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NBNCo
Bringing broadband to life

Annual Report 2010-2011



Bringing broadband to life

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The financial statements were authorised for issue by the directors on 16 September 2011. The directors have the power to amend and reissue the financial statements.

About NBN Co

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

NBN Co is a wholly-owned Commonwealth company incorporated under the *Corporations Act 2001* and subject to that Act and the *Commonwealth Authorities and Companies Act 1997*. The two Shareholder Ministers who hold shares in the NBN Co for the Commonwealth of Australia are the Minister for Finance and Deregulation and the Minister for Broadband, Communications and the Digital Economy. NBN Co is prescribed as a Government Business Enterprise by the *Commonwealth Authorities and Companies Act 1997*.



NBN Co Objectives

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

NBN Co's goal is to deliver significant improvements to the nation's broadband service. NBN Co will make available high speed broadband services for all Australians, wherever they are located. The building of a National Broadband Network is occurring with significant change in the regulation of competition in the telecommunication sector. The NBN will be Australia's first wholesale-only, open-access nationwide communications network.

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

NBN Co's objectives are ambitious, and it is committed to delivering an acceptable return to its shareholder, the Commonwealth of Australia and to meeting high standards of corporate governance.

NBN Co's specific objectives are:

- Establish a wholesale-only, open-access network. Connect 93% of Australian homes, schools and businesses with fibre-to-the premises technology providing broadband speeds of up to 100 megabits per second¹
- Serve all remaining premises with a combination of fixed-wireless and satellite technologies providing peak download speeds of up to 12 megabits per second¹
- As a wholesale provider of last resort, if requested by the developer, provide fibre in a new development of 100 or more premises within the fibre footprint, which receive stage 5 planning approval from 1 January 2011
- Offer open access to wholesale services via layer 2 bitstream services in accordance with the regulatory principles of non-discrimination, which in turn will help enable multi-operator delivery of data, voice and video services
- Charge access seekers a uniform national wholesale price for the basic services designed to offer broadband speeds of up to 12Mb downlink¹ and up to 1Mb uplink¹ at the wholesale level for \$24 per month across fibre, wireless and satellite platforms, consistent with the Government's objective of providing uniform national wholesale prices

¹ NBN Co is designing the NBN to be capable of delivering these speeds to NBN Co's wholesale customers (Access Seekers). Speeds actually achieved by retail customers (end users) will depend on a number of factors including the quality of their equipment and in-premises connection, the broadband plans offered by their Access Seeker and how their Access Seeker designs its network to cater for multiple end users.

NBN Co Values

NBN Co's values act as a reference point for everything it does.

NBN Co employees strive to demonstrate the following values in their actions and behaviours with customers, communities, suppliers and shareholders:

- Safe, Disciplined and Reliable and aim to meet commitments
- Engender Trust and Integrity
- Authentic guided by facts
- Collaborative one team focused on outcomes
- Flexible





Chairman's Message

Over the past two years, NBN Co has moved from a start up operation to an established company ready to build and operate a national network to provide affordable, high speed broadband to all Australians.

Much of the past twelve months work on the country's biggest infrastructure project won't be immediately obvious to Australians, but it has nonetheless been significant as NBN Co has worked to deliver on the task the Australian Government has set for it. We have pushed forward with the mammoth planning task that has required not only high levels of technical and operational expertise, but also engagement with government, industry and the community.

NBN Co achieved a number of major milestones this year, especially the launch of the network trial sites in Tasmania in August 2010 and the "going live" of the first of the mainland first release sites, in Armidale NSW. We learned and gained insight as customers connected to trial sites in Tasmania and first release sites came on line. This experience will contribute to a safe, cost effective and efficient network delivery as the rollout accelerates.

NBN Co also signed agreements with Telstra and Optus, underpinning the revenue projections and lowering infrastructure costs. These agreements are subject to various conditions precedent, Telstra shareholder approval and regulatory and other approvals.

The agreement with Telstra, which includes the progressive disconnection of premises from Telstra's copper and HFC networks within the fibre footprint, (together with Telstra's regulatory undertakings) helps achieve a goal of the Government's reform by separating the wholesale network from retail telecommunications products and services.

The Australian Government and regulatory agencies provided the legal and regulatory framework for the project and for the industry, setting parameters on important competition issues. As a wholesale-only network provider, NBN Co is committed to providing access seekers with equivalent opportunities to interconnect to the NBN and thereby serve Australia's digital access needs.

NBN Co is appropriately accountable to the public through Parliamentary oversight. NBN Co is a Government Business Enterprise, a corporation limited by shares and governed by the *Corporations Act 2001* and the *Commonwealth Authorities and Companies Act 1997*. Regulation of NBN Co is covered by several statutes including the *Competition and Consumer Act 2010*, the *Telecommunications Act 1997* and the *National Broadband Network Companies Act 2011*.

The company is audited by the Australian National Audit Office and it submits its annual report and other required documents to the Australian Securities and Investments Commission.

Senior executives appeared before four parliamentary committees: Senate Standing Committee on Environment and Communications, Joint Committee on the NBN, House of Representatives Standing Committee on Infrastructure & Communications and Regional Telecommunications Independent Review Committee.

In December, NBN Co presented its first Corporate Plan to the Government. The plan is a comprehensive overview of the way the organisation intends to fulfill its obligation to design, build and operate the NBN and achieve the Government's objective of providing high speed broadband for all Australians.

In addition to detailing how the project will be rolled out, the plan incorporates financial forecasts for the next 30 years, including expected returns to the Commonwealth.

NBN Co will update the plan each year. It also provides a regular update to the Government.

During the year NBN Co continued development of a number of risk management systems, including health, safety and environment policies and systems, business continuity plans and disaster recovery.

As the organisation matures, additional policies and processes have been put in place governing areas such as equal employment opportunity, conflicts of interest, alcohol and drugs, accepting gifts and benefits, and insider trading, to give staff clarity of the standards expected of them.

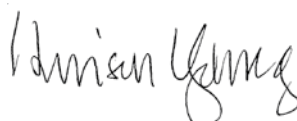
These, together with policies such as the staff Code of Conduct, are available on our website, as are our Audit Committee Charter, Implementation Committee Charter and People and Performance Committee Charter.

As NBN Co works toward full scale rollout it looks forward to seeing the potential benefits of the NBN emerge for small businesses sharing large files with international partners, for schools experimenting with new methods of teaching, for farmers using broadband applications in agriculture, for families with increasing use of the internet and for doctors interacting with patients in isolated areas.

The significant amount of work undertaken in 2010-11 wouldn't have been achieved without the commitment and hard work of NBN Co's growing workforce.

On behalf of the Board, I would like to acknowledge the contribution and dedication of the management and staff, who have achieved a tremendous amount in a very short period of time.

Lastly, I would like to thank my fellow Board members for their constant engagement and thoughtful oversight of this large and important national project. Mr Doug Campbell AM retired from the Board during the year. His role as chairman in NBN Tasmania was instrumental in creating real progress in the early days of the company.



Harrison Young

Executive Committee

The executive committee as at 30 June 2011 comprised:



Mike Quigley
Chief Executive Officer

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



Jean-Pascal Beaufret
Chief Financial Officer

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

Mr Beaufret oversees program management across the company.



Christina Boyce
Head of Business Development

Ms Christina Boyce is Head of Business Development for NBN Co. She is responsible for long term demand planning as well as strategic planning. Her role includes business opportunity assessments and strategic reviews.



Kevin Brown
Head of CHRO & Corporate Services

Mr Kevin Brown is Chief Human Resources Officer and Head of Corporate Services. Mr Brown is responsible for company secretariat, government relations and external affairs, human resources including training strategy and internal communications, regulatory affairs and legal.

Mr Brown manages the company's procurement, facilities, quality and security and also has the lead on health, safety and the environment.



Steve Christian

Head of Network Operations

Mr Steve Christian is Head of Network Operations. His role oversees service activation and service assurance, IT infrastructure and end-user technology.



Dan Flemming

Acting Head of Construction

Mr Dan Flemming is Acting Head of Construction encompassing construction program design and planning.

Mr Flemming oversees materials and logistics, and includes constructors and stakeholder management as well as build strategy and operational efficiency during the rollout.



Jim Hassell

Head of Product Development and Sales

Mr Jim Hassell is Head of Product Development and Sales to access seekers. He is in charge of designing products to offer over the network. His group is responsible for consultation with industry peers.



Gary McLaren

Chief Technology Officer

Mr Gary McLaren is Chief Technology Officer responsible for network architecture and technology, planning and design as well as product engineering.

Mr McLaren is overseeing the National Test Facility and is the key liaison for the company's technology suppliers.



Tim Smeallie

Head of Commercial Strategy

Mr Tim Smeallie is Head of Commercial Strategy. His role oversees the commercial strategy of NBN Co including acquisitions, the Telstra Definitive Agreements, Optus HFC Agreement and managing the supply of infrastructure to support the network deployment.

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



Operational Review

Overview

2010/11 was a year during which NBN Co laid down the organisational, operational and commercial foundations for the rollout of the NBN.

- Shareholder Ministers have provided a Statement of Expectations specifying the objectives set for NBN Co
- A Corporate Plan was released which articulates the company's assumptions and forecasts
- A substantial proportion of the costs associated with the services and components needed to build and operate the network has been determined
- Forecast revenue streams have been analysed in detail through the planning process
- Progress has been made in developing NBN product offerings through trial activities
- Product and process development has continued in close consultation with customers (the Access Seekers)

Financial overview

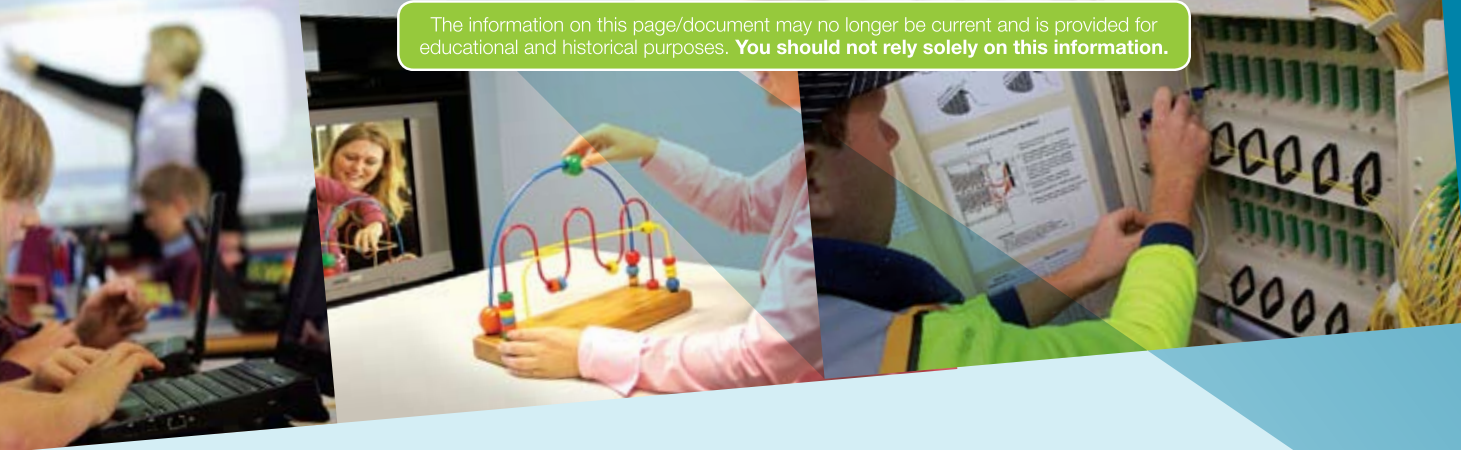
An understanding of the obligations to achieve sound financial outcomes for shareholders and through them, taxpayers, has driven NBN Co's financial decision making. NBN Co's approach is to take the required time to reach the right commercial outcome rather than seek a fast agreement irrespective of value. For example, it took longer than initially anticipated to reach the Definitive Agreements with Telstra, and to finalise the first construction contract. These events have impacted timeframes in the short term, but will mean a better outcome in the long term.

Consistent with being in the start-up phase of its evolution, the group generated an operating loss for the twelve months to 30 June 2011, of \$323 million with no operational revenues. The main areas of operating expenditure during the twelve months were in building core capabilities. Specifically, the significant expenditures were:

- \$119 million of employee-related expenses
- \$161 million for legal and technical advice expenses
- \$37 million for IT and facilities expenses

The total capital expenditure incurred over the past twelve months was \$463 million. This included \$85 million on rolling out the fibre network, \$118 million on acquiring 2.3GHz and 3.4GHz wireless spectrum licences from Austar United Broadband Pty Ltd (AUSTAR) and \$198 million on systems and processes, including data centres, the National Support and Operations Centre, business support systems (BSS) and operational support systems (OSS).

The Australian Government contributed \$1,050 million in equity during the twelve months to 30 June 2011.



Telstra and Optus Agreements

NBN Co made considerable progress in a number of important commercial negotiations culminating in the execution of agreements with Telstra and Optus in June 2011 that together with regulatory change and undertakings by Telstra to be put in place, help achieve a goal of the Government's reform by separating the wholesale network from retail telecommunications products and services.

Specifically, within the fibre footprint, agreements with both Telstra and Optus will underpin take-up rates, provide greater confidence of revenue and allow the NBN to be built in a cost effective way and with less disruption to the community.

The Telstra Definitive Agreements allow NBN Co to access Telstra's infrastructure over a minimum 35-year period and will facilitate efficient network deployment. Under the agreements, Telstra will progressively disconnect premises receiving services over its copper and Hybrid Fibre Coaxial (HFC) network (other than certain pay TV services over the HFC network) and Telstra has also agreed for a period of 20 years from the Commencement date of the Telstra Definitive Agreements to use the NBN as the fixed-line connection to premises within the NBN fibre footprint to provide fixed line carriage services to these premises (subject to limited exceptions).

The Telstra Definitive Agreements are subject to a number of conditions precedent, including Australian Competition and Consumer Commission (ACCC) approval of Telstra's structural separation undertaking and migration plan, as well as Telstra shareholders' approval. While these conditions are being satisfied, NBN Co and Telstra have negotiated interim arrangements for immediate access to certain Telstra infrastructure.

Under the Optus HFC Agreement, Optus will progressively migrate its HFC customers to the NBN as it is rolled out. In return NBN Co will make progressive payments to Optus based on the number of customers that migrate to the NBN. The Optus HFC Agreement is also subject to a number of conditions, including authorisation by the ACCC. While these conditions are being satisfied, NBN Co and Optus will work together on an implementation plan.

Design & Construction

In July 2010 NBN Co released indicative maps of the proposed fibre, wireless and satellite service footprints. More detailed boundaries will be released progressively as the network is designed in detail.

Fibre Network

The fibre network will pass 93% of premises Australia-wide.

NBN Co has developed a process to commence from the release of a Network Design Document (NDD) for a Fibre Service Area Module (FSAM) covering construction to activation over an expected average of twelve months.

First Release Sites – Fibre Trials

In July and August 2010, NBN Co signed construction agreements for the five first release sites to trial design, construction and operational methodologies in diverse geographical locations.

In order to engage the community in the rollout of the network and because retail Access Seekers were not yet marketing services locally, NBN Co sought consent from households and businesses to attach a lead-in cable to their premises. The opt-in rate was high across the five sites with an average of 75% choosing to make their premises "NBN ready".



Operational Review

The availability of retail Access Seekers to market services to consumers means NBN Co does not plan itself to run a consent process in Second Release Sites, but to connect premises based on orders placed by the Access Seekers.

All five First Release Sites, representing 14,256 premises, had been accepted for live operation by 30 June 2011. The total of brownfields premises passed in the five mainland sites when added to the three Pre-Release (Tasmanian) sites, yields a total of 18,243 premises passed at the end of the reporting period, with 622 premises activated and receiving services.

Tasmania – Stage Two

In April 2011, NBN Co confirmed the commencement of a project to add a total of 11,150 households and businesses to the fibre footprint across seven sites in Tasmania. The additional sites are Deloraine, George Town, Kingston Beach, Sorell, South Hobart, St Helens and Triabunna.

The announcement followed the engagement of the construction contractor, Conneq, for the project and preparatory works began in May 2011. Construction in Sorell and Triabunna began in early June 2011, with Aurora Energy acting as NBN Co's Tasmanian agent for the project.

Full-scale construction of the NBN

It is intended that the NBN be rolled out over approximately ten years. The first several “full-scale” stages are close to commencement of implementation.

Throughout 2010 and early 2011 NBN Co had been in discussion with a number of potential construction contractors. In April 2011, NBN Co indefinitely suspended its network construction tender process when it failed to deliver what NBN Co considered value for money.

In June 2011, NBN Co reached agreement with Silcar Pty Ltd for almost 40% of planned construction over the next two years covering Queensland, NSW and the ACT estimated at \$380 million, with an option of a further two years estimated at an additional value of \$740 million.

Nine of the nineteen “Second Release Sites” announced are covered by the contract with Silcar, including extensions to existing works in Kiama, Townsville and Armidale and new sites at Springfield Lakes, Toowoomba and northern Brisbane, Riverstone, Coffs Harbour and Gungahlin in the ACT.

It is expected that the Silcar contract will provide a framework for contracts with construction companies for other parts of Australia.

First Release Site	Construction Contractor	Date of Construction Contract	Premises Passed*
Armidale	Silcar Pty Ltd	July 2010	4,852
Brunswick	Telstra	August 2010	2,773
Kiama and Minnamurra Downs	Transfield Services	July 2010	2,454
Townsville	Ergon Energy	July 2010	3,023
Willunga	ETSA Utilities	July 2010	1,154
TOTAL			14,256

* Based on current data subject to adjustment



Fibre in New Developments (Greenfield sites)

On 1 January 2011, NBN Co assumed responsibility as the infrastructure provider of last resort for fibre in new developments of 100 or more premises which receive stage 5 planning approval, under the policy announced by the Shareholder Ministers on 20 June 2010.

NBN Co is also responsible for installation of fibre at the development stage for all premises in NBN Co's fibre footprint, in:

- Developments, irrespective of size or type, in areas where NBN Co has already rolled out fibre and the fibre is ready and capable of connection
- Development in areas where NBN Co has publicly identified the area as a rollout region

Within the first quarter of 2011, NBN Co commenced establishing a capability, including staffing, legal instruments, systems and processes to enable developers to lodge applications for service.

As of 30 June 2011 NBN Co had received applications for more than 1,700 developments, of which 1,188 are active applications covering approximately 75,000 lots. There have been 403 contracts signed as at the end of June 2011.

In order to meet the service delivery requirements of the New Developments policy, NBN Co engaged Fujitsu (with Service Stream as its principal subcontractor) to design and build fibre networks in compliance with NBN Co's fibre architecture and technical specifications.

Fixed Wireless Network

The wireless network will provide a high speed fixed wireless service for approximately four percent of Australian premises beyond the fibre network.

In February 2011 NBN Co negotiated the purchase of 2.3 GHz and 3.4 GHz spectrum licenses from AUSTAR and on 1 June 2011 signed a 10 year equipment supply and managed services contract with Ericsson to design, build and operate the 4G fixed-wireless network. The first services are scheduled to be delivered over the network in mid-2012, with the network build scheduled for completion in 2015.

Satellite Network

NBN Co's satellite network will cover approximately three percent of premises, including some of the most geographically isolated areas in Australia.

NBN Co was directed by the Australian Government to design an interim satellite solution to act as a transition between the Australian Broadband Guarantee Scheme (which expired on 1 July 2011) and NBN Co's Long-Term Satellite service (scheduled for 2015).

To fulfil this requirement, NBN Co entered into a contract with Optus in May 2011 to provide managed satellite services for an initial five years with one option to extend. A second contract was signed with IPStar for additional satellite capacity. Later that month NBN Co released the eligibility criteria for potential users of the satellite service. A trial was conducted with approximately 200 users, with NBN Co's first commercial satellite services launched on 1 July 2011.



Operational Review

The procurement of satellites and ground segment equipment for NBN Co's long term satellite network continues. Contracts are expected to be signed during 2012.

Project Support and Supply Chain Development

NBN Co has developed methods for program management and scheduling to meet the challenges of the scale and speed of deployment of a large fibre optic access network.

Community Engagement in the Design and Construction Process

During the rollout of the network in the trial sites, NBN Co has engaged local communities to improve understanding of what the planning and construction process involves.

Community Relations Managers are responsible for liaising directly with local stakeholders including local authorities as the network is built.

In the First Release Sites, NBN Co established a community engagement process that will be further refined as the rollout progresses.

Procurement Activity

During 2010/11 NBN Co entered into 16 key supply agreements for construction partners, equipment suppliers and service providers that will allow provision for most of the components of the network, and to support other business operations.

NBN Co has used its procurement processes and its scale for the construction of the fibre network to enter contracts to establish a supply chain of standard NBN components and equipment. These contracts have allowed the development of a catalogue of equipment from which NBN Co contractors can order at set rates and charge back to the project.

It is a strategy that aims to drive efficiency, cost effectiveness and consistency throughout the network.

NBN Co also used its scale to support investment in local manufacturing wherever possible.

Network Operations

Operational Facilities and Capabilities

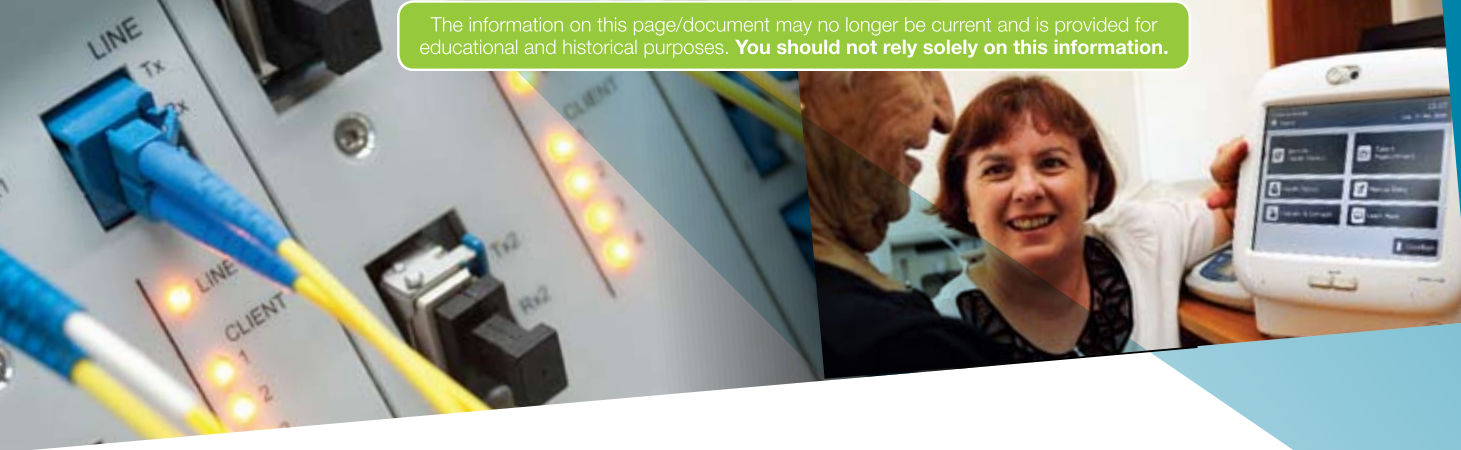
The National Operations and Test Facility has been established in Melbourne in the Docklands Digital Harbour development. When fully operational, the facility will employ up to 425 people supporting the National Service and Operations Centre, The National Test Facility and the Service Activation Centre (South).

The National Service and Operations Centre is the primary operational interface with NBN Co's customers and other infrastructure providers. This facility also supports compatibility and integration testing with Access Seekers. Service Activation Centres have been established in both Sydney and Melbourne, and support the connection of Access Seekers onto the NBN network and the activation of their customers.

To support the many IT and network platforms controlling business and operational activities, data centres have been established in premises leased in Sydney and Brisbane.

Data centre equipment for the facility is maintained by CISCO, under a three-year contract signed in November 2010.

In parallel with the establishment of physical and systems infrastructure, NBN Co has also developed operating processes, systems requirements, standards and documentation as well as training capabilities. A series of commercial tenders are in progress to establish a contractor workforce to support the customer connection process.



Operational and Business Support Systems (OSS/BSS)

In early 2010, Business Support Systems including the Oracle E-Business Platform was introduced to create enterprise planning capabilities to enable organisation-wide financial and procurement management and human resource integration.

Three subsequent releases have extended current capabilities and introduced new systems to support the design and high volume construction of the network.

The new IT system capabilities which were implemented this year included:

- Business Intelligence and Analytics – enabling customised reporting and dashboards
- Identity and Access Management – simplifying user access and management
- Enterprise Asset Management – enabling the recording and reporting of network and non-network assets integrated with financial systems
- Enterprise Content Management – providing a document repository capability
- Health, Safety and Environment – supporting the online management of risks and incidents
- Supply Chain Management – supporting sourcing, storing, moving, reporting and stock-taking of spares inventory

In March 2011, NBN Co announced the appointment of IBM as the prime systems integrator of its operational and business support systems.

Access Seekers will be able to order new services, report faults or perform service qualification checks via business-to-business interfaces and portals designed to allow transparent and flexible management of their services on the network. That is, Access Seekers will be able to operate the network as if it were their own.

The systems will also allow NBN Co to monitor the performance of its network and bill access seekers for the services they order and operate.

Portals and Online Services

Access Seekers can now order and assure NBN Co Fibre Access Services to mainland First Release Sites via a service portal. Access Seekers complete the on-boarding process via the Access Seeker Portal and gain accreditation for the NBN Co Fibre Access Service. In addition, developers can now lodge expressions of interest via the online portal.

Specifications have been released which form the basis for access seekers to design and build their IT systems supporting automated transactions for ordering, assurance and billing.

Products and Pricing

In December 2010, NBN Co issued the document "Product & Pricing Overview for Access Seekers". This document was the result of extensive industry consultation with prospective Access Seekers and details the product and pricing constructs. It also provides features and a product catalogue applicable to the fibre, wireless and satellite networks.

The document when read in conjunction with the detailed technical specification documents, allows prospective Access Seekers to undertake their commercial, product and technical planning.

In early 2011, NBN Co released an online "Product & Pricing Calculator", which is a detailed modelling tool enabling prospective Access Seekers to understand the range of pricing and network dimensioning options available to them in developing their retail offerings.



Operational Review

NBN Co also developed and published the product release roadmap, which gives the industry an understanding of when each of NBN Co's product releases will be available in the market: Product Release One delivered in April 2011, provided core NBN Co high speed broadband and telephony capability. Additional product releases will provide innovative entertainment capability including a multicast feature, specialised business and enterprise products, including more traffic classes and features to improve redundancy and network reliability.

The NBN Co conducted a series of customer collaboration workshops, where Access Seekers and other industry participants were able to work with NBN Co to better understand the product construct, pricing and the building blocks for their retail offerings.

Throughout early 2011, NBN Co worked closely with the home security and home health monitoring industries so that core broadband and voice products are available to support homes using these services.

A programme of customer focused design surveys was initiated to capture key product learnings, not only from the satellite service, but also from the mainland fibre trial. This survey programme is designed to identify improvement opportunities for NBN Co and to put in place processes to implement those improvements.

NBN Co also defined a set of parameters and objectives for industry-by-industry research to underpin NBN product innovation and roadmap releases.

On-Boarding

NBN Co is responsible for the design of processes for Access Seekers to connect their end-users to the NBN. As at 30 June NBN Co had signed First Release Trial Agreements with 18 access seekers. Interoperability testing had been completed with eight access seekers (iiNet, Internode, Primus, Telstra, Optus, Nextgen, Exetel and Platform Networks). A further six access seekers have completed the on-boarding process to provide services over the NBN Co Interim Satellite Service, including Activ8me, Harbour IT, Bordernet, Reachnet, Clear Networks and Skymesh.

Wholesale Broadband Agreement

During the year, NBN Co worked with industry on a draft Wholesale Broadband Agreement, which will contain the terms and conditions that NBN Co is proposing to use for the supply of its products and services to the market.

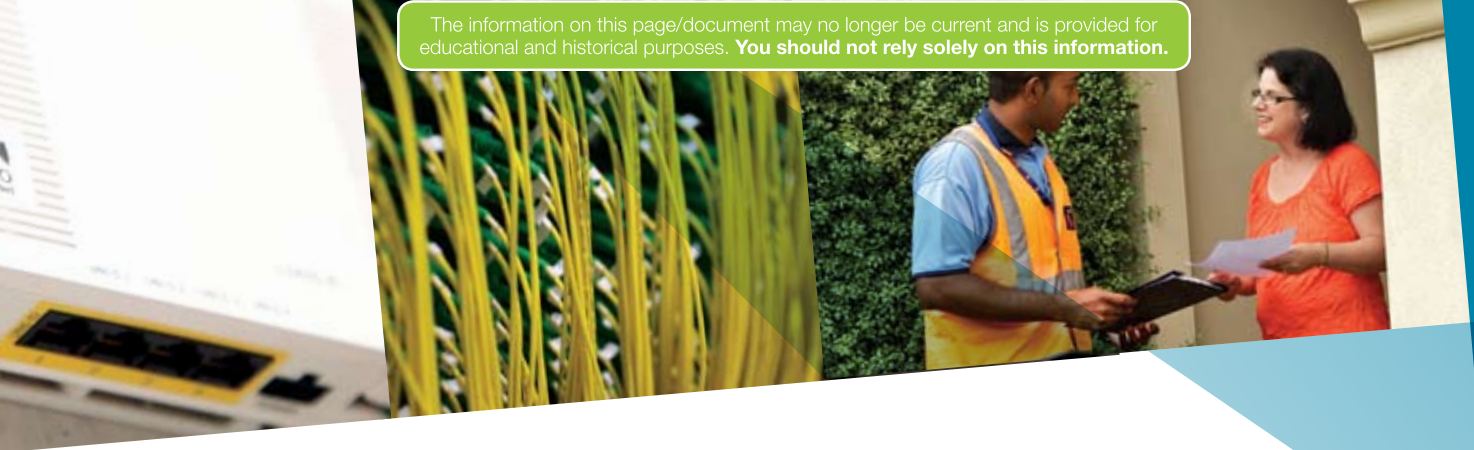
Industry consultation on the draft agreement is ongoing.

NBN Co People

While much work was externally focused, NBN Co invested heavily in the development of internal systems, processes, policies and people.

As at 30 June 2011, NBN Co had 855 employees, up from 207 in June 2010. The average age of employees is 42 years and annualised turnover in 2010-11 at 11.5% was lower than the national average.

NBN Co employs people in all states and has permanent offices in Sydney, Melbourne, Hobart, Canberra, Brisbane, Townsville, Adelaide and Perth.



NBN Co established management infrastructure, systems and processes to allow the large number of new employees to familiarise themselves with the organisation and access the resources they need to be successful in their role.

A detailed "People Plan" has been developed to:

- Accelerate resourcing necessary to construct and operate the network
- Prepare the new workforce to be effective and contribute in their new jobs
- Develop leaders
- Enhance and extend management systems
- Train the workforce on how to perform their work tasks as NBN Co systems and processes are built

Enterprise Agreements

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

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

During 2010/11, there was no lost time due to industrial relations disputes.

Planning the Future External Workforce

The Definitive Agreements reached between NBN Co and Telstra will allow NBN Co to more clearly plan its future workforce needs.

The agreement to access Telstra's existing infrastructure will reduce the amount of aerial construction required to rollout the network and therefore reduce the requirement for electrical line workers who require long training periods.

NBN Co is taking a key role in generating the labour pool required for the construction of the network and will facilitate a range of programs that will build the NBN workforce in close cooperation with construction contractors.

At the peak of construction of the network an estimated 16,000 – 18,000 workers (employed by contracted construction companies) will be engaged. NBN Co has identified key qualifications required of this workforce and is developing a range of training programs including an NBN Safety and Awareness course that will be undertaken by every NBN construction worker.

The externally-contracted NBN construction workers will be dispersed across the country, providing opportunities for local employment.

A local, indigenous work and skills development programme will be deployed under NBN Co's first volume contract with Silcar Pty Ltd.

Health, Safety & Environment (HSE)

NBN Co prioritises the safety of people and the minimisation of environmental impact. It has committed to providing a safe and healthy working environment for employees, contractors and visitors and takes all reasonable steps to control hazards and minimise risk.

Through a team of professional HSE Staff, NBN Co enables high standards of commitment and compliance with legislative requirements and community expectations to be achieved.

Operational Review

NBN Co's HSE Management System, iSafe, includes incident and hazard reporting capability, risk assessment, investigations, auditing, case management and reporting modules.

To assist managers and employees to better understand their obligations and improve their vigilance to HSE risk, reporting and management, NBN Co has introduced an HSE Field guide.

A comprehensive Drug and Alcohol Testing Program was also introduced during the year.

NBN Co contractors had two lost time injuries with both employees returning to normal duties soon after their injury. No significant environmental incidents were reported by NBN Co or its contractors.

NBN Co has a process to raise hazards reports and alerts to maximise the probability that a hazard can be dealt with before there is any HSE impact. This process has led to important modifications to the design of pavement pit lids and to the development of a national training package for horizontal bore operators.

NBN Co has been declared to be a Commonwealth Authority for the purposes of the *Safety, Rehabilitation and Compensation Act 1988*, and has entered the Comcare Premium Scheme for the provision of workers compensation. To date, NBN Co has not had a work-related workers' compensation claim.

NBN Co is committed to an ecologically sustainable development of the network and has a full time Manager of Environment and Sustainability. The company has access to key environmental geographical information system (GIS) mapping tools and overlays and follows a rigorous land access process to allow for all licences, permits and approvals to be obtained prior to development. Compliance to these processes is audited by an independent third party.

Access to Telstra's existing underground pits and pipes will significantly reduce NBN Co's environmental impact and improve the visual aesthetics of the network. The fibre network will use significantly less electrical power than current technology.

A report on NBN Co's energy and environmental plan as part of its compliance obligations under the *Commonwealth Environmental Protection and Biodiversity Conservation Act 1999*, is included in the regulatory reporting requirements attached to this report.

Regulation and Oversight

Legislation relating to NBN Co

On 12 April 2011, legislation to provide the regulatory framework for the NBN came into force. The regulatory framework for the NBN was established through the *National Broadband Network Companies Act 2011* and the *Telecommunications Legislation Amendment (National Broadband Network Measures – Access Arrangements) Act 2011*, which operate in addition to the existing generic telecommunications regulatory framework.

On 29 November 2010, the *Telecommunications Legislation Amendment (Competition and Consumer Safeguards) Act 2010* was passed by Parliament. This Act provides a framework to improve competition in the telecommunications sector, including during the transition to the full NBN rollout.

On 24 June 2011, the Minister made five key regulatory instruments, which provide the framework for Telstra's structural separation.

On 10 August 2011, a series of proposed changes to the *Telecommunications (Low-impact Facilities) Determination 1997* and the *Telecommunications Regulations 2001* were announced.



These proposed changes are intended to enable NBN Co to better:

- Connect premises
- Locate equipment in multi-unit buildings
- Deploy broadband infrastructure in streets

Parliamentary Committees

During the year, NBN Co appeared before four Parliamentary Committees:

- Senate Standing Committee on Environment and Communications
- Joint Committee on the NBN
- House of Representatives Committee on Infrastructure and Communications
- Regional Telecommunications Independent Review Committee

These Committees are currently examining NBN Co.

There were 358 questions answered as a result of Committee hearings.

Freedom of Information

NBN Co became subject to Freedom of Information legislation on 11 June 2011. NBN Co had finalised three requests under the *Freedom of Information Act 1982* by 30 June 2011 and there remain twelve requests that have been received and acknowledged and are currently being processed under the *Freedom of Information Act 1982* as at 30 June 2011.

Directors' Report

The directors of NBN Co Limited (the company or NBN Co) present their report on NBN Co and its subsidiaries (the group), together with the consolidated financial statements of the group for the year ended 30 June 2011 and the Auditor's report thereon.

Board of Directors

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

Current Directors



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

Mr Young is currently a Director of the Commonwealth Bank of Australia and serves on the Court of Directors of the Bank of England. He is also Chairman of Better Place (Australia) Pty Limited. Mr Young has significant investment banking and regulatory experience in Australia, Asia and the USA. From 1997 to 2003 he was a Managing Director and Vice Chairman of Morgan Stanley Asia, based in Hong Kong and in 2007 retired as Chairman of Morgan Stanley Australia. From 1995 to 1997, Mr Young was based in Beijing as Chief Executive of China International Capital Corporation, a joint venture investment bank in which Morgan Stanley had an investment. From 1991 to 1994 he was a senior officer of the Federal Deposit Insurance Corporation in Washington DC. Mr Young is a Director of the New York based Financial Services Volunteer Corps. Mr Young's current term will expire on 14 March 2013.



Mr Michael (Mike) Quigley – Chief Executive Officer (Executive Director) who was appointed as the interim chairman and a director of NBN Co on 24 July 2009 after a

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

After starting his career in research and development, Mr Quigley took on progressively more senior positions in Alcatel culminating in his appointment as Alcatel's President and Chief Operating Officer in 2005. Mr Quigley was educated at the University of NSW and graduated with a Bachelor of Science majoring in Mathematics and Physics, and a Bachelor of Engineering in Telecommunications. Mr Quigley is also a Director of Neuroscience Research Australia.



Mr Clement (Clem) Doherty (Non Executive Director) BSc. BE (Elec) UNSW and MBA, Stanford University who was appointed as a director on

22 December 2009, is Chairman of Like Minded Individuals, an early stage technology investor. He retired as a director of McKinsey & Company in 1996, where he led the Asia-Pacific Telecommunications, Electronics, Media & Multimedia Sector and was jointly responsible for the Global Telecommunications Sector. Mr Doherty was interim CIO of ResMed during 2006.

He is an Advisory Board member of the Centre for Policy Development, the Australian Innovation Research Centre and Network Insight Group. Mr Doherty is also a Member of the Australian Statistical Advisory Council. Mr Doherty's current term will expire on 21 December 2012.



Mr Terrence (Terry) Francis (Non Executive Director and Chair of the Implementation Committee)

who was appointed on 22 December 2009, commenced his career

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



Mr Peter Hay (Non Executive Director)

who was appointed on 5 August 2009, is a professional company director serving on the Boards of Australia and New Zealand Banking Group Limited,

Alumina Limited, GUD Holdings Limited, Myer Holdings Limited and the Epworth Foundation. He is also Chairman of the Advisory Board of Lazard in Australia. His is a former Chief Executive Officer of law firm Freehills and has had a distinguished 35 year legal and investment banking career. For many years Mr Hay practised company law specialising in mergers and acquisitions and has advised many of Australia's largest corporations. Mr Hay has also advised governments and government owned enterprises on industry reform and energy sector privatisation. Mr Hay's current term will expire on 4 August 2012.



Ms Siobhan McKenna (Non Executive Director and Chair of the Communications Committee)

who was appointed on 5 August 2009, is a director of Prime Media Group and

The Australian Ballet. Ms McKenna is the Managing Partner of Illyria Pty Ltd and is on a leave-of-absence as a Commissioner of the Productivity Commission. Previously Ms McKenna was a partner at international management consulting firm McKinsey & Company where she specialised in advising telecommunications and media companies. She was also a Member of the Advisory Board of the Australian Bureau of Meteorology. Ms McKenna's current term will expire on 4 August 2012.



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

who was appointed on 5 August 2009, is a director

of Wesfarmers Limited, Transfield Services Limited and CBH Group Limited and, is on the Board of the University of Western Australia Business School. Ms Smith-Gander was previously the head of Westpac's Business & Technology Solutions & Services Division. Before joining Westpac, Ms Smith-Gander was a partner with McKinsey & Company in the USA, where she led major transformation projects with a focus on post merger integration and organisational restructuring. Ms Smith-Gander is also outgoing Chair of the Board of Basketball Australia and a past Chairperson of the Australian Sports Drug Agency. Ms Smith-Gander's current term will expire on 4 August 2012. She is a Fellow of the Australian Institute of Company Directors.

Directors' Report



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

was appointed on 5 August 2009. Mr Tilbrook is Chairman of TransPacific Industries and a

member of the Boards of Fletcher Building, QR National, and GPT Group (each ASX listed). From 2002 to May 2009, Mr Tilbrook was an executive director of Wesfarmers Limited, where for a long period he led its business development group with responsibilities across acquisitions, investments, Corporate Planning and systems. He is a Councillor of Curtin University and the Australian Institute of Company Directors, WA, and a member of the Boards of the Perth International Arts Festival, the Bell Shakespeare Company and the Committee for Perth. Mr Tilbrook's current term will expire on 4 August 2012.



Mr Richard (Rick) Turchini

who was appointed as a director on 14 September 2011.

Mr Turchini is a civil engineer who has more than 40 years experience in the construction

industry. He retired from the construction firm Leighton Contractors in 2003, leaving his position as a Company Director and General Manager for New South Wales and the ACT. From 2005 to mid 2010 Mr Turchini was Managing Director of Baulderstone, a construction company that employs more than 1,300 people across Australia. Mr Turchini is also an honorary Director of Infrastructure Partnerships Australia. Mr Turchini's current term will expire on 13 September 2014.

Former Executive Director

A director who served on the Board of NBN Co during part of the period from 1 July 2010 to 30 June 2011 was **Mr Doug Campbell AM (Executive Director)** who was appointed as a director on 5 August 2009 retired from NBN Co as an Executive and member of the Board of Directors on 7 December 2010.

Company secretary

Ms Debra Connor was appointed as company secretary of NBN Co effective from 22 June 2010. Ms Connor has a Bachelor of Laws and Graduate Diploma in Corporate Governance and has completed post graduate courses through Stanford and Columbia Universities in the USA and Italy respectively.

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

Directors' meetings

The number of meetings of Board of Directors held during the period from 1 July 2010 to 30 June 2011 and the number of meetings attended was as follows:

Director	Number of Directors meetings eligible to attend	Total number of meetings attended
Harrison Young (Chairman)	17	17
Mike Quigley	17	17
Clem Doherty	17	13
Terry Francis	17	17
Peter Hay	17	16
Siobhan McKenna	17	15
Diane Smith-Gander	17	17
Gene Tilbrook	17	17
Doug Campbell AM*	7	5

* Mr Campbell AM retired as an Executive and member of the Board of Directors of NBN Co on 7 December 2010.

Board Committee meetings

Audit Committee

The membership of the Committee, the number of meetings the Committee held during the period from 1 July 2010 to 30 June 2011 and the number of meetings attended was as follows:

Name of Director	Number of Audit Committee meetings eligible to attend	Total number of meetings attended
Gene Tilbrook (Chair)	4	4
Peter Hay	4	2
Clem Doherty	4	4

Communications Committee

The membership of the Committee, the number of meetings the Committee held during the period from 21 April 2011 to 30 June 2011 and the number of meetings attended was as follows:

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

Implementation Committee

The membership of the Committee, the number of meetings the Committee held during the period from 16 July 2010 to 30 June 2011 and the number of meetings attended was as follows:

Name of Director	Number of Implementation Committee meetings eligible to attend	Total number of meetings attended
Terry Francis (Chair)	10	10
Clem Doherty *	8	8
Diane Smith-Gander**	2	2
Doug Campbell AM***	5	5

* Mr Doherty resigned from the Committee in March 2011.

** Ms Smith-Gander was appointed to the Committee on 21 April 2011.

*** Mr Campbell AM retired as an Executive and member of the Board of Directors of NBN Co on 7 December 2010.

Directors' Report

Nominations Committee

The membership of the Committee, the number of meetings the Committee held during the period from 11 February 2011 to 30 June 2011 and the number of meetings attended was as follows:

Name of Director	Number of Nomination Committee meetings eligible to attend	Total number of meetings attended
Harrison Young (Chair)	3	3
Terry Francis	3	3
Diane Smith-Gander	3	3

People and Performance Committee

The membership of the Committee, the number of meetings the Committee held during the period from 1 July 2010 to 30 June 2011 and the number of meetings attended was as follows:

Name of Director	Number of People and Performance Committee meetings eligible to attend	Total number of meetings attended
Diane Smith-Gander (Chair)	5	5
Siobhan McKenna	5	5
Harrison Young	3	3

Directors' and Officers' remuneration

This remuneration report sets out information related to the pay for NBN Co's Key Management Personnel. Key Management Personnel is comprised of the Directors and the senior executives that have authority and responsibility within NBN Co.

Senior executives disclosed in this report

The senior executives who are included in Key Management Personnel are:

Name	Position
JP Beaufret	Chief Financial Officer
C Boyce	Head of Business Development
K Brown	Chief Human Resources Officer and Head of Corporate Services
S Christian	Head of Network Operations
P Flannigan	Head of Construction (until 30 April 2011)
J Hassell	Head of Product Development and Sales
G McLaren	Chief Technology Officer
T Smeallie	Head of Commercial Strategy

Changes since the end of the reporting period

Since the end of the reporting period changes to the Key Management Personnel include:

The Chief Financial Officer, Jean-Pascal Beaufret has indicated his intention to retire in January of 2012.

Ms Christy Boyce's employment with NBN Co concluded on 15 September 2011.

The company has restructured the management team effective 24 August 2011 to transition from a start up and this now enables NBN Co to give effect to this large infrastructure project. Further disclosures on the new management structure will be available in the next annual report covering this period.

Note that the information on the executive and non-executive directors disclosed in this report is provided on pages 20 to 22 above.

Role of the People and Performance Committee

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

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

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

Use of external advisors and remuneration consultants

In making remuneration decisions, the P&PC seeks advice and recommendations from the CEO, the Head of Corporate Services and CHRO, the General Manager Rewards & Programs and, where required, external remuneration consultants. The P&PC considers the advice and makes decisions based on these inputs.

Remuneration consultants are engaged by and report directly to the P&PC, providing independence from the company's management.

During the 2011 financial year, NBN Co received external advice in relation to Key Management Personnel (KMP) remuneration from Ernst & Young.

The advice included Key Management Personnel remuneration market practice and key considerations (including advice in relation to expatriate arrangements). None of the advice provided during the year by Ernst & Young included a remuneration recommendation (as defined in the *Corporations Amendment (Improving Accountability on Directors and Executive Remuneration) Act 2011*). In addition to KMP remuneration advice, Ernst & Young also provided immigration and employee relocation advice.

The Remuneration Tribunal is the independent statutory body that handles the remuneration of key Commonwealth offices. Remuneration determinations regarding directors are provided to the company by the Remuneration Tribunal. The company is bound by regulation to comply with the determinations regarding remuneration provided by the Tribunal.

Director Remuneration

All directors of the company are appointed by the Commonwealth of Australia through the Shareholder Ministers. Remuneration for non-executive directors is set in accordance with applicable Remuneration Tribunal determinations.

Remuneration for non-executive directors was structured during 2010 as follows:

Title	Annual Entitlement to 31 Jul 2010 (Refer to Note 1)	Annual Entitlement from 1 August 2010 (Refer to Note 1)
Chairman	\$185,350	\$192,950
Non-Executive Directors	\$92,700	\$96,510

Excluding Superannuation and travel allowance

Directors' Report

Effective 1 July 2011, the Remuneration Tribunal increased the annual fees by 3% to \$198,740 for the chairman and \$99,410 for the non-executive directors and the remuneration for these officeholders was increased accordingly.

Remuneration for the Chief Executive Officer (CEO) was set by the Commonwealth upon his appointment in July 2009 and has not been varied. The CEO has elected not to participate in the 2010-11 Short Term Incentive Plan (STI).

Actual remuneration received by the directors of the company during the financial year is shown in the remuneration tables below.

Senior Executive Remuneration

The NBN Co reward framework is the foundation for all senior executive remuneration programs at NBN Co. It provides a basis for the structure of fixed pay, the design of incentive plans, and resulting pay outcomes. The P&PC determines and regularly reviews the principles of the reward framework.

Key principles of the strategy are:

- .. Pay levels are consistent with the external market
- .. Role evaluation across the company is based on an equitable framework
- .. The annual incentive program is dependent on NBN Co's results
- .. Individual performance has an impact on actual pay outcomes

Senior executives receive Total Fixed Remuneration (TFR) and are eligible to participate in a Short Term Incentive (STI) opportunity. No Long Term Incentives are in place. Details on the structure of senior executive remuneration are described below.

Base pay, benefits, and Superannuation

Total Fixed Remuneration (TFR) for all employees is made up of base salary, superannuation, and other packaged benefits and includes any related FBT cost to NBN Co.

A role evaluation rating system is used for determining the pay band for all employees at NBN Co. Pay bands within the framework have been set with reference to the external market through survey data and are based on job function and accountability level. Once the pay band has been assigned, a target TFR amount for the role is established. The actual TFR for individuals taking on a role may vary from the target within a reasonable range based on their relative experience and ability.

Senior executive roles undergo a direct benchmark to comparable roles by independent remuneration advisors. The external market benchmark is determined by researching disclosed data from relevant Australian listed companies and Government Business Enterprises, supplemented by survey data where necessary. This additional analysis provides insight into the supply and demand characteristics specific to the role. Target TFR for each senior executive role is based on the benchmark data and internal relativities.

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

Short Term Incentive (STI) Plan

NBN Co introduced an STI plan for senior executives effective from 1 July 2010. The intention of the program is to:

- Reward senior executives who contribute to the company's success during the performance year
- Provide the company flexibility in the management of aggregate employee costs by linking a portion of total pay to corporate performance

Funding of the STI pool is fully dependent on the achievement of corporate performance hurdles. If funded, the available pool is allocated to participants based on the outcomes of their functional area and their personal contributions.

Setting corporate hurdles was challenging for financial year 2010/11 given the nature of the organisation, a start up without an operational history, subject to significant external events. The use of variable pay during 2010/11 was appropriate to align the pay outcome for senior executives to the outcome for the business and set the framework of at risk pay for future years. The Committee determined that this STI program is consistent with the needs of the business and aids NBN Co's positioning in the labour market.

The total STI pool available can increase to a maximum of 120% of the target pool, based on company performance. Individual target incentive opportunities were 20% of TFR for senior executives disclosed in this report.

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

- Whether it is offered
- Who will be eligible to participate
- What corporate performance hurdles apply
- How much the target and maximum opportunity will be
- Which changes or adjustments are needed to continually improve the plan
- What the final outcome of the program is each year

The P&PC retains discretion to adjust STI payments downwards in light of unforeseen circumstances or unintended outcomes.

During financial year 2010/11, the following corporate performance hurdles applied:

- Number of premises passed with fibre optic cable
- Achievement of specified strategic milestones documented in the Corporate Plan
- Capital expenditure against selected milestones

Based on NBN Co's performance against the corporate performance hurdles described above, the total STI pool was reduced by 20% from the original target. NBN Co slightly exceeded the original target for the number of premises passed. Achievement for most of the other strategic milestones and related capital expenditure was at or near target. Some were not achieved on the original timeline or the objective was changed (e.g. the approach for both construction and rollout to greenfield premises).

The overall result for the performance period was lower than the targeted outcomes. The Committee therefore approved an STI pool at 80% of target. This 20% reduction from target was based on weighting each measure and assigning an achievement rating, and it reflects the CEO and Committee's assessment of performance against the plan measures.

This reduced pool was then allocated to participating senior executives based on individuals' target opportunity and contribution, as recommended to the Committee by the CEO. This allocation did not increase the size of the pool.

The CEO and the CFO elected to not participate in the 2010/11 STI program.

Directors' Report

Non-Cash Benefits

Benefits provided to senior executives include the provision of car parking and relocation assistance where necessary up to 30 June 2010.

From 1 July 2010, the cost of car parking, including the related FBT, is a salary sacrifice item from within TFR instead of a separate component. Therefore it is reported as part of TFR for financial year 2010/11.

Superannuation and Other Long-Term Benefits

Superannuation Guarantee Contribution and salary sacrifice superannuation payments are made on behalf of the employee. Remaining long-term benefits include the accrual of statutory long service leave for employees.

Termination Payments

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

Service Agreements

Remuneration and other terms of employment for senior executives are formalised in service agreements, which include the termination arrangements. The termination arrangements for disclosed executives are shown in the table below. Note that all periods are based on TFR; STI is not included in the contractual termination arrangements.

A three-month early termination payment arrangement was put in place for senior executives other than the CEO, CFO and CHRO & Head of Corporate Services to enable NBN Co to address the uncertainty for both existing and potential executives during the organisation's start-up period. The early termination payment arrangement lapsed on 31 July 2011.

Loans to directors and senior executives

No loans have been provided to any directors or employees.

Service Agreements

Position	Notice Period by Executive	Notice Period by NBN Co	Normal Termination Payment
CEO (Mike Quigley)	6 months	12 months	Not applicable
CFO and CHRO & Head of Corporate Services (Jean-Pascal Beaufret and Kevin Brown)	6 months	6 months	6 months
Remaining Key Management Personnel*	3 months	3 months	3 months

* Excluding directors

Remuneration Tables

Total remuneration for Key Management Personnel is shown in the tables below. For financial year 2009/10, remuneration amounts reflect partial year's service as Key Management Personnel joined the company.

30 June 2011

Note	Short-term Benefits			Post-employment	Other-long term benefits	Termination benefits	Total Remuneration
	Cash salary and fees (1)	STI / Bonuses (2)	Non-cash benefits (3)	Super contributions	Long service leave (4)	(5)	
	\$	\$	\$	\$	\$	\$	\$
Executive directors							
M Quigley	1,912,000	-	-	50,000	2,558	-	1,964,558
Non-executive directors							
D Campbell	136,749	-	-	10,423	-	3,802	150,974
C Doherty	96,193	-	-	8,657	-	-	104,850
T Francis	96,193	-	-	8,657	-	-	104,850
P Hay	96,193	-	-	8,657	-	-	104,850
S McKenna	96,193	-	-	8,657	-	-	104,850
D Smith-Gander	96,193	-	-	8,657	-	-	104,850
G Tilbrook	96,193	-	-	8,657	-	-	104,850
H Young	192,255	-	-	15,199	-	-	207,454
Other key management personnel							
J Beaufret	996,801	-	-	15,199	1,261	-	1,013,261
C Boyce	126,293	53,120	-	11,023	161	-	190,597
K Brown	844,708	145,600	-	49,999	1,182	-	1,041,489
S Christian	635,419	109,920	-	44,279	679	-	790,297
P Flannigan	627,621	-	-	12,666	819	190,399	831,505
J Hassell	851,801	121,920	-	15,951	792	-	990,464
G McLaren	682,499	113,200	-	25,000	926	-	821,625
T Smeallie	720,601	120,000	-	29,399	968	-	870,968
Total	8,303,905	663,760	-	331,080	9,346	194,201	9,502,292
Non executive directors							
	906,162	-	-	77,564	-	3,802	987,528
Executive and KMP's							
	7,397,743	663,760	-	253,516	9,346	190,399	8,514,764
Total	8,303,905	663,760	-	331,080	9,346	194,201	9,502,292

Notes:

1. Base salary includes executive's annual leave entitlements and any allowances paid in cash
2. Bonuses paid in September 2011 relate to FY10/11 performance
3. Non-cash benefits were not provided during the year
4. Long service leave relates to amounts accrued during the relevant period
5. Mr. Quigley elected to not participate in the STI program, forfeiting an award of \$314,000
6. Includes fees paid for role as Executive Chair of NBN Tasmania. Termination benefits represent payout for statutory annual leave entitlement in December 2010
7. Mr. Beaufret elected to not participate in the STI program, forfeiting an award of \$162,920
8. Ms. Boyce was on unpaid parental leave for a portion of the year and currently works part time
9. Termination benefits include payout for two months of the notice period plus statutory annual leave entitlement in April 2011
10. Cash salary includes a one-time \$105,000 sign on bonus

30 June 2010

Note	Short-term Benefits			Post-employment	Other-long term benefits	Termination benefits	Total Remuneration
	Cash salary and fees (1)	STI / Bonuses (2)	Non-cash benefits (3)	Super contributions	Long service leave (4)	(5)	
	\$	\$	\$	\$	\$	\$	\$
Executive directors							
M Quigley	1,808,202	-	6,735	45,180	1,435	-	1,861,552
Non-executive directors							
D Campbell	268,755	-	6,735	20,355	-	-	295,845
C Doherty	49,037	-	-	4,413	-	-	53,450
T Francis	49,202	-	-	4,428	-	-	53,630
P Hay	83,256	-	-	7,493	-	-	90,749
S McKenna	83,256	-	-	7,493	-	-	90,749
D Smith-Gander	75,531	-	-	15,218	-	-	90,749
G Tilbrook	83,256	-	-	7,493	-	-	90,749
H Young	54,308	-	-	4,333	-	-	58,641
Other key management personnel							
J Beaufret	777,059	-	20,783	11,394	614	-	809,850
C Boyce	847,918	-	1,563	3,615	16	-	853,112
K Brown	691,043	-	6,735	50,000	578	-	748,356
S Christian	339,114	-	5,020	49,997	429	-	394,560
P Flannigan	397,080	-	3,317	8,436	330	-	409,163
G McLaren	500,623	-	3,317	25,000	432	-	529,372
T Smeallie	534,997	-	6,735	25,000	490	-	567,222
Total	6,642,637	-	60,940	289,848	4,324	-	6,997,749
Non executive directors							
	746,601	-	6,735	71,226	-	-	824,562
Executive and KMP's							
	5,896,036	-	54,205	218,622	4,324	-	6,173,187
Total	6,642,637	-	60,940	289,848	4,324	-	6,997,749

Notes:

1. Base salary provided from commencement up to 30 June 2010 and includes executive's annual leave entitlements and any allowances paid in cash
2. No bonuses were paid during the period
3. Non-cash benefits include car parking and relocation costs and are inclusive of related Fringe Benefits Tax
4. Long service leave relates to amounts accrued during the relevant period
5. No termination benefits were provided to disclosed individuals during year
6. Includes \$198,362 of fees paid for additional role as Executive Chair of NBN Tasmania
7. Non-cash benefits include \$14,048 related to relocation
8. Reflects reduction to part-time from 1 June 2010

Directors' Report

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 2011, no claims have been made.

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

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

Corporate information

NBN Co is a public company limited by shares that is incorporated and domiciled in Australia.

The registered office of the company is Level 40, 360 Elizabeth Street, Melbourne Victoria 3000.

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

Principal activities

The principal activities of the group are to build and operate the open access wholesale only National Broadband Network (NBN) to deliver high speed broadband to Australian premises.

Operating results

The consolidated loss of the group after income tax was \$323,221,000 (2010: \$79,835,000).

Dividends

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

Review of Operations

A review of the operations of the group and the results of those operations are contained in the Chairman's Message on pages 5-6 and the Operational Review on pages 9-19 of the Annual Report and such information is incorporated into this Directors' Report.

Significant Changes in State of Affairs

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

Contributed equity increased by \$1.050 billion as a result of government equity injections. Details of the changes in contributed equity are disclosed in note 15(b) to the financial report.

NBN Co acquired spectrum licences as a result of the acquisition of a subsidiary from Austar United Broadband Pty Ltd (AUSTAR) on 17 February 2011. As a result of the acquisition NBN Co holds 2.3 GHz and 3.4 GHz spectrum licenses, which are essential for rolling-out high speed fixed wireless service to rural and regional Australia.

The payment comprised of \$58 million to acquire the AUSTAR subsidiary holding the spectrum, and \$62 million for the assignment of this subsidiary's debt. As a result of the transaction, NBN Co now has a second wholly owned subsidiary NBN Co Spectrum Pty Limited.

A project was initiated in March 2011 with NBN Co appointing IBM as the prime systems integrator of its operational and business support systems to deliver end-to-end solutions in network service ordering, faults reporting, service qualification checking, networking monitoring and billing.

All the functionalities are to be delivered through the business-to-business portal in a transparent and flexible manner.

The group signed contracts with Optus and IPstar for its interim satellite service starting from 1 July 2011.

The contract with Optus offers NBN Co managed satellite services and some satellite capacity; and the contract with IPstar will provide NBN Co additional capacity needed to service both mainland and Tasmania.

On 1 June 2011, NBN Co announced that it plans to complete the rollout of its fixed-wireless broadband network covering Australians in rural and regional areas by 2015, with the first services to be available from the middle of 2012. An equipment supply and managed services contract with Ericsson was entered into on 1 June 2011.

On 23 June 2011, NBN Co entered into Definitive Agreements with Telstra Corporation Limited. Under those agreements, NBN Co accesses Telstra's ducts and pits, dark fibre and rack spaces and acquires Telstra's lead in conduits. NBN Co and Telstra also reached an agreement for Telstra to progressively disconnect premises from its copper and HFC networks as the National Broadband Network is rolled out. The agreements are subject to various conditions precedent, Telstra shareholder approval and regulatory and other approvals.

The company also reached an agreement with Optus in June 2011. The agreement is for Optus to progressively migrate HFC customers to the National Broadband Network as it is rolled out. NBN Co agrees to make progressive payments with a post tax net present value of \$800 million to Optus based on the number of customers that migrate from its HFC network. The agreement is subject to various conditions precedent.

The agreements with Telstra and Optus are financially beneficial to NBN Co resulting in an improvement in NBN Co's internal rate of return (IRR) when compared to the alternative scenario with no agreements.

Significant Events Subsequent to Reporting Date

Since 30 June 2011, NBN Co signed an agreement with Silcar, enabling the rollout of the NBN in Queensland, New South Wales and the ACT on 1 July 2011. The contract will enable the rollout of 9 of the 19 Second Release Sites. The agreements cover fibre design and construction activities over an initial period of two years, with options to extend a further two years.

On 5 July 2011, NBN Co received a further equity injection of \$350 million.

On 13 July 2011, NBN Co acquired spectrum in Western Australia, the Northern Territory, South Australia, outback Queensland and far west NSW at an auction run by the Australian Communications and Media Authority for \$1.3m. This increases the geographic coverage NBN Co can achieve for its wireless network by complementing spectrum NBN Co purchased in February 2011 from AUSTAR.

On 28 July 2011, NBN Co released the third edition of its Wholesale Broadband Agreement (WBA) following two previous rounds of industry consultation, setting out its contract terms and conditions for the delivery of commercial services over the NBN fibre network.

On 3 August 2011, NBN Co announced the schedule of Second Release Sites in New South Wales, Queensland and the ACT; this follows the recent signing of a construction contract with Silcar.

On 3 August 2011, NBN Co announced the first rural and regional communities that surround Geraldton (WA), Toowoomba (Qld), Tamworth (NSW), Ballarat (Vic) and Darwin (NT) to receive the National Broadband Network's fixed wireless service; this follows the signing of the design, build and operate contract for the fixed wireless network with Ericsson in June 2011.

Directors' Report

On 9 August 2011, the company announced that it would be providing a rebate on capacity charges in the early days of the network's deployment. A rebate on the first 150Mbps per month on the Connectivity Virtual Circuit (CVC) would be provided to Access Seekers until there were 30,000 premises passed in a defined point of interconnect (POI).

On 16 August 2011, Shareholder Ministers appointed Diane Smith-Gander as Chairman for a period of 3 months.

On 24 August 2011, the Chief Financial Officer, Jean-Pascal Beaufret indicated his intention to retire in January 2012. The company has also restructured the management team to transition from a start up structure to an organisation structure suitable to drive volume roll out.

On 31 August 2011, NBN Co received a further equity injection of \$450 million.

On 6 September 2011, NBN Co signed two separate agreements enabling the rollout of the NBN in Western Australia (Syntheo) and Victoria (Transfield). These contracts will enable the rollout of a further 6 of the 19 Second Release Sites. The agreements cover fibre design and construction activities over an initial period of two years, with options to extend a further two years.

On 14 September 2011, Mr Richard (Rick) Turchini was appointed as a director.

Except items noted above, no other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may affect:

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

Likely Developments and Results

Funding

On 22 June 2011, the Commonwealth and NBN Co entered into an equity funding agreement whereby the Commonwealth provided assurances to the company to provide equity funding to the company until 30 June 2021 unless terminated earlier. The Commonwealth will provide funding sufficient to meet the forecast expenditure of the company in the Corporate Plan. The total funding pursuant to the agreement is capped at \$27.5 billion with reference to the Corporate Plan dated 17 December 2010, excluding any amounts payable in the event of termination of the Telstra and Optus agreements. The commitment receivable to the company as at 30 June 2011 is \$26.1 billion. As at the date of this report a total of \$1.4 billion in funding has been made available to the company.

Telstra Definitive Agreements

NBN Co and Telstra announced on 23 June 2011 that binding Definitive Agreements had been entered into, subject to various conditions precedent, Telstra shareholder approval and regulatory and other approvals.

The agreements are based on the framework provided by the Financial Heads of Agreement signed in June 2010. They provide NBN Co access to certain Telstra facilities comprising ducts, pits, lead-in conduits (ownership of which transfers to NBN Co), exchange space and dark fibre to facilitate efficient rollout of the NBN. They also require Telstra to progressively disconnect premises from Telstra's copper and Hybrid Fibre Coaxial (HFC) networks (except for certain pay-TV services over the HFC networks).

Telstra is proposing to put forward the agreement for shareholder approval at the same time as the company's Annual General Meeting on 18 October 2011. Furthermore, the agreements are also subject to ACCC's acceptance of Telstra's structural separation undertaking and migration plan and certain other conditions. Therefore there is still some uncertainty whether the transaction will be completed.

Optus HFC Agreement

The company reached an agreement with Optus in June 2011. The agreement is for Optus to progressively migrate HFC customers to the National Broadband Network as it is rolled out. NBN Co agrees to make progressive payments with a post-tax net present value of \$800 million to Optus based on the number of customers that migrate from its HFC network.

The agreement is conditional on ACCC approval and satisfactory rulings from the Australian Taxation Office. The agreement also contains various termination rights, including rights relating to agreeing an implementation plan and the market environment in which the NBN is expected to operate.

Therefore there is still some uncertainty whether the transaction will complete.

Other

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

Rounding of amounts

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

Environmental issues

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

Auditor independence

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

Non-audit services

No non-audit services have been provided by the Auditor-General or the Australian National Audit Office. Non-Audit services provided by the Contract Auditor, PricewaterhouseCoopers is detailed in Note 17 to the Financial Statements.

Signed in accordance with a resolution of Directors.



Diane Smith-Gander
Chairman

16 September 2011

Corporate Governance

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

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

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

- .. *National Broadband Network Companies Act 2011* (which received Royal Assent on 12 April 2011)
- .. *Commonwealth Authorities and Companies Act 1997* (CAC Act)
- .. *Corporations Act 2001* (Corps Act)
- .. *Telecommunications Legislation Amendment (National Broadband Network Measures – Access Arrangements) Act 2011*
- .. Governance arrangements for Commonwealth Government Business Enterprises (GBE) (June 1997) (Governance Arrangements)
- .. NBN Co's voluntary adoption of the ASX Corporate Governance Principles and Recommendations (2nd Edition)

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

Our Shareholder

Ownership

NBN Co is wholly owned by the Commonwealth of Australia.

Shareholder Ministers

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

Shareholder Communication

In compliance with the *Commonwealth Authorities and Companies Act 1997* and Governance Arrangements, 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 Commonwealth GBE Governance Arrangements NBN Co submitted the first three year Corporate Plan to its Shareholder Ministers in December 2010. NBN Co intends to continue to present an updated Corporate Plan to its Shareholder Ministers on an annual basis.

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

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

Statement

Board of Directors

Role and Responsibilities

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

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

The Board of Directors for NBN Co is responsible for:

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

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, any power exercisable by the Company may be exercised in that manner.

Board Composition

Under rule 5.4.1 of the Constitution, the Board is to consist of a minimum of three and a maximum of nine directors, including the Chairman. The Chairman is appointed by the Commonwealth from amongst the directors in accordance with rule 7.3.1 of the Constitution. Further, Section 3.4(b) of the Governance Arrangements states that the 'Board Chairperson shall not also be an executive of the GBE, unless otherwise agreed by the Shareholder Ministers'.

The Board Chairman is not an executive of NBN Co.

Directors are appointed by the Commonwealth and, under rule 5.5.1 of the Constitution, the term of office of a director is determined by the Commonwealth at the time of appointment, up to a maximum term of 3 years.

The current Board of Directors comprises seven Non-Executive Directors and one Executive Director. Details of the current directors and company secretary, including names, appointments dates and term expiration dates, together with directors' remuneration are included in the Directors' Report on pages 20 to 30 of the Annual Report.

Board, Committees and Individual Directors' Performance

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

Board Diversity

The Board of Directors of NBN Co acknowledges the commitment of the Commonwealth Government to improving economic outcomes for women and their representation in leadership positions. The Board, through its Nominations Committee, seeks to identify new directors whose skills are complementary to those of existing Board members such that the Board has a balance of telecommunications, civil construction, financial, legal, media/public relations and information technology expertise whilst at the same time endeavouring to achieve the Commonwealth Government's commitment of forty percent representation of women on Government boards by 2015.

Director induction and education

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

Corporate Governance Statement

There were no new directors appointed to the Board of NBN Co during the period 1 July 2010 to 30 June 2011. Ongoing education for directors was delivered through individual briefings, presentations made by NBN Co senior executives and directors visiting some of NBN Co's operational locations.

Subsidiaries

The activities of each subsidiary in the group are overseen by its own Board of Directors. These Boards comprise senior management personnel of NBN Co and directors appointed by the Australian Government.

Conflict of Interest

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

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

Independent professional advice

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

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

Board Committees

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

- Audit Committee established on 13 August 2009
- Communications Committee established on 21 April 2011

- Implementation Committee established on 16 July 2010
- Nomination Committee established on 11 February 2011
- People and Performance Committee established on 11 September 2009

Committee charters are made available in the corporate governance section of the NBN Co website as they become available.

Each Committee must review its charter annually. Any proposed changes to a Committee charter must be approved by the Board.

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

Audit Committee

The Audit Committee provides assurance to the directors that NBN Co is complying with its obligations under the *Commonwealth Authorities and Companies Act 1997* and the *Corporations Act 2001* and provides a forum for communication between the directors, senior managers and auditors (internal and external) of NBN Co. The Committee consists of at least three members of the Board, the majority being independent non-executive directors. The CEO, Chief Financial Officer (CFO) and other directors may attend Committee meetings in an ex officio capacity and as such are not entitled to vote on Committee resolutions. For independence purposes, the Chair of the Audit Committee is not either the Chair of the Company or an Executive Director of NBN Co.

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

The membership of the Committee, the number of meetings of the Committee held during the period

from 1 July 2010 to 30 June 2011 and the number of meetings attended is set out in the Directors' Report on page 23.

Communications Committee

The Communications Committee assists the Board in fulfilling its governance responsibilities by overseeing all internal and external communications including government relations and all business development opportunities.

The Committee consists of two independent non-executive directors. The CEO, Head of Corporate Services and other directors may attend Committee meetings in an ex officio capacity and as such are not entitled to vote on Committee resolutions.

The membership of the Committee, the number of meetings of the Committee held during the period from 21 April 2011 to 30 June 2011 and the number of meetings attended is set out in the Directors' Report on page 23.

Implementation Committee

The Implementation Committee assists the Board in fulfilling its governance responsibilities in connection with the procurement, construction and implementation processes of the NBN.

The Committee consists of at least two independent non-executive directors. The CEO, CFO and Head of Corporate Services may attend meetings in an ex officio capacity and as such are not entitled to vote on Committee resolutions.

The membership of the Committee, the number of meetings of the Committee held during the period from 16 July 2010 to 30 June 2011 and the number of meetings attended is set out in the Directors' Report on page 23.

Nominations Committee

Through the Board of Directors, the Nominations Committee provides the Shareholder Ministers with details of suitable candidates for Board membership

on an as-needed basis. The Committee is chaired by the chairman of the Board and comprises two additional non-executive directors.

The membership of the Committee, the number of meetings of the Committee held during the period from 11 February 2011 to 30 June 2011 and the number of meetings attended is set out in the Directors' Report on page 24.

People and Performance Committee

The People and Performance Committee assists the Board in fulfilling its governance responsibilities for people management and remuneration policies. Summaries of these policies are available on the corporate governance section of the NBN Co website.

The Committee consists of not less than two members of the Board, the majority being independent non-executive directors.

The CEO, Chief Human Resource Officer and other directors may attend Committee meetings in an ex officio capacity and as such are not entitled to vote on committee resolutions.

The membership of the Committee, the number of meetings of the Committee held during the period from 1 July 2010 to 30 June 2011 and the number of meetings attended is set out in the Directors' Report on page 24.

Accountability and Audit

External audit

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

Corporate Governance Statement

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

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

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

Internal control framework

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

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

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

Prior to the approval of the annual financial statements by the Board of Directors, the CEO and the CFO provide confirmation in writing that the statements are of the highest integrity.

This confirmation is based on risk management and internal compliance and control systems that have been implemented.

Internal audit

NBN Co has appointed a General Manager – Internal Audit. The previous outsourced model with PricewaterhouseCoopers has been transitioned to a co-sourced model, with other providers.

An internal audit plan of work is presented to, and endorsed annually by, the Audit Committee. Outcomes of the internal audits are provided to the Committee for review. The Internal Auditors have the opportunity to meet with Committee members to discuss matters which the Internal Auditors believe should be discussed privately.

Risk management

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

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

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

Treasury

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

Certification by Chief Executive Officer and Chief Financial Officer

In accordance with Board Policy, the Chief Executive Officer, Chief Financial Officer and other senior executives provide a self assessment sign-off regarding the controls and activities of the group, including assurance as to the group's financial condition.

Based on the evaluation performed as at 30 June 2011, the Chief Executive Officer and the Chief Financial Officer concluded that, as of the evaluation date, such risk management and internal compliance and control systems were reasonably designed so that the Financial Statements and notes of the group are in accordance with the *Commonwealth Authorities and Companies Act 1997* and the *Corporations Act 2001* and there are reasonable grounds to believe the group will be able to pay its debts as and when they fall due.

Ethical standards

Code of Conduct

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

NBN Co has put in place a Code of Conduct, which outlines expected standards of workplace behaviour. The Code of Conduct was created to promote a safe, healthy and productive workplace and is

underpinned by the NBN Co values; in particular, trust and integrity through behaviours that encourage respect. A copy of the Code of Conduct can be found in the corporate governance section of the NBN Co website.

Fraud Reporting

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

The Fraud policy will contribute to the development of a system for the sound management of fraud risk and details the requirements and responsibilities for the prevention, detection and response to fraud. In addition, the policy will seek to promote behaviour that is consistent with the Code of Conduct and will allow NBN Co to act appropriately and consistently in the investigation and reporting of suspected fraudulent activity.

Whistle Blowing Policy

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

Corporate Governance Statement

Privacy

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

Competition Law

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

Gender Diversity

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

The current diversity metrics show that women are:

- 27.0% of all employees
- 20.7% of all managers
- 12.5% of senior managers

Value for Money

NBN Co is a Government Business Enterprise and as such the key principles including 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 Delegations of Authority and agreed principles, ethics and audit requirements.

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

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

Encourage 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 & 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 all external supplier expenditure.



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

NBN CO LIMITED FINANCIAL REPORT 2010-11 AUDITOR'S INDEPENDENCE DECLARATION

In relation to my audit of the consolidated financial report of the NBN Group (comprising NBN Co Limited and the entities it controlled at the year's end or from time to time during the financial year) for the year ended 30 June 2011, 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
16 September 2011

Consolidated Financial Report

NBN Co Limited
Consolidated Financial Report
for the year ended 30 June 2011

ABN 86 136 533 741

Statement of Comprehensive Income

For the year ended 30 June 2011

	Notes	NBN Group	
		Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
Revenue			
Interest income	3	32,616	3,947
Total Revenue		32,616	3,947
Direct telecommunications costs	4	(5,591)	-
Employment costs	4	(118,883)	(37,353)
External services costs – systems and organisation costs	4	(107,095)	(18,370)
Legal and negotiation support costs	4	(54,082)	(15,253)
IT and communications expenses		(23,873)	(6,365)
Occupancy expenses		(13,279)	(2,808)
Travel costs		(6,777)	(1,404)
Insurance expense		(1,242)	(741)
Depreciation and amortisation expense	4	(19,249)	(207)
Other expenses		(5,766)	(1,281)
Total Expenses		(355,837)	(83,782)
(Loss) before income tax		(323,221)	(79,835)
Income tax expense/benefit	5	-	-
(LOSS) FOR THE YEAR		(323,221)	(79,835)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE (LOSS) FOR THE YEAR		(323,221)	(79,835)
Total comprehensive (loss) attributable to the Australian Government or shareholders		(323,221)	(79,835)

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

Balance Sheet

For the year ended 30 June 2011

	<i>Notes</i>	NBN Group	
		Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
Current assets			
Cash and cash equivalents	6	538,237	212,330
Receivables	7	19,005	2,944
Inventory	8	1,660	-
Other	9	35,665	2,237
Total current assets		594,567	217,511
Non-current assets			
Receivables	7	2,214	-
Property, plant & equipment	10	232,765	30,984
Intangible assets	11	250,803	10,054
Other	9	2,325	991
Total non-current assets		488,107	42,029
Total assets		1,082,674	259,540
Current liabilities			
Trade and other payables	13	109,356	26,194
Provisions	14	7,115	1,304
Total current liabilities		116,471	27,498
Non-current liabilities			
Provisions	14	7,398	16
Total non-current liabilities		7,398	16
Total liabilities		123,869	27,514
Net assets		958,805	232,026
Equity			
Contributed equity	15	1,362,000	312,000
(Accumulated losses)	16	(403,195)	(79,974)
Total equity		958,805	232,026

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

Statement of Changes in Equity

For the year ended 30 June 2011

	<i>Notes</i>	NBN Group		Total Equity \$'000
		Accumulated losses \$'000	Contributed Equity \$'000	
Balance at 30 June 2009		(139)	10,000	9,861
Loss for the year	16	(79,835)	-	(79,835)
Contributions of equity, net of transaction costs	15	-	302,000	302,000
Balance at 30 June 2010		(79,974)	312,000	232,026
Loss for the year	16	(323,221)	-	(323,221)
Contributions of equity, net of transaction costs	15	-	1,050,000	1,050,000
Balance at 30 June 2011		(403,195)	1,362,000	958,805

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

Statement of Cash Flows

For the year ended 30 June 2011

	<i>Notes</i>	NBN Group	
		Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
Cash flows from operating activities			
Payments to suppliers and employees (incl GST)		(367,693)	(79,677)
GST Received		23,451	6,124
Interest received		27,623	3,250
Net cash (used in) operating activities	21	(316,619)	(70,302)
Cash flows from investing activities			
Payment for property, plant and equipment		(167,364)	(22,838)
Payment for intangibles		(240,110)	(6,530)
Net cash (used in) investing activities		(407,474)	(29,368)
Cash flows from financing activities			
Equity injection for ordinary shares by the Commonwealth of Australia		1,050,000	302,000
Net cash provided by financing activities		1,050,000	302,000
Net increase in cash and cash equivalents		325,907	202,330
Cash and cash equivalents at the beginning of the financial year	6	212,330	10,000
Cash and cash equivalents at the end of the financial	6	538,237	212,330

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

Schedule of Commitments

For the year ended 30 June 2011

	Notes	NBN Group	
		Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
By type			
Commitments receivable			
Equity Receivable	19	26,138,000	-
Total commitments receivable		26,138,000	-
Commitments payable - Capital			
Leasehold Improvements		1,742	1,300
Network Assets		118,396	106,876
Total capital commitments		120,138	108,176
Commitments payable - Intangible			
Software		114,703	11,300
Total intangible commitments		114,703	11,300
Commitments payable - Other			
Operating leases	23	96,324	56,806
Other commitments		43,612	21,100
Total other commitments		139,936	77,906
Total commitments payable		374,777	197,382
By maturity			
Commitments receivable			
Within one year		3,438,000	-
From one to five years		18,700,000	-
Over five years		4,000,000	-
Total commitments receivable		26,138,000	-
Commitments payable - Capital			
Within one year		109,409	53,815
From one to five years		10,728	54,361
Total capital commitments		120,138	108,176
Commitments payable - Intangible			
Within one year		105,691	8,505
From one to five years		9,013	2,795
Total intangible commitments		114,703	11,300
Commitments payable - Operating lease			
Within one year		13,494	6,383
From one to five years		57,334	26,169
Over five years		25,495	24,254
Total operating lease commitments		96,324	56,806
Commitments payable - Other			
Within one year		40,694	5,470
From one to five years		2,918	15,630
Over five years		-	-
Total other commitments		43,612	21,100
Total commitments payable		374,777	197,382

The above statement should be read in conjunction with the accompanying notes and for reasons outlined in Note 24, amounts relating to Telstra and Optus are not disclosed as contractual commitments.

Notes to the Financial Statements

1. Summary of significant accounting policies

NBN Co Limited (**the company, NBN Co or parent entity**) is an unlisted public company incorporated and domiciled in Australia. It is a company limited by shares and is wholly owned by the Commonwealth of Australia. The consolidated financial statements for the year ended 30 June 2011 comprise the company and its subsidiaries (together referred to as **the NBN Group or the consolidated entity**).

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with 1) Australian Accounting Standards (including Australian Interpretations) issued by the Australian Accounting Standards Board; 2) the *Corporations Act 2001* and 3) the *Commonwealth Authorities and Companies Act (1997)* (CAC Act).

This financial report has been prepared 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.

(b) Statement of Compliance

The consolidated financial report of the 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* (NBN Companies Act). Financial Statements are also required by section 36 of the *Commonwealth Authorities and Companies Act 1997*.

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

- *Corporations Amendment (Corporate Reporting Reform) Act 2010*– statement of IFRS compliance in the directors' declaration
- IFRS Practice Statement Management commentary (Non-mandatory)

Future Australian Accounting Standard Requirements

- AASB 124 Related party disclosures

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

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

(c) Principles of consolidation

(i) Subsidiaries

The consolidated financial report incorporates the assets and liabilities of all subsidiaries of NBN Co Limited as at 30 June 2011 and the results of all subsidiaries for the year then ended. NBN Co Limited and its subsidiaries together are referred to in this financial report as the NBN Group or the consolidated entity.

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

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

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

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

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

(d) Revenue recognition

(i) Interest Revenue

NBN Co records interest revenue 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 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.

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

(h) Inventory

Finished goods include material and spare parts to be used in constructing and maintaining the telecommunication network. NBN Co values inventories at the lower of cost and net realisable value.

Net realisable value of items expected to be consumed, for example used in the construction of another asset, is the net value expected to be earned through future use.

(i) Property, plant and equipment

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

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

Assets under construction are recorded at cost.

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

Depreciation on assets does not commence until the assets are installed and ready for service as intended for by the company.

Depreciation on assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives to the company or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

Asset type	2011	2010
Active network assets	6-10 years	6-10 years
Passive network assets	15-25 years	15-25 years
Civil works	30-40 years	30-40 years
Wireless assets	6-15 years	N/A
Satellite assets	5-15 years	N/A
Leasehold improvements	Lower of lease term and 5-10 years	Lower of lease term and 5-10 years
Furniture, fixtures and office equipments	3-10 years	3-10 years
IT equipment	3-5 years	3-5 years

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

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

(j) Leases

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

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (Note 23). Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

(k) Intangible assets

(i) Internally generated intangible assets

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

(ii) Software assets

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

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

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

(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. Intangible assets that are considered to have an indefinite life are not amortised but tested for impairment in accordance with Note 1(l) on an annual basis, or where an indication of impairment exists.

(iv) Amortisation

The amortisation periods of identifiable intangible assets are as follows:

Identifiable intangible assets	2011	2010
Software assets	3-8 years	3-8 years
Licences	Term of licence	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. In addition, management judgement is applied to assess annually, the indefinite useful life assumption applied to certain acquired intangible assets.

(l) Impairment of assets

(i) Non-financial assets

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

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

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

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

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit (CGU) to which that asset belongs. The NBN Group's CGUs are determined according to the lowest level of aggregation for which the cash inflows are independent of cash inflows from other assets.

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

(m) Trade and other payables

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

(n) Provisions

Provisions are recognised when the group has:

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at 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.

(o) Employee Benefits

(i) Short term employee benefit obligations

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

(ii) Long-term employee benefit obligations

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

(iii) Retirement benefit obligations

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

(iv) Termination benefits

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

(p) Share capital

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Transactions with the Commonwealth of Australia as owner are designated as equity injections for the financial period are recognised directly in contributed equity and do not form part of comprehensive income in that financial period.

(q) Taxation

(i) Income tax

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

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

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

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

(ii) Tax consolidation legislation

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

(iii) Goods and Services Tax (GST)

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

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

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

(r) Financial assets

The group classifies financial assets as 'cash and cash equivalents', as outlined above and 'interest receivable and other receivables'. 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.

(s) 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.

(t) Financial liabilities

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

(u) Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the Balance Sheet but are reported in Note 18. 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 settlement is greater than remote.

(v) Commitments

The value of commitments as disclosed in the Schedule of Commitments includes amounts which represent either an open purchase order in accordance with a supply contract or where a supply contract is not required, the value of the purchase order to the extent that NBN Co would be required to pay for goods or services to be delivered subject to any termination rights, amounts payable under non-cancellable operating leases for premises and any contracted amounts subject to a minimum order quantity and any non-cancellable fixed price contracts.

(w) 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.

(x) 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. The standards are applicable to annual reporting periods beginning on or after 1 January 2009. 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 group does not fall under this definition, segment information is not required.

(y) Parent entity financial information

The financial information for the parent entity, NBN Co Limited, disclosed in Note 27 has been prepared on the same basis as the consolidated financial statements except as those set out below.

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

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

(ii) Tax consolidation legislation

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

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

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

2. Significant accounting judgments, estimates and assumptions

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

Accounting estimates

In the process of applying the accounting policies listed in this note, the NBN Group has made some judgements that do not have a significant impact on the amounts recorded in the financial report. Estimates made in relation to the NBN Group financial report are to non-financial assets, employee provisions and disclosures of off balance sheet arrangements, including contingent assets and contingent liabilities.

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

Make good provisions

Management has made assumptions in arriving at their best estimate of the likely costs to “make good” premises which are currently occupied under an operating lease. Such estimates involve management forecasting the average restoration cost per square metre and are dependent on the nature of the premises occupied. The provision recognised is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs are recognised in the balance sheet by adjusting both the expense or asset and provision. The related carrying amount is disclosed in Note 14.

Employee benefits

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

Capitalisation of labour

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

Estimate of depreciation and amortisation of in-service assets yet to be fully capitalized

Management has made estimates of the amount of depreciation and amortisation that is expected to have been incurred for assets that have been placed into service for which the asset capitalisation process is not fully complete. The amount of depreciation or amortisation recognised as an expense is based on the estimated capital cost expected to be incurred in bringing the assets to its intended location and condition for it to be capable of operating in the manner intended by management. The rates applied to the expected capital costs to be incurred are the same as those applied to capitalised assets.

Impairment

The company assesses annually whether there is any indicator that its ubiquitous telecommunications network has suffered any impairment, in accordance with the accounting policy stated in Note 1(l). At 30 June 2011, the company was carrying \$86,464,000 of intangible assets not yet available for use and the recoverable amount has been determined based on fair value calculations. These calculations require the use of assumptions. Refer to Note 12 for impairment detail.

Deferred tax

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

3. Income

	NBN Group	
	Year ended 30 June 2011	Year ended 30 June 2010
	\$'000	\$'000
Interest income	32,616	3,947

4. Expenses

	NBN Group	
	Year ended 30 June 2011	Year ended 30 June 2010
	\$'000	\$'000
Direct telecommunications costs	(5,591)	-
Employment costs	(118,883)	(37,353)
External services costs – systems and organisation costs	(107,095)	(18,370)
Legal and negotiation support costs	(54,082)	(15,253)
Depreciation		
Leasehold improvements	(1,629)	-
Furniture, fittings & equipment	(88)	(16)
Machinery and Equipment	(8)	
IT Equipment	(1,065)	(191)
Network equipment	(3,096)	-
Total depreciation	(5,886)	(207)
Amortisation		
Computer software	(2,255)	-
Spectrum licence	(11,108)	-
Total amortisation	(13,363)	-
Total depreciation and amortisation	(19,249)	(207)
Rental expense relating to operating leases	(8,975)	(2,009)
Defined contribution superannuation expense	(6,302)	(940)

5. Income tax expense

	NBN Group	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
(a) Income tax expense		
Current tax	-	-
Deferred tax	-	-
Total	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax benefit	(323,221)	(79,835)
Tax at the Australian tax rate of 30% (2010: 30%)	(96,966)	(23,951)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income	11	-
Current year tax losses not recognised	93,540	22,588
Temporary differences not recognised	3,415	1,362
Adjustments for current tax for prior periods	(3,105)	-
Prior year tax losses and temporary differences not recognised	3,105	-
Income tax expense	-	-
(c) Tax losses		
Unused tax losses for which no deferred asset has been recognised	396,490	75,295
Potential tax benefit @ 30%	118,947	22,588

i) *Unrecognised tax losses*

The cumulative amount of unrecognised tax losses of \$396,490,000 (2010: \$75,295,000) may be available to offset against future income tax assessments when the company becomes profitable and satisfies the requirements as outlined in Note 1(q).

5. Income tax expense (continued)

	NBN Group	
	Year ended 30 June 2011	Year ended 30 June 2010
	\$'000	\$'000
(d) Unrecognised temporary differences		
Deductible temporary differences relating to provisions, accruals and property, plant and equipment for which deferred tax assets have not been recognised	23,563	4,541
Unrecognised deferred tax asset relating to the above deductible temporary differences	7,069	1,362

ii) Tax Consolidation

NBN Co Limited and its wholly owned subsidiaries have formed a tax consolidated group. NBN Co Limited is the head entity of the tax consolidated group. The head entity, NBN Co Limited, and the subsidiaries in the tax consolidated group account for their own current and deferred tax amounts arising from temporary differences. In addition, NBN Co Limited accounts for any deferred tax assets arising from unused tax losses and tax credits for all entities in the tax consolidated group. Members of the group have not yet entered into tax funding or tax sharing arrangements. As at 30 June 2011, no contributions to subsidiaries' equity accounts have been recognised for subsidiaries' tax losses assumed by the head entity because no amounts of unused tax losses have been recognised as deferred tax assets.

6. Current assets – Cash and cash equivalents

	NBN Group	
	Year ended 30 June 2011	Year ended 30 June 2010
	\$'000	\$'000
Cash at bank	56,191	66,451
Term deposits	482,046	145,879
Total	538,237	212,330

6. Current assets – Cash and cash equivalents (continued)

a) Reconciliation to cash at the end of year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows.

b) Risk exposure

The NBN Group's risk exposure to interest rate risk is discussed in Note 22(f). The maximum exposure to credit risk at the end of the reporting period is the carrying amount of cash and cash equivalents mentioned above.

7. Receivables

	NBN Group	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
Current		
Interest receivable	5,690	697
Other receivable	860	-
GST receivable	12,455	2,247
Total	19,005	2,944
Non-Current		
Other receivable	2,214	-

a) Other receivables

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

b) Risk exposure

Information about the NBN Group's exposure to interest rate risk in relation to receivables is provided in Note 22(f).

c) Fair value and credit risk

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

8. Inventory

	NBN Group	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
Inventory on Hand - Finished Goods	1,660	-

a) *Inventory expense*

Inventories recognised as an expense during the year ended 30 June 2011 amounted to \$12,600 (2010 - \$NIL). There were no inventories written off during the period.

9. Other assets

	NBN Group	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
Current		
Prepayments	15,665	1,698
Rental deposits	-	539
Other deposits	20,000	-
Total	35,665	2,237
Non-Current		
Non-Current prepayments	2,325	991

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

a) Property, plant and equipment

	NBN Group						
	Freehold Land	Leasehold improvements	Furniture and fittings	Machinery and Equipment	IT equipment	Network assets	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 July 2009							
Cost	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-
Net book value	-	-	-	-	-	-	-
Year ended 30 June 2010							
Opening net book value	-	-	-	-	-	-	-
Additions	-	6,121	786	-	3,487	20,797	31,191
Depreciation	-	-	(16)	-	(191)	-	(207)
Net book value	-	6,121	770	-	3,296	20,797	30,984
At 30 June 2010							
Cost	-	6,121	786	-	3,487	20,797	31,191
Accumulated depreciation	-	-	(16)	-	(191)	-	(207)
Net book value	-	6,121	770	-	3,296	20,797	30,984
Year ended 30 June 2011							
Opening net book value	-	6,121	770	-	3,296	20,797	30,984
Additions	33	15,194	-	336	2,460	189,648	207,671
Adjustments	-	-	(4)	-	-	-	(4)
Depreciation charge	-	(1,629)	(88)	(8)	(1,065)	(3,096)	(5,886)
Net book value	33	19,686	678	328	4,691	207,349	232,765
At 30 June 2011							
Cost	33	21,315	782	336	5,947	210,445	238,858
Accumulated depreciation	-	(1,629)	(104)	(8)	(1,256)	(3,096)	(6,093)
Net book value	33	19,686	678	328	4,691	207,349	232,765

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

b) *Assets in the course of construction*

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

	NBN Group	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
Network assets	143,181	20,797
Leasehold improvements	5,033	2,802
Total assets in the course of Construction	148,214	23,599

c) *Non-current assets pledged as security*

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

11. Non-current assets – Intangible assets

	NBN Group		
	Software	Licences	Total
	\$'000	\$'000	\$'000
As at 1 July 2010			
Cost	-	-	-
Accumulated amortisation	-	-	-
Net book value	-	-	-
Year ended 30 June 2010			
Opening net book amount	-	-	-
Additions*	10,054	-	10,054
Amortisation**	-	-	-
Net book value	10,054	-	10,054
As at 30 June 2010			
Cost	10,054	-	10,054
Accumulated amortisation	-	-	-
Net book value	10,054	-	10,054
Year ended 30 June 2011			
Opening net book amount	10,054	-	10,054
Additions*	130,624	123,488	254,112
Amortisation**	(2,255)	(11,108)	(13,363)
Net book value	138,423	112,380	250,803
As at 30 June 2011			
Cost	140,678	123,488	264,166
Accumulated amortisation	(2,255)	(11,108)	(13,363)
Net book value	138,423	112,380	250,803

* As at 30 June 2011, NBN Co had intangible assets under development amounting to \$86,464,000 (2010: \$10,054,000). As these assets were not installed and ready for use there is no amortisation being charged on the amounts in intangible assets.

** Amortisation of \$13,363,000 (2010: \$Nil) is included in depreciation and amortisation expense in profit or loss.

a) Telecommunications Licences

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

12. Impairment

As at 30 June 2011, NBN Co had intangible assets under development amounting to \$86,464,000 (2010: \$10,054,000) which require testing for impairment. For the purposes of the NBN Group's impairment testing, NBN Co has identified one cash generating unit (CGU) in accordance with Note 1(l). The CGU is determined according to the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Using a fair value less costs to sell method no impairment loss was identified (2010: \$Nil)

13. Trade and other payables

	NBN Group	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
Current		
Trade payables	25,555	1
Accruals	83,801	26,193
Total	109,356	26,194

a) Risk exposure

Information about the group's exposure to foreign exchange risk is provided in Note 22(e).

14. Provisions

	NBN Group	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
Current		
Employee benefits	6,884	1,304
Make good provision	231	-
Total	7,115	1,304
Non-Current		
Employee benefits	175	16
Make good provision	7,223	-
Total	7,398	16

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

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

14. Provisions (continued)

b) Make good provision

NBN Co is required to restore the leased premises to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any lease hold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

	NBN Group	
	Year ended 30 June 2011	Year ended 30 June 2010
	\$'000	\$'000
Carrying amount at start of year	-	-
Charged/credited to property, plant & equipment	7,454	-
Amounts used during the year	-	-
Carrying amount at end of year	7,454	-

15. Contributed equity

a) Share capital

	NBN Group		NBN Group	
	Year ended 30 June 2011	Year ended 30 June 2010	Year ended 30 June 2011	Year ended 30 June 2010
	Number of Shares	Number of Shares	\$'000	\$'000
Share capital				
Ordinary shares				
<i>Fully paid</i>	1,362,000,010	312,000,010	1,362,000	312,000
Total consolidated contributed equity			1,362,000	312,000

15. Contributed equity (continued)

b) Movements in ordinary share capital

Date	NBN Group		NBN Group	
	Details	Number of Shares	Issue price \$	\$
1 July 2009	Opening Bal.	10,000,010	1.00	10,000,010
21 August 2009	Equity injection	50,000,000	1.00	50,000,000
25 February 2010	Equity injection	100,000,000	1.00	100,000,000
29 April 2010	Equity injection	100,000,000	1.00	100,000,000
26 May 2010	Equity injection	52,000,000	1.00	52,000,000
30 June 2010	Balance	312,000,010		312,000,010
20 July 2010	Equity injection	350,000,000	1.00	350,000,000
21 December 2010	Equity injection	350,000,000	1.00	350,000,000
19 April 2011	Equity injection	350,000,000	1.00	350,000,000
Total consolidated contributed		1,362,000,010		1,362,000,010

c) Ordinary shares

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

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

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

d) Capital risk management

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

16. Accumulated losses

a) *Movements in accumulated losses were as follows:*

	NBN Group	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
Balance at 1 July	(79,974)	(139)
Net (loss) for the year	(323,221)	(79,835)
Balance at 30 June	(403,195)	(79,974)

b) *Dividends declared*

No dividends were paid during the year.

17. Remuneration of auditors

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

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

Prior to PwC's appointment as contract auditor, PwC had been separately engaged by NBN Co in various advisory capacities, further details of which are provided below. After their appointment on 31 March 2011, PwC has only been engaged in relation to continuation of advisory work, for services to which they were already committed.

With regard to the advisory services provided by PwC it is noted that services did not involve partners or staff acting in a managerial or decision-making capacity, or being involved in the processing or originating of transactions, nor did the partners and staff involved in the provision of non-audit services participate in NBN Co's associated approval or authorisation processes.

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

Going forward the company may decide to employ PwC on assignments additional to their contract auditor duties where their expertise and experience with the NBN is important. Any such engagement with PwC will be subject to prior approval by the Australian National Audit Office and have regard to their independence policies.

17. Remuneration of auditors (continued)

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

	NBN Group	
	Year ended 30 June 2011	Year ended 30 June 2010
Australian National Audit Office		
Audit of financial statements	200,000	75,000
Other assurance services		
- <i>Audit of regulatory returns</i>	-	-
Total remuneration for audit and other assurance services	200,000	75,000
PwC Australia		
Other audit related services		
- <i>Accounting advice</i>	16,160	-
- <i>Other reviews (fraud policy, model review)</i>	80,063	-
Total remuneration for other audit related services	96,223	-
Other services		
- <i>HR service delivery support</i>	729,992	-
- <i>IT advisory support</i>	2,696,272	-
- <i>Tax advice</i>	15,000	-
- <i>Internal audit</i>	296,044	-
Total remuneration for other services	3,737,308	-
Total auditor's remuneration	4,033,531	75,000

18. Contingent Liabilities

The details of NBN Co's significant contingent assets and/or liabilities are set out below:

Telstra Definitive Agreements

NBN Co and Telstra Corporation Limited (Telstra) announced on 23 June 2011 that binding Definitive Agreements had been entered into that would provide access to certain Telstra infrastructure (comprising ducts, pits, lead-in conduits, rack spaces in exchanges and dark fibre) and deliver the progressive disconnection of premises from Telstra's copper and HFC networks (except for certain pay TV services). The Definitive Agreements have been attributed (by Telstra) an approximate net present value after tax of \$9 billion assessed at June 2010, from the payments to be made over time by NBN Co.

18. Contingent Liabilities (continued)

The Australian Government has separately agreed with Telstra a package which includes increased funding for the universal service obligation (USO), funding for a public education campaign and for employee retraining and clarification of Telstra's responsibilities in new developments. Telstra has attributed approximately \$2 billion of post tax net present value assessed at June 2010, to its agreements with the Government.

The transaction will see Telstra progressively disconnect premises from its copper and HFC networks as NBN Co's network is rolled out. Payments will be made progressively to Telstra for the disconnection of premises from its copper and HFC networks.

Telstra is proposing to put forward the Definitive Agreements for shareholder approval at the company's Annual General Meeting on 18 October 2011. The Definitive Agreements are also subject to certain other conditions including the ACCC's acceptance of Telstra's structural separation undertaking and migration plan and other conditions. Therefore there is still uncertainty as to transaction completion. As such no commitments have as yet been recorded in the Schedule of Commitments attributable to infrastructure provided to the company under interim access arrangements that relate to Telstra.

ASIC deed of cross guarantee

NBN Co and NBN Tasmania 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.

Legal Action

From time to time the company may be subject to a lawsuit or proceedings. Although no assurances can be given and no determination can be made at this time as to the outcome of any particular lawsuit or proceeding, the company believes there are meritorious defenses to substantially all claims and that any liability which may finally be determined should not have a material adverse effect on the company's consolidated financial position, results of operations or cash flows.

19. 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 to provide equity funding until 30 June 2021 unless terminated earlier. The Commonwealth will provide funding sufficient to meet the forecast expenditure of the company in the Corporate Plan. The total funding pursuant to the agreement is capped at \$27.5 billion with reference to the Corporate Plan dated 17 December 2010, excluding any amounts payable in the event of termination of the Telstra and Optus agreements. To the extent that the Commonwealth has provided for equity funding in forward budget estimates,

19. Equity Funding (continued)

NBN Co has recorded this as a Commitment Receivable in the Schedule of Commitments. The Commitment receivable to the company as at 30 June 2011 is \$26.138 billion. As at the date of this report a total of \$1.362 billion has been made available to the company.

20. 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

On 16 February 2011, NBN Co acquired 100% of the issued capital of Austar United Licenceco Pty Ltd (AUL), a company registered in Australia, for \$58 million and \$62 million for the assignment of this subsidiary's debt.

c) Subsidiaries

The interest in the subsidiaries is set out in Note 24.

d) Transactions with related parties

The following transactions occurred with related parties:

	NBN Group	
	Year ended 30 June 2011	Year ended 30 June 2010
Equity injections		
Equity injected by the Commonwealth of Australia into NBN Co Limited (Refer to note 15)	1,050,000,000	302,000,000
Investments		
Investment made by NBN Co Limited (Parent) in NBN Tasmania Limited	-	100,000,000
Other transactions		
Payment for the provision of professional services to the Department of Broadband, Communications and the Digital Economy	-	250,000

e) Key management personnel

Disclosures relating to key management personnel are set out below:

20. Related party transactions (continued)

	NBN Group	
	Year ended 30 June 2011	Year ended 30 June 2010
Short term employee benefits	8,967,665	6,642,637
Post-employment benefits	331,080	289,848
Long-term benefits	9,346	4,324
Termination benefits	194,201	-
Total	9,502,292	6,936,809

f) Amounts to/from related parties

	NBN Group	
	Year ended 30 June 2011	Year ended 30 June 2010
Intercompany account (Between NBN Co Limited (Parent) and NBN Tasmania Limited)		
Beginning of the year	(65,277,057)	-
Amounts advanced to NBN Tasmania	(3,230,132)	11,787,544
Amounts repaid by NBN Tasmania	3,308,150	(11,659,918)
Amounts received from NBN Tasmania	-	(65,000,000)
Net interest payable to NBN Tasmania	(3,274,005)	(404,684)
End of the year	(68,473,044)	(65,277,057)

NBN Co, NBN Tasmania and NBN Co Spectrum have formed a tax consolidated group. The members of the group have not yet entered into tax funding arrangements, as a result there are no amounts that have been received or paid to NBN Co during the year end 30 June 2011.

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

	NBN Group	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
Total comprehensive (loss) for the year	(323,221)	(79,835)
Add: non cash item		
Depreciation	19,249	207
(Increase)/decrease in assets		
(Increase) in GST receivable	(10,208)	(2,233)
(Increase) in prepayments	(15,302)	(2,688)
(Increase) in interest receivable	(4,994)	(697)
(Increase) in deposits	(19,461)	(539)
(Increase) in inventory	(1,660)	-
Increase/(decrease) in liabilities		
Increase in trade payables	25,554	1
Increase in accruals	7,686	14,163
Increase in employee entitlements	5,740	1,319
Net cash (used in) operating activities	(316,619)	(70,302)

22. Financial and Capital Risk Management

a) Financial risk management objectives

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

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

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

22. Financial and Capital Risk Management (continued)

b) Capital risk management

The NBN Group's objectives when managing capital are to safeguard the ability to continue as a going concern while maximising the return to the Commonwealth Government. The capital structure of the NBN Group consists of cash and cash equivalents disclosed in Note 6 and contributed equity disclosed in Note 15.

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

c) Categories of financial instruments

	NBN Group	
	Year ended 30 June 2011	Year ended 30 June 2010
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	538,237	212,330
Interest receivable	5,690	697
Other receivables	23,073	-
GST receivable	12,455	2,247
Carrying amounts of financial assets	579,455	215,274
Financial liabilities		
Trade payables and accruals	109,356	26,194
Carrying amounts of financial liabilities	109,356	26,194

d) Net income and expenses from financial assets and liabilities

The net income earned from financial assets and liabilities for the year to 30 June 2011 was \$32,616,000 (2010: \$3,947,000).

e) Foreign currency risk management

Foreign currency risk refers to the risk that the fair value or future cashflows of a financial instrument will fluctuate due to changes in foreign exchange rates. The NBN Group are exposed to foreign currency risk primarily through undertaking certain transactions denominated in foreign currency.

The NBN Group operates a foreign currency denominated bank account. There are no funds at period end for the foreign bank.

As at 30 June 2011, the carrying amount of monetary liabilities denominated in foreign currency is \$NIL (2010 - \$NIL).

22. Financial and Capital Risk Management (continued)

f) Interest rate risk management

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

The NBN Group's exposure to interest rate risks and the effective interest rates of interest-bearing financial assets is set out below. Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument.

	Note	Carrying Amount	Weighted average effective interest rate
At 30 June 2011			
Cash and cash equivalents	6	538,237	5.7%
At 30 June 2010			
Cash and cash equivalents	6	212,330	5.4%

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

The table below details the interest rate sensitivity analysis of the entity at the reporting date, holding all other variables constant. A 175 (2010: 150) basis point change is deemed to be reasonably possible and is used when reporting interest rate risk.

	Effect on	
	Profit or loss 30 June 2011	Profit or loss 30 June 2010
	\$'000	\$'000
175 (2010: 150) basis point increase in interest rates	10,168	1,623
175 (2010: 150) basis point decrease in interest rates	(10,168)	(1,623)

The method used to arrive at the possible risk of 175 (2010: 150) basis points was based on both statistical and non-statistical analysis. The statistical analysis has been based on the cash rate for the past five years issued by the Reserve Bank of Australia (RBA) as the underlying dataset. This information is then revised and adjusted for reasonableness under the current economic circumstances.

g) Credit risk exposures

Credit risk refers to the risk that a counterparty 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.

22. Financial and Capital Risk Management (continued)

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

h) Liquidity risk

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

The NBN Group's financial liabilities are payables and provisions. The NBN Group's capacity to meet its liabilities arises from its commitment by the Commonwealth Government described in Note 19. The following table illustrates the maturities for financial liabilities:

	On demand	Within 1 year	1 to 5 years	Greater than 5 years	Total
At 30 June 2011					
Trade payables and accruals	109,356	-	-	-	109,356
Total	109,356	-	-	-	109,356
At 30 June 2010					
Trade payables and accruals	26,194	-	-	-	26,194
Total	26,194	-	-	-	26,194

i) Fair value of financial instruments

Fair value approximates the carrying values.

j) Interest rate risk

The only interest bearing items are cash and cash equivalents.

23. Leases

The NBN Group leases a total of 13 properties. These are under operating leases with various occupancy terms that are due to expire in the next one to ten years. The leased property portfolio comprises twelve commercial and one industrial. Leases generally provide the corporation with a right of renewal, at which time the commercial terms are renegotiated with reference to the market benchmark. 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.

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

24. Telstra and Optus Agreements

Telstra Definitive Agreements

The entry into the Telstra Definitive Agreements was announced on 23 June 2011 to enable a more efficient rollout of the National Broadband Network.

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. Transactions under two core documents require the accounting treatment to be determined.

- **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, Telstra will exclusively use the NBN as the fixed line connection to premises in the NBN fibre footprint for the provision of fixed line carriage services (subject to certain exceptions).

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

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

24. Telstra and Optus Agreements (continued)

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

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

In accordance with Australian Accounting Standards (including Australian Interpretations), it is management's current intention that:

- a) LIC's will be capitalised when handed over to NBN Co
- b) Assets under the ISA, subject to the Forecast Infrastructure Requirement List (FIRL), will be progressively recorded on its schedule of commitments when orders are confirmed
- c) The dark fibre links, exchange access services and duct sections and associated infrastructure will be treated as leased assets when they are handed over

Optus HFC 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), it is management's current intention to expense most of the payment to Optus when incurred.

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):

<i>Name of entity</i>	<i>Country of incorporation</i>	<i>Class of shares</i>	<i>Equity holding as at 30 June 2011</i>	<i>Equity holding as at 30 June 2010</i>
NBN Tasmania Limited	Australia	Ordinary	100%	100%
NBN Co Spectrum Pty Ltd	Australia	Ordinary	100%	0%

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

25. Subsidiaries (continued)

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

26. Events occurring after the reporting period

Since 30 June 2011, NBN Co signed an agreement with Silcar, enabling the rollout of the NBN in Queensland, New South Wales and the ACT on 1 July 2011. The contract will enable the rollout of 9 of the 19 Second Release Sites. The agreements cover fibre design and construction activities over an initial period of two years, with options to extend a further two years.

On 5 July 2011, NBN Co received a further equity injection of \$350 million.

On 13 July 2011, NBN Co acquired spectrum in Western Australia, the Northern Territory, South Australia, outback Queensland and far west NSW at an auction run by the Australian Communications and Media Authority for \$1.3m. This gives NBN Co the geographic coverage it needs for its wireless network by complementing spectrum NBN Co purchased in February 2011 from AUSTAR.

On 28 July 2011, NBN Co released the third edition of its Wholesale Broadband Agreement (WBA) following two previous rounds of industry consultation, setting out its proposed contract terms and conditions for the delivery of commercial services over the NBN fibre network.

On 3 August 2011, NBN Co announced the schedule of Second Release Sites in New South Wales, Queensland and the ACT. This follows the recent signing of a construction contract with Silcar.

On 3 August 2011, NBN Co announced the first rural and regional communities that surround Geraldton (WA), Toowoomba (QLD), Tamworth (NSW), Ballarat (Vic) and Darwin (NT) to receive the National Broadband Network's fixed wireless service; this follows the signing of the design, build and operate contract for the fixed wireless network with Ericsson in June 2011.

On 9 August 2011, the company announced that it would be providing a rebate on capacity charges in the early days of the network's deployment. A rebate on the first 150Mbps per month on the Connectivity Virtual Circuit (CVC) would be provided to Access Seekers until there were 30,000 premises passed in a defined point of interconnect (POI).

On 16 August 2011, Shareholder Ministers appointed Diane Smith-Gander as Chairman for a period of 3 months.

On 24 August 2011, the Chief Financial Officer, Jean-Pascal Beaufret indicated his intention to retire in January 2012. The company has also restructured the management team to transition from a start up structure to an organisation structure suitable to drive volume roll out.

On 31 August 2011, NBN Co received a further equity injection of \$450 million.

26. Events occurring after the reporting period (continued)

On 6 September 2011, NBN Co signed two separate agreements enabling the rollout of the NBN in Western Australia (Syntheo) and Victoria (Transfield). These contracts will enable the rollout of a further 6 of the 19 Second Release Sites. The agreements cover fibre design and construction activities over an initial period of two years, with options to extend a further two years.

On 14 September 2011, Mr Richard (Rick) Turchini was appointed as a director.

Except items noted above, no other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may affect the NBN Group's operations in future financial years, or the results of those operations in future financial years, or the NBN Group's state of affairs in future financial years.

27. Parent entity disclosures

a) Balance sheet

	NBN Co	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
Assets		
Total current assets	655,826	200,948
Total Non-current assets	509,205	120,895
Total assets	1,165,031	321,843
Liabilities		
Total current liabilities	184,337	88,715
Total Non-current liabilities	7,629	16
Total liabilities	191,966	88,731
Equity		
Contributed equity	1,362,000	312,000
(Accumulated losses)	(388,935)	(78,888)
Total equity	973,065	233,112

b) Statement of comprehensive income

	NBN Co	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
(Loss) for the period	(310,047)	(78,749)
Total comprehensive (loss)	(310,047)	(78,749)

27. Parent entity disclosures (continued)

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

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

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

Other than the Deed of Cross Guarantee as disclosed in Note 29, 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 18 all relate to the parent entity.

28. Deed of cross guarantee

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

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

The above companies 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 2011 of the closed group.

28. Deed of cross guarantee (continued)

For the year ended 30 June 2011

	NBN Group (Co & Tas)	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
Revenue		
Interest income	33,649	3,947
Total Revenue	33,649	3,947
Direct telecommunications costs	(5,591)	-
Employment costs	(118,883)	(37,353)
External services costs – systems and organisation costs	(107,095)	(18,370)
Legal and negotiation support costs	(54,082)	(15,253)
IT and communications expenses	(23,873)	(6,365)
Occupancy expenses	(13,279)	(2,808)
Travel costs	(6,777)	(1,404)
Insurance expense	(1,242)	(741)
Depreciation and amortisation expense	(8,334)	(207)
Other expenses	(5,766)	(1,281)
Total Expenses	(344,922)	(83,781)
(Loss) before income tax	(311,273)	(79,835)
Income tax expense/benefit	-	-
(LOSS) FOR THE YEAR	(311,273)	(79,835)
Other comprehensive income		
TOTAL COMPREHENSIVE (LOSS) FOR THE YEAR	(311,273)	(79,835)
Total comprehensive (loss) attributable to the Australian Government	(311,273)	(79,835)

28. Deed of cross guarantee (continued)

b) Consolidated balance sheet

Set out below is a consolidated balance sheet as at 30 June 2011 of the closed group.

For the year ended 30 June 2011

	NBN Group (Co & Tas)	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
Current assets		
Cash and cash equivalents	538,237	212,330
Receivables	18,145	2,944
Inventory	1,660	-
Other	35,665	2,237
Total current assets	593,707	217,511
Non-current assets		
Receivables	62,972	-
Investment in Subsidiaries	57,566	
Property, plant & equipment	232,765	30,984
Intangible assets	145,285	10,054
Other	2,324	991
Total non-current assets	500,914	42,029
Total assets	1,094,621	259,540
Current liabilities		
Trade and other payables	109,355	26,194
Provisions	6,884	1,304
Total current liabilities	116,239	27,498
Non-current liabilities		
Provisions	7,629	16
Total non-current liabilities	7,629	16
Total liabilities	123,868	27,514
Net assets	970,753	232,026
Equity		
Contributed equity	1,362,000	312,000
(Accumulated losses)	(391,247)	(79,974)
Total equity	970,753	232,026

28. Deed of cross guarantee (continued)

c) *Summary of movements in consolidated accumulated losses*

Set out below is a consolidated balance sheet as at 30 June 2011 of the closed group.

	NBN Group (Co & Tas)	
	Year ended 30 June 2011	Year ended 30 June 2010
	\$'000	\$'000
Balance at 1 July	(79,974)	(139)
Net (loss) for the year	(311,273)	(79,835)
Balance at 30 June	(391,247)	(79,974)

Directors' Declaration

- (1) The financial statements and notes set out on pages 42 to 86 are in accordance with the Corporations Act 2001 and the Commonwealth Authorities and Companies Act 1997 (CAC Act), including:
 - (i) Complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
 - (ii) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 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 28 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 28.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.

Signed in accordance with a resolution of the directors.



Diane Smith-Gander
Chairman



Mike Quigley
CEO & Executive Director

16 September 2011



INDEPENDENT AUDITOR'S REPORT

To the members of NBN Co Limited

I have audited the accompanying consolidated financial report of NBN Co Limited for the year ended 30 June 2011, which comprises the Statement of Comprehensive Income, the Balance Sheet as at 30 June 2011, the Statement of Changes in Equity, the Statement of Cash Flows, the Schedule of Commitments, Notes to the Financial Statements comprising a Summary of significant accounting policies and other explanatory information, and the Directors' Declaration of the NBN Group comprising NBN Co Limited and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the NBN Co Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements 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 conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

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

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

Independence

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

Opinion

In my opinion:

- (a) the financial report of NBN Co Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) The consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Australian National Audit Office



Michael J. Watson
Group Executive Director

Delegate of the Auditor-General

Canberra
16 September 2011

Regulatory Reporting Requirements Index

For the year ended 30 June 2011

Commonwealth Authorities and Companies Act 1997

Section	Subject	Location	Pages
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		Independent auditor's report	88-89
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		Financial statements	42-86
s.42	Corporate Plan	Regulatory report	91
s.43	Government policies under s.43 of the CAC Act during the financial year	Operational review	10-19
s.44	Audit Committee	Corporate governance statement	36-37

Occupational Health and Safety Act 1991 – Reporting Requirements

Section	Subject	Location	Pages
s.74(1)(c)	Occupational health and safety policies, including agreement with employees, establishment of committees and selection of health and safety representatives	Regulatory report	92-93
s.74(1)(d)	Measures taken to ensure health, safety and welfare of employees and contractors	Corporate responsibility	92-93
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s.74(1)(e)	Statistics requiring the giving of notice under s.68	Regulatory report	92-93
s.74(1)(f)&(g)	Details of investigations and other matters as prescribed	Regulatory report	92-93

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	96-98

Regulatory Reporting Requirements

For the year ended 30 June 2011

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 Occupational Health and Safety Act 1991, the Superannuation Benefits (Supervisory Mechanisms) Act 1990, and the Environment Protection and Biodiversity Act 1999.

The index on page 90 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 (the NBN Companies Act) is a standalone law which establishes:

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

NBN ownership and structure

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

- The Communications Minister has declared that the NBN is built and fully operational
- The Productivity Minister has tabled a Productivity Commission inquiry report in both Houses of Parliament
- The 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

Each year, NBN Co Limited prepares a three-year Corporate Plan. The 2011–13 plan and associated Statement of Corporate Intent were submitted to the Shareholder Ministers on 17 December 2010.

Objective

NBN Co's primary objective is to build and operate the open access wholesale only National Broadband Network (NBN). Delivered by the deployment of fibre to 93% of premises, fixed wireless to 4% of premises and satellite to 3% of premises, through a uniform national wholesale pricing over the network from a point of interconnect to a premise on a non-discriminatory basis and the expected rate of return should be in excess of current public debt rate.

Government policies

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

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

Regulatory Reporting Requirements

The Government expects the company to operate in accordance with relevant regulations and specifically will offer open and equivalent access to wholesale services, at the lowest levels in the network stack necessary to promote efficient and effective retail level competition, via Layer 2 bitstream services.

The Government's vision for NBN Co is that it operates as a commercial entity. NBN Co has been established as a wholly-owned Government Business Enterprise (GBE), with the intention that at an appropriate time, NBN Co will raise debt on its own behalf.

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

Other government obligations

Administrative requirements

The cost of meeting Commonwealth administrative requirements in 2010–11 is estimated at \$NIL.

Superannuation

During 2010–11 NBN Co complied with all relevant guidelines and made no significant changes to superannuation arrangements for employees.

Health, Safety & Environment (HSE)

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

HSE Management

NBN Co asked employees to suggest a name for the HSE System and the name and catch phrase "iSafe – A safe workplace starts with me" was adopted.

NBN Co has introduced the iSafe HSE Management System which includes incident and hazard reporting capability, risk assessment, investigations, auditing, case management and reporting modules. To assist managers and employees to better understand their obligations and improve their vigilance to HSE risk, reporting and management, NBN Co has introduced a HSE Field guide.

A comprehensive Drug and Alcohol Testing Program was introduced to contribute to the safety of all people working at NBN Co. Tests are conducted on all employees at random times of the year, pre employment, after any incidents or if an employee shows cause. The program uses modern, non invasive, saliva and breath testing and is non punitive.

HSE Incidents and Hazards

NBN Co is proud of its record of zero lost time injuries or environmental incidents over the past 12 months. Contractors had two lost time injuries with both employees returning to normal duties soon after their injury. No significant environmental incidents were reported by NBN Co activities or by its contractors.

Proactively NBN Co has a process to raise hazards reports and alerts so that the hazard can be dealt with before any HSE impacts are realised. This has led to important modifications to design of pavement pit lids and to the development of a national training package for horizontal bore operators.

Regulatory Reporting Requirements

Workers Compensation

On the 1st of July 2011 NBN Co was declared as a Commonwealth Authority for the purposes of the SRC Act and as such entered the Comcare Premium Scheme. To date, NBN Co has not had a work related workers compensation claim.

Sustainable Development Program

NBN Co is committed to an ecological sustainable development of the network and has a full time Manager of Environment and Sustainability. The Company has access to key environmental GIS mapping tools and overlays (heritage, indigenous, wetlands, areas of environmental significance) and follows a rigorous land access process so all licences, permits and approvals are obtained prior to development. Compliance to these processes is audited externally.

Access to existing underground pits and pipes will significantly reduce NBN Co's environmental impact and improve the visual aesthetics of the network. The fibre network will use significantly less electrical power than current technology.

Freedom of Information report

NBN Co became subject to Freedom of Information legislation on 11 June 2011. NBN Co had finalised three requests under the Freedom of Information Act 1982 by 30 June and there remains 12 requests that have been received and acknowledged, and are currently being processed

These applications were processed as follows:

Granted in full	0
Granted in part	0
Access refused	0
Request was transferred	1
Application was withdrawn	2
On hand at 30 June 2010	12

There were no applications for Internal Information Commissioner or AAT review during the year.

Freedom of Information Act, Section 8

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. The FOI Act also enables individuals to access personal records held by Government bodies and correct information that is incomplete, incorrect, out-of-date or misleading.

The public's general right of access is subject to various exemptions relating to national security, law enforcement and public security, material obtained in confidence, Cabinet documents and other matters set out in the FOI Act. 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 GBEs and organisations, such as Australia Post, CSIRO and Comcare, among others.

Accessing information outside of FOI processes

NBN Co recognises that information is a vital and an invaluable resource, both for the company and for the broader Australian community. NBN Co promotes a pro-disclosure culture, with the goal of creating an organisation that is open, transparent and accountable. A large amount of information is freely available on the website.

NBN Co welcomes suggestions regarding information that should be published. Any comments or suggestions should be sent to FOIofficer@nbncocom.au. If the company is unable to publish the information requested, NBN Co will be contact to explain why the information was unavailable or provide other options regarding information that may be available.

The FOI Act also requires NBN Co to publish an Information Publication Scheme (IPS), which details procedures for managing and disclosing NBN Co's information assets. Under the IPS, NBN Co must release information regarding the company's organisation, operations and functions, among other matters.

In addition, the FOI Act requires NBN Co to publish a Disclosure Log, which lists and provides access to information made available pursuant to FOI requests. The Disclosure Log will not include personal, business or certain other information outlined at section 11C of the Act.

How to make FOI requests

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

- 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 post to:

FOI Requests
NBN Co
Level 11, 100 Arthur Street
NORTH SYDNEY NSW 2060

Information publication scheme

Part 2 of the Freedom of Information Act 1982 (the FOI Act) requires Australian Government agencies, Ministers and certain government business enterprises (GBEs) to establish an Information Publication Scheme (IPS). On 11 June 2011, the FOI Act began to apply to NBN Co, which is a GBE. The IPS provisions in the FOI Act outline NBN Co's obligations to provide the Australian community with access to information regarding the company's operations, activities and other matters. In addition to publishing a broad range of information on the website, NBN Co has published its IPS Plan, which explains how the company intends to implement and administer its Publication Scheme.

Section 7 of the FOI Act exempts NBN Co from releasing information relating to its commercial activities, regular releases of information about the operations are made on a proactive basis. NBN Co's objective is to continue along this path without compromising the commercial, business or operational objectives or those of its partners. NBN Co will also monitor that it abides by the terms and the spirit of the FOI Act.

NBN Co welcomes input from the community regarding its IPS, along with suggestions regarding information that should be published by the company. In that regard, please forward any comments or suggestions to the FOlofficer@nbnco.com.au. If NBN Co is unable to publish the information requested, its staff will be in contact to discuss the reasons that the information was unavailable. NBN Co will endeavour to provide other options regarding information that may be available.

The IPS Plan

NBN Co's IPS Plan and how NBN Co will meet its IPS obligations are available on the website; www.nbnco.com.au/about-us/freedom-of-information

Other information about NBN Co

What NBN Co is

To find out information about NBN Co's organisational structure and how its people are appointed to positions at NBN Co, are available on the website; www.nbnco.com.au/about-us/our-people

What NBN Co does

NBN Co's primary objective is to build and operate the open access wholesale only National Broadband Network (NBN). Delivered by the deployment of fibre to 93% of premises, fixed wireless to 4% of premises and satellite to 3% of premises, through a uniform national wholesale pricing over the network from a point of interconnect to a premise on a non-discriminatory basis and the expected rate of return should be in excess of current public debt rate. NBN Co aims to grow dividends and enhance shareholder value.

Regulatory Reporting Requirements

To learn more about NBN Co's activities please visit www.nbnco.com.au. To understand in more detail about the functions and decision-making powers, please refer to the following:

- National Broadband Network Companies Act 2011;
- Telecommunications Legislation Amendment (National Broadband Network Measures – Access Arrangements) Act 2011;
- Governance obligations under the Commonwealth Authorities and Companies Act 1997, the Corporations Act 2001 and the Governance Arrangements for Commonwealth Government Business Enterprises;
- Our Statement of Expectations; and
- Operational Information, outlined below.

Reports and responses to Parliament

Parliament routinely requests that NBN Co provide reports and responses regarding its operations, financial position and business activities. The company is currently subject to oversight by a number of Parliamentary Committees, as outlined below:

- NBN Co Annual Reports
- Information routinely provided to Parliament – NBN Co will be updating this information on an ongoing basis.
- As part of “*Governance Arrangements for Commonwealth Government Business Enterprises*”, NBN Co will be lodging a Statement of Corporate Intent, which will be tabled in Parliament.
- Parliamentary Committees
 - House of Representatives Standing Committee on Infrastructure and Communications: Inquiry into the role and potential of the National Broadband Network
 - Senate Standing Committee on Environment and Communications
 - Joint Committee on the National Broadband Network
 - Regional Telecommunications Independent Review Committee

How to contact NBN Co

To comment on policy proposals for which NBN Co is responsible, or to discuss access to information under the FOI Act, please refer to the website

- Consultation on policy – NBN Co will evaluate, review and – where appropriate – act upon suggestions made by the public in relation to the policies for which NBN Co is responsible. Comments should be made via the ‘Contact Us’ page.
- FOI Officer – More information regarding NBN Co's FOI processes are available at the FOI page on the website or by emailing FOlofficer@nbnco.com.au.

Routinely requested information and Disclosure Log

Information on routinely accessed documents and information NBN Co has released in response to FOI requests is available in its Disclosure Log.

Operational information

NBN Co is a new, organisation. As such, many processes and procedures are still evolving. At the same time, the company welcomes input from the public to assist in improving its performance, in better exercising its functions and in helping to make sound decisions – particularly where they affect the community. More information about current processes, operational policies and how the company makes decisions are available on the website under the following links:

- Our policies
- Our corporate values
- Our governance structures
- Our Corporate Plan
- Our health and safety objectives
- Current and past tenders awarded

Other information

NBN Co has already released a great deal of information proactively through its website and other media. The Company will provide links through the IPS entry section on a progressive basis.

NBN Co's objective is to continue to provide the Australian community with as much information as possible to understand the day-to-day decisions and long-term business goals and solutions. Through these efforts, the company hopes to communicate the importance of NBN Co's work in constructing an essential infrastructure project.

NBN Co will regularly publish information released pursuant to FOI requests in its Disclosure Log, as well on the website. To make a request under the FOI Act, please refer to the FOI webpage for details in that regard. NBN Co will also undertake to provide further information regarding its business and activities on this page and throughout the website.

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 the NBN Co Privacy Policy available at www.nbnco.com.au.

Individuals may apply for access to their personal information held by NBN Co by writing to:

Privacy Contact 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 Report

Introduction

This report has been prepared for the purposes of reporting under Section 516A of the Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act).

NBN Co has not been able to fully report on its EPBC Act reporting requirements in 2011.

Robust environmental systems and KPIs are in place for F2012 to assist NBN Co communicate its environmental responsibilities and its overwhelmingly positive contribution to this massive national building project.

The environmental data reported in this report is for NBN Co employees and NBN Co occupied facilities.

Broader environmental impact of the Information and Communications Technology sector

In 2010 the Australian Computer Society published a landmark report to quantify the carbon footprint of the Australian Information and Communications Technology sector (Australian Computer Society 2010). The report made the following observations:

- The Information and Communications Technology sector is responsible for nearly 2.7 percent of Australia's total carbon emissions. More significantly, it is directly responsible for more than 7 per cent of all electricity generated in Australia.
- The biggest components of Information and Communications Technology carbon emissions are data centre environment (18.8 per cent), PCs (15.8 per cent), printers and imaging equipment (15.7%) and servers (14.7%).
- The report recommended that the 'Greening' of the sector should focus on a few key areas, including but not limited to:
 1. Work Harder on Data Centre Efficiency
Data centres are responsible for more than one third of Australia's ICT footprint. Data centre cooling consume more power than data centre Information and Communications Technology equipment. There are many techniques and technologies for increasing the energy efficiency of data centres – they all need to be implemented, and quickly.
 2. Reduce the Usage and the Number of Printers and Imaging Devices
Printers, multi-function devices, fax machines, scanners are high consumers of energy. Techniques for saving on printing are well known including print management, centralised printing and duplex printing.

3. Think Green

There are many ways to reduce Information and Communications Technology power consumption. Most of them have to do with changing behaviour, not introducing new technology. Green Information and Communications Technology does not cost money, it saves money. All Information and Communications Technology users, from casual home users to power users in large corporations, should adopt a power saving attitude to everything they do in Information and Communications Technology.

- ### 4. Use Information and Communications Technology to Reduce Carbon Emissions in Other Areas
- Improving business processes, making transport, electricity distribution, building systems and healthcare more efficient, working greener, not harder. Efficiency means green.

Purpose of this report

NBN Co comes within the definition of a Commonwealth agency under the EPBC Act and is required to report against two core criteria. The first is how the activities of NBN Co accords with and contributes to ecologically sustainable development (ESD). The second is to report the environmental performance of NBN Co, that is the impact NBN Co activities have on the natural environment, how these are mitigated and how any migration measures will be reviewed for improvement.

Overview of typical network infrastructure & overall environmental impact

The NBN comprises several key pieces of infrastructure and each interacts differently with its surrounding environment. The NBN is a passive fibre optic cable that does not conduct any form of electrical current nor does it emit any electromagnetic radiation. The existing copper network, on the other hand, is an active network and is powered.

Local fibre network

The local fibre network will be made up of a combination of aerial and underground cabling.

Where possible, the preferred method for deployment of the cable will be to utilise Telstra's existing network of pits and conduit.

Backhaul or transit network

The various components of the NBN will all be connected by either a fibre, satellite or wireless connection and will often traverse long distance across Australia and where possible will utilise existing conduit. Most of the Fibre Access Nodes will be co-located with existing Telstra exchange buildings.

Land Access and Environmental Actions

NBN Co has a dedicated planning team to coordinate and facilitate applicable planning and land access requirements. NBN Co developed a comprehensive guide to planning approvals and environmental management in January 2011. The key steps to enable environmental compliance include the following six steps

- .. Site identification
- .. Technical design
- .. Planning approvals
- .. Construction
- .. Post construction
- .. Operation and maintenance.

In terms of gain planning approvals the following steps are followed:

- .. Pre-Application discussions with Councils
- .. Planning approval preparation and lodgement
- .. Documentation
- .. Exhibition and assessment of planning documentation
- .. Negotiation and decision

With respect to the installation, operation and maintenance of telecommunications facilities, the primary Commonwealth legislation is:

- .. Telecommunications Act 1997
- .. Telecommunications Code of Practice 1997
- .. The Telecommunications (Low-Impact Facilities) Determination 1997

Additionally, NBN Co is required to comply with The Environmental Protection and Biodiversity Conservation Act (1999).

FY 2010/11 Statutory Approvals

In the 2010/11 Year as part of the design and construction of the NBN, NBN Co has pursued various required statutory approvals and land owner consents were obtained.

Planning permits were obtained from local councils for works in Tasmania together with separate approvals for works on or near state government roads and utility assets.

A referral was lodged under the EPBC Act 1999 for proposed direct boring works under a wetland area in Kiama, New South Wales and a decision received that the proposed works were not a controlled action subject to meeting certain conditions. Operationally the boring work was not required as capacity of a nearby Telstra conduit was utilised.

Network design and construction methods employed in the five mainland NBN release sites and Tasmania, mitigated the requirement for formal statutory approvals in a number of areas by avoiding negative impacts on the natural environment.

This approach to avoid impacts on the environment by employing mitigation measures where feasible will continue throughout the roll out of the NBN.

Ecologically Sustainable Development

As outlined in the Department of the Environment, Water, Heritage and the Arts Guidelines for Section 516A reporting – Environmental Protection and Biodiversity Conservation Act 1999, The National Strategy for Ecologically Sustainable Development, was endorsed by all Australian jurisdictions in 1992 and defines the goal of Ecologically Sustainable Development as: “development that improves the total quality of life, both now and in the future, in a way that maintains the ecological processes on which life depends.”

NBN Co subscribes to the following Ecologically Sustainable Development principles as outlined in Section 3A of the Environmental Protection and Biodiversity Conservation Act 1999:

- 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 should be a fundamental consideration in decision making (the ‘biodiversity principle’)
- e) Improved valuation, pricing and incentive mechanism should be promoted (the ‘valuation principle’)

NBN Co Approach to Ecologically Sustainable Development

NBN Co approach to Ecologically Sustainable Development is maturing as the company moves out ‘Start-up’ phase. Even so some important matters were implemented during the year including inclusion of environmental and ethical clauses in all procurement contracts, development of awareness material in regards to the Environmental Protection and Biodiversity Conservation Act.

Environmental Performance

NBN Co had a relative minor environmental impact for the financial year. NBN installed a number of video enable meeting rooms in the Sydney and Melbourne offices and these facilities had an utilisation rate of approximately 56%. NBN leases a vehicle fleet comprising 24 new vehicles with 20 having a Green energy rating of 3 stars and 4 with a rating of 2.5 stars.

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NBN Co. Limited
ABN 86 136 533 741

Sydney

Level 11, 100 Arthur Street
NORTH SYDNEY NSW 2060
AUSTRALIA

Freecall: 1800 881 816
Telephone: 61 2 9926 1900

Melbourne

Level 40-41, 360 Elizabeth Street
MELBOURNE VIC 3000
AUSTRALIA

Freecall: 1800 881 816
Telephone: 61 3 8662 8000

Hobart

GPO Box 373
HOBART TAS 7001
AUSTRALIA

Freecall: 1800 881 816
Telephone: 61 3 6236 4701

Canberra

Unit 2, 16 National Circuit
BARTON ACT 2600
AUSTRALIA

Freecall: 1800 881 816
Telephone: 61 2 9926 1900

Perth

Level 28, 140 St Georges Terrace
PERTH WA 6000
AUSTRALIA

Freecall: 1800 881 816
Telephone: 61 8 9278 2577

Adelaide

Unit 47, 239 Magill Road
MAYLANDS SA 5069
AUSTRALIA

Freecall: 1800 881 816
Telephone: 61 3 8662 8000