



2012
2013

Annual Report



NBNCo
Bringing broadband to life





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The financial statements were authorised for issue by the directors on 13 August 2013. The directors have the power to amend and reissue the financial statements.

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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 2013

About NBN Co

The National Broadband Network (**NBN**) is a national wholesale-only, open access communications network that is already operating and delivering high speed broadband and telephony services in a number of areas across Australia. The NBN forecast completion date is FY2021 to pass or cover 100% of Australian premises.¹

NBN Co Limited (the company or NBN Co) was established on 9 April 2009 to design, build and operate the NBN. NBN Co is a Government Business Enterprise (**GBE**) operating under the *Commonwealth Authorities and Companies Act 1997 (CAC Act)*, the *Commonwealth Government Business Enterprise Governance and Oversight Guidelines October 2011 (GBE Guidelines)* and the *Corporations Act 2001 (Cth) (Corporations Act)*. In accordance with the GBE Guidelines, NBN Co operates as a commercial entity with the long term objective of earning a commercial return for its shareholder, the Commonwealth of Australia.

NBN Co has two Shareholder Ministers; the Minister for Broadband, Communications and the Digital Economy, the Hon Anthony Albanese MP and the Minister for Finance and Deregulation, Senator the Hon Penny Wong (together, the **Shareholder Ministers**).

¹ To pass: with Fibre-to-the-Premises (Fibre Access). To cover: with Fixed Wireless and Satellite.





Image courtesy of Arianespace.

NBN Co Objectives

The Commonwealth Government's policy objectives on which NBN Co is to deliver are detailed in the Statement of Expectations (SoE) issued in December 2010². The SoE has been supplemented by subsequent policy directives provided in writing by the Shareholder Ministers from time to time. The Commonwealth Government's central policy objective is for NBN Co *"... to deliver significant improvement in broadband service and quality to all Australians; address the lack of high speed broadband in Australia, particularly outside of metropolitan areas; and reshape the telecommunications sector. ..."*

Specifically, these policy objectives include:

- The aim of connecting 93% of Australian homes, schools and businesses with fibre-to-the-premises (**Fibre**) technology providing wholesale speeds of up to 100 Mbps³, with a minimum coverage requirement of 90% of Australian premises
- The requirement for all remaining premises to be served by a combination of next-generation Fixed Wireless and Satellite technologies providing wholesale peak speeds of at least 12 Mbps³
- The requirement for NBN Co to supply services to Retail Service Providers (**RSPs**) on a wholesale-only, open-access basis via Layer 2 services
- The expectation that NBN Co will utilise existing infrastructure where it is efficient and economical to do so
- That NBN Co should proceed with planning and construction of the network on the basis of a Gigabit Passive Optical Network (**GPON**) architecture
- The requirement to provide connection to all New Developments meeting certain size criteria from 1 January 2011
- The requirement that NBN Co implement a semi-distributed Points of Interconnect (**Pols**) architecture, following advice from the ACCC, which has resulted in an initial list of 121 Pols
- NBN Co should achieve a rate of return that is, at a minimum, in excess of public sector debt rates

NBN Co operates in accordance with the policy directions provided by the Commonwealth Government as set out in the SoE and subsequent written instructions from NBN Co's Shareholder Ministers. This Annual Report has been prepared on the basis that there is no significant change in Commonwealth Government policy in so far as it relates to the operations of NBN Co. At the time of issuing this Annual Report it is not possible to determine whether a change in Commonwealth Government policy may occur, or how such a change may impact the intended operations of NBN Co.

² http://www.dbcde.gov.au/_data/assets/pdf_file/0003/132069/Statement_of_Expectations.pdf (issued in December 2010).

³ NBN Co is designing the NBN to provide these speeds to NBN Co's wholesale customers, telephone and internet service providers. Speeds actually achieved by retail end-users will depend on a number of factors outside of NBN Co's control including the quality of their equipment and in-premises connection, software, 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

NBN Co made considerable progress this year towards fulfilling its central objectives of establishing a national wholesale-only, open access communications network that can foster competition in retail telecommunications and deliver high speed broadband connectivity to all Australians by 2021.

The period also marked the juncture between the foundation years of the company and the next stage of its development.

In the four years since its founding, NBN Co has transitioned from a policy vision articulated in the Statement of Expectations to an established telecommunications company.

The Board acknowledges the contribution of its commercial partners, including 20 equipment suppliers and 12 primary Delivery Partners and IT companies that are assisting in building and operating the network. In addition, NBN Co has more than 40 retail customers – representing 94 per cent of the retail broadband market – which have signed NBN Co's Wholesale Broadband Agreement to market and sell NBN products to consumers.

The next phase will be to build on these foundations. It is critical that the company further strengthens its partnerships across the construction and telecommunications industries, as it escalates the build of the network and works to ensure a smooth migration of end-users to the NBN.

In areas where the NBN Fibre Access network has been operational (ready for service) for more than six months, an average of more than 35 per cent of the premises passed has taken up an NBN service. In some areas take-up is already in excess of 60 per cent.

By contrast, after six years of ADSL, the Australian Bureau of Statistics found that 28 per cent of households possessed broadband.

In fulfilling its objectives, NBN Co is accountable to the government and operates in accordance with Government Business Enterprise governance processes. These include the annual submission of a Statement of Corporate Intent and a Corporate Plan.

A draft 2013-16 Corporate Plan has been submitted to Shareholder Ministers and confirms the robustness of the company's underlying business case. The key assumptions underpinning the business model have been independently tested against NBN Co's actual experience of revenue and costs to build and operate the network. The financial statements have been prepared under the assumption that there is no significant change in Commonwealth Government policy in relation to the objectives of NBN Co: as noted in note 1(a) to the statements, if there were to be significant changes to policy this could have a material impact on those statements.

On 19 April 2013, NBN Co submitted detailed operational and financial metrics to Federal Parliament's Joint Committee on the NBN which set out detailed information about the cost of the rollout per premise. This information, together with the company's attendance at Parliamentary committee hearings and public forums, responses to Questions on Notice from Parliamentarians, end-user communications and information about the rollout on the company website further underline the company's commitment to scrutiny and transparency.

The company remains firmly focused on the safety of employees, contractors and the general community maintained a low Lost Time Injury frequency during the year.

The company will continue to review workplace safety procedures, focusing on the identification, assessment and control of risk and is working closely with the national taskforce on asbestos in telecommunications infrastructure.

May I convey the thanks of the Board to our staff and the employees of our Delivery Partners who are engaged in building and operating the NBN.

I would particularly like to acknowledge the contributions of outgoing board members Gene Tilbrook, Peter Hay and Clem Doherty, and welcome our three new directors, Alison Lansley, Brad Orgill and Kerry Schott.

Finally, I wish to convey my personal thanks and that of the entire company to Harrison Young for establishing during his Chairmanship the prudent governance framework that guides the company's activities and outgoing CEO Mike Quigley for his robust and disciplined leadership of NBN Co during its crucial formative years.

The foundations they have laid will allow us to meet our goal of delivering significant improvements to broadband in Australia.



Siobhan McKenna



Chief Executive Officer's Message

In the past 12 months NBN Co has moved from the design and early implementation phase to become an established company with systems, contracts and resources in place to operate as a growing national wholesale-only, open access communications network of high speed broadband services.

Milestones include the ramp-up toward the volume rollout of fibre to communities across the country; execution of additional contracts for the design and construction of the Fibre Access, Fixed Wireless, Satellite and Transit Networks; and the development and release of new products and services.



IT systems, personnel and local area communications activities are also in place to enable the connection and activation of a growing number of end-users.

During fiscal 2013, the company signed a contract with ViaSat worth up to \$280 million, for delivery of Satellite ground systems equipment. NBN Co also signed a contract with Arianespace, the commercial launch services provider, worth up to \$300 million, to deliver NBN Co's two purpose-built communications Satellites into orbit in 2015. NBN Co announced a doubling of the wholesale speeds available over its Fixed Wireless service. Wholesale download speeds of up to 25 Mbps and upload speeds of up to 5 Mbps became available in Fixed Wireless coverage areas in June 2013 and will be available to users of the long-term Satellite service from launch in 2015.

Faster wholesale speeds are also being made available over the Fibre Network. Plans for 1 Gigabit – or 1000 Mbps – products were unveiled in April and will be made available to Retail Service Providers (**RSPs**) by the end of the calendar year. Following a thorough review, NBN Co announced on 21 March 2013 revised forecasts for the Fibre Access network construction programme.

Measures were put in place to address challenges in construction, including the training and employment of additional specialist telecom workers. We continue to work closely with our construction partners to improve efficiencies, streamline processes and reduce design and build duration.

NBN Co also assumed direct management of the fibre rollout in the Northern Territory. It is now ramping up its capability in the NT with the first Fibre area in Darwin having been completed and brought into service by NBN Co in three months.

As a result of the actions taken by NBN Co, the company achieved its revised end-of-year forecasts for the

rollout of Fibre and experienced the anticipated acceleration in the ramp-up of construction.

By way of example, in the June quarter of 2012 the number of premises/lots per day being connected by Fibre to the Transit Network was 290. This rose to more than 1000 premises in the June 2013 quarter. NBN Co plans to lift this rate to more than 4000 premises per day over the following 12 months on the way to maintaining a rate of more than 6000 premises per day at the peak of the rollout.

At the end of fiscal 2013, 1,115,000 premises had reached construction commenced or completed and the number of Fibre premises passed in the period was 207,500.

The total number of families and businesses with NBN services rose to 70,100: a fourfold increase over the period. Of these, 33,600 were connected to the Fibre Access network across brownfields and greenfields locations: up sevenfold.

The company continues to engage constructively with the ACCC and access seekers in relation to its proposed Special Access Undertaking (SAU). The SAU is an important element of the long-term regulatory framework for fixed-line telecommunications in the NBN era. In July 2013 the ACCC released a draft notice to vary the SAU. NBN Co remains committed to bringing the SAU assessment process to a timely conclusion and expects to receive a final notice to vary from the ACCC, once the ACCC has considered submissions from NBN Co and others on the draft notice to vary.

In getting to this point the ACCC has expressed the opinion in a draft decision that major components of NBN Co's SAU have merit, including the commitment to freeze the wholesale price of key consumer and business products for five years and to peg any future price rises to below the rate of inflation.

The SAU works in conjunction with the Wholesale Broadband Agreement (WBA), the contract which

sets out commercial terms under which NBN Co supplies wholesale services to retail RSPs.

The existing WBA has been extended until 31 October 2013 while NBN Co continues to develop the next WBA, pending the ACCC completing its assessment of the SAU.

The most important responsibility of NBN Co and its leadership is to ensure the ongoing safety of people delivering the NBN and the communities where it is being rolled out.

As the company has grown, so too has its role in overseeing health, safety and environmental issues. The number of employees directly responsible for Health, Safety & Environment has increased from 18 in June 2011 to 58 at the end of June 2013.

During the period NBN Co transferred the important task of handling and removing asbestos in pit and pipe from its major contractors to specialist asbestos removal firms. This will continue until such time as a new national standard is agreed for the handling and removal of asbestos in telecommunications infrastructure. In the meantime, it remains a requirement for all workers in the field to complete a mandatory safety awareness training course that includes information on how to identify asbestos.

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

The work we have achieved, including progress made in surmounting the challenges inherent in rolling out Australia's largest national infrastructure project, offer further confidence that the company is on track to deliver the National Broadband Network in line with the parameters of the Corporate Plan and NBN Co's central objectives as set out in the Statement of Expectations.



Mike Quigley

Executive Committee

The Executive Committee as at 30 June 2013 comprised:



Mike Quigley

Chief Executive Officer

Mr Quigley has overall responsibility for fulfilling the Commonwealth's policy goal of building and operating a national wholesale-only, open access communications network across Australia to enable the future of online services and telecommunications.



Ralph Steffens

Chief Operations Officer

Mr Steffens' accountabilities include network construction and operations, service management as well as business and operational support systems. His primary aim is to build the National Broadband Network as safely and efficiently as possible, at the highest quality and most optimal cost.



Robin Payne

Chief Financial Officer

Mr Payne is responsible for the financial aspects of NBN Co's business activities, including business planning, financial reporting, financial control, management accounting, taxation and treasury. He is also responsible for overseeing the company's risk and internal audit activities.



Kevin Brown

Head of Corporate and Commercial

Mr Brown is responsible for supply management, procurement, commercial strategy and the management of NBN Co's agreements with Telstra and Optus, as well as overseeing the company's human resources, legal and facilities functions.



Kieren Cooney
Chief Marketing Officer

Mr Cooney manages the company's government, media and stakeholder relations functions. He also oversees a nationwide consumer information campaign covering the migration from copper and HFC-based telecommunications networks to the fibre-based NBN.

Mike Kaiser
Head of Quality

Mr Kaiser is responsible for implementing a comprehensive quality framework across the company including the continuous improvement of processes and products.

Caroline Lovell
Head of Regulatory Affairs and Industry Analysis

Ms Lovell is responsible for NBN Co's regulatory function, including engagement with communications industry regulators. She is also responsible for NBN Co's commercial agreements for supplying wholesale services, industry analysis, and long term revenue analysis.

Gary McLaren
Chief Technology Officer

Mr McLaren is responsible for defining the technology requirements of the National Broadband Network.

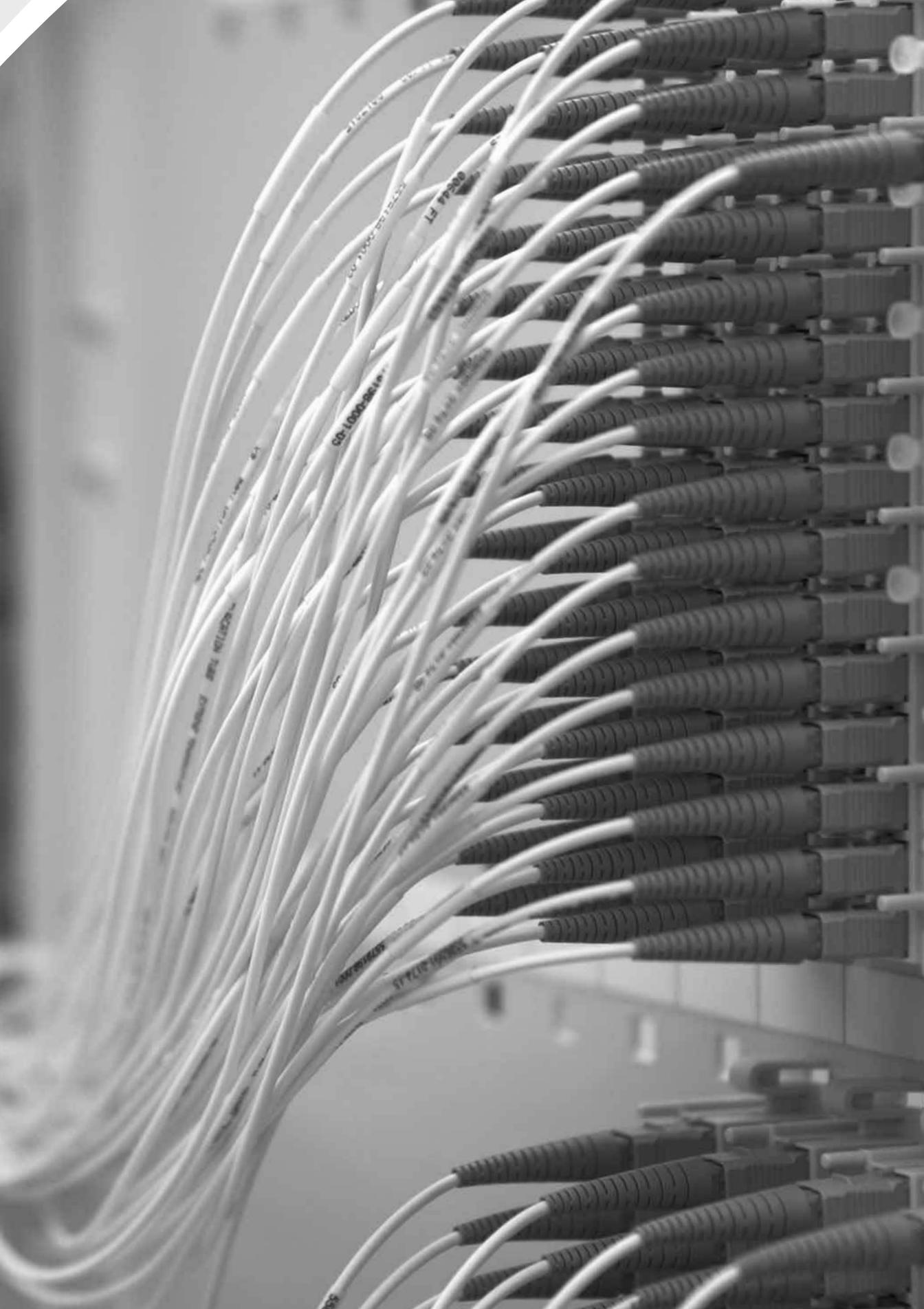
John Simon
Head of Product and Sales

Mr Simon is responsible for developing and managing the life cycle of the NBN's product portfolio and ensuring that it is aligned with industry needs and underpins the NBN Co Corporate Plan.

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

Operational and Financial Review

NBN Co's rollout and operational milestones are reported on a quarterly basis to the Shareholder Ministers as required by the GBE Guidelines. 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 and Financial Review

Key operational data	2013 <i>cumulative</i>	2012 <i>cumulative</i>
Construction commenced or completed¹		
Fibre brownfields premises	1,114,964	309,002
Fibre greenfields lots or premises	84,844	23,939
Fixed wireless and satellite premises	304,686	180,947
Premises passed/covered		
Fibre brownfields premises	163,515	28,860
Fibre greenfields lots or premises	44,028	10,054
Fixed wireless and satellite premises	277,256	173,885
Premises activated		
Fibre brownfields premises	20,441	3,364
Fibre greenfields lots or premises	13,145	503
Fixed Wireless and Satellite or premises	36,514	9,669
Number of Points of Interconnect (PoI)	64	9
Transit network fibre rings integrated	34	1

¹ Construction commenced or completed: refer to definition of construction commenced in the glossary of terms.

Key non financial metrics	FY2013 <i>Year ended</i> <i>30 June</i>	FY2012 <i>Year ended</i> <i>30 June</i>
Health and safety		
Lost Time Injury (LTI) – NBN Co (per million work hours)	0.8	0.4
Lost Time Injury (LTI) – Contractors (per million work hours)	0.5	0.6
Gender diversity		
Women in management roles ²	21%	20%
Staff engagement		
Employee survey score ³	68%	n/a
End-user satisfaction		
Installations only	80%	n/a
Staff retention		
Proportion of staff retained (over 12 months)	88%	88%

² A Management role is defined as "any individual with one or more direct reports".

³ Based on pilot, December 2012.

Operational highlights

- At 30 June 2013, NBN Co achieved its revised rollout target for Fibre premises passed of 190,000-220,000 with 207,543 premises being passed
 - During the year NBN Co passed an additional 134,655 Fibre Brownfield premises at an average of 539 premises per day
 - The increase in premises passed has seen 54 areas declared "Ready for Service" during the year; this has resulted in 109,301 premises being subject to the 18 month disconnection protocol
 - Overall Fibre (Brownfields and Greenfields) premises activated at 30 June 2013 were in line with the revised March 2013 targets. Take-up in areas that have been in-service for greater than 6 months was 37.6% at 30 June 2013
 - At 30 June 2013, end-users were ordering services at speeds higher than assumed in the current 2012-15 Corporate Plan. Positive trends have also been experienced with average speed provisioned across all Fibre end-users of 39 Mbps* at 30 June 2013
 - By 30 June 2013 NBN Co had deployed 22,736 kilometres of transit Fibre and 34 transit rings had been built
- On 5 May 2013, NBN Co announced an update to its three year rollout plan with 4.85 million premises expected to have construction commenced or completed by June 2016. At 30 June 2013, NBN Co had construction commenced or completed in areas covering 1,199,808 premises in the Fibre footprint

Non financial highlights

- Health and safety remains a priority for NBN Co with low annual lost time injury statistics being achieved
- NBN Co remains committed to gender diversity in the workplace, with an increase in women in management roles compared with FY2012
- Current end-user satisfaction scores for the installation phase of building the NBN show positive results. NBN Co plans to implement an end-user experience measurement framework which will track performance through the entire migration process, focussing on awareness, consideration, activation, installation and service experience
- Staff retention at NBN Co has remained high at 88%

* NBN Co is designing the NBN to provide these speeds to NBN Co's wholesale customers, telephone and internet service providers. Speeds actually achieved by retail end-users will depend on a number of factors outside of NBN Co's control including the quality of their equipment and in-premises connection, software, the broadband plans offered by their service provider and how their service provider designs its network to cater for multiple end-users.

Operational and Financial Review

Financial review

Results Summary – year ended 30 June

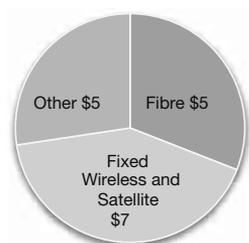
Key financial data (\$m)	2013	2012
Telecommunication and other revenue	17	2
Loss before interest and tax	880	533
Net loss after tax	932	520
Total assets	5,519	2,467
Shareholders equity	5,228	2,832
Capital expenditure on property, plant and equipment and intangibles	1,768	1,122

NBN Co has continued with the build and deployment of the NBN, with the group generating an operating loss after tax for the year to 30 June 2013 of \$932 million and telecommunication and other revenues of \$17 million.

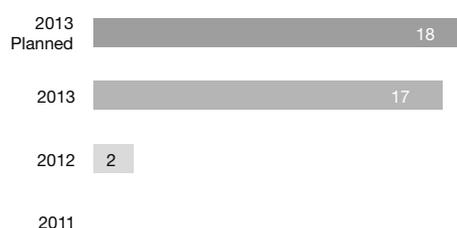
As at 30 June 2013, NBN Co had \$1,019 million of cash and held to maturity investments (an increase of \$165 million compared with FY2012) following equity injections of \$2.4 billion during the year. Payments for property, plant and equipment (including network assets) and intangible assets of \$1,549 million and \$644 million to support operational requirements were made during the year.

Telecommunications revenue

2013 Telecommunications revenue breakdown (\$m)



Total yearly telecommunication revenue (\$m)



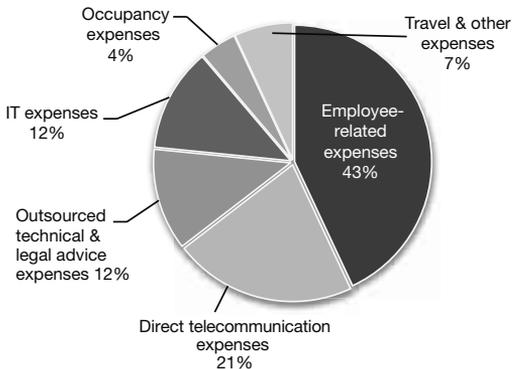
Telecommunication and other revenue for the year was \$17 million, an increase of \$15 million from the prior year reflecting an increase in activations across Fibre, Fixed Wireless and Satellite services and increased revenue derived from Connectivity Virtual Circuit (capacity) and Network to Network Interface (access) products.

Revenue generated from 70,100 active premises was at a weighted Average Revenue

Per User (**ARPU**) of \$37 per month for the year to 30 June 2013. Actual revenue in the period was marginally lower than the 2012-15 Corporate Plan (**Plan**) forecast, with the impact of lower activations largely offset by higher ARPU. Strong demand for higher wholesale speed tiers has contributed to ARPU being higher than 2012-15 Plan assumptions.

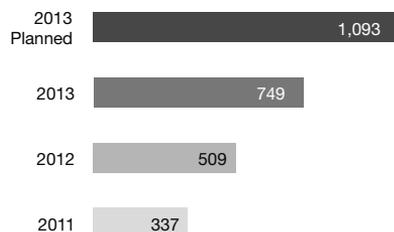
Operational expenditure

2013 Operational expenditure breakdown



Operating expenditure for the year was primarily associated with building core capabilities. An increase of \$102 million (46%) in employee-related expenses to \$324 million was primarily due to a 68% increase in headcount. Direct telecommunication operating expenditure of \$160 million included costs associated with the management of services for the Interim Satellite Service (ISS), Fixed Wireless and leasing of interim backhaul links.

Total yearly operational expenditure (\$m)

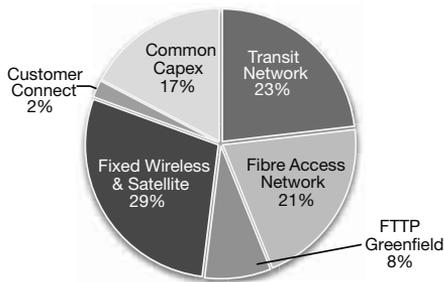


Outsourced technical and legal expenses at \$90 million for support services enabling construction and operation of the NBN were consistent with the prior year. Operating expenditure for the year was lower than forecast in the 2012-15 Corporate Plan reflecting the delay in rollout of the NBN and cost savings in the Interim Satellite Service, Fixed Wireless managed service costs and timing of disconnection payments to Telstra.

Operational and Financial Review

Capital expenditure

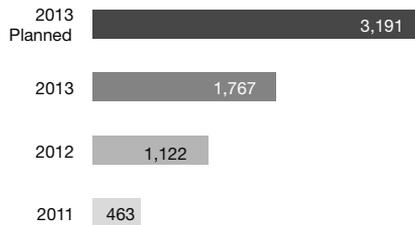
2013 Capital expenditure breakdown



Capital expenditure continued to increase during the year to facilitate the deployment activities for the NBN. NBN Co incurred expenditure of:

- \$1,565 million on network assets for the construction of the Transit, Fibre, Satellite and Fixed Wireless access networks
- \$202 million for common capex including intangible asset additions, largely related to the development of the systems and software to support the functionality of the NBN (active

Total yearly capital expenditure (\$m)

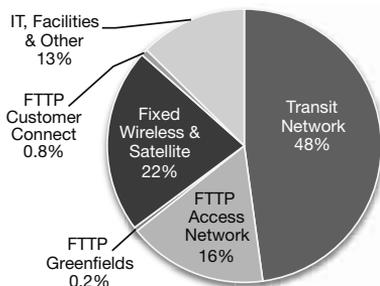


network release (**ANR**), the Operational Support Systems (**OSS**) and Business Support System (**BSS**)

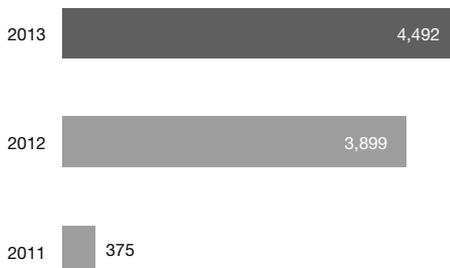
- In addition NBN Co acquired assets under finance lease arrangements with a value of \$1,074 million
- Construction delays contributed to capital expenditure being below 2012-15 Corporate Plan forecasts for 2013. In addition, within the planned \$3,191 million, was contingency that had not been used at 30 June 2013.

Commitments

Commitments breakdown at 30 June 2013



Commitments at 30 June 2013



Commitments payable represents those obligations which have not been recognised in NBN Co's Balance Sheet. During the year, commitments increased by \$593 million to \$4,492 million as at 30 June 2013. Significant movements included:

- Transit Network commitments have decreased by \$502 million largely due to Telstra infrastructure being handed over and now being recognised on the balance sheet
- Fibre Access Network commitments increased by \$566 million as NBN Co issued work instructions to construction Delivery Partners
- Fixed Wireless and Satellite commitments increased by \$286 million due to the execution of the ViaSat ground systems contract and the Arianespace satellite launch contract
- Other commitments increased by \$221 million largely due to obligations associated with Facilities and the general operating activities of NBN Co

Equity funding

The Australian Government contributed \$2.4 billion in equity during the 12 months to 30 June 2013, \$2.3 billion less than the forecast contribution of \$4.7 billion. The main contributing factors for this were:

- Slower than anticipated progress in the rollout of the Fibre Access and Fibre in Greenfields
- Timing of the fibre build and installation of equipment in the Transit Network
- Lower than anticipated operational expenditure related to the Interim Satellite Service (ISS), Fixed Wireless managed service costs and disconnection payments to Telstra
- Unused contingency in 2013

Business strategies

NBN Co's products and customers

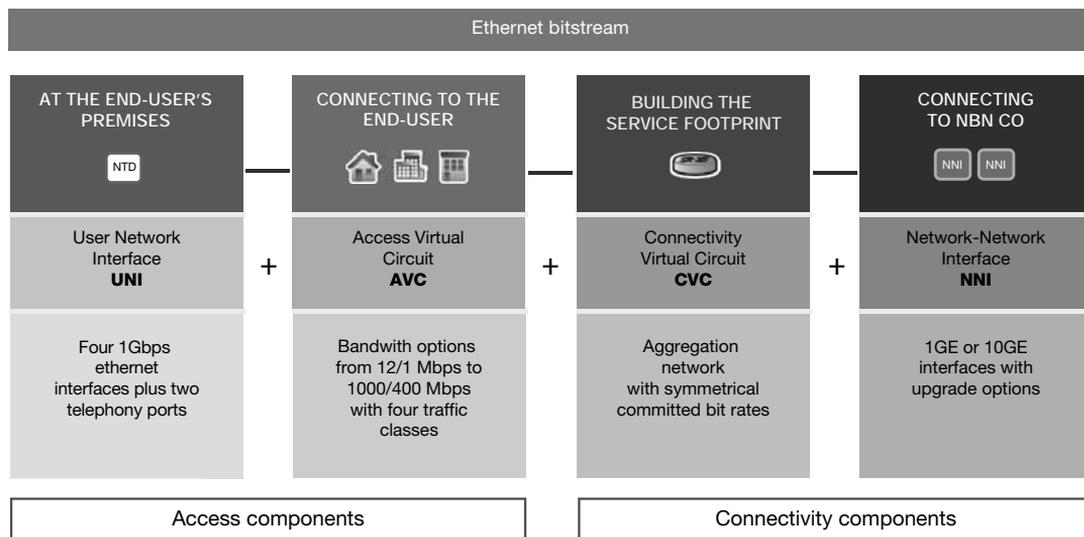
Overview

The NBN has been designed to provide a national wholesale-only, open access communications network across Australia, with all connected premises having access to a network capable of providing wholesale speeds starting at 12 Mbps

downstream and 1 Mbps upstream*. A consistent product set will be available across each of the three access technologies – Fibre, Fixed Wireless and Satellite – providing the ability to offer differentiation by Retail Service Providers (RSPs). The product set is based on Access and Connectivity components.

* NBN Co is designing the NBN to provide these speeds to NBN Co's wholesale customers, telephone and internet service providers. Speeds actually achieved by retail end-users will depend on a number of factors outside of NBN Co's control including the quality of their equipment and in-premises connection, software, the broadband plans offered by their service provider and how their service provider designs its network to cater for multiple end-users.

Operational and Financial Review



The product components work in conjunction with each other to deliver an end-to-end service from NBN Co's Point of Interconnect to the end-user's premises. The product components can be configured by Retail Service Providers (RSPs) in order to tailor their product offerings to the specific

needs of individual market segments (such as households, small businesses or large enterprises). Features such as traffic classes, committed information rate speed tiers, enhanced service levels and protected infrastructure are additional options.

Strategy – products and customers

Objectives	Strategies
To provide RSPs with a uniform, nationwide set of capabilities to build their retail offers.	<ul style="list-style-type: none"> NBN Co has developed a product set which is consistent across all three access technologies enabling RSPs to differentiate their offers NBN Co has released an integrated product roadmap which sets out the expected product development path over the next 2-3 years
Incorporate customer experience and feedback into the prioritisation of the proposed product feature releases.	<ul style="list-style-type: none"> The integrated product roadmap aims to incorporate customer experience and feedback into the prioritisation of proposed product feature releases. It also helps ensure that product feature releases are internally aligned with the network enhancements and IT system capabilities that are required to deliver them The Product Development Forum is designed to incorporate RSPs feedback into future product releases

2013 Performance highlights

At 30 June 2013, RSPs were offering services across all technologies (including downstream RSPs) with:

- 58 RSPs offering service on the Fibre Access Network
- 55 RSPs offering service in Fibre Greenfields
- 36 RSPs offering service on Fixed Wireless
- 10 RSPs offering service on Satellite

In August 2012, the first product focussed on business end-users was launched. The product includes faster fault restoration commitments from NBN Co (compared to residential products) and features that provide multiple, high-quality telephone lines into a business.

The multicast feature designed to broadcast high-quality video over the NBN, was released on the Fibre Network in September 2012.

In April 2013, NBN Co announced plans to release wholesale broadband speeds up to 1,000/400 Mbps (download/upload)* by December 2013 on the Fibre Network.

In June 2013, NBN Co increased the maximum wholesale broadband speeds on the Fixed Wireless network up to 25 Mbps download, with upload speeds of 5 Mbps*. These speeds are expected to be available on the Long Term Satellite Service when launched in 2015.

The ACCC released its draft decision on NBN Co's Special Access Undertaking (SAU) in April 2013

providing guidance for finalising the SAU.

Acceptance of the SAU by the ACCC will provide NBN Co, its customers and their end-users with certainty around the terms of access to NBN Co's services. It also establishes an appropriate oversight role for the ACCC in a framework for the long-term recovery of NBN Co's prudently-incurred costs.

During the year NBN Co established a Product Development Forum to give RSPs a mechanism to submit requests for future NBN Co products and features; NBN Co intends to prioritise these opportunities following consultation via the forum.

Outlook

NBN Co is building a network intended 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 is focussed on releasing products that support medium-size businesses to support data networking and video conferencing and collaboration. NBN Co has also planned for the release of enterprise ethernet services that will provide high bandwidth options, transparency features and access redundancy enabling RSPs to serve large enterprise customers.

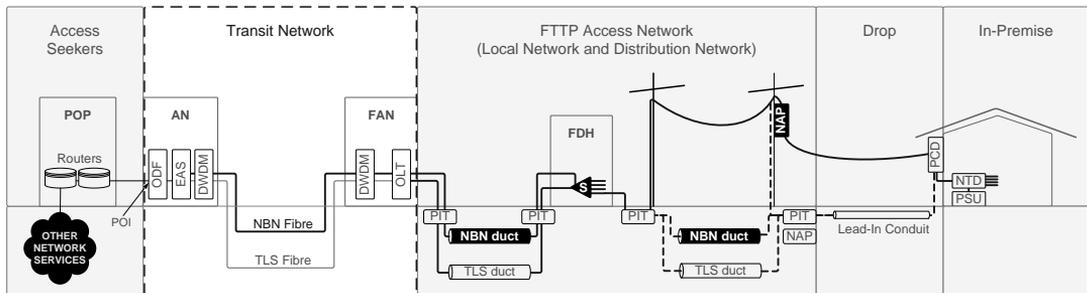
NBN Co also provides a Facilities Access Service enabling physical access to NBN Co facilities and interconnect between a Service Provider's own network and the NBN.

* NBN Co is designing the NBN to provide these speeds to NBN Co's wholesale customers, telephone and internet service providers. Speeds actually achieved by retail end-users will depend on a number of factors outside of NBN Co's control including the quality of their equipment and in-premises connection, software, the broadband plans offered by their service provider and how their service provider designs its network to cater for multiple end-users.

Operational and Financial Review

Building the NBN

Building the NBN – Transit Network



AN: Aggregation Node
 DWDM: Dense Wave Division Multiplexing
 EAS: Ethernet Aggregation Switch
 FAN: Fibre Access Node

FDH: Fibre Distribution Hub
 NAP: Network Access Point
 NTD: Network Termination Device

ODF: Optical Distribution Frame
 OLT: Optical Line Terminal
 PCD: Premise Connection Device
 POI: Point of Interconnect

POP: Point of Presence
 PSU: Power Supply Unit
 S: Optical Splitter
 TLS: Telstra

Overview

The Transit Network is the backbone of the NBN, providing connectivity between the three Access Networks (Fibre, Fixed Wireless and Satellite) and the Points of Interconnect (PoI) where RSPs connect to the NBN.

When completed, the Transit Network will link approximately 940 Fibre Access Node (FAN) sites, 121 PoI sites and 415 Intermediate Access Points

(IAPs). These sites will be connected by approximately 65,000 kilometres of transit fibre.

The majority of NBN Co's FAN sites and Poles will be located inside existing Telstra exchange buildings. These buildings provide the necessary physical environment for complex active equipment and are also the termination points for Telstra's Duct and Dark Fibre Networks which are being extensively used by NBN Co.

Strategy – building the Transit Network

Objectives	Strategies
<p>Build the core Transit Network by FY2015 to enable the efficient rollout of Fibre Access, Satellite and Fixed Wireless.</p>	<ul style="list-style-type: none"> NBN Co has entered into a number of construction contracts and is prioritising the completion of the Transit Network: <ul style="list-style-type: none"> To enable the Fibre Access network to be built simultaneously across a wide range of regional areas To support the earlier connection of New Developments ahead of the Fibre Access network rollout To provide connectivity for the Fixed Wireless and Satellite Networks

Objectives

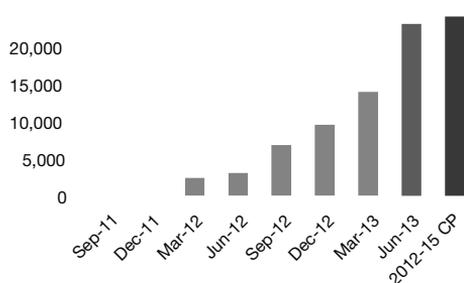
To utilise existing infrastructure where it is efficient and economical to do so.

Strategies

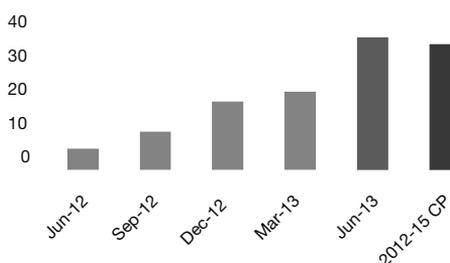
NBN Co is maximising the use of existing infrastructure such as Telstra exchanges and rack space, as well as Dark Fibre from Telstra and the Regional Backhaul Blackspot Program (RBBP)

2013 Performance highlights

Cummulative transit fibre (Kilometres)



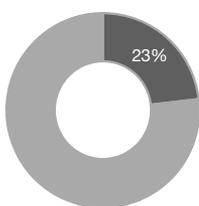
Number of Transit Rings



NBN Co and its Delivery Partners made significant progress during FY2013 in deploying the Transit Network. By 30 June 2013 NBN Co had deployed 22,736 kilometres of transit Fibre and 34 Transit rings had been built. Ten of the 121 Pol sites that will form part of the Transit Network are being constructed for NBN Co by Emerson Network Power, of which three had been brought in-service as at 30 June 2013.

Financial results

Share of 2013 capital expenditure



Capital expenditure incurred constructing the Transit Network was \$409 million for 2013. This was primarily driven by labour and equipment costs to deploy active equipment and connect FAN sites to the distribution network.

Capital expenditure incurred comprised of:

- Equipment and labour costs to deploy Common

Network Infrastructure (CNI), including Optical Distribution Frames (ODFs), connection cables and splicing; FAN and Pol site make ready; labour and material costs for the preparation of floor space; power generation, switchboard and control systems and cooling

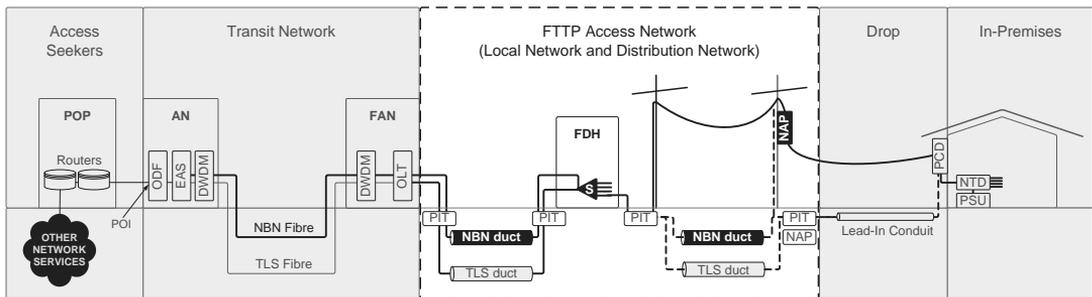
- Equipment, labour and make-ready costs to deploy equipment and connections between the ODF and Optical line terminations (OLTs). This includes the deployment of OLT active equipment based on demand for end-user connections
- Aggregation equipment and labour for connections between OLTs and DWDM backhaul transmission
- Deployment, commissioning and integration costs for leased assets and construction of transmission links

Outlook

The delivery of the core Transit Network is on schedule to be substantially completed by the end of FY2015.

Operational and Financial Review

Building the NBN – Fibre Access Network



AN: Aggregation Node
 DWDM: Dense Wave Division Multiplexing
 EAS: Ethernet Aggregation Switch
 FAN: Fibre Access Node

FDH: Fibre Distribution Hub
 NAP: Network Access Point
 NTD: Network Termination Device
 ODF: Optical Distribution Frame

OLT: Optical Line Terminal
 PCD: Premise Connection Device
 POI: Point of Interconnect
 POP: Point of Presence

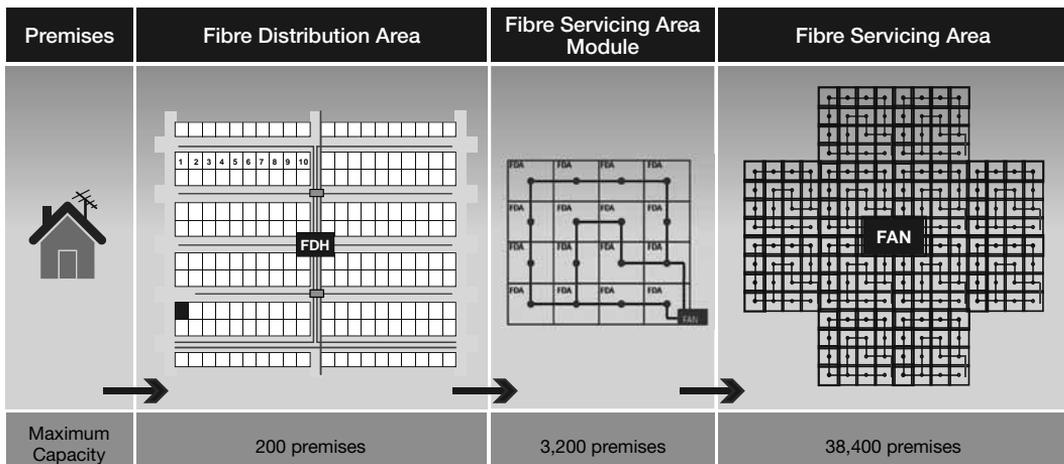
PSU: Power Supply Unit
 S: Optical Splitter
 TLS: Telstra

Overview

The Fibre Access Network encompasses all network elements between the FAN site and the Network Access Point located in the street outside an end-users premises. From a planning and construction perspective the Fibre Access Network,

also referred to as the Local Network and Distribution Network (**LNDN**), is a large number of replicating modules that combine to make up the overall network.

Fibre Access Network



The basic building blocks of the LNDN are:

- Fibre Distribution Areas (FDAs) – a collection of up to 200 premises served by a single Fibre Distribution Hub (FDH)
- FSAMs – a collection of up to 16 FDAs, serving up to 3,200 premises
- Fibre Serving Areas (FSAs) – a collection of up to 12 FSAMs linked to a single FAN site, serving up to 38,400 premises

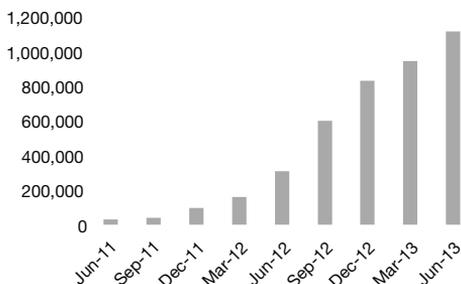
NBN Co has divided the construction of the LNDN into 16 geographic regions encompassing the whole of Australia. The work in these regions is then further divided into a number of Work Packages that NBN Co awards to Delivery Partners.

Strategy – Building the Fibre Access Network

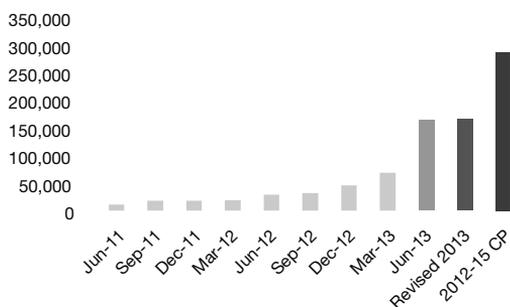
Objectives	Strategies
<p>To build additional footprint to pass a minimum coverage requirement of 90% of Australian premises, with an objective of passing 93% of Australian premises.</p>	<ul style="list-style-type: none"> • NBN Co has awarded detailed design and construction contracts to suitably qualified and skilled third party contractors • The Fibre Access Network has been designed as a large number of replicating modules that combine to make up the overall network • NBN Co has retained flexibility in the outsourced construction model to enable exploration of alternate delivery models
<p>To utilise existing infrastructure where it is efficient and economical to do so.</p>	<ul style="list-style-type: none"> • NBN Co is implementing the Telstra Definitive Agreements to help deliver the Fibre Access Network, maximising the use of existing Telstra infrastructure • NBN Co is also implementing contracts for access to poles infrastructure with a number of utilities as well as other providers of infrastructure across the fibre footprint

2013 Performance highlights

Fibre brownfields number of premises construction commenced



Fibre brownfields premises passed



Operational and Financial Review

In March 2013 the short-term Fibre Access Network rollout timeline was updated following construction delays, from 286,000 premises passed to between 155,000 to 175,000 premises passed by 30 June 2013. NBN Co has been proactively monitoring the resource and construction schedule of Delivery Partners and will augment construction capacity in order that deployment targets can be recovered as quickly as prudently possible.

NBN Co has assumed direct responsibility for the fibre rollout in the Northern Territory, enabling Delivery Partners to focus on other areas of construction and providing NBN Co with valuable insights into the challenges Delivery Partners are facing.

During the year, contracts to increase capacity for the construction of the Fibre Access Network were awarded to Visionstream, Transfield Services and Downer EDI Engineering. In June 2013, NBN Co

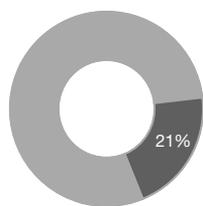
extended for two years its original two year contract with Transfield for the Fibre Access Network rollout in Victoria.

NBN Co reached an agreement with TransACT/iiNet in May 2013 to purchase the TransACT branded Fibre Access Network in the ACT and to access other infrastructure. Expected benefits from this arrangement include a reduction in construction costs, limited community disruption and accelerating NBN Co's ability to earn revenue. At 30 June 2013 the agreement was still being considered by the ACCC.

During the year the average number of premises passed per day increased quarter-by-quarter. At 30 June 2013 a total of 163,515 Brownfield fibre premises had been passed, in line with the revised March 2013 forecast.

Financial results

Share of 2013 capital expenditure



Capital expenditure incurred constructing the Fibre Access Network for the year was \$367 million. Key drivers include distance per premise, build mix (aerial and underground), the level of civil works required, labour and equipment quantities.

As at 30 June 2013 the estimate at completion average cost per premise passed for the LNDN was between \$1,100 and \$1,400 for premises where build work is currently underway.

Outlook

NBN Co remains focussed on deploying the Fibre Access Network concurrently across all construction regions in order to optimise workforce utilisation and to avoid large peaks and troughs in labour requirements.

NBN Co remains committed to completing the network by 2021.

On 5 May 2013 NBN Co released its latest fibre three-year rollout plan, with 4.85 million premises expected to have construction commenced or completed by June 2016. Over the coming year NBN Co will continue to work closely with Delivery Partners to develop a sustainable construction model in order to deliver this target. At the date of this report, NBN Co had extended its contract with Silcar for the construction of the local and distribution network in NSW, ACT and Queensland for one year and awarded a two year contract to Downer EDI covering premises in Brisbane and Melbourne.

NBN Co has concluded and will not extend its Master Agreement with the Syntheo Joint Venture covering South Australia and Western Australia. Lend Lease will control the delivery of Syntheo's remaining obligations under the agreement, which is expected to conclude in early 2014.

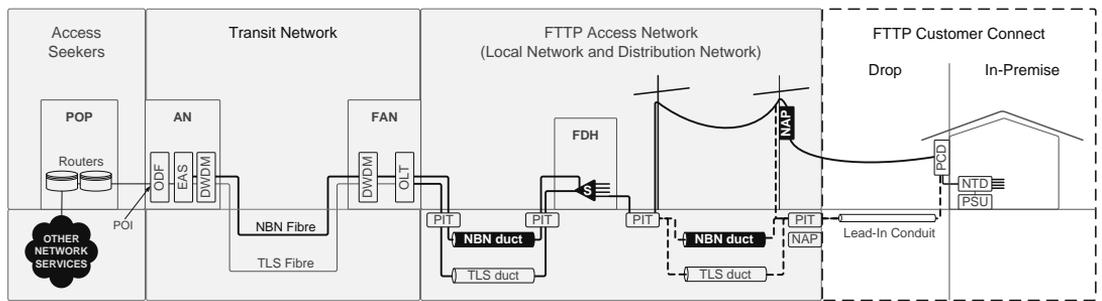
As part of the agreement, Syntheo is required to repay NBN Co advances for overheads. SA Power Networks will become the prime NBN Contractor in South Australia, while Downer EDI has begun construction in Western Australia. NBN Co may seek to add further Delivery Partners to supplement work being completed under its existing Network Services Master Agreements.

In May 2013 remediation activity on Telstra ducts and pits was halted following public and Government agency concerns relating to

asbestos-containing material in Telstra infrastructure. NBN Co's Delivery Partners have continued wherever possible to build the NBN whilst working closely with relevant authorities to ensure compliance and improved work practises in dealing with asbestos-containing materials in order to mitigate risks to the public and to contractors. Prolonged cessation of remediation work across a significant proportion of Telstra's infrastructure may impact NBN Co's ability to scale up construction of the network and to meet its delivery targets in the short term.

Connecting customers to the NBN Fibre

Overview



- AN: Aggregation Node
- DWDM: Dense Wave Division Multiplexing
- EAS: Ethernet Aggregation Switch
- FAN: Fibre Access Node
- FDH: Fibre Distribution Hub
- NAP: Network Access Point
- NTD: Network Termination Device
- ODF: Optical Distribution Frame
- OLT: Optical Line Terminal
- PCD: Premise Connection Device
- POI: Point of Interconnect
- POP: Point of Presence
- PSU: Power Supply Unit
- S: Optical Splitter
- TLS: Telstra

Migrating end-users to the NBN

Under the Definitive Agreements with Telstra there is a period of 18 months from when NBN Co's Fibre Access Network services are available in a region until all households and businesses are migrated off the copper and HFC networks.

NBN Co provides regular updates of the rollout plan and its availability to ensure RSPs and end-users are informed. This includes a mixture of media announcements, local area marketing activities, website map updates and direct mail at different stages before, during and after construction.

Operational and Financial Review

Connecting end-users to the NBN

Connecting an end-user is completed in two phases:

- **Drop**
Running fibre from the NAP in the street to a Premises Connection Device (PCD) located on the outside of the premises.
- **In-premises**
Running fibre from the PCD to an NTD inside the premises.

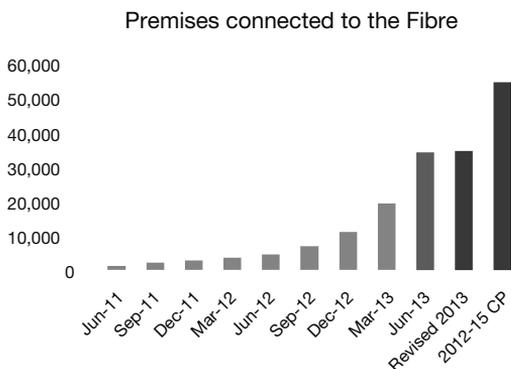
NBN Co's preferred model is to install the drop at the same time as building the LNDN portion of the Fibre Access Network in a region (referred to as a 'Build Drop').

Where the Local Network is underground the drop will generally be installed underground, either in an existing Telstra lead-in conduit (Telstra LIC) or if unavailable a new lead-in will be built by NBN Co. Areas where the Local Network is deployed aerially will generally receive an aerial drop.

Strategy – Connecting customers to the NBN Fibre

Objectives	Strategies
To service the demand for connections to the Fibre Access Network.	<ul style="list-style-type: none"> • NBN Co is ramping up Delivery Partners' resources to meet RSPs requests for connections through the award of Field Service Delivery (FSD) contracts • NBN Co is implementing a 'build drop' strategy that consists of installing the drop from street to premise at (or around) the time of building the LNDN in a region. The commencement of build drops is expected to significantly improve NBN Co's capacity to fulfill activation orders within standard lead times • NBN Co is also deploying a 'bulk drop' programme to install large volumes of drops in regions which are already 'ready for service'.
To connect Multi Dwelling Units, Public Interest Premises and Commercial premises to the Fibre Access Network.	<ul style="list-style-type: none"> • NBN Co is liaising directly with bodies corporate and Strata Community Australia to gain entry to MDUs • NBN Co has awarded a number of design & construction contracts to cable MDUs
To inform RSPs and end-users of when NBN services will be available	<ul style="list-style-type: none"> • Regular updates of the rollout plan are provided to ensure RSPs and end-users are informed of when NBN services will be available in each community • NBN Co will consult with stakeholders within the Public Information on Migration (PIM) Governance process to define additional communications and the process to support individual households and businesses in the lead up to disconnection
Maximise take-up on the NBN	<ul style="list-style-type: none"> • Telstra has agreed to use the NBN Fibre Access Network exclusively as the fixed line connection to premises in the NBN Fibre footprint for a 20 year period from the commencement of the Definitive Agreements (subject to certain exemptions) • The Telstra arrangement enables all households and businesses to migrate off the copper and HFC networks within 18 months from the date on which NBN fibre services are declared ready for service

2013 Performance highlights



The average daily number of Brownfields and Greenfields Fibre activations has increased quarter-by-quarter during 2013. The revised forecast in March 2013 for deployment of the Fibre Access Network and Fibre in Greenfields has, however, resulted in a smaller deployed Fibre Footprint than originally anticipated and is reflected in the lower volumes of Fibre activations to June 2013.

While the number of activations was below target, the level of take-up in areas where the NBN is available is strong.

During the year NBN Co awarded a series of contracts relating to Field Service Delivery (FSD) and Network Augmentation and Restoration Activities (NARA) to Silcar (NSW, Qld and ACT) and Service Stream (WA, ST, NT and Vic).

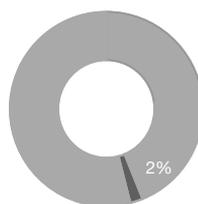
In addition, a number of contract arrangements were entered into with construction partners to assist with the connecting of Multi-Dwelling Units (MDUs) across the nation.

Agreements were entered into with ISG Management, Universal Communications Group, Downer EDI and Daly International during the year to connect flats and units to the NBN.

In November 2012, NBN Co issued the first Disconnection Commencement Date (DCD) notices for 15 regions covering approximately 26,000 premises. These notices trigger the commencement of the 18-month disconnection period for commercial internet and telephony services on Telstra's copper and HFC networks in the affected regions in accordance with the Definitive Agreements with Telstra. At 30 June 2013, 54 regions covering approximately 109,300 premises were covered by disconnection notices.

Financial results

Share of 2013 capital expenditure



Capital expenditure incurred in connecting/migrating Fibre end-users to the NBN was \$37 million for the year ended 30 June 2013.

Outlook

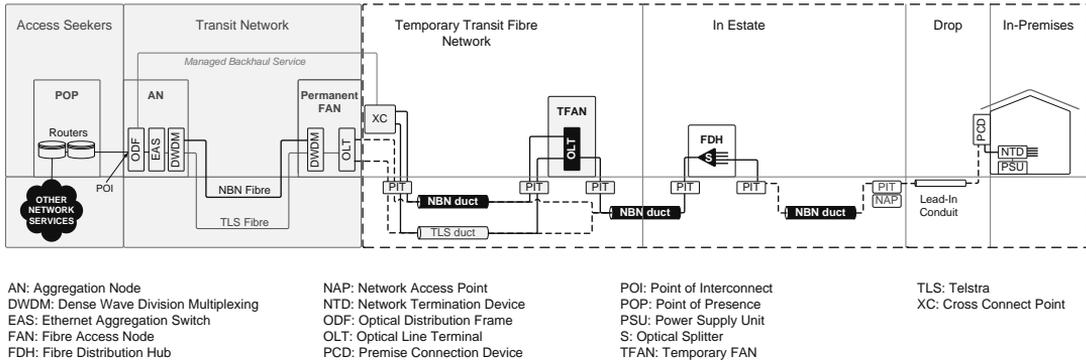
The introduction of 'Build Drops' in mid 2013 and the acceleration of in-building wiring for MDUs is expected to significantly improve the efficiency of the activation process going forward.

NBN Co remains confident take-up rates and the number of premises/lots connected/covered will continue to improve as the full impact of the Telstra DCD notice and Optus HFC migration agreements takes effect.

Operational and Financial Review

Building the NBN – Fibre in Greenfields

Overview



Fibre in Greenfields are New Development estates of more than 100 lots, as well as New Developments inside NBN Co's existing Fibre Footprint (i.e. within FSAMs already completed).

In the early years of the rollout of the NBN, the construction and delivery of Fibre to many New Developments needs to occur before NBN Co has had the opportunity to complete the Transit Network in that region. NBN Co has developed interim arrangements enabling connectivity to the core NBN whilst the Transit Network is being constructed.

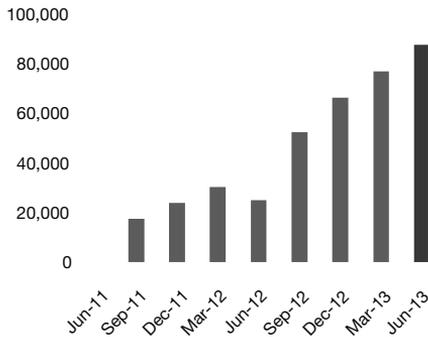
The architecture used for Fibre in New Developments has been designed to ensure that temporary passive and active assets can be re-used in the permanent network.

NBN Co's Delivery Partners are responsible for providing the in-estate works and to build transit connectivity links where needed. NBN Co is responsible for acquiring managed backhaul services where needed in order to transport signals from the nearest Telstra exchange back to where it can connect to NBN Co's Transit Network.

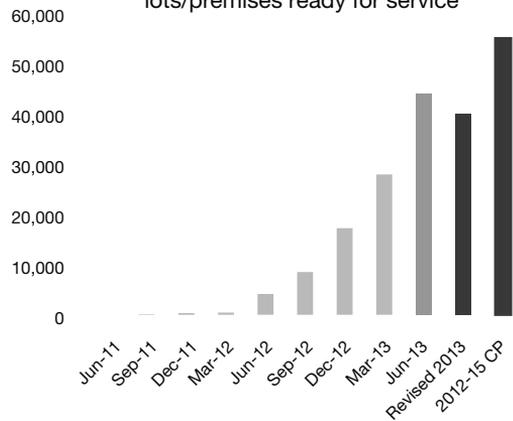
Strategy – Building Fibre in Greenfields

Objectives	Strategies
To install Fibre infrastructure in New Development estates that meet the criteria set in the Commonwealth Government's New Developments Policy.	<ul style="list-style-type: none"> The delivery of fibre to many New Developments needs to occur prior to the Transit Network and the Distribution Network being deployed in that region. Interim solutions have been developed by NBN Co to provide connectivity to the core NBN Network whilst the Transit Network is being constructed
	<ul style="list-style-type: none"> NBN Co is working closely with developers and builders to ensure that pits and pipes are built to NBN Co specifications and that premises are serviced when occupied
To connect infill premises that will be built in the long term Fibre footprint.	<ul style="list-style-type: none"> NBN Co will use its existing FSD contractors and NARA contractors to connect premises in Brownfields redevelopments

FTTP New Developments
lots/premises construction commenced



FTTP New Developments
lots/premises ready for service



As at 30 June 2013, NBN Co had signed approximately 3,100 developer contracts, representing 140,000 Fibre Greenfields lots/premises and had construction commenced covering 84,844 lots. In March 2013 the short-term Fibre Greenfields network rollout timeline was updated following construction delays from 55,000 to between 35,000 to 45,000 premises ready for service by 30 June 2013. NBN Co met its revised March 2013 target for lots passed with a total of 44,028 lots passed at 30 June 2013.

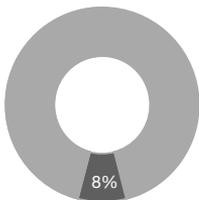
Key drivers of capital expenditure include distance per premises, build mix, the level of civil works required and labour and equipment quantities.

Outlook

NBN Co expects the current low levels of housing construction activity will continue to impact Fibre Greenfields deployment activity. By 2021 NBN Co expects to have passed 2.1 million New Development/Lots. NBN Co proactively monitors housing construction data and the construction schedules of Delivery Partners and subcontractors and monitors the resources deployed 'on the ground' by Delivery Partners in each estate.

Financial results

Share of 2013 capital expenditure



Capital expenditure incurred for the year was \$142 million including the cost of Fibre deployment within new development estates and Brownfield redevelopments.

Operational and Financial Review

Building the NBN – Fixed Wireless and Satellite

Overview

The Fixed Wireless and Satellite services will enable the most geographically dispersed Australians access to the NBN.

Fixed Wireless Access Network

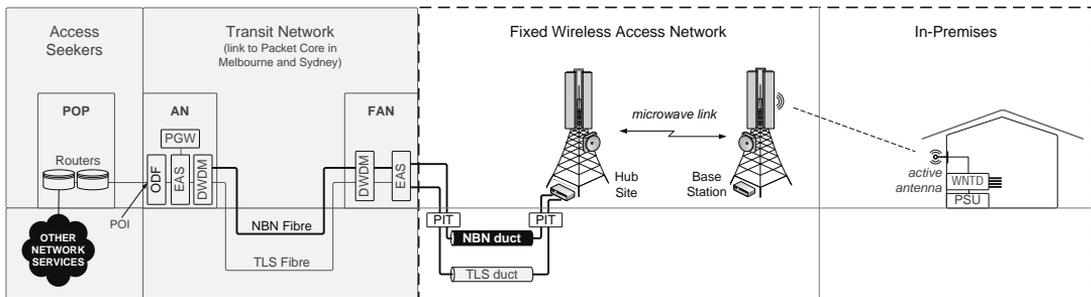
NBN Co's Fixed Wireless Access Network is being implemented using TD-LTE, one of the most widely used standards for wireless telephony access in the world.

The Fixed Wireless Access Network connects to end-user premises through wireless signals between the active equipment on a Base Transmission Station (**Base Stations**) and active equipment in end-user premises. Network traffic is connected from the

Base Station to the edge of the Transit Network through underground Fibre.

NBN Co has outsourced the deployment and operational services management of the Fixed Wireless Access Network to Ericsson. It is expected that by the end of 2016 the core Fixed Wireless Network will be completed.

NBN Co's current Fixed Wireless architecture is based on utilising 2.3 GHz spectrum. However there are certain areas where NBN Co does not hold 2.3 GHz spectrum – including areas on the outer metropolitan fringes of Sydney, Melbourne, Brisbane, Adelaide, Perth and Canberra. NBN Co is exploring options for providing services to these areas.



AN: Aggregation Node
 DWDM: Dense Wave Division Multiplexing
 EAS: Ethernet Aggregation Switch

FAN: Fibre Access Node
 FDH: Fibre Distribution Hub
 ODF: Optical Distribution Frame

PGW: Packet Gateway
 POI: Point of Interconnect
 POP: Point of Presence

PSU: Power Supply Unit
 WNTD: Wireless Network Termination Device

Satellite Access Network

Interim Satellite Service (ISS)

NBN Co's Long Term Satellite Service (LTSS) is due for launch in mid 2015. Until then, NBN Co is offering the Interim Satellite Service (ISS). The ISS is provided as a managed service through Satellites

operated by Optus and IPStar and is operated on behalf of NBN Co by Optus with a capacity of approximately 48,000 end-users.

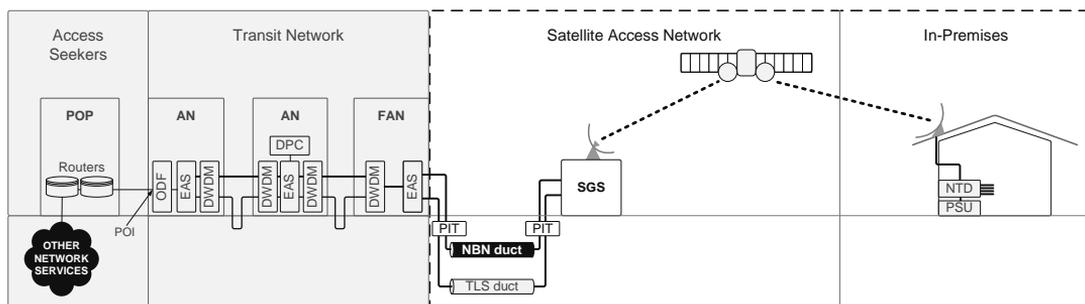
The ISS will run until all end-users have been migrated to the LTSS, which is expected to be within two years of the LTSS service becoming available.

Long Term Satellite Service (LTSS)

The LTSS will cover 100% of the Australian landmass (and nominated territories). Within this coverage area each spot beam will be configured to ensure the Satellites utilise their finite capacity while delivering the best possible service to each specific geographic region.

NBN Co's two Satellites will be placed in geostationary orbit enabling communication to be maintained with the Satellite via a fixed antenna on the ground.

NBN Co's Satellites are being designed and built by Space Systems/Loral (SSL) and will be launched using Arianespace rockets.



AN: Aggregation Node
DPC: Data Processing Centre
DWDM: Dense Wave Division Multiplexing

EAS: Ethernet Aggregation Switch
FAN: Fibre Access Node
NTD: Network Termination Device

ODF: Optical Distribution Frame
POI: Point of Interconnect
POP: Point of Presence

PSU: Power Supply Unit
SGS: Satellite Ground Station

Strategy – Building the Fixed Wireless and Satellite Networks

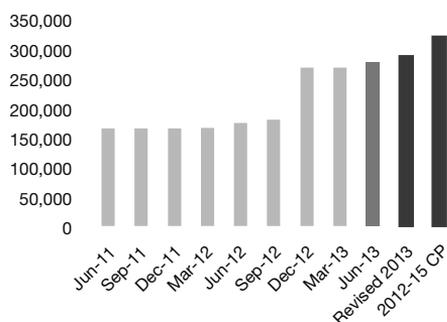
Objectives	Strategies
To provide high-speed broadband services outside the footprint of the Fibre Access Network through a combination of Fixed Wireless and Satellite Network capacity.	<ul style="list-style-type: none"> Both Fixed Wireless and the LTSS will provide a wholesale entry level 12/1 Mbps service and a higher wholesale speed tier of 25/5 Mbps* The LTSS – provide coverage for rural and remote Australian regions, for Australia's external territories, and other areas outside the Fibre and Fixed Wireless footprints The Fixed Wireless Access Network – provide access services in regions not covered by NBN Co's Fibre Network and LTSS
To provide an Interim Satellite Service prior to the launch of long-term capacity to ensure the availability of improved broadband services for regional Australia.	<ul style="list-style-type: none"> NBN Co has deployed the ISS (a standard 6/1 Mbps wholesale service for eligible premises where commercial metro-comparable broadband services are not available) to provide services prior to launch of LTSS infrastructure
To allow for the uncertainty of demand in terms of volumes and geographic location.	<ul style="list-style-type: none"> NBN Co has designed the Fixed Wireless Access Network to complement coverage provided by the LTSS. As capacity on the LTSS is used up in particular regions (LTSS 'hot spots'), NBN Co will augment the Fixed Wireless Access Network to provide additional capacity in those areas
To utilise existing infrastructure where it is efficient and economical to do so.	<ul style="list-style-type: none"> The Fixed Wireless Access Network will be deployed by collocating on existing tower infrastructure where it is efficient and economical to do so The network capacity for the ISS is provided from existing Satellites in service under lease arrangements with Satellite operators

* NBN Co is designing the NBN to provide these speeds to NBN Co's wholesale customers, telephone and internet service providers. Speeds actually achieved by retail end-users will depend on a number of factors outside of NBN Co's control including the quality of their equipment and in-premises connection, software, the broadband plans offered by their service provider and how their service provider designs its network to cater for multiple end-users.

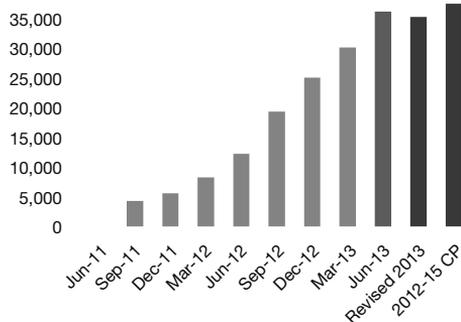
Operational and Financial Review

2013 Performance highlights

Fixed Wireless and Satellite premises passed/covered ('000)



Fixed Wireless and Satellite premises activated ('000)



On 1 October 2012 NBN Co commenced commercial services on the Fixed Wireless network.

At 30 June 2013, NBN Co had:

- 1,258 Base Stations for which design has been completed
- 482 Base Stations which have been acquired
- 121 Base Stations operational and in service

Work continues to progress on the manufacture of NBN Co's two Satellites by Space Systems Loral.

In July 2012 a contract was awarded to ViaSat worth up to \$280 million, for the ground systems equipment. During the year, work continued on the manufacture of the first of the 13.5m ground station dish antenna, manufactured at ViaSat's Atlanta facility; testing has commenced.

A contract to launch the NBN Co Satellites was awarded to Arianespace in March 2013 worth up to \$300 million.

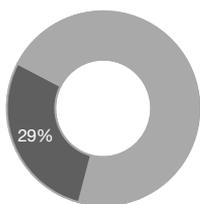
The remaining seven of the ten Satellite ground station locations were selected during the year being Ceduna in South Australia, Kalgoorlie, Geraldton, Wagerup and Carnarvon in Western Australia, Roma in Queensland and Broken Hill in New South Wales.

Construction companies were selected during the year to build the Satellite ground stations. Perkins (WA) has been contracted to build the four ground stations in Western Australia and Cockram Corporation has been contracted to build the six facilities located in New South Wales, Queensland, Tasmania and South Australia. Construction activities have progressed at Bourke, Broken Hill, Roma, Geeveston, Geraldton and Kalgoorlie sites. Development application approvals have been achieved for 90% of sites, 80% of sites have contracts exchanged, with the remainder progressing through contractual term finalisation or valuation.

At 30 June 2013, 277,256 premises had been covered and 36,514 end-users premises were active on the Fixed Wireless and Satellite Access Networks.

Financial results

Share of 2013 capital expenditure



Capital expenditure incurred in the year to 30 June 2013 was \$506 million. This was predominantly in relation to the construction of the two Satellites by Space Systems Loral as well as progress with the acquisition and development of the ground stations.

For Fixed Wireless, the timing of capital expenditure is driven by contracted milestone payments by deployment stage for Base Stations and customer connection costs for activations.

ISS capital expenditure is driven by customer premises equipment and installation costs, routers, hubs, capitalised infrastructure lease payments and labour.

LTSS capital expenditure is driven by contracted milestone payments for the design, construction and launch of Satellites and delivery of ground equipment and systems for the deployment of the LTSS Network.

Outlook

Construction of Satellite ground stations (SGS) is due to be completed during 2014 with the LTSS becoming available mid 2015. It is expected the Interim Satellite Service will remain available until all users have migrated across to the LTSS which is planned to be completed within two years from when the LTSS becomes available.

Construction of the core Fixed Wireless Access Network is scheduled to be completed by 2016, with further augmentation forecast to continue to 2021. By 2021 approximately 970,000 premises are forecast to be covered by the Fixed Wireless and Long Term Satellite networks, with 230,000 active end-users.

Operational and Financial Review

Operating the NBN

Overview

Network and Service Operations

The Network and Service Operations Centre (NSOC) enables NBN Co to monitor the network across the country, detect faults, manage orders and support the RSPs that sell broadband services to the public. The NSOC incorporates the National Test Facility (NTF) and the Service Activation Centre.

IT Systems

The Operational Support Systems (OSS) provide NBN Co with the capabilities to configure, manage and operate the NBN.

Enterprise Resource Planning (ERP) is the system used to manage enterprise functions including finance, asset management, human resources, project and cost management, supply chain management and contract management.

Business Support Systems (BSS) are the IT-based systems used to manage Access Seekers requests, take orders, process bills and collect payments.

Active Network Releases and Passive Network Releases

NBN Co has approached the challenge of designing and testing new releases of network capability using a phased approach. Starting with the Fibre Network, NBN Co has created 'packages' of network capability that are designed and tested as integrated solutions at the NTF prior to deploying to the live network. Progressively, the network releases will deliver the full range of network capability across the Fibre, Fixed Wireless, Satellite and Transit Networks.

Call centre

The NBN National Contact Centre at Varsity Lakes, Gold Coast was officially launched in September 2012. The National Contact Centre has become the management centre for all public queries with respect to the NBN. The centre plays a key role in communicating the progress of the construction of the network and the steps required to be undertaken by households and business owners to enable connection to the NBN.

Strategy – Operating the NBN

Objectives	Strategies
To develop the interlocked systems required to build, operate and maintain the NBN.	<ul style="list-style-type: none">• NBN Co will continue to develop both OSS and BSS to support the network deployment profile• Continuous improvement in the network to deliver new products, quality improvements or efficiency gains, is driven through a program of Active Network and Passive Network Releases• NBN Co's IT Systems are being developed to drive as much automation as possible into core tasks such as activations, service qualifications and product ordering• Powerful B2B interfaces will allow RSPs to self-serve on the NBN as far as possible

2013 Performance highlights

During the year a number of product trials and tests of future product enhancements were undertaken at the NTF. Progressive delivery of additional OSS functions supported greater automation in a range of activities including location-based service qualification, ordering and provisioning. In addition, the OSS was enhanced with capability to support the Fixed Wireless 25/5 Mbps* wholesale speed tier.

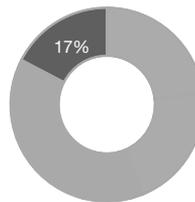
Improved functionality was deployed throughout the year in a series of releases for the ERP and BSS. Major milestones during 2012-13 included the launch of the Network Extension Customer Relationship Management solution, project cost management improvement and development of capabilities for single development unit build drops.

During the year the Call Centre received a total of 99,300 contacts from the public. This included 55,162 enquiries, 6,551 complex enquiries requiring additional information and 2,456 complaints, some of which required further investigation and resolution.

All enquiries were responded to on the same day, complex enquiries took 11 days on average to resolve and complaints on average took 8 days to resolve.

Financial results

Share of 2013 capital expenditure



Capitalised costs of \$306 million were incurred during the year. These costs include development costs for the Active Network Releases, OSS, BSS, Shared Security Services and other support systems as well as capital expenditure in relation to the NTF, Data Centre and Service Delivery.

The capital costs associated with the ANR program included projects associated with the delivery of network capability to implement new or enhanced active network equipment in Fibre, Fixed Wireless and Satellite Networks.

Outlook

NBN Co will remain focussed on providing continuous improvements to the systems operating the NBN to deliver new products and efficiencies.

* NBN Co is designing the NBN to provide these speeds to NBN Co's wholesale customers, telephone and internet service providers. Speeds actually achieved by retail end-users will depend on a number of factors outside of NBN Co's control including the quality of their equipment and in-premises connection, software, the broadband plans offered by their service provider and how their service provider designs its network to cater for multiple end-users.

Operational and Financial Review

NBN Co's organisation

NBN Co people

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

NBN Co has developed a diversity framework to support all employees, regardless of gender, physical, mental and intellectual abilities, race, ethnicity, age, sexual orientation, socio-economic status, religious beliefs or professional background.

As at 30 June 2013, the average tenure of the workforce was 16.2 months and the average age was 40.3 years. NBN Co has 1% of the workforce employed on a part-time basis, with 29% of the workforce being women.

NBN Co's head count at 30 June 2013 was 2,808 comprising 2,745 employees, 12 contractors and 51 labour hires.

In December 2012 a pilot Employee Opinion Survey was undertaken with approximately 20% of the organisation. The survey indicated employee engagement levels of 68% across NBN Co with 98% of employees committed to the success of NBN Co.

Human resources and industrial relations

NBN Co has four enterprise bargaining agreements (EBAs) which cover classifications of employees in the technical, professional, clerical/administration and contact centre areas. These EBAs are in place until 2014 and provide competitive terms and conditions for NBN Co employees covered by the agreements.

During 2012-13, there was no lost time due to industrial relations disputes.

Work has commenced on the development of a Training and Accreditation Program designed to

minimise the risk of quality and safety issues through an NBN national system of training and assessment.

During the year NBN Co applied to the National Skills Standard Council for approval of a suite of NBN Co-specific national skills sets and NBN Co branded qualifications to provide training for job seekers. Approval for these skill sets and qualifications was granted in July 2013.

As part of NBN Co's strategy to grow the supply of skilled workers for Delivery Partners to access, a number of pilot programs were introduced in five workforce catchment areas of Darwin, Geelong, Ipswich, Newcastle and Mandurah.

As at 30 June 2013 there were an estimated 4,660 external workers actively working on the construction of the NBN.

Reconciliation action plan (RAP)

NBN Co registered its first RAP with Reconciliation Australia in 2013. The vision for RAP is to create a 'connected community' where Aboriginal and Torres Strait Islander people share equally in the benefits of the NBN no matter where they live. The NBN will positively impact remote Aboriginal and Torres Strait Islander health and well-being through enhanced medical practices and outcomes and increased access to education and training.

Health and safety

NBN Co 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 requires its Delivery Partners to comply with all applicable laws and regulations in relation to their work on the NBN, including those which relate to asbestos.

NBN Co has been working with the Government, the unions, the national health and safety regulator ComCare, Telstra and the independent asbestos

taskforce to examine closely the asbestos safety regime being applied across all aspects of the rollout.

NBN Co has applied for Federal Safety Commission Accreditation which will enable NBN Co to directly manage construction projects over \$3 million.

NBN Co is proud of its annual lost time injury record over the past 12 months of 0.8 lost time injuries per million work hours for employees and 0.5 lost time injuries per million work hours for contractors.

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 147-153.

Ecologically sustainable development (ESD)

NBN Co has an ongoing commitment to ESD principles and ensuring that they are incorporated into all aspects of the design, build and implementation of the NBN.

NBN Co has also continued to develop and implement processes and projects that help to reduce the impact the NBN will have on the environment. These include energy efficiency measures at Satellite base stations, whereby each station will have photovoltaic systems installed to reduce their environmental impact. Specific projects to ensure NBN Co minimises its environmental impact are being developed for each part of the network. For further information refer to the Regulatory Reporting Requirements section at page 147-153.

Prospects for future financial years

NBN Co remains focused on delivering the NBN in accordance with Commonwealth Government Policy.

Each year NBN Co prepares a Corporate Plan which reflects the expected financial and non financial performance of NBN Co for the next three years. NBN Co's 2012-15 Corporate Plan was endorsed by the Commonwealth Government on 8 August 2012 and is available on the NBN Co website. NBN Co has submitted a draft 2013-16 Corporate Plan and is currently working to finalise this with the Commonwealth Government.

Business risks

NBN Co has identified a number of factors critical to building and operating the NBN. NBN Co has implemented mitigation strategies to gain assurance that critical risks are monitored and managed appropriately. Details of these mitigation strategies can be found in NBN Co's Corporate Plan, available on the NBN Co website.

Critical risks which are considered most likely to impact NBN Co's financial performance over the coming year are:

Serious injury or fatality

The construction and operation of the NBN will involve thousands of people employed directly by NBN Co and by its suppliers and contractors. Many of these people will be working in potentially hazardous environments (for example, in traffic exposed locations, in confined spaces, using heavy machinery, at height or working close to power lines and underground infrastructure such as gas mains).

NBN Co will continue to monitor critical safety risks by conducting scenario analysis and working with key stakeholders to ensure appropriate measures are in place to prevent incidents wherever possible and to respond to any incidents that may arise.

Change of Government policy in relation to the NBN

NBN Co's Corporate Plan is based on delivering the NBN in accordance with the policy directions currently provided to NBN Co by the Commonwealth

Operational and Financial Review

Government. In the event of a significant change to these policy directions it would be necessary to revise the Corporate Plan.

Failure of a key construction partner

The majority of the 'in field' work of building the NBN is contracted out to external construction partners. NBN Co is therefore dependent on the performance of these partners to deliver major elements of the network on time and on budget. Failure to perform by one or more of NBN Co's construction partners is a critical risk to the delivery of the Corporate Plan objectives.

NBN Co is actively monitoring the capacity and capability of each construction partner's performance and engaging additional construction partners to assist with the building of the NBN in line with forecast. NBN Co is also evaluating alternative contracting models that may be required over time, including the ability for NBN Co to manage tier two and tier three sub-contractors directly in certain circumstances.

Failure of a key equipment supplier

The operation of the NBN involves the integration of complex fibre optic 'active' equipment (i.e. equipment that requires electrical power) for which, in some instances, there is a limited number of suppliers around the world.

In the event of one of its key suppliers ceasing to provide or support network-critical equipment, NBN Co would need the flexibility to source suitable alternatives from as wide a range of suppliers as possible. In addition, to increase awareness of any developing trends in global industry research, industry dynamics are being monitored on an ongoing basis.

Ability to meet revenue forecasts

NBN Co has identified three risk areas that are critical to achieving its long-term revenue forecasts:

- Disconnection of existing Copper and HFC Networks in accordance with the Telstra Definitive Agreements and the Optus HFC Subscriber Agreement.
- The extent of 'wireless substitution'.
- The rate of growth of data usage.

NBN Co has contractual arrangements in place under the Telstra Definitive Agreements and the Optus HFC Agreement which define how disconnections will occur. If these disconnection arrangements are changed, as a result of renegotiation in the event of a change in Government policy, it may be necessary to revise revenue forecasts and therefore the Corporate Plan.

Assessing the extent of wireless substitution and likely growth in data usage requires NBN Co to make assumptions about future events that are, by their nature, uncertain.

Costs to connect end-user premises

The cost of connecting end-user premises (from the multiport in the street to the NTD in the home/business) is the area of the network where NBN Co has the least level of experience to date, given the early stage of the rollout.

For Single Dwelling Units – the risks relate predominantly to the mix of aerial and underground lead-ins that will be required and the availability of Telstra Lead-In Conduits. NBN Co is constantly monitoring experience in the field against assumptions made in the Corporate Plan and will continue to do so as the rollout progresses.

For Multi Dwelling Units – the risks relate to the nature of each MDU and the need to engage with bodies corporate.

Deployment of continuous improvement initiatives will focus on cost control in order to:

- Simplify the contractor interface at each stage (Design, Build, Handover)
- Institutionalise best practice operating activities
- Reduce variation
- Drive process efficiency and uniformity

Serious latent equipment failure

NBN Co and its suppliers conduct rigorous equipment testing. However, a serious latent equipment failure could cause significant disruption to services across the network.

NBN Co currently tests all critical equipment in a laboratory environment, with reliance on vendors' warranty conditions and supply capability. In addition, NBN Co is evaluating the merits of establishing a team of experts to monitor failure data for trends that would provide early warning of potential equipment issues.

Serious misconduct or fraud

As the construction of the NBN expands, the volume and value of transactions passing through NBN Co will increase significantly, increasing the risk of serious misconduct or fraud.

NBN Co has established systems and processes to comply with *Commonwealth Fraud Control Guidelines* and *AS8001-2008: The Australian Standard on Fraud and Corruption Control*. These include enforcement of strict segregation of duties, regular internal and external audits of high risk areas and enforcement of NBN Co policies across the organisation.



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 2013 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



Ms Siobhan McKenna – Chairman (Non Executive Director, Chair of the Nominations Committee effective 21 March 2013 and former Chair

of the Communications Committee which was dissolved effective 24 April 2013) was appointed Chairman of NBN Co on 15 March 2013 and as a director on 5 August 2009. Ms McKenna has extensive experience in the media and telecommunications industries. She is Managing Partner and a director of the private media investment company Illyria Pty Ltd, a director of DMG Radio Australia and a non-executive director of Ten Network Holdings. Ms McKenna was a non-executive director of Prime Media Group, an ASX-listed regional television and radio company, from 2009-2012. Before joining Illyria, Ms McKenna was a partner at international management consulting firm McKinsey & Company where she specialised in advising telecommunications and media companies. Ms McKenna is currently on a leave of absence from her role as Commissioner at the Productivity Commission, has been a director of The Australian Ballet since May 2010 and was an Advisory Board Member of the Bureau of Meteorology. Ms McKenna's current term will expire on 4 August 2015.



Ms Diane Smith-Gander – Deputy Chair (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 and is a commissioner of Tourism WA. 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'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 was again reappointed as a director effective from 15 March 2013 and his current term will expire on 14 March 2016. 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 is also a director of Neuroscience Research Australia and an Honorary Professorial Fellow of the University of Wollongong.

On 12 July 2013 Mr Quigley announced his intention to retire as Chief Executive Officer. The Board has welcomed Mr Quigley's decision to remain in his role to ensure a smooth transition to his successor.



Mr Terrence (Terry) Francis (Non Executive Director, Chair of the Contracts (formerly 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 and was reappointed as a director effective 22 December 2012. 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 and, 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 2015.



Ms Alison Lansley (Non Executive Director) was appointed as a director on 7 December 2012. Ms Lansley was a partner in the Mergers and Acquisitions practice of Mallesons Stephen Jaques for over 16 years. She is a non-executive director of Schools First Australia and heads the Victorian Regional Council of Redkite. She has previously served on a number of boards and authorities, including the Melbourne 2006 Commonwealth Games Corporation, the Takeovers Panel, the Financial Services Institute of Australasia and the national listing committee of the Australian Stock Exchange. Ms Lansley's current term will expire on 6 December 2015.



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 2006-2008 he was a member of the UBS Group Managing Board. Post retirement, Mr Orgill has completed a Masters degree in Environmental Science & Law, travelled extensively, been involved in philanthropic and think tank activities and chaired a task force (2010-2011) 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.

Directors' Report



Dr Kerry Schott (Non Executive Director) was appointed as a director on 28 September 2012. She is the project director of the proposed sale of the New South

Wales government owned electricity generating plants. Dr Schott completed her role as CEO of the Commission of Audit for the NSW Government in early 2012, was managing director and CEO of Sydney Water from 2006 to 2011 and before that was Deputy Secretary, NSW Treasury. She spent 15 years as an investment banker, including as managing director of Deutsche Bank and Executive Vice President of Bankers Trust Australia. During this time she specialised in privatisation, restructuring and infrastructure provision. Early in her career she worked as an economic policy adviser with the Reserve Bank of Australia, the Commonwealth Government and as an academic at University College London and at Oxford University. She is Chairman of Moorebank Intermodal Company, a member of the TCorp Board in NSW and the Infrastructure Australia Board, a Patron and Board member of Infrastructure Partnerships Australia and, a member of the Whitlam Institute Board. Dr Schott's current term will expire on 27 September 2015.



Mr Richard (Rick) Turchini (Non Executive Director and Chair of the Contracts (formerly 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 Boulderstone, 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 and was an Honorary Board Member of Infrastructure Partnerships Australia. Mr Turchini's current term will expire on 13 September 2014.



Mr Harrison Young – former Chairman (Non Executive Director and former Chair of the Nominations Committee) who was

appointed as a director and Chairman of NBN Co on 15 March 2010. Mr Young retired from the Board at the end of his term effective 14 March 2013.



Mr Clement (Clem) Doherty (Non Executive Director) was appointed as a director on 22 December 2009 and resigned from the Board effective 14 August 2012.



Mr Peter Hay (Non Executive Director) was appointed as a director on 5 August 2009 and retired from the Board at the end of his term effective 4 August 2012.



Mr Gene Tilbrook (Non Executive Director and former Chair of the Audit Committee) was appointed

as a director on 5 August 2009 and retired from the Board at the end of his term effective 4 August 2012. Mr Tilbrook was appointed as an interim independent member of NBN Co's Audit Committee effective from 5 August 2012 and concluded in this role on 10 September 2012.

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 Board of directors held 16 Board meetings during the period from 1 July 2012 to 30 June 2013. The number of meetings each director was eligible to attend and the number of meetings each Director attended was as follows:

Name of Director	Number of Directors meetings eligible to attend	Total number of meetings attended
Siobhan McKenna (Chairman) ¹	16	15
Diane Smith-Gander (Deputy Chair) ²	15	15
Mike Quigley	16	15
Terry Francis	16	15
Alison Lansley ³	09	08
Brad Orgill ⁴	13	12
Kerry Schott ⁵	11	08
Rick Turchini	16	15
Harrison Young (former Chairman) ⁶	11	11
Clement Doherty ⁷	03	01
Peter Hay ⁸	03	03
Gene Tilbrook ⁹	03	03

1 Ms McKenna was appointed to the role of Chairman effective 15 March 2013.

2 Ms Smith-Gander was not eligible to attend one Board meeting due to a declared conflict of interest which was the sole subject of the meeting.

3 Ms Lansley was appointed to the Board effective 7 December 2012.

4 Mr Orgill was appointed to the Board effective 5 August 2012. At the time of his appointment, Mr Orgill was overseas until 28 August 2012 and therefore unable to attend his first Board meeting held on 17 August 2012.

5 Dr Schott was appointed to the Board effective 28 September 2012.

6 Mr Young's term as a director and Chairman of the Board ceased effective 14 March 2013.

7 Mr Doherty resigned as a director of the Board effective 14 August 2012.

8 Mr Hay's term as a director ceased effective 4 August 2012.

9 Mr Tilbrook's term as a director ceased effective 4 August 2012.

Directors' Report

Board Committee meetings

Audit Committee

The Committee held six meetings during the period from 1 July 2012 to 30 June 2013. The membership of the Committee, the number of meetings each Committee member was eligible to attend during the period and the number of meetings attended was as follows

Name of Director	Number of Audit Committee meetings eligible to attend	Total number of meetings attended
Terry Francis (Chair) ¹	06	06
Brad Orgill ²	06	05
Diane Smith-Gander ³	04	04
Gene Tilbrook (former Chair) ⁴	02	02
Clement Doherty ⁵	01	01
Peter Hay ⁶	00	00

- 1 Mr Francis was appointed Chair of the Audit Committee on 5 August 2012 effective from that date.
- 2 Mr Orgill was appointed as a member of the Audit Committee on 5 August 2012 effective from that date. At the time of his appointment, Mr Orgill was overseas until 28 August 2012 and therefore unable to attend his first Audit Committee meeting held on 9 August 2012.
- 3 Ms Smith-Gander was appointed as a member of the Audit Committee on 12 October 2012 effective from that date.
- 4 Mr Tilbrook's term as a director and as Chair of the Audit Committee ceased effective 4 August 2012. He was appointed as an interim independent member of NBN Co's Audit Committee effective from 5 August 2012 and this role concluded on 10 September 2012.
- 5 Mr Doherty resigned as a director and member of the Audit Committee effective 14 August 2012.
- 6 Mr Hay's term as a director and member of the Audit Committee ceased effective 4 August 2012.

Communications Committee

The Committee held five meetings during the period from 1 July 2012 to 24 April 2013. The membership of the Committee, the number of meetings each Committee member was eligible to attend during the period and the number of meetings attended was as follows:

Name of Director	Number of Communications Committee meetings eligible to attend	Total number of meetings attended
Siobhan McKenna (Chair)	05	05
Alison Lansley ¹	00	00
Harrison Young ²	05	05

- 1 Ms Lansley was appointed as a member of the Communications Committee on 21 February 2013 effective from that date. The Communications Committee held its final meeting on 6 February 2013.
- 2 Mr Young ceased to be a member of the Communications Committee on 14 March 2013 effective from that date.

Contracts Committee (formerly Implementation Committee)

The change of title and amended charter of the Implementation Committee (now the Contracts Committee) was approved by the Board on 30 May 2013 effective from that date. The Committee held seven meetings during the period from 1 July 2012 to 30 June 2013. The membership of the Committee, the number of meetings each Committee member was eligible to attend during the period and the number of meetings attended was as follows:

Name of Director	Number of Contracts Committee meetings eligible to attend	Total number of meetings attended
Rick Turchini (Chair) ¹	07	07
Alison Lansley ²	01	01
Kerry Schott ³	01	01
Diane Smith-Gander ⁴	00	00
Terry Francis (former Chair) ⁵	07	07

- 1 Mr Turchini was appointed to the Contracts (formerly Implementation) Committee on 16 September 2011 effective from that date. He was appointed Chair of the Contracts (formerly Implementation) Committee on 5 August 2012 effective from that date.
- 2 Ms Lansley was appointed as a member of the Contracts (formerly Implementation) Committee on 21 February 2013 effective from that date.
- 3 Dr Schott was appointed as a member of the Contracts (formerly Implementation) Committee on 21 February 2013 effective from that date.
- 4 Ms Smith-Gander ceased to be a member of the Contracts (formerly Implementation) Committee effective 7 July 2012. The first meeting of the Contracts Committee in 2012-2013 was held on 9 July 2012.
- 5 Mr Francis ceased in the role of Chair of the Contracts (formerly Implementation) Committee effective 4 August 2012. He remains a member of the Committee.

Nominations Committee

The Committee held two meetings during the period 1 July 2012 to 30 June 2013. The membership of the Committee, the number of meetings the Committee held during the period from 1 July 2012 to 30 June 2013 and the number of meetings attended was as follows:

Name of Director	Number of Nomination Committee meetings eligible to attend	Total number of meetings attended
Siobhan McKenna (Chair) ¹	01	01
Terry Francis	02	01
Diane Smith-Gander	02	02
Harrison Young (former Chair) ²	01	01

- 1 Ms McKenna was appointed Chair of the Nominations Committee on 21 March 2013 effective from that date.
- 2 Mr Young ceased to be a member of the Nominations Committee on 14 March 2013 effective from that date.

Directors' Report

People and Performance Committee

The Committee held eight meetings during the period 1 July 2012 to 30 June 2013. The membership of the Committee, the number of meetings the Committee held during the period from 1 July 2012 to 30 June 2013 and the number of meetings attended was as follows:

Name of Director	Number of People and Performance Committee meetings eligible to attend	Total number of meetings attended
Diane Smith-Gander (Chair)	08	08
Siobhan McKenna	08	08
Brad Orgill ¹	05	04
Harrison Young (former member) ²	02	02

1 Mr Orgill was appointed as a member of the People and Performance Committee on 24 April 2013 effective from that date.

2 Mr Young ceased to be a member of the People and Performance Committee on 14 March 2013 effective from that date.

Directors' and Officers' remuneration

Letter from the Chair of the People and Performance Committee

NBN Co operates in highly competitive technology and talent market places. Attracting and retaining skilled people is imperative to NBN Co's development and progress. Accordingly, NBN Co's remuneration approach is focussed on attracting and retaining the talent we require and appropriately rewarding employees for their contributions to NBN Co's growth.

NBN Co also aspires to have a sustainably strong relationship with the communities in which we work. An important element in building relationships is ensuring our workforce mirrors the diversity of these communities. NBN Co has this year implemented some important initiatives in this arena. The company has:

- Launched our first Reconciliation Action Plan which includes providing scholarships to Aboriginal and Torres Strait Islander engineering students
- Partnered with education and training providers to develop necessary courses and retrain workers as part of our Skilled Workforce Plan
- Provided mentoring and development opportunities for the many talented women of NBN Co and focussed on ensuring an equitable approach to reward

NBN Co is committed to being advanced in its governance reporting and remuneration disclosures. NBN Co endeavours to have:

- A remuneration framework properly governed by the People and Performance Committee
- Remuneration practices that transparently and prudently apply public resources to rewarding employees fairly, reasonably and competitively
- Relevant voluntary disclosures in addition to the statutory disclosure requirements applicable to Government Business Enterprises

While the overall effort to build the national network remains on track and there have been a number of successes in the year just passed, performance of the company has fallen short of the desired outcomes for the period. As a consequence of this short-fall, NBN Co will not be providing any incentive remuneration to eligible executives under the STI plan for the 2012/2013 performance year.

Building and operating the NBN is a complex undertaking. I am pleased with the prudent manner in which remuneration governance has supported our endeavours.



Diane Smith-Gander
Chair of the People and Performance Committee

Directors' Report

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. The KMP of NBN Co includes directors and senior executives.

The KMP in 2012/13 are:

Name	Title	2012 /13 Status	KMP Status
Non-Executive Directors			
Ms Siobhan McKenna	Chairman	Changed position	Current
Mr Harrison Young	Chairman	Retired	Previous
Ms Diane Smith-Gander	Deputy Chair	Full year	Current
Mr Clement (Clem) Doherty	Director	Resigned	Previous
Mr Terrence (Terry) Francis	Director	Full year	Current
Mr Peter Hay	Director	Retired	Previous
Ms Alison Lansley	Director	New appointment	Current
Mr Brad Orgill	Director	New appointment	Current
Dr Kerry Schott	Director	New appointment	Current
Mr Gene Tilbrook	Director	Retired	Previous
Mr Richard (Rick) Turchini	Director	Full year	Current
Executive Director			
Mr Michael (Mike) Quigley	Chief Executive Officer	Full year	Current
Senior executives			
Mr Kevin Brown	Head of Corporate and Commercial	Full year	Current
Mr Kieren Cooney	Chief Marketing Officer	Full year	Current
Mr James Hassell	Head of Product Management and Industrial Relations	Resigned	Previous
Mr Mike Kaiser	Head of Quality	Full year	Current
Ms Caroline Lovell	Head of Regulatory Affairs and Industry Analysis	Appointed	Current
Mr Gary McLaren	Chief Technology Officer	Full year	Current
Mr Robin Payne	Chief Financial Officer	Full year	Current
Mr John Simon	Head of Product and Sales	New starter	Current
Mr Ralph Steffens	Chief Operating Officer	Full year	Current

Changes during the reporting period

Changes to the KMP during the reporting period were:

- Ms Siobhan McKenna was appointed to the role of Chairman effective 15 March 2013. Prior to her appointment as Chairman Ms Siobhan McKenna was a director
- Mr Harrison Young's term as a director and Chairman of the Board ceased effective 14 March 2013
- Mr Clement (Clem) Doherty resigned as director of the Board effective 14 August 2012
- Mr Peter Hay's term as a director ceased effective 4 August 2012
- Ms Alison Lansley was appointed to the Board effective 7 December 2012
- Mr Brad Orgill was appointed to the Board effective 5 August 2012
- Dr Kerry Schott was appointed to the Board effective 28 September 2012
- Mr Gene Tilbrook's term as a director ceased effective 4 August 2012
- Mr James Hassell resigned as Head of Product Management and Industrial Relations on 15 February 2013
- Ms Caroline Lovell was appointed Head of Regulatory Affairs and Industry Analysis on 1 January 2013
- Mr John Simon was appointed Head of Product and Sales on 21 January 2013

Changes to the KMP since the end of the reporting period

Changes to the KMP since the end of the reporting period (after 1 July 2013) include:

On 12 July 2013 Mr Mike Quigley announced his intention to retire as Chief Executive Officer of NBN Co. Mr Quigley intends to continue to serve as Chief Executive Officer until the Board appoints a successor and a smooth transition can take place.

Non-executive director fees

All non-executive directors of the company are appointed by the Commonwealth of Australia through the Shareholder Ministers.

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 non-executive directors. NBN Co plays no role in considering or determining non-executive director fees and is bound by regulation to comply with the Tribunal's determinations regarding fees.

The Remuneration Tribunal determined an adjustment of 3% in the remuneration of public offices with effect from 1 July 2012. The 2012/13 annual entitlement reflects the adjustment.

The Remuneration Tribunal set the following non-executive director fees (excluding superannuation) during 2011/12 and 2012/13:

Board position	2012/13 annual entitlement (from 1 July 2012)	2011/12 annual entitlement (from 1 July 2011)
Chair	\$204,710	\$198,740
Deputy Chair ¹	\$164,810	\$160,000
Non-executive directors	\$102,400	\$99,410

¹ Deputy Chair 2011-12 annual entitlement was effective 15 December 2011.

Directors' Report

The Remuneration Tribunal has set annual Chair, Deputy Chair and Board member base fees. The base fee covers all activities undertaken on behalf of the company. Committee work is included in the base fee. As a result, the fees shown in the table above are the total fees payable. Remuneration packaging may be made available to non-executive directors.

Remuneration governance at NBN Co

The role of the People and Performance Committee (P&PC) is to assist the Board in fulfilling its governance responsibilities in relation to people management and remuneration. The P&PC is committed to and responsible for:

- Human resource management (HRM): administration of the annual review and recommendations regarding NBN Co's key HRM policies and practices to ensure HRM at NBN Co is effective, practical and conducive to NBN Co meetings its objectives
- CEO and senior executive remuneration
- Monitoring NBN Co's reward strategies and remuneration structures with the goal of ensuring the appropriate reward models are in place and operating effectively
- Compliance with laws, regulations and statutory reporting

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 regarding the remuneration framework and individual payments for all employees, including the senior executive team.

Support from management and external advisors

To inform decisions of the committee, the P&PC sought advice and, at times, recommendations from the CEO and other management.

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 2013 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 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.

Remuneration strategy

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

The remuneration strategy must attract, retain and align suitably qualified people to the various phases of the project, covering the planning, build and operation of the broadband network.

The current focus of the executive STI plan on total passed premises and total activations supports the link between pay and company performance.

NBN Co's remuneration policies are designed to achieve remuneration which is:

- Market competitive
 - Fixed remuneration which reflects the skills and experience required and is comparable and competitive with relevant markets
 - An appropriate balance between fixed and "at risk" components of remuneration
- Transparent
 - Simple for participants to understand with clear, concise disclosure
 - Compliant with relevant legislative frameworks

NBN Co's remuneration strategy for both salaried and collective agreement staff is aligned with the long term achievement of the organisation's objectives.

Executive remuneration

Executive remuneration framework

Remuneration structure

NBN Co's remuneration structure is designed 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 may provide an 'at risk' remuneration opportunity, the payment of which is dependent on attainment of strategic performance measures. Select employees are eligible to participate in an annual STI plan linked to company and individual performance conditions.

Starting in the 2011/12 year, all KMP and selected participants in the STI plan are required to defer receipt of a portion of the STI payments. Deferred amounts are subject to claw back.

NBN Co does not grant long-term incentives to its employees.

NBN Co general employee remuneration framework

NBN Co's employee remuneration framework for all employees 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.

Remuneration benchmarking

NBN Co aims to position employees' remuneration competitively against comparable organisations. 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 survey data where necessary. Target TFR for each senior executive role is based on the benchmark data and internal relationships.

Directors' Report

Remuneration reviews

The pay of employees subject to an Enterprise Bargaining Agreement (**EBA**) is managed within that framework. NBN Co's EBAs typically run for four years. NBN Co annually reviews employee remuneration levels to reflect skill, performance and market conditions. To ensure consideration of individual and company performance and market conditions, overall remuneration levels of senior executives are reviewed annually by the Board. No non-EBA employee has been guaranteed a TFR movement.

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
- 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 fixed and 'at risk' remuneration. All senior executives have a remuneration mix at target of 77% fixed and 23% 'at-risk'. The CEO has the same 'at risk' remuneration opportunity as other executives and has in prior periods elected to not receive a payment. Because receipt of 'at risk' remuneration is tied to achievement of company and individual performance conditions, actual remuneration may vary from the target remuneration.

The list of senior executives included as KMP during 2012/13 and disclosed in this report is shown on page 54 and a summary of remuneration received by KMP in 2012/13 is shown on pages 62 to 65.

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.

Short-term incentive plan

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

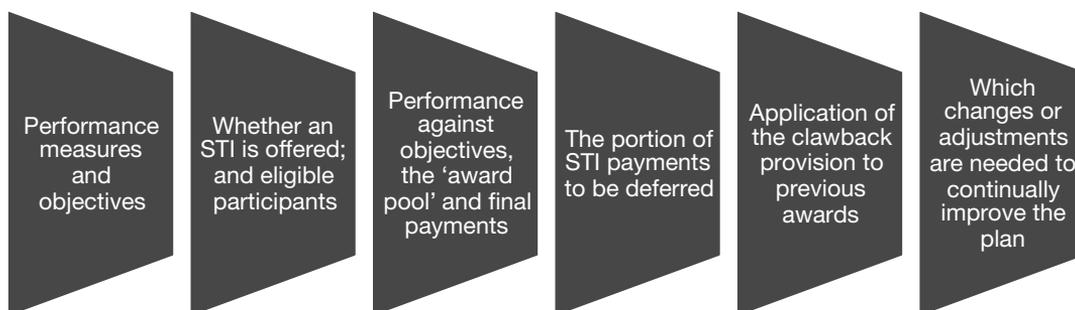
- Appropriately focuses participants on objectives and behaviours critical to the success of the company
- Unifies efforts in pursuit of NBN Co's plan
- Increases the value of the company to Australian citizens

NBN Co's STI plan provides senior executives the opportunity to receive 'at risk' remuneration based first on company performance and next 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

Role of the P&PC in the STI plan

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



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

Incentive opportunities

Taking into account the funding approach of the STI plan, the target STI opportunity for KMP during 2012/13 was 30% of the participant's TFR. The maximum opportunity was 43% of the participant's TFR.

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 0% 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 cost.

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:

Directors' Report

Gateway measure
Determines whether the target STI pool is funded.

For the 2012/13 awards, the gateway measure was NBN Co's safety performance and overall financial performance.



Corporate performance measures
Impacts whether the P&PC adjusts the target STI pool up or down to determine the 'award pool'.

For the 2012/13 awards, the 'award pool' was determined based on the P&PC's assessment of the company's achievement against the following performance measures:

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

End-user installation satisfaction

2012/13 outcomes

For the 2012/13 year, the overall financial and safety performance gateway measure for the company was met. The Board and Committee examined NBN Co's safety performance over the past 12 months when determining the STI pool. The safe roll out of the network is important to the company. NBN Co's safety performance is discussed on page 40.

This year, due to NBN Co's outcomes against the corporate performance measures, the P&PC will not award any STI based on company performance.

As part of the STI plan, the P&PC retains an explicit discretion over 20% of the target STI pool. When the P&PC deems it appropriate, this discretion can be used to provide awards to individuals for exceptional contribution. The P&PC has reviewed individual contributions and considered the outcomes. The Committee has determined not to release funds from the 2012/13 discretionary pool.

There will be no STI award to any participants this financial year.

The 2012/13 outcome reflects the integrity of the STI plan, which rewards participants for achievement against objectives critical to the success of the company and ensures no reward is received when objectives are not met.

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

Post-employment benefits

Statutory Superannuation Guarantee Contribution and salary sacrifice superannuation payments are made on behalf of executives and align with applicable requirements. Superannuation contributions are included in individuals' TFR; legislative increases to superannuation contributions announced during 2012/13 will not give rise to an increase in cost to the company.

Other long-term benefits

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

Termination payments

Termination payments are determined by the policy and contractual entitlements in place for employees ceasing employment with NBN Co.

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
Head of Corporate and Commercial (Kevin Brown)	6 months	6 months	6 months
Remaining KMP (excludes non-executive directors)	3 months	3 months	3 months

There are currently no additional benefits, entitlements or arrangements in place for any senior executives, including those not listed in the table above.

KMP (Non-Executive Director and Executive) remuneration disclosures in detail

Remuneration tables

Remuneration for KMP for 2012/13 and 2011/12 is shown in the tables below.

Directors' Report

Year ended 30 June 2013

Position	Note	Short-term benefits			Post-employment	Other long-term benefits		Termination benefits ⁴	Total remuneration
		Base salary and fees ¹	STI / bonuses ²	Other benefits	Superannuation contributions	STI Deferral ²	Long service leave ³		
		\$	\$	\$	\$	\$	\$	\$	\$
Non-Executive Directors									
C Doherty	5	12,387	-	-	1,115	-	-	-	13,502
T Francis		102,400	-	-	9,216	-	-	-	111,616
P Hay	6	9,646	-	-	868	-	-	-	10,514
A Lansley	7	58,108	-	-	5,230	-	-	-	63,338
S McKenna	8	132,451	-	-	11,030	-	-	-	143,481
B Orgill	9	92,754	-	-	8,348	-	-	-	101,102
K Schott	10	77,227	-	-	6,749	-	-	-	83,976
D Smith-Gander		164,810	-	-	14,832	-	-	-	179,642
G Tilbrook	11	9,646	-	-	868	-	-	-	10,514
R Turchini		102,400	-	-	9,216	-	-	-	111,616
H Young	12	144,597	-	-	11,548	-	-	-	156,145
Executive Director									
M Quigley		1,937,000	-	-	25,000	-	66,153	-	2,028,153
Senior Executives									
K Brown		885,000	-	-	25,000	-	29,797	-	939,797
K Cooney		663,530	-	-	16,470	-	2,180	-	682,180
J Hassell	13	467,690	-	-	12,353	-	-	-	480,043
M Kaiser		550,230	-	-	24,770	-	17,911	-	592,911
C Lovell	14	316,765	-	-	8,235	-	6,381	-	331,381
G McLaren		725,270	-	-	24,730	-	32,403	-	782,403
R Payne		718,917	-	-	24,970	-	19,794	-	763,681
J Simon	15	269,664	-	-	8,235	-	332	-	278,231
R Steffens		1,023,530	-	-	16,470	-	3,363	-	1,043,363
Total		8,464,022	-	-	265,253	-	178,315	-	8,907,590
Summary									
Non Executive Directors		906,426	-	-	79,020	-	-	-	985,446
Executive and KMPs		7,557,596	-	-	186,233	-	178,315	-	7,922,144
Total		8,464,022	-	-	265,253	-	178,315	-	8,907,590

1. Base salary includes executive's accrued annual leave entitlements and any allowances paid in cash.
2. The cash component of bonuses paid in September 2012 relating to FY11/12 performance. One-third of the STI bonus relating to FY10/11 performance is deferred for a period of two years.
3. Long service leave relates to amounts accrued during the relevant period.
4. Termination benefits exclude payment of statutory benefits such as annual leave and long service leave, which have previously been accrued.
5. Mr Doherty resigned as a director of the Board effective 14 August 2012.
6. Mr Hay's term as a director ceased effective 4 August 2012.
7. Ms Lansley was appointed to the Board effective 7 December 2012.
8. Ms McKenna was appointed to the role of Chairman effective 15 March 2013.
9. Mr Orgill was appointed to the Board effective 5 August 2012.
10. Ms Schott was appointed to the Board effective 28 September 2012.
11. Mr Tilbrook's term as a director ceased effective 4 August 2012.
12. Mr Young's term as a director and Chairman ceased effective 14 March 2013.
13. Mr J Hassell resigned on 15 February 2013. A total of \$7,562 was paid for annual leave entitlements on termination.
14. Ms Lovell was appointed as KMP effective 1 January 2013. Her remuneration for the entire financial year was \$627,411.
15. Mr Simon was appointed as KMP effective 21 January 2013.

Directors' Report

Year ended 30 June 2012

Position	Note	Short-term benefits			Post-employment	Other long-term benefits		Termination benefits ⁴	Total remuneration
		Base salary and fees ¹	STI / bonuses ²	Other benefits	Superannuation contributions	STI Deferral ²	Long service leave ³		
		\$	\$	\$	\$	\$	\$	\$	\$
Non-Executive Directors									
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
Senior Executives									
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
Total		7,496,997	642,132	100,000	357,455	248,296	36,093	270,680	9,151,653
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
Total		7,496,997	642,132	100,000	357,455	248,296	36,093	270,680	9,151,653

1. Base salary includes executive's accrued annual leave entitlements and any allowances paid in cash.
2. The cash component of bonuses paid in September 2011 relating to FY10/11 performance. One-third of the STI bonus relating to FY09/10 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.
3. Long service leave relates to amounts accrued during the relevant period.
4. Termination benefits exclude payment of statutory benefits such as annual leave and long service leave, which have previously been accrued.
5. 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.
6. Mr Turchini was appointed to the Board effective 14 September 2011.
7. Mr Young temporarily reduced his duties from Chairman to director for three months during the financial year.
8. Mr Quigley elected to not receive any payment from the STI Plan. Mr Quigley's election resulted in his declining an award of \$335,160.
9. 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 remuneration until from 1 July 2011 until 5 February 2012. Total remuneration until termination was \$745,385 (includes \$23,360 related to statutory annual leave entitlement received upon termination).
10. Mr Boyce's termination benefits include payout notice period and termination payment as per service agreement.
11. Mr Christian ceased to be a KMP effective 23 August 2011. Total remuneration in the table above reflects remuneration from 1 July 2011 until 24 August 2011. Total remuneration for the full year was \$900,786.
12. Mr Cooney and Mr Steffens were appointed as KMP effective 28 November 2011.
13. Other benefits includes a one-time \$50,000 relocation payment.
14. Mr Kaiser was appointed as KMP effective 24 August 2011.
15. Mr Payne was appointed Chief Financial Officer effective 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.
16. Mr Smeallie ceased to be a KMP effective 23 August 2011 and concluded employment on 11 May 2012. Total remuneration in the table above reflects pay from 1 July 2011 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

Loans to directors and seniors executives

No loans were provided to directors or senior executives, their close family members or entities they control or have significant influence during 2012/13.

Transactions within the group

No other transactions with the group (subject to some exceptions for trivial or routine standard term transactions) were undertaken involving directors or senior executives, their close family members or entities they control or have significant influence.

Equity movements

There were no movements in rights, options and other equity instrument holdings and transactions (other than share based payments) involving equity instruments involving directors or senior executives, their close family members or entities they control or have significant influence.

Employee remuneration and related matters

NBN Co considers diversity to be an important enabler of business results and will seek to ensure the company's practices encourage the attraction, recruitment, retention and development of a diverse workforce, which is reflective of the wider community.

NBN Co's workforce is drawn from a range of industry groups including telecommunications, professional, scientific and technical services, construction and utilities. Research shows these industry groups and the supply of applicants are not gender balanced.

To address these challenges NBN Co:

- Established a "Diversity Council" to develop and oversee diversity plans and actions
- Commenced a graduate hiring program with 44% female representation

- Conducted a gender pay equity review to understand gaps and inform initiatives to close those gaps
- Conducted a review of recruitment processes and identified initiatives to support the diversity objectives
- Launched its inaugural Reconciliation Action Plan, which outlines the practical actions NBN Co will take to enhance respect, build strong relationships and provide opportunities between Aboriginal and Torres Strait Islander people and other Australians. This includes the funding of three indigenous scholarships in Engineering at University of Sydney

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 2013, no claims had 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 NBN Group are to build and operate the National Broadband Network (NBN), a national wholesale-only, open access communications network that is already operating and delivers high-speed broadband and telephony services to Australian premises.

Operating results

The consolidated loss of the NBN Group after income tax was \$931,665,000 (2012: \$520,205,000).

Dividends

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

Review of operations

A review of the operations of the NBN Group and the results of those operations are contained in the Chairman's and Chief Executive Officer's Messages on pages 8-11 and the Operational Review on pages 14-43 of the Annual Report and such information incorporated into this Directors' Report.

Significant changes in state of affairs

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

- Contributed equity increased by \$2.4 billion as a result of government equity injections. Details of the changes in contributed equity are disclosed in note 20(a) to the financial report
- On 19 July 2012, the Optus HFC Subscriber Agreement became wholly unconditional. On the terms of this agreement, NBN Co will be able to migrate Optus HFC Subscribers to the NBN

Significant events subsequent to reporting date

On 1 July 2013, the Hon Anthony Albanese MP was appointed as the new Shareholder Minister for Broadband, Communications and the Digital Economy.

On 10 July 2013, NBN Co offered to extend the interim Wholesale Broadband Agreement to 31 October 2013.

On 12 July 2013, Mr Mike Quigley announced his intention to retire as Chief Executive Officer of NBN Co. Mr Quigley intends to continue to serve as Chief Executive Officer until the Board appoints a successor and a smooth transition can take place.

On 15 July 2013, NBN Co announced the three-year agreement with SA Power Networks for construction of the Fibre Access Network in Adelaide and regional South Australia was finalised.

On 16 July 2013, NBN Co received \$1,250 million of Commonwealth equity funding.

On 5 August 2013, NBN Co announced that it had concluded and will not extend its Master Agreement with the Syntheo Joint Venture in South Australia and Western Australia. Lend Lease will control the delivery of Syntheo's remaining obligations under the agreement, which are expected to conclude in early 2014. As part of the agreement, Syntheo is required to repay NBN Co advances for overheads.

On 6 August 2013, NBN Co announced that Downer EDI had been awarded a two-year contract for the design and construction of the local and distribution network to roll out fibre optic broadband in areas covering approximately 300,000 premises in Brisbane and Melbourne.

Directors' Report

On 7 August 2013, NBN Co announced that it had extended its existing contracts with Silcar for a one-year period for the construction of the local and distribution network in New South Wales, ACT and Queensland.

Except for items noted above, and as it is not possible to determine whether a change in Commonwealth Government Policy may occur (refer to note 1(a) to the Financial Statements), no other matter or circumstance has arisen since 30 June 2013 to the date of signing of this report that has significantly affected, or may affect:

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

Change in Government Policy

The carrying value of NBN Co's assets, the value of actual and contingent liabilities and the extent of NBN Co's commitments have been determined on the basis that there is no significant change in Commonwealth Government policy in so far as it relates to the operations of NBN Co. In the event of a significant change in Commonwealth Government policy in relation to the intended operations of NBN Co it may be necessary to re-assess the carrying value of certain of NBN Co's assets, the value of actual and contingent liabilities and the extent of NBN Co's commitments. At the time of issuing this general purpose financial report it is not possible to determine whether a change in Commonwealth Government policy may occur, how such a change may impact the intended operations of NBN Co or the likely impact of any such change on the carrying value of NBN Co's assets, the value of actual and contingent liabilities or the extent of NBN Co's commitments.

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).

Consistent with the 2012-2015 Corporate Plan, the Commonwealth has committed to providing total funding of \$30.4 billion.

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

Special Access Undertaking (SAU)

The ACCC is assessing the Special Access Undertaking lodged on 18 December 2012. The proposed SAU covers the NBN Access Service and sets out for a 27-year term, the service description and certain price-related and non-price related terms and conditions of access.

The objectives of the proposed SAU include:

- To provide an appropriate degree of regulatory certainty to Access Seekers, their end-users, and NBN Co about the services offered, and how the price and non-price terms and conditions of access will be regulated over the short, medium and longer term
- To provide the long-term framework reasonably necessary to achieve Uniform National Wholesale Pricing (**UNWP**)

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

On 5 April 2013 the ACCC issued a draft decision on the SAU, providing guidance for finalising the SAU. In July 2013 the ACCC released a draft notice to vary the SAU. NBN Co remains committed to bringing the SAU assessment process to a timely conclusion and expects to receive a final notice to vary from the ACCC, once the ACCC has considered submissions from NBN Co and others on the draft notice to vary.

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 of 12 months that has recently been extended through until 31 October 2013.

NBN Co has also published the Satellite Wholesale Broadband Agreement which also expires on 31 October 2013.

Fibre Access Network construction contracts

NBN Co's contracts with its Delivery Partners are subject to periodic renewal. The ability of NBN Co to renegotiate these contracts enables NBN Co to ensure contract arrangements are consistent with the Corporate Plan assumptions that support the long-term rollout of the NBN.

Other developments

The directors have not included any further information on likely developments or expected future results of the operations of the NBN Group where the directors have reasonable grounds to believe that such information would prejudice the interests of the NBN 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 NBN 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, PwC are detailed in Note 22 to the Financial Statements.

Signed in accordance with a resolution of directors.



Siobhan McKenna
Chairman
13 August 2013

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 NBN Group in this statement. The Board of Directors of the company is responsible for the governance practices of the NBN Group. A description of the NBN 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 Act 1997*
- *Competition and Consumer Act 2010*
- 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) 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 2011–13 Corporate Plans to its Shareholder Ministers in December 2010, 2012–15 Corporate Plan in August 2012 and draft 2013–16 Corporate Plan in June 2013. NBN Co will 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 NBN 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 and is reviewed annually by the board.

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 seven 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 45 to 69 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. Annual reviews of the performance of the whole of Board, Board Committees and individual directors have been undertaken in 2011 and 2012. A review will be undertaken in 2013.

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 40% 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 endeavours to achieve a balance of relevant skills in the areas of telecommunications, civil construction, financial, legal, media/public relations and information technology.

As at 30 June 2013, 50 per cent of Board Directors were women.

Corporate Governance Statement

Director induction and education

NBN Co has an induction program for new directors. The program is reviewed periodically by the company secretary.

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.

Appointments to the Board of NBN Co during the period 1 July 2012 to 30 June 2013 were:

- Mr Brad Orgill who was appointed as a director on 5 August 2012
- Dr Kerry Schott who was appointed as a director on 28 September 2012
- Ms Alison Lansley who was appointed as a director on 7 December 2012

In March 2013, the Board held its second strategic planning meeting in Canberra. All eight directors attended the meeting and representatives of the Shareholder Ministers' Departments observed for relevant parts of the meeting.

Subsidiaries

The activities of each subsidiary in the NBN 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

Where a director:

- has a declared material personal interest; and / or
- may be presented with a potential material conflict of interest

in a matter being presented to the Board or a Committee for consideration, the director is excluded from accessing or being provided with copies of documents relating to the matter and, the

Director does not participate in the Board or Committee meeting at the time the matter is being considered. Any disclosures made by a director at a meeting are minuted.

Directors also provide NBN Co with a declaration of personal interests on an annual basis.

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 NBN 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
- Contracts (formerly 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. 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.

The Board had also established a Communications Committee on 21 April 2011 which was formally dissolved by the Board at the Board meeting held on 24 April 2013.

Audit Committee

The Committee assists the Board in satisfying itself that NBN Co and its subsidiaries are complying with their 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 Board, senior managers and auditors (internal and external) of NBN Co. The Committee supervises the preparation of periodic financial statements of NBN Co to comply with its financial reporting requirements, the effective management of financial risks, significant changes in accounting policies, the maintenance of effective and efficient internal and external audit processes, auditor independence and performance and compliance with laws and regulations by 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 membership of the Committee, the number of meetings each Committee member was eligible to attend during the period and the number of meetings attended during the period from 1 July 2012 to 30 June 2013 is set out in the Directors' Report on page 50.

Contracts (formerly Implementation) Committee

The Committee has oversight of procurement and major contracts in all areas of NBN Co except Information Technology and Human Resources. The role of the Committee is limited to monitoring and supporting the management processes connected with procurement in NBN Co.

The Committee consists of at least two members and both are to be independent non-executive directors.

The membership of the Committee, the number of meetings each Committee member was eligible to attend during the period and the number of meetings attended during the period from 1 July 2012 to 30 June 2013 is set out in the Directors' Report on page 51.

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 each Committee member was eligible to attend during the period and the number of meetings attended during the period from 1 July 2012 to 30 June 2013 is set out in the Directors' Report on page 51.

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 each Committee member was eligible to attend during the period and the number of meetings attended during the period from 1 July 2012 to 30 June 2013 is set out in the Directors' Report on page 52.

Corporate Governance Statement

Communications Committee

This Committee was formally dissolved by the Board at the Board meeting held on 24 April 2013 effective from that date. Prior to its dissolution, the Committee assisted the Board in fulfilling its governance responsibilities by supervising the external communications of the company and of its subsidiaries to all stakeholders other than RSPs. The Committee consisted of two independent non-executive directors.

The membership of the Committee, the number of meetings each Committee member was eligible to attend during the period and the number of meetings attended during the period from 1 July 2012 to 24 April 2013 is set out in the Directors' Report on page 50.

Accountability and Audit

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. During the year, NBN Co formally adopted and commenced implementing an integrated assurance framework which links enterprise risks to controls and assurance activities.

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 provides the framework which contributes 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 responsibility section of the NBN Co website.

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

Internal audit

NBN Co operates a co-source internal audit. Following a tender process, KPMG was appointed on 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 – Risk and Internal Audit has the opportunity to meet with Committee members to discuss matters.

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 NBN Group on behalf of the Auditor-General.

The NBN 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

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 are 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

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 represent a true and fair view of NBN Co's operations and its financial position. The letter also includes 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 2013, the CEO and the CFO concluded that, as of the evaluation date, such risk management, internal compliance and control systems were reasonably designed so that the Financial Statements and notes of the NBN 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 NBN 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 in place numerous policies including 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, in addition to other key NBN Co policies, can be found in the corporate governance section of the NBN Co website.

Corporate Governance Statement

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, 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.

NBN Co's Fraud Policy also 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 Fraud 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. This policy was created to promote and maintain an open working environment in which employees and directors 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 Statement is designed to inform 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 also employs 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* 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 gender diversity. In accordance with its obligations under the GBE Guidelines and cognisant of the Commonwealth Government's commitment to 40 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 endeavours to achieve a balance of relevant skills in the areas of telecommunications, civil construction, financial, legal, media/public relations and information technology.

As at 30 June 2013 diversity metrics showed that within NBN Co's workforce, women comprised:

- 29% of all employees
- 21% of all managers
- 19% of senior managers
- 50% of NBN Co's Board of Directors

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.



Ms Siobhan McKenna
Chair of the Board
NBN Co Limited
Level 11, 100 Arthur Street
North Sydney NSW 2060
Australia

**NBN CO LIMITED FINANCIAL REPORT 2012–13
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 2013, 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

Canberra
13 August 2013

Financial Statements



Financial Statements

Statement of Comprehensive Income

For the year ended 30 June 2013

	Notes	NBN Group	
		Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Revenue			
Telecommunication revenue		16,454	1,924
Other revenue		370	19
Interest income		48,989	60,164
Total Revenue		65,813	62,107
Other income	3	400	-
Expenses			
Direct telecommunications costs		(160,276)	(64,991)
Employee benefits expenses	4	(324,368)	(222,110)
External services costs – systems and organisation costs		(73,048)	(67,809)
Legal and negotiation support costs		(16,796)	(21,472)
IT and communications expenses		(91,158)	(71,497)
Occupancy expenses		(32,068)	(24,801)
Travel and entertainment costs		(18,460)	(12,615)
Communication and public information		(14,032)	(11,226)
Depreciation and amortisation expense	4	(197,174)	(73,940)
Other expenses	4	(19,021)	(12,448)
Finance costs	4	(63,713)	(6,143)
Total Expenses		(1,010,114)	(589,052)
(Loss) before income tax		(943,901)	(526,945)
Income tax benefit	5	12,236	6,740
(Loss) for the year		(931,665)	(520,205)
(Loss) attributable to the shareholders		(931,665)	(520,205)
Other comprehensive (loss)/income			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of cash flow hedges	21	40,787	22,466
Income tax relating to components of other comprehensive income	21	(12,236)	(6,740)
Total other comprehensive income for the year, net of tax		28,551	15,726
Total comprehensive (loss) for the year		(903,114)	(504,479)
Total comprehensive (loss) attributable to the shareholders		(903,114)	(504,479)

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

Balance Sheet

For the year ended 30 June 2013

	<i>Notes</i>	NBN Group	
		Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Current assets			
Cash and cash equivalents	6	103,472	217,896
Trade and other receivables	7	56,907	26,865
Inventories	8	6,118	1,672
Derivative financial assets	9	42,528	11,938
Held to maturity investment	10	915,097	636,056
Other current assets	11	30,055	21,452
Total current assets		1,154,177	915,879
Non-current assets			
Trade and other receivables	7	393	1,029
Derivative financial assets	9	20,946	10,528
Property, plant & equipment	12	3,717,115	1,027,745
Intangible assets	13	619,658	504,162
Other non-current assets	11	6,435	8,068
Total non-current assets		4,364,547	1,551,532
Total assets		5,518,724	2,467,411
Current liabilities			
Trade and other payables	15	597,496	276,991
Other liabilities	16	4,299	-
Other financial liabilities	17	37,770	4,942
Provisions	19	19,818	16,265
Total current liabilities		659,383	298,198
Non-current liabilities			
Trade and other payables	15	455	-
Other liabilities	16	118,155	-
Other financial liabilities	17	1,299,493	232,441
Provisions	19	23,581	12,446
Total non-current liabilities		1,441,684	244,887
Total liabilities		2,101,067	543,085
Net assets		3,417,657	1,924,326
Equity			
Contributed equity	20	5,228,445	2,832,000
Other reserves	21	44,277	15,726
(Accumulated losses)	21	(1,855,065)	(923,400)
Total equity		3,417,657	1,924,326

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

Financial Statements

Statement of Changes in Equity

For the year ended 30 June 2013

	<i>Notes</i>	NBN Group			Total equity \$'000
		Accumulated losses \$'000	Contributed equity \$'000	Other reserves \$'000	
Balance at 30 June 2011		(403,195)	1,362,000	-	958,805
Loss for the year	21	(520,205)	-	-	(520,205)
Other comprehensive income	21	-	-	15,726	15,726
Contributions of equity, net of transaction costs	20	-	1,470,000	-	1,470,000
Balance at 30 June 2012		(923,400)	2,832,000	15,726	1,924,326
Loss for the year	21	(931,665)	-	-	(931,665)
Other comprehensive income	21	-	-	28,551	28,551
Contributions of equity, net of transaction costs	20	-	2,396,445	-	2,396,445
Balance at 30 June 2013		(1,855,065)	5,228,445	44,277	3,417,657

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

Statement of Cash Flows

For the year ended 30 June 2013

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Cash flows from operating activities		
Receipts from customers (incl GST)	16,365	1,655
Payments to suppliers and employees (incl GST)	(712,842)	(433,939)
Other revenue	1,111	1,286
Interest received	51,297	53,736
Interest paid	(123)	(15)
Net cash (used in) operating activities	(644,192)	(377,277)
Cash flows from investing activities		
Payment for held to maturity investments	(279,041)	(636,056)
Payment for property, plant and equipment	(1,357,766)	(462,439)
Payment for intangibles	(192,934)	(314,027)
Net cash (used in) investing activities	(1,829,741)	(1,412,522)
Cash flows from financing activities		
Payment for finance leases and right of use licences	(36,936)	(542)
Equity injection for ordinary shares by the Commonwealth of Australia	2,396,445	1,470,000
Net cash provided by financing activities	2,359,509	1,469,458
Net (decrease)/increase in cash and cash equivalents	(114,424)	(320,341)
Cash and cash equivalents at the beginning of the financial year	217,896	538,237
Cash and cash equivalents at the end of the financial year	103,472	217,896

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

Financial Statements

Schedule of Commitments

For the year ended 30 June 2013

	Notes	NBN Group	
		Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
By type			
Total expected equity funding	25	25,171,555	24,668,000
Commitments payable - Capital			
Leasehold Improvements		13,280	1,026
Network Assets		1,466,164	837,253
Total capital commitments		1,479,444	838,278
Total intangible commitments		33,009	32,422
Total assets ordered under finance lease and right of use licence arrangements	17 (iii)	2,471,524	2,700,134
Commitments payable - Other			
Operating leases	18	235,327	169,895
Other commitments		272,666	157,937
Total other commitments		507,993	327,832
Aggregate commitments payable, net of future interest charges		4,491,969	3,898,666
By maturity			
Expected equity funding			
Within one year		5,400,555	5,788,000
From one to five years		19,771,000	17,500,000
Over five years		-	1,380,000
Total expected equity funding	25	25,171,555	24,668,000
Commitments payable - Capital			
Within one year		1,049,677	427,254
From one to five years		429,056	411,025
Over five years		711	0
Total capital commitments		1,479,444	838,279
Commitments payable - Intangible			
Within one year		22,177	17,605
From one to five years		10,832	14,817
Total intangible commitments		33,009	32,422
Commitments payable - Operating lease			
Within one year		29,878	24,421
From one to five years		94,601	82,422
Over five years		110,848	63,052
Total operating lease commitments	18	235,327	169,895
Commitments payable - Assets ordered under finance lease and right of use licence arrangements			
Within one year		163,958	49,061
From one to five years		1,014,709	758,841
Over five years		1,292,857	1,892,232
Total assets ordered under finance lease and right of use licence arrangement commitments	17 (iii)	2,471,524	2,700,134
Commitments payable - Other			
Within one year		194,585	143,811
From one to five years		77,698	13,528
Over five years		383	598
Total other commitments		272,666	157,937
Aggregate commitments payable, net of future interest charges		4,491,970	3,898,666

The above statement should be read in conjunction with the accompanying notes, with specific reference to Note 1 (n), 17, 23, 24 and 25. In accordance with policy, amounts for assets which have been ordered under finance lease and right of use licence arrangements but have not yet been handed over are disclosed net of future interest charges.

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 report, comprising of the financial statements and notes to the financial statements, for the year ended 30 June 2013 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.

The Financial Statements and the notes thereto have been prepared on the basis that NBN Co will continue to operate in accordance with the policy directions provided by the Commonwealth Government as set out in the Statement of Expectations issued in December 2010 and subsequent written instructions from NBN Co's Shareholder Ministers. The carrying value of NBN Co's assets, the value of actual and contingent liabilities and the extent of NBN Co's commitments have been determined on the basis that there is no significant change in Commonwealth Government policy in so far as it relates to the operations of NBN Co. In the event of a significant change in Commonwealth Government policy in relation to the intended operations of NBN Co it may be necessary to re-assess the carrying value of certain NBN Co assets, the value of actual and contingent liabilities and the extent of NBN Co's commitments. At the time of issuing this general purpose financial report, it is not possible to determine whether a change in Commonwealth Government policy may occur, how such a change may impact the intended operations of NBN Co or the likely impact of any such change on the carrying value of NBN Co's assets, the value of actual and contingent liabilities or the extent of NBN Co's commitments.

(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).

Notes to the Financial Statements

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 accounting policies have been consistently applied to all years presented, unless otherwise stated. The NBN Group has adopted for the current reporting period AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (impacting AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049). These Amendments had no impact on the financial position or performance of the NBN Group.

Future Australian Accounting Standard Requirements

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting period. The NBN Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 119 Employee Benefits (effective 1 January 2013)

The revised standard includes changes to the accounting for defined benefit plans as well as changes to other employee benefits. The revised standard clarifies the distinction between short term and long term employee benefits and defines it as being based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. There have also been amendments to the definition and the timing of the recognition for termination benefits.

The changes to the accounting for defined benefit plans are not applicable to the NBN Group. With respect to the changes to other employee benefits, the NBN Group has not yet determined, the impact, if any. The NBN Group does not intend to early adopt the revised standard before its operative date, being the period ending 30 June 2014.

(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 for financial and non financial assets and liabilities measured at fair value. It is expected the standard will not have a financial impact on assets and liabilities measured at fair value. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The NBN Group does not intend to adopt the new standard before its operative date, being the year ending 30 June 2014.

(iii) AASB 12 Disclosure of Interest in Other Entities

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 NBN Group will not affect any of the amounts recognised in the financial statements or the content of the disclosures.

(iv) AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Liabilities* and AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (AASB 7 and AASB 132) (effective 1 January 2013)*

The amendments clarify the right of netting off and require more extensive disclosures focusing on quantitative information around financial instruments netted off in the balance sheet.

There will be no impact on the NBN Group's accounting for financial instruments or the disclosures in the financial statements as no offsetting of asset and liabilities in the balance sheet occurs.

(v) AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle (effective 1 January 2013)*

The annual improvements project makes minor changes to AASB 1, AASB 101, AASB 116, AASB 132 and AASB 134. The main changes includes clarification of disclosure requirements where an entity produces a third balance sheet, clarifies the treatment of income tax relating to distributions and transaction costs and clarifies the classification of spare parts and servicing equipment which is used for more than one period as property, plant and equipment rather than inventory.

The NBN Group has yet to determine whether the changes in AASB 116 will have an impact on the financial statements. The amendments to AASB 1, AASB 101, AASB 132 and AASB 134 are not applicable to the NBN Group. The NBN Group does not intend to early adopt these amendments before its operative date, which means that it will be first applied in the annual reporting period ending 30 June 2014.

(vi) AASB 2012-9 *Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039*

In December 2012, the AASB withdrew the Australian Interpretation 1039 *Substantive enactment of major tax bills in Australia*. At the same time the AASB issued an Agenda Decision which notes that substantive enactment of a tax Bill would not occur until any significant uncertainty about the outcome of a tax Bill had been removed. The withdrawal of this interpretation does not have an impact on the financial statements of the NBN Group.

(vii) AASB 9 *Financial Instruments (effective from 1 January 2015)*

AASB 9 Financial Instruments addresses the classification and measurement of financial assets and financial liabilities. The standard will impact the annual reporting period commencing 1 July 2015.

There will be no impact on the NBN 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 NBN Group does not have any such liabilities. The NBN Group has not yet decided when to adopt AASB 9.

(viii) AASB 10 *Consolidated Financial Statements* and AASB 2012-10 *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments (effective 1 January 2013)*

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

Notes to the Financial Statements

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 NBN Group does not expect the new standard to have a significant impact on its composition.

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 NBN 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 2013 and the results of all subsidiaries for the year ended 30 June 2013. 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 NBN Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the NBN 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) Recoverable Works

Recoverable works performed upon request of a third party to change the location of the NBN infrastructure is recognised as revenue on an as built basis.

(iv) 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.

Notes to the Financial Statements

(h) Inventories

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 28. 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, as is required by AASB 139 *Financial Instruments Recognition and Measurement*.

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 NBN 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 lease term or useful life.

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

Asset type	Useful life
Network assets	3-40 years
Buildings	Lower of lease term and/or 50 years
Leasehold improvements	Lower of lease term and/or 5-35 years
Furniture and fittings	3-10 years
Equipment	5-15 years
IT equipment	3-5 years

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.

Notes to the Financial Statements

(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 NBN 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:

Identifiable intangible assets	Useful life
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.

(l) 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.

Intangible assets with an indefinite useful life and intangible 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/depreciation are reviewed for impairment wherever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use. Any reduction in the carrying value is recognised as an expense in the income statement in the reporting period in which the impairment loss occurs.

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit (CGU) to which that asset belongs. The 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.

NBN Co has determined that assets which form part of the national broadband 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 broadband network is a single CGU. This CGU is referred as the NBN Co Entity CGU in the financial report. Refer to Note 14 for further disclosures on impairment of non financial assets.

(ii) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Individually significant financial assets are tested for impairment individually. The remaining financial assets are assessed in groups that share similar credit risk characteristics.

Notes to the Financial Statements

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

(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 fulfilment 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 17). Finance leases are capitalised at the lease's inception or on handover of relevant infrastructure (Note 24) 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 shorter of the asset's useful life or 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 18). 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 has been compiled on the basis that the NBN Group is a going concern (refer to Note 1 (a)) and 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) amounts payable for assets ordered under finance lease and right of use licence arrangements which have not yet been handed over. These amounts are disclosed at the net present value of the minimum lease payments.
- 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

Financial liabilities 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 23. 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

Trade and other payables represent liabilities for goods and services provided to the NBN 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'

Notes to the Financial Statements

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

(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 is 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 net 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.

Notes to the Financial Statements

(x) Government Grants

Government grants are recognised in the balance sheet as a deferred gain when the grant is received.

When the grant relates to an asset or assets received for no consideration, the asset is recorded at fair value and the resulting gain is credited to deferred income. The gain is released to the statement of comprehensive income on a straight line basis over the expected useful life of the relevant asset or assets.

(y) Developer Contributions for no consideration

The NBN Group receives network assets for no consideration from Developers as part of the build of the NBN in New Development areas. Assets received for no consideration are recorded at fair value and the resulting gain is credited to deferred income. The gain is released to the statement of comprehensive income on a straight line basis over the expected useful life of the relevant assets.

(z) 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.

(aa) 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.

(bb) Parent entity financial information

The financial information for the parent entity, NBN Co Limited, disclosed in Note 31 has been prepared on the same basis as the consolidated financial statements except as those set out below.

(i) Investments in subsidiaries

Investments in subsidiaries 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.

(cc) Comparative Figures

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

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 19(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 internally generated intangible asset 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.

Notes to the Financial Statements

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 (e.g. CPI).

Estimate of assets under construction

The percentage of completion method is used for assets under construction (eg. Network assets) and is based on the estimated costs in bringing the asset to its intended location and condition for it to be operating in the manner intended. Where these assets are determined to be in-service but are yet to be fully capitalised, the amount of depreciation or amortisation recognised as an expense is based on the estimated capital costs expected to be have been incurred at that point in time. The rates applied to the expected capital costs to be incurred are the same as those applied to capitalised assets. The method applied progressively increases the accuracy of the depreciation recorded as it enhances the completeness of costs captured. 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.

Determination of fair value less costs to sell when considering impairment

As set out in Note 1(l)(i), NBN Co has determined there is one CGU, being the ubiquitous broadband network. The recoverable amount of this CGU is determined when testing for impairment. Recoverable amount for the CGU has been determined based on fair value which requires the use of judgement. In determining fair value NBN Co has considered the depreciable replacement cost of the assets given there is no active market for the network assets. The approach is based on the assumption that the construction of the assets will be completed. Depreciable replacement cost is an estimate of what it would cost to acquire or construct a substitute national broadband network to the stage of current completion, adjusted for obsolescence. Refer to Note 14 for impairment considerations.

Estimated Useful lives of Property, Plant and Equipment

The NBN Group reviews annually the estimated useful lives of property, plant and equipment based on factors such as business plans and strategies, expected level of usage and future technological developments. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the estimated useful lives of property, plant and equipment would increase the recorded depreciation and decrease the carrying value of property, plant and equipment.

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 NBN 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 NBN Group to satisfy certain tests at the time the losses are recouped. NBN Co 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 NBN Group has not recognised a deferred tax asset relating to current tax losses.

Commitments

As disclosed in Note 1(n), 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. Refer to the Schedule of Commitments for further disclosures on commitments.

3. Other Income

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Other Income - Gifted Assets	400	-
Total	400	-

NBN Group has entered into various arrangements with Developers under which assets have been granted for no consideration, as part of the build of the NBN. These assets are measured at fair value when received and the resulting gain is credited to deferred income and periodically released to other income over the expected useful life of the assets granted.

At 30 June 2013 \$54,278,190 (2012: \$Nil) of developer contributed assets had been received for no consideration, refer to Note 16 for further detail.

Notes to the Financial Statements

4. Expenses

	NBN Group	
	Year ended 30 June 2013	Year ended 30 June 2012
	\$'000	\$'000
Employee benefits		
Defined contribution superannuation expense	(25,078)	(15,056)
Other employee benefits	(299,290)	(207,054)
Total employee benefits	(324,368)	(222,110)
Other expenses		
Accounting and audit fees	(2,067)	(1,823)
Directors fees and board expenses	(1,785)	(2,633)
Insurance expense	(5,255)	(2,846)
Occupational, health and safety	(1,901)	(1,105)
Printing, postage and courier	(1,616)	(1,163)
Other expenses	(6,397)	(2,878)
Total other expenses	(19,021)	(12,448)
Depreciation		
Buildings	(368)	(234)
Buildings under finance leases	(2,012)	(902)
Leasehold improvements	(9,345)	(7,404)
Furniture, fittings & equipment	(959)	(680)
Machinery and Equipment	(62)	(33)
IT Equipment	(9,982)	(3,478)
Network equipment	(50,915)	(13,714)
Network equipment under finance leases	(25,768)	(1,493)
Total depreciation	(99,411)	(27,938)
Amortisation		
Computer software	(69,913)	(19,932)
Telecommunication licence	(27,848)	(26,070)
Other intangible assets	(2)	-
Total amortisation	(97,763)	(46,002)
Total depreciation and amortisation	(197,174)	(73,940)
Finance Costs		
Interest and finance charges paid/payable for financial liabilities	(62,523)	(5,179)
Provisions: unwinding of discount	(1,190)	(964)
Finance costs expensed	(63,713)	(6,143)
Rental expense relating to operating leases	(26,491)	(19,429)
Hedge ineffectiveness on cashflow hedges	221	-

5. Income tax expense

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
(a) Income tax benefit		
Current tax	-	-
Deferred tax	(12,236)	(6,740)
Total	(12,236)	(6,740)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax benefit	(943,901)	(526,945)
Tax at the Australian tax rate of 30% (2011: 30%)	(283,170)	(158,084)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income	8	10
Current year tax losses not recognised	229,134	143,603
Temporary differences not recognised	41,792	7,730
Adjustments for current tax for prior periods	-	3,518
Prior year tax losses and temporary differences not recognised	-	(3,518)
Income tax benefit	(12,236)	(6,740)
(c) Tax losses		
Unused tax losses for which no deferred asset has been recognised	1,627,221	863,441
Potential tax benefit @ 30%	488,166	259,032

i) Unrecognised tax losses

The cumulative amount of unrecognised tax losses of \$1,627,211,000 (2012: \$863,441,000) 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).

Notes to the Financial Statements

5. Income tax expense (continued)

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
(d) Unrecognised temporary differences		
Deductible temporary differences for which deferred tax assets have not been recognised relating to:		
Property, plant & equipment & Intangibles	226,057	46,297
Provisions & accruals	31,598	31,265
This is offset by:		
Taxable temporary differences (deferred tax liabilities)		
Cash flow hedges	(63,253)	(22,466)
Net temporary differences for which deferred tax assets have not been recognised	194,402	55,096
Unrecognised deferred tax asset relating to the above net deductible and taxable temporary differences	58,321	16,529

ii) Tax Consolidation

NBN Co Limited and its wholly owned subsidiaries have formed a tax consolidated group. NBN Co Limited is the head entity of the tax consolidated group. The head entity, NBN Co Limited and the subsidiaries in the tax consolidated group account for their own current and deferred tax amounts arising from temporary differences. In addition NBN Co Limited accounts for any deferred tax assets arising from unused tax losses and tax credits for all entities in the tax consolidated group. Members of the group have not yet entered into tax funding or tax sharing arrangements. As at 30 June 2013, 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.

5. Income tax expense (continued)

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
(e) Tax expense (income) relating to items of other comprehensive income		
Cash flow hedges	21(a) 40,787	22,466
Tax at the Australian tax rate of 30% (2012: 30%)	12,236	6,740
Income tax expense in other comprehensive income	12,236	6,740

6. Current assets – Cash and cash equivalents

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Cash at bank	62,967	26,896
Term deposits	40,505	191,000
Total	103,472	217,896

In the 2012 comparative \$561,056,000 has been reclassified from cash term deposits to held to maturity investments (Note 10) to conform to the presentation in the current financial year.

a) Risk exposure

The NBN Group's exposure to interest rate risk is discussed in Note 28(f). The maximum exposure to credit risk at the end of the reporting period is disclosed in Note 28(g).

Notes to the Financial Statements

7. Trade and other receivables

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Current		
Trade receivables	2,199	469
Interest receivable	9,496	11,978
Other receivables	1,002	912
GST receivable	44,210	13,506
Total	56,907	26,865
Non-Current		
Other receivable	393	1,029

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 28(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.

d) Impaired trade receivables

During the year the NBN Group had written off trade receivables as uncollectible of \$19,765 (2012: \$nil)

8. Inventories

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Inventories on Hand - Spares	6,118	1,672

a) Inventories expensed

Inventories recognised as an expense during the year ended 30 June 2013 amounted to \$nil (2012 - \$5,601). There were inventories of \$22,550 written off during the period (2012: \$90,325).

9. Derivative financial instruments

a) *Derivative Financial Assets*

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Current		
Forward foreign exchange contracts	42,528	11,938
Non-Current		
Forward foreign exchange contracts	20,946	10,528

b) *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.

As at 30 June 2013 open forward exchange contracts related to the construction of the Long Term Satellite Service (LTSS). These arrangements require the purchase of satellites, construction of ground stations and associated orbital launch services denominated foreign currency. 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 2013 a gain of \$1,896,000, (2012: (\$110,923)) was reclassified from other comprehensive income and included in the acquisition cost of components. A gain of \$221,217 (2012: \$Nil) was recognised in profit or loss for the ineffective portion of these hedging contracts.

c) *Risk exposures and fair value measurements*

Information about the NBN Group's exposure to credit, foreign exchange and interest rate risks and about the methods and assumptions used in determining fair values is provided in Note 28. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial assets.

Notes to the Financial Statements

10. Held to maturity investments

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Current		
Term deposit	915,097	636,056

In the 2012 comparative \$561,056,000 has been reclassified from cash term deposits (note 6) to held to maturity investments to conform to the presentation in the current financial year.

11. Other assets

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Current		
Prepayments	30,048	21,443
Other deposits	7	9
Total	30,055	21,452
Non-Current		
Prepayments	6,435	8,068

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

a) Property, plant and equipment

	NBN Group							Total
	Freehold Land	Buildings	Leasehold improvements	Furniture and fittings	Equipment	IT equipment	Network assets	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 July 2011								
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	33	-	19,686	678	328	4,691	207,349	232,765
Year ended 30 June 2012								
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	823,254
Adjustments	-	-	-	-	(336)	-	-	(336)
Depreciation charge	-	(1,136)	(7,404)	(680)	(33)	(3,478)	(15,207)	(27,938)
Net book value	13,019	41,405	51,220	4,599	885	10,392	906,225	1,027,745
At 30 June 2012								
Cost	13,019	42,541	60,253	5,383	926	15,126	924,528	1,061,776
Accumulated depreciation	-	(1,136)	(9,033)	(784)	(41)	(4,734)	(18,303)	(34,031)
Net book value	13,019	41,405	51,220	4,599	885	10,392	906,225	1,027,745
Year ended 30 June 2013								
Opening net book value	13,019	41,405	51,220	4,599	885	10,392	906,225	1,027,745
Additions	-	116,140	8,641	429	-	30,762	2,632,809	2,788,781
Depreciation charge	-	(2,380)	(9,345)	(959)	(62)	(9,982)	(76,683)	(99,411)
Net book value	13,019	155,165	50,516	4,069	823	31,172	3,462,351	3,717,115
At 30 June 2013								
Cost	13,019	158,681	68,894	5,812	926	45,888	3,557,337	3,850,557
Accumulated depreciation	-	(3,516)	(18,378)	(1,743)	(103)	(14,716)	(94,986)	(133,442)
Net book value	13,019	155,165	50,516	4,069	823	31,172	3,462,351	3,717,115

Depreciation of \$99,411,000 (2012: \$27,938,000) is included in depreciation and amortisation expense in the Statement of Comprehensive Income.

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. As these assets were not installed and ready for use there is no depreciation charged on these amounts.

Notes to the Financial Statements

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

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Network assets	1,214,030	505,234
Leasehold improvements	6,991	1,732
Total assets in the course of construction	1,221,021	506,966

c) Leased assets

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

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Buildings		
Cost	26,348	26,348
Accumulated depreciation	(2,914)	(902)
Net book value	23,434	25,446
Network assets		
Cost	1,280,830	206,414
Accumulated depreciation	(27,261)	(1,493)
Net book value	1,253,569	204,921

d) Non-current assets pledged as security

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

e) Indefeasible right of use assets

Included within Network assets are assets acquired under an indefeasible rights of use from the Department of Broadband, Communications and the Digital Economy to use of certain Regional Backbone Blackspots Program assets for no consideration. The assets have been measured at fair value at date of recognition being \$68,576,000 (2012: \$Nil).

f) Assets acquired for no consideration

Included within Network assets are assets acquired for no consideration from Developers as part of the build of the NBN in New Development areas. Assets received for no consideration are recorded at fair value and the resulting gain is credited to deferred income. The gain is released to the statement of comprehensive income on a straight line basis over the expected useful life of the relevant assets. At 30 June 2013 \$54,278,000 (2012: \$Nil) of assets had been received for no consideration.

13. Non-current assets – Intangible assets

a) Intangible assets

	NBN Group			Total \$'000
	Software \$'000	Licences \$'000	Other \$'000	
As at 1 July 2011				
Cost	140,678	123,488	-	264,166
Accumulated amortisation	(2,255)	(11,108)	-	(13,363)
Net book value	138,423	112,380	-	250,803
Year ended 30 June 2012				
Opening net book amount	138,423	112,380	-	250,803
Additions	296,241	3,120	-	299,361
Reclassification	5,792	(5,792)	-	-
Amortisation	(19,932)	(26,070)	-	(46,002)
Net book value	420,524	83,638	-	504,162
As at 30 June 2012				
Cost	442,711	120,816	-	563,527
Accumulated amortisation	(22,187)	(37,178)	-	(59,365)
Net book value	420,524	83,638	-	504,162
Year ended 30 June 2013				
Opening net book amount	420,524	83,638	-	504,162
Additions	213,192	-	67	213,259
Amortisation	(69,913)	(27,848)	(2)	(97,763)
Net book value	563,803	55,790	65	619,658
As at 30 June 2013				
Cost	655,903	120,816	67	776,786
Accumulated amortisation	(92,100)	(65,026)	(2)	(157,128)
Net book value	563,803	55,790	65	619,658

Amortisation of \$97,763,000 (2012: \$46,002,000) is included in depreciation and amortisation expense in the Statement of Comprehensive Income.

b) Assets in the course of construction

The carrying amount of the intangible assets includes expenditure recognised on assets which are in the course of construction. As these assets were not installed and ready for use there is no amortisation being charged on these amounts.

Notes to the Financial Statements

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

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Software	111,944	95,963
Licences	-	1,440
Total assets in the course of construction	111,944	97,403

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 2013, NBN Co had intangible assets under development (i.e. software assets) amounting to \$111,944,000 (2012: \$97,403,000) which are specifically required to be tested for impairment annually.

As set out in Note 1(l)(i), the assets which form part of the national broadband network work together to generate net cash flows. As a result, NBN Co has determined that it has one single cash generating unit (**NBN Co Entity CGU**). The intangible assets under development were tested for impairment by considering the recoverable amount of the whole NBN Co Entity CGU.

As a result of this assessment, it has been determined that the recoverable amount is not less than the carrying amount of the NBN Co Entity CGU as at 30 June 2013 and that there is therefore no impairment (2012: Nil).

NBN Co has determined that fair value less costs to sell is the appropriate basis for determining the recoverable amount. The fair value less cost to sell of the NBN Co Entity CGU has been determined by considering the depreciable replacement cost of the assets. This is considered to be an appropriate methodology to apply given there is no active market for the network assets. The approach is based on the assumption that the construction of the assets will be completed. Depreciable replacement cost is an estimate of what it would cost to acquire or construct a substitute national broadband network to the stage of current completion, adjusted for obsolescence

In determining depreciable replacement cost, NBN Co has considered recent purchase prices, given that the capital expenditure incurred to date in building the network is relatively recent, as well as technological and other obsolescence. There are no indicators at present that the technology is at risk of obsolescence.

In addition, NBN Co considered whether there are any other facts that would indicate a potential impairment of the assets, including internal and external factors. This included assessment of key internal performance indicators against assumptions in its most recent Corporate Plan, including:

- Take-up rate –the demand for NBN connections in areas where the NBN is available
- Average Revenue Per User –the total revenue earned by NBN Co divided by the weighted average number of End-user
- Fibre Speed Profile –the proportion of End-users on each speed tier product
- Cost per premises passed
- Cost per premises connected

NBN Co has also considered the potential impacts of a change in Commonwealth Government policy and as set out in Note 1(a) has concluded that it is not possible to determine whether a change in Commonwealth Government policy is likely to occur, how such a change may impact the intended operations of NBN Co or the likely impact of any such change on the carrying value of NBN Co's assets or the assessment of fair value of the NBN Co Entity CGU.

NBN Co has noted no indicators of impairment at 30 June 2013, which further supports the company's conclusion that the recoverable amount supports the carrying value at 30 June 2013. In the absence of the need to assess intangible assets under development for impairment, there would have been no requirement to perform an impairment analysis on the NBN Co Entity CGU.

15. Trade and Other Payables

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Current		
Trade payables	190,895	103,489
Other payables	129	-
Accruals	406,472	173,502
Total	597,496	276,991
	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Non Current		
Other payables	455	-

Information about the NBN Group's exposure to foreign exchange risk is provided in Note 28(e).

a) Accruals

The accruals balance includes \$347,245,000 (2012: \$171,184,000) relating to property, plant and equipment and intangible assets. The remaining refers to functional and operational accruals.

Notes to the Financial Statements

16. Other liabilities

	NBN Group	
	Year ended	Year ended
	30 June 2013	30 June 2012
	\$'000	\$'000
Current		
Deferred gain on developer contributions	1,544	-
Deferred gain on government grants	2,755	-
Total	4,299	-

	NBN Group	
	Year ended	Year ended
	30 June 2013	30 June 2012
	\$'000	\$'000
Non Current		
Deferred gain on developer contributions	52,334	-
Deferred gain on government grants	65,821	-
Total	118,155	-

	NBN Group	
	Year ended	Year ended
	30 June 2013	30 June 2012
	\$'000	\$'000
As at 1 July	-	-
Developer contributions received during the year	54,278	-
Released to the Statement of Comprehensive Income	(400)	-
As at 30 June	53,878	-

	NBN Group	
	Year ended	Year ended
	30 June 2013	30 June 2012
	\$'000	\$'000
As at 1 July	-	-
Government grants received during the year	68,576	-
Released to the Statement of Comprehensive Income	-	-
As at 30 June	68,576	-

Developer Contributions

The NBN Group receives network assets for no consideration from Developers as part of the build of the NBN in New Development areas. Assets received for no consideration are recorded at fair value and the resulting gain is credited to deferred income. The gain is released to the statement of comprehensive income on a straight line basis over the expected useful life of the relevant assets.

16. Other liabilities (continued)

At 30 June 2013 \$54,278,000 (2012: \$Nil) of assets had been received for no consideration.

Government Grants

NBN Group has entered into an arrangement with the Department of Broadband, Communications and the Digital Economy to acquire infeasible rights of use of certain Regional Backbone Blackspots Program assets for no consideration. This arrangement has been accounted for as a government grant and the assets have been measured at fair value at date of recognition being \$68,576,000 (2012: \$Nil).

There are no unfulfilled conditions or contingencies attaching to these arrangements.

17. Other financial liabilities

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Current		
Lease liabilities and right of use licences	37,770	4,942
Non Current		
Lease liabilities and right of use licences	1,299,493	232,441

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 is an amount for infrastructure assets of \$1,253,569,000 (2012: \$204,921,000) and premises of \$23,434,000 (2012: \$25,446,000) acquired under a finance lease or right of use licence arrangement.

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Finance leases and right of use licences are payable as follows:		
Within one year	144,589	23,352
Later than one year but not later than five years	457,996	81,468
Later than five years	3,259,011	581,813
Minimum lease payments	3,861,596	686,633
Future interest charges	(2,524,333)	(449,250)
Recognised as a liability	1,337,263	237,383
Representing:		
Current	37,770	4,942
Non-current	1,299,493	232,441
Total finance lease and right of use licence liabilities	1,337,263	237,383

Notes to the Financial Statements

17. Other financial liabilities (continued)

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 (for example - CPI). Contingent rentals are not included in lease liabilities or right of use licence liabilities. Contingent rentals paid during the year are included as an expense in the Statement of Comprehensive Income.

The finance lease and right of use licence liabilities are recognised at the net present value (NPV) of the minimum lease payments (MLP). The difference between the NPV and the MLP is the future interest charge.

The Schedule of Commitments on page 86 excludes future interest charges applicable to lease liabilities and right of use licences for Property Leases and Network Infrastructure of \$2,524,333,000 (2012: \$449,250,000).

(i) Property Leases

The NBN Group leases a total of 6 (2012: 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 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 when the infrastructure is handed over to NBN Co. Refer to Note 24 for further details on this arrangement.

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 were 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.

(iii) Commitments for assets ordered under finance lease and right of use license arrangements

At 30 June 2013 NBN Co had placed orders for assets under finance lease and right of use license arrangements which had not been handed over as at that date. The total commitments relating to these assets disclosed in the Schedule of Commitments on page 86, net of future interest charges, amounted to \$2,471,524,000 as at 30 June 2013 (2012: \$2,700,134,000). Future interest charges applicable to assets ordered but not yet handed over under finance lease and right of use license arrangements are \$5,263,595,000 (2012: \$6,064,394,000).

These assets will be recognised as finance leases or right of use licenses under other financial liabilities when the infrastructure is handed over to NBN Co.

18. Operating Leases

Operating Leases

The NBN Group leases 33 properties and 156 commercial vehicles (2012: 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 nil properties (2012: 2 properties) with various short term occupancy periods.

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	29,878	24,421
Later than one year but not later than five years	94,601	82,422
Later than five years	110,848	63,052
Total	235,327	169,895
Sub-lease payments		
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	-	24

Not included in the above commitments are contingent rental payments which may arise. Full details of the NBN Group's operating leases are also contained in the Schedule of Commitments.

Notes to the Financial Statements

19. Provisions

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Current		
Employee benefits	18,072	15,234
Make good provision	1,746	1,031
Total	19,818	16,265
Non-Current		
Employee benefits	4,373	1,418
Make good provision	19,208	11,028
Total	23,581	12,446

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 leased premises to their original condition at the end of the respective lease terms and to decommission Very Small Aperture Terminals (VSATs) installed under the First Release Satellite Solution, a provision has been recognised for the present value of the estimated expenditure to remove any leasehold improvements and to decommission installed 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.

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Carrying amount at start of year	12,059	7,454
Charged to property, plant & equipment	7,679	3,667
Charged to the profit and loss - unwinding of discount	1,216	938
Carrying amount at end of year	20,954	12,059

20. Contributed Equity

a) Share capital

	NBN Group		NBN Group	
	Year ended	Year ended	Year ended	Year ended
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
	Number of	Number of	\$'000	\$'000
Share capital				
Ordinary shares				
<i>Fully paid</i>	5,228,445,092	2,832,000,010	5,228,445	2,832,000
Total consolidated contributed equity			5,228,445	2,832,000

Movements in ordinary share capital

Date	NBN Group		NBN Group	
	Details	Number of Shares	Issue \$	Value of Shares \$
1 July 2011	Opening Balance	1,362,000,010	1.00	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
30 June 2012	Closing Balance	2,832,000,010	1.00	2,832,000,010
26 July 2012	Equity injection	290,000,000	1.00	290,000,000
16 August 2012	Equity injection	290,000,000	1.00	290,000,000
19 November 2012	Equity injection	366,445,081	1.00	366,445,081
14 January 2013	Equity injection	800,000,001	1.00	800,000,001
9 May 2013	Equity injection	650,000,000	1.00	650,000,000
Total consolidated contributed equity at 30 June 2013		5,228,445,092	1.00	5,228,445,092

b) 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.

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.

Notes to the Financial Statements

c) 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.

21. Reserves and accumulated losses

a) Movements in other reserves:

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Cash flow hedges	44,277	15,726

Movements

Cash flow hedges

Balance 1 July	15,726	-
Revaluation - gross	38,891	22,577
Deferred tax	(12,236)	(6,740)
Transfer to other asset - gross	1,896	(111)
Balance at 30 June	44,277	15,726

b) Nature and purpose of other 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.

c) Movements in accumulated losses:

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Balance at 1 July	(923,400)	(403,195)
Net (loss) for the year	(931,665)	(520,205)
Balance at 30 June	(1,855,065)	(923,400)

d) Dividends declared

No dividends were declared or paid during the year.

22. 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 (ANAO) appointed PwC as contractors to the financial statement audit process.

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 ANAO and having regard to their independence policies.

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

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

	NBN Group	
	Year ended 30 June 2013	Year ended 30 June 2012
Australian National Audit Office		
Audit of financial statements	1,031,540	935,460
Total remuneration for audit and other assurance services	1,031,540	935,460
PwC Australia		
Other assurance related services		
- <i>Accounting advice</i>	25,000	-
- <i>Regulatory reviews</i>	20,000	-
- <i>Other reviews</i>	49,000	-
Total remuneration for other assurance related services	94,000	-
Other services		
- <i>HR service delivery support</i>	-	103,094
- <i>IT advisory support</i>	142,443	502,500
- <i>Risk advisory support</i>	63,834	-
- <i>Other</i>	-	26,489
Total remuneration for other services	206,277	632,083
Total auditor's remuneration	1,331,817	1,567,543

Notes to the Financial Statements

23. 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 24 (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 of 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 24(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 Group has entered into contracts whereby the NBN 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, such as a change in Commonwealth Government policy as disclosed in Note 1 (a), which are beyond the control of the NBN Group. At 30 June 2013, 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.

23. 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 32. 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 2013 NBN Co had no outstanding legal action that would materially impact upon the 30 June 2013 financial statements however from time to time the company may be subject to a lawsuit or proceedings.

(f) Asbestos

Certain parts of the network infrastructure that may be provided to NBN Co by Telstra under the Definitive Agreements include asbestos containing material (ACM). In accordance with the Definitive Agreements, Telstra is responsible for the remediation of any such infrastructure prior to handover to NBN Co.

NBN Co has established an internal task force to review the policies and procedures of the Company in relation to working with ACM, including the identification and handling of ACM within the infrastructure assets to be provided by Telstra. In addition, NBN Co is working with the Commonwealth Government, the unions, the national health and safety regulator ComCare, Telstra and the independent asbestos taskforce to examine closely the asbestos safety regime being applied across all aspects of the rollout. NBN Co will continue to closely monitor all such matters in the future.

There are currently no known claims against NBN Co in relation to ACM matters. Having assessed the relevant information available to the Company at the date of this report, no contingent liability in relation to ACM matters has been recognised in the financial statements.

24. Significant Contractual Arrangements

The NBN Group has entered into a large number of contracts that will underpin the delivery of the network infrastructure. NBN Co's contracts with its Delivery Partners are subject to periodic renewal. The ability of NBN Co to renegotiate these contracts enables NBN Co to ensure contract arrangements are consistent with the Corporate Plan assumptions that support the long term rollout of the NBN. 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 86 is prepared on the basis that the company is a going concern (refer to Note 1(a)) 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.

Notes to the Financial Statements

24. Significant Contractual Arrangements (continued)

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 rack 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. The two key operational agreements are the Subscriber Agreement and the Infrastructure Services Agreement.

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 NBN Co'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

24. Significant Contractual Arrangements (continued)

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 disclosed net of future interest charges as Commitments when orders are confirmed and are treated as finance leased assets when the infrastructure is handed over to NBN Co.

(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 \$107m (2012: \$150m).

Notes to the Financial Statements

25. 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 2013 is \$25.2 billion. As at 30 June 2013 a total of \$5.2 billion had 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.

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

26. 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 29.

d) Transactions with related parties

The following transactions occurred with related parties:

	NBN Group	
	Year ended 30 June 2013	Year ended 30 June 2012
	\$	\$
Equity injections		
Equity injected by the Commonwealth of Australia into NBN Co Limited (Refer to Note 20)	2,396,445,082	1,470,000,000

26. Related party transactions (continued)

	NBN Group	
	Year ended 30 June 2013	Year ended 30 June 2012
	\$	\$
Other transactions		
The arrangement for NBN Co Limited to acquire the indefeasible rights of use of RBBP assets from the Department of Broadband, Communications and the Digital Economy (Refer to Note 16)	68,576,000	-
Service qualification fee from the Department of Broadband, Communications and the Digital Economy	1,650,150	960,000

e) *Key management personnel*

Disclosures relating to key management personnel are set out below:

	NBN Group	
	Year ended 30 June 2013	Year ended 30 June 2012
	\$	\$
Short term employee benefits	8,464,022	8,239,129
Post-employment benefits	265,253	357,455
Long-term benefits	178,315	284,389
Termination benefits	-	270,680
Total	8,907,590	9,151,653

Notes to the Financial Statements

26. Related party transactions (continued)

f) Amounts to/from related parties

	NBN Group	
	Year ended 30 June 2013	Year ended 30 June 2012
	\$	\$
Intercompany account (Between NBN Co Limited (Parent) and NBN Tasmania Limited)		
Beginning of the year	(66,398,841)	(68,473,044)
Amounts repaid to NBN Tasmania	1,988,522	5,828,570
Amounts advanced from NBN Tasmania	(389,264)	(693,607)
Net interest payable to NBN Tasmania	(2,112,970)	(3,060,760)
End of the year	(66,912,553)	(66,398,841)

	NBN Group	
	Year ended 30 June 2013	Year ended 30 June 2012
	\$	\$
Intercompany account (Between NBN Co Limited (Parent) and NBN Co Spectrum Pty Ltd)		
Beginning of the year	65,011,693	62,972,376
Amounts repaid by NBN Co Spectrum Pty Ltd	(864,482)	(891,301)
Amounts advanced by NBN Co Spectrum Pty Ltd	-	85,955
Net interest receivable from NBN Co Spectrum Pty Ltd	2,065,764	2,844,663
End of the year	66,212,975	65,011,693

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 2013.

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

	NBN Group	
	Year ended 30 June 2013	Year ended 30 June 2012
	\$'000	\$'000
Total comprehensive (loss) for the year	(931,665)	(520,205)
Add: non cash item		
Depreciation and amortisation	197,174	73,940
Non cash other income	(400)	-
Non cash interest expense/income	63,416	5,988
Non cash provision for obsolescence	2,142	-
Non cash write off current & non current assets	379	-
Net exchange differences	(221)	-
Non cash taxation benefit	(12,236)	(6,740)
(Increase)/decrease in assets		
(Increase)/decrease in trade and other receivables	(1,030)	805
(Increase) in GST receivable	(30,704)	(1,051)
(Increase) in prepayments	(6,972)	(11,521)
Decrease /(increase) in interest receivable	2,482	(6,288)
Decrease/(increase) in deposits	2	19,991
(Increase) in inventories	(4,406)	(12)
Increase/(decrease) in liabilities		
Increase in trade and other payables	87,990	77,932
(Decrease) in accruals	(15,961)	(19,683)
Increase in provisions	5,818	9,567
Net cash (used in) operating activities	(644,192)	(377,276)

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.

Notes to the Financial Statements

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

	NBN Group	
	Year ended 30 June 2013	Year ended 30 June 2012
	\$'000	\$'000
Acquisition of buildings by means of finance leases	-	26,348
Acquisition of network infrastructure by means of finance leases	1,074,416	206,414
Acquisition of network infrastructure by means of developer contributions	54,278	-
Acquisition of network infrastructure by means of government grant	68,576	-
Acquisition of assets by non cash transactions	1,197,270	232,762

28. 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 NBN 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 NBN 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, trade payables and derivatives, 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 of the NBN Group 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, held to maturity investments disclosed in Note 10 and contributed equity disclosed in Note 20.

28. Financial and Capital Risk Management (continued)

b) Capital risk management (continued)

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

c) Categories of financial instruments

	NBN Group	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Financial assets		
Cash and cash equivalents	103,472	217,896
Interest receivable	9,496	11,978
Trade and other receivables	3,601	2,419
GST receivable	44,210	13,506
Held to maturity investment	915,097	636,056
Derivative financial asset	63,474	22,466
Carrying amounts of financial assets	1,139,350	904,321
Financial liabilities		
Trade and other payables	597,951	276,991
Other liabilities	122,454	-
Other financial liabilities	1,337,263	237,383
Carrying amounts of financial liabilities	2,057,668	514,374

d) Net income and expenses from financial assets and liabilities

The net income and expenses earned from financial assets and liabilities for the year to 30 June 2013 were (\$14,786,000), (2012: \$54,021,000).

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.

The NBN Group 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 the NBN Group must be substantiated by an underlying physical exposure.

Notes to the Financial Statements

28. Financial and Capital Risk Management (continued)

e) Foreign currency risk management (continued)

The NBN Group operates foreign currency denominated bank accounts. There are funds of USD \$11,946 at period end in these accounts.

As at 30 June 2013, the carrying amount of monetary liabilities denominated in foreign currency as expressed in Australian dollar was as follows:

	NBN Group					
	Year ended 30 June 2013			Year ended 30 June 2012		
	USD \$'000	EUR \$'000	NZD \$'000	USD \$'000	EUR \$'000	NZD \$'000
Foreign exchange risk						
Trade payables	49,023	-	18	35,954	13	-
Current foreign exchange risk	49,023	-	18	35,954	13	-
Forward Exchange Contracts						
- buy foreign currency (cash flow hedges)	677,205	-	-	537,684	-	-
Forward exchange contract risk	677,205	-	-	537,684	-	-

Based on the financial instruments held at 30 June 2013, had the Australian dollar weakened/strengthened by 15.7% (2012: 10%) against the US dollar with all other variables held constant, the NBN Group's post-tax loss for the year would have been \$5,387,628 lower/\$5,387,628 higher (2012: \$2,516,780 lower/\$2,516,780 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 \$163,238,159 higher / \$69,484,458 lower (2012: \$59,691,136 higher / \$49,010,008 lower) had the Australian dollar weakened/strengthened by 15.7% (2012: 10%) against the US dollar, arising from foreign forward exchange contracts designated as cash flow hedges when compared to the cash flow hedge inception rate. The NBN 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 and held to maturity investments.

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.

28. Financial and Capital Risk Management (continued)

f) Interest rate risk management (continued)

	Note	Carrying Amount	Weighted average effective interest rate
At 30 June 2013			
Cash and cash equivalents	6	103,472	3.26%
Interest receivable	7	9,496	3.62%
Held to maturity investments	10	915,097	3.92%
At 30 June 2012			
Cash and cash equivalents	6	217,896	4.1%
Interest receivable	7	11,978	4.7%
Held to maturity investments	10	636,056	5.6%

The table below details the interest rate sensitivity analysis of the NBN Group at the reporting date, holding all other variables constant. A 120 (2012: 140) basis point change is deemed to be reasonably possible and is used when reporting interest rate risk.

	Effect on	
	Profit and loss 30 June 2013	Profit and loss 30 June 2012
	\$'000	\$'000
120 (2012: 140) basis point increase in interest rates	12,510	15,351
120 (2012: 140) basis point decrease in interest rates	(12,510)	(15,351)

The method used to arrive at the possible risk of 120 (2012: 140) 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.

Notes to the Financial Statements

28. Financial and Capital Risk Management (continued)

g) Credit risk exposure (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.

	NBN Group	
	Year ended 30 June 2013	Year ended 30 June 2012
	\$'000	\$'000
Trade receivables		
Counterparties without external credit rating*		
Group 1	-	-
Group 2	2,199	469
Total trade receivables	2,199	469
Cash at bank and short-term bank deposits		
AA-	103,472	217,896
	103,472	217,896
Held to maturity investments		
AA-	813,690	636,056
A+	101,407	-
	915,097	636,056
Derivative financial assets		
AA-	63,474	22,466
	63,474	22,466

* 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.

28. Financial and Capital Risk Management (continued)

h) Liquidity risk (continued)

The NBN Group's financial liabilities are payables and provisions. The NBN Group's capacity to meet its liabilities arises from its commitment from the Commonwealth Government described in Note 25.

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
At 30 June 2013						
Non-derivatives						
Trade and other payables	597,367	129	455	-	597,951	597,951
Finance lease liabilities	-	144,589	457,996	3,259,010	3,861,596	1,337,263
Total non-derivatives	597,367	144,718	458,451	3,259,010	4,459,547	1,935,214
Derivatives						
Gross settled (forward foreign exchange contracts - cash flow hedges)						
- inflow	-	478,522	263,240	-	741,761	-
- outflow	-	(435,877)	(241,328)	-	(677,205)	(63,474)
Total derivatives	-	42,645	21,912	-	64,556	(63,474)
At 30 June 2012						
Non-derivatives						
Trade payables and accruals	276,991	-	-	-	276,991	276,991
Finance lease liabilities	-	23,352	81,468	581,813	686,633	237,383
Total non-derivatives	276,991	23,352	81,468	581,813	963,624	514,373
Derivatives						
Gross settled (forward foreign exchange contracts - cash flow hedges)						
- inflow	-	255,299	305,709	-	561,008	-
- outflow	-	(243,142)	(294,542)	-	(537,684)	(22,466)
Total derivatives	-	12,157	11,167	-	23,324	(22,466)

i) Fair value hierarchy

The NBN Group uses the following fair value hierarchy for determining and disclosing the fair value of financial instruments by valuation technique as required by *AASB 7 Financial Instruments*:

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

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

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

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

Notes to the Financial Statements

29. 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 2013</i>	<i>Equity holding as at 30 June 2012</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.

30. Events occurring after the reporting period

On 1 July 2013, the Hon Anthony Albanese MP was appointed as the new Shareholder Minister for Broadband, Communications and the Digital Economy.

On 10 July 2013, NBN Co offered to extend the current Wholesale Broadband Agreement to 31 October 2013.

On 12 July 2013, Mr Mike Quigley announced his intention to retire as Chief Executive Officer of NBN Co. Mr Quigley intends to continue to serve as Chief Executive Officer until the Board appoints a successor and a smooth transition can take place.

On 15 July 2013, NBN Co announced the three year agreement with SA Power Networks for construction of the Fibre network in Adelaide and regional South Australia had been finalised.

On 16 July 2013, NBN Co received \$1,250 million of Commonwealth equity funding.

On 5 August 2013, NBN Co announced that it had concluded and will not extend its Master Agreement with the Syntheo Joint Venture in South Australia and Western Australia. Lend Lease will control the delivery of Syntheo's remaining obligations under the agreement, which is expected to conclude in early 2014. As part of the agreement, Syntheo is required to repay NBN Co advances for overheads.

On 6 August 2013, NBN Co announced that Downer EDI had been awarded a two year contract for the design and construction of the local and distribution network to roll out fibre optic broadband in areas covering approximately 300,000 premises in Brisbane and Melbourne.

On 7 August 2013, NBN Co announced that it had extended its existing contracts with Silcar for a one year period for the construction of the local and distribution network in New South Wales, ACT and Queensland.

Except for items noted above and as it is not possible to determine whether a change in Commonwealth Government Policy may occur (refer to note 1(a) to the Financial Statements), no other matter or circumstance has arisen since 30 June 2013 to the date of signing of this report that has significantly affected, or may affect:

- a) The NBN Group's operations in future financial years
- b) The results of those operations in future financial years
- c) The NBN Group's state of affairs in future financial years

31. Parent entity disclosures

a) Balance sheet

	NBN Co	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
Assets		
Total current assets	1,218,837	1,023,890
Total non-current assets	4,440,820	1,570,840
Total assets	5,659,657	2,594,730
Liabilities		
Total current liabilities	726,233	382,250
Total non-current liabilities	1,441,683	244,887
Total liabilities	2,167,916	627,137
Equity		
Contributed equity	5,228,445	2,832,000
Other reserves	44,277	15,726
(Accumulated losses)	(1,780,981)	(880,133)
Total equity	3,491,741	1,967,593

b) Statement of comprehensive income

	NBN Co	
	Year ended 30 June 2013 \$'000	Year ended 30 June 2012 \$'000
(Loss) for the period	(900,848)	(491,198)
Total comprehensive (loss)	(900,848)	(491,198)

Notes to the Financial Statements

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 32, 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 23 all relate to the parent entity.

32. 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 2013 of the closed group.

32. Deed of cross guarantee (continued)

For the year ended 30 June 2013

	NBN Group (Co & Tas)	
	Year ended 30 June 2013	Year ended 30 June 2012
	\$'000	\$'000
Revenue		
Telecommunication revenue	16,454	1,924
Other revenue	370	19
Interest income	50,880	62,869
Total Revenue	67,704	64,812
Other income	400	-
Direct telecommunications costs	(160,276)	(64,991)
Employment costs	(324,368)	(222,109)
External services costs – systems and organisation costs	(73,048)	(67,809)
Legal and negotiation support costs	(16,796)	(21,472)
IT and communications expenses	(91,158)	(71,497)
Occupancy expenses	(32,068)	(24,801)
Travel and entertainment costs	(18,460)	(12,615)
Communication and public information	(14,032)	(11,226)
Depreciation and amortisation expense	(170,691)	(48,445)
Other expenses	(19,021)	(12,448)
Finance costs	(63,713)	(6,143)
Total Expenses	(983,631)	(563,556)
(Loss) before income tax	(915,527)	(498,744)
Income tax benefit	12,236	6,740
(Loss) for the year	(903,291)	(492,004)
(Loss) attributable to the shareholders	(903,291)	(492,004)
Other comprehensive (loss)/income		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of cash flow hedges	40,787	22,466
Income tax relating to components of other comprehensive income	(12,236)	(6,740)
Total other comprehensive income for the year, net of tax	28,551	15,726
Total comprehensive (loss) for the year	(874,740)	(476,278)
Total comprehensive (loss) attributable to the shareholders	(874,740)	(476,278)

Notes to the Financial Statements

32. Deed of cross guarantee (continued)

b) Consolidated balance sheet

Set out below is a consolidated balance sheet as at 30 June 2013 of the closed group.

For the year ended 30 June 2013

	NBN Group (Co & Tas)	
	Year ended 30 June 2013	Year ended 30 June 2012
	\$'000	\$'000
Current assets		
Cash and cash equivalents	103,472	217,895
Trade and other receivables	56,098	26,001
Inventories	6,118	1,672
Derivative financial assets	42,528	11,938
Held to maturity investment	915,097	636,056
Other current assets	30,053	21,452
Total current assets	1,153,366	915,014
Non-current assets		
Trade and other receivables	66,213	65,012
Derivative financial assets	20,946	10,528
Investment in Subsidiaries	57,583	57,583
Property, plant & equipment	3,717,114	1,030,819
Intangible assets	565,590	420,536
Other non current assets	6,435	8,068
Total non-current assets	4,433,881	1,592,546
Total assets	5,587,247	2,507,560
Current liabilities		
Trade and other payables	597,496	276,990
Other liabilities	4,299	-
Other financial liabilities	37,770	4,942
Provisions	19,818	16,265
Total current liabilities	659,383	298,198
Non-current liabilities		
Trade and other payables	455	-
Other liabilities	118,155	-
Other financial liabilities	1,299,493	232,441
Provisions	23,581	12,446
Total non-current liabilities	1,441,684	244,887
Total liabilities	2,101,067	543,085
Net assets	3,486,180	1,964,475
Equity		
Contributed equity	5,228,445	2,832,000
Reserves	44,277	15,726
(Accumulated losses)	(1,786,542)	(883,251)
Total equity	3,486,180	1,964,475

32. 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 2013 of the closed group.

	NBN Group (Co & Tas)	
	Year ended 30 June 2013	Year ended 30 June 2012
	\$'000	\$'000
Balance at 1 July	(883,251)	(391,247)
Net (loss) for the year	(903,291)	(492,004)
Balance at 30 June	(1,786,542)	(883,251)

Directors' Declaration

- (1) The financial statements and notes set out on pages 82 to 143 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 2013 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 32 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 32.

Note 1(b) 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.



Siobhan McKenna
Chairman



Mike Quigley
CEO & Executive Director

13 August 2013



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 2013, which comprises the Statement of Comprehensive Income, the Balance Sheet as at 30 June 2013, 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 comply with *International Financial Reporting Standards*.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards 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 entity'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 2013 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
13 August 2013

Regulatory Reporting Requirements Index

For the year ended 30 June 2013

Commonwealth Authorities and Companies Act 1997

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s.42	Corporate Plan	Regulatory report	149
s.43	Commonwealth Government policies under s.43 of the CAC Act during the financial year	Operational & Financial review	14-43
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Commonwealth Companies (Annual Reporting) Orders 2011

Section	Subject	Location	Pages
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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	150-151
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	150-151
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	150-151
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	150-151
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	150-151

Regulatory Reporting Requirements Index

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	152-153

Superannuation Benefits (Supervisory Mechanisms) Act 1990

Section	Subject	Location	Pages
s.6(1)(b)	Report on operation of superannuation arrangement	Regulatory report	150

Regulatory Reporting Requirements

For the year ended 30 June 2013

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 pages 147 to 148 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 draft 2013–16 Corporate Plan was submitted to the Shareholder Ministers on 28 June 2013 and is currently being finalised.

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.

Commonwealth Government policies

The Commonwealth 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 Commonwealth Government expects that NBN Co will design, build and operate a new NBN to provide access to high speed broadband to Australian premises. The Commonwealth 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 second¹ 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 at least 12 megabits per second at a wholesale level.

The Commonwealth 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.

¹ 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

Regulatory Reporting Requirements

The Commonwealth 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 Commonwealth Government expects that NBN Co will consult with security and law enforcement agencies to ensure national security and resilience considerations are taken into account in the design and ongoing operation of the network.

Parliamentary Oversight

Responsible Minister

NBN Co has two Shareholder Ministers; as at the date of this report these were the Minister for Broadband, Communications and the Digital Economy, the Hon Anthony Albanese MP and the Minister for Finance and Deregulation, Senator the Hon Penny Wong (together, the Shareholder Ministers). During the year, Senator the Hon Stephen Conroy was the Minister for Broadband, Communications and the Digital Economy until his resignation effective 1 July 2013.

Reporting Requirements and Transparency

As part of regular reporting to the Commonwealth Government and Parliament, NBN Co provides reports which form the basis for the six monthly reports prepared by the Commonwealth Government to the Joint Committee on the NBN. The latest JCNBN report on the operations of NBN Co can be accessed on the House of Representatives Committee website:

http://www.aph.gov.au/parliamentary_business/committees/house_of_representatives_committees?url=jcnbn/index.htm

Parliamentary and Other Committees

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

In addition to the questions answered during the hearings, NBN Co later responded to 222 questions on notice arising from these hearings.

Work continues on a number of Commonwealth Government policy issues. The main outstanding issues with the Government are the Frustrated Premises Protocol and implementation of the Informed Consent model for Battery Backup.

During the year NBN Co lodged 10 significant event notices with the Commonwealth Government in accordance with the Government Business Enterprise (GBEs) Governance and Oversight Guidelines.

No Ministerial Directions were received by NBN Co during FY2013 (2012: NIL).

Other Commonwealth Government obligations

Superannuation

During 2012–13 NBN Co complied with all relevant guidelines and made no significant changes to superannuation arrangements for employees.

Health, Safety & Environment (HSE)

NBN Co is committed to ensuring that health, safety and the environment are considered above all other business matters.

Governance

The NBN Co's key governing body for environment and sustainability matters is the Health Safety Environment Leadership Forum. It is chaired by the Chief Executive Officer and includes the Chief Operating Officer. The Leadership Forum is supported by the senior management team including the General Manager of Health Safety and Environment and the Manager of Environment and Sustainability. The Leadership Forum's work includes monitoring of environment and sustainability performance and directing NBN Co's improvement programs.

Management

NBN Co's integrated HSE Management System provides the framework for HSE management and continual improvement throughout all businesses, products and activities from design, construction and operation. In 2013, NBN Co's environment management system was recertified to the international Standard, ISO 14001 Environment Management, OHSAS18001 and AS4801 Occupational Health and Safety, by the British Standards Institution (BSI Group).

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 1.4 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.

NBN Co continues to work with Telstra, the Government Task Force, the Office of Asbestos Safety and Eradication Agency and Comcare to ensure the safety of employees, contractors and the public.

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 had 6 work related workers compensation claims.

Sustainable Development Program

NBN Co is committed to an ecologically sustainable development of the NBN. In the FY 2013 NBNCo committed to a number of environmental and sustainability objectives and targets. These include a commitment to buy 50% Green Power for offices; minimum Power Usage Efficiency for the network; as well as targets covering procurement, offices, travel, ICT, vehicles and consumables. NBN Co has also commenced a number of projects to achieve these targets as well as monitoring and reporting of progress. NBN Co has committed to deploy solar power generation to reduce demand for grid power supply at several regional Satellite Base Stations.

Freedom of Information Report

The *Freedom of Information Act, 1982* (the FOI Act) gives members of the public a general right of access to documents held by Australian Government agencies, Ministers and government business entities (GBEs), such as 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.

As at 30 June 2012, NBN Co had finalised 28 requests under the FOI Act and carried over three requests into the next financial year. As at 30 June 2013, NBN Co had received 39 new FOI requests and had finalised 31 requests under the FOI Act. Those applications were processed as follows:

Granted in full	5
Granted in full, but with access deferred	2
Granted in part	4
Access refused	7
No documents held	3
Request transferred	0
Application withdrawn	10

2 FOI applicants requested reviews of NBN Co FOI decisions by the Office of the Australian Information Commissioner (OAIC) during the 2012-2013 year. NBN Co received one Internal Review request during this period, which was subsequently withdrawn. In addition, the company was not subject to any reviews or appeals at the Administrative Appeals Tribunal.

Review of Operation of FOI Act at NBN Co

On 16 August 2012, the Attorney-General tabled a report by Stuart Morris, QC who reviewed the operation of the FOI Act, insofar as it applied to documents held by NBN Co Limited. The review was required under s100A(1) of the *National Broadband Network Companies Act, 2011*. Mr Morris, QC found that NBN Co fulfilled its responsibilities under the FOI Act and achieved a high standard in its administration of the Act. He also found that NBN Co actively assisted applicants and had adopted a pro-disclosure culture.

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. As such, a large amount of information is freely available on NBN Co's website.

To make an FOI request, applicants should apply in writing and:

- Specify that documents are being sought for the purposes of the FOI Act; 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

Or in the post to:
 FOI Requests
 NBN Co
 Level 11, 100 Arthur Street
 NORTH SYDNEY NSW 2060

Regulatory Reporting Requirements

Information Publication Scheme

Part 2 of the FOI Act requires Commonwealth 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>

While section 7(3A) of the FOI Act exempts NBN Co from releasing information relating to its commercial activities, 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 our company might consider publishing. In that regard, please forward any comments or suggestions to the FOlofficer@nbnco.com.au. If NBN Co is unable to publish the information requested, NBN Co staff will be in contact to discuss the reasons that the information was unavailable. NBN Co will also endeavour to provide other options regarding information that may be available.

Privacy and access to personal information

Under the *Privacy Act 1988* individuals have, subject to certain exceptions permitted by law, a right to request access to their personal information. For further information please see NBN 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

Environmental Protection & Biodiversity Conservation Act 1999 Report

As a Commonwealth government business enterprise, NBN Co prepares a report each year in compliance with Section 516A of the Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act). The EPBC Act requires NBN Co to report against two core criteria.

1. How do the activities of NBN Co accord and contribute to ecologically sustainable development (ESD).
2. What is 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).

Ecologically Sustainable Development

The Environmental Protection and Biodiversity Conservation Act 1999, defines 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.*"

The EPBC Act includes the following ESD principles in Section 3A.

- 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 strives to act according to the ESD principles at all stages of its operations. In 2012-13 NBN Co worked on several projects to improve ESD outcomes across the business.

- NBN Co has been investigating management options for priority wastes including Fibre cabling, electrical waste and lead acid batteries. These items are a significant part of the network and will be a material part of NBN Co's environmental impact. Projects include:
 - Education for households about the recycling of their back up battery.
 - Fibre recycling to minimise the Fibre cable waste going to landfill.
- NBN Co has incorporated the ESD principles into the design of TANDs (data centres), these include:
 - Energy efficiency measures for cooling, lighting and power initiatives. Sensors will be provided in toilets and corridors, skylights installed in sections of the warehouse and the air conditioning systems are designed to achieve best practice power use efficiency (PUE).
 - The TANDs will also have bicycle facilities, water tanks that capture roof rainwater for use in toilets and other non drinkable water areas within the centre.
 - NBN Co has set a target to assess all of the TANDs against the NABERS data centre energy rating once they have been fully operational for a minimum of twelve months.
- NBN Co is applying sustainable landscape design principles at all of the satellite base stations to ensure that the local landscapes are enhanced by these facilities. Two base station landscape designs have been completed and include indigenous vegetation replanted throughout the site to maintain and develop habitat for local species that are found in the region.
- NBN Co will purchase 50% Greenpower for all of the facilities under its control for the year.
- NBN Co has undertaken a project during 2012-13 to upgrade the environmental management system certified under ISO 14001. The Legal and Aspects and Impact registers have been redesigned to include new activities undertaken by NBN Co and the changing focus to principal contractor in Northern Territory. NBN Co has developed new environmental procedures to ensure full compliance with environmental legislation.
- NBN Co measures how much printing is undertaken by tracking paper usage as well as purchasing behaviour. By tracking individual printing this encourages NBN Co employees to become aware of their individual actions in relation to reduction targets.
- NBN Co has investigated the installation of photovoltaic systems at eight earth stations in regional Australia, finding a favourable financial performance. This project would reduce the carbon footprint at these sites.

- During 2012-13 NBN Co did not have any significant statutory approval issues and does not currently have any active EPBC Act conditions. NBN Co has not made any EPBC Act referrals during the year.

Environmental Performance

During the year NBN Co established a set of environmental objectives and targets which are in alignment with the Public Sector Environmental Management Better Practice Guide and NBN Co internal benchmarks. These targets include:

- The purchase of 50% Greenpower for all of NBN Co facilities
- Energy Efficiency requirements for all offices
- Environmental Procurement Targets
- Energy Efficiency targets for ICT
- Transport Fleet efficiency targets
- Recycling targets for office waste
- Decrease in paper per FTE to nine reams of paper
- Kilometres travelled per FTE reduced to 10 round trips Melbourne-Sydney-Melbourne per year

NBN Co commenced baseline capture of consumption materials such as electricity, fuels and paper from July 2012. Consumption data is tracked against the defined targets. Capture of electricity consumption commenced later in 2012. Data sets do not yet cover an entire year or include measured electricity consumption from all of our major facilities. Complete data sets should be achieved in late 2013.

Major other metrics that NBN Co monitors are paper usage, air travel and fleet data; these are monitored and measured against defined targets monthly.

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. In the prior year NBN Co 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.

Glossary of Terms

Term	Definition
Access Seeker	A customer acquiring NBN Co wholesale services with the intention to supply broadband services to Retail Service Providers (Service Providers) or End-Users.
Access Virtual Circuit (AVC)	The bandwidth allocated to the End-User premises.
Active Network Release (ANR)	Active network release. Relates to the roll out of active network design. Number reflects the release eg ANR1 is the first release.
Aggregation Node (AN)	A facility that provides a Point of Interconnect (PoI) to Service Providers/WSPs for an Access Aggregation Region (AAR), comprising a number of regional FAN sites. Note that an AN will also have a co-located FAN site for its local area.
Australian National Audit Office (ANAO)	Is the financial statements auditor of NBN Co
Asymmetric Digital Subscriber Line (ADSL)	A technology for delivering high-speed data transmission over a copper phone line. As the name suggests, it provides different downstream (network to End-User) and upstream (End-User to network) bandwidth.
Average Revenue Per User (ARPU)	The total revenue divided by the average number of subscribers.
Base Stations (BTS)	Infrastructure towers that are used in the Fixed Wireless Access Network to
Board	Board of Directors
Brownfields	Pre-existing premises that will be covered by either FTTP, Fixed Wireless or Satellite services.
Brownfields FTTP	Pre-existing premises that will be covered by FTTP.
'Build Drop'/'Bulk Drop'	Where the connection from the street to the premises is carried out when the distribution and local segments of the FTTP Network are being built.
Business Support System (BSS)	The set of systems that will provide NBN Co with the capabilities to manage Access Seekers, take orders, process bills and collect payments.
Cash Generating Unit (CGU)	the lowest level of aggregation for which the cash inflows are independent of cash inflows from other assets
Capital Expenditure (Capex)	The cost of purchasing tangible and intangible assets.
Commitments	The value of commitments as disclosed in the Schedule of Commitments has been compiled on the basis that the NBN Group is a going concern (refer to Note 1 (a)) and includes: <ul style="list-style-type: none"> 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) amounts payable for assets ordered under finance lease and right of use licence arrangements which have not yet been handed over. These amounts are disclosed at the net present value of the minimum lease payments. v) any contracted amounts subject to a minimum order quantity vi) any non-cancellable fixed price contracts
Common Network Infrastructure (CNI)	Is rack shelving for Optical Distribution Frames (ODFs), Optical Line Terminal (OLT), Fibre Termination Panels (FTPs) and patch cables, DWDM equipment. CNI equipment is assembled by NBN Co at a central site in Rowville, Victoria and then shipped to the FAN site where it is to be installed
Connectivity Serving Area (CSA)	A logical collection of End-User Premises defined by NBN Co. Each CSA has approximately the same number of End-User Premises.
Connectivity Virtual Circuit (CVC)	Determines the capacity required to serve each CSA. The CVC is an aggregation of the AVCs from the End-User premises back to the PoI.

Term	Definition
Construction Commenced	<p>FTTP Brownfields:</p> <p>Contract Instructions (CI) have been issued together with the initial Network Design Documents (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 website showing the coverage area for that FSAM and the estimated number of premises to be passed.</p> <p>FTTP New Developments (Greenfields Estates):</p> <p>A CI has been issued together with the initial Network Design Documents (NDD) for the detailed design, fibre installation and commissioning activity for the Local Network supporting an estate.</p> <p>Fixed Wireless:</p> <p>CI have been issued following site acquisition, leases, permits, licences, planning/development approvals and construction drawings.</p>
Construction Completed	When the premises in an FSAM are defined as Premises Passed.
Construction Commenced or Completed	When Construction Commenced or when Construction Completed.
Customers	A customer to NBN Co, also defined as an Access Seeker or a Retail Service Provider.
Dark Fibre	Optical fibre with no active electronics attached. The optical fibre is not connected to electronic equipment used to manage the physical transfer of data over an optical fibre link.
Dark Fibre Links	Length of Dark Fibre between certain points.
'Demand Drop'	Where the connection from the street to the premises is carried out when an order for a service is received from a Retail Service Provider.
Dense Wavelength-Division Multiplexing (DWDM)	A form of technology which multiplexes a number of optical carrier signals onto a single optical fibre by using different wavelengths (i.e. colours) of laser light. This technique enables bidirectional communications over one strand of fibre, as well as multiplication of capacity.
Developers	Developers are responsible for meeting the cost and deployment of pit and pipe infrastructure within New Development Estates. Ownership of the pit and pipe must be transferred to NBN Co pursuant to an agreement with NBN Co to provide fibre in the new estate.
Disconnection Date (DCD)	Except in limited circumstances, the date falling 18 months after a Rollout Region is declared Ready for Service.
Distribution Fibre	Connection between the Fibre Distribution Hub (FDH) and the FAN, for both Regional FANs and the Metropolitan FANs, as well as the connectivity between the non adjacent Fibre Serving Area Modules in the Capital Cities and the Metropolitan FANs. Distribution Fibre routes are designed in a ring structure to minimise the impact of any fibre break on consumer services as well as providing diverse paths for protected commercial point to point services.
Distribution Network	The part of the network that connects the FAN to the FDH.
Duct Network	A tubular structure usually underground used to house communications cables and equipment (but does not include a pit, manhole or Lead-In Conduit).
End-Users	Final downstream customers to NBN Co's Access Seekers.
Enterprise Bargaining Agreements (EBA)	Enterprise Bargaining Agreements are agreements made at an enterprise level between employers and employees (or their Union representatives) about terms and conditions of employment
Enterprise Resource Planning (ERP)	The system that will provide NBN Co with the capabilities to manage enterprise functions such as finance, fixed assets, human resources, project management, supply chain management, and contract management.
Equity Funding	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).
Ethernet	A frame based transport protocol for forwarding traffic across Local Area Networks (LANs).
Exchange Building	A building (or any part of a building) owned or leased by, or licensed to, Telstra or a related entity of Telstra that houses telecommunications equipment or a particular building or enclosure nominated by Telstra as an Exchange Building.
Exchange Rack Space	A rack space in an Exchange building.
Facilities Access Service	Facilities Access Service that enables physical access to NBN Co facilities and interconnect between a Service Provider's own network and the NBN.
Fibre	Optical fibre cable which can be used to provide a range of high speed broadband services and phone services

Glossary of Terms

Term	Definition
Fibre Access Node (FAN)	A facility that houses the active equipment providing services to a Fibre Serving Area (FSA).
Fibre Distribution Area (FDA)	The geographic area served via a single Fibre Distribution Hub (FDH) which connects addresses to the serving FAN site(s) via Local Fibre. Typically serving up to 200 premises.
Fibre Distribution Hub (FDH)	The equipment located in a Fibre Distribution Area (FDA) where Distribution Fibre is split to provide Local Fibre that runs down each street.
Fibre Footprint	The premises that will be serviceable by NBN Co's FTTP Network by the end of the rollout period.
Fibre Serving Area (FSA)	The area served by a FAN site, which for the regional areas will be a cluster of FDAs and for the 16 city metropolitan locations will be a cluster of FSA Modules. The FDAs and FSA Modules will be connected via Distribution Fibre.
Fibre Serving Area Module (FSAM)	A series of up to 16 FDAs linked in a double loop configuration. Typically, a single fibre sheath will connect the FSAM and its (up to 16) FDHs back to a nominated Fibre Access Node (FAN). An FSAM may be a small town or a part suburb in the case of large cities. The number of premises contained in an FSAM is typically between 2,000 – 3,000, depending on location and network planning/topology.
Fibre Access Network	The network design in which the Fibre Network is deployed to each premises. It involves connecting homes and businesses with an optical fibre cable which can be used to provide a range of high speed broadband services and telephone services.
Field Service Delivery (FSD)	FSD provides Activation and Assurance services. Activation services cover the activities of connection and activation of End-Users in cases both where existing fibre is present to the side of the premises and also where no existing fibre connectivity exists. Assurance activities cover assurance services to provide fault repair services to customers with activated services.
Fixed Wireless Network	The Fixed Wireless Network connects to End-User premises through wireless signals between active equipment on a Base Transmission Station (BTS) and active equipment in End-User premises. Network traffic is connected from BTS to the edge of the Transit Network through underground fibre.
Geocoded National Address File (GNAF)	GNAF [®] information is provided by PSMA Australia Limited (PSMA). GNAF [®] lists all valid physical addresses in Australia. It contains approximately 12.6 million physical addresses, each linked to its unique geocode (that is, the specific latitude and longitude of the address). Data used to build GNAF [®] comes from contributors that include the Australian Electoral Commission, Australia Post, state, territory and Australian Government mapping agencies and land registries. GNAF [®] is provided by PSMA.
Gigabit-capable Passive Optical Network (GPON)	A point to multi-point Fibre-to-the-Premises Network architecture that uses combination of electronics network and passive optical splitters to deliver speeds up to 1,000 Mbps to End-Users. The GPON active layer technology uses electronics that are designed to be compatible with a fibre that is subsequently split into multiple downstream fibres.
Gigahertz (GHz)	Unit for measurement of frequencies. One Gigahertz is equal to 10 ⁹ hertz.
Government Business Enterprise (GBE)	A Government Business Enterprise (GBE) is a Commonwealth authority or Commonwealth company as defined by the <i>Commonwealth Authorities and Companies Act 1997</i> (CAC Act) and prescribed as a GBE under the <i>Commonwealth Authorities and Companies Regulations 1997</i> (CAC Act Regulations).
GBE Guidelines	The <i>Commonwealth Government Business Enterprise Governance and Oversight Guidelines</i> (the GBE Guidelines) apply to GBEs that are Commonwealth authorities (authority GBEs) and GBEs that are wholly-owned Commonwealth companies (wholly-owned company GBEs). The GBE guidelines define Commonwealth's relationship with its GBEs and Commonwealth's ownership interest
Greenfields	A new development that can be either Broadacre or Infill Premises. Greenfield developments represent the growth of the premises market.
Health, Safety & Environment (HSE)	A supporting division of NBN Co that will not be directly involved in the operation of the NBN but will be responsible for establishing and maintaining NBN Co's policies regarding employee health, safety and environment issues.
Hybrid Fibre Coaxial (HFC) Network	A network utilising both optical fibre and coaxial cable for the delivery of Pay TV, internet and voice services.
Infills	A type of Greenfields development where new premises or a redevelopment (i.e. demolition and rebuild) are planned to be built on currently developed land that is surrounded by established areas, where Telstra copper services are currently available.
Interim Satellite Service (ISS)	The Interim Satellite Service (ISS) – that replaces the previous Australian Broadband Guarantee scheme. The ISS is provided as a managed service through satellites operated by Optus and IPStar and is operated on behalf of NBN Co by Optus.
Intermediate Access Points (IAP)	An Intermediate Access Point is a site where Dense Wavelength Division Multiplexing (DWDM) amplifiers are installed. The number of IAPs required is dependent on the detailed planning assessment of requirements in conjunction with Telstra as to the quality of the Dark Fibre and distance between NBN Co's FAN sites. IAPs are a point within but not at the end of a Dark Fibre link and are different to a FAN or a Fixed Wireless interconnect point. An IAP typically consists of 1 rack with either a simple patch (Glassthrough) or a DWDM amplifier (OLR).

Term	Definition
Key Management Personnel (KMP)	Are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.
Layer 1 Network/Wholesale Services	The physical network layer providing electrical impulse or wavelength based services on a point-to-point (P2P) basis.
Layer 2 Network/Wholesale Services	The transmission layer that encodes and decodes information bits across layer 1 infrastructure. Layer 2 is the active layer of an optical Fibre Network.
Telstra Lead-In Conduit (Telstra LIC)	A pipe owned or leased by, or licensed to, Telstra or a related entity of Telstra that runs from a pit, manhole or pole to the premises, or nearby to that premises, and is typically underground.
Local Area Network (LAN)	A computer network that connects computers and devices in a limited geographical area (e.g. home, office building).
Local Fibre	Connection between the FDHs and the individual GNAFs or buildings via a series of radial fibre cables containing Network Access Points (NAPs), then a Drop Fibre to the building. Note that the Local Network fibre cables are not tapered, but the 'ends' of each segment are interconnected to provide through connection of the Distribution and Trunk fibres.
Local Network	The part of the network from the Fibre Distribution Hub down each street.
Long Term Evolution (LTE)	Standardisation work by the 3 rd Generation Partnership Project (3GPP) to define a new high-speed performance air interface for mobile communication systems. Commonly regarded as a 4G technology.
Long Term Satellite Solution (LTSS)	NBN Co's LTSS will deliver the NBN Co Satellite Access Service (NSAS) as an 'emulated Layer 2' service based wholesale Ethernet access utilising Third Generation broadband satellite technology. The LTSS will cover 100% of the Australian landmass (and nominated territories). However, within this coverage area each spot beam will be configured to ensure that the satellites utilise their finite capacity whilst delivering the best possible service to each specific geographic region. Therefore, irrespective of premises location, the LTSS will have the capacity to provide services anywhere in Australia where FTTP or Fixed Wireless services are not available.
Lots Passed	All passive infrastructure has been installed and commissioned including the fibre link to the permanent FAN site such that the only outstanding step is to initiate the managed backhaul and install active equipment necessary to achieve the first premises ready for service date.
Lots/Premises Ready For Service (RFS)	Lots/premises are 'ready for service' when the Shared network and service elements are installed, accepted, commissioned and ready for service, which then enables an End-User to order and purchase a broadband service from their choice of Retail Service Provider (Service Provider).
Mbps	is a unit of data transfer rate passing between equipment in a data transmission system
Multiple Dwelling Unit (MDU)	Premises that contains more than one dwelling unit, which can range from duplexes to 200+ unit apartment blocks. Each dwelling unit is assumed as equivalent to one GNAF (e.g. a 50 unit apartment block will have 50 GNAFs).
National Broadband Network (NBN)	The nation-wide broadband network that will be deployed by NBN Co and third parties engaged on behalf of NBN Co.
NBN Co	NBN Co Limited ACN 136 533 741.
Network Access Points (NAP)	The point at which Drop Fibre is connected to Local Fibre.
Network and Service Operations Centre (NSOC)	Facility overseeing management and operation of the network infrastructure.
Network Augmentation and Restoration Activities (NARA)	Network Augmentations are typically small infill capital projects such as sub divisions or infill housing developments and network relocations typically due to pole changes or road works in an existing Fibre Footprint. Network Restorations are typically passive network fault repair services such as repair of broken or damaged fibre and restoration of the network in the case of accidental or natural disasters.
Network Termination Device (NTD)	NBN Co's termination point on each premises, for residential fibre services (typically) featuring 4 Ethernet and 2 telephone interfaces.
Network-to-Network Interface (NNI)	The port at NBN Co's Point of Interconnect (PoI) where Access Seekers connect their internet transmission backhaul.
Network Test Facility (NTF)	National Test Facility - NBN Co's Test Facility, located at Docklands
New Developments (Greenfields Estates)	A New Development is defined as an estate that complies with the New Development Policy statements released by the Government (for developments over 100 lots over 3 years)
Occupational Health & Safety (OHS)	A discipline concerned with protecting the safety, health and welfare of people engaged in work or employment.

Glossary of Terms

Term	Definition
Operating Expenditure (Opex)	The ongoing cost of running a business, system or product. For the purpose of this Corporate Plan, Opex forecasts include all nominal payments, such as nominal payments under finance lease agreements. This nominal view of costs incurred may differ from the accounting treatment under statutory accounting rules.
Operational Support Systems (OSS)	The set of systems that will provide NBN Co with the capabilities to provision, configure, manage, and operate the NBN.
Optical Distribution Frames (ODF)	Optical Distribution Frame - a distribution frame is a passive device which terminates cables, allowing arbitrary interconnections to be made
Optical Line Terminal (OLT)	The equipment to provide the GPON signals to each of the FDAs.
Optus HFC Subscriber Agreement	The agreement between NBN Co and various entities in the SingTel Optus corporate group (Optus) which was executed on 23 June 2011. The Optus HFC Subscriber Agreement provides for the progressive migration of Optus HFC subscribers to the NBN as it is rolled out. NBN Co has agreed to make progressive payments to Optus, based on the number of Optus subscribers that migrate from its HFC network.
Optus HFC Cable Network	Optus's hybrid fibre coaxial cable network, which delivers high speed broadband services and Pay TV services.
Per Subscriber Address Amount (PSAA)	Per Subscriber Address Amount (PSAA) as defined in the Telstra Definitive Agreements.
Pol/Aggregation Nodes Integrated	A network integrated Pol/Aggregation Node is one which has been accepted by Operations, that is ready for service and in the case of a Pol, one that Access Seekers can connect End-Users. A Pol is the location where Access Seekers connect to the NBN and an Aggregation Node is a point in the network where a quantity of sites are aggregated. In a majority of cases the Pols and Aggregation Nodes are co-located.
Point of Interconnect (Pol)	The connection point that allows Service Providers and WSPs to connect to the NBN Co access capability. In the field, this is the physical port on the Ethernet Fanout Switch (EFS) switch located at NBN Co's Pol, where an Access Seeker connects to establish exchange of traffic with NBN Co's network.
Power Supply Unit (PSU)	A component which provides power to a device.
Premises	Premises are defined as addressable locations which NBN Co is required to connect and are included at Attachment A – <i>Premises Definition</i> , of the Statement of Expectations. The Statement of Expectations refers to this definition as the basis for measuring NBN Co's achievement of the Government's coverage objectives.
Premises Activated	Premises are activated after receiving and provisioning a service order from a Retail Service Provider (Service Provider) to install a new service at the premises.
Premise Connecting Device (PCD)	Premises Connection Device. (note: the term "premises" is used for both single and multiple - "premise" is incorrect for single)
Premises Passed/Covered	Premises are 'Passed'/'Covered' when the shared network and service elements are installed, accepted, commissioned and ready for service, which then enables an End-User to order and purchase a broadband service from their choice of Retail Service Provider.
Public Information on Migration (PIM)	The Public Information on Migration (PIM) activities implement the Government's objective for NBN Co to be responsible for funding awareness and education to inform telecommunication users about the migration of services in fibre areas from copper or HFC-based infrastructure to the NBN fibre-based services. The PIM requirements are outlined in the Public Information and Migration deed between the Commonwealth and Telstra.
Public Interest Premises (PIPs)	Public Interest Premises (PIPs) refers to Government, Health and Education premises.
Ready For Service (RFS)	Ready to accept/provision service orders from Service Providers. A Rollout Region is Ready for Service when NBN Co is ready to connect premises in that Rollout Region to the FTTP Network, which will generally be when the FTTP Network has passed at least 90% of the premises in the NBN Fibre Footprint in that Rollout Region.
Retail Service Provider	A third party provider of retail broadband services to End-Users.
Rollout Region	A region served by the Fibre Network. A Rollout Region is typically, but not always, an FSAM.
Service Providers	A third party provider of broadband services whether to End-Users and/or Retail Service Providers (See also Retail Service Providers and Wholesale Service Providers).
Single Dwelling Unit (SDU)	Premises that contain only one dwelling unit. One SDU is equivalent to one GNAF.
Special Services	Special Services are services delivered using the Copper Access Network other than voice or broadband.

Term	Definition
Statement of Expectations (SOE)	Letter to NBN Co from its Shareholder Ministers dated 17 December 2010. See http://www.dbcde.gov.au/___data/assets/pdf_file/0003/132069/Statement_of_Expectations.pdf
TANDs	Ten Aggregation Nodes and Depots.
Telecommunications Revenue	Is revenue from the provision of telecommunications services includes network access and other services and facilities provided, such as voice, data and connectivity components.
Telstra Copper Network	Telstra's copper-based customer access network, which is used to deliver standard voice telephony and broadband services.
Telstra Definitive Agreements	Telstra Definitive Agreements means the suite of agreements entered into between NBN Co and Telstra on 23 June 2011 and which are described in the release issued by Telstra to the ASX on that day.
Telstra HFC Cable Network	Telstra's hybrid fibre coaxial cable network, which delivers high speed broadband services and Pay TV services.
T-FAN	A temporary Fibre Access Node (FAN) to serve New Developments (Greenfields estates).
Transit Nodes	A transit node is used to interconnect more than 2 links or to interconnect a Telstra or Non-Telstra link. Equipment deployed in those sites is typically with no more than 2 racks.
Transit Fibre	Connection between Points of Interconnect (Pols) where the Retail Service Providers connect to the NBN, and the regional based FANs. Transit Fibre can also provide connectivity for the Metropolitan FANs to Pols if required.
Transit Network	The fibre rings which connect the regional FAN sites and the nearest Pol, served by Transit Fibre.
Transit Rings	A grouping of Dark Fibre Links and Exchange Rack Spaces that are identified as being part of the same transit ring in the Initial Rollout Plan or any subsequent rollout plan agreed under the Telstra Infrastructure Services Agreement. This grouping is based on the design of NBN Co's Transit Network, which typically involves a series of related Dark Fibre Links and Equipment Rack Spaces forming all or part of a ring-like pattern.
User Network Interface (UNI)	The physical port on the NBN Co NTD at the End-User premises which connects the End-User's residential gateway or Ethernet enabled device to the NBN.
Wholesale Broadband Agreement (WBA)	A document which sets out the terms and conditions of access to NBN Co's services and products and will constitute NBN Co's standard form of access for the purposes of the <i>Telecommunications Legislation Amendment (National Broadband Network Measures - Access Arrangements) Act 2011 (Cth)</i> .
Wholesale Service Provider (WSP)	A provider of wholesale services to Service Providers.



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