

Annual Report 2009–2010

NBN Co Limited

ABN 86 136 533 741



NBN Co
Limited

Our Values

At NBN Co our Values act as a reference point for everything we do.

Our people strive to personally and professionally demonstrate the following values in our actions, behaviours and decisions. This includes dealing with our customers, each other, the community, our suppliers and our owners.

- We are Safe, Disciplined and Reliable and meet our commitments.
- We engender Trust and Integrity and are known for this.
- We are Authentic, speak up and involve both ourselves and others.
- We are Collaborative – one team focused on outcomes.
- We are Flexible to fit our circumstances.

Our Purpose

NBN Co was formed as a government business enterprise to build, own and operate the national broadband network, making high-speed broadband available to all Australians.

In fulfilling the coverage objectives we have been given by our Shareholder, the Australian Government, we will roll out fibre-based broadband services to 93 per cent of premises, wireless to four per cent and satellite to three per cent.

To facilitate the development of a competitive telecommunication market we are operating a wholesale-only, open-access network, and making our wholesale services available to retail service providers on non-discriminatory terms. Our wholesale-only operating model will change the structure of the telecommunication market, encouraging service innovation and price competition at the retail level, in the long-term interests of end users.



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Chairperson's Statement

The first full year of a company's operation is always an interesting and challenging time, but particularly when that organisation has been given such a significant task: the design, construction and operation of the national broadband network.

NBN Co has responded well to that challenge. This year NBN Co has:

- recruited personnel of a high calibre to manage the project;
- developed the policies and procedures that underpin essential business processes;
- made significant progress on the design of the network, construction methods and operational systems;
- engaged with industry on the development of the network and the products that will be offered to customers;
- established a procurement process that is facilitating the cost-effective sourcing of project inputs; and
- undertaken considerable work on a business case that maps how NBN Co will fulfil its Shareholder's objectives and the return on investment it expects to earn over the life of the asset.

In short, NBN Co has put in place the foundation upon which to continue to build a successful company.

The Board has developed a governance framework having regard to its statutory obligations, and has voluntarily adopted the ASX Corporate Governance Principles and Recommendations (2nd Edition August 2007). Just as the management of the company has worked well to establish the company's business process and procedures, the Board has developed the building blocks for good governance of the organisation, as it concentrates on the achievement of its objectives.

The key objective of NBN Co is to deliver high-speed broadband to all Australians. This is a nation-building enterprise that will enable the next generation of digital economic and social advances. It comes at a time when the nation's existing copper-based infrastructure is reaching the end of its capacity to provide higher speeds over necessary distances.



To meet this objective will require a coordinated, disciplined and exhaustive program of works. This program will be conducted with a focus on safety, and safety is the first agenda item at every board meeting. The program will also be conducted in a spirit of engagement with industry, suppliers and vendors, customers and the communities in which the NBN is rolling out.

I would like to thank the management and staff of NBN Co, who have done an outstanding job, in the face of heightened public scrutiny, in a professional and conscientious manner. It is not scrutiny that we shy away from. The Directors and I – and indeed the whole organisation – are very conscious of the enormity of the task in front of us, and the fact that we are spending taxpayers' money.

We are focused on delivering a network for our Shareholder that meets the requirements of our customers – and the expectations of their end-users – in a cost-effective manner.

I would particularly like to thank the Board members who have worked throughout the year, and acknowledge the outstanding work of Mike Quigley, who had the dual roles of CEO and Executive Chairperson until my appointment on 15 March 2010.

A handwritten signature in black ink that reads "Harrison Young". The signature is written in a cursive, flowing style.

Harrison Young
NBN Co CHAIRPERSON

Operational Report

Mike Quigley

CHIEF EXECUTIVE OFFICER AND DIRECTOR

INTRODUCTION

NBN Co was incorporated on 9 April 2009 with the broad objective of building a ubiquitous national broadband network, and, as a consequence, reforming the telecommunications industry in Australia.

The Company's first year has been one of building organisational capacity, while at the same time making considerable progress on developing a business case, working through the policy and regulatory issues critical to implementation, designing the network and engaging with our future customers.

BUILDING ORGANISATIONAL CAPACITY

In terms of staff, at the end of June 2010, NBN Co had 207 employees, 111 based in Sydney, 92 in Melbourne, three in Canberra and one in Tasmania. This recruitment activity has been underpinned by the implementation of rigorous HR processes, including recruitment business processes and systems, and payroll services.

From a single temporary office in Miller Street North Sydney, the Company has now established a permanent presence in Sydney, Melbourne, Hobart and Canberra.

Accenture and Oracle have assisted us in establishing an Enterprise Resource Planning (ERP) financial system. As at 30 June 2010, NBN had remaining contractual commitments totalling \$197 million covering such matters as leased premises and fit out, rollout in Tasmania, outsourcing our HR functions, IT, creating our finance systems, establishing our extensive procurement capability, designs for First Release Sites (FRS), and legal and accounting support. The most significant procurement completed has been for active network equipment with Alcatel-Lucent for the initial supply of GPON and aggregation equipment and a Joint Engineering Partnership.

SAFETY

At NBN Co safety is paramount. We act on our responsibilities to identify and remove risks to a healthy and safe workplace. Recognising that our construction work in particular is a potentially hazardous task, the management team review safety at each management meeting and have instituted a monthly Safety and Quality Leadership forum chaired by myself.

Our health, safety and environment framework, key programs and audit strategy continue to be embedded. NBN Co's health, safety and environment policies and reporting procedures are available to all staff via the intranet.



Operational Report (continued)

NBN Co's commitment to safety was demonstrated when construction work was halted in Tasmania following the logging of several health and safety incident reports on the Stage One rollout.

Our agent Aurora, in full consultation with NBN Tasmania, halted work from mid-March to early April. This enabled sufficient time for refresher training of the construction crews and reinforced the importance of applying the approved safe work practices in the NBN rollout.

Safety will not be compromised to meet deadlines.

INDUSTRY CONSULTATION

NBN Co is conscious of the impact the creation of the NBN will have on the existing industry and has therefore placed considerable emphasis on understanding the views of existing participants, and our potential future customers in particular.

In late December 2009, NBN Co issued a product consultation paper describing the high-level view of the proposed wholesale product and the network architecture. This was followed by a series of industry briefings in Sydney and Melbourne attended by more than 1,000 participants to discuss the proposed products.

As well, we conducted a number of 'deep dives' with retail service providers along with 10 Network and Operations forums which were held in Sydney (four sessions), Melbourne (three), Adelaide, Perth and Brisbane.

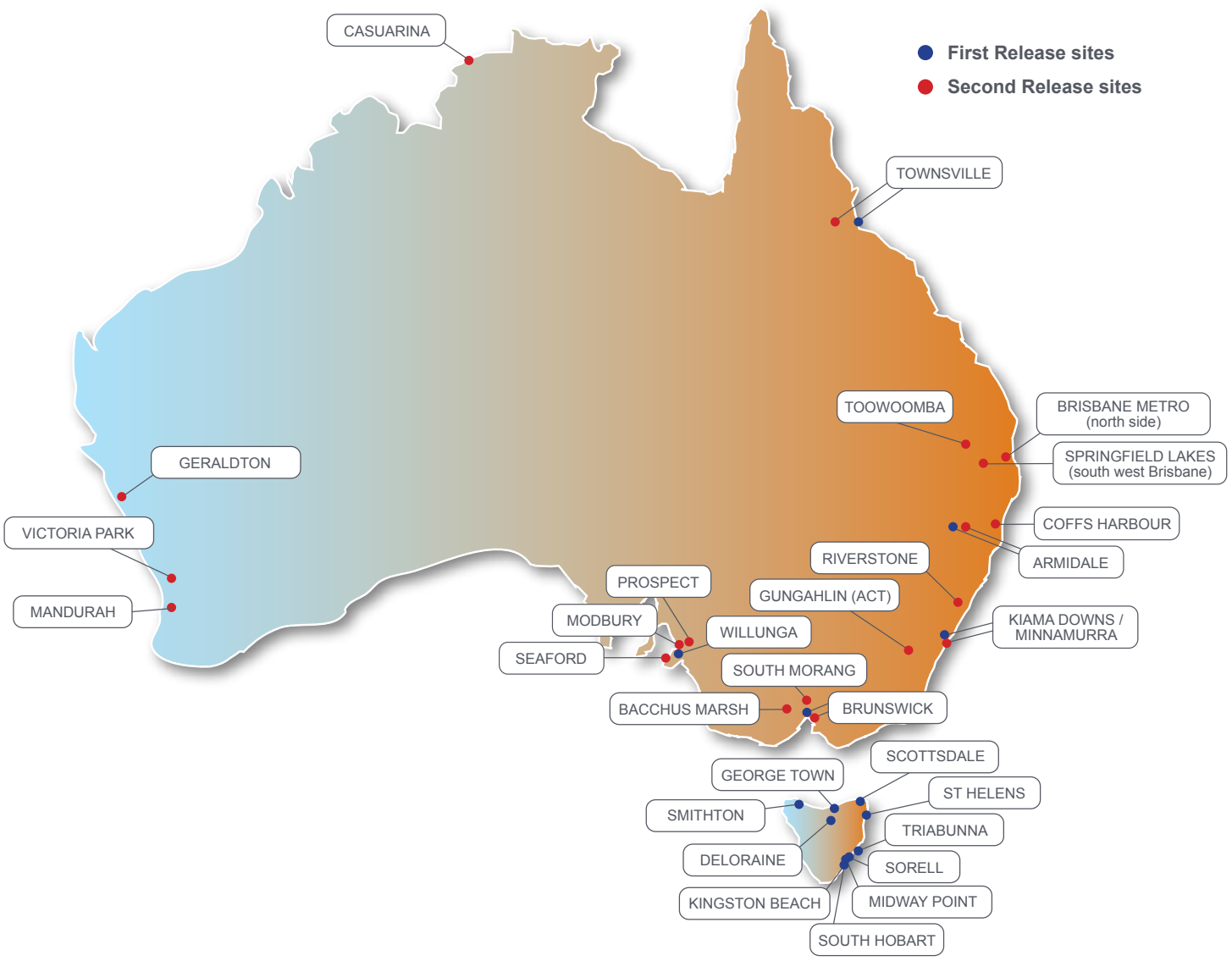
The Company has also been extensively engaged with the ACCC on the creation of a Special Access Undertaking (SAU) and more recently on the implications for the SAU of the Telstra Financial Heads of Agreement (FHoA).

PRODUCT AND PRICING

Following 'deep dive' consultations with our prospective retail service provider customers, NBN Co has continued to refine a product suite and related pricing including an entry level offer which it anticipates will be consistent across fibre, wireless and satellite access technologies, and competitive with existing broadband offers. The ACCC has been consulted during our deliberations about product and price with a view to the company lodging with them a Special Access Undertaking.

TELSTRA FINANCIAL HEADS OF AGREEMENT

June saw the execution and announcement of a non-binding Financial Heads of Agreement with Telstra regarding access to Telstra facilities and the progressive decommissioning of the Telstra copper network as the national broadband network is deployed. Work commenced immediately on converting this FHoA to a binding Definitive Agreement. If a Definitive Agreement is reached, its potential cost to NBN would be some \$9 billion, however this is more than offset in NBN's Business Case by the acceleration of revenues and by cost savings.



Operational Report (continued)

Following the conclusion of a Definitive Agreement, Telstra would likely become NBN Co's largest customer as it progressively decommissions its copper network and bases its voice and broadband retail products on NBN Co's wholesale-only, open-access network. Such an agreement would provide NBN Co with greater certainty about its future revenues.

NETWORK DESIGN, TECHNOLOGY AND CONSTRUCTION

NBN Co has established a standard reference network architecture for its fibre network which will reach 93 per cent of premises. First and Second Release sites will be used to test the design and construction methodologies. These sites were chosen using a combination of commercial, construction and local authority acceptance criteria.

The Company is well advanced in designing a wireless solution covering the 94th to 97th percentiles and a planned satellite solution for the balance of premises, including solutions for interim satellite services until such time as NBN Co satellites can be launched.

The Company has commenced a procurement process to choose a number of construction partners to build the fibre network and wireless base stations across the country.

Similarly a procurement process has commenced for the full suite of operational and business support systems (OSS/BSS) and related services to operate the network.

IMPLEMENTATION STUDY

NBN Co engaged heavily with the team which undertook the Implementation Study for the Australian Government. The Implementation Study has raised a number of policy issues which at the time of writing were yet to be resolved by Government. The Company continues to provide its shareholder, the Australian Government, with its advice and perspectives on the implications for design, cost and technology of many of the Implementation Study's recommendations.

BUSINESS CASE

NBN Co devoted considerable effort to the development of a rigorous Business Case and Corporate Plan during 2009-2010. A number of iterations were provided to the Board and Shareholders during the course of the year. The final Business Case is dependent on the outcome of deliberations on a number of policy issues, including the Australian Government's response to Implementation Study recommendations.



THANKS

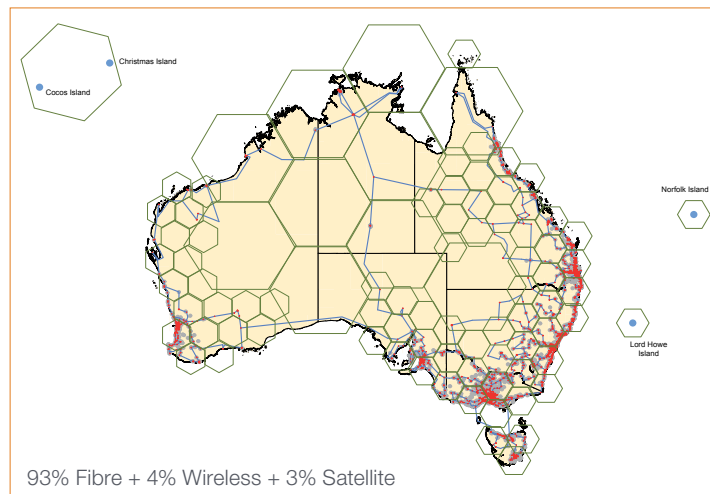
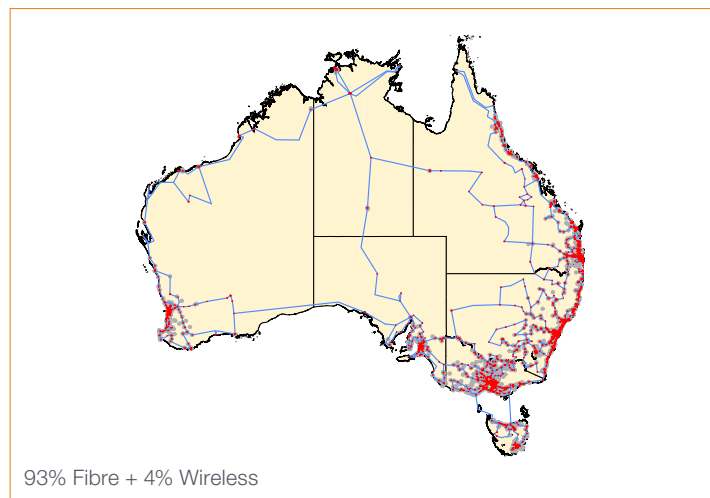
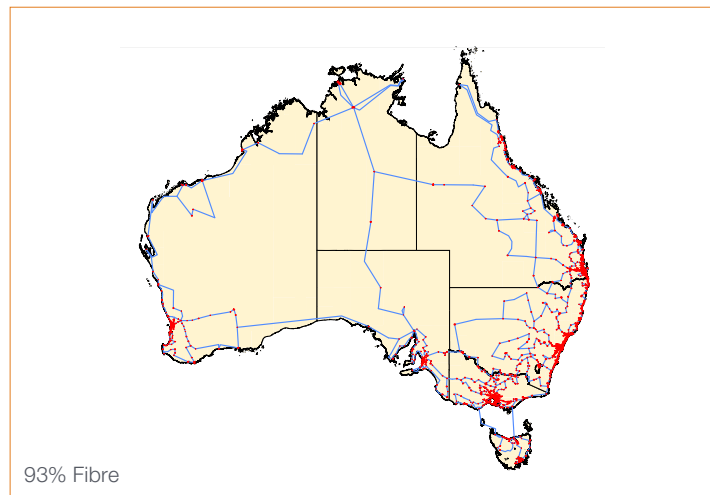
I would like to take the opportunity in this, NBN Co's Annual Report on our first full year of operation, to acknowledge the hard work and dedication of the Company's staff and management team.

Being part of a start-up company always has its challenges. Compounding those challenges are the enormity of our objectives, the ambiguity around the regulatory and legislative framework of the company, and the appropriately high levels of scrutiny the project is attracting. All involved have met these challenges with good cheer, perseverance and commitment.

I would also like to thank the Board and our Chairperson, Mr Harrison Young, for providing valuable perspectives and for their clear-sighted guidance throughout the year.

Mike Quigley
CHIEF EXECUTIVE OFFICER
AND DIRECTOR

These maps provide an indicative representation of the National Broadband Network coverage.



NBN Co Board

Harrison Young **Chairperson**

Harrison Young joined the Board on 15 March 2010. Mr Young is 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 has an investment. From 1991 to 1994 he was a senior officer of the Federal Deposit Insurance Corporation in Washington DC. Mr Young is Deputy Chairman of Asialink and of the Asia Society AustralAsia Centre and a Director of the New York-based Financial Services Volunteer Corps.

Doug Campbell AM **Director**

Doug Campbell joined the Board on 5 August 2009. Mr Campbell brings over 48 years of industry experience to his role at NBN Co including 30 years in Canada competing with established telecommunications providers, and 18 years in Australia as a senior executive at Telstra. Positions Mr Campbell held with Telstra include Group Managing Director of Network and Technology, of Wholesale and International, and Telstra Country Wide. Mr Campbell was awarded an Order of Australia for his service to business and to the community, particularly as a contributor to the development of communications services in regional and remote areas of Australia. He holds a Bachelor of Engineering in Civil Engineering.

Clem Doherty **Director**

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

Terrence Francis **Director**

Terrence Francis joined the Board on 22 December 2009. Mr Francis commenced his career in infrastructure and mine design and project management. This was followed by over 20 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 10 years he has worked as a Non-Executive Director and advisor to government, 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 Institute of Engineers Australia and the Financial Services Institute of Australasia.



NBN Co Board members (l-r) Siobhan McKenna, Terrence Francis, Clem Doherty, Diane Smith-Gander, Harrison Young, Gene Tilbrook, Mike Quigley, Peter Hay and Doug Campbell AM.

Diane Smith-Gander **Director**

Diane Smith-Gander joined the Board on 5 August 2009. Ms Smith-Gander is a Director of Wesfarmers Limited. She 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 Chair of the Board of Basketball Australia and a past Chairperson of the Australian Sports Drug Agency.

Peter Hay **Director**

Peter Hay joined the Board on 5 August 2009. Mr Hay is a professional Company Director serving on the Boards of ANZ Banking Group Limited, Aluminar Limited, GUD Holdings Limited, Myer Holdings Limited and the Epworth Foundation. He is also Chairman of the Advisory Board of Lazard Pty Ltd. He is a former Chief Executive Officer of law firm Freehills and has had a distinguished 35-year legal and investment banking career. For many years Mr Hay practised company law specialising in mergers and acquisitions and has advised many of Australia's largest corporations. He has also advised governments and government-owned enterprises on industry reform and energy sector privatisation.

Siobhan McKenna **Director**

Siobhan McKenna joined the Board on 5 August 2009. Ms McKenna is a Director of Prime Media Group, DMG Radio Australia and The Australian Ballet. She is the Managing Partner of Illyria Pty Ltd and 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.

Mike Quigley **Chief Executive Officer and Director**

Mike Quigley joined the Board on 24 June 2009, after a 36-year career at the French telecommunications giant, Alcatel. After starting his career in research and development, he took on executive positions including President and Chief Executive Officer of Alcatel USA and in 2003 he became President of Alcatel's Fixed Communications Group in Paris. In 2005, he was appointed Alcatel's President and Chief Operating Officer, overseeing 55,000 staff and operations in 130 countries. 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.

Gene Tilbrook **Director**

Gene Tillbrook joined the Board on 5 August 2009. Mr Tillbrook is Chairman of Transpacific Industries and a member of the Boards of Fletcher Building and GPT Group (each ASX-listed); and Queensland-based railroad, QR Limited. From 2002 to May 2009 he 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.

Executives



Jean-Pascal Beaufret Chief Financial Officer

Jean-Pascal Beaufret is responsible for overseeing all financial aspects of NBN Co's business activities.

Between 2001 and 2007, Mr Beaufret was Chief Financial Officer at Alcatel, then at Alcatel-Lucent.

He is a former senior official in France's Ministry of Finance, and also held a senior position in the Prime Minister's Office of France.

Mr Beaufret has an MBA from HEC (International Business School) and is a graduate of the ENA (French National School of Public Administration) and IEP (School of Political Science).



Gary McLaren Chief Technology Officer

Gary McLaren is responsible for scoping the technology requirements of the National Broadband Network.

Mr McLaren has 25 years experience in the telecommunications industry.

He joins NBN Co from his role as lead consultant working on Australia's National Broadband Network project for the Communications Alliance. Previously he has held management and consulting roles with Telstra, Siemens, Request Broadband and AAPT. He has degrees in Engineering and Law from the University of Melbourne.



Kevin Brown Chief HR Officer and Head of Corporate Services

Kevin Brown oversees the corporate services function at NBN Co with responsibility for Legal, IT, Procurement, Government Relations, Corporate Communications and Facilities. He was formerly Executive General Manager, People, at Qantas and a member of its executive committee. Prior to joining Qantas, he held a number of executive positions at Nortel Networks, based in the USA, Hong Kong, the United Kingdom and Australia. He has a Bachelor of Economics and an MBA from the University of Sydney, and a Bachelor of Social Science from the University of New England.



Christy Boyce Head of Industry Engagement

Christy Boyce is responsible for industry relations.

Ms Boyce previously worked for McKinsey & Company for 14 years, where she co-led the Asia Pacific telecoms practice as Principal. Prior to joining NBN Co, Ms Boyce was an independent advisor to a range of organisations on complex strategy issues. She has a Masters of Management from the Kellogg Graduate School of Management and a Bachelor of Economics from the University of Sydney.



Mike Quigley
CEO NBN Co

Mike Quigley has overall responsibility for the roll-out of the National Broadband Network throughout Australia.

Mr Quigley's biography is available on page 15.



Steve Christian
Head of Network Operations

Steve Christian has responsibility for establishing the operational requirements of the National Broadband Network.

Mr Christian has nearly 40 years experience in the telecommunications industry.

He was previously Managing Director of Networks at SingTel Optus where he oversaw the operation of the company's fixed, satellite, IP and mobile networks. Mr Christian has also held various positions with telecommunications companies including BellSouth, US West and MediaOne.



Tim Smeallie
Head of Commercial Strategy

Tim Smeallie has responsibility for NBN Co's strategic positioning including identifying critical issues, acquisition opportunities, media, utilities, revenue and business development. Mr Smeallie has almost 20 years experience in telecommunications and was previously Managing Director of Telecoms and Media Research with Citi Investment Research Australia. Mr Smeallie holds a Bachelor of Business from the University of Technology, Sydney.



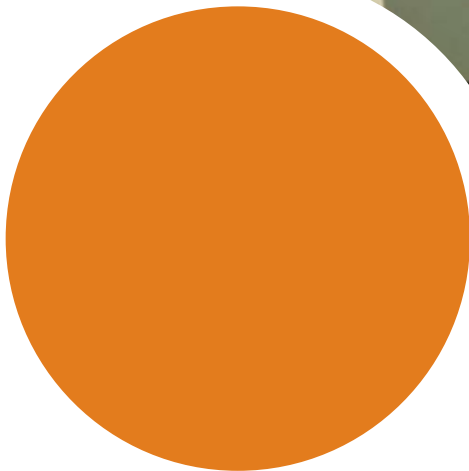
Patrick Flannigan
Head of Construction

Patrick Flannigan has over 25 years experience in the infrastructure services industry and has held senior roles with various private and publicly listed companies in this sector. He was the founding Managing Director and Chief Executive Officer of Service Stream Ltd, employing more than 5,000 people around Australia. Mr Flannigan has a business degree from Victoria University, is a Fellow of the Australian Institute of Management and is a Fellow of the Australian Institute of Company Directors.



Jim Hassell
Head of Product Development and Sales

Jim Hassell is responsible for marketing, product development and sales. He has more than 25 years of experience in the information technology and communications industry with most of his career spent with IBM and Sun Microsystems. Prior to joining NBN Co, Mr Hassell was Chief Operating Officer with Broadcast Australia. From 2000 to 2008 he was Managing Director at Sun Microsystems (Australasia). He has a Business degree from Nottingham Trent University.



Top left: Gary McLaren and Patrick Flannigan.
Middle: Kristen Renwick
Bottom: Christy Boyce, Jamie Chard and Matthew Lobb.

Our People

HEALTH AND SAFETY

At NBN Co we hold the safety of people and the environment as a core value. We are committed to providing a safe and healthy working environment for our employees, contractors and visitors to our workplaces. NBN Co ensures that all legislative requirements, industry standards and external accreditations are met and we have employed qualified HSE resources to maintain these high standards of commitment.

NBN Co is proud of its record of zero lost time injuries or environmental incidents over the past 12 months. We have developed HSE Management Programs to manage our major risks and incidents. The HSE Management Program has been developed compliant to AS 4801 and ISO 14001 for future accreditation.

WORKFORCE PLANNING

Providing a suitably qualified and skilled workforce to construct the national broadband network is critical to ensure the quality of the network, timely achievement of milestones and to mitigate risk.

NBN Co is developing a Workforce Development Strategy to address this and define:

- the national supply of appropriately skilled resources compared with the demand for these resources, and therefore what potential gaps require training;
- the relevant training programs and qualifications, providers and funding sources to support the development of skills and capabilities; and
- gain assurance that the workforce engaged on the NBN has the required skills and qualifications.

The Workforce Development Strategy will place paramount importance on workplace safety and support the creation of sustainable and skilled jobs for Australia.

OUR PEOPLE

With a broad mandate to design, build and operate the wholesale-only national broadband network, our staff has been sourced from a number of different industry sectors.

NBN Co has implemented rigorous recruitment processes and has received over 7,000 resumes from individuals keen to work at NBN Co.

Over 65 per cent of our team has telco sector experience, with the build team consisting of experienced construction staff.

We also have staff with experience in the banking, financial, legal and utilities sectors while others have arrived direct from the public sector.

The vast majority of our staff were sourced locally, however, we have also secured several experienced international employees.

More than 50 per cent of our top 100 employees have two or more qualifications, with about 40 per cent having a business/commerce qualification and greater than 25 per cent having an engineering qualification. Four staff have PhDs.

Qualifications in economics, law and science also feature strongly.

More than half of our top 100 staff have experience with telco retail service providers.

Almost two-thirds have previously held senior management roles in globally recognised companies.

STAFF NUMBERS

At 30 June 2010 we had 207 employees on our payroll and a further 55 contractors.

Of these, 143 were located in Sydney, 111 in Melbourne with the remaining few in Hobart, Canberra and Brisbane.



Consolidated Financial Report

NBN Co Limited

Consolidated Financial Report

For the year ended 30 June 2010

ABN 86 136 533 741

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Directors' Report

The Directors of NBN Co Limited (the Company or NBN Co) present their report on NBN Co and its subsidiary (the Group), together with the consolidated financial statements of the Group for the year ended 30 June 2010 and the Auditor's report thereon.

1. 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.

2. Corporate Governance

NBN Co is committed to meeting high standards of corporate governance and its governance practices have been designed having regard to:

- the obligations of NBN Co under the *Commonwealth Authorities and Companies Act 1997* (CAC Act);
- the obligations of NBN Co under the *Corporations Act 2001* (Corporations Act);
- the *Governance arrangements for Commonwealth Government Business Enterprises* (June 1997) (Governance Arrangements); and
- the Company's voluntary adoption of the *ASX Corporate Governance Principles and Recommendations* (2nd Edition, August 2007).

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.

3. Principal activities

The principal activities of the Group are to build and operate a National Broadband Network (NBN) to deliver high speed broadband to all Australian premises.

4. Operating results

The consolidated loss of the Group after income tax was \$79,835,000 (2009: \$139,000).

While the Group is in the early stages of development, a significant amount of its costs have been expensed rather than being capitalised.

5. Dividends

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

6. Review of Operations

A review of the operations of the Group and the results of those operations are contained in the Chairperson's Statement and the Operational Report at pages 8-13 of the Annual Report and such information is incorporated into this Directors' Report.

7. Significant Changes in State of Affairs

From incorporation until December 2009, all NBN Co transactions including payments to suppliers and employees were entered into the Enterprise Resource Planning (ERP) system used by the Department of Broadband, Communications and the Digital Economy. From December 2009 to June 2010 NBN Co processed all transactions and payments into Quickbooks. From 1 July 2010 all transactions have been processed into an Oracle ERP system.

There have been no other significant changes in the state of affairs of the Group during the financial year.

8. Likely Developments and Results

Funding

In June 2010 the shareholders confirmed that they would make available such funding as is necessary to ensure NBN Co's obligations under its contracts can be met as and when they fall due up to a total of \$2.139 billion. This included \$350 million that was received in July 2010 and a further \$350 million to be drawn down in December 2010.

The exact timing and quantum of Federal Government funding for NBN Co will be determined after the Government has formally responded to the Implementation Study and after finalisation of the Definitive Agreements with Telstra Corporation Limited (Telstra).

Telstra

NBN Co and Telstra announced on 20 June 2010 that a non-binding Financial Heads of Agreement (FHoA) had been entered into that would provide access to certain Telstra facilities (comprising ducts, pits, lead-in conduits, exchange space, dark fibre and managed transition services) and the progressive migration of Telstra traffic onto the NBN. The agreement for these terms has been attributed an approximate net present value after tax of \$9 billion by Telstra from the payments to be made over time by NBN Co. Separately, the Federal Government has agreed to progress public policy reforms with an attributed value by Telstra of approximately \$2 billion.

The transaction would see Telstra progressively migrate its voice and broadband traffic from its copper and cable networks to the NBN as this is rolled out. Payments would be made progressively to Telstra.

The FHoA provides the framework for definitive agreements to be negotiated over the coming months. Should these agreements be finalised, NBN Co expects they would be put to Telstra shareholders in the first half of the 2011 calendar year.

In addition to requiring Telstra shareholder approval, the FHoA has a range of conditions, including the passage of necessary enabling legislation and approval from the Australian Competition and Consumer Commission (ACCC). Accordingly, there can be no guarantee at this time that the transaction will progress to completion.

The Federal Government has also committed to providing to Telstra, in conjunction with the Definitive Agreements, a guarantee for the financial obligations of NBN Co until NBN Co is fully capitalised.

Other

The Directors have not included 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.

9. Shareholder Communication

In compliance with the CAC Act and the Governance Arrangements, NBN Co regularly reports to its Shareholder Ministers, the Minister for Broadband, Communications and the Digital Economy and the Minister for Finance and Deregulation. The Shareholder Ministers are publicly accountable and NBN Co is subject to Parliamentary scrutiny through Senate Committees.

The Auditor-General has agreed to be appointed as NBN Co's External Auditor.

10. Role of the Board of Directors

The Board of Directors of NBN Co has a number of roles, including the following:

1. ensuring that NBN Co acts within its powers as set out in Rule 4.1.2 of NBN Co's Constitution;
2. supervising and appraising NBN Co's strategies, policies and performance; and
3. 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 gives the Commonwealth the capacity to exercise any power exercisable by NBN Co by passing a resolution.

11. Composition of the Board of Directors

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 Chairperson. The Chairperson is appointed by the Commonwealth from amongst the Directors in accordance with Rule 7.3.1 of the Constitution. 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 Chairperson of NBN Co 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 two Executive Directors. Details of the current Directors are set out on pages 14 and 15 of the Annual Report and such information is incorporated into this Directors' Report. The Directors of NBN Co at any time during or since the end of the year are:

Mr. Harrison Young (Non-Executive Director) who was appointed as Director and Chairperson of NBN Co on 15 March 2010 and his current term expires on 14 March 2013.

Mr. Mike Quigley (Executive Director/Chief Executive Officer) was appointed as a Director and the interim Chairperson of NBN Co on 24 June 2009. Mr Quigley's term as a Director and the interim Chairperson concluded with the appointment of Mr Harrison Young as Chairperson on 15 March 2010 at which time Mr Quigley was reappointed as a Director. His current term expires on 14 March 2013. Mr Quigley was appointed Chief Executive Officer (CEO) on 20 July 2009.

Mr. Doug Campbell AM (Executive Director) was appointed as a Director of NBN Co on 5 August 2009 and his current term expires on 4 August 2012.

Mr. Clem Doherty (Non-Executive Director) who was appointed as a Director of NBN Co on 22 December 2009 and his current term expires on 21 December 2012.

Mr. Terrence Francis (Non-Executive Director) was appointed as a Director of NBN Co on 22 December 2009 and his current term expires on 21 December 2012.

Mr. Peter Hay (Non-Executive Director) was appointed as a Director of NBN Co on 5 August 2009 and his current term expires on 4 August 2012.

Ms. Siobhan McKenna (Non-Executive Director) was appointed as a Director of NBN Co on 5 August 2009 and her current term expires on 4 August 2012.

Ms. Diane Smith-Gander (Non-Executive Director) was appointed as a Director of NBN Co on 5 August 2009 and her current term expires on 4 August 2012.

Mr. Gene Tilbrook (Non-Executive Director) was appointed as a Director of NBN Co on 5 August 2009 and his current term expires on 4 August 2012.

Mr. David John Martine, Director was appointed as a Director of NBN Co on 9 April 2009 and his term concluded on 5 August 2009.

Mr Martine, a senior executive within the Commonwealth Department of the Treasury, also had previous experience in advising Government on budget and fiscal strategy, along with oversight of Government Business Enterprises.

Mr. David John Yarra PSM, Director was appointed as a Director of NBN Co on 9 April 2009 and his term concluded on 5 August 2009.

Mr Yarra is a career public servant of 34 years with experience in the preparation of the Commonwealth Budget, overseeing major government asset sales and as a Director of a number of Government Business Enterprises.

Mr. James David Alan Cameron, Director was appointed as a Director of NBN Co on 9 April 2009 and his term concluded on 5 August 2009.

Mr Cameron joined the Australian Public Service in 1991 and has worked across a number of policy areas, including small business, industry research and development, telecommunications, broadcasting, information and communications technology, the arts and sport.

Mr. Martin Hoffman, Director was appointed as a Director of NBN Co on 6 July 2009 and his term concluded on 5 August 2009.

Mr Hoffman joined the Australian Public Service in March 2009 in the Department of Prime Minister and Cabinet as Executive Co-ordinator, Strategic Policy and Implementation. Mr Hoffman previously had an extensive private sector career in digital media and technology sector, most recently as Chief Executive Officer and a Director of the mobile social networking services company MOKO Mobi Ltd. Mr Hoffman is a Director and the Honorary Treasurer of the Garvan Institute of Medical Research.

12. Company secretary

Ms Debra Connor was appointed as Company Secretary of NBN Co effective from 22 June 2010. Preceding Ms Connor's appointment, Ms Alisa Taylor and Ms Stephanie Lynch held the office of Company Secretary for the periods from 1 July 2009 to 8 May 2010, and 8 May 2010 to 22 June 2010, respectively.

13. Interests in the share of the Company

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

14. Indemnification and insurance of Directors and Officers

NBN Co has indemnified each of the Directors of NBN Co against legal proceedings, loss or liability that arises in their capacity as a Director of NBN Co. As at 30 June 2010, 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.

15. Directors' meetings

The number of meetings of the Board of Directors held during the period from 1 July 2009 to 30 June 2010 and the number of meetings attended was as follows:

| Director | Number of Director meetings eligible to attend | Total number of meetings attended |
|---|--|-----------------------------------|
| Harrison Young (Chairperson) (Refer to Note 3) | 4 | 4 |
| Mike Quigley (Refer to Note 3) | 16 | 16 |
| Doug Campbell AM (Refer to Note 2) | 15 | 15 |
| Clem Doherty (Refer to Note 1) | 6 | 5 |
| Terry Francis (Refer to Note 1) | 6 | 5 |
| Peter Hay (Refer to Note 2) | 15 | 14 |
| Siobhan McKenna (Refer to Note 2) | 15 | 15 |
| Diane Smith-Gander (Refer to Note 2) | 15 | 14 |
| Gene Tilbrook (Refer to Note 2) | 15 | 15 |
| Interim Board | | |
| James Cameron (Refer to Note 4) | 3 | 3 |
| Martin Hoffman (Refer to Note 4) | 3 | 3 |
| David Martine (Refer to Note 4) | 3 | 3 |
| David Yarra (Refer to Note 4) | 3 | 2 |

Notes:

1. Following their appointment to the NBN Co Board on 22 December 2009, the first meeting attended by Mr Clem Doherty and Mr Terry Francis was held on 22 January 2010.
2. Following their appointment to the NBN Co Board on 5 August 2009, Ms Siobhan McKenna, Mr Gene Tilbrook, Mr Doug Campbell AM and Mr Peter Hay attended their first Board meeting on 13 August 2009. Ms Diane Smith-Gander attended her first meeting on 24 August 2009.
3. Mr Mike Quigley attended all Board meetings during the period 1 July 2009 – February 2010 as Chairperson and Executive Director. From 15 March 2010, Mr Harrison Young was appointed as Chairperson.
4. Mr David Martine, Mr James Cameron, Mr Martin Hoffman and Mr David Yarra completed their terms as interim Directors of NBN Co on 5 August 2009. The final meeting attended in their capacity as interim Directors was held on 27 July 2009.

16. Board Committees

The Board has delegated specific powers and responsibilities to three Board Committees being the Audit Committee, the People and Performance Committee and the Implementation Committee.

Audit Committee

The Audit Committee provides assurance to the Directors that NBN Co is complying with its obligations under the CAC Act and the Corporations Act and provides a forum for communication between the Directors, senior managers and internal and external auditors 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 but are not entitled to vote on Committee resolutions.

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 held during the period from 1 July 2009 to 30 June 2010 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) | 5 | 5 |
| Peter Hay | 5 | 4 |
| Simon Ash (Refer to Note 1) | 3 | 3 |

Note:

1. Mr S Ash, Chief Financial Officer of the Department of Broadband, Communications and the Digital Economy resigned as a member of the Audit Committee and the final meeting Mr Ash attended was held on 18 February 2010.

Subsequent to the end of the financial year Mr Clem Doherty was appointed as a member of the Audit Committee.

People and Performance Committee

The People and Performance Committee assists the Board in fulfilling its overseeing and governance responsibilities for people management and remuneration policies. Summaries of these policies are available in 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 and Chief Human Resource Officer may attend Committee meetings but are not entitled to vote on Committee resolutions.

The charter of each Committee can be found in the corporate governance section of the NBN Co website. The Committees must review their respective charters annually. Any proposed changes to a Committee charter must be approved by the Board.

The membership of the Committee, the number of meetings held during the period from 1 July 2009 to 30 June 2010 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 |

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 Non-Executive Directors. The CEO, CFO and Head of Corporate Services may attend meetings but are not entitled to vote on Committee resolutions.

The Committee was formed on 3 August 2010 and will meet at least four times per year. The membership of the Committee is set out below:

Name of Director

Terry Francis (Chair)

Doug Campbell AM

Clem Doherty

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

17. Directors' and Officers' remuneration

Reward Framework

The People and Performance Committee (P&PC) of the Board is responsible for ensuring that NBN Co has the appropriate reward strategy and remuneration structures in place. The NBN Co reward strategy creates the foundation for all remuneration programs at NBN Co. It provides a basis for the setting of fixed pay.

The P&PC determines and regularly reviews the reward strategy. Key principles of the strategy are:

- appropriate internal and external equity is maintained
- consistent framework across the company for managers to evaluate roles and reward individuals
- differentiation in pay outcomes based on individual performance

In carrying out its duties, the P&PC independently seeks advice from external advisors. The P&PC retains final discretion on the remuneration framework and individual payments for the senior executive team. 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.

In 2009, the P&PC approved the framework used to set Total Fixed Remuneration (TFR) for each employee at the Company. A consistent role evaluation rating system is used for determining the appropriate pay band for employees at NBN Co. Based on the assigned pay band and any relevant market benchmark information, a target TFR amount is established. Individuals taking on a role may vary from the target within a reasonable range based on their relative experience and ability.

Pay Mix

For the 2009/10 financial year pay was delivered entirely in the form of TFR with no bonus or incentive payments made.

Performance Link

TFR for all employees is made up of base salary, superannuation, and other packaged benefits and includes any related FBT cost to NBN Co. No company-wide remuneration review was conducted for the 2009/10 financial year. Going forward, all permanent employees will be eligible for an annual review of TFR, and merit increases will be awarded based on the performance appraisal rating received and market movements. These increases will be kept in line with the relevant pay band. Increases for promotions will be implemented as the role change occurs and require role evaluation to define the correct pay band.

Market Reference

Along with the maintenance of internal equity, remuneration levels are set with reference to the external market for talent. This market data is provided by independent third party surveyors and consultants.

- For key roles, each position is benchmarked against specific market data. 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.
- For all other employees, including managers, TFR is set with reference to the appropriate pay band, relevant market indicator benchmarks, and the pertinent characteristics of the individual. The pay bands are based on survey data from the relevant industries (i.e., telecommunications, construction, commercial strategy, and general industry).

Director Remuneration

All Directors of the Company are appointed by the Commonwealth of Australia. Remuneration for Non-Executive Directors is set by the Remuneration Tribunal and is structured as follows:

| Title | Annual Entitlement (AUD) (Refer to Note 1) |
|---|--|
| Chairperson (Refer to Note 2) | \$185,350 |
| Non-Executive Directors (Refer to Note 3) | \$92,700 |

Notes:

1. Excluding superannuation
2. Refer to Remuneration Tribunal Determination 2010/02
3. Refer to Remuneration Tribunal Determination 2009/14

Remuneration for the CEO was established by the Commonwealth upon his appointment in July 2009. Directors receive no additional remuneration for performing duties of directors. Total remuneration for Directors is shown in the table below.

| 30 June 2010 | Short-term benefits | | Non-cash benefits ³ | Post-employment | Other long-term benefits | Termination benefits ⁵ | Total Remuneration |
|--------------------------------|-----------------------------------|----------------------------|--------------------------------|--------------------|---------------------------------|-----------------------------------|--------------------|
| | Cash salary and fees ¹ | STI / Bonuses ² | | Super contribution | Long service leave ⁴ | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Executive Directors | | | | | | | |
| M Quigley | 1,808,202 | - | 6,735 | 45,180 | 1,435 | - | 1,861,552 |
| D Campbell AM ⁶ | 268,755 | - | 6,735 | 20,355 | - | - | 295,845 |
| Non-Executive Directors | | | | | | | |
| 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 |
| Total | 2,554,803 | - | 13,470 | 116,406 | 1,435 | - | 2,686,114 |

Notes:

1. Base salary provided from commencement up to 30 June 2010 and includes annual leave entitlements and any allowances paid in cash
2. No bonuses were paid during the year
3. Non-cash benefits include car parking and are inclusive of Fringe Benefits Tax
4. Long service leave relates to amounts accrued during the year
5. No termination benefits were provided to disclosed individuals during the year
6. Includes \$198,362 of fees paid for additional role as Executive Chairperson of NBN Tasmania Limited

Non-cash Benefits

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

Post Employment and Other Long-term Benefits*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 will comply with statutory requirements and are determined by the policy in place and the contractual entitlements in place for employees who are terminated by NBN Co.

Senior Executive Remuneration

The following table shows the number of individuals who have received actual remuneration in excess of \$300,000 per annum as employees and in addition those who have annual remuneration in their employment contracts within the relevant ranges above the threshold of \$300,000 per annum. The first column is shown to align with ASX guidelines and the second to ensure the number of individuals is not understated.

| Total Remuneration range * | Total Employees | |
|----------------------------|-----------------|-------------------|
| | Actual ** | Annual Salary *** |
| \$ | | |
| 300,000 – 400,000 | 3 | 34 |
| 400,001 – 500,000 | 2 | 4 |
| 500,001 – 600,000 | 3 | 2 |
| 600,001 – 700,000 | 0 | 3 |
| 700,001 – above | 2 | 4 |
| Total | 10 | 47 |

*: Total remuneration includes base salary, superannuation and all packaged benefits, such as novated leases.

** : Number of employees who received remuneration within the relevant range between the commencement of their employment and 30 June 2010.

***: Number of employees who received remuneration within the relevant range per their employee contract in place at 30 June 2010. Executives have started employment at various times during the financial year.

18. Director induction and education

A Director's induction and ongoing education was delivered through individual briefings and presentations made by NBN Co senior executives.

19. Independent professional advice

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

20. 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.

21. External audit

NBN Co is audited by the Auditor-General supported by the Australian National Audit Office. NBN Co's Annual Reports are tabled in Parliament and its financial accounts lodged with the Australian Securities and Investments Commission.

22. Internal audit

NBN Co has appointed PricewaterhouseCoopers as its inaugural provider for internal audit services.

An internal audit plan of work was presented to, and endorsed 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.

23. Internal control framework

A number of internal controls have been implemented to ensure 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.

24. Ethical standards

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.

25. Risk management

A Risk Management Policy consistent with Australian/New Zealand standard ISO31000:2009, an international benchmark for implementation of enterprise-wide risk management, has been adopted. The policy will contribute to the development of a sound system of risk review, management and internal control and 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.

The Board of Directors confirm that management has reported as to the effectiveness of the management of the key business risks facing NBN Co.

26. Treasury

A Treasury Policy, which establishes a prudential framework providing guidelines, controls and reporting systems for the management of the Company's treasury operations has been adopted. The primary objectives of the Treasury Policy are to provide clear guidelines for making investment decisions, ensure that operational guidelines within the Treasury function are identified, approved and managed, and provide accurate and timely reporting.

27. Privacy

A Privacy Policy is published on NBN Co's website.

28. Trade practices

Compliance with the Trade Practices Act 1974 (Cwth) and the other regulatory obligations applying to NBN Co (including those under the Telecommunications Act 1997 (Cwth) and related legislation) continues to be a key focus for NBN Co. A number of internal processes have been put in place to ensure a streamlined review of external communications by the legal function prior to issue of such communications. These communications vary across many areas of the business and range from press releases and website material to tender documentation and contracts.

29. Events Subsequent to Reporting Date

Since 30 June 2010, NBN Co received an equity injection of \$350 million.

Except for the equity injection received in July 2010, no other matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may affect:

- (a) the Group's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the Group's state of affairs in future financial years.

30. 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.

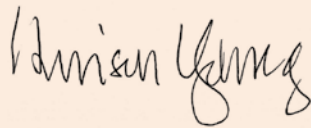
31. Auditor independence

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

32. Non-audit services

No non-audit services have been provided by the Auditor-General or the Australian National Audit Office.

Signed in accordance with a resolution of Directors.



Harrison Young
Chairperson
5 October 2010

Auditor's Independence Declaration



Auditor's Independence Declaration

NBN Co LIMITED

CONSOLIDATED FINANCIAL REPORT 2009–10

AUDITOR'S INDEPENDENCE DECLARATION

In relation to my audit of the consolidated financial report of NBN Co Limited and NBN Tasmania Limited (the Group) for the year ended 30 June 2010, 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

A handwritten signature in black ink that reads 'Michael J Watson'. The signature is written in a cursive style.

Michael J Watson
Group Executive Director
Delegate of the Auditor-General
Canberra

30 September 2010

Statement of Comprehensive Income

For the year ended 30 June 2010

| | Notes | NBN Group | |
|---|-------|--------------------------------------|---|
| | | Year ended 30 June 2010 \$'000 | For the period 9 April 2009 to 30 June 2009 \$'000 |
| Revenue | | | |
| Interest income | 2 | 3,947 | - |
| Total Revenue | | 3,947 | - |
| Expenses | | | |
| Employment costs | 3 | (37,989) | - |
| External services – systems and organisation expenses | 3 | (18,370) | (139) |
| Legal and negotiation support costs | 3 | (15,253) | - |
| IT and communications expenses | | (6,365) | - |
| Occupancy expenses | | (2,808) | - |
| Travel costs | | (1,404) | - |
| Insurance expense | | (741) | - |
| Depreciation expense | 3 | (207) | - |
| Other expenses | | (645) | - |
| Total Expenses | | (83,782) | (139) |
| (Loss) before income tax | | (79,835) | (139) |
| Income tax expense/benefit | 4 | - | - |
| (LOSS) FOR THE YEAR | | (79,835) | (139) |
| Other comprehensive income | | - | - |
| TOTAL COMPREHENSIVE (LOSS) FOR THE YEAR | | (79,835) | (139) |
| Total comprehensive (loss) attributable to the Australian Government | | (79,835) | (139) |

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

Balance Sheet

As at 30 June 2010

| | Notes | NBN Group | |
|--------------------------------------|-------|------------------------|------------------------|
| | | 30 June 2010 \$'000 | 30 June 2009 \$'000 |
| Current assets | | | |
| Cash and cash equivalents | 5 | 212,330 | 10,000 |
| Other | 6 | 5,181 | 14 |
| Total current assets | | 217,511 | 10,014 |
| Non-current assets | | | |
| Property, plant & equipment | 7 | 30,984 | - |
| Intangible assets | 8 | 10,054 | - |
| Other | 6 | 991 | - |
| Total non-current assets | | 42,029 | - |
| Total assets | | 259,540 | 10,014 |
| Current liabilities | | | |
| Trade and other payables | 9 | 27,498 | 153 |
| Total current liabilities | | 27,498 | 153 |
| Non-current liabilities | | | |
| Other payables | 9 | 16 | - |
| Total non-current liabilities | | 16 | - |
| Total liabilities | | 27,514 | 153 |
| Net assets | | 232,026 | 9,861 |
| Equity | | | |
| Contributed equity | 10 | 312,000 | 10,000 |
| (Accumulated losses) | 11 | (79,974) | (139) |
| Total equity | | 232,026 | 9,861 |

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

Statement of Changes in Equity

For the year ended 30 June 2010

| | <i>Notes</i> | NBN Group | | Total \$'000 |
|--|--------------|---------------------------------|---------------------------------|-----------------|
| | | Accumulated losses \$'000 | Contributed Equity \$'000 | |
| Opening balance at 9 April 2009 | | - | - | - |
| Total comprehensive (loss) for the period | 11 | (139) | - | (139) |
| Contributions of equity, net of transaction costs | 10 | - | 10,000 | 10,000 |
| Balance at 30 June 2009 | | (139) | 10,000 | 9,861 |
| Total comprehensive (loss) for the year | | (79,835) | - | (79,835) |
| Contributions of equity, net of transaction costs | | - | 302,000 | 302,000 |
| Balance at 30 June 2010 | | (79,974) | 312,000 | 232,026 |

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

Statement of Cash Flows

For the year ended 30 June 2010

| | Notes | NBN Group | |
|---|-----------|--------------------------------------|---|
| | | Year ended 30 June 2010 \$'000 | For the period 9 April 2009 to 30 June 2009 \$'000 |
| Cash flows from operating activities | | | |
| Payments to suppliers and employees | | (73,552) | - |
| Interest received | | 3,250 | - |
| Net cash (used in) operating activities | 17 | (70,302) | - |
| Cash flows from investing activities | | | |
| Payment for property, plant and equipment | | (22,838) | - |
| Payment for intangibles | | (6,530) | - |
| Net cash (used in) investing activities | | (29,368) | - |
| Cash flows from financing activities | | | |
| Equity injection for ordinary shares by the Commonwealth of Australia | | 302,000 | 10,000 |
| Net cash provided by financing activities | | 302,000 | 10,000 |
| Net increase in cash and cash equivalents | | 202,330 | 10,000 |
| Cash and cash equivalents at the beginning of the financial year | 5 | 10,000 | - |
| Cash and cash equivalents at the end of the financial year | 5 | 212,330 | 10,000 |

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

Notes to the Financial Report

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 2010 comprise the Company and its subsidiary NBN Tasmania Limited (together referred to as **the Group or the consolidated entity**).

(a) Statement of compliance

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board and the *Corporations Act 2001*. The consolidated financial report of the Group complies with International Financial Reporting Standards (IFRS's) and interpretations adopted by the International Accounting Standards Board (IASB).

The general purpose financial report of NBN Co Limited for the financial year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 23 September 2010.

(b) Basis of preparation

This consolidated financial report is presented in Australian dollars, which is the Company's functional currency.

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.

The Group has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a Statement of Comprehensive Income, Balance Sheet and a Statement of Changes in Equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial report.

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

(c) Significant accounting judgments and estimates

In the process of applying the accounting policies listed in this note, the Group has made some judgments that do not have a significant impact on the amounts recorded in the financial report. Estimates made in relation to the Group financial report are to non-financial assets and employee provisions.

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

(d) New Australian Accounting Standards

Adoption of new or revised Australian Accounting Standard Requirements

No accounting standard has been adopted earlier than the application date as stated in the standard. The following new or revised standards are applicable to the Company for the current reporting period and had a financial impact on the Group:

AASB 7 Financial Instruments;
AASB 101 Presentation of Financial Statements;
AASB 132 Financial Instruments: Presentation;
AASB 137 Provisions, Contingent Liabilities and Contingent Assets; and
AASB 139 Financial Instruments: Recognition and Measurement.

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.

Future Australian Accounting Standard Requirements

The following new or revised standards have been issued by the Australian Accounting Standards Board and are effective for future reporting periods. It is expected that these standards will be applicable to the Group for future reporting periods:

AASB 7 Financial Instruments: Disclosures;
AASB 9 Financial Instruments;
AASB 132 Financial Instruments: Presentation;
AASB 137 Provisions, Contingent Liabilities and Contingent Assets; and
AASB 139 Financial Instruments: Recognition and Measurement.

(e) 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 2010 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 Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the 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 Group.

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

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

(f) Foreign currency translation

(i) Functional and presentation currency

The consolidated financial report is presented in Australian dollars, which is NBN Co Limited's functional and presentation currency.

(ii) Transactions and balances

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.

(g) Revenue recognition

(i) Revenue from the Government

Funding received or receivable from Commonwealth agencies is recognised as Revenue from the Government unless they are in the nature of an equity injection.

(h) Income tax

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

The current income tax charge 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. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial report. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

Tax consolidation legislation

NBN Co Limited and its wholly-owned Australian controlled entities have not implemented the tax consolidation legislation. A decision on this will be made before the lodgment of NBN Co's income tax return for the year ended 30 June 2010.

(i) Leases

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 13). 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.

(j) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment annually. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

(k) 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.

(l) 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.

(m) 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).

(n) Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the Balance Sheet but are reported in note 15. 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.

(o) 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.

(p) Property, plant and equipment

All property, plant and equipment is 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.

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.

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:

- Network assets 8-40 years
- Leasehold improvements - the shorter of the lease period or 5-10 years
- Furniture, fixtures and office equipment 3-10 years
- IT equipment 3-5 years

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

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

(q) Intangible assets

IT development and software

Costs incurred in developing products or systems, and costs incurred in acquiring software and licenses that will contribute to future periods financial benefits through revenue generation and/or cost reduction, are capitalised.

Costs capitalised comprise external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from 3 to 10 years.

IT development costs include only those costs directly attributable to the construction of the asset and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

(r) 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.

(s) Transactions with the Government as Owner

Ordinary shares are classified as equity.

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

(t) Employee benefits*(i) Short term 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.

(u) Goods and Services Tax (GST)

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

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

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

(v) 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.

2. Income

| | NBN Group | |
|-----------------|--------------------------------------|---|
| | Year ended 30 June 2010 \$'000 | For the period 9 April 2009 to 30 June 2009 \$'000 |
| Interest income | 3,947 | - |

3. Expenses

| | NBN Group | |
|--|--------------------------------------|---|
| | Year ended 30 June 2010 \$'000 | For the period 9 April 2009 to 30 June 2009 \$'000 |
| Employment costs | (37,989) | - |
| External services costs – systems and organisation costs | (18,370) | - |
| Legal and negotiation support costs | (15,253) | - |
| Depreciation | | |
| Furniture, fittings & equipment | (16) | - |
| IT Equipment | (191) | - |
| Total depreciation | (207) | |
| Rental expense relating to operating leases | (2,009) | - |
| Defined contribution superannuation expense | (940) | - |

4. Income tax expense

| | NBN Group | |
|--|--------------------------------------|---|
| | Year ended 30 June 2010 \$'000 | For the period 9 April 2009 to 30 June 2009 \$'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 expense | (79,835) | (139) |
| Tax at the Australian tax rate of 30% (2009: 30%) | (23,950) | (42) |
| Tax losses not recognised | 22,588 | (42) |
| Temporary differences not recognised | 1,362 | - |
| Income tax expense | - | - |
| (c) Tax losses | | |
| Unused tax losses for which no deferred asset has been recognised | 75,295 | 139 |
| Potential tax benefit @ 30% | 22,588 | 42 |

The cumulative amount of unrecognised deferred tax losses of \$79,835,000 may be available to offset against future income tax assessments when the company becomes profitable and satisfies the requirements as outlined in note 1(h).

4. Income tax expense (continued)

| | NBN Group | |
|--|--------------------------------------|---|
| | Year ended 30 June 2010 \$'000 | For the period 9 April 2009 to 30 June 2009 \$'000 |
| (d) Unrecognised temporary differences | | |
| Temporary differences relating to provisions, accruals and property plant and equipment for which deferred tax assets have not been recognised | 4,540 | - |
| Unrecognised deferred tax asset relating to the above temporary differences | 1,362 | - |

5. Current assets – Cash and cash equivalents

| | NBN Group | |
|---------------|------------------------|------------------------|
| | 30 June 2010 \$'000 | 30 June 2009 \$'000 |
| Cash at bank | 66,451 | 10,000 |
| Term deposits | 145,879 | - |
| Total | 212,330 | 10,000 |

6. Other assets

| | NBN Group | |
|---------------------|------------------------|------------------------|
| | 30 June 2010 \$'000 | 30 June 2009 \$'000 |
| Current | | |
| Interest receivable | 697 | - |
| Prepayments | 2,105 | - |
| GST receivable | 2,247 | 14 |
| Rental deposits | 132 | - |
| Total | 5,181 | 14 |
| Non-Current | | |
| Prepayments | 991 | - |

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

(a) Property, plant and equipment

| | NBN Group | | | | Total \$'000 |
|------------------------------------|-------------------------------------|-------------------------------------|---------------------------|-----------------------------|-----------------|
| | Leasehold improvements \$'000 | Furniture and fittings \$'000 | IT equipment \$'000 | Network assets \$'000 | |
| | | | | | |
| At 1 July 2009 | | | | | |
| Cost | - | - | - | - | - |
| Accumulated depreciation | - | - | - | - | - |
| Net book value | - | - | - | - | - |
| Additions | 6,121 | 786 | 3,487 | 20,797 | 31,191 |
| Depreciation charge | - | (16) | (191) | - | (207) |
| Closing net book amount | 6,121 | 770 | 3,296 | 20,797 | 30,984 |
| As 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 |

7. 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 | |
|--|------------------------|------------------------|
| | 30 June 2010 \$'000 | 30 June 2009 \$'000 |
| Network assets | 20,797 | - |
| Office fit-outs – leasehold improvements | 2,802 | - |
| Total | 23,599 | - |

8. Non-current assets – Intangible assets

| | NBN Group \$'000 |
|-----------------------------------|---------------------|
| As at 1 July 2009 | |
| Cost | - |
| Accumulated amortisation | - |
| Net book amount | - |
| Year ended 30 June 2010 | |
| Opening net book amount | - |
| Additions – internally developed* | 10,054 |
| Amortisation | - |
| Closing net book value | 10,054 |

* The software intangible asset is an ERP system which went live on 1 July 2010. As at 30 June 2010, it was an asset under construction.

9. Trade and other payables

| | NBN Group | |
|-------------------------------|------------------------|------------------------|
| | 30 June 2010 \$'000 | 30 June 2009 \$'000 |
| Current | | |
| Trade payables | 1 | - |
| Accruals | 26,193 | 153 |
| Other (employee entitlements) | 1,304 | - |
| Total | 27,498 | 153 |
| Non Current | | |
| Other | 16 | - |

10. Contributed equity

(a) Share capital

| | NBN Group | | NBN Group | |
|--|-------------------------------------|-------------------------------------|------------------------|------------------------|
| | 30 June 2010 Number of Shares | 30 June 2009 Number of Shares | 30 June 2010 \$'000 | 30 June 2009 \$'000 |
| Share capital | | | | |
| Ordinary shares <i>Fully paid</i> | 312,000,010 | 10,000,010 | 312,000 | 10,000 |
| Total consolidated contributed equity | | | 312,000 | 10,000 |

10. Contributed equity (continued)

(b) Movements in ordinary share capital

| Date | NBN Group | | NBN Group | |
|--|------------------|--------------------|-------------|--------------------|
| | Details | Number of shares | Issue price | |
| | | Shares | \$ | \$ |
| 25 June 2009 | Equity injection | 10 | 1.00 | 10 |
| 30 June 2009 | Equity injection | 10,000,000 | 1.00 | 10,000,000 |
| 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 |
| Total consolidated contributed equity | | 312,000,010 | | 312,000,010 |

(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.

11. Accumulated losses

Movements in accumulated losses were as follows:

| | NBN Group | |
|---------------------------|--------------------------------------|---|
| | Year ended 30 June 2010 \$'000 | For the period 9 April 2009 to 30 June 2009 \$'000 |
| Balance at 1 July | (139) | - |
| Net (loss) for the year | (79,835) | (139) |
| Balance at 30 June | (79,974) | (139) |

12. Remuneration of auditors

| | NBN Group | |
|---|--------------------------------------|---|
| | Year ended 30 June 2010 \$'000 | For the period 9 April 2009 to 30 June 2009 \$'000 |
| Australian National Audit Office | | |
| Audit of annual financial reports | 75 | 4 |
| Total remuneration for audit | 75 | 4 |

13. Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

| | NBN Group | |
|---|------------------------|------------------------|
| | 30 June 2010 \$'000 | 30 June 2009 \$'000 |
| <i>Property, plant and equipment</i> | | |
| Payable: | | |
| Within one year | 53,815 | - |
| Later than one year but not later than five years | 52,411 | - |
| Later than five years | 1,950 | - |
| Total | 108,176 | - |
| <i>Intangible assets</i> | | |
| Payable: | | |
| Within one year | 8,505 | - |
| Later than one year but not later than five years | 2,795 | - |
| Later than five years | - | - |
| Total | 11,300 | - |

The above figures exclude GST.

13. Commitments (continued)

(b) Lease commitments

Non-cancellable operating leases

The Group leases various offices under non-cancellable operating leases expiring within two to ten years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

| | NBN Group | |
|--|------------------------|------------------------|
| | 30 June 2010 \$'000 | 30 June 2009 \$'000 |
| Commitments for minimum lease payments in relation to non cancellable operating leases are payable as follows: | | |
| Within one year | 6,383 | - |
| Later than one year but not later than five years | 26,169 | - |
| Later than five years | 24,254 | - |
| Total | 56,806 | - |

The above figures exclude GST.

(c) Other non-capital commitments

The Group has a contract in place for the provision of agreed services.

| | NBN Group | |
|---|------------------------|------------------------|
| | 30 June 2010 \$'000 | 30 June 2009 \$'000 |
| Commitments in relation to a service contract are payable as follows: | | |
| Within one year | 5,470 | - |
| Later than one year but not later than five years | 15,630 | - |
| Later than five years | - | - |
| Total | 21,100 | - |

The above figures exclude GST.

14. Key Management Personnel

| | NBN Group | |
|------------------------------|------------------------|------------------------|
| | 30 June 2010 \$'000 | 30 June 2009 \$'000 |
| Short term employee benefits | 6,643 | - |
| Post-employment benefits | 290 | - |
| Long-term benefits | 4 | - |
| Total | 6,937 | - |

15. Contingent Assets and Liabilities

Funding

In June 2010 the shareholders confirmed that they would make available such funding as is necessary to ensure NBN Co's obligations under its contracts can be met as and when they fall due up to a total of \$2.139 billion. This included \$350 million that was received in July 2010 and a further \$350 million to be drawn down in December 2010.

The exact timing and quantum of Federal Government funding for NBN Co will be determined after the Government has formally responded to the Implementation Study and after finalisation of the Definitive Agreements with Telstra.

Telstra

NBN Co and Telstra Corporation Limited (Telstra) announced on 20 June 2010 that a non-binding Financial Heads of Agreement (FHoA) had been entered into that would provide access to certain Telstra facilities (comprising ducts, pits, lead-in conduits, exchange space, dark fibre and managed transition services) and the progressive migration of Telstra traffic onto the National Broadband Network. The agreement for these terms has been attributed an approximate net present value after tax of \$9 billion by Telstra from the payments to be made over time by NBN Co. Separately, the Federal Government has agreed to progress public policy reforms with an attributed value by Telstra of approximately \$2 billion.

The transaction would see Telstra progressively migrate its voice and broadband traffic from its copper and cable networks to NBN Co's network as it is rolled out. Payments would be made progressively to Telstra.

The FHoA provides the framework for definitive agreements to be negotiated over the coming months. Should these agreements be finalised, NBN Co expects they would be put to Telstra shareholders in the first half of 2011.

15. Contingent Assets and Liabilities (continued)

In addition to requiring Telstra shareholder approval, the FHoA has a range of conditions, including the passage of necessary enabling legislation and approval from the Australian Competition and Consumer Commission (ACCC). Accordingly, there can be no guarantee at this time that the transaction will progress to completion.

The Federal Government has also committed to providing to Telstra, in conjunction with the Definitive Agreements, a guarantee for the financial obligations of NBN Co until NBN Co is fully capitalised.

16. Related party transactions

(a) Parent entity

The parent entity within the Group is NBN Co Limited.

(b) Subsidiaries

The interest in the subsidiaries is set out in note 19.

(c) Transactions with related parties

The following transactions occurred with related parties:

| | NBN Group | |
|--|--------------------------------------|---|
| | Year ended 30 June 2010 \$'000 | For the period 9 April 2009 to 30 June 2009 \$'000 |
| <i>Equity injections</i> | | |
| Equity injected by the Commonwealth of Australia into NBN Co Limited (Refer to note 10) * | 312,000 | 10,000 |
| <i>Investments</i> | | |
| Investment made by NBN Co Limited (Parent) in NBN Tasmania Limited | 100,000 | - |
| <i>Other transactions</i> | | |
| Payment for the provision of professional services to the Department of Broadband, Communications and the Digital Economy* | 250 | - |

* NBN Co Limited is wholly owned by the Commonwealth of Australia.

16. Related party transactions (continued)

(d) Amounts to/from related parties

| | NBN Group | |
|--|--------------------------------------|---|
| | Year ended 30 June 2010 \$'000 | For the period 9 April 2009 to 30 June 2009 \$'000 |
| Intercompany account (Between NBN Co Limited (Parent) and NBN Tasmania Limited) | | |
| Beginning of the year | - | - |
| Amounts advanced to NBN Tasmania | 11,788 | - |
| Amounts repaid by NBN Tasmania | (11,660) | - |
| Amounts received from NBN Tasmania | (65,000) | - |
| Net interest paid to NBN Tasmania | (405) | - |
| End of the year | (65,277) | - |

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

| | NBN Group | |
|--|--------------------------------------|---|
| | Year ended 30 June 2010 \$'000 | For the period 9 April 2009 to 30 June 2009 \$'000 |
| Total comprehensive (loss) for the year | (79,835) | (139) |
| Add: non cash item | | |
| Depreciation | 207 | - |
| (Increase)/decrease in assets | | |
| (Increase) in GST receivable | (2,233) | (14) |
| (Increase) in prepayments | (3,096) | - |
| (Increase) in interest receivable | (697) | - |
| (Increase) in rental deposits | (132) | - |
| Increase/(decrease) in liabilities | | |
| Increase in trade payables | 1 | - |
| Increase in accruals | 14,164 | 153 |
| Increase in other payables | 1,320 | - |
| Net cash (used in) operating activities | (70,302) | - |

18. Risk Management

(a) Financial instruments

| | NBN Group | |
|--|------------------------|------------------------|
| | 30 June 2010 \$'000 | 30 June 2009 \$'000 |
| Financial assets | | |
| Cash and cash equivalents | 212,330 | 10,000 |
| Interest receivable | 697 | - |
| Other receivables | 132 | 14 |
| Carrying amounts of financial assets | 213,159 | 10,014 |
| Financial liabilities | | |
| Trade payables and accruals | 26,194 | 153 |
| Carrying amounts of financial liabilities | 26,194 | 153 |

(b) Net income and expenses from financial assets and liabilities

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

(c) Fair value of financial instruments

Fair value approximates the carrying values.

(d) Credit risk exposures

The 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.

(e) Liquidity risk

The Group's financial liabilities are payables and provisions. The Group's capacity to meet its liabilities arises from its commitment by the Commonwealth Government described in note 15.

The following table illustrates the maturities for financial liabilities:

| | On demand | Within 1 year | 1 to 5 years | Greater than 5 years | Total 2009 |
|-----------------------------|---------------|---------------|--------------|-------------------------|---------------|
| Trade payables and accruals | 26,194 | 26,194 | - | - | 139 |
| Other payables | 1,304 | 1,304 | - | 16 | - |
| Total | 27,498 | 27,498 | - | 16 | 139 |

18. Risk Management (continued)

(f) Interest rate risk

The only interest bearing items are cash and cash equivalents.

19. 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</i> |
|-----------------------|---------------------------------|------------------------|-----------------------|
| NBN Tasmania Limited | Australia | Ordinary | 100% |

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

20. Events occurring after the reporting period

An equity injection of \$350 million was received in July 2010.

No other matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations, the results of these operations or state of affairs of the Group in subsequent financial years.

21. Parent entity disclosures

(a) Balance sheet

| | Company | |
|-------------------------------|------------------------|------------------------|
| | 30 June 2010 \$'000 | 30 June 2009 \$'000 |
| Assets | | |
| Total current assets | 200,948 | 10,014 |
| Total Non-current assets | 120,895 | - |
| Total assets | 321,843 | 10,014 |
| Liabilities | | |
| Total current liabilities | 88,715 | 153 |
| Total Non-current liabilities | 16 | - |
| Total liabilities | 88,731 | 153 |
| Equity | | |
| Contributed equity | 312,000 | 10,000 |
| (Accumulated losses) | (78,888) | (139) |
| Total equity | 233,112 | 9,861 |

21. Parent entity disclosures (continued)

(b) Statement of comprehensive income

| | Company | |
|-----------------------------------|--------------------------------------|---|
| | Year ended 30 June 2010 \$'000 | For the period 9 April 2009 to 30 June 2009 \$'000 |
| (Loss) for the period | (78,749) | (139) |
| Total comprehensive (loss) | (78,749) | (139) |

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

| | Company | |
|---|------------------------|------------------------|
| | 30 June 2010 \$'000 | 30 June 2009 \$'000 |
| Payable: | | |
| Within one year | 50,106 | - |
| Later than one year but not later than five years | 48,794 | - |
| Total | 98,900 | - |

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

No guarantees have been entered into by the parent entity in relation to debts of its subsidiary.

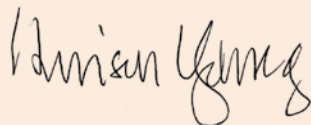
(e) Contingent liabilities of the parent entity

The contingent assets and liabilities disclosed in note 15 all relate to the parent entity.

Directors' Declaration

- 1) In the opinion of the directors of NBN Co Limited (the Company):
 - a) The consolidated financial reports as set out on pages 37 to 65, are in accordance with the Corporations Act 2001, including:
 - i) Giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the financial year ended on that date: and
 - ii) Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - b) There are reasonable grounds to believe that the Company and the Group entities will be able to pay their debts as and when they become due and payable.
- 2) The directors draw attention to Note 1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:



Harrison Young

Chairperson



Mike Quigley

CEO & Executive Director

5 October 2010

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

To the members of NBN Co Limited

I have audited the accompanying consolidated financial report of NBN Co Limited and NBN Tasmania Limited (the Group), which comprises the Balance Sheet as at 30 June 2010, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, Notes to the Financial Report including a Summary of Significant Accounting Policies, and the Directors' Declaration. The Group comprises NBN Co Limited and the entities it controlled at the year's end or from time to time during the financial year.

The Directors' Responsibility for the Financial Report

The directors of NBN Co Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report complies with *International Financial Reporting Standards*.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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Independent Auditor's Report (continued)

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*. I confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of NBN Co Limited on 30 September 2010, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion

In my opinion:

- (a) the consolidated financial report of NBN Co Limited and NBN Tasmania Limited (the Group) is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Australian National Audit Office



Michael J. Watson
Group Executive Director
Delegate of the Auditor-General
Canberra
6 October 2010



NBN Co Limited Annual Report 2009–2010

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