreement (SA):** The SA deals with the disconnection by Telstra of premises from its copper-based Customer Access Network services and HFC cable network services (excluding certain Pay TV services on the HFC network) in the NBN fibre footprint as the NBN is rolled out.

Subject to limited exceptions, disconnection of premises in a rollout region must be completed within 18 months of NBN Co declaring that rollout region to be ready for service (which happens when at least 90% of the premises in the NBN fibre footprint of that rollout region are passed by NBN Co fibre).

A separate regime (with a different time frame for disconnection) applies to the disconnection of specified special services provided over the copper which are currently unable to be provided over the NBN for technical reasons.

Telstra is entitled to payment for disconnecting premises in the NBN fibre footprint from its copper and HFC networks as the NBN rolls out.

For 20 years from the Commencement Date (7 March 2012), Telstra will exclusively use the NBN as the fixed line connection to premises in the NBN fibre footprint for the provision of fixed line carriage services (subject to certain exceptions).

In accordance with Australian Accounting Standards (including Australian Interpretations), it is management's current intention to expense the payment made by NBN Co to Telstra for disconnection of premises from its copper and HFC networks when incurred.

- **Infrastructure Services Agreement (ISA):** The ISA contains the detailed terms for the long-term provision of access to four types of infrastructure and related services by Telstra to NBN Co: lead-in conduits, dark fibre links, rack spaces in exchanges, ducts and associated duct infrastructure (pits and manholes). Telstra retains property in the infrastructure except for those Lead in Conduits used by NBN Co, which become NBN Co's property.

The ISA has an initial term of 35 years, with two options each exercisable at NBN Co's option, of 10 more years each.

NBN Co has committed to pay for and Telstra has committed to make available, minimum quantities of infrastructure which meet the agreed fitness standards.

In accordance with Australian Accounting Standards (including Australian Interpretations):

- a) Payment obligations for Lead in Conduits are capitalised when the Lead in Conduits are handed over to NBN Co;
- b) Payment obligations for dark fibre links, exchange rack spaces and duct infrastructure are recorded as Commitments when orders are confirmed and are treated as finance leased assets when the infrastructure is handed over to NBN Co.

## 23. Significant Contractual Arrangements (continued)

### *(b) Optus HFC Subscriber Agreement*

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

On 19 July 2012, the ACCC published a final determination granting authorisation of the Optus HFC Subscriber Agreement. The Optus HFC Subscriber Agreement is now unconditional.

Under the terms of the Optus HFC Subscriber Agreement:

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

In accordance with Australian Accounting Standards (including Australian Interpretations), the majority of the payment to Optus will be expensed when incurred.

### *(c) Other Contractual Arrangements*

In addition to the above arrangements, NBN Co has entered into contracts where volume commitments are met indirectly through sub-contractor arrangements. The maximum potential exposure to NBN Co under these arrangements is \$150m.

## 24. Equity Funding

On 22 June 2011, the Commonwealth and NBN Co entered into an equity funding agreement, whereby the Commonwealth provided assurances to the company in relation to the provision of equity funding until 30 June 2021 unless terminated earlier. The Commonwealth has committed to provide funding sufficient to meet the forecast expenditure of the company in the Corporate Plan (which is defined to mean the most recent corporate plan of NBN Co endorsed by the Shareholder Ministers). The total funding pursuant to the agreement was capped at \$27.5 billion with reference to the Corporate Plan dated 17 December 2010, excluding any amounts payable in the event of termination of the Telstra and Optus agreements.

To the extent that the Commonwealth has provided for equity funding in forward budget estimates, NBN Co has recorded this as expected equity funding in the Schedule of Commitments. The expected equity funding to the company as at 30 June 2012 is \$24.668 billion. As at 30 June 2012 a total of \$2.832 billion has been made available to the company.

Following the release of the 2012-15 Corporate Plan on 8 August 2012, the Commonwealth has increased the total funding pursuant to the original equity funding agreement from \$27.5 billion to \$30.4 billion.

## 25. Related party transactions

### a) Parent entity

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

### b) Acquisitions

There were no acquisitions in the year.

### c) Subsidiaries

The interest in the subsidiaries is set out in Note 28.

### d) Transactions with related parties

The following transactions occurred with related parties:

	<b>NBN Group</b>	
	Year ended 30 June 2012 \$	Year ended 30 June 2011 \$
<b>Equity injections</b>		
Equity injected by the Commonwealth of Australia into NBN Co Limited (Refer to note 19)	1,470,000,000	1,050,000,000

### e) Key management personnel

Disclosures relating to key management personnel are set out below:

	<b>NBN Group &amp; Parent</b>	
	Year ended 30 June 2012 \$	Year ended 30 June 2011 \$
Short term employee benefits	8,239,129	8,967,665
Post-employment benefits	357,455	331,080
Long-term benefits	284,389	9,346
Termination benefits	270,680	194,201
<b>Total</b>	<b>9,151,653</b>	<b>9,502,292</b>

## 25. Related party transactions (continued)

### f) Amounts to/from related parties

	<b>NBN Group</b>	
	Year ended 30 June 2012	Year ended 30 June 2011
	\$	\$
<b>Intercompany account (Between NBN Co Limited (Parent) and NBN Tasmania Limited)</b>		
Beginning of the year	(68,473,044)	(65,277,057)
Amounts repaid to NBN Tasmania	5,828,570	3,308,150
Amounts advanced from NBN Tasmania	(693,607)	(3,230,132)
Net interest payable to NBN Tasmania	(3,060,760)	(3,274,005)
<b>End of the year</b>	<b>(66,398,841)</b>	<b>(68,473,044)</b>

NBN Co Limited, NBN Tasmania Limited and NBN Co Spectrum Pty Ltd have formed a tax consolidated group. The members of the group have not yet entered into tax funding arrangements, as a result there are no amounts that have been received or paid to NBN Co during the year end 30 June 2012.

## 26. Reconciliation of total comprehensive (loss) for the year to net cash (used in) operating activities

	<b>NBN Group</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
Total comprehensive (loss) for the year	(520,205)	(323,221)
<b>Add: non cash item</b>		
Depreciation and amortisation	73,940	19,249
Non cash interest expense/income	5,988	-
Non cash taxation benefit	(6,740)	-
<b>(Increase)/decrease in assets</b>		
Decrease in trade and other receivables	805	-
(Increase) in GST receivable	(1,051)	(10,208)
(Increase) in prepayments	(11,521)	(15,302)
(Increase) in interest receivable	(6,288)	(4,994)
(Increase)/decrease in deposits	19,991	(19,461)
(Increase) in inventory	(12)	(1,660)
<b>Increase/(decrease) in liabilities</b>		
Increase in trade and other payables	77,931	25,554
Increase/(decrease) in accruals	(19,683)	7,686
Increase in provisions	9,567	5,740
<b>Net cash (used in) operating activities</b>	<b>(377,277)</b>	<b>(316,619)</b>

### a) Significant investing and financing activities that involve components of non cash

Acquisition of assets by means of non cash transactions represents those assets acquired during the period which do not impact cash as the acquisition was made via finance leases.

	<b>NBN Group</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
Acquisition of buildings by means of finance leases	26,348	-
Acquisition of network infrastructure by means of finance leases	206,414	-
<b>Acquisition of assets by non cash transactions</b>	<b>232,762</b>	<b>-</b>

## 27. Financial and Capital Risk Management

### *a) Financial risk management objectives*

The NBN Group's risk management policy is to identify, assess and manage risks which are likely to adversely affect the NBN Group's financial performance, continued growth and survival. In terms of financial and commodity risk management, the group takes a risk-averse approach to financial risk management as it will seek to minimise risk, provided it is cost effective to do so.

The group's principal financial instruments comprise cash and short-term deposits. The NBN Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the NBN Group's financial instruments are interest rate risk, foreign currency risk and credit risk.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument, are disclosed in Note 1 to the financial report.

### *b) Capital risk management*

The NBN Group's objectives when managing capital are to safeguard the ability to continue as a going concern while maximising the return to the Commonwealth Government. The capital structure of the NBN Group consists of cash and cash equivalents disclosed in Note 6 and contributed equity disclosed in Note 19.

The capital structure is reviewed annually as part of the Corporate Plan, which includes an analysis of the internal rate of return.

## 27. Financial and Capital Risk Management (continued)

### c) *Categories of financial instruments*

	<b>NBN Group</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	778,952	538,237
Interest receivable	11,978	5,690
Trade and other receivables	2,419	23,073
GST receivable	13,506	12,455
Held to maturity investment	75,000	-
Derivative financial asset	22,466	-
<b>Carrying amounts of financial assets</b>	<b>904,321</b>	<b>579,455</b>
<b>Financial liabilities</b>		
Trade and other payables	276,990	109,356
Other financial liabilities	237,383	-
<b>Carrying amounts of financial liabilities</b>	<b>514,373</b>	<b>109,356</b>

### d) *Net income and expenses from financial assets and liabilities*

The net income earned from financial assets and liabilities for the year to 30 June 2012 was \$54,021,000 (2011: \$32,616,000).

### e) *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 NBN Group is exposed to foreign currency risk primarily through undertaking certain transactions denominated in foreign currency.

The NBN Group Treasury Policy includes a requirement to hedge between 80% and 100% of committed cash flows in foreign currency for the subsequent three years.

NBN Co will not enter into foreign currency positions which are not supported by underlying purchasing transactions that are certain or highly probable as to timing, quantum and currency. Any foreign currency transaction entered into by NBN Co must be substantiated by an underlying physical exposure.

The NBN Group operates foreign currency denominated bank accounts. There are no funds at period end in these accounts.

## 27. Financial and Capital Risk Management (continued)

As at 30 June 2012, the carrying amount of monetary liabilities denominated in foreign currency as expressed in Australian dollar was as follows:

	<b>NBN Group</b>			
	Year ended 30 June 2012		Year ended 30 June 2011	
	USD \$'000	EUR \$'000	USD \$'000	EUR \$'000
<b>Foreign exchange risk</b>				
Trade payables	35,954	13	-	-
<b>Current foreign exchange risk</b>	<b>35,954</b>	<b>13</b>	-	-
<b>Forward Exchange Contracts</b>				
- buy foreign currency (cash flow hedges)	537,683	-	-	-
<b>Forward exchange contract risk</b>	<b>573,637</b>	<b>13</b>	-	-

Based on the financial instruments held at 30 June 2012, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the group's post-tax loss for the year would have been \$3,595,428 lower/\$3,595,428 higher, mainly as a result of foreign exchange gains/losses on translation of US dollar denominated financial instruments as detailed in the above table.

Other components of equity would have been \$59,691,136 higher / \$49,010,008 lower had the Australian dollar weakened/strengthened by 10% against the US dollar, arising from foreign forward exchange contracts designated as cash flow hedges. Equity is more sensitive to movements in the Australian dollar/USD rates in 2012 than 2011 because of the increased amount of forward foreign exchange contracts. The group's exposure to other foreign exchange movements is not material.

### *f) Interest rate risk management*

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The NBN Group is exposed to interest rate risk from interest-bearing cash and cash equivalents.

The NBN Group's exposure to interest rate risks and the effective interest rates of interest-bearing financial assets is set out below. 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.

## 27. Financial and Capital Risk Management (continued)

	Note	Carrying Amount	Weighted average effective interest rate
<b>At 30 June 2012</b>			
Cash and cash equivalents	6	778,952	4.1%
Interest receivable	7	11,978	4.9%
Held to maturity investments	10	75,000	5.3%
<b>At 30 June 2011</b>			
Cash and cash equivalents	6	538,237	5.7%
Interest receivable	7	5,690	5.7%

The table below details the interest rate sensitivity analysis of the NBN Group at the reporting date, holding all other variables constant. A 140 (2011: 175) basis point change is deemed to be reasonably possible and is used when reporting interest rate risk.

	Effect on	
	Profit and loss 30 June 2012	Profit and loss 30 June 2011
	\$'000	\$'000
140 (2011: 175) basis point increase in interest rates	15,351	10,168
140 (2011: 175) basis point decrease in interest rates	(15,351)	(10,168)

The method used to arrive at the possible risk of 140 (2011: 175) basis points was based on both statistical and non-statistical analysis. The statistical analysis has been based on the cash rate for the past five years issued by the Reserve Bank of Australia (RBA).

This information is then revised and adjusted for reasonableness under the current economic circumstances.

### g) Credit risk exposure

Credit risk refers to the risk that a counter party will default on its contractual obligations, resulting in financial loss to the NBN Group. Counterparty exposure is measured as the total value of the exposures to all obligations of any single legal or economic entity (e.g. a group of companies). The carrying amount of receivables reflects the maximum credit exposure when collateral held and other credit enhancements are not considered.

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to retail service providers, including outstanding receivables and committed transactions.

## 27. Financial and Capital Risk Management (continued)

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

	<b>NBN Group</b>	
	Year ended 30 June 2012	Year ended 30 June 2011
	\$'000	\$'000
<b>Trade receivables</b>		
Counterparties without external credit rating*		
Group 1	-	-
Group 2	469	-
<b>Total trade receivables</b>	<b>469</b>	<b>-</b>
<b>Cash at bank and short-term bank deposits</b>		
AA-	778,952	-
	<b>778,952</b>	<b>-</b>
<b>Held to maturity investments</b>		
AA-	75,000	-
	<b>75,000</b>	<b>-</b>
<b>Derivative financial assets</b>		
AA-	22,466	-
	<b>22,466</b>	<b>-</b>

\* Group 1 – new customers (less than 6 months)

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

The NBN Group's maximum exposure to credit risk at reporting date in relation to its financial assets is its carrying amount as indicated in the Balance Sheet.

### *h) Liquidity risk*

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

## 27. Financial and Capital Risk Management (continued)

The NBN Group's financial liabilities are payables and provisions. The NBN Group's capacity to meet its liabilities arises from its commitment by the Commonwealth Government described in Note 24.

The following table illustrates the maturities for financial liabilities:

	On demand	Within 1 year	1 to 5 years	Greater than 5 years	Total contractual cash flows	Carrying Amount (assets)/ liabilities)
<b>At 30 June 2012</b>						
<b>Non-derivatives</b>						
Trade payables and accruals	276,991	-	-	-	276,991	276,991
Finance lease liabilities	-	23,352	81,468	581,813	686,633	237,383
<b>Total non-derivatives</b>	<b>276,991</b>	<b>23,352</b>	<b>81,468</b>	<b>581,813</b>	<b>963,624</b>	<b>514,373</b>
<b>Derivatives</b>						
Gross settled (forward foreign exchange contracts - cash flow hedges)						
- inflow	-	255,299	305,709	-	561,008	-
- outflow	-	(243,142)	(294,542)	-	(537,683)	22,466
<b>Total derivatives</b>	<b>-</b>	<b>12,157</b>	<b>11,168</b>	<b>-</b>	<b>23,325</b>	<b>22,466</b>
<b>At 30 June 2011</b>						
<b>Non Derivatives</b>						
Trade payables and accruals	109,356	-	-	-	109,356	109,356
<b>Total non-derivatives</b>	<b>109,356</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>109,356</b>	<b>109,356</b>
<b>Derivatives</b>						
Gross settled (forward foreign exchange contracts- cash flow hedges)						
- inflow	-	-	-	-	-	-
- outflow	-	-	-	-	-	-
<b>Total derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

*i) Fair value of financial instruments*

Fair value approximates the carrying values.

*j) Interest rate risk*

The only interest bearing items are cash and cash equivalents.

## 28. Subsidiaries

The consolidated financial report incorporates the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(c):

<i>Name of entity</i>	<i>Country of incorporation</i>	<i>Class of shares</i>	<i>Equity holding as at 30 June 2012</i>	<i>Equity holding as at 30 June 2011</i>
NBN Tasmania Limited	Australia	Ordinary	100%	100%
NBN Co Spectrum Pty Ltd	Australia	Ordinary	100%	100%

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

The acquisition of NBN Co Spectrum Pty Limited (formerly Austar United Licenceco Pty Ltd) by NBN Co has been treated as an asset acquisition rather than a business combination under AASB 3 (Business Combinations), as the substance of the transaction as opposed to the legal form, is such that the primary purpose was to acquire the 2.3GHz and 3.5GHz spectrum. The acquisition of the company was incidental to the transaction.

## 29. Events occurring after the reporting period

Between 3 and 12 July 2012, NBN Co unveiled the local government areas in the Central West and Mid-Western regions of NSW, Rockhampton, Townsville and Mackay regions of Queensland where planning proposals would be lodged to deliver fixed wireless broadband. Subject to final radio frequency planning and other approvals the fixed wireless network plans to cover up to 54,500 premises across more than 24 councils in these locations.

On 12 July 2012, NBN Co announced that ViaSat of Carlsbad, California had been selected as provider of the long term satellite service (**LTSS**) ground systems. In addition, ViaSat has agreed to supply the equipment to be installed in End User premises. The ground systems contract is in US dollars and has been hedged in line with group policy. The initial contract value in Australian dollars is approximately \$280 million.

On 19 July 2012, NBN Co received \$290 million of Commonwealth equity funding.

On 19 July 2012, the ACCC authorised the agreement between NBN Co and Optus to migrate Optus HFC subscribers to the National Broadband Network. As the migration progresses, Optus will decommission parts of the HFC network.

On 3 August 2012, Senator Stephen Conroy (Minister for Broadband, Communications and the Digital Economy) and Senator Penny Wong (Minister for Finance and Deregulation) announced the appointment of Brad Orgill to NBN Co's Board, as well as the reappointments of Diane Smith-Gander and Siobhan McKenna.

Mr Peter Hay's term as a director and Mr Gene Tilbrook's term as a director and as Chair of the Audit Committee ended on 4 August 2012. Mr Tilbrook was appointed as an interim independent member of NBN Co's Audit Committee effective from 5 August 2012.

## 29. Events occurring after the reporting period (continued)

On 8 August 2012, the Australian Government released NBN Co's updated Corporate Plan for 2012-15.

On 14 August 2012, Mr Clement Doherty resigned as a director.

On 16 August 2012, NBN Co received \$290 million of Commonwealth equity funding.

Except items noted above, no other matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may affect the NBN Group's operations in future financial years, or the results of those operations in future financial years, or the NBN Group's state of affairs in future financial years.

## 30. Parent entity disclosures

### a) Balance sheet

	<b>NBN Co</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
<b>Assets</b>		
Total current assets	1,023,890	655,826
Total non-current assets	1,570,840	509,205
<b>Total assets</b>	<b>2,594,730</b>	<b>1,165,031</b>
<b>Liabilities</b>		
Total current liabilities	382,250	184,337
Total non-current liabilities	244,887	7,629
<b>Total liabilities</b>	<b>627,137</b>	<b>191,966</b>
<b>Equity</b>		
Contributed equity	2,832,000	1,362,000
Reserves	15,726	-
(Accumulated losses)	(880,133)	(388,935)
<b>Total equity</b>	<b>1,967,593</b>	<b>973,065</b>

### 30. Parent entity disclosures (continued)

*b) Statement of comprehensive income*

	<b>NBN Co</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
(Loss) for the period	(491,198)	(310,047)
<b>Total comprehensive (loss)</b>	<b>(491,198)</b>	<b>(310,047)</b>

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

Commitments disclosed in the Schedule of Commitments entitled network assets and leasehold improvements represent the total commitment of the parent entity for the acquisition of property, plant and equipment.

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

Other than the Deed of Cross Guarantee as disclosed in Note 31, no guarantees have been entered into by the parent entity in relation to debts of its subsidiaries.

*e) Contingent liabilities of the parent entity*

The contingent liabilities disclosed in Note 22 all relate to the parent entity.

### 31. Deed of cross guarantee

NBN Co Limited and NBN Tasmania Limited are parties to a deed of cross guarantee under which each company guarantees the debts for the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

*a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings*

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

Set out below is a consolidated income statement, a consolidated statement of comprehensive income and a summary of movements in consolidated accumulated losses for the year ended 30 June 2012 of the closed group.

### 31. Deed of cross guarantee (continued)

For the year ended 30 June 2012

	<b>NBN Group (Co &amp; Tas)</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
<b>Revenue</b>		
Telecommunication revenue	1,924	-
Other revenue	19	-
Interest income	62,869	33,649
<b>Total Revenue</b>	<b>64,812</b>	<b>33,649</b>
Direct telecommunications costs	(64,991)	(5,591)
Employment costs	(222,109)	(118,883)
External services costs – systems and organisation costs	(67,809)	(107,095)
Legal and negotiation support costs	(21,472)	(54,082)
IT and communications expenses	(71,497)	(23,873)
Occupancy expenses	(24,801)	(13,279)
Travel costs	(12,615)	(6,777)
Insurance expense	(2,846)	(1,242)
Depreciation and amortisation expense	(48,445)	(8,334)
Other expenses	(20,828)	(5,766)
Finance costs	(6,143)	-
<b>Total Expenses</b>	<b>(563,556)</b>	<b>(344,922)</b>
<b>(Loss) before income tax</b>	<b>(498,744)</b>	<b>(311,273)</b>
Income tax (expense)/benefit	6,740	-
<b>(Loss) for the year</b>	<b>(492,004)</b>	<b>(311,273)</b>
<b>(Loss) attributable to the shareholders</b>	<b>(492,004)</b>	<b>(311,273)</b>
<b>Other comprehensive income/(loss)</b>		
Changes in the fair value of cash flow hedges	22,466	-
Income tax relating to components of other comprehensive income	(6,740)	-
<b>Total other comprehensive income/(loss) for the year, net of tax</b>	<b>15,726</b>	<b>-</b>
<b>Total comprehensive income/(loss) for the year</b>	<b>(476,278)</b>	<b>(311,273)</b>
<b>Total comprehensive income/(loss) attributable to the shareholders</b>	<b>(476,278)</b>	<b>(311,273)</b>

### 31. Deed of cross guarantee (continued)

#### b) Consolidated balance sheet

Set out below is a consolidated balance sheet as at 30 June 2012 of the closed group.

For the year ended 30 June 2012

	<b>NBN Group (Co &amp; Tas)</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
<b>Current assets</b>		
Cash and cash equivalents	778,952	538,237
Trade and other receivables	26,001	18,145
Inventory	1,672	1,660
Derivative financial assets	11,938	-
Held to maturity investment	75,000	-
Other	21,452	35,665
<b>Total current assets</b>	<b>915,014</b>	<b>593,707</b>
<b>Non-current assets</b>		
Trade and other receivables	65,012	62,972
Derivative financial assets	10,528	-
Investment in Subsidiaries	57,583	57,566
Property, plant & equipment	1,128,222	232,765
Intangible assets	323,133	145,285
Other	8,068	2,324
<b>Total non-current assets</b>	<b>1,592,546</b>	<b>500,914</b>
<b>Total assets</b>	<b>2,507,560</b>	<b>1,094,621</b>
<b>Current liabilities</b>		
Trade and other payables	276,990	109,355
Other financial liabilities	4,942	-
Provisions	16,265	6,884
<b>Total current liabilities</b>	<b>298,198</b>	<b>116,239</b>
<b>Non-current liabilities</b>		
Other financial liabilities	232,441	-
Provisions	12,446	7,629
<b>Total non-current liabilities</b>	<b>244,887</b>	<b>7,629</b>
<b>Total liabilities</b>	<b>543,085</b>	<b>123,868</b>
<b>Net assets</b>	<b>1,964,475</b>	<b>970,753</b>
<b>Equity</b>		
Contributed equity	2,832,000	1,362,000
Reserves	15,726	-
(Accumulated losses)	(883,251)	(391,247)
<b>Total equity</b>	<b>1,964,475</b>	<b>970,753</b>

### 31. Deed of cross guarantee (continued)

c) *Summary of movements in consolidated accumulated losses*

Set out below is a consolidated balance sheet as at 30 June 2012 of the closed group.

	<b>NBN Group (Co &amp; Tas)</b>	
	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
Balance at 1 July	(391,247)	(79,974)
Net (loss) for the year	(492,004)	(311,273)
<b>Balance at 30 June</b>	<b>(883,251)</b>	<b>(391,247)</b>

## Directors' Declaration

- (1) The financial statements and notes set out on pages 58 to 116 are in accordance with the *Corporations Act 2001* and the *Commonwealth Authorities and Companies Act 1997*, including:
  - (i) Complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - (ii) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the financial year ended on that date, and
- (2) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and
- (3) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 31 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 31.

Note 1(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.



Harrison Young  
Chairman



Mike Quigley  
CEO & Executive Director

14 September 2012



## INDEPENDENT AUDITOR'S REPORT

### To the members of NBN Co Limited

I have audited the accompanying consolidated financial report of NBN Co Limited for the year ended 30 June 2012, which comprises the Statement of Comprehensive Income, the Balance Sheet as at 30 June 2012, the Statement of Changes in Equity, the Statement of Cash Flows, the Schedule of Commitments, Notes to the Financial Statements comprising a Summary of significant accounting policies and other explanatory information, and the Directors' Declaration of the NBN Group comprising NBN Co Limited and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' Responsibility for the Financial Report*

The directors of the NBN Co Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report complies with *International Financial Reporting Standards*.

### *Auditor's Responsibility*

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

***Independence***

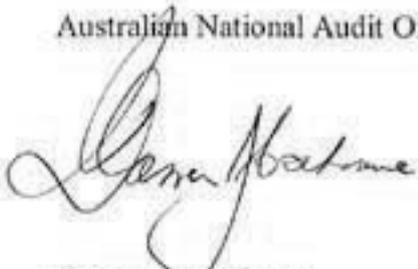
In conducting my audit, I have complied with the independence requirements of the *Corporations Act 2001*.

***Opinion***

In my opinion:

- (a) the financial report of NBN Co Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) The consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Australian National Audit Office



Warren J. Cochrane  
Group Executive Director

Delegate of the Auditor-General

Sydney  
14 September 2012

## Regulatory Reporting Requirements Index

For the year ended 30 June 2012

### Commonwealth Authorities and Companies Act 1997

Section	Subject	Location	Pages
s.36	Annual report	Directors Report	28-45
		Financial statements	58-116
		Independent auditor's report	118-119
s.40	Significant events under s.40 of CAC Act	Directors Report	28-45
		Financial statements	58-116
s.42	Corporate Plan	Regulatory report	121
s.43	Government policies under s.43 of the CAC Act during the financial year	Operational review	14-27
s.44	Audit Committee	Corporate governance statement	50-51

### Commonwealth Companies (Annual Reporting) Orders 2011

Section	Subject	Location	Pages
cl. 5	Approval by directors	Director Declaration	117
cl. 9	Responsible Minister	About NBN Co	4-5
cl. 11	Information about directors	Directors Report	28-45
cl. 12	Outline of organisational structure and statement on governance	Corporate governance statement	46-55
cl.14	Key activities and changes affecting the company	Directors Report	28-45
cl. 17	Disclosure requirements of GBEs	Directors Report	28-45
cl. 17(a)(i)	An assessment of significant changes in financial structure and condition the financial year	Financial statements	58-116
cl. 17(a)(ii)	An assessment of any events or risks that could cause reported financial information not to be indicative of future operations or financial conditions	Directors Report	28-45
cl. 18	Index of annual report requirements	Regulatory reporting requirements index	120

### Work Health and Safety Act 2011

Section	Subject	Location	Pages
Sch 2, cl 4(2)(a)	Initiatives taken during the year to ensure the health, safety and welfare of workers who carry out work for the entity.	Regulatory report	122
Sch 2, cl 4(2)(b)	Health and safety outcomes (including the impact on injury rates of workers) achieved as a result of initiatives mentioned under paragraph (a) or previous initiatives.	Regulatory report	122
Sch 2, cl 4(2)(c)	Statistics of any modifiable incidents of which the entity becomes aware during the year that arose out of the conduct of businesses or undertakings by the entity.	Regulatory report	122
Sch 2, cl 4(2)(d)(g)	Any investigations conducted during the year that relate to businesses or undertakings conducted by the entity, including details of all notices given to the entity during the year under Part 10 of this Act.	Regulatory report	122
Sch 2, cl 4(2)(e)	Such other matters as are required by guidelines approved on behalf of the Parliament by the Joint Committee of Public Accounts and Audit.	Regulatory report	122

### Environment Protection and Biodiversity Conservation Act 1999

Section	Subject	Location	Pages
s.516A(4) and (6)	Report on the implementation of the Ecologically Sustainable Development program within NBN Co including social, economic, culture and environmental performance	Regulatory report	125-126

# Regulatory Reporting Requirements

## For the year ended 30 June 2012

### Introduction

NBN Co Limited is subject to various statutory reporting requirements under the *Commonwealth Authorities and Companies Act 1997*, the *Freedom of Information Act 1982*, the *Work Health and Safety Act 2011*, the *Superannuation Benefits (Supervisory Mechanisms) Act 1990* and the *Environment Protection and Biodiversity Act 1999*.

The index on page 120 shows where the relevant information can be found in this annual report.

A number of matters are dealt with in the main body of the report. Others are covered below.

### Legislation

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

- NBN Co's ownership arrangements and wholesale mandate
- The framework for the eventual privatisation of NBN Co

### NBN ownership and structure

The Commonwealth must retain ownership of NBN Co until at least:

- The Communications Minister has declared that the NBN is built and fully operational
- The Productivity Minister has tabled a Productivity Commission inquiry report in both Houses of Parliament
- The Joint Committee on the National Broadband Network has examined the report
- The Finance Minister has declared that conditions are suitable for a NBN Co sale scheme

### Corporate Plan

Each year, NBN Co Limited prepares a three-year Corporate Plan. The 2012–15 Corporate Plan was submitted to the Shareholder Ministers on 6 August 2012

### Objective

NBN Co's primary objective is to build and operate the open access wholesale National Broadband Network (**NBN**). The NBN will be delivered to 93% of Australian homes, schools and businesses with fibre to the premise technology with a minimum fibre coverage obligation of 90% of Australian premises and with all remaining premises to be served by a combination of leading edge fixed wireless and satellite technologies, through uniform national wholesale pricing over the network from a point of interconnect to premises on a non-discriminatory basis.

### Government policies

The Government has communicated in its Statement of Expectations (released in December 2010) that its central NBN objectives are to deliver significant improvement in broadband service quality to all Australians, address the lack of high speed broadband in Australia, particularly outside of metropolitan areas and reshape the telecommunications sector.

The Government expects that NBN Co will design, build and operate a new NBN to provide access to high speed broadband to Australian premises. The Government expects NBN Co to connect 93% of Australian homes, schools and businesses with fibre-to-the-premises technology designed to offer its access seekers broadband speeds of up to 100 megabits per second<sup>1</sup> at the wholesale level, with a minimum fibre coverage obligation of 90 per cent of Australian premises. All remaining premises will be served by a combination of leading edge fixed wireless and satellite technologies designed to offer access seekers speeds of 12 megabits per second at a wholesale level.

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<sup>1</sup> NBN Co is designing the NBN to be capable of delivering these speeds to NBN Co's Retail Service Providers (**RSPs**) and Wholesale Service Providers (**WSPs**) via Fibre, Fixed Wireless and Satellite. Speeds actually achieved by retail End Users will depend on a number of factors including the quality of their equipment and in-premises connection, the broadband plans offered by their service provider and how their service provider designs its network to cater for multiple End Users

The Government expects the company to operate in accordance with relevant regulations and specifically will offer open and equivalent access to wholesale services, at the lowest levels in the network stack necessary to promote efficient and effective retail level competition, via Layer 2 bit stream services.

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

The Government expects that NBN Co will consult with security and law enforcement agencies to enable national security and resilience considerations are taken into account in the design and ongoing operation of the network.

### **Other government obligations**

#### *Superannuation*

During 2011–12 NBN Co complied with all relevant guidelines and made no significant changes to superannuation arrangements for employees.

### **Health, Safety & Environment (HSE)**

NBN Co holds the safety of people and the environment as a core value. The company is committed to providing a safe and healthy working environment for its workers, contractors and visitors to NBN Co's workplaces and takes all reasonably practicable steps to control hazards and ensure safety. Through a team of professional HSE Staff, NBN Co targets high standards of commitment and compliance with legislative requirements and community expectations.

#### *HSE Management*

NBN Co continues to operate its iSafe HSE Management System which includes incident and hazard reporting capability, risk assessment, investigations, auditing, case management and reporting modules. NBN Co has a refined document management system to manage its policies, standards, procedures and safe work method statements. Managers still have the benefit of the HSE Field Guide which is now into

version 2. The guide assists managers and employees to better understand their obligations and improve their vigilance to HSE risk, reporting and management.

In May 2012 NBN Co was accredited to the International Environmental Standard ISO14001 and the Health and Safety Standards AS4801 and OHSAS18001. These standards ensure NBN Co's health, safety and environmental systems and processes are of an international quality.

In the second half of FY12 NBN Co's management system was audited by Comcare and legally reviewed by Ashurst. Both reviews concluded with 12 minor non conformances and observations. A detailed plan has been developed to address the non conformances.

NBN Co continues to operate a comprehensive drug and alcohol testing program to contribute to the safety of all people working at NBN Co. Tests are conducted on all employees at random times of the year, pre employment, after any incidents or if an employee shows cause. The program uses modern, non invasive, saliva and breath testing.

#### *HSE Incidents and Hazards*

NBN Co is proud of its lost time injury record of 0.4 lost time injuries per million work hours for employees and 0.6 lost time injuries per million work hours for contractors working on the National Broadband Network project.

NBN Co has had no significant environmental incidents recorded over the past 12 months. The Company actively encourages our philosophy of "no fear" in the reporting of all incidents and near misses and employees/contractors continue to proactively raise hazard reports and alerts. The Company remains fully committed to non punitive responses when employees and contractors actively and openly report incidents and near misses.

#### *Workers Compensation*

On 1 July 2011 NBN Co was declared as a Commonwealth Authority for the purposes of the *Safety, Rehabilitation and Compensation Act 1988* and as such entered the Comcare Premium

Scheme. To date, NBN Co has not had a work related workers compensation claim.

*Sustainable Development Program*

NBN Co is committed to an ecologically sustainable development of the network and is working on new ways of introducing sustainable programs and processes into the building of the NBN. The Company has access to key environmental GIS mapping tools and overlays (e.g. heritage, indigenous, wetlands, areas of environmental significance) and follows a rigorous land access process so all licences, permits and approvals are obtained prior to development.

**Freedom of Information report**

NBN Co became subject to freedom of information legislation on 11 June 2011. By the 30 June 2011, NBN Co had finalised three requests under *the Freedom of Information Act 1982 (the FOI Act)* and carried over 12 requests into the following financial year. By 30 June 2012, NBN Co received 19 new requests and had finalised 28 requests under the FOI Act.

These applications were processed as follows:

Granted in full	2
Granted in part	6
Access refused	3
No documents held	4
Request was transferred	0
Application was withdrawn	13
On hand at 30 June 2012	3

FOI applicants made 4 applications for review to the Office of the Australian Information Commissioner (**OAIC**) during the 2011-2012 year. NBN Co received no Internal Review requests during this period, nor was the company subject to any reviews or appeals at the Administrative Appeals Tribunal.

**Operation of FOI Act at NBN Co**

In addition to the general exemptions under the FOI Act, Parliament has determined that documents relating to NBN Co's commercial activities are exempt from the operation of the FOI Act. Similar exemptions operate for other Commonwealth business, research and other

organisations, such as Australia Post, CSIRO and Comcare.

During the financial year, the Attorney General commissioned Mr Stuart Morris, QC, to undertake a review into the operation of the FOI Act at NBN Co. Mr Morris is a former justice of the Supreme Court of Victoria and a former President of the Victorian Civil and Administrative Tribunal, with very wide experience in freedom of information matters. The review is required under s100A(1) of the *National Broadband Network Companies Act 2011*. On 16 August 2012, the Attorney-General tabled the report by Stuart Morris, QC on the review of the operation of the *Freedom of Information Act 1982*, insofar as it applies to documents held by NBN Co Limited.

**How to make FOI requests**

NBN Co recognises that information is a vital and an invaluable resource, both for the company and for the broader Australian community. NBN Co promotes a pro-disclosure culture, with the goal of creating an organisation that is open, transparent and accountable. A large amount of information is freely available on the website.

To make an FOI request, applicants should apply in writing and:

- Specify that documents are being sought for the purposes of the FOI Act; and
- Provide a postal or email address where correspondence can be sent. A telephone number will also help in case further information is required; and
- Describe as clearly as possible the information being sought. Please include any reference numbers or details that may assist in identifying specific material.

FOI applications can be emailed to:

[FOlofficer@nbnco.com.au](mailto:FOlofficer@nbnco.com.au)

Or in post to:

FOI Requests  
 NBN Co  
 Level 11, 100 Arthur Street  
 NORTH SYDNEY NSW 2060

### Information Publication Scheme

Part 2 of the FOI Act requires Australian Government agencies, Ministers and certain government business enterprises (**GBEs**) to establish an Information Publication Scheme (**IPS**). As a GBE, NBN is required to adhere to the IPS provisions and outline the company's obligations to provide the Australian community with access to information regarding the company's operations, activities and other matters. In addition to publishing a broad range of information on the website, NBN Co has published its IPS Plan, which explains how the company intends to implement and administer its Publication Scheme. This may be found at the following:

<http://www.nbnco.com.au/about-us/freedom-of-information/information-publication-scheme.html>

Section 7(3A) of the FOI Act exempts NBN Co from releasing information relating to its commercial activities. However, NBN Co regularly releases information about its operations on a proactive basis. NBN Co's objective is to continue along this path without compromising its commercial, business or operational objectives or those of its partners.

NBN Co welcomes input from the community regarding its IPS, along with suggestions regarding information that should be published by the company. In that regard, please forward any comments or suggestions to the [FOlofficer@nbnco.com.au](mailto:FOlofficer@nbnco.com.au). If NBN Co is unable to publish the information requested, its staff will be in contact to discuss the reasons that the information was unavailable. NBN Co will endeavor to provide other options regarding information that may be available.

### Privacy and access to personal information

Under the *Privacy Act 1988* individuals have, subject to certain exceptions permitted by law, a right to request access to their personal information. For further information please see NBN Co's Privacy Policy available on the website.

Individuals may apply for access to their personal information held by NBN Co by writing to:

Privacy Officer  
Corporate Services  
NBN Co Limited  
Level 11, 100 Arthur Street  
North Sydney NSW 2060

Or email to:  
[PrivacyOfficer@nbnco.com.au](mailto:PrivacyOfficer@nbnco.com.au)

## Environmental Protection & Biodiversity Conservation Act 1999 Report

### Introduction

This report has been prepared for the purposes of reporting under Section 516A of the Environment Protection and Biodiversity Conservation Act 1999 (**EPBC Act**). The environmental data reported in this report relates to the activities of NBN Co employees and NBN Co occupied facilities.

### Purpose of this report

NBN Co is a Commonwealth Agency for the purposes of the EPBC Act and is required to report against two core criteria. The first is how the activities of NBN Co accord and contribute to ecologically sustainable development (**ESD**). The second is to report the environmental performance of NBN Co, that is, the impact NBN Co activities have on the natural environment, how these impacts are mitigated and how any mitigation measures will be reviewed for improvement (s516A of the EPBC Act). NBN Co must also include in its annual report particulars of any directions given by the Minister under subsection 514D(1) of this Act during the year to which the report relates s514V of the EPBC Act).

### FY 2011-12 Statutory Approvals

During the 2011/12 financial year, significant progress has been made in preparation of the likelihood of land access agreements and statutory approvals increasing significantly in the next financial year. Of particular significance was the internal publication of the Strategic Plan in November 2011. NBN Co did not have any significant statutory approval issues during the year and does not currently have any active EPBC Act conditions.

### Ecologically Sustainable Development

As outlined in the Department of the Environment, Water, Heritage and the Arts Guidelines for Section 516A reporting – Environmental Protection and Biodiversity Conservation Act 1999, the *National Strategy for Ecologically Sustainable Development* was endorsed by all Australian jurisdictions in 1992, defining the goal of ESD:

“development that improves the total quality of life, both now and in the future, in a way that maintains the ecological processes on which life depends.”

NBN Co subscribes to the following ESD principles as outlined in Section 3A of the EPBC Act:

- a) Decision-making processes should effectively integrate both long-term and short-term economic, environmental, social and equitable considerations (the “integration principle”).
- b) If there are threats of serious or irreversible environmental damage, lack of full scientific certainty should not be used as a reason for postponing measures to prevent environmental degradation (the ‘precautionary principle’).
- c) The principle of inter-generational equity – that the present generation should ensure that the health, diversity and productivity of the environment is maintained or enhanced for the benefit of future generations (the ‘intergenerational principle’).
- d) The conservation of biological diversity and ecological integrity is a fundamental consideration in decision making (the ‘biodiversity principle’).
- e) An improved valuation, pricing and incentive mechanism is promoted (the ‘valuation principle’).

### NBN Co Approach to ESD

The NBN Co approach to *ESD involves the baseline measurement of consumption* materials such as electricity, fuels and paper. This eco-efficiency data is captured via our new online environmental reporting tool from East River Software. This software will also assist in generating assorted greenhouse gas reports.

NBNCo strives to act according to the ESD principles at all stages of its operations, starting at the design phase.

As an example, the NBN Co Satellite project underwent detailed facility and construction design workshops during the year. As part of the design phase, ESD principles were considered during the design risk workshop process.

As a result, a study was conducted outlining approximately 90 sustainability initiatives that will be scoped out further in the design phase including:

- Solar Thermal Absorption Chillers
- Thermal Energy Storage
- Energy Sub metering
- A 2N redundant UPS based on double conversion
- Running servers at higher temperatures
- Remote switching access for domestic hot water, external lighting and HVAC systems
- Use of solar photovoltaic systems to produce electricity
- Use of wind turbines

These initiatives will enable environmentally-friendly operation of the satellite earth stations.

#### *Environmental Best Practice*

In April 2012 the Australian National Audit Office published a report titled the Public Sector Environmental Management Better Practice Guide and the HSE team is looking at this guide to assist in developing environmental and sustainability targets for the coming year. Whilst NBN Co is not legally obliged to comply with the targets set out in the report, the targets are none the less of interest, as NBN Co base line data is still limited.

NBN Co is currently developing environmental targets and programs for the FY12-13 in alignment with the above publication to ensure continuous improvement. Furthermore, industry benchmarking and best practice will assist in determining NBN Co's level of environmental performance.

#### *NBN Co's contractors*

The build of the NBN is carried out on NBN Co's behalf by its contractors and NBN Co has processes in place to ensure that its contractors consider environmental impacts of their operations. As of this year we started requesting eco-efficiency data from contractors to gain an understanding of the total impact of the NBN roll-out. NBN Co also runs an HSEQ Audit Program, both internally and externally.

The information on this page/document may no longer be current and is provided for educational and historical purposes. **You should not rely solely on this information.**





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