



NBNCCo
Bringing broadband to life

Annual Report
2013-14





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The financial statements were authorised for issue by the Directors on 14 August 2014. 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 2014.

Glossary

Defined terms within this Annual Report should be read in conjunction with the Glossary of Terms on pages 141 to 144.

About NBN Co

NBN Co Limited is a Company owned by the Commonwealth of Australia that aims to ensure all Australians can access very fast broadband as soon as possible, at affordable prices and at least cost to taxpayers.

To achieve this objective, NBN Co is building and operating Australia's largest national infrastructure project, the National Broadband Network or NBN.

The NBN is being built in a cost-effective manner using the technology best matched to each area of the continent. It has also been established as a wholesale-only access network, available on equal terms to all retail telecommunications providers. This is intended to level the playing field for Australian telecommunications and create real and vibrant competition within the industry.

Established in 2009, NBN Co is a Government Business Enterprise (GBE) incorporated under the *Corporations Act 2001*. Operated before 1 July 2014 under the *Commonwealth Authorities and Companies Act 1997* (CAC Act), and from 1 July 2014 under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). Certain provisions of the CAC Act will also apply for a transitional period.









NBN Co Objectives

NBN Co's objectives are set by the Shareholder Ministers in a document referred to as a Statement of Expectations (SoE), which is supplemented from time to time by policy directives and correspondence. NBN Co's current objectives are set out in the 8 April 2014 SoE, which outlines the Government's commitment to complete the NBN and ensure all Australians can access very fast broadband as soon as possible, at affordable prices and at least cost to taxpayers. NBN Co's overriding objective is to fulfil this commitment.

NBN Co Objectives

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The SoE provides NBN Co with flexibility and discretion in operational, technology and network design decisions, within the constraints of a public equity capital limit of \$29.5 billion.

It is intended that the NBN will be available on equivalent terms to all Access Seekers and NBN Co's direct customers (being Retail Service Providers (RSPs) and will operate at the lowest practical level in the network stack. The use of NBN Co's network by RSPs is intended to deliver very fast broadband to the Australian community.

The Government expects that completing the NBN will result in the structural separation of Telstra; and a competitive market for retail broadband and telephony services.

In implementing the Government's policy as stated in the SoE, NBN Co's objectives are to:

- Transition from a primarily Fibre-To-The-Premises (FTTP) model to the Optimised Multi-Technology Mix (OMTM) model outlined in NBN Co's Strategic Review¹ report of 12 December 2013 as Scenario 6
- Be guided by the following goals:
 - avoid service disruption for consumers; minimise uncertainty and disruption for construction partners; and achieve rollout objectives as cost-effectively and seamlessly as possible during the transition to the OMTM
- Determine which technologies are used on an area-by-area basis, to minimise peak funding, optimise economic returns and enhance the Company's viability
- Provide download data rates (and proportionate upload rates) of at least 25 Megabits per second (Mbps*) to all Premises and at least 50 Mbps* to 90 per cent of fixed-line Premises as soon as possible
- Ensure upgrade paths are available as required
- Prioritise areas identified as poorly served by the 'Broadband Availability and Quality Report' published by the Department of Communications in February 2014, to the extent this is commercially and operationally feasible

¹ *Strategic Review – December 2013*
<http://www.nbnco.com.au/content/dam/nbnco/documents/NBN-Co-Strategic-Review-Report.pdf>

* *The NBN is being designed to provide these speeds to our Service Providers. End-User experience, including the speeds actually achieved over the NBN depends on the technology over which services are delivered to Premises and some factors outside our control like End-User equipment quality, software and retail broadband plans and how the Service Provider designs its network.*

- Ensure the business rules established to determine which technology is used in each locality are transparent to the community, and periodically updated to reflect technological and commercial developments
- Integrate existing Hybrid Fibre Coaxial (HFC) networks into the rollout where this is feasible and economically beneficial, and operate these on a wholesale-only, open-access basis
- Trial Fibre-To-The-x (FTTx) network architectures to inform the Company's planning and decisions
- Take proportionate responsibility for the quality, consistency and continuity of service experienced by RSPs and their End-Users
- Contribute leadership and resources to the industry-wide challenge of migrating services to the NBN
- Monitor the capabilities required to implement an OMTM broadband network, and ensure alignment between these capabilities and the Company's personnel
- Operate in an appropriately transparent manner by delivering weekly online reports of network deployment and active services; monthly reports to Shareholder Ministers; and quarterly management briefings for stakeholders and the media
- Prepare annual Corporate Plans for consideration by Government and subsequent public release

Chairman's Message

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The past year has been a period of enormous change and transformation at NBN Co. This transformation is having a positive impact on the rollout of the National Broadband Network.

The intent of the NBN remains the same: to provide ubiquitous access to high-speed broadband to all Australians in a timely and cost-effective manner using platform technologies that provide upgrade paths as required.

A fit-for-purpose national network will provide the environment to drive productivity, stimulate innovation and competition, and help underpin the competitiveness of our companies and the quality of life for our citizens.

The change of Government in September 2013 meant a change of direction for the Company, starting on 24 September with the release of an Interim Statement of Expectation (SoE). This document set out a more cost-effective approach to the rollout that would ensure all Australians could access very fast broadband as soon and as affordably as possible.

The release of the Interim SoE was closely followed by the NBN Co Strategic Review¹ – a comprehensive, robust and thorough analysis of all the operational, financial and performance metrics of the Company, giving the Board and Executive the tools necessary to make critical decisions about the future direction of the rollout.

The Strategic Review found that the fastest and most affordable way to deliver the NBN would be to maximise the use of existing infrastructure, giving NBN Co the flexibility to apply a mix of technologies – the Optimised Multi-Technology Mix (OMTM).

Following consideration of the Strategic Review, our Shareholder Ministers issued a further SoE on 8 April 2014, directing NBN Co to move to

the OMTM as outlined in Scenario 6 of the Strategic Review.

NBN Co has now well and truly begun the transition to the OMTM, with work underway in the areas of regulatory change, product development, IT systems updates, planning and design. We are also renegotiating our agreements with Telstra and Optus to access the copper and HFC networks.

The challenge of constructing a national telecommunications network for the Australian continent from scratch is formidable, and grievously tested the capabilities and resources of the organisation in its early years. Success requires partnership with all players in the telecommunications industry – incumbent telcos, construction companies, vendors, RSPs and close working relationships with regulators and other stakeholders.

The early months of the new NBN Co leadership have seen considerable effort directed at developing our stakeholder relations, settling legacy disputes, improving our shared processes, and engaging a more strategic, longer-term level with our partners. This must translate to sharp improvements in the engineering works and network rollout, and the productivity of the project.

Our Shareholders have also requested, and we have delivered, a far higher standard of information transparency on the status of the rollout for customers, delivery partners and End-Users.

To this end, NBN Co publishes on its website a weekly progress summary report, that delivers a comprehensive snapshot of our performance in the rollout – providing information on Premises declared ready for service, Brownfields Premises Serviceable, Service Class 0², and Premises Activated by state and territory.

¹ *Strategic Review – December 2013*

<http://www.nbnco.com.au/content/dam/nbnco/documents/NBN-Co-Strategic-Review-Report.pdf>

² *Category given to Premises that are in the NBN Co fibre network footprint but which cannot presently be provided with an NBN fibre service.*

Rollout and activation data is also provided for New Developments, Fixed Wireless and Satellite technologies on a weekly basis.

NBN Co will continue to increase the transparency and quality of information provided to the public and to all our stakeholders as we move towards the full adoption of the OMTM.

NBN Co is now also providing detailed financial information and operational highlights on a quarterly basis within two months of the end of the quarter. In February we released our first Half-Yearly Report and presented the results at a well-attended stakeholder briefing. We intend to continue the half and full-year stakeholder events, with results calls for intervening quarters.

The Board recognises there is enormous public interest in the operation of NBN Co, given the large public expenditure for which we are responsible. We welcome this interest as a signal of the importance Australians attach to high-speed broadband and its impact on the community and national development.

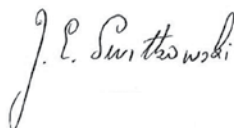
Our CEO, Bill Morrow, was appointed in April 2014. Bill has hit the ground running, leading the transformation of the Company and engaging the NBN Co team on the journey towards our new strategic direction. Central to the transformation of the organisation is cultural change aimed at removing silos, improving communication, strengthening cross-functional co-operation and enforcing accountability.

To achieve the new strategic direction, the Board and Executive Committee are committed to operating a robust Enterprise Risk Management Framework. The new Board has endorsed a revised Enterprise Risk Methodology to enable the Company to deliver against its strategic objectives within a tolerated level of risk. I would like to thank continuing Board members Dr Kerry Schott and Alison Lansley for their commitment during this challenging transition, and I welcome the contributions of new members Patrick Flannigan, Simon Hackett

and Justin Milne, who have brought a wealth of industry, commercial and governance experience to the Board's deliberations.

I also wish to acknowledge the significant contributions of former Board members and Executives who created a substantial enterprise from a standing start.

Finally, on behalf of the Board, I'd like to thank our CEO, Bill Morrow, his leadership team and the staff of NBN Co for their contribution to the project and commitment to its success. I'm especially grateful to minister Malcolm Turnbull for his constructive oversight and seriously well-informed input and advice. Given the support of the Government and our two Shareholder Ministers, and the goodwill of our partners and customers, I am confident that this nationally important broadband network will be delivered in a timely, cost effective, fit-for-purpose manner.



Dr Ziggy Switkowski AO



Chief Executive Officer's Message

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Since receiving the Statement of Expectations from our Shareholder Ministers, much has been achieved by NBN Co and our partners to transition to the new deployment model.

After starting my role this past April, my first priority was to develop and articulate a very clear strategic direction for the Company, building on the findings of the Strategic Review, and engaging our partners and people right across the Company, to encourage understanding, and acceptance, and ultimately deliver this vision.

NBN Co exists to enable the digital economy and bridge the digital divide – a divide between young and old, between city and country, and between Australia and the rest of the world. We will do this by ensuring all homes, businesses and communities across Australia can access high-speed broadband.

We aim to provide broadband access to all Premises across Australia and to connect more than 8 million of these by the end of 2019. The Government will contribute \$29.5 billion towards this aim. We have set ourselves a target to generate more than \$4 billion in revenue a year by this date.

To ensure we achieve this target, we have committed to a number of strategic imperatives around constructing the network and its products; building and strengthening our channels to markets; fostering the business

partnerships we need to be successful; and organising ourselves to operate safely, effectively and efficiently.

Fundamental to meeting our goals is a transformation of our organisational culture through transparent and collaborative leadership that drives high performance. We need to work more effectively as a team, and across functions, with better performance metrics and decision-making processes, that are more closely linked to the achievement of our strategic imperatives.

These imperatives acknowledge that NBN Co cannot build the network on its own. We rely on close and effective working relationships with our suppliers and construction partners to build the network, and with our customers to deliver services to homes and businesses.

In line with the SoE from our Shareholder Ministers we have continued with the FTTP rollout while we transition to the OMTM, minimising any disruption to the industry. This approach gives more certainty to our delivery partners enabling them to plan and provision to meet our needs. NBN Co has very deliberately moved to stabilise the rollout and maintain a steady pipeline of construction and activation activities. At the end of the 2014 Financial Year, NBN Co had 552,618 serviceable Premises across all technologies – 281,294 Brownfield, 111,116 in New Developments, 112,208 with Fixed Wireless

and 48,000 with Satellite. A total of 210,628 services were in operation, including Satellite.

We are also working to rebuild faith with the communities in which we are rolling out the network, and with those who are seeking to migrate to the NBN. We want to set realistic expectations about the timeframes for the rollout and significantly improve the installation and migration process. To do this we are improving the accuracy and reliability of the information we provide about the rollout, and are addressing historic planning and construction processes that have led to a poor experience for many who tried to connect in the past.

NBN Co's concentration on the 'Premises Passed' metric has led to frustrated home owners and businesses who knew the NBN was active in their street, but couldn't connect in a timely manner because there was no line from the street to their Premises. We have implemented a program to make the Premises in these affected areas serviceable and to smooth the ordering and fulfilment process – but it will take time. In the future we plan to avoid this issue by building the network all the way to the Premises during the construction phase.

While improvements continue to be made to the FTTP rollout, NBN Co is working as quickly as possible on the required

commercial, product, policy, regulatory and technology changes that will enable the Fibre-To-The-Node (FTTN) deployment and HFC integration.

The Fibre-To-The-Basement (FTTB) trial connected its first End-Users via participating RSPs in the third quarter. NBN Co also stood up 10 nodes in Umina NSW for the FTTN trial, and was ready to connect the first End-Users in the fourth quarter after reaching an agreement with Telstra for access to the spare copper pairs in the trial locations.

These initiatives are designed to ensure NBN Co transitions with speed and ease to a more flexible mix of technologies best suited to the infrastructure in any given location, following necessary changes to the Telstra Definitive Agreements and regulatory approvals.

During the year the keen appetite for Satellite and Fixed Wireless high-speed broadband services across Australia became very apparent. NBN Co ceased selling its Interim Satellite Service (ISS) in December 2013 when capacity was exceeded and network users began to experience a progressively declining level of service. The Company obtained approval from Shareholders to augment ISS capacity and to address the needs of up to 9,000 satellite users while we work toward the launch of the Long Term Satellite Service.

The Fixed Wireless Service has also seen rapid

Chief Executive Officer's Message

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take-up, with up to 500 installations a week, exceeding our internal activation targets. NBN Co had acquired 1,005 sites and integrated 457 base stations as at the end of June 2014. Fixed Wireless activations increased from 1,874 at the end of June 2013 to 16,553 at the end of June 2014.

It shouldn't be surprising then that the Fixed Wireless and Satellite Review¹, released in May 2014, found demand for services outside the Fixed Line footprint would be up to three times higher than previously estimated by NBN Co.

The Review is helping us make better-informed decisions for the future, including how to carefully manage the limited capacity of our new satellites so that those with no other broadband options will have a good-quality experience. We also need to significantly increase our Fixed Wireless rollout to provide additional capacity where possible, particularly around urban fringes.

Work is also progressing on the 10 ground stations required as part of the Long Term Satellite network, with five completed as we work toward the launch of the first of our satellites in calendar year 2015.

As NBN Co reported in its half-year and third-quarter results, we continued to make solid progress on the Transit Network and

Aggregation Nodes, which make up the core of the network to be used across all Access Technologies. At 30 June 2014, NBN Co had brought into service 115 Points of Interconnect (Pols) out of a planned 121. This progress included five purpose-built Aggregation Nodes and depots. More than 51,700km of Transit Fibre had been built or handed over — more than 80 per cent of the total — with 100 transit rings constructed.

The NBN Group generated an operating loss of \$1,643.8 million after tax for the year ended 30 June 2014 due to revenue being in its formative years. The activation of 210,628 End-User Premises generated telecommunication revenues of \$60.0 million at an Average Revenue Per User (ARPU) of \$37.34.

In rolling out the network, NBN Co has now built or acquired assets with a carrying amount of more than \$9.5 billion. This is an increase of \$4.0 billion in the year, driven by \$2.5 billion in capital expenditure on the network and corporate assets, and \$1.9 billion in assets associated with the handover of network infrastructure from Telstra.

While the Company and its people have seen significant change in the past 12 months, we are on a positive path with a reinvigorated

¹ *Fixed Wireless and Satellite Review – May 2014.*

http://www.nbnco.com.au/content/dam/nbnco/documents/NBNCo_Fixed_Wireless_and_Satellite_Review_07052014.pdf

mission and purpose. One of the goals in our new strategic direction is making NBN Co the best place to work. The Company conducted its first wide-ranging employee engagement survey during the fourth quarter. The participation rate of 80 per cent was encouraging, but the score was not. The survey produced an engagement score of 44 per cent which is lower than the average for the telecommunications sector (49 per cent). However, the results have provided the Executive Team with important information needed to develop a long-term change program focused on improving work practices, personal performance, career opportunities, leadership, organisational practices, HR policies, and how we recognise results. It will take some time, but it is a goal to which I am personally committed.

We all know the taxpayers and the Government are trusting us to use their money wisely and efficiently in building the nation's broadband network. We take this responsibility seriously and with pride. While there will be bumps along the way, we are confident in our ability to deliver.



Bill Morrow



Executive Team

The Executive Committee as at the date of this report comprised of the following individuals.

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Bill Morrow
Chief Executive Officer

Mr Morrow 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.



Greg Adcock
Chief Operating Officer

Mr Adcock's accountabilities include network construction and operations, as well as IT, business and operational support systems. He is also responsible for NBN Co's technology and security.



Justin Forsell
Chief Legal Counsel

Mr Forsell is responsible for all NBN Co's legal services and its Company secretariat and Freedom of Information functions. His responsibilities include all major transactions, dispute management, litigation, legal analysis and advice work, plus governance support.



J.B. Rousselot
Chief Strategy Officer

Mr Rousselot oversees NBN Co's strategy and corporate planning functions and is responsible for managing the Company's strategic relationships with Telstra and Optus. He is also responsible for NBN Co's regulatory strategy, engagement with industry regulators on the formulation and implementation of the regulatory regime, and NBN Co's wholesale supply arrangements.



Stephen Rue

Chief Financial Officer

Mr Rue 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 procurement, supply chain, risk and internal audit activities.



John Simon

Chief Customer Officer

Mr Simon is responsible for sales, service management, marketing and ensuring that the NBN Co product portfolio, including migration and disconnection, is aligned with industry needs and underpins the NBN Co Corporate Plan. He is also responsible for the product life cycle, developing and servicing access channels, and positioning the NBN Co brand.



Bradley Whitcomb

Chief Culture and Business Transformation Officer

Mr Whitcomb is responsible for overseeing NBN Co's transformation, including quality improvement and enterprise business enablement; process management, including quality planning and quality assurance; human resources; governance; and health, safety and the environment.

Delivering on the Strategic Goals by 2020





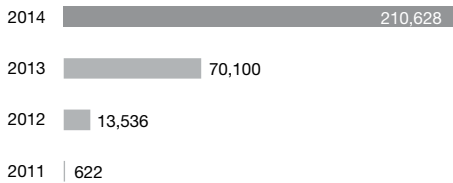
Delivering on the Strategic Goals by 2020

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More than 8 million premises connected

NBN Co has continued to connect Premises to the NBN across Australia during the year.

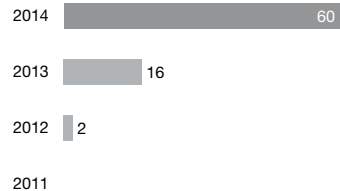
Premises Activated



Annual revenue of \$4 billion

NBN Co continues to increase the number of Premises connected to the NBN, driving year-on-year increases in revenue.

Total Annual Telecommunication Revenue \$m



Customer Experience Metric (CEM) rating of at least 8

The CEM is a measure of our retail and wholesale service provider customers' sentiment of working with NBN Co. While NBN Co is committed to efficiently deploying the NBN, there is a strong focus on ensuring the satisfaction of NBN Co customers is maintained throughout the process.

CEM rating of **6.4** out of 10 at 30 June 2014.

Efficient use of government funding to build the NBN

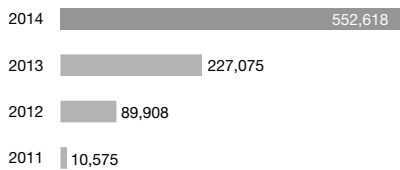
NBN Co remains focused on building the NBN in the most efficient and cost-effective way. Recommendations from the December 2013 Strategic Review are being considered to assist in meeting this objective. At 30 June 2014, total government funding received was

\$8.4 billion.

All homes, businesses and communities have access to high-speed broadband

Despite a change in the Company's strategic direction during the year, and the issue of the new SoE in April 2014, NBN Co has remained committed to the continued rollout of the NBN across Australia, with the objective of having 100 per cent of Premises Serviceable by 2020.

Premises Serviceable*



* In 2011 and 2012, Premises Serviceable metrics were not measured, so Premises Passed statistics have been used.

NBN Co is the best place to work

NBN Co had a strong participation rate of

80 per cent

for the employee engagement survey it conducted during the year;

but received an engagement score of

44 per cent.

NBN Co is using the findings from this survey to build a positive working environment where there is collaboration and accountability.

NBN Co is focused on maintaining a high staff retention rate year on year, and achieved a

91 per cent

retention rate in the 2014 financial year.





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 2014 and the Auditor's report thereon.

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 designed to deliver high-speed broadband and telephony services to Australian Premises.

Strategy Update

Overview

On 8 April 2014, NBN Co's Shareholder Ministers issued the Company with a new SoE. The SoE outlines the Government's commitment to the NBN in delivering very fast broadband as soon as possible, at affordable prices, and at least cost to taxpayers¹. In doing so, the rollout of the NBN has moved from a technology-based deployment to an operations-based one. It is envisaged the NBN will be built in a cost-effective way using the most appropriate technology to provide the required standards of service.

Implementing the OMTM has a number of organisational challenges, including network planning and design, product development, IT systems and processes, procuring new equipment and negotiating new commercial arrangements.

To meet these challenges, NBN Co has developed a new Strategic Direction. This is progressively being embedded within the Company. During the second half of FY2014, NBN Co has focused on transforming the organisation in line with the recommendations from the Strategic Review². This includes adopting a new deployment model making greater use of suitable existing technology and infrastructure to deliver the NBN to more Australians, quicker and at least cost to taxpayers.

NBN Co's Products and Customers

The NBN continues to be designed to provide a national wholesale-only, open-access communications network across Australia by rolling out a network interconnecting Fibre to the Premises (FTTP), Fibre-to-the-Node (FTTN), Hybrid Fibre Coaxial (HFC), Fibre to the Distribution Point (FTTdp), Fibre-to-the-Building (FTTB), and Satellite and Fixed Wireless Networks – described together as the (OMTM).

Since the release of the Strategic Review², in December 2013, NBN Co has been exploring the options for creating and commencing deployment of the OMTM. The objective is to minimise peak funding, while delivering at least a 50 Mbps* download data rate to a high proportion of the Fixed-Line footprint (approximately 90 per cent by the end of 2019).

As part of the OMTM approach, NBN Co is designing a product set in consultation with industry members through the Product Development Forum, with the objective of providing a consistent product experience where possible across each of the five access technologies (FTTP, FTTN/B, HFC, Fixed Wireless and Satellite). The product set aims to provide the ability for RSPs to offer differentiation.

While a consistent pricing construct across all Fixed-Line technologies is the desirable outcome, speed limitations of the FTTN/B and HFC networks will limit the range of speed tiers available. As a result, some platform-specific price points may be required. The details of these price points can only be determined once the product construct is finalised and the customer value proposition is fully understood.

¹ Letter dated 8 April 2014 from the Hon Malcolm Turnbull and Senator the Hon Mathias Cormann to NBN Co Chairman titled "Government Expectations".

² Strategic Review – December 2013
<http://www.nbnco.com.au/content/dam/nbnco/documents/NBN-Co-Strategic-Review-Report.pdf>

* The NBN is being designed to provide these speeds to our Service Providers. End-User experience, including the speeds actually achieved over the NBN depends on the technology over which services are delivered to Premises and some factors outside our control like End-User equipment quality, software and retail broadband plans and how the Service Provider designs its network.

2014 Performance Highlights

On 13 December 2013, the Australian Competition and Consumer Commission accepted NBN Co's Special Access Undertaking (SAU). The SAU is a key part of the regulatory framework governing the prices NBN Co charges for the services it supplies to retail telecommunications companies, and also includes other terms.

In December 2013, a wholesale speed tier of 1000/400 Mbps* was launched. NBN Co has also begun detailed pricing review on the existing products of Access Virtual Circuit (AVC) and Connectivity Virtual Circuit (CVC) construct. The review is focused on maintaining a consistent pricing construct across the different OMTM Fixed-Line technologies.

The second version of the Wholesale Broadband Agreement (WBA) came into effect on 1 April 2014. At 30 June 2014, NBN Co had 33 customers who were actively being billed for services by NBN Co under the WBA. Interim Satellite Services are provided under a separate Satellite WBA.

During April 2014, NBN Co released its Integrated Product Roadmap, which expands on the Company's initial roadmap. The Integrated Product Roadmap has been developed to provide a coordinated view of customer experience, IT enhancements and on-boarding developments, as well as target timelines with the details of the product feature releases.

Following the establishment of the Transformation Management Office (TMO), NBN Co has established a high-level Transformation Roadmap. The TMO has commenced initiatives in the areas of; organisational culture, business process management, delivering on commitments to customers, and implementation of the OMTM

(including operationalising the deployment of HFC and FTTN/B). The TMO has also been active in ensuring that recommendations from the Fixed Wireless and Satellite Review³ are implemented.

The Medium Business product was launched in May 2014. This product release includes the first guaranteed bandwidth traffic class, enabling business customers to prioritise important corporate data within their NBN connection. These enhancements enable RSPs to tailor packages for both small and medium-sized businesses.

The Fixed Wireless and Satellite Review³, completed in May 2014, included recommendations on the product and pricing constructs of these access technologies.

On 26 June 2014, NBN Co announced it had signed an agreement with Telstra to plan, design and construct 1,000 nodes across Queensland and New South Wales. This expanded trial will deliver valuable insights on how to effectively scale to build a sustainable and consistent program of work that allows the industry to ramp up and deploy FTTN.

Outlook

NBN Co is building a 'network of networks' that will encourage greater retail-based competition. This is expected to create flow-on benefits for End-Users by providing a range of high-quality offerings and a greater variety of available services at a price affordable for all Australians.

During FY2015, NBN Co will continue to explore the best method to implement the design of an OMTM. This will be guided by the Government's policy objectives of providing download data rates (and proportionate upload rates) of at least 25 Mbps* to all Premises and at least 50 Mbps* to 90 per cent of Fixed-Line Premises.

³ Fixed Wireless and Satellite Review – May 2014.

http://www.nbnco.com.au/content/dam/nbnco/documents/NBNCo_Fixed_Wireless_and_Satellite_Review_07052014.pdf

* The NBN is being designed to provide these speeds to our Service Providers. End-User experience, including the speeds actually achieved over the NBN depends on the technology over which services are delivered to Premises and some factors outside our control like End-User equipment quality, software and retail broadband plans and how the Service Provider designs its network.

Operational and Financial Review

NBN Co's performance against rollout and operational milestones are reported weekly to the Shareholder Ministers and are publicly available on NBN Co's website. These are the key performance indicators used to monitor progress of the rollout. Monthly reports are provided to the Board of Directors and Shareholder Ministers. Quarterly financial statements and operational briefings are provided to stakeholders and the media. The Company's key Operational, Non-Financial and Financial highlights are detailed in this section.

Operational Highlights

- Activations of Brownfield FTTP Access Network Premises continues to increase as a percentage of the serviceable footprint, reaching 37 per cent at 30 June 2014 (19 per cent at 30 June 2013)
- At 30 June 2014, the first 15 communities had reached their disconnection date for transition to the NBN
- At 30 June 2014, the average speed provisioned across all Fibre End-Users was 36 Mbps*
- The increase in Premises Serviceable has seen 159 areas declared 'Ready for Service' during the year, which has resulted in 349,158 Premises being subject to the 18-month disconnection protocol

- During the year, NBN Co passed an additional 259,249 Fibre Brownfield Premises at an average of 4,350 Premises per week in the first half, lifting to an average of 6,200 Premises per week in the second half
- At 30 June 2014, NBN Co had deployed 51,728 kilometres of transit fibre and 100 transit rings

Non-Financial Highlights

- On 2 April 2014, Bill Morrow commenced as NBN Co's new CEO
- 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 the percentage of women in management roles remaining consistent with FY2013 at 20 per cent
- An End-User experience measurement framework was implemented during the second half of the year to track performance through the entire migration process
- Staff retention at NBN Co remained high at 91 per cent

* The NBN is being designed to provide these speeds to our Service Providers. End-User experience, including the speeds actually achieved over the NBN depends on the technology over which services are delivered to Premises and some factors outside our control like End-User equipment quality, software and retail broadband plans and how the Service Provider designs its network.

Financial Highlights

Results Summary – year ended 30 June 2014

Key Financial Data (\$m)	2014	2013	2012
Telecommunication and other revenue	61.0	16.8	1.9
EBITDA	(1,004.0)	(732.0)	(507.0)
Net loss after tax	1,643.8	931.7	520.2
Total assets	9,467.5	5,518.7	2,467.4
Contributed equity	8,418.4	5,228.4	2,832.0
Capital expenditure on property, plant and equipment, and intangibles	2,479.5	1,767.4	1,122.0

The NBN Group generated a loss before interest, tax, depreciation and amortisation of \$1.0 billion, an operating loss after tax for the year ended 30 June 2014 of \$1.6 billion and telecommunication revenues of \$60.0 million.

At 30 June 2014, NBN Co had total assets of \$9.5 billion; an increase of \$3.9 billion driven by \$2.5 billion in capital expenditure on property, plant and equipment and intangibles; and \$1.9 billion in assets acquired under finance lease (associated with the handover of network infrastructure from Telstra), offset by a decrease in cash and held-to-maturity investments of \$0.3 billion.

During the period NBN Co received Commonwealth Government equity injections of \$3.2 billion, which were primarily used in making payments for property, plant, equipment (including network assets) and intangible assets of \$2.4 billion, and in supporting operational requirements of \$0.9 billion.

Operational and Financial Review

Revenue

Total Revenue (\$m)	2014	2013	2012
Fibre	30.3	5.2	0.9
Fixed Wireless	2.3	0.3	0.0
Satellite	12.1	6.7	0.8
Connectivity revenue	15.3	4.2	0.2
Telecommunications Revenue	60.0	16.4	1.9
Other revenue	1.0	0.4	0.0
Total Revenue	61.0	16.8	1.9

Total revenue increased by \$44.2 million, or four-fold compared to FY2013.

Fibre – Fibre revenue comprises revenues generated from NBN Co's access products (AVC) over the FTTP Access Network. It depends on the number of End-Users on the network and the mix of speed tiers purchased by those End-Users. Fibre revenue increased by \$25.1 million or six-fold compared to the prior year, driven by a four-fold increase in the number of End-Users on the FTTP Access Network (from 33,586 to 151,127).

As at 30 June 2014, 20 per cent of End-Users were on the 100/40 Mbps* wholesale service (30 June 2013: 25 per cent), 37 per cent were on the 25/5 Mbps* wholesale service (30 June 2013: 23 per cent), and 38 per cent were on the 12/1 Mbps* wholesale service (30 June 2013: 46 per cent). The average speed ordered and provisioned across all fibre End-Users was 36 Mbps*, a slight decrease of 3 Mbps* since 30 June 2013.

Fixed Wireless – Wireless revenue comprises revenue generated from NBN Co's Fixed Wireless products, which are offered over two wholesale speed tiers: 12/1 and 25/5 Mbps.* Fixed Wireless revenue increased by \$2.0 million or eight-fold compared to FY2013,

driven by an nine-fold increase in the number of End-Users on the Fixed Wireless Network (from 1,874 to 16,553) and the launch of the 25/5 Mbps* wholesale service.

Satellite – Satellite revenue comprises revenues generated from NBN Co's Interim Satellite Service (ISS). Satellite revenue increased by \$5.4 million, driven by a 24 per cent increase in the number of End-Users compared to the prior year (from 34,640 to 42,948). NBN Co issued cease sale notices for the service during December 2013 as it approached the 48,000 capacity limit.

Connectivity Revenue – Other telecommunications revenue increased by \$11.1 million, driven principally by higher CVC revenues due to greater demand for capacity as RSPs prepared their networks for expected future demand. An increase in Network-to-Network Interface revenues was driven by an increased number of Pols brought into service. At 30 June 2014 there was an average of 5.2 RSPs per Pol, a slight decrease of 0.5 from the prior period.

Average Revenue Per User (ARPU) – Across the network, revenue was generated from 210,628 active Premises at a weighted ARPU of \$37.34 for the year ended 30 June 2014 (30 June 2013: \$37.33).

* The NBN is being designed to provide these speeds to our Service Providers. End-User experience, including the speeds actually achieved over the NBN depends on the technology over which services are delivered to Premises and some factors outside our control like End-User equipment quality, software and retail broadband plans and how the Service Provider designs its network.

Operating Expenditure

Operating Expenditure (\$m)	2014	2013	2012
Employee-related expenses	384.4	324.4	222.1
Direct telecommunication expenses	396.7	181.8	86.8
Advisory, corporate and outsourced services	71.1	36.4	26.1
IT and software expenses	114.3	108.7	93.1
Occupancy expenses	37.5	32.1	24.8
Communication costs	13.9	14.0	11.2
Travel and other expenses	52.1	51.9	44.9
Total Operating Expenditure	1,070.0	749.2	509.0
Depreciation and amortisation	435.4	197.2	73.9
Finance costs	222.9	63.7	6.1

Total operating expenditure increased by \$320.8 million (42.8 per cent) on the corresponding prior period.

Employee-Related Expenses – Employee-related expenses increased to \$384.4 million. Employee-related expenses include costs relating to NBN Co employees, labour hire and contractor costs, net of amounts that have been capitalised and included in the cost of non-current assets, predominantly relating to network assets and software.

The increase in cost was driven by a 29.3 per cent increase in the average headcount to 2,926 from 2,263 compared to the corresponding prior period as NBN Co grows to scale.

Direct Telecommunication Expenses – Direct telecommunication expenses increased by \$215.0 million to \$396.7 million compared to the corresponding prior period. These expenses, which are primarily attributable to the management and assurance of services for the FTTP Access Network, ISS, Fixed Wireless Network, End-User migration costs, network infrastructure costs and leasing of interim backhaul links, have increased in line with the ongoing build of the network and increased End-User activations.

Advisory, Corporate and Outsourced Services

– Costs incurred for advisory, corporate and outsourced services increased by \$34.7 million to \$71.1 million compared with the prior year. This expenditure is for the provision of advisory, corporate and outsourced services for the operation of the NBN. It includes costs associated with construction diagnostics relating to the efficient rollout of the FTTP Access Network, the cost of re-negotiations with Telstra and Optus, and expenses related to the Strategic Review and the Fixed Wireless and Satellite Review⁴.

IT and Software Expenses – IT expenses have increased by \$5.7 million to \$114.3 million compared to the corresponding prior period, driven by increases in both application licences, and application support and maintenance costs.

Occupancy Expenses – Increased by \$5.4 million to \$37.5 million compared to the corresponding prior period. This was driven by the timing of when new property leases were entered into during the current and prior period, and increases in rental costs and associated outgoings.

Communication Costs – Communication costs are in line with the prior year and relate to the

⁴ Fixed Wireless and Satellite Review – May 2014.

http://www.nbnco.com.au/content/dam/nbnco/documents/NBNCo_Fixed_Wireless_and_Satellite_Review_07052014.pdf

Operational and Financial Review

Public Information and Migration (PIM) notices as required under the Telstra Definitive Agreements.

Travel and Other Expenses – Travel and other expenses are in line with the prior year.

Depreciation and Amortisation Expense – Depreciation and amortisation increased by \$238.2 million to \$435.3 million compared to

the prior year, reflecting the increase in network assets placed into service during the year.

Finance Costs – Finance costs have increased by \$159.2 million to \$222.9 million compared to the prior year, driven by increased volumes of infrastructure handed over by Telstra. These assets are recognised as finance leases by NBN Co.

Capital Expenditure

Capital Expenditure (\$m)	2014	2013	2012
Transit Network	381.8	409.3	153.3
FTTP Access Network	776.2	508.9	241.9
Fixed Wireless	277.5	131.8	32.3
Satellite	517.1	374.3	91.8
Customer Connect	190.0	37.3	4.0
Common Capex	336.9	305.8	598.7
Total Capital Expenditure	2,479.5	1,767.4	1,122.0

Capital expenditure, excluding assets acquired under finance lease, for the 12 months to 30 June 2014 was \$2,479.5 million, an increase of \$712.1 million compared to FY2013. The key drivers of capital expenditure are outlined below.

Transit Network – \$381.8 million was incurred during the 12 months to 30 June 2014 in constructing the Transit Network (including the Transit Aggregation Nodes and Depots (TANDs)).

Costs incurred during the 12 months to 30 June 2014 were used to deploy Common Network Infrastructure (CNI), including Optical Distribution Frames (ODFs), Fibre Access Node (FAN) and POI site make ready costs, power generation, site make ready costs, connection between the ODF and Optical Line Terminations (OLTs), aggregation equipment, commissioning and integration costs for leased assets and transmission links.

During the 12 months to 30 June 2014, NBN Co integrated an additional 52 Pols – including five TAND sites – bringing the total to 115 of the total planned 121 Pols. NBN Co also integrated a further 66 Dense Wave Division Multiplexing rings for a cumulative total of 100, and deployed a total of 28,965 kilometres of Dark Fibre, was deployed with a life-to-date cumulative total of 51,728 kilometres.

FTTP Access Network – Capital expenditure incurred constructing the FTTP Access Network for the 12 months was \$776.2 million, comprising capital expenditure of \$686.4 million on the Brownfields FTTP Access Network and \$89.8 million on the Greenfields FTTP Access Network.

During the year, \$591.2 million in build capital expenditure and \$95.2 million in design and other capital expenditure was incurred in

relation to the Brownfields FTTP Access Network, resulting in a further 173,503 Premises Serviceable. Key drivers include distance per premise, build mix (aerial and underground), level of civil works required, labour and equipment quantities.

In December 2013, following the ACCC decision not to oppose the transaction, NBN Co acquired TransACT's FTTP network for \$9.0 million.

Capital expenditure incurred within Greenfields FTTP Access Network for new development estates and Brownfield redevelopments was \$89.8 million and resulted in a further 67,088 lots passed. Key drivers of capital expenditure include distance per Premises, build mix, level of civil works required, labour and equipment quantities.

The reduction in capital expenditure in the Greenfields FTTP Access Network of \$52.1 million on the corresponding prior-period was due to a release of prior-period provisions, a reduction in the number of temporary transit links required and the implementation of interim FANs replacing the more expensive temporary access FANs. Capital expenditure was also lower than the corresponding prior period due to some delays in the commencement of construction activity associated with a reduction in developer demand.

Fixed Wireless – During the 12 months to 30 June 2014, capital expenditure incurred for Fixed Wireless was \$277.5 million. Fixed Wireless capital expenditure is driven by contracted milestone payments to NBN Co's delivery partners for the completion, integration and acceptance of Fixed Wireless Base Stations and the connection costs associated with customer activations.

During the 12 months to 30 June 2014, NBN Co acquired 523 Wireless sites and integrated 336 Base Stations, bringing the cumulative totals to 1,005 and 457 respectively. An additional 84,952 Premises

have been covered during the past 12 months, bringing the total to 112,208 Premises. There were also 14,679 new activations during the year, bringing the cumulative total of End-User Premises with an active connection to 16,553.

Satellite – Capital expenditure for the Long-Term Satellite Service (LTSS) and Interim Satellite Service (ISS) projects for the 12 months to 30 June 2014 was \$517.1 million. This expenditure related to progress on the construction of the two satellites scheduled for launch in calendar year 2015, progress on development of the ground stations, the launch vehicle, and connection costs associated with the ISS.

Customer Connect – Capital expenditure incurred in connecting or migrating FTTP Access Network End-Users to the NBN was \$190.0 million for the 12 months to 30 June 2014. This spend comprised connection and activation costs of \$124.0 million and Multi-Dwelling Unit (MDU) cabling activity costs of \$66.0 million. For the 12 months to 30 June 2014, a total of 73,121 Brownfield FTTP Access Network Premises were connected and 32,771 Greenfield FTTP Access Network Premises were connected, bringing the cumulative totals to 105,211 and 45,916 Premises respectively.

Common Capex – \$336.9 million was incurred for common capital expenditure. This included intangible asset additions, largely related to the development of the systems and software to support the functionality of the NBN; spend on Operational Support Systems (OSS) and Business Support Systems (BSS) and costs related to Facilities, data centres and the National Test Facility (NTF).

Finance Leases – In addition to the Capital expenditure outlined in the table on page 30, NBN Co acquired assets under finance lease arrangements with a discounted net present value of \$2,075.3 million, largely related to network infrastructure assets acquired from Telstra.

Operational and Financial Review

Commitments

Commitments (\$m)	2014	2013	2012
Transit Network	520.6	2,257.3	2,651.2
Fixed-Line Access Network	1,156.5	678.2	182.9
Fixed Wireless	247.7	184.3	146.4
Satellite	403.2	794.8	546.7
Customer Connect	26.4	10.0	27.6
Common Capex	32.4	48.2	137.8
Operating expenditure	845.3	519.2	206.1
Total Commitments	3,232.1	4,492.0	3,898.7

Commitments payable represents those obligations which have not been recognised on NBN Co's Balance Sheet. During the year, commitments decreased by \$1.3 billion to \$3.2 billion as at 30 June 2014. Significant movements included:

- Transit Network commitments decreased by \$1.7 billion as infrastructure was handed over and recognised as finance leases on the Balance Sheet
- Fixed-Line Access Network commitments increased by \$478.3 million, reflecting increased infrastructure being ordered as the network build accelerating.
- Satellite commitments decreased by \$391.6 million as contract milestones were met for the Space Systems Loral (SSL), ViaSat and Arianespace contracts
- Operating expenditure commitments increased by \$326.2 million, primarily due to extensions of certain IT support contracts and increases in the Wireless Base Station leases.

Equity Funding

The Commonwealth Government contributed \$3.2 billion in equity during the 12 months to 30 June 2014. On 13 May 2014, as part of the Federal Budget and under the SoE it was confirmed that Government investment in the NBN will be capped at \$29.5 billion of equity. At 30 June 2014, total Government investment was \$8.4 billion.

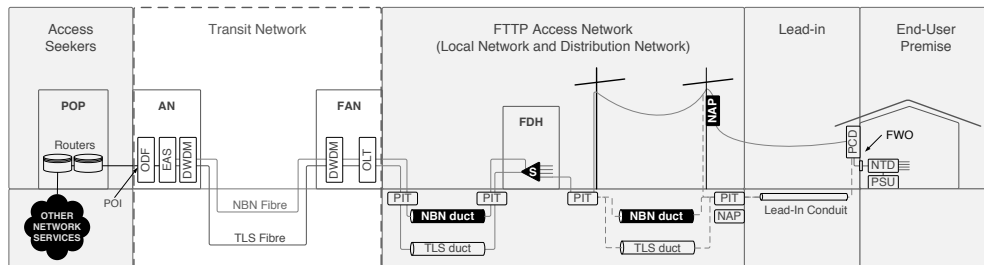
Interest Income

Interest income decreased during the period, driven by lower average cash and held-to-maturity balances and lower interest rates.

Dividends

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

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
 FWO: Fibre Wall Outlet
 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

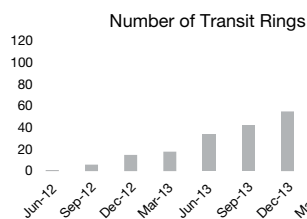
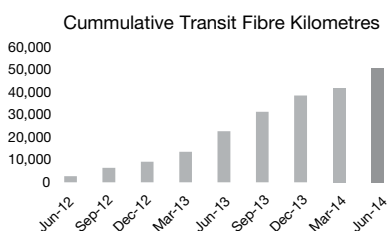
Overview

The Transit Network is the backbone of the NBN. It has been designed to provide connectivity between the each of the access networks and ultimately interconnect FTTP, FTTN/B, HFC, Fixed Wireless, Satellite and the Pols where RSPs connect to the NBN.

When completed, the Transit Network will link approximately 940 FAN sites, 121 Pol sites and 417 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 Pols 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.

2014 Performance Highlights



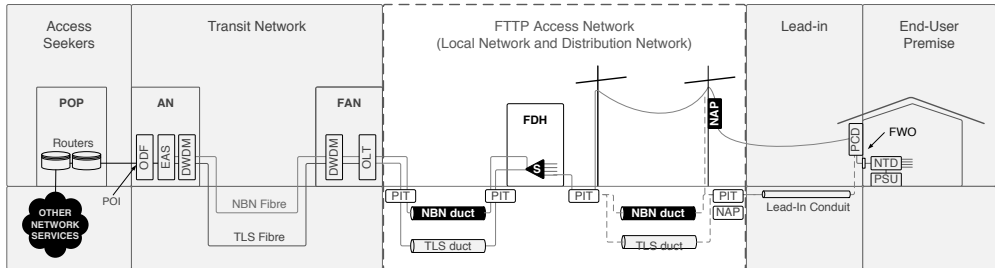
NBN Co and its delivery partners made significant progress during FY2014 in building the Transit Network. At 30 June 2014, NBN Co had deployed 51,728 kilometres of Transit Fibre, built 100 transit rings, and integrated and brought in-service 115 of the 121 Pols.

Outlook

NBN Co continues to prioritise the completion of the Transit Network to reduce the need for interim backhaul arrangements. This will enable the NBN to be built simultaneously across a wide range of regional areas, including new developments, and will provide connectivity for the Fixed Wireless Network and Satellite Network.

Operational and Financial Review

Building the NBN – FTTP Access Network



AN: Aggregation Node
 DWDM: Dense Wave Division Multiplexing
 EAS: Ethernet Aggregation Switch
 FAN: Fibre Access Node
 FDH: Fibre Distribution Hub
 FWO: Fibre Wall Outlet
 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 FTTP Access Network encompasses all network elements between the FAN site and the Network Access Point (NAP) located in the street outside an End-User premise in which Fibre is deployed to each Premise. From a planning and construction perspective, the FTTP Access Network, is a large number of replicating modules that combine to make up the overall network. The FTTP Access Network is being deployed in what are termed Brownfield and Greenfield areas.

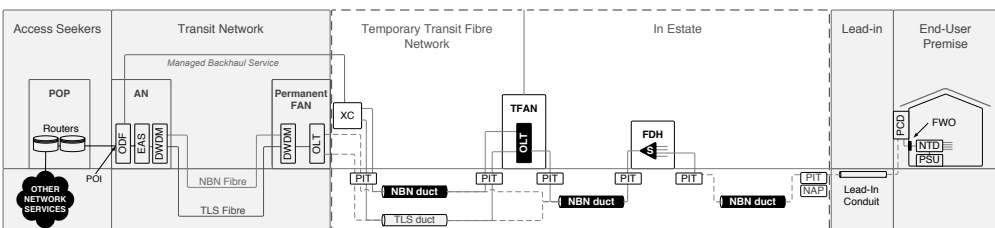
- Fibre Servicing Area Modules (FSAMs) – a collection of up to 16 FDAs, serving up to 3,200 Premises
- Fibre Serving Areas (FSAs) – a collection of up to 12 FSAMs linked to a single FAN site, serving up to 38,400 Premises.

NBN Co is responsible for acquiring managed backhaul services where needed to transport signals from the nearest Telstra exchange back to where it can connect to NBN Co's transit network. The architecture used within the Greenfield FTTP Access Network has been designed to ensure any temporary passive and active assets can be re-used in the permanent OMTM network.

The basic building blocks of the deployment of the Brownfields FTTP Access Network are:

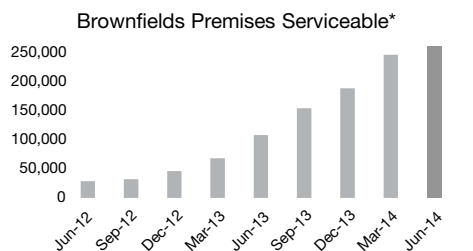
- Fibre Distribution Areas (FDAs) – a collection of up to 200 Premises served by a single Fibre Distribution Hub (FDH)

Building the NBN – FTTP Access Network Greenfield

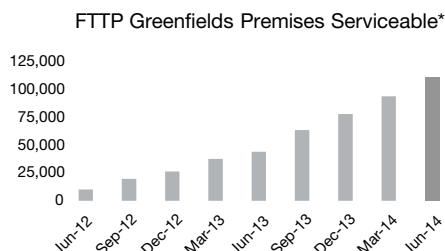


AN: Aggregation Node
 DWDM: Dense Wave Division Multiplexing
 EAS: Ethernet Aggregation Switch
 FAN: Fibre Access Node
 FDH: Fibre Distribution Hub
 FWO: Fibre Wall Outlet
 NAP: Network Access Point
 NTD: Network Termination Device
 ODF: Optical Distribution Frame
 OLT: Optical Line Terminal
 PCD: Premise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

2014 Performance Highlights



* Prior to June 2013 the Premises Serviceable metric was not measured, so Premises Passed metric have been used.



During the year NBN Co continued to enter contracts with delivery partners to build out the FTTP Access Network.

On 14 November 2013, the ACCC announced it would not oppose the agreement between NBN Co and TransACT/iiNet for the purchase of the TransACT-branded FTTP Access Network in the Australian Capital Territory (ACT). The agreement also allowed for the long-term access to TransACT's system of underground ducts throughout the ACT. This agreement will facilitate the delivery of the NBN to more residents in the ACT.

Enhancements were made to the publicly available rollout information. A weekly progress report on the rollout of the NBN and an interactive rollout map are now available on the NBN Co website, increasing the transparency and accuracy of information available to the public.

The average number of Premises Serviceable per week increased quarter by quarter during the year. At 30 June 2014, a total of 281,294 Brownfield FTTP Access Network and 111,116 Greenfield FTTP Access Network Premises had become serviceable.

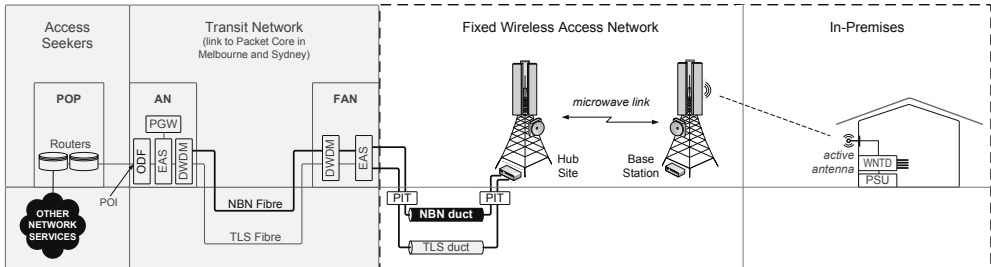
At 30 June 2014, contract instructions covering 694,609 Brownfield FTTP Access Network Premises had been issued. NBN Co had also signed approximately 5,500 Developer contracts, representing 249,000 Greenfield Premises.

Outlook

While NBN Co considers the best way to implement the design of an OMTM, the FTTP Access Network will remain a significant part of the FY2015 deployment profile. The FTTP Access Network will continue to be deployed concurrently across all construction regions to optimise workforce utilisation and avoid large peaks and troughs in labour requirements.

Operational and Financial Review

Building the NBN – Fixed Wireless Access Network



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

Overview

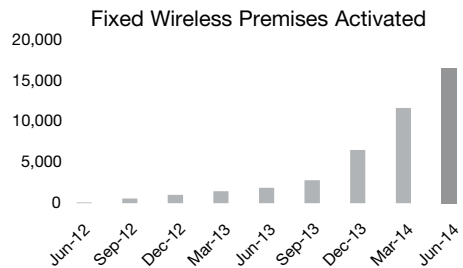
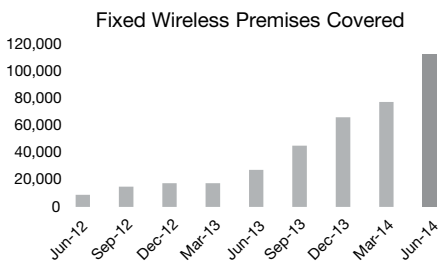
The Fixed Wireless Access Network connects to End-User Premises through wireless signals between active equipment on a Base Transmission Station (Base Station) and active equipment in the End-Users Premises. Network traffic is connected from the Base Station Hubs to the edge of the transit network via underground Fibre.

NBN Co has outsourced the deployment and operational services management of the Fixed Wireless Access Network to Ericsson.

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.

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2014 Performance Highlights



In May 2014, a Strategic Review of the Fixed Wireless and Satellite Programs⁵ was completed. The Review highlighted that expected demand for the NBN via Fixed Wireless is higher than originally anticipated. To accommodate this higher-than-expected demand, the Review suggested NBN Co:

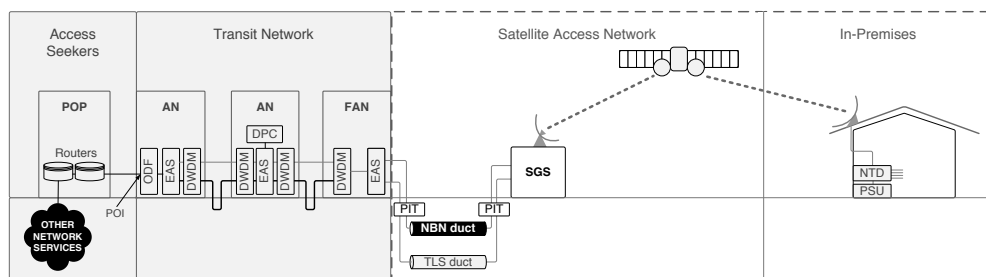
- Improve construction methods
- Increase the number of base stations from 1,400 to 2,700
- Extend the reach of FTTN to serve 25,000 homes and businesses that will not be served by Fixed Wireless.

At 30 June 2014, 112,208 Premises had been covered and 16,533 End-Users Premises were active on the Fixed Wireless Access Network.

Outlook

NBN Co and the Government are in the process of considering the recommendations and comments included in the Fixed Wireless and Satellite Review and the impacts for the current SoE. This includes the future options for NBN Co to meet a broad mix of policy objectives (total funding, rollout timing, download/upload speed, risk) when serving the non-Fixed-Line footprint.

Building the NBN – Satellite Access Network



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

Overview

Interim Satellite Service

The ISS has been offered since July 2011, awaiting NBN Co's Long-Term Satellite Service (LTSS), which is expected to become available in FY2016. 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. The service was commissioned with an original capacity to support approximately 48,000 End-Users.

When the LTSS is available, the ISS will continue to run until all End-Users have been

migrated to the LTSS, a process which is expected to take approximately one year.

Long-Term Satellite Service

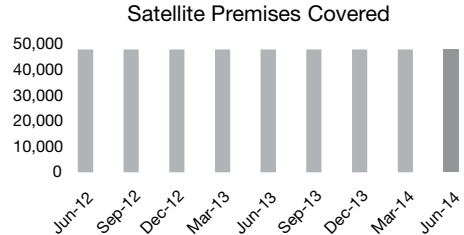
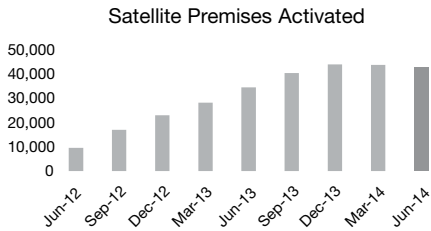
The LTSS will utilise two high-throughput, multi-spot beam Ka-band satellites which are designed to cover 100 per cent of the Australian landmass (and nominated territories). Within this coverage area each spot beam will be configured to deliver the best possible service.

NBN Co's satellites are being designed and built by Space Systems/Loral (SSL). Launch services are being provided by Arianespace.

⁵ Fixed Wireless and Satellite Review – May 2014.
http://www.nbnco.com.au/content/dam/nbnco/documents/NBNCo_Fixed_Wireless_and_Satellite_Review_07052014.pdf

Operational and Financial Review

2014 Performance Highlights



In December 2013, all ISS beams reached full capacity, resulting in NBN Co accepting no further orders. During the year, approval was obtained from the Shareholder Ministers to augment ISS capacity and to launch a new satellite subsidy scheme. It is anticipated this will address the needs of up to 9,000 satellite users while NBN Co works towards the launch of the LTSS.

Construction activities have progressed at all ground station sites, with five complete at 30 June 2014. For those five ground stations, ViaSat has commissioned the ground systems.

At 30 June 2014, 48,000 Premises had been covered and 42,948 End-Users Premises were active on the Satellite Access Network.

Outlook

On 3 February 2014, NBN Co appointed Optus to operate NBN Co's two purpose-built satellites. Under the contract Optus will provide tracking, telemetry and control services in connection with NBN's LTSS. The contract term is initially five years, with options to extend for up to 15 years.

Construction of the two satellites and the satellite ground stations is expected to continue during FY2015. It is expected the LTSS will become available in FY2016.

In May 2014, the Fixed Wireless and Satellite Review highlighted that expected demand for the NBN via wireless and satellite is up to three times more than originally anticipated.

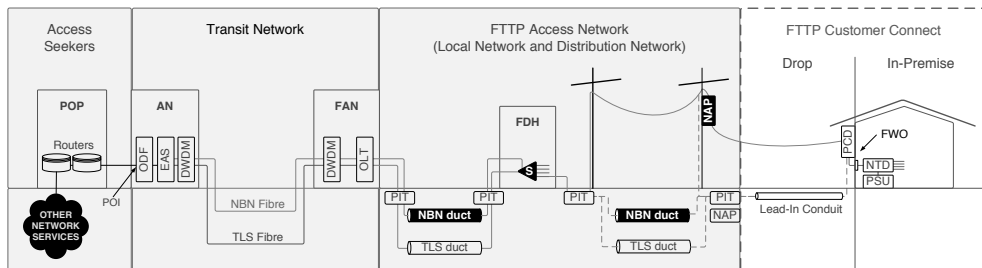
NBN Co is in the process of considering the recommendations and comments included in the Fixed Wireless and Satellite Review⁶. This includes the options going forward for NBN Co to meet a broad mix of policy objectives (total funding, rollout timing, download/upload speed, risk) when serving the non-fixed-line footprint.

Work continues to progress with the manufacture of NBN Co's two satellites by SSL, with major construction and communication milestones reached. The two satellites currently under construction are scheduled to launch in 2015.

⁶ Fixed Wireless and Satellite Review – May 2014.

http://www.nbnco.com.au/content/dam/nbnco/documents/NBNCo_Fixed_Wireless_and_Satellite_Review_07052014.pdf

Operating the NBN – FTTP Customer Connect



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 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

Operating the NBN involves connecting End-Users, maintaining and assuring the network and interacting with the public. Key to these activities is the development of IT systems.

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-Premise: 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 FTTP Access Network in a region (referred to as a 'Build Drop').

In many cases the drop will generally be installed underground, either in an existing Telstra lead-in conduit or, if unavailable, in a new lead-in will be built by NBN Co. In other cases, the Premises will receive an aerial drop.

The decision to use an underground or aerial drop depends on a number of factors, including whether or not there is existing Telstra infrastructure, how the FTTP Access Network has been deployed and decisions made on the day by the installer.

Migrating End-Users to the NBN

NBN Co continues to work with its customers and to inform End-Users about the disconnection and migration process.

Under the Telstra Definitive Agreements (DAs), NBN Co and Telstra agreed that Telstra will progressively disconnect Telstra copper services and HFC broadband services. Under these DAs there is a period of 18 months from when NBN Co's FTTP 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 on the rollout plan and its availability to ensure RSPs and End-Users are informed. This communication involves a mix 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

Network and Service Operations

The Network Service Operations Centre (NSOC) enables NBN Co to monitor the networks including detecting faults, managing orders for End-Users being migrated to the NBN and supporting the RSPs. The Wholesale Broadband Agreement (WBA) includes Service Levels for appointments, connections, fault rectification, and network performance and availability.

Call Centre

The call centre plays a key role in managing all public queries and communicating the progress of the construction of the NBN. It also communicates the steps required to be undertaken by households and business owners to enable connection to the NBN.

IT Systems

NBN Co's IT systems are divided between Operational Support Systems (OSS) and Business Support Systems (BSS). The OSS provides NBN Co with the capabilities to configure, manage and operate the network and related services. The BSS provides the capabilities to manage Access Seeker requests, take orders, process bills, collect payments and manage the enterprise resource planning (ERP) system. The ERP system is used to manage functions including finance, asset management, human resources, project and cost management, supply chain management and contract management.

Network capability is designed and tested as integrated solutions at the NTF prior to adding to the live network. Progressively, network releases will deliver the full range of network capability across the NBN.

2014 Performance Highlights

At 30 June 2014, NBN Co has 210,628 active End-Users across all technology types. This represents an increase of 140,528 during the year, at a take-up rate of 38.1 per cent of serviceable Premises.

During the year, NBN Co commenced a programme to improve the serviceability of Premises within the existing Fixed-Line footprint. NBN Co is specifically targeting a reduction in the number of Premises that are currently outside the standard lead time for service activation (Service Class 0 Premises).

Since the introduction of the second version of the WBA in April 2014, 83 per cent of the FTTP Access Network and 73 per cent of the Fixed Wireless Access Network network faults were restored within WBA Service Levels. In addition, 87 per cent of FTTP Access Network appointments for service activation were completed within WBA SLAs.

During the year the call centre received 187,246 contacts from the public, with a resulting 99,074 cases. These cases comprised; 73,244 enquiries; 9,677 complex enquiries requiring additional information from NBN internal parties; and 16,153 complaints, including 9,185 formal complaints (relatively simple straight forward expressions of dissatisfaction) and 8,366 complex complaints (complaints of a more serious or complex nature that typically require cross-functional collaboration to resolve).

All enquiries were responded to on the same day, and complex enquiries took an average of 6.5 days to resolve. Formal complaints took an average of 5.4 days to resolve, while complex complaints on average took 26.6 days to resolve.

Outlook

NBN Co will remain focused on providing continuous improvements to the systems operating the NBN, to deliver new products and efficiencies and to reflect the revised SoE and the OMTM.

NBN Co's Organisation

NBN Co People

NBN Co is committed to providing a working environment that focuses on being the best place to work and aligned with the strategic direction of the organisation. Having the right people with the right skillsets is critical to the success of NBN Co.

During the year changes were made to the composition of the Board and the Executive Team. Together with a review of the network, IT, marketing, sales and services functions, these changes reflected the initial steps towards transforming NBN Co.

NBN Co's head count at 30 June 2014 was 2,932. The average tenure of the workforce was 25.2 months and the average age was 40.7 years. NBN Co employs 1.4 per cent of its workforce on a part-time basis. At NBN Co, 29.4 per cent of the workforce are women and 20 per cent of management roles are held by women.

In April 2014 an Employee Engagement Survey was conducted across NBN Co. Although the survey achieved a high participation rate of 80 per cent, the results showed an engagement score of just 44 per cent. NBN Co has used the results of this survey to develop an action plan focused on improving its culture, work practices, and career opportunities, and becoming one of the best places to work.

Human Resources and Industrial Relations

NBN Co has four enterprise bargaining agreements (EBAs). These cover employees in the technical, professional, call centre and clerical/administration areas. These EBAs are in place until late 2014. NBN Co is currently renegotiating the four EBAs.

At 30 June 2014 there were an estimated 5,254 external workers actively working on the construction of the NBN. There was no lost time due to industrial relations disputes during FY2014.

Health and Safety

NBN Co is committed to providing a safe and healthy working environment for its employees, contractors and visitors to its workplaces. The Company 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.

NBN Co is proud of its annual lost-time injury record over the past 12 months of 0.9 lost-time injuries per million work hours for employees, and 2.4 lost-time injuries per million work hours for contractors.

For further information refer to the Regulatory Reporting Requirements section on page 136–140.

Ecologically Sustainable Development (ESD)

NBN Co recognises that it will significantly increase its environmental footprint, as the network is built and powered technology is deployed. NBN Co has an ongoing commitment to ESD principles and ensuring these are incorporated into all aspects of the design, build and implementation of the NBN. NBN Co has continued to develop and implement processes and projects that help to reduce the impact the NBN will have on the environment. For further information refer to the Regulatory Reporting Requirements section on page 136–140.

Reconciliation Action Plan (RAP)

NBN Co's RAP outlines the practical actions the Company will undertake to build strong relationships and enhanced respect between Aboriginal and Torres Strait Islander people and other Australians.

Since the launch of the RAP in FY2013, NBN Co has implemented a number of actions to move towards a 'connected community' where Aboriginal and Torres Strait Islander people share in the benefits of the NBN no matter where they live.

Significant changes in state of affairs

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

Contributed equity increased by \$3.2 billion. Details of the changes in contributed equity are disclosed in Note 15 to the Financial Statements.

On 13 December 2013 the ACCC accepted NBN Co's SAU. The revised SAU provides a greater role for the ACCC in relation to the prices NBN Co can charge for new products, and provides the regulator with the ability to disallow product withdrawals as well as the power to rebalance NBN Co's prices.

During the year the Strategic Review⁷ and the Fixed Wireless and Satellite Review⁸ released a number of findings and recommendations.

The second version of the WBA was released in December 2013, and replaced the first version of the WBA on 1 April 2014.

On 8 April 2014 the revised Statement of Expectations was issued to NBN Co.

Prospects for future financial years

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

The implementation of the Strategic Review⁷, the Fixed Wireless and Satellite Review⁸ recommendations and the SoE (including further guidance from the Shareholder Ministers) requires assumptions to be made around the future outcomes that carry high levels of uncertainty at the date of this Annual Report.

NBN Co's equity funding arrangements are governed by the Amended Equity Funding Agreement (EFA) which took effect on 19 March 2014 between NBN Co and the Commonwealth. The EFA formalises the Commonwealth's commitment to provide equity up to a funding cap of \$29.5 billion. This agreement enables NBN Co to enter into long-term commercial contracts.

NBN Co's Draft 2014–17 Corporate Plan was lodged with the Shareholder Ministers on 12 June 2014.

⁷ Strategic Review – December 2013

<http://www.nbnco.com.au/content/dam/nbnco/documents/NBN-Co-Strategic-Review-Report.pdf>

⁸ Fixed Wireless and Satellite Review – May 2014.

http://www.nbnco.com.au/content/dam/nbnco/documents/NBNCo_Fixed_Wireless_and_Satellite_Review_07052014.pdf

Business Risks

NBN Co has identified a number of risks critical to the build and operation of the NBN. NBN Co has implemented mitigation strategies to ensure critical risks are monitored and managed appropriately.

The critical risks considered most likely to impact NBN Co's reputation and financial performance are:

- Significant Health, Safety or Environmental incident
- Unfavourable policy or regulatory environment in relation to the NBN

- Telstra and Optus renegotiation result in unfavourable terms
- Challenges in implementing the OMTM to achieve the expected results
- Ability to scale systems and processes to meet anticipated increase in activity, and in End-User connection processes to support product delivery.

These risks are monitored on a regular basis by the Board and Executive Team, who review the development and implementation of strategies to successfully mitigate each of these risks.

Board of Directors

Current Directors



Dr Ziggy Switkowski AO – Chairman (Non-Executive Director) was appointed Executive Chairman of NBN Co on 3 October 2013, and reverted to the role of Non-Executive Chairman from 2 April 2014 following the appointment of Mr Bill Morrow as Chief Executive Officer.

Dr Switkowski is Chairman of the Suncorp Group and a Director of listed companies Tabcorp Holdings and Oil Search Ltd. He is Chancellor of RMIT University.

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

He is a Fellow of the Australian Academy of Technological Sciences and the Australian Institute of Company Directors. Dr Switkowski's current term will expire on 2 October 2016.

Board of Directors

Current Directors



Mr Patrick Flannigan – (Non-Executive Director) was appointed as a Director on 11 November 2013. Mr Flannigan brings more than 25 years of experience in infrastructure services and has held senior roles in both private and publicly listed companies. He founded Utility Services Group in 2011, and serves as the Chief Executive Officer and Managing Director.

Mr Flannigan established his own business, Integrated Maintenance Services in 2000 and was the founding Managing Director and Chief Executive Officer of Service Stream Ltd for six years from 2003. He managed network construction as NBN Co's Head of Construction from 2009 to early 2011.

Mr Flannigan is a Fellow of the Australian Institute of Management, a Fellow of the Australian Institute of Company Directors and holds a Board position at the Australian Grand Prix Corporation. Mr Flannigan's current term will expire on 10 November 2016.



Mr Simon Hackett – (Non-Executive Director) was appointed as a Director on 11 November 2013. Mr Hackett brings more than 20 years of internet industry experience and has been a noted opinion leader in the broadband debate for many years.

Mr Hackett holds a Bachelor of Science from the University of Adelaide. While working at the university he became a part of the team that created the Australian Academic and Research Network (AARNet), the first emergence of the internet in Australia.

He founded internet service provider, Internode in 1991 and licensed carrier Agile in 1997. The group grew to be a national provider of internet services using ADSL2+, optical fibre and fixed wireless infrastructure. Internode was one of the first companies to connect to the NBN in 2010. The group was sold to iiNet Limited in early 2012.

Mr Hackett is a Fellow of the Australian Institute of Company Directors and a Fellow of the Australian Computer Society. His current term will expire on 10 November 2016.



Ms Alison Lansley – (Non-Executive Director) was appointed as a Director on 7 December 2012. Ms Lansley is an experienced corporate lawyer and business leader, with a long standing connection with the Australian telecommunications industry. She was a partner in the Mergers and Acquisitions practice of Mallesons Stephen Jaques for over 16 years. She is currently a Non-Executive Director of Schools Connect Australia Limited, Port Fairy Spring Music Festival Inc and Community Food Marketplace Limited.

Ms Lansley 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, and she headed the Victorian Regional Council of the Australian charity Redkite for several years. Ms Lansley's current term will expire on 6 December 2015.



Mr Justin Milne – (Non-Executive Director) was appointed as a Director on 11 November 2013.

His career combines experience in telecommunications, marketing and media. He has run three of Australia's largest Internet Service Providers and as CEO of OzEmail, MSN and BigPond built significant media businesses in the online and mobile phone worlds. He also helped Telstra become active in Social Networks. He has been responsible for many successful marketing campaigns and has been honoured with a number of awards.

He is a Non-Executive Director of Tabcorp, Members Equity Bank and NetComm Wireless. Mr Milne's current term will expire on 10 November 2016.



Mr Bill Morrow – (Managing Director) was appointed as Chief Executive Officer and a Director of NBN Co effective 2 April 2014. He joined NBN Co with a remit to ensure all homes, businesses and communities across Australia can access to high-speed broadband as soon as possible, at affordable prices and at least cost to taxpayers.

Mr Morrow is known for his global experience in leading complex turnarounds and capital intensive start-ups. His industry experience spans Fixed Line Broadband Services, Fixed Wireless, Mobile Wireless, and Gas and Electric Utilities.

Prior to his present role, Mr Morrow served as CEO of Vodafone Hutchison Australia in Sydney, CEO of Clearwire Corporation in Seattle, and CEO of Pacific Gas & Electric Co. in San Francisco. Previously he was CEO of Vodafone's Europe region through Vodafone Group PLC, and ran the group's businesses in Japan and the UK.

Mr Morrow holds an Associate of Science degree in Electrical Engineering from Condie College and a BA in Business Administration from National University in San Diego. Mr Morrow's current term as a Director will expire on 1 April 2017.



Dr Kerry Schott – (Non-Executive Director) was appointed as a Director on 28 September 2012.

She is currently the Project Director of the proposed sale of the New South Wales Government – owned electricity generating plants and was Managing Director and CEO of Sydney Water from 2006 to 2011. She was also Deputy Secretary, NSW Treasury and worked as an investment banker for more than 12 years. She has been an economist with the Reserve Bank of Australia and the Commonwealth Government, and as an academic at University College London and at Oxford University.

Dr Schott 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.

Board of Directors

Former Directors

Ms Siobhan McKenna – Chairman (Non-Executive Director, Chair of the Nominations Committee) was appointed as a Director on 5 August 2009 and reappointed on 5 August 2012. Ms McKenna was appointed as Chairman on 15 March 2013 and resigned from the Board effective 3 October 2013.

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 resigned from the Board effective 2 September 2013.

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. 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. Mr Quigley was reappointed as a Director on 15 March 2010 and again on 15 March 2013. Mr Quigley resigned from the Board effective 3 October 2013.

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 resigned from the Board effective 3 October 2013.

Mr Brad Orgill – (Non-Executive Director) was appointed as a Director on 5 August 2012. Mr Orgill was removed from the Board, after the Federal election, under Section 5.4.4 of NBN Co's Constitution effective 3 October 2013.

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 resigned from the Board effective 23 September 2013.

Company Secretary

Ms Debra Connor – was appointed as Company Secretary of NBN Co effective from 22 June 2010.

Ms Connor holds a Bachelor of Laws and a Graduate Diploma in Corporate Governance, and has completed postgraduate courses through Stanford and Columbia Universities in the United States and Italy respectively.

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

Directors' Interests

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

Board and Committee Meetings

The number of Board and Committee meetings held during 2013–2014 and the attendance by Directors at those meetings is shown in the table below:

	Board		Audit and Risk Committee		Communications Committee ¹		Remuneration and Nominations Committee ²		Contracts Committee ³		People and Performance Committee ⁴	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
Ziggy Switkowski ⁵	12	12	–	–	–	–	2	2	–	–	–	–
Bill Morrow ⁶	5	5	–	–	–	–	–	–	–	–	–	–
Kerry Schott	20	19	4	4	–	–	–	–	1	–	–	–
Alison Lansley	20	15	4	3	–	–	–	–	1	1	–	–
Patrick Flannigan ⁷	11	11	4	4	–	–	2	2	–	–	–	–
Justin Milne ⁸	11	11	–	–	2	2	2	2	–	–	–	–
Simon Hackett ⁹	11	9	–	–	2	2	–	–	–	–	–	–
Siobhan McKenna ¹⁰	8	8	–	–	–	–	1	1	–	–	1	–
Diane Smith-Gander ¹¹	7	4	2	2	–	–	1	1	–	–	1	1
Terry Francis ¹²	8	8	2	2	–	–	1	1	1	1	–	–
Brad Orgill ¹³	8	7	2	2	–	–	–	–	–	–	1	1
Mike Quigley ¹⁴	8	7	–	–	–	–	–	–	–	–	–	–
Rick Turchini ¹⁵	8	8	–	–	–	–	–	–	1	1	–	–

(a) Number of meetings held while a Director or committee member

(b) Number of meetings attended

Notes

1. The Communications Committee was established on 12 November 2013.
2. The Remuneration and Nominations Committee incorporates the Nominations Committee.
3. The Contracts Committee was dissolved on 12 November 2013.
4. The People and Performance Committee was dissolved on 12 November 2013.
5. Dr Switkowski was appointed to the Board effective 3 October 2013.
6. Mr Morrow was appointed to the Board effective 2 April 2014.
7. Mr Flannigan was appointed to the Board effective 11 November 2013.
8. Mr Milne was appointed to the Board effective 11 November 2013.
9. Mr Hackett was appointed to the Board effective 11 November 2013.
10. Ms McKenna resigned from the Board effective 3 October 2013.
11. Ms Smith-Gander did not attend the two Board meetings held on 2 and 5 August 2013 due to a declared conflict of interest. Ms Smith-Gander resigned from the Board effective 2 September 2013.
12. Mr Francis resigned from the Board effective 3 October 2013.
13. Mr Orgill was removed from the Board effective 3 October 2013.
14. Mr Quigley resigned from the Board effective 3 October 2013.
15. Mr Turchini resigned from the Board effective 23 September 2013.

Directors' and Officers' remuneration

Letter from the Chair of the Remuneration and Nominations Committee

I am pleased to present the remuneration report for the year ended 30 June 2014. The report sets out the remuneration approach and outcomes for NBN Co's Non-Executive Directors and members of the Executive Committee (ExCo). The ExCo includes the Chief Executive Officer (CEO) and Senior Executives who report directly to NBN Co's CEO.

NBN Co's remuneration strategy and policies must attract, retain and align suitably qualified people to the various phases of the organisation's evolution, as well as provide a strong 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) Program, 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; and
- Linking each executive's STI award to achievement of stretch performance conditions.

During the year, we introduced a new Committee – the Remuneration and Nominations Committee (R&NC), which replaces the People and Performance Committee and assumes the responsibilities of the Nominations Committee. The role and accountabilities of the R&NC reflect the more focused and streamlined approach to governance at NBN Co. The R&NC is responsible for establishing people management and remuneration policies that support the achievement of corporate objectives by attracting, retaining and rewarding the individuals and teams needed to make the organisation successful.

As part of the Strategic Review⁹, the Company initiated a significant restructure of the organisation during the reporting period. The primary purpose of the restructure was to provide greater clarity of roles and align the organisation with the current business strategy and stage in the NBN Co business cycle. An outcome of the Strategic Review was a new ExCo structure, effective 1 May 2014. Partly as a result of the new ExCo structure, there have been a number of changes to the composition of the Company's Key Management Personnel.

The Strategic Review was preceded by a revised Interim Statement of Expectations from the Shareholder Ministers. Incentive performance measures and targets were reviewed in December 2013 to take into account the revised Statement of Expectations.

⁹ *Strategic Review – December 2013*

<http://www.nbnco.com.au/content/dam/nbnco/documents/NBN-Co-Strategic-Review-Report.pdf>

New performance measures and challenging new targets for the second half of the year were agreed by the Board in February 2014. The new measures focused efforts on:

- Ensuring Premises are connected;
- Satisfying customers; and
- Achieving transformational objectives related to the Strategic Review.

The Board is pleased with performance against the new measures and targets, and determined to award a significant portion of the target STI pool for the second half of the year, in recognition of progress made against the Company's strategic objectives.

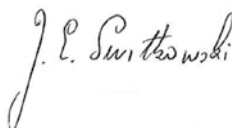
In line with the new expectations and organisational structure, NBN Co is currently conducting a broader review of the remuneration strategy and STI Program to ensure employees are appropriately incentivised and aligned with the Company's strategic direction. As a result of the review of the remuneration strategy, in the coming year, I would expect:

- A stronger link between the performance of the Company and variable remuneration outcomes for individual ExCo members.
- Enhanced alignment through a balanced scorecard of STI measures and key organisational priorities which will drive:
 - Positive outcomes for NBN users, with a greater focus on activation;

- Economic returns for the Australian taxpayer; and
- More effective deployment in the new Optimised Multi Technology Mix (OMTM) environment.

The Company will consult with Shareholder Ministers to further develop the proposed changes to the NBN Co remuneration framework, and will continue to monitor and adjust the remuneration strategy and broader talent management program at NBN Co to ensure the Company continues to deliver against its objectives.

Yours sincerely



Dr Ziggy Switkowski AO

Chair

This Remuneration Report includes information related to remuneration of NBN Co's Non-Executive Directors and members of the Executive Team (ExCo). The ExCo includes the Chief Executive Officer (CEO) and Senior

Executives who report directly to NBN Co's CEO. The Non-Executive Directors and ExCo members together form NBN Co's Key Management Personnel (KMP).

Key Management Personnel in 2013–14

Name	Title	2013–14 status	KMP status
Non-Executive Directors			
Ms Alison Lansley	Non-Executive Director	Full year	Current
Dr Kerry Schott	Non-Executive Director	Full year	Current
Mr Patrick Flannigan	Non-Executive Director	New starter	Current
Mr Simon Hackett	Non-Executive Director	New starter	Current
Mr Justin Milne	Non-Executive Director	New starter	Current
Dr Zygmunt (Ziggy) Switkowski	Executive Chairman (as at 3 October 2013)	New starter	Current
	Non-Executive Director (Chairman) (as at 2 April 2014)		
Mr Terrence (Terry) Francis	Non-Executive Director	Part year	Previous
Ms Siobhan McKenna	Chairman	Part year	Previous
Mr Bradley (Brad) Orgill	Non-Executive Director	Part year	Previous
Ms Diane Smith-Gander	Non-Executive Director (Deputy Chair)	Part year	Previous
Mr Richard (Rick) Turchini	Non-Executive Director	Part year	Previous
ExCo Members			
Mr William (Bill) Morrow	CEO (and Executive Director)	New starter	Current
Mr Michael (Mike) Quigley	CEO (and Executive Director)	Part year	Previous
Ms Caroline Lovell	Head of Regulatory Affairs	Full year	Current
Mr John Simon	Chief Customer Officer	Full year	Current
Mr Greg Adcock	Chief Operating Officer	New starter	Current
Mr Justin Forsell	Chief Legal Counsel	New appointment	Current
Mr J.B. Rousselot	Chief Strategy Officer	New starter	Current
Mr Brad Whitcomb	Chief Culture and Business Transformation Officer	New starter	Current
Mr Kevin Brown	Head of Corporate and Commercial	Part year	Previous
Mr Kieren Cooney	Chief Marketing Officer	Part year	Previous
Mr Mike Kaiser	Head of Quality	Part year	Previous
Mr Gary McLaren	Chief Technology Officer	Part year	Previous
Mr Robin Payne	Chief Financial Officer	Part year	Previous
Mr Ralph Steffens	Chief Operating Officer	Part year	Previous

Changes During the Reporting Period

Changes to KMP during the reporting period are shown below.

Name	Title	2013-14 status
Non-Executive Directors		
Mr Patrick Flannigan	Non-Executive Director	From 11 November 2013
Mr Simon Hackett	Non-Executive Director	From 11 November 2013
Mr Justin Milne	Non-Executive Director	From 11 November 2013
Dr Zygmunt (Ziggy) Switkowski	Executive Chairman	From 3 October 2013 until 1 April 2014
	Chairman	From 2 April 2014
Mr Terrence (Terry) Francis	Non-Executive Director	Until 3 October 2013
Ms Siobhan Mckenna	Non-Executive Director	Until 3 October 2013
Mr Bradley (Brad) Orgill	Non-Executive Director	Until 3 October 2013
Ms Diane Smith-Gander	Non-Executive Director	Until 2 September 2013
Mr Richard (Rick) Turchini	Non-Executive Director	Until 23 September 2013
ExCo Members		
Mr William (Bill) Morrow	CEO (and Executive Director)	From 2 April 2014
Mr Michael (Mike) Quigley	CEO (and Executive Director)	Until 3 October 2013
Mr Greg Adcock	Chief Operating Officer	From 1 November 2013
Mr Justin Forsell	Chief Legal Counsel	From 1 May 2014
Mr J.B. Rousselot	Chief Strategy Officer	From 3 October 2013
Mr Brad Whitcomb	Chief Culture and Business Transformation Officer	From 1 May 2014
Mr Kevin Brown	Head of Corporate and Commercial	Until 30 April 2014
Mr Kieren Cooney	Chief Marketing Officer	Until 18 February 2014
Mr Mike Kaiser	Head of Quality	Until 22 October 2013
Ms Caroline Lovell	Head of Regulatory Affairs	Until 30 June 2014
Mr Gary McLaren	Chief Technology Officer	Until 30 April 2014
Mr Robin Payne	Chief Financial Officer	Until 30 June 2014
Mr Ralph Steffens	Chief Operating Officer	Until 6 November 2013

On 1 July 2014, Mr Stephen Rue was appointed Chief Financial Officer. Except for the appointment noted there were no further changes to KMP after the close of the reporting period and prior to the publication of the Directors' Report.

Business Requirements Were Revised During the Reporting Period

During the period, the Company received a revised Interim Statement of Expectations from the Shareholder Ministers. In order to better meet the expectations of our Shareholders, the Company reviewed its business operations. As a result, a significant restructure of the organisation was initiated to provide greater

clarity of roles and align the organisation with the current business strategy and stage in the NBN Co business cycle.

The new ExCo structure was effective 1 May 2014. The current members of ExCo are listed on pages 16–17.

Review of NBN Co's Approach to Remuneration

In line with the new expectations and organisational structure, the Company is considering a number of changes to its reward strategy and frameworks.

Key potential changes are:

- In line with the new expectations and organisational structure, the Company has enhanced the alignment of the STI Program through a balanced scorecard of STI measures and key organisational priorities, which will drive:
 - Positive outcomes for NBN users, with a greater focus on activation
 - Economic returns for Australian taxpayers
 - More effective deployment in the new OMTM world.

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 Commonwealth Remuneration Tribunal (the Tribunal), the independent statutory body overseeing the remuneration of key Commonwealth offices. The Tribunal determines then directs the Company regarding 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.

The Tribunal has set annual Chair, Deputy Chair and Board member base fees. The base fee covers all activities undertaken by a member on behalf of the Company. Committee work is included in the base fee. As a result, the fees shown in the table below are the total fees payable. Remuneration packaging may be made available to Non-Executive Directors within the fees specified. Statutory superannuation is paid in addition to these fees.

The Tribunal set the following Non-Executive Director fees (excluding superannuation) during 2012–13 and 2013–14. The Tribunal determined to increase 2013–14 fees by 2.4 per cent over 2012–13 levels.

Board position	2013–14 annual entitlement (from 1 July 2013)	2012–13 annual entitlement (from 1 July 2012)
Chair	\$209,630	\$204,710
Deputy Chair	\$168,770	\$164,810
Non-Executive Directors	\$104,860	\$102,400

Remuneration and Talent Governance at NBN Co

The Company introduced a new Committee during the year – the Remuneration and Nominations Committee (R&NC), which replaces the People and Performance Committee and assumes the responsibilities of the Nominations Committee. The new R&NC and its associated charter reflect the more focused and streamlined approach to employment management and remuneration governance at NBN Co.

The role of the R&NC is to assist the Board in fulfilling its governance responsibilities in relation to establishing people management and remuneration policies that support the achievement of corporate objectives, by attracting, retaining and rewarding the individuals and teams needed to make NBN Co successful.

The R&NC has the following responsibilities:

- Compliance: ensuring compliance with laws, regulations and statutory reporting requirements
- Human Resource Management (HRM): administering the annual review and making recommendations to the Board regarding NBN Co's key HRM policies and practices to ensure HRM at NBN Co is effective, practical and conducive to NBN Co meeting its objectives
- Diversity: overseeing an annual review of diversity, including providing an annual workforce diversity report to the Board
- CEO and ExCo accountabilities, performance and remuneration: approving remuneration policies and other terms and conditions of service of the CEO and members of the ExCo; and monitoring, reviewing and making recommendations to the Board regarding the accountabilities and objectives of the CEO and members of ExCo

- Other employee performance and talent management: monitoring NBN Co's performance management and talent management programmes
- Provision of recommendations to the Shareholder Ministers on Board composition and membership, CEO recruitment, and succession planning for Non-Executive Directors and the CEO.

The R&NC retains final discretion regarding the remuneration framework and individual payments for all employees, including the ExCo.

Support From Management and External Advisors

To inform its decisions, the R&NC 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 R&NC, providing independent review and advice regarding remuneration.

During FY2014, NBN Co received external advice in relation to remuneration from Ernst & Young (EY). The advice included market practice relating to current and emerging trends in executive remuneration design, and relevant legislative and regulatory developments. None of the advice provided during the year by EY included a remuneration recommendation as defined in the *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011*. In line with good governance, NBN Co requested Hay Group to conduct a review of NBN Co's approach to job evaluation and market benchmarking during the year.

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) Program, 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 the achievement of stretch performance conditions.

NBN Co's remuneration policies must attract, retain and align suitably qualified people to the various phases of the organisation's evolution, covering designing, planning, building and operating the broadband network. The policies are designed to achieve remuneration that is:

- Market Competitive
 - Fixed remuneration that 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 to understand with clear and concise disclosure
 - Compliant with relevant legislative frameworks.

Executive Remuneration

The list of ExCo members during FY2014 and disclosed in this report is shown on page 59 and a summary of remuneration received by ExCo members in FY2014 is shown on pages 59–60.

Executive Remuneration Framework

Remuneration Structure

NBN Co's remuneration structure is designed to responsibly, fairly and competitively reward employees, while complying with all the Company's regulatory obligations. 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 a superannuation fund. Non-cash benefits and non-tangible rewards such as flexible work arrangements 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 depends on the attaining strategic performance measures. All ExCo members are eligible to participate in the STI Program.

All ExCo members and other participants in the STI Program are required to defer receipt of a portion of any STI awarded. Deferred amounts are subject to clawback. For ExCo members, one-third of the actual STI is deferred for a period of two years.

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

NBN Co is currently reviewing the Company's incentive program to ensure employees are appropriately incentivised and the incentive program is aligned with the Company's strategic direction.

Remuneration Benchmarking

NBN Co aims to position remuneration competitively against comparable organisations. Senior executive roles (including ExCo) 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 relativities.

To ensure consideration of individual and Company performance and market conditions, overall ExCo remuneration levels are reviewed annually by the Board.

Remuneration Mix

NBN Co's remuneration structure aims to provide ExCo members with a mixture of fixed and at-risk remuneration. During FY2014, all ExCo members had a target total remuneration mix made up of 77 per cent fixed remuneration and 23 per cent at-risk remuneration. The target STI opportunity for ExCo members during FY2014 was 30 per cent of the participant's TFR and the maximum STI opportunity was 43 per cent of the participant's TFR. Because receipt of at-risk remuneration is tied to the achievement of Company and individual performance conditions, actual remuneration may vary from the target remuneration.

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 Fringe Benefit Tax 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 ExCo members' contracts. The TFR of all ExCo members is reviewed annually.

Short-Term Incentive Program

The R&NC believes an essential element of the Company's remuneration framework should be an incentive program that:

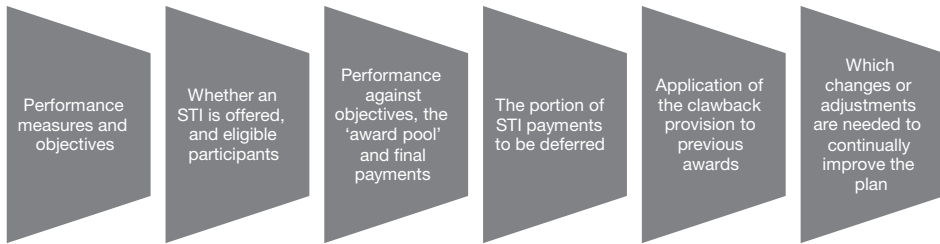
- Appropriately focuses participants on the objectives and behaviours critical to the success of the Company
- Unifies efforts in pursuit of NBN Co's plan
- Increases the value of the Company to Australian citizens.

NBN Co's STI Program gives ExCo members the opportunity to receive at risk remuneration based first on Company performance and then on individual performance during the financial year. The STI Program:

- Rewards ExCo members 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 R&NC in the STI Program

Each year, the R&NC determines the following key aspects of the STI Program.



The R&NC retains discretion under the Program rules to adjust STI payments in light of unforeseen circumstances or unintended outcomes.

Funding Approach

Corporate performance determines the size of the target STI pool for the applicable year. The entire target STI pool can be eliminated if the R&NC determines the Company has not met a gateway measure. The gateway measure is determined by the R&NC at the start of the performance period. For FY2014, NBN Co's safety record and total budget performance were the performance gateway measures.

If a gateway measure is met during the performance period, the R&NC determines whether to adjust the target STI pool up or down (ranging between 0 per cent and 120 per cent 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.

Eligible Participants

In FY2014, ExCo members, executives and select managers were eligible to participate in the STI Program.

STI Performance Measures

Company performance impacts the STI award pool and therefore the level of STI payments received by participants. Performance measures and targets align with the Corporate Plan. The required level of achievement against each measure is set at the start of the performance period.

For the first half of the FY2014 performance year, the award pool was determined based on the R&NC's assessment of the Company's achievement against the following performance measures:

- Premises Passed and Covered
- Premises Activated
- End-User Satisfaction
- Controllable Operating Expenditure.

In light of the revised Statement of Expectations, performance measures and targets were reviewed in December 2013. In January 2014, the R&NC agreed to new performance measures and targets for the remainder of the year. The performance measures for the second half of the FY2014 were:

- Premises Passed and Covered
- Premises Serviceable

- Premises Activated
- Customer Engagement Index
- Controllable Operating Expenditure and
- Progress on Transformation.

FY2014 Outcomes

For the first half of FY2014, performance against the STI measures was insufficient to warrant any award in relation to performance in the first half of the year. For the second half of the financial year, performance against the new measures was strong, particularly around achievement of the transformation objectives, justifying the award of a significant portion of the target pool.

For the second half of the FY2014, the STI award pool was 93 per cent of the revised target STI pool. There was no contribution to the pool for first-half performance.

For ExCo members, one-third of the actual STI is deferred for a period of two years, and is subject to clawback. The R&NC agreed that no deferral would apply for FY2014.

Summary of Executive Employment Contracts, Termination Payments and Other Long-Term Benefits

Service Agreements

Remuneration and other terms of employment for the CEO and other ExCo members are formalised in service agreements, which include termination arrangements. For the CEO, the notice for termination that must be provided by either NBN Co or the CEO is six months. The CEO is entitled to a termination payment of 12 months TFR, where the CEO is terminated by NBN Co.

For other members of the ExCo, the notice for termination that must be provided by either NBN Co or other members of the ExCo is three months. Where they are terminated by NBN Co, ExCo members are entitled to a termination payment ranging from three to 12 months TFR.

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.

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.

There are currently no additional benefits, entitlements or arrangements in place for any ExCo member.

Loans to Directors and Senior Executives

No loans were provided to Directors or senior executives, their close family members, or entities they control or have significant influence over during FY2014.

Transactions with Related Parties

During the year a contract was entered into for \$60,000 (2013: nil) with Cicomiline Pty Ltd, of which Justin Milne is a 100 per cent Shareholder. The contract is for the provision of strategic advice or recommendations as required by NBN Co in relation to the negotiations between NBN Co and Telstra Corporation Limited, in respect of the proposed amendments to the Telstra Definitive Agreements. Mr Milne excused himself during discussions on this contract. The amount outstanding at 30 June 2014 was \$10,750 (2013: nil).

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 over.

Equity Movements

There were no movements in rights, options, and other equity instrument holdings and transactions involving equity instruments involving Directors or senior executives, their close family members, or entities they control or have significant influence over.

Employee Remuneration

NBN Co General Employee Remuneration Framework

NBN Co's employee remuneration framework is based on employee pay bands. Pay bands are set with reference to the external market through survey data and are based on job function and accountability level. The pay band of an employee's role is determined using a role evaluation rating system. Once a role has been assigned to a pay band, 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 within a reasonable range, based on their experience, ability and contribution.

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. No non-EBA employee has been guaranteed a TFR movement.

Non-Executive Director and ExCo Remuneration Disclosures in Detail

Remuneration Tables

Remuneration for Non-Executive Directors and ExCo members for FY2014 and FY2013 is shown in the tables below.

Year ending 30 June 2014

Position	Note	Short-term benefits			Post-employment	Other-long term benefits		Termination benefits (4)	Total remuneration
		Base salary and fees (1)	STI and bonuses (2)	Non-cash benefits	Superannuation contributions	STI deferral (2)	Long service leave (3)		
		\$	\$	\$	\$	\$	\$	\$	\$
Non-Executive Directors									
P Flannigan	5	67,410	-	-	6,235	-	-	-	73,645
T Francis	6	27,355	-	-	2,530	-	-	-	29,885
S Hackett		67,410	-	-	6,235	-	-	-	73,645
A Lansley		104,860	-	-	10,812	-	-	-	115,672
S McKenna	7	54,686	-	-	4,654	-	-	-	59,340
J Milne		67,410	-	-	6,235	-	-	-	73,645
B Orgill	8	27,355	-	944	4,130	-	-	-	32,429
K Schott		104,860	-	-	9,901	-	-	-	114,761
D Smith-Gander	9	28,808	-	-	2,665	-	-	-	31,473
Z Switkowski	10	453,623	-	-	13,331	-	-	-	466,954
R Turchini	11	23,942	-	-	2,425	-	-	-	26,367
Executive Directors									
M Quigley	12	486,187	-	-	28,277	-	(86,266)	1,640,802	2,069,000
W Morrow	13	562,223	156,400	-	4,444	-	756	-	723,823
Other ExCo Members									
G Adcock	14	720,002	217,900	-	18,711	-	971	-	957,584
K Brown	15	732,368	82,800	-	14,812	-	(38,795)	1,126,885	1,918,070
K Cooney	16	418,817	25,000	-	11,850	-	(2,863)	490,060	942,864
J Forsell	17	96,954	83,700	-	2,962	-	1,372	-	184,988
M Kaiser	18	181,996	-	-	7,406	-	(22,463)	407,330	574,269
C Lovell		632,225	90,700	-	17,775	-	18,172	-	758,872
G McLaren	19	629,354	70,300	-	14,812	-	(47,426)	545,356	1,212,396
R Payne	20	729,572	104,600	-	17,775	-	(25,228)	544,858	1,371,577
J.B. Rousselot	21	543,734	104,600	-	13,331	-	736	-	662,401
J Simon		632,225	90,700	-	17,775	-	2,120	-	742,820
R Steffens	22	372,446	-	-	8,887	-	(4,416)	736,003	1,112,920
B Whitcomb	23	128,890	36,700	-	4,174	-	175	-	169,939

Position	Short-term benefits			Post-employment	Other-long term benefits		Termination benefits (4)	Total remuneration
	Base salary and fees (1)	STI and bonuses (2)	Non-cash benefits	Superannuation contributions	STI deferral (2)	Long service leave (3)		
Note	\$	\$	\$	\$	\$	\$	\$	\$
Non-Executive Directors	1,027,719	-	944	69,153	-	-	-	1,097,816
Executive Directors and other ExCo members	6,886,383	1,063,400	-	163,601	-	(203,155)	5,491,294	13,401,523
Total	7,914,102	1,063,400	944	232,754	-	(203,155)	5,491,294	14,499,339

Notes:

1. Base salary includes executive's accrued annual leave entitlements, and any allowances paid in cash.
2. The cash component of bonuses to be paid in September 2014 relating to FY2014 performance. One-third of the STI bonus relating to FY2014 performance is deferred for a period of two years; however, the R&NC agreed that no deferral will apply for FY2014. STI payments in the table above have been pro-rated for individuals who were not KMP for the full year.
3. Long service leave relates to amounts accrued or released 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. Accrued annual leave entitlements paid out on termination have been included.
5. Mr Flannigan was appointed as a Director on 11 November 2013.
6. Mr Francis resigned as a Director on 3 October 2013.
7. Ms McKenna resigned as a Director on 3 October 2013.
8. Mr Orgill resigned as a Director on 3 October 2013.
9. Ms Smith-Gander resigned as a Director on 2 September 2013.
10. Dr Switkowski was appointed Executive Chairman on 3 October 2013. Base salary includes a total of \$297,919.06 paid for Dr Switkowski's term as Executive Chairman from 3 October 2013 to 1 April 2014.
11. Mr Turchini resigned as a Director on 23 September 2013.
12. Mr Quigley resigned as Chief Executive Officer on 3 October 2013. A total of \$193,266.32 was paid for annual leave entitlements on termination.
13. Mr Morrow was appointed Chief Executive Officer on 2 April 2014. His TFR is \$2,300,000 per annum and if the Company achieves all performance metrics at 100 per cent, he may receive an STI payment of 30 per cent of TFR.
14. Mr Adcock was appointed as KMP from 1 November 2013.
15. Mr Brown ceased to be KMP on 30 April 2014 and concluded employment on 31 July 2014. Base salary in the table above reflects pay until 30 April 2014, and salary received from 1 July 2014 to 31 July 2014 has been included as part of Mr Brown's termination benefit. A total of \$44,859.87 was paid for annual leave entitlements on termination.
16. Mr Cooney ceased to be KMP on 18 February 2014 and concluded employment on 1 June 2014. Base salary in the table above reflects pay until 18 February 2014. Base salary and bonus received from 19 February 2014 to 1 June 2014 has been included as part of Mr Cooney's termination benefit. A total of \$22,793.21 was paid for annual leave entitlements on termination.
17. Mr Forsell was appointed as KMP from 1 May 2014.
18. Mr Kaiser ceased to be KMP on 22 October 2013 and concluded employment on 25 October 2013. Base salary in the table above reflects pay until 22 October 2013. A total of \$20,004.03 was paid for annual leave entitlements on termination.
19. Mr McLaren ceased to be KMP on 30 April 2014 and concluded employment on 30 May 2014. Base salary in the table above reflects pay until 30 April 2014. A total of \$21,642.71 was paid for annual leave entitlements on termination.
20. Mr Payne ceased to be KMP on 30 April 2014. Base salary in the table above reflects pay until 30 June 2014 while he was Acting Chief Financial Officer from 1 May 2014 to 30 June 2014. Salary received from 1 July 2014 to 1 September 2014 has been included as part of Mr Payne's termination benefit. Mr Payne concluded employment on 1 September 2014. A total of \$42,016.7 was paid for annual leave entitlements on termination.
21. Mr Rousselot was appointed as KMP from 3 October 2013.
22. Mr Steffens ceased to be KMP on 6 November 2013 and concluded employment on 8 November 2013. Total remuneration in the table above reflects pay until 6 May 2013. A total of \$121,483.89 was paid for annual leave entitlements on termination.
23. Mr Whitcomb was appointed as KMP from 1 May 2014.

Year ending 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 and bonuses (2)	Non-cash 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
Other ExCo members									
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
Non-Executive Directors		906,426	–	–	79,020	–	–	–	985,446
Executive Director and other ExCo members		7,557,596	–	–	186,233	–	178,315	–	7,922,144
Total		8,464,022	–	–	265,253	–	178,315	–	8,907,590

Notes:

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 2013 relating to FY2013 performance. One-third of the STI bonus relating to FY2013 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 on 14 August 2012.
6. Mr Hay's term as a Director ceased on 4 August 2012.
7. Ms Lansley was appointed to the Board on 7 December 2012.
8. Ms McKenna was appointed to the role of Chairman on 15 March 2013.
9. Mr Orgill was appointed to the Board on 5 August 2012.
10. Dr Schott was appointed to the Board on 28 September 2012.
11. Mr Tilbrook's term as a Director ceased on 4 August 2012.
12. Mr Young's term as a Director and Chairman ceased on 14 March 2013.
13. Mr Hassell resigned on 15 February 2013. A total of \$7,562, previously accrued, 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.

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 2014, no material claims have been made.

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

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

Corporate Information

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

Significant Events Subsequent to Reporting Date

On 17 July 2014, the Supreme Court of NSW handed down judgment in Telstra's favour in the litigation between NBN Co and Telstra. The dispute between NBN Co and Telstra relates to the Telstra Definitive Agreements, specifically the Infrastructure Services Agreement (ISA). The subject matter of the dispute is one of contractual interpretation as to the date from which Consumer Price Index (CPI) adjustments are to be made to the infrastructure prices applicable under the ISA. NBN Co considers that adjustments should be made from 1 January 2013, whereas Telstra considers it should be from 1 January 2012.

At the date of signing the financial statements, NBN Co is still considering its options of appealing the decision of the Supreme Court of NSW. The impact of the decision should an appeal not be lodged is not material to the financial statements at 30 June 2014, but would increase property, plant and equipment assets by \$114 million, increase other financial liabilities by \$129 million and increase the loss for the period by \$15 million.

On 30 July 2014, NBN Co Limited selected Ericsson Australia to deliver Fixed Wireless and Satellite services to families and businesses across regional and rural Australia. In addition, Ericsson will manage the satellite ground systems and migrate 42,000 existing interim satellite users.

Except for items noted above, no other matter or circumstance has arisen since 30 June 2014 to the date of signing of this report that has significantly affected, or may affect the:

- NBN Group's operations in future financial years
- Results of those operations in future financial years
- NBN Group's state of affairs in future financial years.

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.

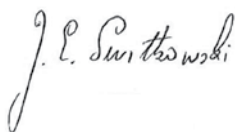
Auditor Independence

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 17 to the Financial Statements.

Signed in accordance with a resolution of Directors.



Dr Ziggy Switkowski AO

Chairman

14 August 2014





Corporate Governance Statement

NBN Co is a Commonwealth Company as defined in the *Commonwealth Authorities and Companies Act 1997* (CAC Act) (and from 1 July 2014, in Section 89 (1) of the *Public Governance, Performance and Accountability (PGPA) Act 2013*), a Government Business Enterprise (GBE) and a Company subject to the *Corporations Act 2001*.

Corporate Governance Statement

NBN Co and its subsidiaries together are referred to as the NBN Group in this statement. The Board of Directors of NBN Co 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 regard to:

- *National Broadband Network Companies Act 2011*
- *Commonwealth Authorities and Companies Act 1997* (and from 1 July 2014, the PGPA Act 2013)
- *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 (second edition and from 1 July 2014 the third edition) relevant to NBN Co.

A dedicated corporate responsibility section on the NBN Co website (<http://www.nbnco.com.au/corporate-information/about-nbn-co/corporate-responsibility.html>) provides information about the Company's governance framework and associated practices.

Our Shareholders

Ownership

NBN Co is wholly owned by the Commonwealth of Australia.

Shareholder Ministers

The Shareholder Ministers are the Minister for Communications and the Minister for Finance.

Shareholder Communication

In compliance with the SoE, CAC Act (and from 1 July 2014, the PGPA Act) 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 has submitted the following Corporate Plans to its Shareholder Ministers:

- 2011–13 Corporate Plan in December 2010
- 2012–15 Corporate Plan in August 2012
- Draft 2013–16 Corporate Plan in June 2013
- Draft 2014–17 Corporate Plan in June 2014.

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 CAC Act (and from 1 July 2014 Section 97 of the PGPA Act).

The Board Of NBN Co

Role of the Board

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

The Board is responsible for NBN Co meeting its accountability obligations to the Australian Government by submitting a rolling three-year Corporate Plan and Annual Report, monitoring compliance with Australian Government policies, and overseeing the development and implementation of a robust risk management framework. Ministers and their departments are also kept abreast of any significant developments on a monthly basis.

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.

NBN Co's Board charter is available in the corporate responsibility 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.

The Chairman is appointed by the Commonwealth from among the Directors in accordance with rule 7.3.1 of the constitution. Further, section 2.7(b) of the GBE Guidelines states that the Chairman shall not be an executive of the GBE, unless otherwise agreed by the Shareholder Ministers.

Directors are appointed by the Commonwealth. 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.

On 3 October 2013 Dr Switkowski was appointed as a Director and Chairman of NBN Co. He also assumed the executive role of CEO effective from 3 October 2013 pending the appointment of a CEO of NBN Co, and reverted to the role of Non-Executive Chairman on 2 April 2014.

The current Board comprises six Non-Executive Directors and one Managing Director as at signing date. Details of the current Directors and Company Secretary, including names, appointment dates and term expiration dates, together with Directors' remuneration are included in the Directors' Report on pages 43–46 of the Annual Report.

The number of Board meetings each Director was eligible to attend and the number of meetings attended during the period from 1 July 2013 to 30 June 2014 is provided in the table on page 47.

Corporate Governance Statement

Board membership during FY2014 is as follows. Directors were in office for this entire period unless otherwise stated.

- Ziggy Switkowski AO (Chairman – appointed 3 October 2013)
- Bill Morrow (Managing Director and CEO – appointed 2 April 2014)
- Kerry Schott
- Alison Lansley
- Patrick Flannigan (appointed 11 November 2013)
- Justin Milne (appointed 11 November 2013)
- Simon Hackett (appointed 11 November 2013)
- Siobhan McKenna (resigned 3 October 2013)
- Diane Smith-Gander (resigned 2 September 2013)
- Terry Francis (resigned 3 October 2013)
- Brad Orgill (removed 3 October 2013)
- Mike Quigley (resigned 3 October 2013)
- Rick Turchini (resigned 23 September 2013).

Subsidiaries

The activities of each subsidiary in the NBN Group are overseen by their own Board of Directors. These boards currently comprise senior management personnel from NBN Co.

Director Induction and Education

Appointments to the Board during the period 1 July 2013 to 30 June 2014 were:

- Dr Ziggy Switkowski AO, who was appointed as Executive Chairman on 3 October 2013 and became Non-Executive Chairman on 2 April 2014
- Mr Patrick Flannigan, who was appointed as a Director on 11 November 2013
- Mr Simon Hackett, who was appointed as a Director on 11 November 2013
- Mr Justin Milne, who was appointed as a Director on 11 November 2013
- Mr Bill Morrow, who was appointed as a Director and Chief Executive Officer on 2 April 2014.

NBN Co has an induction program for new Directors. The program is reviewed at least annually by the Company Secretary in consultation with the Shareholder Ministers' departments.

Ongoing education for Directors is delivered through individual briefings, presentations made by NBN Co senior executives and Directors visiting some of NBN Co's operational locations.

Directors have ongoing access to professional development opportunities that directly relate to their role as a Director of NBN Co and that will benefit Board performance.

Conflict of Interest

Directors are cognisant of their ongoing obligations to keep the Board informed of an interest that could potentially conflict with the interests of the NBN Group.

At least annually, Directors provide NBN Co with a declaration of personal interests.

Where a Director has declared a 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, the Director does not receive copies of Board or Committee reports relating to the matter and generally recuses himself/herself from the Board or Committee meeting at the time the matter is being considered. Consequently, the Director also does not vote on the matter.

Any disclosures made by a Director at a meeting are recorded in the minutes.

Dealings in Company Shares

The Directors of NBN Co have no interests in the shares of NBN Co, which are held solely by the Commonwealth of Australia.

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.

Director Remuneration

The Tribunal determines the remuneration and travel allowances payable to Non-Executive Directors, including the Chairman. The remuneration of the Managing Director is set by the Board in consultation with NBN Co's R&NC. Full details of Directors' remuneration are included in the Directors' Report.

Board, Committees and Individual Director Performance

Board performance reviews are undertaken annually. They are facilitated internally by the Chairman and externally by an independent third party in alternate years.

Annual reviews of the performance of the whole of Board, Board Committees and individual Directors have been undertaken in 2011, 2012 and 2013. An internal review will be undertaken by the Chairman in 2014.

Strategic Planning

In March 2014, the Board held its third strategic planning meeting. The meeting was held in Sydney and was attended by the six Directors, representatives of the Shareholder Ministers' Departments, Mr Bill Morrow and guest presenters.

Board Diversity

In accordance with its obligations under the GBE Guidelines and cognisant of the Commonwealth Government's commitment to 40 per cent representation of women on Government boards by 2015, the Board of Directors of NBN Co, through its R&NC, 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, finance, legal, media and public relations, and information technology.

As at 30 June 2014, 30 per cent of Board Directors were women.

Corporate Governance Statement

Board Committees

To assist in the performance of its responsibilities, the Board currently has three Committees, namely the:

- Audit and Risk Committee
- Remuneration and Nominations Committee
- Communications Committee.

Each Committee operates under a charter which is reviewed annually by the Committee. Any proposed changes to a Committee charter must be approved by the Board.

Committee charters are available in the corporate responsibility section of the NBN Co website.

All Directors have access to Committee reports and minutes via NBN Co's Board portal.

The Contracts Committee and People and Performance Committee were dissolved on 12 November 2013.

The Nominations Committee was incorporated into the Remuneration and Nominations Committee as at 7 February 2014.

The remit of the Audit Committee was expanded to include risk, and the Committee was renamed the Audit and Risk Committee effective from the Committee meeting held on 10 February 2014.

The number of Committee meetings each Committee member was eligible to attend and the number of meetings attended during the period from 1 July 2013 to 30 June 2014 is provided in the table on page 47.

Audit and Risk Committee

The Committee was established on 13 August 2009.

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 CAC Act

(from 1 July 2014 the PGPA Act) and the *Corporations Act 2001*, and provides a forum for communication between the Board, senior management 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 and Risk Committee is neither the Chairman nor an Executive Director of NBN Co. The Committee is responsible for monitoring the effective implementation of NBN Co's Risk Management, Fraud Control and Integrated Assurance frameworks.

The charter recommends the Committee will normally meet four times each year.

The Committee met with the External Auditor during the year in accordance with Section 3.5 (d) of its charter.

The current Committee membership is:

- Kerry Schott (Chair – appointed 12 November 2013)
- Alison Lansley (appointed 28 November 2013)
- Patrick Flannigan (appointed 28 November 2013)

Past membership during FY2014 was:

- Terry Francis (Chair – appointed 5 August 2012 and resigned 3 October 2013)
- Diane Smith-Gander (appointed 12 October 2012 and resigned 2 September 2013)
- Brad Orgill (appointed 5 August 2012 and removed 3 October 2013).

Communications Committee

The Committee was reconstituted on 12 November 2013. It assists the Board in fulfilling its governance responsibilities by supervising the external communications of NBN Co and of its subsidiaries to all stakeholders other than Retail Service Providers. The Committee consists of at least two members, the majority being independent Non-Executive Directors.

The charter recommends the Committee will normally meet four times each year.

Current membership is:

- Justin Milne (Chair – appointed 12 November 2013)
- Simon Hackett (appointed 12 November 2013).

The reconstituted Committee held its first meeting on 14 February 2014.

Remuneration and Nominations Committee

The Committee was established on 7 February 2014 and incorporates the People and Performance Committee and the Nominations Committee, which were originally established on 11 September 2009 and 11 February 2011, respectively.

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
- 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 selected policies are available on the corporate responsibility section of the NBN Co website.

The Committee is chaired by the Chairman of the Board and consists of at least two additional Non-Executive Directors.

The charter recommends the Committee will meet a minimum of three times each year.

Current membership is:

- Ziggy Switkowski AO (Chair – appointed 7 February 2014)
- Patrick Flannigan (appointed 7 February 2014)
- Justin Milne (appointed 7 February 2014).

Past membership during FY2014 was:

- Siobhan McKenna (Chair – appointed 21 March 2013 and resigned 3 October 2013)
- Diane Smith-Gander (appointed 11 February 2011 and resigned 2 September 2013)
- Terry Francis (appointed 11 February 2011 and resigned 3 October 2013).

Attendance at Meetings

All Directors who are not Committee members are entitled to attend any Committee meeting. Subject to conflicts of interest, all Directors have access to all Board and Committee reports via NBN Co's portal.

Agendas for all Board meetings are prepared and finalised by the Company Secretary in consultation with the Chairman and the CEO.

Agendas for all Committee meetings are prepared and finalised by the Company Secretary in consultation with the Committee Chair and appropriate members of NBN Co's Executive Team.

Members of NBN Co's Executive Team are invited to participate in Board and Committee meetings.

Directors receive Board and Committee reports in advance of each meeting via NBN Co's Board portal.

Corporate Governance Statement

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 and operational planning, and internal audit practices. During FY2014, NBN Co formally adopted and commenced implementing an Integrated Assurance Framework that links enterprise risks to controls and assurance activities.

Risk Management

NBN Co's formal Risk Management Policy, which is 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 forms part of the framework that 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 and Risk Committee is to assist the Board of Directors in overseeing the risk management framework. The Board of Directors has oversight of the effectiveness of the management of the key business risks facing NBN Co.

Internal Audit

The General Manager – Risk and Internal Audit is the Chief Audit Executive at NBN Co. NBN Co operates a co-source internal audit model. Following a competitive tender process, KPMG was appointed as principal co-source provider on 1 July 2012 for a period of 3.5 years. Other providers are used on an as needs basis.

An annual internal audit plan is presented to and endorsed, by the Audit and Risk Committee. Outcomes of the internal audit reviews are provided to the Committee for its review. The General Manager – Risk and Internal Audit meets with Committee members to discuss matters.

External Audit

Under section 35 of the CAC Act (and from 1 July 2014 Section 98 of the PGPA Act), the Auditor-General is responsible for auditing the financial statements. In addition, NBN Co's Annual Report is tabled in Parliament and its financial accounts lodged with the Australian Securities and Investments Commission. The Australian National Audit Office has contracted with PwC to audit the NBN Group on behalf of the Auditor-General.

The NBN Group applied audit independence principles in relation to the External Auditors.

The Audit and Risk Committee meets with the External Auditor during the year to:

- Discuss the external audit plans, and 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, assess the adequacy of accounting and financial controls, and monitor the implementation of any recommendations made
- Finalise annual reporting, and 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 2014, 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 CAC Act 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 that applies to its employees, contractors and consultants and 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 responsibility section of the NBN Co website. NBN Co's Directors Code of Conduct is contained within the Board's charter.

Fraud Risk and 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 Australian Standards *AS 8001-2008: Fraud and Corruption Control* and the *AS/NZS ISO 31000:2009 Risk Management – Principles and Guidelines*.

Corporate Governance Statement

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 and Corruption Control Policy and the Fraud and Corruption Control Plan also contribute to the sound management of fraud risk and detail the requirements and responsibilities for the prevention, detection and response to fraud and corruption. In addition, the Fraud and Corruption Control 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 or corrupt activity.

Whistleblower Policy

NBN Co has a formal Whistleblower Policy, which, among other things, captures the requirements of the *Public Interest Disclosure Act 2013* (Cth) which commenced in early 2014. The Policy was created to promote and maintain an open working environment in which employees, Directors and suppliers can raise concerns regarding unethical, unlawful or undesirable conduct. This open working environment is underpinned by the NBN Co core values, including trust and integrity.

Privacy Policy

NBN Co has a detailed Privacy Policy, which is published on the NBN Co website¹. The Privacy Policy is designed to inform individuals who interact with NBN Co about what will happen to personal information NBN Co handles. NBN Co also employs a Privacy Officer and has a cross-functional privacy program. NBN Co is committed to complying with privacy law, 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 the Company, including the supply of certain services and the undertaking of related activities on a non-discriminatory basis, as well as implementing and complying with NBN Co's Special Access Undertaking.

Gender Diversity

As part of its review of key policies, the Remuneration and Nominations Committee voluntarily adopted 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 per cent representation of women on Government boards by 2015, the Board of Directors of NBN Co, through its Remuneration and 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 and public relations, and information technology.

As at 30 June 2014, diversity metrics showed that within NBN Co's workforce, women comprised:

- 29 per cent of all employees
- 20 per cent of all managers
- 18 per cent of senior managers
- 30 per cent of NBN Co's Board of Directors.

¹ www.nbnco.com.au/privacy

Value for Money

NBN Co is a GBE. 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 Procurement Rules, and Buying Guide, and be executed in accordance with the Company's 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 a critical element in the NBN Co procurement.

NBN Co's approach in achieving value for money in procurement is through specific guiding principles that 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.

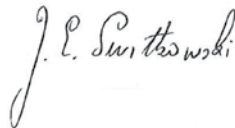
Commerciality – Select a procurement process that is efficient and most appropriate to the expenditure profile and target objectives for NBN Co and suppliers. Evaluate supplier proposals against applicable evaluation criteria, assessing all relevant costs, benefits and risks on a whole-of-life basis (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 that meets both the business and cost objectives of NBN Co over the intended service life of the equipment.



Dr Ziggy Switkowski AO
Chairman



Dr Ziggy Switkowski AO
Chair of the Board
NBN Co Limited
Level 11, 100 Arthur Street
North Sydney NSW 2060
Australia

**NBN CO LIMITED FINANCIAL REPORT 2013–14
AUDITOR'S INDEPENDENCE DECLARATION**

In relation to my audit of the 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 2014, 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

Michael J Watson
Group Executive Director

Delegate of the Auditor-General

Canberra
14 August 2014



Financial Statements

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2014

	Notes	NBN Group	
		Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
Revenue			
Telecommunication revenue		59,970	16,451
Other revenue		988	373
Total Revenue		60,958	16,824
Expenses			
Interest income		35,600	48,989
Other income	12	4,942	400
Direct telecommunications costs		(396,725)	(181,757)
Employee benefits expenses	3	(384,381)	(324,368)
Advisory, corporate and outsourced services		(71,118)	(36,407)
Legal expenses		(15,478)	(16,796)
IT and software expenses		(114,226)	(108,652)
Occupancy expenses		(37,474)	(32,068)
Travel and entertainment costs		(19,317)	(18,460)
Communication and public information		(13,886)	(14,032)
Depreciation and amortisation expense	8 & 9	(435,375)	(197,174)
Other expenses		(17,319)	(16,688)
Finance costs	3	(222,909)	(63,713)
Total Expenses		(1,728,208)	(1,010,114)
(Loss) before income tax		(1,626,708)	(943,901)
Income tax (expense)/benefit	4	(17,092)	12,236
(Loss) for the period		(1,643,800)	(931,665)
(Loss) attributable to the shareholders		(1,643,800)	(931,665)
Other comprehensive (loss)/income			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of cash flow hedges	16	(56,973)	40,787
Income tax expense/(benefit) relating to components of other comprehensive income	16	17,092	(12,236)
Total other comprehensive (loss)/income for the period, net of tax		(39,881)	28,551
Total comprehensive (loss) for the period		(1,683,681)	(903,114)
Total comprehensive (loss) attributable to the shareholders		(1,683,681)	(903,114)

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

Statement of Financial Position

For the year ended 30 June 2014

	Notes	NBN Group	
		Year ended	Year ended
		30 June 2014	30 June 2013
		\$'000	\$'000
Current assets			
Cash and cash equivalents	5	498,714	103,472
Trade and other receivables	6	101,369	56,907
Inventories		11,765	6,118
Derivative financial assets	7	10,037	42,528
Held to maturity investment		245,240	915,097
Other current assets		32,427	30,055
Total current assets		899,552	1,154,177
Non-current assets			
Trade and other receivables	6	60	393
Derivative financial assets	7	1,980	20,946
Property, plant & equipment	8	7,790,866	3,717,115
Intangible assets	9	769,193	619,658
Other non-current assets		5,869	6,435
Total non-current assets		8,567,968	4,364,547
Total assets		9,467,520	5,518,724
Current liabilities			
Trade and other payables	11	817,973	597,496
Other liabilities	12	5,816	4,299
Other financial liabilities	13	118,665	37,770
Derivative financial liability	7	3,229	-
Provisions	14	57,071	19,818
Total current liabilities		1,002,754	659,383
Non-current liabilities			
Trade and other payables	11	1,925	455
Other liabilities	12	178,866	118,155
Other financial liabilities	13	3,342,456	1,299,493
Derivative financial liability	7	2,425	-
Provisions	14	15,118	23,581
Total non-current liabilities		3,540,790	1,441,684
Total liabilities		4,543,544	2,101,067
Net assets		4,923,976	3,417,657
Equity			
Contributed equity	15	8,418,445	5,228,445
Other reserves	16	4,396	44,277
(Accumulated losses)	16	(3,498,865)	(1,855,065)
Total equity		4,923,976	3,417,657

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

Statement of Changes in Equity

For the year ended 30 June 2014

		NBN Group			
		Accumulated losses \$'000	Contributed equity \$'000	Other reserves \$'000	Total equity \$'000
	Notes				
Balance at 30 June 2012		(923,400)	2,832,000	15,726	1,924,326
Loss for the year	16	(931,665)	-	-	(931,665)
Other comprehensive income	16	-	-	28,551	28,551
Total comprehensive income for the period		(931,665)	-	28,551	(903,114)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs		-	2,396,445	-	2,396,445
Balance at 30 June 2013		(1,855,065)	5,228,445	44,277	3,417,657
Loss for the year	16	(1,643,800)	-	-	(1,643,800)
Other comprehensive income	16	-	-	(39,881)	(39,881)
Total comprehensive income for the period		(1,643,800)	-	(39,881)	(1,683,681)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs		-	3,190,000	-	3,190,000
Balance at 30 June 2014		(3,498,865)	8,418,445	4,396	4,923,976

Statement of Cash Flows

For the year ended 30 June 2014

	Notes	NBN Group	
		Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
Cash flows from operating activities			
Receipts from customers		61,231	17,476
Payments to suppliers and employees		(959,655)	(712,892)
Interest received		42,113	51,297
Interest paid		(1)	(123)
Net cash (used in) operating activities	22	(856,312)	(644,242)
Cash flows from investing activities			
Receipts from held to maturity investments		1,424,504	1,334,942
Payments for held to maturity investments		(754,647)	(1,613,983)
Payment for property, plant and equipment		(2,151,175)	(1,357,716)
Payment for intangibles		(284,271)	(192,934)
Net cash (used in) investing activities		(1,765,589)	(1,829,691)
Cash flows from financing activities			
Payment for finance leases and right of use licences		(172,841)	(36,936)
Equity injection for ordinary shares by the Commonwealth of Australia		3,190,000	2,396,445
Net cash provided by financing activities		3,017,159	2,359,509
Net increase/(decrease) in cash and cash equivalents		395,258	(114,424)
Cash and cash equivalents at the beginning of the period		103,472	217,896
Effects of exchange rate changes on cash and cash equivalents		(16)	-
Cash and cash equivalents at the end of the period	5	498,714	103,472

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

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 2014 comprise the company and its subsidiaries (together referred to as **the NBN Group**).

(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 (CAC Act)*. 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.

NBN Co's current liabilities exceed its current assets by \$103.2 million as at 30 June 2014. The financial report has been prepared on a going concern basis, which contemplates the continuity of normal operations and the remaining available equity funding of \$21.1 billion at 30 June 2014 (Note 18). 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 on 8 April 2014.

The financial statements do not reflect the impact, if any, of certain ongoing policy reviews that may impact the Company, including the Independent Audit into Broadband Policy (Scales Review) and the Independent Cost Benefit Analysis Review and Regulation (Vertigan Review). The statements also do not reflect the impact, if any, of ongoing negotiations with Telstra and Optus which are required to implement the OMTM model.

(b) Statement of Compliance

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

NBN Co is incorporated under the *Corporations Act 2001* and is subject to (inter alia) the *National Broadband Network Companies Act 2011 (Cth)*. Consolidated annual financial statements are also required by section 36 of the *CAC Act*.

The accounting policies have been consistently applied to all years presented, unless otherwise stated. New standards that have become applicable for the first time for the 2013-14 financial report are AASB 119 Employee Benefits, AASB 10 Consolidated Financial Statements, AASB 13 Fair Value Measurement, AASB 12 Disclosure of Interest in Other Entities, AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities and AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle. These standards have introduced new disclosures but had no material 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 2014 reporting period. These standards and interpretations have not yet been adopted by NBN Group. The Directors have not yet fully assessed the impact of these new or amended standards (to the extent that they are relevant to NBN Group) and interpretations. Unless otherwise stated, it is not expected these amendments will materially impact the operations of NBN. A summary of these new standards and interpretations that may have an impact is set out below.

(i) AASB 9 Financial Instruments

AASB 9 Financial Instruments addresses the classification and measurement of financial assets and financial liabilities and it also sets out new rules for hedge accounting. The new requirements will affect the accounting for financial assets and liabilities that are designated at fair value through profit or loss and where fair value option is used to measure financial liabilities. The standard will impact the annual reporting period commencing 1 July 2017.

(ii) AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets

The AASB has made amendments to the disclosure requirements in AASB 136 Impairment of Assets. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. These amendments are effective from the annual reporting period commencing 1 July 2014.

(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 2014 and the results of all subsidiaries for the year ended 30 June 2014.

Subsidiaries are all those entities (including special purpose entities) over which the NBN Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Specifically, the Group controls an entity if and only if the Group has:

- Power over the entity (ie existing rights that give it the current ability to direct the relevant activities of the entity)

- Exposure or rights to variable returns from its involvement in the entity, and
- The ability to use its power over the entity to affect its returns

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

(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 Profit or Loss and Other 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 Profit or Loss and Other Comprehensive Income.

(h) Inventories

Inventories 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. Inventories are valued 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 only has derivatives which are cash flow hedges, being hedges of a particular risk associated with cash flows of recognised assets and liabilities and highly probable forecast transactions.

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 24. Movements in the hedging reserve in shareholders' equity are shown in Note 16. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. It is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Cash flow hedge

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

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

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, 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.

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. Costs that is not directly attributable is recorded as an expenses in the current period.

Assets under construction are recorded at cost based on the estimated percentage at completion.

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 Profit or Loss and Other 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 their estimated useful life 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

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 Profit or Loss and Other Comprehensive Income.

(k) Intangible assets

(i) Internally generated intangible assets

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the 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. Costs that are not directly attributable are expensed in the current period.

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

Costs that are not directly attributable are expensed in the current period.

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.

(I) Impairment of assets

(i) Non-financial assets

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

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. Property, plant and equipment and intangible assets subject to amortisation are reviewed for impairment wherever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use. 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 10 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.

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 13). Finance leases are capitalised at the lease's inception or on handover of relevant infrastructure 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. Depreciation on network and non-network assets under lease commences when they are installed and ready for use, otherwise termed as "in service".

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(d)). Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Profit or Loss and Other 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 Note 18 has been compiled on the basis that the NBN Group is a going concern (refer to Note 1 (a)) and includes estimates of:

- i) amounts which represent an open purchase order and reliable estimates for contractual variations in accordance with a supply contract
- ii) the value of the purchase order and reliable estimates for contractual variations 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 gross 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 Statement of Financial Position but are reported in Note 19. They may arise from uncertainty as to the existence of an asset or liability or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when the 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 contracted terms. 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:

- There is a present legal or constructive obligation to make a future sacrifice of economic benefits as a result of past transactions or events
- It is probable that a future sacrifice of economic benefits will arise 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, short term incentives and annual leave expected to be settled within 12 months of the reporting date are recognised as provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to 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. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in the profit or loss.

The obligations are presented as current liabilities in the Statement of Financial Position if the NBN Group does not have an unconditional right to defer settlement for at least 12 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 and an expense is recognised when the company is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without likelihood of withdrawal.

(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. 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 4 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 Statement of Financial Position.

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

Financial assets are classified 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 management has the intention and ability to hold to maturity. These assets are measured at amortised costs using the effective interest rate method.

(w) Acquisition of assets

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

(x) Government Grants

Government grants are recognised in the Statement of Financial Position 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 Profit or Loss and Other 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 Profit or Loss and Other 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) 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 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.

Determination of fair value less costs to sell when considering impairment

NBN Co has determined fair value less cost to sell as being the depreciable replacement cost of the assets given there is no active market for the network assets and 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 10 for impairment considerations.

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 (e.g., Network assets) and is based on the estimated costs in bringing the assets to its intended location and condition for it to be operating in the manner intended.

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.

Estimate of depreciation and amortisation of in-service assets

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. Depreciation and amortisation is calculated in line with Note 1(j) and 1(k) and further detail by asset category is disclosed in Note 8 and 9.

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 its current objectives 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 Note 18 for further disclosures on commitments.

3. Expenses

	NBN Group	
	30 June 2014	30 June 2013
	\$'000	\$'000
Employee benefits		
Defined contribution superannuation expense	(33,013)	(25,078)
Other employee benefits	(351,368)	(299,290)
Total employee benefits	(384,381)	(324,368)
Finance costs		
Interest and finance charges paid/payable for financial liabilities	(221,430)	(62,523)
Provisions: unwinding of discount	(1,479)	(1,190)
Finance costs expensed	(222,909)	(63,713)
Rental expense relating to operating leases	(44,375)	(26,491)
Hedge ineffectiveness on cashflow hedges	(139)	221

4. Income tax expense

	NBN Group	
	Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
(a) Income tax (expense)/benefit		
Current tax	-	-
Deferred tax	(17,092)	12,236
Total	(17,092)	12,236
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax benefit	(1,626,708)	(943,901)
Tax at the Australian tax rate of 30% (2013: 30%)	488,012	283,170
Tax effect of amounts which are not deductible (taxable) in calculating taxable income	(14)	(8)
Current year tax losses not recognised	(451,072)	(229,134)
Temporary differences not recognised	(54,018)	(41,792)
Income tax (expense)/benefit	(17,092)	12,236
(c) Tax losses		
Unused tax losses for which no deferred asset has been recognised	(3,130,795)	1,627,221
Potential tax benefit @ 30%	(939,238)	488,166

i) Unrecognised tax losses

The cumulative amount of unrecognised tax losses of \$3,130,795,000 (2013: \$1,627,221,000) 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).

4. Income tax expense (continued)

	NBN Group	
	Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
(d) Unrecognised temporary differences		
Deductible temporary differences for which deferred tax assets have not been recognised relating to:		
Property, plant & equipment & Intangibles	329,727	226,057
Provisions & accruals	51,016	31,598
This is offset by:		
Taxable temporary differences (deferred tax liabilities)		
Cash flow hedges	(6,280)	(63,253)
Net temporary differences for which deferred tax assets have not been recognised	374,463	194,402
Unrecognised deferred tax asset relating to the above net deductible and taxable temporary differences	112,339	58,321

ii) Tax Consolidation

NBN Co Limited and its wholly owned subsidiaries have formed a tax consolidated group. Members of the group have not yet entered into tax funding or tax sharing arrangements. As at 30 June 2014, 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.

		NBN Group	
		Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
(e) Tax (expense)/benefit relating to items of other comprehensive income			
Cash flow hedges	16	(56,973)	40,787
Tax at the Australian tax rate of 30% (2013: 30%)		(17,092)	12,236
Income tax (expense)/benefit in other comprehensive income		(17,092)	12,236

5. Current assets – Cash and cash equivalents

	NBN Group	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$'000	\$'000
Cash at bank	383,591	62,967
Term deposits	115,123	40,505
Total	498,714	103,472

a) Risk exposure

The NBN Group's exposure to interest rate risk is discussed in Note 23(f). The maximum exposure to credit risk at the end of the reporting period is disclosed in Note 23(g).

6. Trade and other receivables

	NBN Group	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$'000	\$'000
Current		
Trade receivables	8,599	2,199
Interest receivable	2,861	9,496
Other receivables	52,013	1,002
GST receivable	37,896	44,210
Total	101,369	56,907
Non-Current		
Other receivable	60	393

a) Other receivables

These amounts predominantly relate to amounts receivable from delivery partners.

b) Interest rate risk exposure

Information about the NBN Group's exposure to interest rate risk in relation to receivables is provided in Note 23(f).

c) Fair value and credit risk

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

d) Impaired trade receivables

During the year the NBN Group wrote off trade receivables as uncollectible of \$2,950 (2013: \$19,765).

7. Derivative financial instruments

a) Derivative Financial Assets

	NBN Group	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$'000	\$'000
Current		
Forward foreign exchange contracts	10,037	42,528
Non-Current		
Forward foreign exchange contracts	1,980	20,946

b) Derivative Financial Liability

	NBN Group	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$'000	\$'000
Current		
Forward foreign exchange contracts	3,229	-
Non-Current		
Forward foreign exchange contracts	2,425	-

c) 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 2014 there were open forward exchange contracts related to the construction of the Long Term Satellite Service (LTSS) and purchase of certain network equipment. Contracts for the purchase of satellites, the construction of ground stations, associated orbital launch services and the purchase of network equipment are denominated in 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 and are timed to mature when payments for major contractual milestones are scheduled to be made.

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 23. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial assets.

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

a) Property, plant and equipment

	NBN Group					
	Freehold Land	Buildings and Leasehold improvements	Furniture and equipment	IT equipment	Network assets	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 July 2012						
Cost	13,019	102,794	6,309	15,126	924,528	1,061,776
Accumulated depreciation	-	(10,169)	(825)	(4,734)	(18,303)	(34,031)
Net book value	13,019	92,625	5,484	10,392	906,225	1,027,745
Year ended 30 June 2013						
Opening net book value	13,019	92,625	5,484	10,392	906,225	1,027,745
Additions	-	124,781	429	30,762	2,632,809	2,788,781
Depreciation charge	-	(11,725)	(1,021)	(9,982)	(76,683)	(99,411)
Net book value	13,019	205,681	4,892	31,172	3,462,351	3,717,115
At 30 June 2013						
Cost	13,019	227,575	6,738	45,888	3,557,337	3,850,557
Accumulated depreciation	-	(21,894)	(1,846)	(14,716)	(94,986)	(133,442)
Net book value	13,019	205,681	4,892	31,172	3,462,351	3,717,115
Year ended 30 June 2014						
Opening net book value	13,019	205,681	4,892	31,172	3,462,351	3,717,115
Additions	-	116,693	2,905	8,013	4,242,518	4,370,129
Depreciation charge	-	(19,677)	(2,476)	(10,932)	(263,293)	(296,378)
Net book value	13,019	302,697	5,321	28,253	7,441,576	7,790,866
At 30 June 2014						
Cost	13,019	344,269	9,643	53,901	7,799,855	8,220,686
Accumulated depreciation	-	(41,571)	(4,322)	(25,648)	(358,279)	(429,820)
Net book value	13,019	302,697	5,321	28,253	7,441,576	7,790,866

Property, plant and equipment is analysed as follows:

	NBN Group	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$'000	\$'000
Constructed and purchased assets	2,303,316	1,095,943
Assets in the course of Construction	2,050,358	1,221,021
Leased Assets	3,252,510	1,277,697
Assets acquired for no consideration and under government grant	184,682	122,454
Property, plant and equipment - net book value	7,790,866	3,717,115

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

Depreciation of \$296,378,000 (2013: \$99,411,000) is included in depreciation and amortisation expense in the Statement of Profit or Loss and Other 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 not ready for use there is no depreciation charged on these amounts.

	NBN Group	
	Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
Buildings	15	-
Network assets	2,039,931	1,214,030
Leasehold improvements	9,694	6,991
Machinery and equipment	90	-
Furniture and fittings	628	-
Total assets in the course of construction	2,050,358	1,221,021

c) *Leased assets*

The net carrying amount included in property, plant and equipment is \$22,811,000 (2013: \$24,128,000) for buildings and \$3,229,699,000 (2013: \$1,253,569,000) for network assets, as the substance of the underlying contractual arrangement is considered to be a finance lease.

d) *Non-current assets pledged as security*

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

e) *Assets acquired for no consideration and Indefeasible right of use assets*

Included within Network assets are assets acquired from Developers for no consideration and an indefeasible rights of use arrangement with the Department of Communications to use certain Regional Backbone Blackspots Program assets for no consideration.

At 30 June 2014, amounts released to the Statement of Profit or Loss and Other Comprehensive Income for assets received for no consideration or from an indefeasible right of use arrangement was \$4,942,000 (2013: \$400,000).

9. Non-current assets – Intangible assets

a) Intangible assets

	NBN Group			
	Software \$'000	Licences \$'000	Other \$'000	Total \$'000
As at 1 July 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
Year ended 30 June 2014				
Opening net book amount	563,803	55,790	65	619,658
Additions	262,746	22,577	3,209	288,532
Amortisation	(111,118)	(27,337)	(542)	(138,997)
Net book value	715,431	51,030	2,732	769,193
As at 30 June 2014				
Cost	918,649	143,393	3,276	1,065,318
Accumulated amortisation	(203,218)	(92,363)	(544)	(296,125)
Net book value	715,431	51,030	2,732	769,193

Amortisation of \$138,997,000 (2013: \$97,763,000) is included in depreciation and amortisation expense in the Statement of Profit or Loss and Other 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, no amortisation is being charged on these amounts. Total software assets in the course of construction are \$170,730,000 (2013: \$111,944,000).

c) Licences

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

10. Impairment

As set out in Note 1(l)(i), the assets which form part of the national broadband network currently work together to generate net cash flows. As a result, NBN Co has determined that it currently has one single cash generating unit (NBN Co Entity CGU).

At 30 June 2014, NBN Co has performed an impairment test using fair value less cost to sell. The depreciated replacement cost of the assets represents fair value less cost to sell. Depreciated 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 any obsolescence of the existing assets. In determining depreciated replacement cost, NBN Co considers the cost of recently constructed assets, current purchase prices and the current estimates of cost at completion of assets under construction. 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 2014.

11. Trade and Other Payables

	NBN Group	
	Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
Current		
Trade and other payables	198,244	191,024
Accruals	619,729	406,472
Total	817,973	597,496
	NBN Group	
	Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
Non Current		
Trade and other payables	1,925	455

Information about the NBN Group's exposure to foreign exchange risk is provided in Note 23(e).

a) Accruals

The accruals balance includes \$517,266,000 (2013: \$347,245,000) relating to property, plant and equipment and intangible assets and is based on an assessment of the estimated cost to complete and percentage completion of assets at 30 June 2014.

12. Other liabilities

	NBN Group	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$'000	\$'000
Current		
Deferred gain on developer contributions and government grants	5,816	4,299
	NBN Group	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$'000	\$'000
Non Current		
Deferred gain on developer contributions and government grants	178,866	118,155
	NBN Group	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$'000	\$'000
Deferred gain on developer contributions and government grants		
Carrying amount at the beginning of the period	122,454	-
Developer contributions and government grants received during the period	67,170	122,854
Released to the Statement of Profit or Loss and Other Comprehensive Income	(4,942)	(400)
Carrying amount at the end of the period	184,682	122,454

a) Developer contributions and government grants received

The NBN Group receives network assets for no consideration from developers as part of the build of the NBN in New Development areas and has an indefeasible right of use arrangement with the Department of Communications to use certain Regional Backbone Blackspots Program assets for no consideration. 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 Profit or Loss and Other Comprehensive Income on a straight line basis over the expected period in which benefits will accrue to NBN Co.

For the year ended 30 June 2014, \$4,942,000 (2013: \$400,000) had been recognised as a gain in the Statement of Profit or Loss and Other Comprehensive Income.

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

13. Other financial liabilities

	NBN Group	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$'000	\$'000
Current		
Lease liabilities and right of use licences	118,665	37,770
Non Current		
Lease liabilities and right of use licences	3,342,456	1,299,493

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 20 to 35 years.

Included within the gross carrying amount of property, plant and equipment in Note 8 is an amount for network assets of \$3,229,699,000 (2013: \$1,253,569,000) and buildings of \$22,811,000 (2013: \$23,424,000) acquired under a finance lease or right of use licence arrangement.

	NBN Group	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$'000	\$'000
Finance lease and right of use licences are payable as follows:		
Within one year	393,622	144,589
Later than one year but not later than five years	1,185,208	457,996
Later than five years	8,194,502	3,259,011
Minimum lease payments	9,773,332	3,861,596
Future finance charges	(6,312,211)	(2,524,333)
Recognised as a liability	3,461,121	1,337,263
Representing lease liabilities:		
Current	118,665	37,770
Non-current	3,342,456	1,299,493
Total finance lease and right of use licence liabilities	3,461,121	1,337,263

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 Profit or Loss and Other 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.

14. Provisions

	NBN Group	
	30 June 2014	30 June 2013
	\$'000	\$'000
Current		
Employee benefits	40,000	18,072
Make good provision	17,071	1,746
Total	57,071	19,818
Non-Current		
Employee benefits	6,958	4,373
Make good provision	8,160	19,208
Total	15,118	23,581

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

The non-current provision for employee benefits includes long service leave and any deferred short term incentives not expected to be wholly settled in the next 12 months. The adoption of the revised AASB 119 *Employee Benefits* has resulted in a change of the group's annual leave obligations. The entity does not expect all annual leave to be taken within 12 months of the respective service being provided. The impact of this change was immaterial.

b) Make good provision

A provision has been recognised for the present value of the estimated expenditure to remove any leasehold improvements on leased premises and to decommission installed Very Small Aperture Terminals (**VSATs**) from the First Release Satellite Solution.

	NBN Group	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$'000	\$'000
Carrying amount at the beginning of the year	20,954	12,059
Charged to property, plant & equipment	2,593	7,679
Charged to the profit and loss	2,056	1,216
Amounts utilised during the year	(372)	-
Carrying amount at end of the year	25,231	20,954

c) Employee benefits

Employee benefits includes \$9,789,000 in respect of termination benefits as at 30 June 2014.

15. Contributed Equity

a) Share capital

	NBN Group		NBN Group	
	Year ended 30 June 2014	Year ended 30 June 2013	Year ended 30 June 2014	Year ended 30 June 2013
	Number of Shares	Number of Shares	\$'000	\$'000
Share capital				
Ordinary shares				
<i>Fully paid</i>	8,418,445,092	5,228,445,092	8,418,445	5,228,445
Total consolidated contributed equity			8,418,445	5,228,445

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.

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

c) Movements in ordinary share capital

Date	Details	NBN Group		NBN Group	
		Number of Shares	Issue price \$	Value of Shares \$	
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	
30 June 2013	Closing Balance	5,228,445,092	1.00	5,228,445,092	
16 July 2013	Equity injection	1,250,000,000	1.00	1,250,000,000	
4 February 2014	Equity injection	270,000,000	1.00	270,000,000	
28 February 2014	Equity injection	410,000,000	1.00	410,000,000	
31 March 2014	Equity injection	130,000,000	1.00	130,000,000	
30 April 2014	Equity injection	370,000,000	1.00	370,000,000	
29 May 2014	Equity injection	510,000,000	1.00	510,000,000	
27 June 2014	Equity injection	250,000,000	1.00	250,000,000	
Total consolidated contributed equity at 30 June 2014		8,418,445,092	1.00	8,418,445,092	

15. Contributed Equity (continued)

d) Capital risk management

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

e) 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 total funding pursuant to the agreement was initially capped at \$27.5 billion, excluding any amounts payable in the event of termination of the Telstra and Optus agreements. This cap was subsequently increased to \$30.4 billion under an amendment entered into on 8 August 2012.

With effect from 19 March 2014 the Equity Funding Agreement was further amended to, inter alia, reduce the equity funding cap from \$30.4 billion to \$29.5 billion.

To the extent that the Commonwealth has provided for equity funding in forward budget estimates, NBN Co has recognised this as expected equity funding in Note 18. As at 30 June 2014 a total of \$8.4 billion had been made available to the Company and the expected future equity funding available to the Company as at 30 June 2014 was \$21.1 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.

16. Reserves and accumulated losses

a) *Movements in other reserves:*

	NBN Group	
	Year ended 30 June 2014	Year ended 30 June 2013
<i>Cash flow hedges</i>	\$'000	\$'000
Balance 1 July	44,277	15,726
Revaluation - gross	(23,021)	38,891
Deferred tax	6,906	(11,667)
Transfer to other asset - gross	(33,952)	1,896
Deferred tax	10,186	(569)
Balance at 30 June	4,396	44,277

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 2014	Year ended 30 June 2013
	\$'000	\$'000
Balance at 1 July	(1,855,065)	(923,400)
Net (loss) for the year	(1,643,800)	(931,665)
Balance at 30 June	(3,498,865)	(1,855,065)

d) *Dividends declared*

No dividends were declared or paid during the year.

17. Remuneration of auditors

Under section 35 of the *CAC Act* (and from 1 July 2014 Section 98 of the *PGPA Act*) 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.

NBN Co 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 2014	Year ended 30 June 2013
	\$	\$
Australian National Audit Office		
Audit of annual financial statements	1,535,000	1,031,540
Review of half-year statements	383,000	-
Total remuneration for audit and other assurance services	1,918,000	1,031,540
PwC Australia		
Other assurance related services		
- <i>Accounting advice</i>	23,000	25,000
- <i>Regulatory reviews</i>	459,000	20,000
- <i>IT control review</i>	120,330	-
- <i>Other reviews</i>	132,510	49,000
Total remuneration for other assurance related services	734,840	94,000
Other services		
- <i>IT advisory support</i>	-	142,443
- <i>Risk advisory support</i>	66,501	63,834
- <i>Other</i>	53,500	-
Total remuneration for other services	120,001	206,277
Total auditor's remuneration	2,772,841	1,331,817

18. Commitments

a) Commitments receivable

The value of commitments receivable has been determined in accordance with the equity funding agreement as disclosed in Note 15(e).

By type	Notes	NBN Group	
		30 June 2014 \$'000	30 June 2013 \$'000
Commitments receivable			
Equity receivable		21,081,555	25,171,555
Total commitments receivable		21,081,555	25,171,555
By maturity			
Commitments receivable			
Within one year		5,200,000	5,400,555
From one to five years		15,881,555	19,771,000
Total commitments receivable		21,081,555	25,171,555

b) Commitments payable

The value of commitments payable has been determined in accordance with Note 1(n) and has been compiled on the basis that the NBN Group is a going concern.

By type	Notes	NBN Group	
		Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
Commitments payable			
Leasehold improvements		-	13,280
Assets ordered under finance lease and right of use licence arrangements	18(c)	3,253,561	7,735,119
Property, plant and equipment	18(e)	1,233,827	1,466,164
Intangible software assets	18(e)	22,310	33,009
Operating leases	18(d)	366,352	235,327
Other operating commitments	18(e)	478,968	272,666
Aggregate commitments payable, gross of future interest charges		5,355,018	9,755,565
Future interest charges on finance lease and right of use licences		(2,122,911)	(5,263,595)
Aggregate commitments payable, net of future interest charges		3,232,107	4,491,970

18. Commitments (continued)

b) Commitments payable (continued)

	Notes	NBN Group	
		Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
By maturity			
Commitments payable			
Within one year		1,623,236	1,373,926
From one to five years		695,336	1,536,163
More than five years		3,036,446	6,845,476
Aggregate commitments payable, gross of future interest charges		5,355,018	9,755,565
Future interest charges on finance lease and right of use licences		(2,122,911)	(5,263,595)
Aggregate commitments payable, net of future interest charges		3,232,107	4,491,970

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

At 30 June 2014, 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 under those orders are outlined below:

	NBN Group	
	Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
Commitments in relation to assets ordered under finance lease and right of use licence arrangements is as follows:		
Within one year	66,518	77,607
Later than one year but not later than five years	373,188	923,977
Later than five years	2,813,855	6,733,535
Minimum lease payments	3,253,561	7,735,119
Future finance charges	(2,122,911)	(5,263,595)
Recognised as a commitment	1,130,650	2,471,524

18. Commitments (continued)

c) *Commitments for assets ordered under finance lease and right of use license arrangements (continued)*

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.

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.

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

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 or when the property lease commences.

d) *Operating Leases*

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

	NBN Group	
	Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	38,566	29,878
Later than one year but not later than five years	109,297	94,601
Later than five years	218,489	110,848
Total	366,352	235,327

Not included in the above commitments are contingent rental payments which may arise.

e) *Other commitments payable*

Other commitments payable represent estimates of amounts calculated in accordance with note 1(n) for property, plant and equipment, intangible assets and other operating commitments.

19. 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 20 (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 at 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 20(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 2014, 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.

19. 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 27. 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 2014, NBN Co had no outstanding legal action that would materially impact upon the 30 June 2014 year financial statements, however, from time to time the Company may be subject to a lawsuit or proceedings for which it may be required, either by law or based on its business judgment, to make payments to settle or otherwise resolve matters.

(f) Construction related claims and disputes

Various claims and disputes arise from time to time in the ordinary course of business. Where the costs of resolution (if any) are not able to be measured with sufficient reliability, no allowance for these claims or disputes is made as at 30 June 2014. To the extent claims or disputes could be reliably measured adequate allowance has been made for resultant liabilities at period end. The disclosure of any further information about claims or disputes would be prejudicial to the interests of the Company.

20. Significant Contractual Arrangements

The NBN Group has entered into a large number of contracts that will underpin the delivery of the network infrastructure. The NBN Group contracts with its delivery partners are subject to periodic renewal. The ability of the NBN Group to renegotiate these contracts enables the NBN Group to ensure contract arrangements support the long term rollout of the NBN in accordance with the Statement of Expectations. 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 Group's Commitments disclosed in Note 18 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 changes 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 Note 18.

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

20. Significant Contractual Arrangements (continued)

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.

Following the completion of The Strategic Review, NBN Co has entered into non-binding negotiations with Telstra so as to obtain access to infrastructure required to deliver on the OMTM approach. As these negotiations are ongoing, disclosure of any further information would be prejudicial to the interests of the Company.

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), NBN Co is expensing the payment made by NBN Co to Telstra for disconnection of premises from its copper and HFC networks when incurred.

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

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

20. Significant Contractual Arrangements (continued)

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 gross 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.

Following the completion of The Strategic Review, NBN Co has entered into non-binding negotiations with Optus so as to obtain access to infrastructure required to deliver on the OMTM approach. As these negotiations are going, disclosure of any further information would be prejudicial to the interests of the Company.

21. 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 25.

21. Related party transactions (continued)

d) Transactions with related parties

The following transactions occurred with related parties:

	NBN Group	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$	\$
Equity injections		
Equity injected by the Commonwealth of Australia into NBN Co Limited (Refer to Note 15)	3,190,000,000	2,396,445,082

	NBN Group	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$	\$
Other transactions		
The arrangement for NBN Co Limited to acquire the indefeasible rights of use of RBBP assets from the Department of Communications (Refer to Note 12)	-	68,576,000
Service qualification fee from the Department of Communications	1,650,152	1,650,150

e) Key management personnel

Disclosures relating to key management personnel are set out below:

	NBN Group	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$	\$
Short term employee benefits	8,978,446	8,464,022
Post-employment benefits	232,754	265,253
Long-term benefits	(203,155)	178,315
Termination benefits	5,491,294	-
Total	14,499,339	8,907,590

f) Other directors' interests

During the year a contract was entered into for \$60,000 (2013: nil) with Cicomilne Pty Ltd, of which Justin Milne is 100% shareholder. The contract is for the provision of strategic advice or recommendations as required by NBN Co in relation to the negotiations between NBN Co and Telstra Corporation Limited in respect of the proposed amendments to the 'Definitive Agreements'. Mr Milne excused himself from discussions on the contract. The amount outstanding at 30 June 2014 was \$10,750 (2013: nil).

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

	NBN Group	
	Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
Total comprehensive (loss) for the year	(1,643,800)	(931,665)
Add: non cash item		
Depreciation and amortisation	435,375	197,174
Non cash other income	(4,942)	(400)
Non cash interest expense/(income)	222,787	63,416
Non cash provision for obsolescence	1,100	2,142
Non cash write off of current & non current assets	59	330
Non cash write off of other financial liabilities	(704)	-
Net exchange differences	(369)	(221)
Non cash taxation expense/(benefit)	17,092	(12,236)
(Increase)/decrease in assets		
(Increase) in trade and other receivables	(5,822)	(1,030)
Decrease/(increase) in GST receivable	6,314	(30,704)
(Increase) in prepayments	(1,808)	(6,972)
Decrease in interest receivable	6,635	2,482
Decrease in deposits	2	2
(Increase) in inventories	(5,814)	(4,406)
Increase/(decrease) in liabilities		
Increase in trade and other payables	9,216	87,990
Increase/(decrease) in accruals	83,854	(15,963)
Increase in provisions	24,513	5,818
Net cash (used in) operating activities	(856,312)	(644,242)

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

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 or contributed for no consideration.

	NBN Group	
	Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
Acquisition of network infrastructure by means of finance leases	2,075,973	1,074,416
Acquisition of network infrastructure by means of developer contributions	67,170	54,278
Acquisition of network infrastructure by means of government grant	-	68,576
Acquisition of assets by non cash transactions	2,143,143	1,197,270

23. 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 5, held to maturity investments and contributed equity disclosed in Note 15.

23. 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) Financial assets and liabilities

	NBN Group	
	Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
Financial assets		
Cash and cash equivalents	498,714	103,472
Interest receivable	2,861	9,496
Trade and other receivables	60,672	3,594
Held to maturity investment	245,240	915,097
Derivative financial asset	12,017	63,474
Carrying amounts of financial assets	819,504	1,095,133
Financial liabilities		
Trade and other payables	819,898	597,951
Other liabilities	184,682	122,454
Other financial liabilities	3,461,121	1,337,263
Derivative financial liabilities	5,654	-
Carrying amounts of financial liabilities	4,471,355	2,057,668

All of the above financial assets and liabilities are carried at amortised cost except for derivative financial liabilities which are categorised at fair value through the Profit or Loss and Other Comprehensive Income.

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 2014 was a net expense of \$187,309,000, (2013: net expense of \$14,724,000).

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 is due to fluctuations in foreign exchange rates for certain transactions.

The NBN Group does not enter and has not entered into foreign currency positions which are not supported by underlying purchasing transactions that are certain or highly probable as to timing, quantum and currency.

The NBN Group operates USD and EURO foreign currency denominated bank accounts.

23. Financial and Capital Risk Management (continued)

e) Foreign currency risk management (continued)

As at 30 June 2014, the carrying amount of monetary liabilities denominated in foreign currency as expressed in Australian dollar was as follows:

	NBN Group					
	Year ended 30 June 2014			Year ended 30 June 2013		
	USD \$'000	EUR \$'000	NZD \$'000	USD \$'000	EUR \$'000	NZD \$'000
Foreign exchange risk						
Trade payables	17,600	2,553	3	49,023	-	18
Current foreign exchange risk	17,600	2,553	3	49,023	-	18
Forward Exchange Contracts						
- buy foreign currency (cash flow hedges)	463,368	-	-	677,205	-	-
Forward exchange contract risk	463,368	-	-	677,205	-	-

Based on the financial instruments held at 30 June 2014, had the Australian dollar weakened/strengthened by 11.5% (2013: 15.7%) against the US dollar with all other variables held constant, the NBN Group's post-tax loss for the year would have been \$1,416,800 lower/\$1,416,800 higher (2013: \$5,387,628 lower/\$5,387,628 higher).

Other components of equity would have been \$65,910,000 higher / \$41,214,000 lower (2013: \$163,238,159 higher / \$69,484,458 lower) had the Australian dollar weakened/strengthened by 11.5% (2013: 15.7%) 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 method used to arrive at the possible risk of 11.5% (2013: 15.7%) movement against the US dollar is based on both statistical and non-statistical analysis. The statistical analysis has been based on basket of currencies (USD, EUR, GBP, JPY and NZD) movement for the last five years for which the Commonwealth of Australia has exposure to.

f) Interest rate risk management

The NBN Group is exposed to interest rate risk due to changes in market interest rates associated with interest-bearing cash and cash equivalents and held to maturity investments. Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument. The NBN Group's exposure to interest rate risks and the effective interest rates of interest-bearing financial assets is set out below.

23. Financial and Capital Risk Management (continued)

f) Interest rate risk management (continued)

	Note	NBN Group	
		Carrying amount	Weighted average effective interest rate
At 30 June 2014			
Cash and cash equivalents	5	498,714	2.67%
Interest receivable	6	2,861	3.35%
Held to maturity investments		245,240	3.35%
At 30 June 2013			
Cash and cash equivalents	5	103,472	3.26%
Interest receivable	6	9,496	3.62%
Held to maturity investments		915,097	3.92%

The table below details the interest rate sensitivity analysis of the NBN Group at the reporting date, holding all other variables constant. A 60 (2013: 120) basis point change is deemed to be reasonably possible and is used when reporting interest rate risk.

	NBN Group	
	Effect on Profit and loss 30 June 2014 \$'000	Effect on Profit and loss 30 June 2013 \$'000
60 (2013: 120) basis point increase in interest rates	6,262	12,510
60 (2013: 120) basis point decrease in interest rates	(6,262)	(12,510)

The method used to arrive at the possible risk of 60 (2013: 120) 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.

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.

23. 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 2014 \$'000	Year ended 30 June 2013 \$'000
Trade receivables		
A1	5,111	710
A3	4	-
<i>Counterparties without external credit rating*</i>		
Group 1	28	10
Group 2	3,456	1,479
Total trade receivables	8,599	2,199
Cash at bank and short-term bank deposits		
AA-	498,714	103,472
	498,714	103,472
Held to maturity investments		
AA-	245,240	813,690
A+	-	101,407
	245,240	915,097
Derivative financial assets		
AA-	12,016	63,474
	12,015	63,474

* 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 Statement of Financial Position.

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

23. Financial and Capital Risk Management (continued)

minimum, which is reviewed annually by the Board as part of the Corporate Plan. In addition, the NBN Group prepares and reviews a rolling monthly cash forecast.

h) Liquidity risk (continued)

The NBN Group's financial liabilities are payables and finance lease liabilities. The NBN Group's capacity to meet its liabilities arises from its commitment from the Commonwealth Government described in Note 15(e).

The following table illustrates the maturities for financial liabilities:

	NBN Group				Total contractual cash flows	Carrying Amount (assets)/ liabilities
	On demand	Within 1 year	1 to 5 years	Greater than 5 years		
At 30 June 2014						
Non-derivatives						
Trade and other payables	817,973	-	1,925	-	819,898	819,898
Finance lease liabilities	-	393,622	1,185,208	8,194,501	9,773,331	3,461,121
Total non-derivatives	817,973	393,622	1,187,133	8,194,501	10,593,229	4,281,019
Derivatives						
Gross settled (forward foreign exchange contracts - cash flow hedges)						
- inflow	-	346,566	123,142	-	469,708	-
- outflow	-	(326,793)	(136,575)	-	(463,368)	(6,363)
Total derivatives	-	19,773	(13,433)	-	6,340	(6,363)
At 30 June 2013						
Non-derivatives						
Trade and other payables	597,496	-	455	-	597,951	597,951
Finance lease liabilities	-	144,589	457,996	3,259,011	3,861,596	1,337,263
Total non-derivatives	597,496	144,589	458,451	3,259,011	4,459,547	1,935,214
Derivatives						
Gross settled (forward foreign exchange contracts - cash flow hedges)						
- inflow	-	478,522	263,240	-	741,762	-
- outflow	-	(435,877)	(241,328)	-	(677,205)	(63,474)
Total derivatives	-	42,645	21,912	-	64,557	(63,474)

24. Fair Value Measurement of Financial Instruments

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

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

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

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

24. Fair Value Measurement of Financial Instruments (continued)

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

The following table presents the fair value measurement hierarchy of the NBN Group's assets and liabilities.

At 30 June 2014	Fair value measurement using			
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable input (Level 3)
	\$'000	\$'000	\$'000	\$'000
Assets measured at fair value				
Derivatives used for hedging	12,017	-	12,017	-
Liabilities measured at fair value				
Derivatives used for hedging	5,654	-	5,654	-

The fair value of derivatives used for hedging is determined using forward exchange rates at the balance sheet date.

There has been no transfers between hierarchy levels during the year.

a) Fair values of other financial instruments

The group has a number of financial instruments which are not measured at fair value in the Statement of Financial Position as disclosed in Note 23(c). Their carrying amounts approximate fair value at 30 June 2014.

25. 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):

Name of entity	Country of incorporation	Class of shares	Equity holding	Equity holding
			as at 30 June 2014	as at 30 June 2013
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.

26. Parent entity disclosures

a) Statement of Financial Position

	NBN Co	
	Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
Assets		
Total current assets	898,289	1,218,837
Total non-current assets	8,608,543	4,440,820
Total assets	9,506,832	5,659,657
Liabilities		
Total current liabilities	1,070,143	726,233
Total non-current liabilities	3,540,790	1,441,683
Total liabilities	4,610,933	2,167,916
Equity		
Contributed equity	8,418,445	5,228,445
Other reserves	4,396	44,277
(Accumulated losses)	(3,526,942)	(1,780,981)
Total equity	4,895,899	3,491,741

b) Statement of comprehensive income

	NBN Co	
	Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
(Loss) for the period	(1,745,961)	(900,848)
Total comprehensive (loss)	(1,745,961)	(900,848)

Parent entity receivables and investments have been written down by a total of \$132,003,472 million to reflect the net assets of the subsidiaries. There is no impact on the consolidated position.

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

Commitments disclosed in Note 18 of 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 27, 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 19 all relate to the parent entity.

27. 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 profit or loss and other 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 2014 of the closed group.

27. Deed of cross guarantee (continued)

For the year ended 30 June 2014

	NBN Group (Co & Tas)	
	Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
Revenue		
Telecommunication revenue	59,970	16,451
Other revenue	988	373
Total Revenue	60,958	16,824
Interest income	37,238	50,880
Other income	4,942	400
Direct telecommunications costs	(463,887)	(181,757)
Employment costs	(384,381)	(324,368)
Advisory, corporate and outsourced services	(71,118)	(36,407)
Legal and negotiation support costs	(15,478)	(16,796)
IT and communications expenses	(114,226)	(108,652)
Occupancy expenses	(37,474)	(32,068)
Travel and entertainment costs	(19,317)	(18,460)
Communication and public information	(13,886)	(14,032)
Depreciation and amortisation expense	(408,892)	(170,691)
Other expenses	(74,902)	(16,688)
Finance costs	(222,909)	(63,713)
Total Expenses	(1,826,470)	(983,631)
(Loss) before income tax	(1,723,332)	(915,527)
Income tax (expense)/benefit	(17,092)	12,236
(Loss) for the period	(1,740,424)	(903,291)
(Loss) attributable to the shareholders	(1,740,424)	(903,291)
Other comprehensive (loss)/income		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of cash flow hedges	(56,973)	40,787
Income tax relating to components of other comprehensive income	17,092	(12,236)
Total other comprehensive (loss)/income for the period, net of tax	(39,881)	28,551
Total comprehensive (loss) for the period	(1,780,305)	(874,740)
Total comprehensive (loss) attributable to the shareholders	(1,780,305)	(874,740)

27. Deed of cross guarantee (continued)

b) Statement of Financial Position

For the year ended 30 June 2014

	NBN Group (Co & Tas)	
	Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
Current assets		
Cash and cash equivalents	498,714	103,472
Trade and other receivables	100,920	56,098
Inventories	11,765	6,118
Derivative financial assets	10,036	42,528
Held to maturity investment	245,240	915,097
Other current assets	32,422	30,053
Total current assets	899,097	1,153,366
Non-current assets		
Trade and other receivables	-	66,213
Derivative financial assets	1,980	20,946
Investment in Subsidiaries	-	57,583
Property, plant & equipment	7,961,426	3,717,114
Intangible assets	571,048	565,590
Other non current assets	5,868	6,435
Total non-current assets	8,540,322	4,433,881
Total assets	9,439,419	5,587,247
Current liabilities		
Trade and other payables	817,974	597,496
Other liabilities	5,816	4,299
Other financial liabilities	118,665	37,770
Derivative financial liability	3,229	-
Provisions	57,070	19,818
Total current liabilities	1,002,754	659,383
Non-current liabilities		
Trade and other payables	1,925	455
Other liabilities	178,866	118,155
Other financial liabilities	3,342,456	1,299,493
Derivative financial liability	2,425	-
Provisions	15,118	23,581
Total non-current liabilities	3,540,790	1,441,684
Total liabilities	4,543,544	2,101,067
Net assets	4,895,875	3,486,180
Equity		
Contributed equity	8,418,445	5,228,445
Reserves	4,396	44,277
(Accumulated losses)	(3,526,966)	(1,786,542)
Total equity	4,895,875	3,486,180

27. Deed of cross guarantee (continued)

c) Summary of movements in consolidated accumulated losses

	NBN Group (Co & Tas)	
	Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
Balance at 1 July	(1,786,542)	(883,251)
Net (loss) for the year	(1,740,424)	(903,291)
Balance at 30 June	(3,526,966)	(1,786,542)

28. Events occurring after the reporting period

On 17 July 2014, the Supreme Court of NSW handed down judgment in Telstra's favour in the litigation between NBN Co and Telstra. The dispute between NBN Co and Telstra relates to the Telstra Definitive Agreements and specifically the Infrastructure Services Agreement (ISA). The subject matter of the dispute is one of contractual interpretation as to the date from which CPI adjustments are to be made to the infrastructure prices applicable under the ISA. NBN Co considers that adjustments should be made from 1 January 2013, whereas Telstra considers it should be from 1 January 2012.

At the date of signing the financial statements, NBN Co is still considering its options of appealing the decision of the Supreme Court of NSW. The impact of the decision should an appeal not be lodged is not material to the financial statements at 30 June 2014 but would increase property, plant and equipment assets by \$114 million, increase other financial liabilities by \$129 million and increase the loss for the period by \$15 million.

On 30 July 2014, NBN Co Limited selected Ericsson Australia to deliver fixed wireless and satellite services to families and businesses across regional and rural Australia. In addition Ericsson will manage the satellite ground systems and migrate 42,000 existing interim satellite users.

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 2014 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

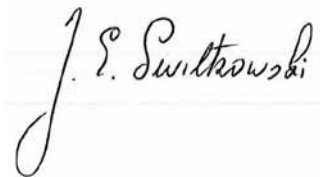
Directors' Declaration

- (1) The financial statements and notes set out on pages 77 to 131 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 NBN Group financial position as at 30 June 2014 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 27 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 27.

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.



Dr Ziggy Switkowski AO
Chairman

14 August 2014



Bill Morrow
CEO



INDEPENDENT AUDITOR'S REPORT

To the members of NBN Co Limited

I have audited the accompanying financial report of NBN Co Limited for the year ended 30 June 2014, which comprises the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Financial Position as at 30 June 2014, the Statement of Changes in Equity, the Statement of Cash Flows for the year then ended, 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 gives a true and fair view and 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 NBN Group's financial position as at 30 June 2014 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 financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Australian National Audit Office



Michael J. Watson
Group Executive Director

Delegate of the Auditor-General

Canberra
14 August 2014

Regulatory Reporting Requirements Index

For the year ended 30 June 2014

Commonwealth Authorities and Companies Act 1997

Section	Subject	Location	Pages
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		Financial statements	77-131
		Independent auditor's report	133-134
s.40	Significant events under s.40 of CAC Act	Directors Report	23-63
		Financial statements	77-131
s.42	Corporate Plan	Regulatory report	136
s.43	Commonwealth Government policies under s.43 of the CAC Act during the financial year	Directors Report	23-63
s.44	Audit Committee	Corporate governance statement	70

Commonwealth Companies (Annual Reporting) Orders 2011

Section	Subject	Location	Pages
cl. 6	Approval by directors	Director Declaration	132
cl. 9	Responsible Minister	Regulatory Report	137
cl. 10	Ministerial directions and other statutory requirements	Regulatory Report	137
cl. 11	Information about directors	Directors Report	26-63
cl. 13	Related entity transactions	Directors Report	23-63
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cl. 14	Key activities and changes affecting the company	Corporate governance statement	65-75
cl.15	Judicial decisions and reviews by outside bodies	Regulatory Report	136-140
cl.17	Changes in Financial Conditions & Community service obligations	Directors Report	23-63
cl.18	Index of annual reporting requirements	Regulatory reporting requirements index	135

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	137-138
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	137-138
Sch 2, cl 4(2)(c)	Statistics of any notifiable 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	137-138
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	137-138
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	137-138

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	129-140

Superannuation Benefits (Supervisory Mechanisms) Act 1990

Section	Subject	Location	Pages
s.6(1)(b)	Report on operation of superannuation arrangement	Regulatory report	137

Regulatory Reporting Requirements

For the year ended 30 June 2014

Introduction

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

The index on page 135 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 (NBN Co Act)* is a standalone law which establishes:

- NBN Co's ownership arrangements and wholesale mandate
- Certain line of business restrictions on NBN Co
- The framework for the eventual privatisation of NBN Co

NBN ownership and structure

Under the NBN Co Act, 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 Parliamentary Joint Committee on the ownership of NBN Co has examined the report
- The Finance Minister has declared that conditions are suitable for a NBN Co sale scheme

Corporate Plan

NBN Co currently prepares a three-year Corporate Plan. The draft 2014–17 Corporate Plan was submitted to the Shareholder Ministers on 12 June 2014 and is currently being finalised.

Objective

NBN Co is the company that designs, builds and operates the NBN to provide access to high-speed broadband to Australian premises. The NBN supplies nationwide communications services on a wholesale-only and open-access basis. In implementing this policy initiative, NBN Co is responsible for the delivery of one of Australia's largest infrastructure projects.

The establishment of NBN Co and the rollout of the NBN are major elements of the Government's policy to implement reform in the Australian telecommunications market.

Commonwealth Government policies

The Commonwealth Government has communicated in its Statement of Expectations (released in April 2014) 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 use flexible discretion in the design, build and operation of the NBN, within the constraints of a public equity capital limit of \$29.5 billion to provide access to high speed broadband to Australian premises. The Commonwealth Government expects NBN Co to provide download data rates of at least 25 megabits per second¹ at the wholesale level to all premises and at least 50 megabits per second¹ to 90 per cent of Australian fixed line premises.

The Commonwealth Government expects the company to operate in an appropriately transparent manner and to take proportionate responsibility for the quality, consistency and continuity of service experienced by retail service providers and their end users.

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

¹ The NBN is being designed to provide these speeds to our Service Providers. End-User experience, including the speeds actually achieved over the NBN depends on the technology over which services are delivered to Premises and some factors outside our control like End-User equipment quality, software and retail broadband plans and how the Service Provider designs its network.

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 Communications, the Hon Malcolm Turnbull MP and the Minister for Finance, Senator the Hon Mathias Cormann. Until the change of Government, our previous Shareholder Ministers were Senator the Hon Stephen Conroy (Minister for Broadband, Communications and the Digital Economy) and Senator the Hon Penny Wong (Minister for Finance and Deregulation).

Reporting Requirements and Transparency

As part of regular reporting to the Commonwealth Government and Parliament, NBN Co provides regular reporting to its Shareholder Ministers and the public in accordance with the Government's requirement for a high degree of transparency of the project. This includes weekly online reporting of key network deployment metrics, monthly reports to Shareholder Ministers and quarterly financial and operational briefings of stakeholders and the media. The company will also be required to begin periodically reconciling its performance against its forecasts once the NBN Co Corporate Plan 2014-17 is approved by Government.

Parliamentary and Other Committees

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

In addition to the questions answered during the hearings, NBN Co received 381 questions on notice arising from these hearings.

The NBN project was the subject of a number of reviews and reports to be commissioned following the change of Government in September 2013. This includes the Strategic Review (December 2013), the Fixed Wireless and Satellite Review (May 2014), the Independent Audit into Broadband Policy (Scales Review), the Independent Cost Benefit Analysis and Review of Regulation (Vertigan Review) and the Broadband Availability and Quality Report.

During the year NBN Co lodged a number of "significant event notices" with the Commonwealth Government in accordance with its obligations under the *Government*

Business Enterprise (GBEs) - Governance and Oversight Guidelines, October 2011.

No Ministerial Directions were received by NBN Co during 2013-14 (2012-13: Nil).

Other Commonwealth Government obligations

Superannuation

During 2013-14 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 committee for work health and safety (WHS) and environment and sustainability matters is the Health Safety Environment (HSE) Leadership Forum. This forum is chaired by the Chief Executive Officer (CEO) and includes the Chief Operating Officer (COO). The HSE Leadership Forum is supported by the senior management team including the General Manager of HSE and his direct reports. The HSE Leadership Forum's activities include the ongoing monitoring of established HSE key performance indicators, the review of audit and compliance programs and the direction of continuous improvement projects aimed at enhancing the 'safety culture' across NBN Co.

Management

NBN Co's integrated HSE Management System provides the framework for HSE management and continual improvement throughout all businesses, products and activities from network design, through to the construction and operation of the National Broadband Network (NBN). During 2013-14, NBN Co's HSE Management System was again audited and recertified against the following Australian and International standards:

- AS/NZS 4801:2001 - Occupational Health and Safety Management Systems;
- OHSAS 18001:2007 - Occupational Health and Safety Management Systems; and
- ISO 14001:2004 - Environment Management Systems.

In 2013, NBN Co applied for, and successfully achieved, certification of its HSE management system to the Australian Government Building and Construction OHS Accreditation Scheme (the Scheme) governed by the Office of the Federal Safety Commissioner. The Scheme applies to

construction projects that are directly funded by the Australian Government, with a value of \$3 million or more, and allows NBN Co to assume the role of the Principal Contractor where required. NBN Co has since utilised this accreditation for its construction activities in Darwin NT and Melton VIC.

During 2013-14, the NBN Co Board of Directors reviewed the existing company-wide Drug and Alcohol Policy and relaxed the existing comprehensive drug and alcohol random testing program of NBN Co fixed term employees (FTE's). Drug and Alcohol testing continues to be conducted on all prospective employees during recruitment (pre-employment) or where required at NBN Co's discretion post-incident or where an employee shows cause. The Drug and Alcohol testing program uses modern, non-invasive, saliva and breath testing.

HSE Performance

NBN Co is proud of its Lost Time Injury Frequency Rate (LTIFR) record of 0.9 lost time injuries per million work hours for employees and 2.4 lost time injuries per million work hours for contractors working on the National Broadband Network project.

Two significant environmental incidents were reported during 2013-14. These involved:

- Damage to an area of aboriginal cultural significance when a contractor disturbed a registered shell midden site during trenching activities. This resulted in the NSW Office of Environment and Heritage issuing a caution note to the contractor and subsequently the contractor and NBN Co have strengthened indigenous culture and heritage management processes and rolled out additional awareness training to field personnel.
- The unauthorised release of directional drilling mud, during contractor drilling activities, into an adjoining stormwater drainage system. This incident resulted in the local council issuing a penalty infringement notice (PIN) against the contractor and NBN Co. Following this incident an inspection campaign was launched focussed on drilling activities across NSW.

During 2013-14, NBN Co continued to work with Telstra, the Government Task Force, the Office of Asbestos Safety and Eradication Agency (ASEA) and Comcare to ensure the safety of employees, contractors and the public when working with, removing and disposing of asbestos and asbestos containing materials (ACM) during the construction, maintenance and operation of the National Broadband Network.

HSE Incidents and Hazards

NBN Co actively encourages our philosophy of "no fear" in the reporting of all incidents and near-misses and our

employees, contractors and sub-contractors continue to proactively raise hazard reports and alerts. The Company remains fully committed to non-punitive responses when employees, contractors and sub-contractors actively and openly report incidents and near-misses.

During 2013-14, NBN Co's internal HSE workforce was trained up in the use of the Incident Cause Analysis Method (ICAM) investigation methodology. This training provides the HSE team with the capability to apply more consistent investigation techniques and to better share key learnings from incidents that may occur.

Workers Compensation

In 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 have had 20 workers' compensation claims lodged with Comcare, with 13 of these claims being accepted and 8 currently open. 54% of the accepted claims relate to body stressing, a further 31% relate to falls trips and slips, 8% from exposure to chemicals and other substances and 8% to stress-related illness.

During 2013-14 NBN Co engaged and utilised the rehabilitation services of CRS Australia in the development of return to work (RTW) programs and support for employees returning to work post injury or illness.

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 2013, NBN Co had finalised 31 requests under the FOI Act and carried over 11 requests into the next financial year. As at 30 June 2014, NBN Co had received 63 new FOI requests and had finalised 70 requests under the FOI Act.

Those applications were processed as follows:

Granted in full	22
Granted in part	1
Access refused	4
No documents held	3
Request transferred	2
Application withdrawn	38

During the 2013-2014 year the Office of the Australian Information Commissioner (OAIC) reviewed two of NBN Co's FOI determinations, both of which were subsequently affirmed by the OIAC. NBN Co also finalised four Internal Review requests during this period. One Review overturned an FOI original (partial release) decision, exempting the document in full. The other three Reviews related to processing charges, all of which confirmed the original decisions or slightly reduced charges. In addition, the company was not subject to any reviews or appeals at the Administrative Appeals Tribunal.

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

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 implements and administers its Publication Scheme. This may be found at the following:

<http://www.nbnco.com.au/corporate-information/about-nbn-co/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 2013-14 NBN Co worked on several projects to improve ESD outcomes across the business.

- With the transition to a Multi Technology Mix, NBN Co is investigating energy efficiency measures as part of the Fibre to the Node (FTTN) trials to ensure that whole-of-life aspects are considered;
- Information about recycling options for the fibre to the premises (FTTP) battery backup at the end of life has been made available to end-users via an information campaign;
- NBN Co has incorporated ESD principles into the design and build of TANDs (data centres);
- NBN Co purchased 50% GreenPower for its commercial facilities power demand in FY13-14;
- NBN Co maintained its existing certification under ISO 14001;
- New and updated environmental awareness training was developed and delivered to HSE, design and field

staff. Additionally the environmental components of the existing HSE induction programs were updated for new starters;

- NBN Co commenced investing in the installation of photovoltaic power (otherwise known as PV or solar power) systems across its 10 satellite earth stations in regional Australia and the 10 TAND facilities;
- NBN Co has committed to a NABERS Energy Tenancy Rating target of >4.5 for all new major office leases;
- During 2013-14, NBN Co did not have any significant statutory approval issues imposed and does not currently have any active EPBC Act conditions. NBN Co also has not made any EPBC Act referrals during the year;
- The effectiveness and utilisation of teleconferencing systems (telepresence) across the company has been subject to review and a number of opportunities for improvement have been identified to ensure their use are optimised.

Environmental Performance

NBN Co recognises that it will significantly increase its environmental footprint, as the network is continued to be built and powered technology is deployed.

Since late 2012, NBN Co has been tracking environmental performance metrics, which include electricity usage, fleet fuel consumption, paper usage, and air travel data.

Reliability and completeness of data is a high priority and new systems are being deployed to improve data capture, validation and reporting. Selected performance data is monitored monthly against targets:

The build of the national broadband network (NBN) is largely carried out, on NBN Co’s behalf, by its engaged Service delivery partners (ie. contractors and sub-contractors) and NBN Co has processes in place to ensure that its Service Delivery Partners consider the environmental impacts of their operations. NBN Co’s performance in the field is closely monitored and environmental incidents are recorded and investigated where required. During 2013-14, there were two (2) significant environmental incidents that required investigation and resulted in a series of changes to field work practices by our Service Delivery Partners.

Glossary of Terms

Term	Definition
ABS	Australian Bureau of Statistics.
ACCC	Australian Competition and Consumer Commission.
Access Aggregation Region (AAR)	The area served by a Point of Interconnect (PoI) located in an Aggregation Node (AN) and connected via Transit Fibre to regional Fibre Access Node (FAN) sites. The backhaul from the regional FAN to the AN is termed the Transit network.
Access Seeker	A customer acquiring NBN Co wholesale services with the intention to supply broadband services to Service Providers or End-Users.
Access Technology	The technology used by NBN Co to deliver the NBN from the exchange location to the network distribution point.
Access Virtual Circuit (AVC)	The bandwidth allocated to the End-User Premises.
Asymmetric Digital Subscriber Line (ADSL)	A technology for delivering high-speed data transmission over a copper phone line. Provides different downstream (network to End-User) and upstream (End-User to network) bandwidth.
Aggregation Node (AN)	A facility that provides a Point of Interconnect (PoI) to RSPs / 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.
Average Revenue Per User (ARPU)	Calculations include all telecommunications revenue generated including AVC, CVC and NNI products.
Brownfields	Pre-existing Premises.
Base Stations	Base Transmission Stations
Build Drop	To install the drop at the same time as building the FTTP Access Network in a region
Business Support System (BSS)	The set of systems that will provide NBN Co with the capabilities to manage Customers, take orders, process bills and collect payments.
Business-to-Business (B2B)	Commerce transactions between businesses.
Capital Expenditure (Capex)	The cost of purchasing tangible and intangible assets.
CCO	Chief Customer Officer.
Common Network Infrastructure (CNI)	Network infrastructure installed at NBN Co FAN, PoI and other Transit network sites.
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.
COO	Chief Operating Officer.
Complex Premises	Premises categorised as requiring bespoke engagement, cabling or project management such as offices and apartment blocks that might receive services over the NBN outside of standard order lead times.
CSAM	Copper Service Area Modules.
Customer Engagement Metric (CEM)	Scoring from 1-10 given to NBN Co by its customers.
Customers	A customer to NBN Co also defined as an Access Seeker or a Service Provider.
CY20XX	Calendar Year ended 31 December 20XX.
Dark Fibre	Optical fibre with no active electronics attached.
Data Over Cable Service Interface Specification (DOCSIS)	A telecommunications standard that permits the addition of high-speed data transfer and internet access through HFC infrastructure.
Delivery Partners	A third party involved in the build of the NBN. A Delivery Partner is a contractor, which has a contract with NBN Co for the delivery of a certain amount of work /activities in relations to the build and operation of the NBN.
Disconnection Commencement Date (DCD)	Start date to the disconnection process which involves a disconnection order and permanent disconnection of all legacy services.
Disconnection Date (DD)	Intended to refer to the original date for Managed and Permanent Disconnection for the relevant region
Digital Subscriber Line Access Multiplexers (DSLAMs)	Network devices normally located in telephone exchanges providing multiple ports connecting End-User copper lines for the provision of DSL broadband 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.
DSL	Digital Subscriber Line. A family of technologies that deliver high-speed data transmission over a copper phone line.
DWDM	Dense Wavelength Division Multiplexing

Term	Definition
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation.
EBA	Enterprise Bargaining Agreements.
ERP	Enterprise Resource Planning
ESD	Ecologically Sustainable Development
Equity Funding Agreement (EFA)	In consideration of the Company implementing the NBN policy initiative as described in the SoE, the Commonwealth will provide equity funding to the Company on the basis of this Agreement.
End-Users	Final downstream customers to NBN Co's Service Providers.
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 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-To-The-Basement (FTTB)	Network design in which the Fibre network is deployed to the basement of a building.
Fibre-To-The-Distribution Point (FTTdp)	Network design in which the Fibre network is deployed to a distribution point near the Premises.
Fibre-To-The-Node (FTTN)	Network design in which the Fibre network is deployed to the node (i.e. a VDSL cabinet), while copper lines are used for the connection between the node and the Premises.
Fibre to the Premises (FTTP)	Network design in which the Fibre network is deployed to each Premises.
Fibre-To-The-X (FTTx)	Fibre to the x (FTTx) is a generic term for any broadband network architecture using optical fibre to replace all or part of the usual metal local loop used for last mile telecommunications. The generic term was initially a generalisation for several configurations of fibre deployment (FTTN, FTTC, FTTB, FTTH...), all starting with 'FTT' but differentiated by the last letter, which is substituted by an x in the generalisation.
Fixed Line (FL)	Areas of Australia served by a Fixed Line technology.
Fixed Wireless	Network design in which network connections are provided through radio signals.
FSC	Federal Safety Commissioner.
FY20XX	Financial Year ended 30 June 20XX.
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 retail service providers. The GPON active layer technology uses electronics that are designed to be compatible with a fibre that is subsequently split into multiple downstream fibres. The NBN is being designed to provide these speeds to our Service Providers. End-User experience, including the speeds actually achieved over the NBN depends on the technology over which services are delivered to Premises and some factors outside our control like End-User equipment quality, software and retail broadband plans and how the Service Provider designs its network.
Government	Reference to the Commonwealth or Cth is used interchangeably with Government.
Government Business Enterprise (GBE)	Commonwealth authority or Commonwealth company as defined by the Commonwealth Authorities and Companies Act 1997 (CAC Act) and prescribed as a GBE under the Commonwealth Authorities and Companies Regulations 1997 (CAC Act Regulations).
Greenfields	A new development that can be either new developments or Infill Premises. Greenfields 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 the Company's policies regarding employee health, safety and environment issues.
Hybrid Fibre Coaxial (HFC)	A network utilising both optical fibre and coaxial cable for the delivery of Pay TV, internet and voice services.
IAP	Intermediate Access Point (within a POI/Aggregate Node)
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.
Internal Rate of Return (IRR)	The average annual total return from an investment over a specified time period, used to measure and compare the profitability of the investment.
ISA	Infrastructure Services Agreement
ISS	Interim Satellite Service. NBN Co's Interim Satellite Service was launched on 1 July 2011 to provide access to broadband services to people in homes, small businesses and indigenous communities in some of the most remote areas of Australia. The Interim Satellite Service is a temporary measure until NBN Co launches its own Long Term Satellite Service scheduled for 2015.
Ka-band	Satellite radio frequency spectrum from 27 – 40 GHz.

Term	Definition
Kilobits per second (Kbps)	A unit of measurement of transmission speed. One Kilobit Per Second is equal to 1,024 bits per second.
Key Performance Indicator (KPI)	A metric used to measure the progress or degree of fulfilment of a particular success criterion.
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.
Lead in Conduit (LIC)	A lead-in conduit is the pipe or conduit carrying the lead-in cable between the customer's Premises and the nearest pit.
Line Sharing Service (LSS)	LSS (Line Sharing Service) enables telecom operators to use the high frequency part of the phone line to provide ADSL2+ using their own equipment, while Telstra still provides the normal voice service.
LNDN	Local Network and Distribution Network.
LTI	Lost Time Injuries.
Long Term Satellite Service (LTSS)	NBN Co launched satellites which will provide broadband service to Australia in predominantly rural locations.
Megabits Per Second (Mbps)	A unit of measurement of transmission speeds. One Megabit Per Second is equal to 1,000 kbps. X / Y Mbps means a maximum downstream speed of X Mbps and a maximum upstream speed of Y Mbps.
MTM	Multi-Technology Mix.
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).
Network Access Points (NAP)	The point at which Drop Fibre is connected to Local Fibre.
NARA	Network Augmentation and Restoration Activities.
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.
NBN Group	NBN Co and its subsidiaries
Network and Service Operations Centre (NSOC)	Facility overseeing management and operation of the network infrastructure.
Network Termination Device (NTD)	NBN Co's termination point on each premise, 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 Service Providers connect their internet transmission backhaul.
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)
NTF	National Test Facility
Occupational Health & Safety (OHS)	A discipline concerned with protecting the safety, health and welfare of people engaged in work or employment.
Optical Distribution Frame (ODFs)	A passive device which terminates cables, allowing arbitrary interconnections to be made.
OMTM	Optimal Multi-Technology Mix
Optical Line Terminal (OLT)	The equipment to provide the GPON signals to each of the FDAs.
Operating Expenditure (Opex)	The ongoing cost of running a business, system or product, including payments under lease agreements.
Operational Support Systems (OSS)	The set of systems that will provide NBN Co with the capabilities to provision, configure, manage, and operate the NBN.
Optus HFC Agreement	The agreement between NBN Co and Singtel Optus Pty Ltd and other Optus entities (Optus) which was executed on 23 June 2011. The Optus HFC 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.
PGPA	Public Governance, Performance and Accountability Act 2013
Point of Interconnect (PoI)	The connection point that allows RSPs 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 PoI, where an Access Seeker connects to establish exchange of traffic with NBN Co's network.
PON	Please refer to Gigabit-Capable Passive Optical Network (GPON).
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 December 2010 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.
PCD	Premises Connection Device
Premises Passed	Premises Passed counts include Premises where the Local Network, Distribution Network and Transit Network are in place, and practical completion has been granted for the Fibre Distribution Area (FDA). Premises at Service Class 0 (Premises that will be Serviceable outside the standard lead-time) are included.
Premises Ready for Service (Premises RFS)	Premises included are part of FSAMs where 90% or more of Premises are passed, and the Disconnection Commencement Date (DCD) is achieved with addresses released to our Service Providers. Premises at Service Class 0 (Premises that will be Serviceable outside the standard lead-time) are included.
Premises Serviceable	Premises Ready for Service minus premises at Service Class 0.

Term	Definition
Product Development Forum	See http://www.nbnco.com.au/industry/service-providers/industry-consultation/product-development-forum.html
PSMA - Australia	Public Sector Mapping Agencies – Australia.
RAP	Reconciliation Action Plan
Region Ready for Service Date (RRFSD)	Date the entire region or FSAM is declared RFS.
Retail Service Provider (RSP)	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, a Fibre Serving Area Module (FSAM).
Scales Public Policy Review	Means the independent audit of the NBN public policy process that resulted in the establishment of the NBN Co.
Service Class 0	Category given to a Premises that is in the NBN Co fibre network footprint but which cannot presently be provided with an NBN fibre service.
Service Level	Has the meaning set out in the Wholesale Broadband Agreement
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).
Special Access Undertaking (SAU)	Key part of the regulatory framework that will govern the prices NBN Co, as a wholesale open access telecommunications network, can charge for the services it supplies to retail telecommunications companies, as well as other terms.
Single Dwelling Unit (SDU)	Premises that contain only one dwelling unit. One SDU is equivalent to one GNAF.
Statement of Expectation (SoE)	Letter to NBN Co from its Shareholder Ministers dated 08 April 2014. See http://www.communications.gov.au/_data/assets/pdf_file/0014/221162/SOE_Shareholder_Minister_letter.pdf
Strategic Reviews	Includes the December 2013 Strategic Review and the May 2014 Fixed Wireless and Satellite Strategic Review.
Special Services	Special Services are services delivered using the copper Access Network other than voice or broadband.
TAND	Technical Aggregation Node and Deployment – an NBN deployment site which will provide vital NBN infrastructure
TFAN	Temporary FAN
Transit Fibre	Refers to the connection between Points of Interconnect (POIs) in the Aggregation Nodes where the retail service providers connect to the NBN, and the non local FANs.
Telstra Definitive Agreements or Telstra DAs	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.
Transit Network	The fibre rings which connect the regional FAN sites and the nearest PoI, served by Transit Fibre.
TMO	Transformation Management Office.
Unconditional Local Loop Service (ULLS)	Use of unconditioned communications wire between the boundaries of a telecommunications network at an End-User's Premises and a point on a telecommunications network that is a potential point of interconnection located at or associated with a customer access module and located on the End-User side of the customer access module.
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 which could be either a UNI-D (User Network Interface – Data) or UNI-V (User Network Interface – Voice).
Vertigan Cost-Benefit Review	Means the cost-benefit analysis and review of the regulatory arrangements for the NBN being conducted by the panel comprising Dr Michael Vertigan AC, Ms Alison Deans, Professor Henry Ergas and Mr Tony Shaw PSM.
VDSL	Very-High-Bit-Rate Digital Subscriber Line.
VSAT	Very Small Aperture Terminals
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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