



Australia's
broadband
network

Annual Report 2014-15







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The financial statements were authorised for issue by the Board of Directors on 17 August 2015. The Directors have the power to amend and reissue the financial statements.

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nbn co limited
Level 11, 100 Arthur Street
North Sydney NSW 2060
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Date

This annual report is for the year ended 30 June 2015.

Glossary

Defined terms within this annual report should be read in conjunction with the Glossary on pages 144 to 151.





About nbn

Established in 2009, nbn co limited (**nbn** or the Company) is owned by the Commonwealth of Australia. **nbn's** key objective is to ensure all Australians have access to very fast broadband as soon as possible, at affordable prices and at least cost to taxpayers.

To achieve this objective, the **nbn**[™] network has been structured as a wholesale-only access network available on equivalent terms to all access seekers. This is intended to level the playing field for Australian telecommunications and create real and vibrant competition within the industry.

nbn is a Government Business Enterprise (GBE) incorporated under the *Corporations Act 2001* and operated under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), which superseded the *Commonwealth Authorities and Companies Act 1997* (CAC Act) on 1 July 2014.





nbn's objectives and purpose

Statement of Expectations

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

The SoE also provides, among other things, that:

- To minimise cost and increase speed of deployment, the rollout should allow for an Optimised Multi-Technology Mix model;
- The design of the network will be guided by the Government's policy objectives of providing access to download data rates of at least 25 megabits per second* (Mbps) to all premises and at least 50 Mbps* to 90 per cent of fixed line premises as soon as possible;
- The **nbn™** network is intended to be a wholesale-only access network, available on equivalent terms to all access seekers; and
- **nbn** has flexibility and discretion in operational, technology and network design decisions, within the constraints of a public equity capital limit of \$29.5 billion.

* The **nbn™** network is being designed to provide these peak speeds to **nbn's** retail service providers at **nbn's** network boundary. End-user experience, including the speeds actually achieved over the **nbn™** network, depends on the technology over which services are delivered to premises and some factors outside **nbn's** control, such as end-user equipment quality, software and retail broadband plans, and how the retail service provider designs its network.

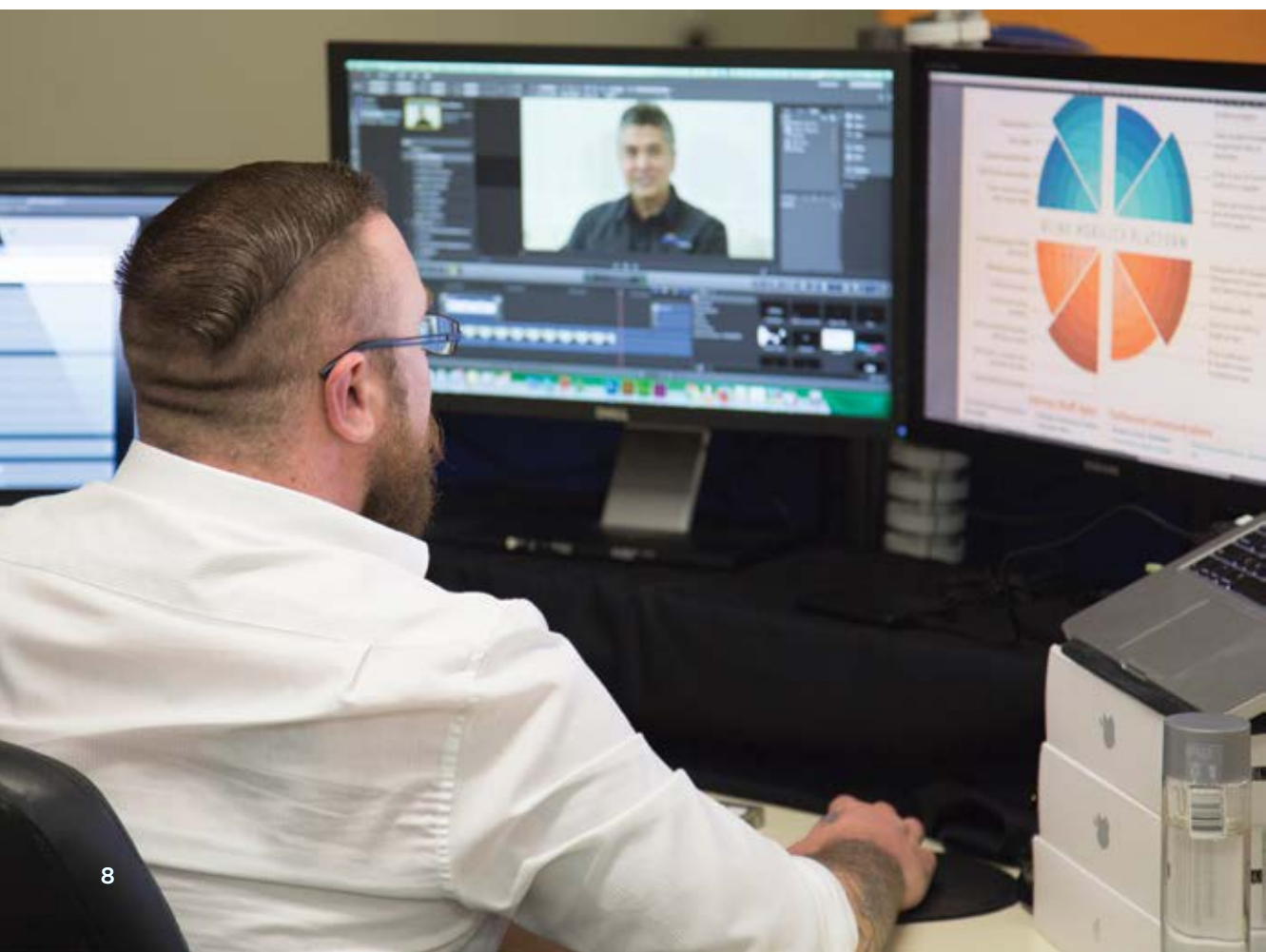
Purpose: connect Australia, bridge the divide

The primary role of **nbn** is to enable Australia's greater participation in the digital economy and to help bridge the digital divide - between young and old, city and country, and between Australia and the rest of the world.

At a time when Australia is undergoing fundamental shifts, including an ageing population and evolving economic conditions, **nbn** is delivering vital infrastructure investment, transforming the way business operates and the way we live our lives:

- Direct benefits are already apparent in areas such as commerce, including applications that reduce administration costs and cloud technologies that can reduce IT spending;
- National public benefits are arising from innovations in e-government, health and the environment. Furthermore, online resources and online learning are opening up greater educational opportunities for our students;
- Indirect benefits include greater social inclusion and equal opportunity; and
- Benefits will flow from new applications and ways of working that are yet to be invented.





KEY highlights in FY2015

Telecommunications
revenue

**\$161
million**

2.7 × FY2014

Premises activated

+131%

against FY2014
to 485,615

More than

1 million

premises serviceable

Major agreements

signed

with Telstra
and Optus

Customer
experience
metric rating

6.6

out of 10

52

retail service
providers
signed up

Employee
engagement score

51%

+7 percentage
points against
FY2014



GULGONG



Chairman and Chief Executive Officer's message

This has been a year of important progress in the delivery of better broadband across Australia with the achievement by the Company of its annual rollout targets.

Around one in 10 Australian premises is now able to order an **nbn**[™] service. This represents a doubling compared to the previous year. Of the premises within our expanding network, nearly half are now active on the **nbn**[™] network, buying products from one of 52 registered retail service providers.

This represents significant progress over the past 12 months. Nevertheless, the Company acknowledges there remains much to be done to meet its overall goals.

Our achievements are set against the background of the rapid transformation of the global telecommunications market and the way in which families and businesses are consuming broadband services.

Factors such as the increasing popularity of video streaming services are delivering a step change in the use and volume of data. It is estimated that 100 million homes subscribe to these so-called over-the-top video products globally, with the market set to double in the next five years. Widespread storing of information in the cloud is also putting a premium on upload speeds and influencing the design of our network.

As a result of this increasing data usage, the global technology company Cisco forecasts that consumption will rise threefold by 2019 to 136 Exabytes per month.* What may surprise the casual observer of the Australian telecommunications debate is that the overwhelming bulk of data transmitted locally is done so over existing telecommunications networks.

* Source: Cisco Visual Networking Index 2015.

Advances in technology, such as the Data Over Cable Service Interface Specification (DOCSIS) 3.1, enable broadband providers to deliver faster speeds and increased capacity over existing infrastructure, thereby negating the need to spend additional time and money overbuilding it with fibre optic cable.

Momentum and progress

Among the critical achievements of the Company in the period were the renegotiation of the agreements with SingTel Optus (Optus) and Telstra for the progressive acquisition and/or use of certain elements of their network assets, as well as the successful negotiation of new construction contracts that deliver flexible volume commitments, competition between delivery partners and pricing based on outcomes instead of complicated schedule inputs.

Taken together, these achievements put **nbn** in a solid position to move from a linear growth curve to an exponential one to meet the Government's objective of ensuring every home and workplace in Australia can receive high speed broadband by 2020.

Indeed, the Company is already well advanced in the transition to the Multi-Technology Mix rollout model. The commercial launch of the first of the additional technologies – Fibre-to-the-Basement – occurred during the year. By 30 June 2015, the plan or construction work began for the first 780,000 premises earmarked to receive fast broadband by means of Fibre-to-the-Node. The Company also conducted a successful trial of Hybrid Fibre Coaxial (HFC) technology, procured HFC equipment and outlined a blueprint to upgrade the entire HFC footprint to the DOCSIS 3.1 standard, which is capable of delivering gigabit speeds.

Outside the fixed line footprint, the **nbn**[™] satellite service took a considerable step forward, with the first of the two satellites passing key testing procedures and being cleared for launch into orbit in the first half of FY2016. The fixed wireless network has also scaled significantly this past year, with 429 sites acquired servicing 268,397 homes and businesses.

These two networks, providing high speed broadband access for rural, regional and remote communities, are increasingly viewed around the world as among the most advanced applications of technology to deliver high speed broadband to areas unsuited for fixed line services.

To that end, the Company repositioned the **nbn**[™] brand, moving away from the image of a utility function to that of a visionary company that can deliver positive benefits for every Australian. It is expected that this will materially help drive activations and therefore bring forward revenue.

Vision and challenge for the future

These results are testament to the efforts of everyone in the Company to bring about an improvement in business processes and the collective culture of the organisation and thereby deliver in terms of performance. The Board and management wish to commend each and every employee for their efforts. Employee engagement and organisational culture are core priorities of **nbn's** leaders.

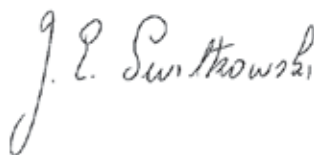
Of course, there are still many challenges inherent in upgrading the fixed line telecommunications capabilities of an entire continent. Not least is the requirement to build and deploy complex IT capabilities and the need to achieve aggressive rollout and activation targets.

It is for these reasons the Company remains committed to driving ongoing improvements in its operations, to creating a world-best place to work, and to enhancing the experience of customers and end users.

The benefits and opportunities presented by the **nbn**[™] network are becoming ever more apparent, with new possibilities continuing to emerge in the delivery of health, education, commerce and entertainment services.

The task of the Company and its management, under the guidance of the Board, is clear: the faster we can roll out the network, the sooner customers can benefit from fast and reliable broadband. The sooner customers connect, the sooner we can accrue revenue and start paying back the taxpayers' investment in Australia's largest infrastructure rollout.

The Board and management of **nbn** commend this annual report to **nbn's** shareholder as well as the ultimate owners and beneficiaries of Australia's broadband network - the citizens of Australia.



Dr Ziggy Switkowski AO
Chairman



Bill Morrow
Chief Executive Officer

17 August 2015





Directors' report

The Directors of the Company present their report on **nbn** and its subsidiaries (the Group or the **nbn** Group), together with the consolidated financial statements of the Group for the year ended 30 June 2015 and the auditor's report thereon.

The principal activities of the Group are to build and operate the **nbn**[™] network, which has been structured as a wholesale-only access network available on equivalent terms to all access seekers.

Operating and financial review

Our operating model – building and operating a very fast broadband network for all Australians

nbn is focused on delivering the **nbn**[™] network by 2020 at least cost to taxpayers, thereby delivering access to very fast broadband to all Australians as soon as possible, and at affordable prices.

As a result of the Strategic Review conducted in 2013, the **nbn**[™] network was redesigned on an outcome basis, rather than a specific technology basis, and as a result **nbn** moved from primarily a Fibre-to-the-Premises (FTTP) model to a Multi-Technology Mix (MTM) model. The Strategic Review found that moving to the MTM model would save overall costs by maximising the use of existing infrastructure, which in turn would reduce the rollout timeframe. Some parts of the **nbn**[™] network are already built, operational and earning revenue; other parts are still being designed and piloted prior to mass rollout.

The MTM deployment comprises FTTP, Fibre-to-the-Node (FTTN), Fibre-to-the-Basement (FTTB), Hybrid Fibre Coaxial (HFC) (together referred to as Fixed Line), Fixed Wireless and Satellite networks. An explanation on each technology is set out below.

FTTP is a network design in which the fibre network is deployed to each premises. It involves connecting end user's premises with an optical fibre cable.

FTTB, which was commercially launched in 2015, is a network design in which the fibre network is deployed to the basement or communications room of a building (such as multi-dwelling units) with existing wiring used to connect individual premises.

FTTN is a network design in which the fibre network is deployed to the node (i.e. a VDSL cabinet), while existing copper lines are used for the connection between the node and the end user's premises. The acquisition of elements of Telstra's copper network is crucial to the FTTN architecture, and commercial launch at scale is planned in FY2016.

The **HFC** network uses both optical fibre and coaxial cable for the delivery of pay-TV, internet and voice services. The HFC network will be built via the acquisition and augmentation of elements of the Telstra and Optus HFC networks. The initial launch of the HFC network is planned for late FY2016.

Fixed Wireless connects end user's premises through wireless signals between active equipment on a base transmission station (base station) and active equipment in the end user's premises. Network traffic is connected from the base station hubs to the edge of the transit network via underground fibre. The fixed wireless rollout is managed through a turnkey delivery contract with Ericsson as the contractor.

Satellite is currently offered through an Interim Satellite Service (ISS), awaiting **nbn's** Long Term Satellite Service (LTSS). The ISS is provided as a managed service through satellites operated by Optus and IPSTAR. The LTSS program is currently in the final stages of the build phase. FY2015 was dedicated largely to testing and preparing for the planned launch of the first satellite in the first half of FY2016, and for commercial services to commence in the second half of FY2016.

The **Transit** network provides the core site, transport and network capability required to deliver all the above networks. The transit program is ongoing and delivers sites, racks, and power within sites, capacity between sites and aggregation of all access types for common hand off to retail service providers (RSPs).

As of October 2014, all planned 121 Points of Interconnect (POI) were completed, and RSPs are now able to connect to all Fibre Access Node sites.

While largely rolled out, the shift to the MTM model presents new requirements, which **nbn** is working on, to support the access technologies. **nbn** will need to continue building the transit network in coming years to support the rollout of HFC and to augment the **nbn**TM network as capacity demand continues to grow from end users.

Revised agreements with Telstra and Optus

The revised strategic agreements with Telstra and Optus play an important role in the MTM model as they will enable the nbnTM network to roll out faster and at a lower cost, while maintaining future flexibility.

Following the completion of the Strategic Review, **nbn** entered into negotiations with Telstra and Optus for the progressive acquisition and/or use of certain elements of their network assets required to deliver the MTM model.

On 14 December 2014, **nbn** signed revised agreements, subject to various conditions precedent, with Telstra (the Revised Definitive Agreements (RDAs)) and Optus (the Revised HFC Subscriber Agreement). These revised agreements enable **nbn** to progressively take ownership of elements of Optus' and Telstra's HFC networks and Telstra's copper network.

On 26 June 2015, all of the conditions precedent to the RDAs between **nbn** and Telstra were satisfied or waived. This followed the approval of Telstra's revised Migration Plan by the Australian Competition and Consumer Commission (ACCC). In addition to the progressive acquisition of elements of Telstra's HFC and copper networks, the RDAs continue to provide **nbn** with access to certain Telstra infrastructure, comprising ducts, pits, lead-in conduits (ownership of the lead-in conduits transfers to **nbn**), exchange rack space and dark fibre. The RDAs also continue to require Telstra to progressively disconnect premises connected to its copper and HFC networks (subject to exceptions for certain copper based services and pay-TV services provided over parts of the spectrum on the HFC network).

The Revised HFC Subscriber Agreement with Optus is subject to a number of conditions precedent, which **nbn** expects will be satisfied in the first half of FY2016. In addition to the acquisition of elements of Optus' HFC network, which will be used as an access technology as part of the overall design of the MTM rollout where it is efficient and/or cost effective to do so, the Revised HFC Subscriber Agreement continues to require Optus to progressively migrate HFC customers to the **nbn**TM network as it is rolled out.

Key nbn functions

The following organisational groups and functions are instrumental to the success of the **nbn**[™] network rollout.

Customer and Commercial

The primary role of Customer and Commercial is to enable access to the **nbn**[™] network through the delivery of wholesale products and services to RSPs, which then make them available to residential and business end users.

The team develops marketing and promotional campaigns to engage with industry and end users to promote awareness of the **nbn**[™] network. The team also manages relationships with the RSPs and engages with industry to incorporate feedback on the technical, operational and commercial aspects of its product development and delivery program.

Network Engineering and Deployment

The Network Engineering and Deployment group is responsible for planning, designing and building the **nbn**[™] network by 2020. **nbn**'s mandate is to deliver the **nbn**[™] network using the most appropriate and cost effective technology, including FTTN, FTTP, FTTB, HFC, Fixed Wireless and Satellite networks.

Industry Management

The focus of Industry Management is to enable the organisation to move from an FTTP environment to an MTM environment and to scale the industry accordingly.

The team liaises with a variety of stakeholders – including delivery partners and training institutions – to build an up-skilling and training program to ensure there is a capable and sustainable workforce to meet the needs of the MTM rollout.

Network and Service Operations

Network and Service Operations (NSO) is responsible for connecting all Australians to the **nbn**[™] network by 2020 and for the operation and maintenance of the network. NSO interacts with a wide range of delivery partners and suppliers across all access technologies.

The team operates and maintains the network to ensure high performance and to support service activations, manages operational interactions with RSPs and end-user enquiries.

Information Technology

The key objective of Information Technology (IT) is to enable the flow of information through **nbn**, enabling operational activities from network build to customer activations and network monitoring.

The team builds and maintains the infrastructure required to deliver the data flow needs of the whole business, as well as integration with RSPs and delivery partners.

Human Resources

The primary role of Human Resources (HR) is to make **nbn** a great place to work, and to attract and retain talent that can make a significant contribution to the achievement of **nbn's** goals.

nbn's head count at 30 June 2015 was 3,604 (2014: 2,932). The average tenure of the workforce was 27.9 months (2014: 25.2 months) and the average age was 41.6 years (2014: 40.7 years). **nbn** employs 1.5 per cent of its workforce on a part-time basis (2014: 1.4 per cent).

Health, Safety and Environment

Health, safety and sustainability are at the heart of the way **nbn** operates.

The primary role of Health, Safety and Environment (HSE) is to provide a safe and healthy working environment for **nbn's** employees, contractors and visitors to its workplaces, taking all reasonable steps to control hazards and minimise risk.

nbn requires its delivery partners to comply with all applicable laws and regulations in relation to their work on the **nbn**TM network.



Our goal and strategy

The ultimate purpose of **nbn** is to connect all Australians to very fast broadband, bridging the current digital divide between Australians, and between Australia and other advanced economies worldwide. Our goal is to activate eight million homes and businesses by 2020. To fulfil this goal, **nbn** has five strategic imperatives.

Our strategy is underpinned by our strong corporate values.

Strategic imperative: Build a high-performance and reliable network

Build a high-performance and reliable network with our RSPs that delivers modern internet access and experience

The benefits of the **nbn**[™] network can only materialise if it is fast and reliable.

Therefore, **nbn** is building new infrastructure and modernising existing infrastructure to improve the performance and reliability of the network. All the technologies being used in the **nbn**[™] network have the potential to be upgraded to deliver even faster speeds and greater capacity when consumer demand calls for it.

Strategic imperative: Build the processes and systems

Build processes and systems where efficiency and effectiveness are optimised to keep cost low and output high

Efficiency and effectiveness are essential to deliver a very fast broadband network at affordable prices and at least cost to taxpayers. To that effect, **nbn** continues to invest in operational capabilities and in revamping internal processes.

Significant investments in internal processes include the creation of a transformation program, which drives the progress of the most critical initiatives required to scale the business, while improving key business capabilities and processes.

Strategic imperative: Build a united partnership

Build a united partnership where our vendors, delivery partners and RSPs work alongside us and share in our success

Delivery partners

Building, upgrading and maintaining a very fast broadband network requires partnerships with strong and resilient delivery partners that have capacity and can deliver the quantum and quality of work required when it is needed.

Underpinning this imperative is the establishment of new design and construction master contracts with delivery partners, which are simplified and provide longer term commitments and mechanisms to reward high performance with volume increases and new work areas.

Retail service providers

The **nbn**TM network is only accessible to end users via the RSPs, which have a critical role in driving and meeting demand.

nbn maintains an Integrated Product Roadmap that sets out the expected release of product capabilities over the next three years.

Strategic imperative: Build affordable products and services

Build affordable products and services where our RSPs connect all Australians regardless of socio-economic status or location

Affordability is important to drive end-user take-up and therefore extend the benefits of very fast broadband to the maximum number of Australians. At the core of affordability, the MTM model leverages existing networks where possible to reduce costs.

nbnTM products are constructed and priced in a way that encourages migration from legacy services and promotes inclusiveness for all Australians, regardless of their location and access technology.

Through its non-discriminatory pricing, **nbn** also enables retail competition, creating choice and affordability for end users.

Strategic imperative: Make nbn a great place to work

*Make **nbn** a great place to work, where people flourish and results exceed expectations*

The key to attracting and retaining talent is to make **nbn** a great place to work.

nbn is building a high-performance culture where individuals are empowered to make a significant contribution, take personal accountability for the delivery of business objectives and thrive on the experience of working at **nbn**.

Our performance: nbn has made progress during FY2015 towards its 2020 strategic goals

nbn's performance against rollout and operational milestones is reported weekly to the Shareholder Ministers and are publicly available on nbn's website. These are the key performance indicators used to monitor the progress of the rollout. Monthly reports are provided to the Board of Directors and Shareholder Ministers. Quarterly financial statements and operational briefings are made public.

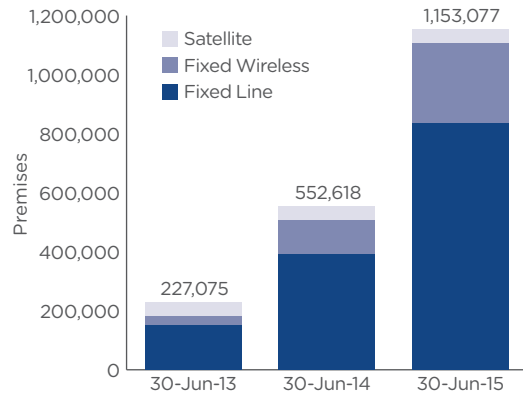
We set out in our 2014-2017 Corporate Plan the following financial and non-financial goals (by 2020). We comment below on our performance against each of those goals for FY2015.

Progress against our goal – 8 million homes and businesses activated by 2020

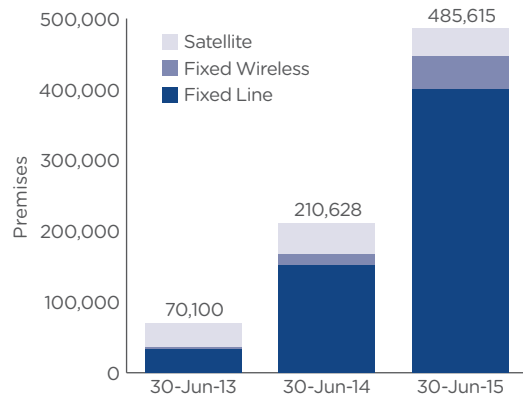
nbn has remained committed to the continued rollout of the high-performance and reliable nbn™ network across Australia and its objective to have 100 per cent of premises serviceable and eight million premises activated by 2020.

In a year marked by significant acceleration of the nbn™ network rollout, substantial headway in the transition to the MTM model was accomplished. In FY2015, we continued to roll out the nbn™ network exponentially, reaching a historic milestone of more than one million premises serviceable across the country. This means that around one in 10 Australian premises is now able to order an nbn™ service from one of our RSPs.

Cumulative premises serviceable



Cumulative premises activated



Fixed Line: During FY2015, a further 444,270 premises were made serviceable, more than doubling the FTTP footprint year-on-year, and resulting in a total of 836,680 premises serviceable as at 30 June 2015.

Rapid take-up of **nbn**[™] services from RSPs saw more than a twofold increase in the number of premises activated compared to FY2014. This has resulted in the total number of premises with an active **nbn**[™] network fixed line service reaching 399,854 as at 30 June 2015. The construction on the FTTP program will continue concurrently as work to build the FTTN component of the **nbn**[™] network accelerates.

The Company is tracking to meet the anticipated launch of the FTTN commercial product in FY2016. This follows a successful end-user pilot in Belmont, NSW. One customer, located just over 400 metres from the node, achieved Layer 1 speeds of over 100 megabits per second (Mbps) download[†] and 41 Mbps upload[†], with many others achieving similar speeds.

The first of the MTM commercial products, FTTB, was launched in March 2015. FTTB allows **nbn** to accelerate the rollout of broadband services to apartment complexes and high-rise buildings.

During FY2015, a specialised HFC division was established to focus on one of the key fixed line technologies to be deployed under the MTM model. A significant deal was signed with US supplier ARRIS Group to upgrade the Telstra and Optus HFC networks with new equipment that will provide faster speeds.

Utilising this technology, a capability demonstration was undertaken in Blacktown, NSW to test the network speed. In March 2015, **nbn** announced a trial designed to test construction processes to connect homes passed by the HFC network, where a connection currently does not exist, as well as to improve network capacity and the broadband speeds consumers may receive.

Fixed Wireless network: Outside the fixed line footprint, the rollout of the fixed wireless program accelerated significantly, with the number of premises serviceable more than doubling to 268,397 during FY2015. Over the same period, there was a nearly threefold increase in the number of end users activated on the fixed wireless network, to 47,473 premises. In May 2015, **nbn** launched a nationwide pilot designed to enable faster wholesale 25-50 Mbps* download and 5-20 Mbps* upload speeds. During FY2015, **nbn** acquired 429 wireless sites and integrated 628 base stations, bringing the cumulative total to 1,434 sites and 1,085 base stations as at 30 June 2015.

Satellite network: Building of the 10 satellite ground stations was completed during the year. These facilities will support the delivery of satellite services to rural and regional Australia, with the first of our two best-in-class satellites due to be launched in the first half of FY2016. Over time, customers on the ISS (38,288 as 30 June 2015) will be migrated to the superior LTSS.

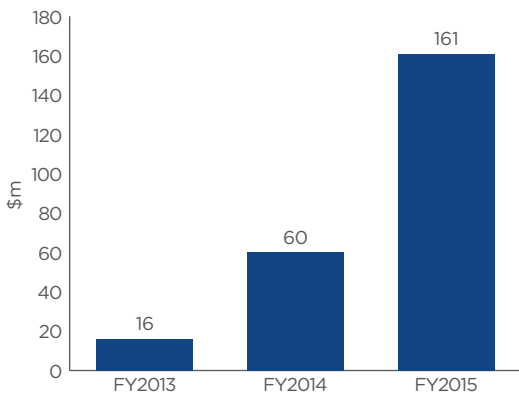
[†] **nbn** provides services to its wholesale customers, telephone and internet service providers, and does not provide services directly to end users. These speeds were achieved by the end user in the context of a pilot and are not necessarily reflective of the speeds that will be experienced by end users. End-user experience, including the speeds actually achieved over the **nbn**[™] network, depends on the technology over which services are delivered to premises and some factors outside **nbn**'s control, such as end-user equipment quality, software and retail broadband plans, and how the retail service provider designs its network.

* The **nbn**[™] network is being designed to provide these peak speeds to **nbn**'s retail service providers at **nbn**'s network boundary. End-user experience, including the speeds actually achieved over the **nbn**[™] network, depends on the technology over which services are delivered to premises, and some factors outside **nbn**'s control, such as end-user equipment quality, software and retail broadband plans, and how the retail service provider designs its network.

Progress against our goal - Annual revenue of \$4 billion by 2020

nbn continues to increase the number of premises activated, driving exponential year-on-year growth in revenue. During FY2015, telecommunications revenue grew 168 per cent to \$161 million, with average revenue per user (ARPU) increasing by \$3.11 to \$40.45.

Telecommunications revenue



Progress against our goal - Efficient use of Government funding to build the nbn™ network

nbn remains focused on building the nbn™ network in the most efficient and cost effective way. At 30 June 2015, total funding received from the Australian Government was \$13,185 million (2014: \$8,418 million).

nbn has continued to invest in capabilities that enable a faster rollout of the nbn™ network at least cost to taxpayers.

Progress against our goal - Customer experience metric (CEM) rating of at least 8 by 2020

The customer experience metric (CEM) is a measure of retail and wholesale service provider customers' feelings about working with nbn. While nbn is committed to deploying the nbn™ network efficiently, we also have a strong focus on ensuring the satisfaction of nbn customers is maintained throughout the process.

nbn achieved a CEM rating of 6.6 out of 10 in June 2015 (2014 result: 6.4). The increase in the CEM rating is largely attributable to the strengthening of nbn's delivery plan and increased engagement with RSPs. The Company remains committed to better enhancing its customer experience.

Progress against our goal - nbn is the best place to work

nbn had a strong participation rate of 90 per cent in the most recent employee engagement survey conducted during the year (2014: 80 per cent) and achieved an engagement score of 51 per cent (2014: 44 per cent). This represents a significant improvement in employee satisfaction.

Management is using the findings of this survey to improve nbn's culture.

nbn is focused on maintaining a high employee retention rate, with an 87 per cent retention rate achieved for 2015 (2014: 91 per cent).

Outlook

The planned implementation of the revised agreements with Telstra and Optus signed in December 2014, and commercial launches of the FTTN, HFC and LTSS programs planned for FY2016 are expected to accelerate the network rollout over the coming years.

Activations to the **nbn**TM network are driven by end-user demand. The outlook for demand for broadband services continues to demonstrate encouraging growth, as end users use more data for a range of purposes and via an increasing number of connected devices, both in homes and businesses.

Risk management

nbn's Board and management are committed to proactive identification, assessment and management of material risks. The formal Risk Management Policy articulates the Company's objectives, approach and responsibilities with regard to risk management and is reviewed annually by the Audit and Risk Committee and Board.

The Audit and Risk Committee oversees the delivery and effective implementation of **nbn**'s risk management system, which identifies, assesses, monitors and assists management with the implementation of appropriate strategies to manage and mitigate risks.

nbn's Risk Management Framework is based on the Three Lines of Defence model which clarifies roles and accountabilities and incorporates an Integrated Assurance operating model across all Line Two Assurance functions. This enables a holistic and coordinated approach to the provision of assurance over risks and controls.

Risks and controls are reviewed and monitored on a regular basis. **nbn** has identified a number of risks critical to the build and operation of the **nbn**TM network, and to **nbn** meeting the Australian Government's commitments and its strategic objectives. Critical risks are reviewed, revised and reported to the Board on a bi-annual basis through the Audit and Risk Committee.

The critical risks considered most likely to affect **nbn**'s reputation and financial performance are:

- **Significant Health, Safety and Environment (HSE) event.** The HSE Management Program is not fit for purpose or experiences a material failure, resulting in a significant health, safety or environment event;

- **Ability to scale IT systems, capabilities and operational processes to meet the anticipated increase in activity, complexity and end-user connection processes to support product delivery.**
 - (a) IT systems and operational processes are unable to scale and support deployment of the MTM model or are delayed, impacting the rollout schedule, forecast revenue targets or customer experience; and/or
 - (b) End-user connection processes, including engagement with RSPs, development of product solutions, and migration and disconnection of customers, fail to support delivery of strategic objectives within timelines committed;
- **Significant reliance on any one strategic partner.** A significant dependency upon any one strategic partner may compromise nbn's ability to achieve its objectives in the event that a strategic partner fails to deliver;
- **Ability to implement the revised Telstra and Optus agreements and operate a national infrastructure network in an efficient and cost effective manner.** Material, unidentified challenges may exist in implementing commercial agreements and operating a national infrastructure network;
- **Ability to release new products to the market in a timely manner and achieve revenue realisation.** nbn is unable to achieve planned or increased average revenue per user due to inadequate products, service mix or regulatory intervention;
- **Breach of security and business disruption.**
 - (a) An attack on critical infrastructure (including nbn's active network) from a sophisticated threat agent could result in the disruption of network services, dependent services and interrupt critical communication capabilities; and/or
 - (b) Critical business disruption (including but not limited to business continuity events, supply chain disruption, IT security incidents and natural disasters) may result in the degradation of network performance, wide scale network failure or delayed rollout; and
- **Attracting and retaining critical capabilities.** Critical capabilities and resources are not recruited at the speed required to support the organisation in delivering upon its strategic objectives.

Critical risks associated with these themes are monitored on a regular basis by the Executive Team, Audit and Risk Committee and Board who review the development and implementation of key mitigation plans and actions.

Review of Group financial performance and position

Financial highlights

Key financial data for the year ended 30 June	2015 (\$m)	2014 (\$m)	2013 (\$m)
Revenue	164	61	17
EBITDA	(1,130)	(1,009)	(732)
Net loss after tax	(2,019)	(1,644)	(932)
Total assets	13,259	9,468	5,519
Contributed equity	13,185	8,418	5,228
Capital expenditure on property, plant and equipment and intangibles	3,328	2,480	1,767

For the year ended 30 June 2015, the Group generated revenue of \$164 million, a loss before interest, tax, other income, depreciation and amortisation (EBITDA) of \$1,130 million, and a net loss after tax of \$2,019 million.

At 30 June 2015, the Group had total assets of \$13,259 million, an increase of \$3,791 million compared with FY2014, driven by \$3,328 million in capital expenditure on property, plant and equipment, and intangible assets, and a \$408 million increase in assets acquired under finance leases, associated with the supply of core network infrastructure from Telstra.

During the year, **nbn** received Commonwealth Government equity injections of \$4,767 million, which were primarily used in acquiring property, plant and equipment (including network assets), and intangible assets, and in supporting operational requirements.

Group financial performance

Revenue

Total revenue for the year ended 30 June	2015 (\$m)	2014 (\$m)	2013 (\$m)
Fixed Line	93	31	5
Fixed Wireless	10	2	-
Satellite	12	12	7
Connectivity	46	15	4
Telecommunications revenue	161	60	16
Other revenue	3	1	1
Total revenue	164	61	17
Average revenue per user (ARPU) - (\$)	\$40.45	\$37.34	\$37.33

Total revenue increased by \$103 million or 169 per cent compared to FY2014.

Fixed Line: Fixed line revenue comprises revenue generated from **nbn's** access products (Access Virtual Circuit or AVC) over the FTTP network and is dependent on the number of end users on the network and the mix of speed tiers purchased by those end users. Fixed line revenue increased by \$62 million or 200 per cent compared to FY2014, driven by a 165 per cent increase in the number of end users on the FTTP network (from 151,127 to 399,854).

As at 30 June 2015, 18 per cent of **nbn's** services used a 100/40 Mbps* wholesale speed tier (30 June 2014: 20 per cent), 42 per cent used a 25/5 Mbps* wholesale speed tier (30 June 2014: 37 per cent), and 35 per cent used a 12/1 Mbps* wholesale speed tier (30 June 2014: 38 per cent).

The average AVC speed provisioned across all fixed line wholesale service was 35 Mbps*, a slight decrease of 1 Mbps* from 30 June 2014.

Fixed Wireless: Fixed wireless revenue comprises revenue generated from **nbn's** fixed wireless products, which are offered over two wholesale speed tiers 12/1 Mbps* and 25/5 Mbps*. Fixed wireless revenue increased by \$8 million or 400 per cent compared to FY2014, driven by a 187 per cent increase in the number of end users on the fixed wireless network (from 16,553 to 47,473).

As at 30 June 2015, 80 per cent of **nbn's** services used a 25/5 Mbps* wholesale speed tier (30 June 2014: 68 per cent).

Satellite: Satellite revenue comprises revenue generated from **nbn's** ISS. In FY2015, satellite revenue was consistent with FY2014. This is in line with expectations in the lead up to the launch of the purpose-built communication satellite in the first half of FY2016.

* The **nbn™** network is being designed to provide these peak speeds to **nbn's** retail service providers at **nbn's** network boundary. End-user experience, including the speeds actually achieved over the **nbn™** network, depends on the technology over which services are delivered to premises and some factors outside **nbn's** control, such as end-user equipment quality, software and retail broadband plans, and how the retail service provider designs its network.

Connectivity revenue: Connectivity revenue increased by \$31 million compared to FY2014, driven principally by higher Connectivity Virtual Circuit (CVC) revenue due to greater demand for capacity.

Average revenue per user: Across the network, revenue was generated from 485,615 active premises at a weighted average revenue per user (ARPU) of \$40.45 for FY2015 (FY2014: \$37.34). The increase in ARPU was due to the growth in active end users on higher speed tiers and greater demand for CVC capacity.

Expenditure

Expenditure for the year ended 30 June	2015 (\$m)	2014 (\$m)	2013 (\$m)
Telecommunication and network costs	535	397	182
Employee benefits expenses	410	384	324
Advisory, corporate and outsourced services	112	87	53
IT and software expenses	120	114	109
Communication and public information	28	14	14
Other expenses	89	74	67
Total operating expenditure	1,294	1,070	749
Depreciation and amortisation expense	631	435	197
Finance charges - leased assets	302	223	64
Total expenditure	2,227	1,728	1,010

Total expenditure increased by \$499 million (29 per cent) compared to FY2014, primarily driven by the following.

Telecommunication and network costs: Telecommunication and network costs increased by \$138 million compared to FY2014, to \$535 million. These costs are primarily attributable to the operation and assurance services of the access networks. These costs have increased in line with the ongoing build of the network, growth in end-user activations, and increased customer disconnection and migration costs as customers migrate from the Telstra and Optus networks.

Employee benefits expenses: Employee benefits expenses increased to \$410 million in FY2015. Employee related expenses include costs relating to nbn employees, labour hire and contractors (net of amounts that have been capitalised and included in the cost of non-current assets).

The increase in employee benefits expenses was primarily driven by a 23 per cent increase in the head count, from 2,932 at 30 June 2014 to 3,604 at 30 June 2015 as nbn continues to grow.

Advisory, corporate and outsourced services: Costs incurred for advisory, corporate and outsourced services increased by \$25 million compared to FY2014, to \$112 million. This expenditure includes management and strategic consulting, Telstra and Optus renegotiation advisory and legal expenses, and expenditure relating to outsourced functions.

IT and software expenses: IT and software expenses increased by \$6 million compared to FY2014, to \$120 million, driven by increases in application licences and support and maintenance costs.

Communication and public information: Communication and public information costs increased by \$14 million compared to FY2014, to \$28 million. This expenditure was associated with advertising and media campaigns as well as educating end users on how to connect to the nbn™ network.

Other expenses: Other expenses increased by \$15 million compared to FY2014, to \$89 million. These include travel costs, occupancy expenses and other miscellaneous expenditure.

Depreciation and amortisation expense: Depreciation and amortisation expenses increased by \$196 million compared to FY2014, to \$631 million, reflecting the increase in network assets placed into service during FY2015.

Finance charges - leased assets: These relate primarily to the accounting convention for assets treated as finance leases under long-term right of use arrangements. These charges increased by \$79 million compared to FY2014, to \$302 million, driven by increased infrastructure supplied by Telstra under right of use arrangements.

Capital expenditure*

Capital expenditure for the year ended 30 June	2015 (\$m)	2014 (\$m)	2013 (\$m)
Transit network	233	381	410
FTTP network	1,692	1,007	551
FTTN network	334	3	-
Fixed Wireless network	340	278	132
HFC network	48	-	-
Satellite network	247	517	374
Common capital expenditure	434	294	300
Total capital expenditure	3,328	2,480	1,767

* Capital expenditure excludes additions of leased assets, gifted assets and items of property, plant and equipment that are classified as inventories for internal reporting purposes.

Capital expenditure incurred during FY2015 was \$3,328 million, an increase of \$848 million compared to FY2014. The key drivers of capital expenditure are outlined below.

Transit network: \$233 million was incurred during FY2015 in constructing the transit network, including Transit Aggregation Nodes and Depots. This expenditure is required to enable connectivity between each of the access networks and RSP interconnection.

Costs incurred during FY2015 were used to deploy Common Network Infrastructure, 106 Dense Wavelength Division Multiplexing rings and 797 kilometres of nbn-built dark fibre. In addition, nbn integrated an additional 6 POIs, completing the construction of the planned 121 POIs.

FTTP network: Capital expenditure incurred constructing the FTTP network during FY2015 was \$1,692 million, comprising capital expenditure of \$879 million on the brownfield FTTP network, \$121 million on the greenfield FTTP network and \$692 million on the connection of end users to the nbn™ network.

During FY2015, \$824 million in build capital expenditure and \$55 million in design and other capital expenditure was incurred in relation to the brownfield FTTP network resulting in a further 366,795 premises serviceable. Key drivers included distance per premises, build mix (aerial and underground), the level of civil works required, labour and equipment quantities.

Capital expenditure incurred within the greenfield FTTP network for new development estates and brownfield redevelopments was \$121 million for FY2015, and resulted in a further 77,475 premises serviceable. Key drivers of capital expenditure included distance per premises, build mix, the level of civil works required, labour and equipment quantities.

Capital expenditure incurred connecting or migrating FTTP network end users to the nbn™ network was \$692 million for FY2015. This expenditure comprised connection and activation costs of \$205 million, Multiple Dwelling Unit cabling activity costs of \$159 million, build/bulk drop activity costs of \$178 million and \$150 million associated with the acquisition of lead-in conduits. For FY2015, a total of 193,410 brownfield FTTP network premises and 55,317 greenfield FTTP network premises were connected, bringing the cumulative totals to 298,621 and 101,233 premises respectively.

FTTN network: During FY2015, \$334 million was incurred for design and construction activities associated with the formative period of the FTTN rollout under the MTM model.

Fixed Wireless network: During FY2015, capital expenditure incurred for the fixed wireless network was \$340 million. Fixed wireless capital expenditure reflects the acquisition of a further 429 wireless sites during FY2015 and the integration of an additional 628 base stations.

HFC network: During FY2015, \$48 million in capital expenditure was incurred on the development of the HFC network, predominately related to upgrading the DOCSIS technology and associated network equipment.

Satellite network: Capital expenditure for the LTSS and ISS projects for FY2015 was \$247 million. This expenditure primarily related to milestone payments for the build and launch of satellites, and work in finalising the 10 satellite ground stations across Australia.

Common capital expenditure:

\$434 million was incurred for common capital expenditure. This included intangible asset additions, largely related to the development of the systems and software to support the functionality of the nbn™ network.

Equity funding

The Australian Government contributed \$4,767 million in equity during FY2015. At 30 June 2015, total Government investment was \$13,185 million.

Dividends

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

Cost per premises

During FY2015, the Company undertook a review of its methodology for calculating the average cost per premises (CPP), which represents the life to date incremental capital costs incurred in building the nbn™ network from the transit network to the in-premises connection for each technology, excluding early release or pilot sites.

Brownfield FTTP network: The CPP increase during FY2015 was due to increased customer connection costs with a higher percentage of new lead-in conduits (LICs) required to be built where existing LICs were unusable and some increased contractor rates. This increase was partially offset by reductions in the Local Network Distribution Network (LNDN) program, which was partly due to improved industry engagement and efficiency.

Greenfield FTTP network: The CPP decrease during FY2015 related to the temporary transit network (TFAN/TTFN) required to connect the existing transit infrastructure to greenfield sites. As new developments expand, more premises utilise existing TFAN/TTFN infrastructure, reducing the cost per premises. This was partially offset by an increase in customer connection costs due to increased contractor rates.

Fixed Wireless network: The CPP decrease during FY2015 was largely due to an increase in the average number of premises serviced by base stations and reduced customer connection costs as the nbn™ network is rolled out at scale.

Cost per premises	2015 (\$)	2014 (\$)
Brownfield FTTP network	4,387	4,359
Greenfield FTTP network	2,798	3,104
Fixed Wireless network	3,595	3,724

Board of Directors

Current Directors



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

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

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

He is a Fellow of the Australian Academy of Technological Sciences, the Australian Academy of Science and the Australian Institute of Company Directors.

Dr Switkowski's current term will expire on 2 October 2016.



Mr Patrick Flannigan (Non-Executive Director) was appointed as a Director on 11 November 2013. Mr Flannigan brings more than 25 years experience in infrastructure services and has held senior roles in both private and publicly listed companies.

Mr Flannigan established his own business, Integrated Maintenance Services in 2000 and was the founding Managing Director and Chief Executive Officer of Service Stream Ltd for six years from 2003. He managed network construction as **nbn's** Head of Construction from 2009 to early 2011. In 2011, Mr Flannigan founded Utility Services Group and served as the Chief Executive Officer and Managing Director until 30 June 2015 when the company was acquired by an ASX listed company.

Mr Flannigan is a Fellow of the Australian Institute of Management and the Australian Institute of Company Directors, and holds a Board position at the Australian Grand Prix Corporation.

Mr Flannigan's current term will expire on 10 November 2016.



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

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

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

Mr Hackett is a Fellow of the Australian Institute of Company Directors and the Australian Computer Society.

Mr Hackett's current term will expire on 10 November 2016.



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

Ms Lansley previously served on a number of boards and authorities, including the Melbourne 2006 Commonwealth Games Corporation, the Takeovers Panel, the Financial Services Institute of Australasia, and the national listing committee of the Australian Stock Exchange, and she headed the Victorian regional council of the Australian charity Redkite for several years.

Ms Lansley's current term will expire on 6 December 2015.



Mr Justin Milne (Non-Executive Director) was appointed as a Director on 11 November 2013. His career combines experience in telecommunications, marketing and media. As Chief Executive Officer of three of Australia's largest internet service providers, OzEmail, MSN and BigPond, Mr Milne built significant media businesses in the online and mobile phone worlds. He has been responsible for many successful marketing campaigns and has been honoured with a number of awards.

He is Chairman of MYOB Group Ltd, Chairman of NetComm Wireless Ltd, and a Non-Executive Director of Tabcorp Holdings Ltd, Members Equity Bank Ltd, and SMS Management & Technology Ltd.

Mr Milne's current term will expire on 10 November 2016.



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

Mr Morrow is known for his global expertise in leading complex turnarounds and capital intensive start-ups. His industry experience spans fixed line broadband services, fixed wireless, mobile wireless, and gas and electric utilities.

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

Mr Morrow holds an Associate of Science degree in Electrical Engineering from Condie College and a BA in Business Administration from National University in San Diego.

Mr Morrow's current term as a Director will expire on 1 April 2017.



Dr Kerry Schott AO (Non-Executive Director) was appointed as a Director on 28 September 2012. Dr Schott is Chairman of the Moorebank Intermodal Company Ltd, a Director of TCorp NSW, Infrastructure Australia, the Whitlam Institute Board and a Patron and Board member of Infrastructure Partnerships Australia.

She is currently on the advisory boards of HealthShare and the Sydney Light Rail Project. She was the Managing Director and CEO of Sydney Water from 2006 to 2011 and was the CEO of the Commission of Audit for the NSW Government that completed in early 2012. She worked as an investment banker for more than 12 years including as Managing Director of Deutsche Bank and Executive Vice President of Bankers Trust Australia. Prior to becoming an investment banker, Dr Schott was a public servant and an academic.

She holds a Doctor of Philosophy from Oxford University, a Master of Arts from the University of British Columbia, Vancouver and a Bachelor of Arts (First Class Honours) from the University of New England. She was recently awarded Honorary Doctorates from the University of Sydney and the University of Western Sydney.

Dr Schott's current term will expire on 27 September 2015.

Company Secretary

Ms Debra Connor was appointed as Company Secretary of **nbn** effective from 22 June 2010.

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

Prior to joining **nbn**, Ms Connor was Board Secretary of Port of Melbourne Corporation

(PoMC) from January 2007, and In-house Counsel and Company Secretary with SMS Management & Technology Limited, a publicly listed management consulting company based in Melbourne with an international presence in the UK and Asia. Ms Connor joined SMS in January 2000.

Directors' interests

The Directors of **nbn** have no interests in the shares of **nbn**.

Board and Committee meetings

The number of Board and Committee meetings held during FY2015 and the attendance by Directors at those meetings are shown below.

	Board		Audit and Risk Committee		Communications Committee		Nominations Committee ⁽¹⁾		People and Remuneration Committee ⁽²⁾	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
Dr Ziggy Switkowski AO ⁽³⁾	13	11	9	7	-	-	1	1	5	5
Mr Patrick Flannigan	13	13	9	8	-	-	1	1	5	5
Mr Simon Hackett	13	12	-	-	5	5	1	1	-	-
Ms Alison Lansley	13	13	9	9	-	-	1	1	-	-
Mr Justin Milne	13	12	-	-	5	5	1	1	5	5
Mr Bill Morrow ⁽⁴⁾	13	12	-	-	5	4	1	1	5	5
Dr Kerry Schott AO	13	13	9	9	-	-	1	1	-	-

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

(b) Number of meetings attended

(1) The Nominations Committee was established at Board Meeting No. 83 held on 24 March 2015.

(2) Formerly the Remuneration and Nominations Committee (RNC). The title and remit of the RNC was changed at Board Meeting No. 83 held on 24 March 2015, when the Board resolved to rename the RNC the People and Remuneration Committee effective 24 March 2015, and to reassign all nominations related matters from the then RNC to a newly established Nominations Committee.

(3) Dr Ziggy Switkowski AO attends the Audit and Risk Committee meetings ex officio.

(4) Mr Bill Morrow attends the Communications Committee and the People and Remuneration Committee meetings ex officio.

Executive Committee

Details of the members of the Executive Committee are provided below.



Mr Bill Morrow

Chief Executive Officer
Appointed effective
April 2014

Mr Morrow is well known for his global expertise in leading complex turnarounds and is one of the global telecommunications industry's most experienced executives. Prior to **nbn**, he served as CEO of Vodafone Hutchison Australia in Sydney and CEO of Clearwire Corporation in Seattle.

Mr Morrow joined the Company in April 2014 with a remit to ensure all homes, businesses and communities across Australia can access very fast broadband as soon as possible, at affordable prices and at least cost to taxpayers.

To fulfil his remit, Mr Morrow is supported by a very experienced executive leadership team.



Mr Stephen Rue

Chief Financial Officer
Appointed in July 2014

Prior to joining **nbn**, Mr Rue spent 17 years in various leadership roles at News Corp Australia, including a decade as Chief Financial Officer. He also served as a Director on a number of associated boards, including Foxtel, Fox Sports, REA Group and Australian Associated Press.

Mr Rue is responsible for the financial aspects of **nbn's** business activities, including business planning, financial reporting, financial control, management accounting, taxation and treasury. He is also responsible for overseeing the Company's procurement and supply chain.



Mr John Simon

Chief Customer Officer
Appointed in January 2013

Mr Simon is an established executive in the ICT market, with more than 30 years' experience. Prior to joining **nbn**, Mr Simon spent 11 years working for Singtel Optus in various roles.

Mr Simon is responsible for all aspects of product management, marketing, sales and wholesale supply. His accountabilities include developing and managing the life cycle of **nbn's** product portfolio, and ensuring that it is aligned with industry needs and underpins **nbn's** Corporate Plan. Within his portfolio, he is also accountable for **nbn's** wholesale supply arrangements, and delivering **nbn's** revenue targets and customer experience goals of its key channels to market, the RSP community.



Mr Brad Whitcomb

Chief Strategy and Transformation Officer
Appointed in May 2014

Mr Whitcomb has successfully architected a number of high-profile business transformations in the telecommunications and energy sectors. Prior to joining **nbn**, Mr Whitcomb was the Chief Strategy and Business Transformation Officer at Vodafone Hutchison Australia.

Mr Whitcomb is responsible for creating and implementing the Company's strategy and Integrated Operating Plan. Mr Whitcomb and his team are primarily focused on enabling the Company to scale in the most efficient and effective way.



Mr Greg Adcock

Chief Operating Officer
Appointed in November 2013

Mr Adcock was previously Executive Director of NBN and Commercial Operations at Telstra, where he spent 20 years. His previous roles at Telstra include strategy and business planning, contract establishment and operational process optimisation.

Mr Adcock is responsible for the network engineering and deployment of MTM technologies and the implementation of the landmark strategic agreements signed with Telstra.



Mr J.B. Rousselot

Chief Network and Operations Officer
Appointed in October 2013

Mr Rousselot brings to the business extensive experience in the telecommunications sectors. He has previously held senior roles at Telstra including Executive Director of Voice, BigPond and Media.

Mr Rousselot oversees **nbn's** Network and Service Operations, focusing on ensuring an excellent end-to-end customer experience across the **nbn™** network and services. Mr Rousselot's role covers all operations that follow the network rollout.



Ms Maree Taylor

Chief People and Culture Officer
Appointed in May 2014

Prior to joining **nbn**, Ms Taylor held senior executive roles including Head of Human Resources at Origin, CSC Australia and Apple Asia Pacific.

Ms Taylor is responsible for the People and Culture strategy. Her responsibilities include initiatives to ensure workforce attraction and capability, a safety focused and values based culture and the optimisation of employee engagement.

Her areas of focus include recruitment and resourcing, performance management, leadership development, learning and career development, reward and recognition, employee relations, payroll and employee services, facilities, and health and safety.



Mr Justin Forsell

Chief Legal Counsel
Appointed in March 2010

Mr Forsell is an experienced legal practitioner with more than 18 years' in-house experience. Prior to **nbn**, Mr Forsell was General Counsel, Company Secretary and Head of Governance at Vodafone Australia.

Mr Forsell is responsible for all **nbn's** legal services, company secretariat, freedom of information and security functions. His responsibilities include all major transactions, dispute management, litigation, legal analysis and advisory, and governance support.



Mr John McInerney

Chief Information Officer
Appointed in December 2012

Mr McInerney is an experienced technology practitioner with more than 20 years' experience. Prior to **nbn**, Mr McInerney was Vice-President at HP across Asia Pacific and Japan, and Group Chief Information Officer at Telstra, where he led one of the largest technology transformation projects in Australia.

Mr McInerney is responsible for **nbn's** information technology based services. His responsibilities include the customer and partner digital channels, data and information management, technology architecture, and the ICT strategy and policy. Mr McInerney also sponsors the business technology planning process and the alignment of IT with the business.

Directors' and Officers' Remuneration report

Letter from the Chair of the People and Remuneration Committee

On behalf of the Board, I am pleased to present **nbn's** 2015 Remuneration report. The Remuneration report provides an outline of remuneration arrangements and outcomes for **nbn's** Non-Executive Directors and Senior Executive members of the Executive Committee (ExCo).

nbn has experienced a successful year with a number of important achievements. At the year's end, both the number of premises serviceable (now greater than one million) and 485,615 activated premises achieved our announced targets following process improvements that underpin our confidence in building further momentum in the year ahead. As customer numbers grew, so did revenues. And feedback from our wholesale customers, the retail service providers, confirms that working relationships and alignment of interests are improving as network construction and the marketing of the **nbn™** network are better coordinated.

nbn continues its transformational journey. Training, skills and resourcing gaps are being addressed, team structures and internal communications reinforce our mission, our goals and progress, and there is a determination and sense of shared accountability to deliver on demanding targets. As a result, employee engagement and morale are getting better, as is productivity.

The Board judges that FY2015 was one of strong performance and has approved the payment of short term incentive (STI) awards to eligible participants.

The remuneration framework at **nbn** remains unchanged. Fixed remuneration is set with reference to the external market and is conservative. The STI program is an at-risk component whose payment is tied to certain key performance indicators derived from the approved Business Plan and reflected in a Balanced Scorecard. **nbn** does not offer a long term incentive program at this time.

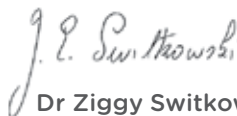
The remit and title of the Remuneration and Nominations Committee were changed and, effective 24 March 2015 the Committee was renamed the People and Remuneration Committee (P&RC).

The P&RC is responsible for establishing people management and remuneration policies for **nbn** and for overseeing management practices in those areas. All duties and matters relating to nominations of board member and senior executive appointments now fall under the responsibility of a Nominations Committee made up of all board members which was established on 24 March 2015.

During this formative phase, every year is critical for **nbn**. FY2016 is no exception with formidable challenges in at least two dimensions. Firstly, operationalising the MTM now that renegotiated agreements have been completed with Telstra and Optus and access is available to their copper and HFC networks. And secondly, accelerating growth – in the network footprint and customer numbers – while ensuring that internal systems and processes are robust and provide a good customer experience as our run rates double, and then double again.

There is every reason to be confident that the CEO, Bill Morrow, and his team will succeed in leading the Company through this next growth phase.

Yours sincerely,



Dr Ziggy Switkowski AO
Chair

Changes during the reporting period

In prior years, key management personnel (KMP) comprised the Non-Executive Directors of the Company and all members of the ExCo. As **nbn** moves into its next growth phase, the ExCo has been expanded to include more senior managers to provide the business with greater support and stronger alignment with **nbn's** strategy.

In conjunction with the expansion of the ExCo, the P&RC has redefined KMP for the purpose of the remuneration disclosure for the year ended 30 June 2015. The P&RC determined that KMP will include all Non-Executive Directors, the Chief Executive Officer (CEO), the

Chief Financial Officer (CFO), the Chief Operating Officer (COO), the Chief Customer Officer (CCO), the Chief Network and Operations Officer (CNOO), and the Chief Strategy and Transformation Officer (CSTO). For the purposes of this report, KMP who are not Non-Executive Directors will be referred to as Senior Executives.

In addition, as a result of further changes to ensure the appropriate focus to enable the scaling of the implementation, Mr J.B. Rousselot's position changed from Chief Strategy Officer to Chief Network and Operations Officer and Mr Brad Whitcomb's position changed from Chief Culture and Business Transformation Officer to Chief Strategy and Transformation Officer. These changes took effect on 1 April 2015.

The Non-Executive Directors and Senior Executives disclosed in this Remuneration report are:

Name	Title	2014/15 status	KMP status
<i>Executive Director</i>			
Mr Bill Morrow	Chief Executive Officer / Managing Director	Full year	Current
<i>Non-Executive Directors</i>			
Mr Patrick Flannigan	Non-Executive Director	Full year	Current
Mr Simon Hackett	Non-Executive Director	Full year	Current
Ms Alison Lansley	Non-Executive Director	Full year	Current
Mr Justin Milne	Non-Executive Director	Full year	Current
Dr Kerry Schott AO	Non-Executive Director	Full year	Current
Dr Ziggy Switkowski AO	Non-Executive Director (Chairman)	Full year	Current
<i>Other KMP</i>			
Mr Greg Adcock	Chief Operating Officer	Full year	Current
Mr J.B. Rousselot	Chief Network and Operations Officer	Full year	Current
Mr Stephen Rue	Chief Financial Officer	Full year	Current
Mr John Simon	Chief Customer Officer	Full year	Current
Mr Brad Whitcomb	Chief Strategy and Transformation Officer	Full year	Current

There were no changes to KMP after the reporting date and before the date the Directors' report was authorised for issue.

Non-Executive Director fees

All Non-Executive Directors of **nbn** are appointed by the Commonwealth of Australia through the Shareholder Ministers.

Fees for Non-Executive Directors are set in accordance with the determinations of the Commonwealth Remuneration Tribunal (the Tribunal), the independent statutory body overseeing the remuneration of key Commonwealth offices. The Tribunal determines then directs **nbn** regarding fee levels for Non-Executive Directors. **nbn** plays no role in considering, nor determining, Non-Executive Director fees and is bound by regulation to comply with the Tribunal's determinations.

The Tribunal has set annual Chair, Deputy Chair and Board member base fees.

The base fee covers all activities undertaken by a member on behalf of **nbn**. Committee work is included in the base fee. Remuneration packaging may be made available to Non-Executive Directors within the fees specified. Statutory superannuation is paid in addition to the base fees.

For FY2015, there was no Deputy Chair appointed on **nbn's** Board.

The Tribunal set the following Non-Executive Director fees (excluding superannuation) during FY2015 and FY2014. The Tribunal determined not to increase FY2015 fees over FY2014 levels.

Board position	2014-15 annual entitlement (from 1 July 2014)	2013-14 annual entitlement (from 1 July 2013)
Chair	\$209,630	\$209,630
Non-Executive Directors	\$104,860	\$104,860

Remuneration and talent governance at nbn

During the year, the Remuneration and Nominations Committee changed its name to People and Remuneration Committee (P&RC), effective from 24 March 2015. Dr Ziggy Switkowski AO remains as Chair of the P&RC. Mr Patrick Flannigan and Mr Justin Milne continued as members of the P&RC. Also effective from 24 March 2015, the Board assumed overall responsibility for duties and matters relating to nominations and established a Nominations Committee effective from 24 March 2015.

The role of the P&RC is to assist the Board in fulfilling its governance responsibilities in relation to establishing people management and remuneration policies for **nbn** that:

- Enable **nbn** to attract and retain employees who can create sustainable value for stakeholders;
- Foster exceptional talent and performance while motivating and supporting employees to pursue the growth and success of the **nbn**TM network consistent with **nbn's** Corporate Plan; and
- Responsibly reward employees, having regard to the performance of **nbn**, individual performance, statutory and regulatory requirements, and current business norms.

Support from management and external advisors

To inform decisions of the Committee, the P&RC sought advice and, at times, recommendations from the CEO and other management throughout the year.

In addition to management support, remuneration advisors are engaged by and report directly to the P&RC, providing independent review and advice regarding remuneration.

During FY2015, **nbn** received external advice in relation to remuneration from Ernst & Young (EY). The advice included market practice relating to current and emerging trends in executive remuneration design and relevant legislative and regulatory developments. None of the advice provided during the year by EY included a remuneration recommendation as defined in the *Corporations Act 2001*.

Remuneration strategy

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

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

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

- Market competitive:
 - fixed remuneration that reflects the skills and experience required and is comparable and competitive with relevant markets; and
 - an appropriate balance between fixed and 'at risk' components of remuneration.
- Transparent:
 - simple to understand with clear, concise disclosure; and
 - compliant with relevant legislative frameworks.

Senior Executive remuneration

The list of KMP during FY2015 and disclosed in this report is shown on page 42 and a summary of remuneration received by **nbn** Senior Executives in FY2015 is shown on pages 48 and 49.

Senior Executive remuneration framework

Remuneration structure

nbn's remuneration structure is designed to responsibly, fairly and competitively reward employees, while complying with all of our regulatory obligations. To accomplish these goals, the total remuneration framework consists of Total Fixed Remuneration (TFR) and 'at risk' remuneration including a deferred component (STI program).

nbn does not grant long-term incentives to its Senior Executives.

Fixed remuneration

Each **nbn** Senior Executive receives a base salary, plus employer contributions to a superannuation fund. Non-cash benefits and non-tangible rewards such as flexible work arrangements may also be provided to select employees.

Base salary, superannuation contributions and non-cash benefits comprise an employee's TFR. Target total remuneration consists of TFR and target STI.



Factors taken into account when setting TFR levels at **nbn** are:

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

Once hired, Senior Executives have no guarantee of TFR increases within their contracts. The TFR of all Senior Executives is reviewed annually.

'At risk' remuneration (STI program)

nbn may provide an 'at risk' remuneration opportunity, the payment of which is dependent on the attainment of strategic performance goals.

The P&RC believes an essential element of **nbn's** remuneration framework should be an incentive program that:

- Appropriately focuses participants on objectives and behaviours critical to the success of **nbn**;
- Unifies efforts in pursuit of **nbn's** plan; and
- Increases the value of **nbn** to all Australians.

nbn's STI program provides Senior Executives the opportunity to receive 'at risk' remuneration based first on **nbn's** performance and then on individual performance during the financial year. The STI program:

- Rewards Senior Executives who contribute to **nbn's** success during the performance year;
- Ensures a portion of total remuneration is linked to the achievement of corporate performance; and
- Through its STI funding approach, provides **nbn** with the flexibility to manage total employee cost.

STI deferral

One-third of any STI awarded to any Senior Executive is deferred for a period of two years. Deferred amounts are subject to clawback conditions.

nbn is currently reviewing its incentive program to ensure it remains aligned to market practice and continues to incentivise participants in alignment with **nbn's** business strategy.

Role of the P&RC in the STI program

Each year, the P&RC determines the following key aspects of the STI program:

Performance measures and objectives
Employees eligible to participate
Performance against objectives, the 'award pool' and final payments
The portion of STI payments to be deferred
Application of the clawback provision to previous awards
Which changes or adjustments are needed to continually improve the plan

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

Funding approach

nbn's performance determines the size of the target STI pool for the applicable year. The P&RC can eliminate the entire target STI pool if it determines **nbn** has not met a gateway measure. In such circumstances the P&RC retains the discretion to recognise exceptional contributions from individuals and can form an STI pool of up to 20 per cent of the entire target STI pool. The P&RC determines the gateway measure at the start of the performance period. For FY2015, **nbn's** safety record and performance to budget were the performance gateway measures.

If a gateway measure is met during the performance period, the P&RC determines whether to adjust the target STI pool up or down (by a range between zero per cent and 135 per cent of the target STI pool) based on the achievement of corporate objectives, resulting in an actual STI award pool. The STI award pool is the maximum cost of the STI program for that year, thus limiting **nbn's** aggregate cost.

Eligible participants

For FY2015 all Senior Executives were eligible to participate in the STI program.

STI performance measures

nbn's performance impacts the STI award pool and therefore the level of STI payments received by participants. Performance measures and targets align to the Corporate Plan 2014-2017. The required level of achievement against each measure is set at the start of the performance period.

For FY2015, **nbn's** performance was assessed against the following five corporate measures:

- Premises serviceable;
- Premises activated;
- Customer (i.e retail service providers) experience score;
- Revenue; and
- Transformation.

FY2015 outcomes

nbn was successful in delivering against five key corporate measures linked to the STI program. In particular, target performance was exceeded for premises serviceable, revenue and transformation, justifying the award of a significant portion of the target pool.

For the FY2015 performance year, the STI award pool was 105 per cent of the target STI pool.

For Senior Executives, one third of the actual STI is deferred for a period of two years, and is subject to clawback conditions.

Remuneration benchmarking

nbn aims to position remuneration competitively against comparable organisations. Independent remuneration advisors directly benchmark Senior Executive roles to comparable roles in the market. External market benchmarks are determined by researching disclosed data from relevant Australian listed companies and Government Business Enterprises, supplemented by survey data where necessary. Target total remuneration for each Senior Executive role is based on the benchmark data and internal relativities.

To ensure consideration of individual and company performance and market conditions, remuneration levels of each Senior Executive are reviewed annually by the P&RC.

Remuneration mix

nbn's remuneration structure aims to provide Senior Executives a mixture of fixed and 'at risk' remuneration.

The target STI opportunity for Senior Executives during FY2015 was 30 per cent of the participants' TFR. The Chief Customer Officer's target STI opportunity was 40 per cent of TFR. The Chief Customer Officer's target STI opportunity was higher than that of other Senior Executives to provide closer alignment to the remuneration mix of similar roles in the market.

Because receipt of 'at risk' remuneration is tied to the achievement of **nbn** and individual performance conditions, actual remuneration may vary from the target remuneration.

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

Employment agreements and termination arrangement

Remuneration and other terms of employment for all Senior Executives are formalised in employment agreements,

which are subject to law and include termination arrangements. For the CEO, the notice for termination that must be provided by either **nbn** or the CEO is six months. The CEO is entitled to a termination payment of twelve months' TFR, where the CEO is terminated by **nbn**.

For Senior Executives, the notice for termination that must be provided by either **nbn** or the Senior Executive is three months. Where a Senior Executive is terminated by **nbn**, he/she is entitled to a termination payment ranging from three months' to twelve months' TFR. Termination payments are determined by policy and the contractual entitlements in place for employees ceasing employment with **nbn**.

Other long-term benefits

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

Post-employment benefits

Superannuation contributions are included in individuals' TFR. There are currently no additional benefits, entitlements or arrangements in place for any Senior Executive.

Transactions with related parties

A final payment of \$6,600 was made to Cicomilne Pty Ltd, of which Mr Milne is the only shareholder. This final payment relates to the provision of work completed in FY2014 where Mr Milne provided strategic advisory services over and above his Board commitments in relation to the negotiations between **nbn** and Telstra for a specific and finite period.

No other transactions with the Group (subject to some exceptions for immaterial or routine standard term transactions) were undertaken involving Directors or Senior Executives, their close family members or entities they control or in which they have significant influence.

Equity movements

In FY2015, there were no holdings in rights, options and other equity instruments by Directors or Senior Executives, their close family members or entities they control or over which they have a significant influence.

Employee remuneration

nbn general employee remuneration framework

nbn's employee remuneration framework is based on employee pay bands. Pay bands are set with reference to the external market through survey data and are based on job function and accountability level. The pay band of an employee's role is determined using a role evaluation framework. Once a role has been assigned to a pay band, a target TFR amount for the role is established. Actual TFR received by an individual in a particular role can vary from the target TFR for the role within a reasonable range based on their experience, ability and contribution.

Selected employees are also invited to participate in the STI program.

Remuneration reviews

nbn annually reviews general employee remuneration to reflect skill, performance and market conditions. The remuneration review looks at both fixed and variable remuneration to ensure it remains market competitive and relevant to eligible participants. In addition, **nbn** conducts annual reviews of gender pay parity.

Employees who are not covered under an Enterprise Bargaining Agreement (EBA) have not been guaranteed a TFR movement.

The pay of employees subject to an EBA is managed within the EBA framework.

Remuneration table

Remuneration for Non-Executive Directors and Senior Executives for FY2015 and FY2014 is shown in the tables below.

Year ended 30 June 2015

Position	Note	Short-term benefits			Post-employment	Other long-term benefits		Termination benefits	Total remuneration
		Base salary and fees ⁽¹⁾	STI/bonuses ⁽²⁾	Non-cash benefits	Superannuation contributions	STI deferral ⁽²⁾	Long service leave ⁽³⁾		
		\$	\$	\$	\$	\$	\$	\$	\$
Executive Director									
W Morrow		2,281,217	483,000	-	18,783	241,500	7,530	-	3,032,030
Non-Executive Directors									
P Flannigan		104,860	-	-	9,962	-	-	-	114,822
S Hackett		104,860	-	-	9,962	-	-	-	114,822
A Lansley		104,860	-	-	9,962	-	-	-	114,822
J Milne		104,860	-	-	9,962	-	-	-	114,822
K Schott AO		104,860	-	-	9,962	-	-	-	114,822
Z Switkowski AO		209,630	-	-	18,783	-	-	-	228,413
Other Key Management Personnel									
G Adcock	4	1,098,217	351,855	-	18,783	-	4,355	-	1,473,210
JB Rousselot		770,967	165,830	-	18,783	82,915	3,381	-	1,041,876
S Rue	5	901,217	193,200	-	18,783	96,600	2,624	-	1,212,424
J Simon		681,217	196,000	-	18,783	98,000	7,235	-	1,001,235
B Whitcomb		781,217	168,000	-	18,783	84,000	2,481	-	1,054,481
Total		7,247,982	1,557,885	-	181,291	603,015	27,606	-	9,617,779
Non-Executive Directors		733,930	-	-	68,593	-	-	-	802,523
Executive Director and other KMP		6,514,052	1,557,885	-	112,698	603,015	27,606	-	8,815,256
Total		7,247,982	1,557,885	-	181,291	603,015	27,606	-	9,617,779

Notes:

1. Base salary includes KMP's accrued annual leave entitlements and any allowances paid in cash.
2. The cash component of bonuses to be paid in September 2015 relating to FY2015 performance. One-third of the STI bonus relating to FY2015 performance is deferred for a period of two years. Deferred STI payments are not discounted.
3. Long service leave relates to amounts accrued during the relevant period.
4. Mr. G Adcock was paid his STI bonus in full in accordance with his employment contract.
5. Mr. S Rue was appointed KMP on 1 July 2014.

Year ended 30 June 2014

Position	Note	Short-term benefits			Post-employment	Other-long term benefits		Termination	Total remuneration
		Base salary and fees ⁽¹⁾	STI/bonuses ⁽²⁾	Non-cash benefits	contributions	STI deferral ⁽²⁾	Long service leave ⁽³⁾	benefits	
		\$	\$	\$	\$	\$	\$	\$	\$
Executive Director									
W Morrow	4	562,223	156,400	-	4,444	-	756	-	723,823
Non-Executive Directors									
P Flannigan	5	67,410	-	-	6,235	-	-	-	73,645
S Hackett	6	67,410	-	-	6,235	-	-	-	73,645
A Lansley		104,860	-	-	10,812	-	-	-	115,672
J Milne	7	67,410	-	-	6,235	-	-	-	73,645
K Schott AO		104,860	-	-	9,901	-	-	-	114,761
Z Switkowski AO	8	453,623	-	-	13,331	-	-	-	466,954
Other Key Management Personnel									
G Adcock	9	720,002	217,900	-	18,711	-	971	-	957,584
JB Rousselot	10	543,734	104,600	-	13,331	-	736	-	662,401
J Simon		632,225	90,700	-	17,775	-	2,120	-	742,820
B Whitcomb	11	128,890	36,700	-	4,174	-	175	-	169,939
Total		3,452,647	606,300	-	111,184	-	4,758	-	4,174,889
Non-Executive Directors (current)		865,573	-	-	52,749	-	-	-	918,322
Executive Director and other KMP (current)		2,587,074	606,300	-	58,435	-	4,758	-	3,256,567
Non-Executive Directors (former)		162,146	-	944	16,404	-	-	-	179,494
Executive Director and other KMP (former)		4,299,309	457,100	-	105,166	-	(207,913)	5,491,294	10,144,956
Total		7,914,102	1,063,400	944	232,754	-	(203,155)	5,491,294	14,499,339

Notes:

1. Base salary includes KMP's accrued annual leave entitlements and any allowances paid in cash.
2. The cash component of bonuses to be paid in September 2014 relating to FY2014 performance. One-third of the STI bonus relating to FY2014 performance is deferred for a period of two years. However, the R&NC agreed that no deferral would apply for FY2014. STI payments in the table above have been prorated for individuals who were not a KMP member for the full year.
3. Long service leave relates to amounts accrued or released during the relevant period.
4. Mr W Morrow was appointed Chief Executive Officer effective 2 April 2014. His Total Fixed Remuneration (TFR) is \$2.3 million per annum and if the Company achieves all performance metrics at 100 per cent, he may receive an STI payment of 30 per cent of TFR.
5. Mr P Flannigan was appointed as a Director on 11 November 2013.
6. Mr S Hackett was appointed as a Director on 11 November 2013.
7. Mr J Milne was appointed as a Director on 11 November 2013.
8. Dr Z Switkowski AO was appointed Executive Chairman on 3 October 2013. Base salary includes a total of \$297,919.06 paid for Dr Switkowski's term as Executive Chairman from 3 October 2013 to 1 April 2014.
9. Mr G Adcock was appointed as KMP from 1 November 2013.
10. Mr JB Rousselot was appointed as KMP from 3 October 2013.
11. Mr B Whitcomb was appointed as KMP from 1 May 2014.
12. During this period, Mr Robin Payne held the position of Chief Financial Officer from 1 July 2013 to 30 April 2014. Mr. Payne was Acting Chief Financial Officer from 1 May 2014 to 30 June 2014.

Prospects for future financial years

The Operating and financial review section on pages 16 to 32 sets out information on the business strategies and prospects for future financial years, and likely developments in **nbn's** operations and the outlook for those operations in the future.

Significant changes in the state of affairs

Other than the signing of the revised strategic agreements with Optus and Telstra (see page 17) and the information set out in the Operating and financial review section, there were no significant changes in the state of affairs of the Group during FY2015.

Indemnification and insurance of Directors and Officers

nbn has indemnified each of the Directors of the Company against any legal proceedings, loss or liability that arises in their capacity as a Director of **nbn**. As at 30 June 2015, no material claims have been made.

During FY2015, the Company paid insurance premiums for contracts insuring Directors and Officers against liabilities (including costs and expenses) arising from the performance of their duties.

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

Corporate information

nbn 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** is wholly-owned by the Commonwealth of Australia.

Significant events subsequent to reporting date

On 31 July 2015, **nbn** received \$480 million in equity funding from the Commonwealth Government.

Except for the item noted above, no other matter or circumstance has arisen since 30 June 2015 to the date of the signing of this report that has significantly affected, or may affect:

- The Group's operations in future financial years;
- The results of those operations in future financial years; and
- The Group's state of affairs in future financial years.

Health, Safety and Environment

In accordance with our Health, Safety and Environment (HSE) Policy and Statement of Commitment, **nbn** is committed to ensuring that HSE is considered above all other business matters. **nbn** requires its employees and contractors to comply with all applicable laws and regulations in relation to their work on the **nbn**TM network and has an ongoing commitment to adopt and apply ecologically sustainable development principles.

nbn's HSE Policy and HSE Statement of Commitment, which were reviewed, updated and endorsed by the Board and CEO during FY2015, outline **nbn's** commitment to principles that focus on achieving safe workplaces and environments, through the implementation of our HSE Management System.

nbn measures HSE performance through a mix of lead and lag indicators.

During FY2015 the lost time injury frequency rate was 1.2 injuries per million hours worked for our employees and 2.9 for our contractors. Energy usage has increased in FY2015 in line with the growth of **nbn's** business. Emissions data will be reported in **nbn's** first *National Greenhouse and Energy Reporting Act 2007* report in October 2015.

In addition to lagging HSE indicators, leading indicators monitored during 2014-15 include the timely reporting of incidents and the near miss incident frequency rate to track progress towards a 'no blame', proactive HSE reporting culture. **nbn** has also introduced performance metrics on the management of high potential incidents to ensure that events that could have resulted in a serious injury or environmental damage are prioritised in terms of management focus, investigation, and lessons learnt. The following have been key areas of focus to improve our approach and work towards our HSE commitments:

- Providing integrated HSE support for the management of HSE risks associated with the design, construction and operation of the **nbn**TM network;
- Renewing the focus on continuous improvement of **nbn's** HSE Management System, core HSE processes and HSE IT platforms;
- Establishing a consistent methodology and framework for assessing and measuring HSE compliance across **nbn** and its supply chain;
- Enhancing the quality and reliability of HSE data and reports to drive HSE performance and inform decision-making; and

- Enhancing and streamlining HSE capability frameworks, executive HSE leadership framework, integration into the **nbn** reward and recognition programs and HSE communications channels across **nbn** to increase visibility of HSE.

Refer to the regulatory report for further information.

Rounding of amounts

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the consolidated financial statements and Directors' report have been rounded off to the nearest million dollars, unless otherwise stated.

Auditor independence

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

Non-audit services

No non-audit services have been provided by the Auditor-General or the Australian National Audit Office. Non-audit services provided by the contract auditor, PwC, are detailed in Note 15 to the consolidated financial statements.

Signed in accordance with a resolution of Directors.


Dr Ziggy Switkowski AO
Chairman


Bill Morrow
Chief Executive Officer

17 August 2015





Corporate governance statement

Corporate structure and governing legislation

nbn is:

- A Commonwealth company as defined in Section 89 (1) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act);
- A Commonwealth Government Business Enterprise (GBE);
- A company subject to the *Corporations Act 2001*;
- A public company limited by shares, incorporated and domiciled in Australia; and
- Wholly-owned by the Commonwealth of Australia.

nbn is committed to meeting high standards of corporate governance which it considers essential to its long term performance and sustainability, and to be in the best interests of its shareholder.

nbn's governance framework is regularly reviewed to ensure it aligns to the Government, regulatory and legislative requirements, and market practice. **nbn's** governance practices continue to evolve having regard to the:

- *National Broadband Network Companies Act 2011*;
- PGPA Act and *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule 2014);
- *Corporations Act 2001*;
- *Telecommunications Act 1997*;
- *Competition and Consumer Act 2010*;
- *Commonwealth Government Business Enterprise Governance and Oversight Guidelines (August 2015)* (GBE guidelines); and
- **nbn's** voluntary adoption of those ASX Corporate Governance Principles and Recommendations (the 3rd Edition) which are relevant to **nbn**.

This statement, which was approved by the Board on 17 August 2015, outlines the most significant aspects of **nbn's** corporate governance framework.

nbn and its subsidiaries together are referred to as the Group in this statement. The activities of each subsidiary in the Group are overseen by its own Board of Directors. These Boards currently comprise senior management personnel of **nbn**.

As **nbn** is wholly owned by the Commonwealth of Australia, under Section 250N (4) of the *Corporations Act 2001*, it is not required to hold an Annual General Meeting.

Shareholder communication

nbn regularly reports to its Shareholder Ministers (the Minister for Communications and the Minister for Finance) based on the best practice reporting timetable detailed in the GBE guidelines and other requests from the Shareholder Ministers. The Shareholder Ministers are publicly accountable, and **nbn** is also subject to Parliamentary scrutiny through Parliamentary Committees.

Board and Committees

The Board

The *Corporations Act 2001* and **nbn's** Constitution establish and define the corporate powers of **nbn** which are exercised by the Board, unless exercised by the Shareholder Ministers under **nbn's** Constitution. The powers of **nbn** must be exercised in accordance with the objects set out in its Constitution, in particular the object to roll out, operate and maintain a national broadband network consistent with the Australian Government policy.

The Board regards **nbn** as bound by and required to implement Australian Government policy as set out in formal

communications from its Shareholder Ministers as well as to exercise its powers in the best interests of **nbn**. The best interests of **nbn** are defined by reference to the objectives and purposes of **nbn**, Australian Government policy and the GBE guidelines.

nbn's Board Charter sets out the powers and responsibilities of the Board. The Charter is reviewed annually by the Board and available on **nbn's** website.

The Board's key responsibilities are:

- Establishing and overseeing a sound corporate governance framework;
- Approving **nbn's** strategic direction;
- Engaging with its Shareholder Ministers on Australian Government policy requirements;
- Annually causing to be prepared and submitted to Government, a Corporate Plan;
- Supervising management in the implementation of **nbn's** strategic direction and compliance with legal and regulatory obligations;
- Taking the necessary steps to ensure compliance with duties and obligations imposed on the Board and **nbn** by law, and by **nbn's** Constitution (including in particular compliance and financial reporting requirements and the supervision of the development of risk management and internal control systems);
- Setting work health, safety and environmental performance objectives, developing appropriate policies and controls, ensuring legal compliance, and ongoing progress monitoring;
- Approving and supervising the implementation of an appropriate internal governance framework for **nbn** including (but not limited to):

- developing, promoting and ensuring compliance with **nbn's** values and governance framework;
- reporting on and investigating reports of unethical practice within **nbn**;
- setting diversity objectives, developing a diversity policy and monitoring progress towards achieving such objectives;
- approving policies and frameworks for, and monitoring, internal control systems;
- approving and monitoring **nbn's** compliance with **nbn's** internal and external audit requirements, including overseeing the implementation of all audits;
- monitoring the operation of each subsidiary of **nbn** and, when necessary, exercising the voting power attaching to **nbn's** shares in the subsidiary;
- either approving or noting (where appropriate) and then monitoring those policies which bind **nbn's** employees, Directors or, (where specifically provided for in a relevant policy) third parties dealing with **nbn**; and

- Ensuring **nbn** acts within its powers as set out in rule 4.1.2 of its Constitution.

The Board may delegate its powers as it considers appropriate and has:

- Delegated many of its powers to the Chief Executive Officer (CEO) who is responsible for implementing strategic objectives, policies, the Corporate Plan and budget of **nbn** (approved by the Board) and the additional responsibilities set out in rule 12.2 of **nbn's** Constitution. The CEO has delegated some of his powers to the members of **nbn's** Executive Committee; and
- Established standing committees to streamline the discharge of its responsibilities.

Matters specifically reserved for the Board are detailed in Section 3.4 of **nbn's** Board Charter.

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

nbn holds an annual strategic planning meeting attended by Directors and key executives. **nbn's** Shareholder Ministers and representatives of its Shareholder Ministers' Departments are invited to attend the meeting. External guest speakers may also be invited to present at the meeting. The most recent strategic planning meeting was held in Sydney on 10 June 2015 and was attended by five Non-Executive Directors, the Managing Director/CEO, the Minister for Communications, representatives of the Shareholder Ministers' Departments and key executives of **nbn**.

nbn keeps its Shareholder Ministers and their departments informed of any significant developments on an ongoing basis.

Appointments

Pursuant to Rule 5.4.1 of **nbn's** Constitution, the Board is to comprise a minimum of three and a maximum of nine Directors. The Board currently comprises six Non-Executive Directors and one Managing Director who is the CEO. Membership of the Board as at the signing date comprises:

- Dr Ziggy Switkowski AO, Chairman (Non-Executive Director) appointed Executive Chairman of **nbn** on 3 October 2013, and reverted to the role of Non-Executive Chairman from 2 April 2014 following the appointment of Mr Bill Morrow as CEO.

- Mr Patrick Flannigan, Non-Executive Director appointed 11 November 2013;
- Mr Simon Hackett, Non-Executive Director appointed 11 November 2013;
- Ms Alison Lansley, Non-Executive Director appointed 7 December 2012;
- Mr Justin Milne, Non-Executive Director appointed 11 November 2013;
- Mr Bill Morrow, Managing Director and CEO appointed effective 2 April 2014; and
- Dr Kerry Schott AO, Non-Executive Director appointed 28 September 2012.

The above named Directors were in office for the full period from 1 July 2014 to 30 June 2015.

Full details of current Directors including names, appointment dates, term expiration dates, qualifications/experience and remuneration are included in the Directors' report.

Directors are appointed by the Commonwealth in a formal letter of appointment setting out the key terms and conditions of the appointment, including certain information prescribed in the GBE guidelines to ensure each Director clearly understands **nbn's** expectations of the Director.

Rule 5.5.1 of **nbn's** Constitution states that the term of office of a Director is to be determined by the Commonwealth at the time of appointment, with the maximum term of office to be three years. Rule 5.5.2 of **nbn's** Constitution states that a Director retires, but is eligible for re-appointment on the expiry of his or her term of office. The Commonwealth may at any time by written notice to **nbn**:

- Appoint a person to be an additional or replacement Director;
- Remove a Director from his or her office without compensation, whether or not the Director's appointment was expressed to be for a specified period.

Rule 7.3.1 of **nbn's** Constitution states the Chairman must be appointed by the Commonwealth from amongst the Directors. In accordance with section 2.7(b) of the GBE guidelines, the current Chairman is not an **nbn** executive.

Code of Conduct of the Board

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

The Directors are committed to the promotion of ethical, honest and responsible decision-making and the observance of their fiduciary duties. Directors will at all times bring independent judgment to bear on matters before the Board; will consider the reasonable expectations of **nbn's** stakeholders (including the Shareholder Ministers, and through them the Commonwealth and the Parliament, **nbn** employees, its customers and its suppliers, and, where applicable, given the scale of the project, the broader community); will investigate reports of breaches by any Director of the Code of Conduct and will monitor the investigation by management of breaches by employees of the **nbn** Code of Conduct to ensure any systematic issues are adequately addressed. **nbn's** Directors' Code of Conduct is contained within the Board Charter.

nbn also has in place numerous policies including a Code of Conduct governing its employees, contractors and consultants who are expected to be aware of and comply with this code as well as obligations set out in relevant legislation. The purpose of the code is to promote a safe, healthy and productive workplace. The code is underpinned by **nbn's** values and the principle of respect. A copy of the Code of Conduct, in addition to other key **nbn** policies, can be found on **nbn's** website.

Diversity of the Board

The Board seeks to ensure it has an appropriate mix of skills, experience and diversity to enable it to effectively discharge its responsibilities. This is supported through one of the Board's standing committees, the Nominations Committee, which undertakes a biannual review of Directors' skills and experience in the form of a skills matrix, and a review of the composition of the Board which is reported upon annually to the Shareholder Ministers in the form of an annual Board Plan. The most recent review of the Directors' skills matrix was undertaken by the Nominations Committee on 16 June 2015. Further, each Director's skills, experience and performance as a member of the Board is considered as part of **nbn's** annual Board performance review.

Currently **nbn's** Board comprises five male and two female Directors.

Collectively the Board's high level of skills and expertise are in the following areas:

- Strategy
- Executive leadership
- Major projects or construction
- Information technology
- Network technology
- Financial or commerce or accounting
- Risk management, compliance and regulatory
- Human resources or workplace relations
- Health, safety and environment
- Marketing
- Legal or regulatory
- Government relations
- Policy
- Previous board experience
- Governance.

Independence of Directors

As at the date of this statement, the Board considers all Directors are independent and have remained so throughout the full period from 1 July 2014 to 30 June 2015.

At least annually, each Director is requested to complete a declaration of personal interests which is subject to review by **nbn's** Nominations Committee and subsequently the Board.

In addition, an assessment of independence is made at any time a disclosure by a Director is made of any new interest or relationship. The Board, through the Chairman, evaluates the materiality of any declared interest or relationship that could be perceived to compromise the independence of a Director on a case by case basis having regard to the Director's circumstances.

Further, Directors are cognisant of their ongoing obligations to keep the Board informed of an interest which could potentially conflict with the interests of the Group. Where a Director has a declared material personal interest and/or may be presented with a potential material conflict of interest in a matter being presented to the Board or a Committee, the Director does not receive copies of Board/Committee reports relating to the matter and generally recuses himself/herself from the Board or Committee meeting at the time the matter is being considered. Consequently the Director also does not vote on the matter. Any disclosures made by a Director at a meeting are minuted.

nbn also has a Director's Conflicts of Interest Policy.

Independent Advisors

In so far as it relates to enabling Directors to fulfil their responsibilities and to exercise independent judgment when making decisions, the Board collectively and each Director individually:

- Has access to:
 - any information in the possession of **nbn**;
 - any information relating to **nbn** subsidiaries; and
 - management to seek explanations and information in relation to **nbn** and its subsidiaries, and to **nbn's** auditors (both internal and external) to seek explanations and information from them in relation to the management of **nbn**.
- With the prior written consent of the Chairman, may seek any independent professional advice in accordance with **nbn's** Funding Director's Access to Independent Advice Policy; and
- May seek any advice or services to be provided to **nbn** by third party advisers in accordance with applicable **nbn** policies and procedures, as amended from time to time.

Induction

nbn has an induction program for new Directors. Upon appointment, each Director receives a letter from **nbn** confirming his/her appointment which includes a Deed of Indemnity; Directors' and Officers' liability insurance details; references to extensive reading material via **nbn's** Board portal and a list of formal induction sessions with key **nbn** executives. The induction program is reviewed at least annually by the Company Secretary in consultation with Shareholder Ministers' Departments.

Ongoing education for Directors is delivered through individual briefings, presentations made by key **nbn** executives, and Directors visiting some of **nbn's** operational locations.

Directors have ongoing access to professional development opportunities which directly relate to their role as a Director of **nbn** and that will benefit their performance as a member of the Board.

Meetings

Details of the number of Board meetings each Director was eligible to attend and the number of meetings attended during the period from 1 July 2014 to 30 June 2015 are set out in the Directors' report on page 37.

Agendas for all Board meetings are prepared and finalised by the Company Secretary in consultation with the Chairman and the CEO. Directors receive Board reports in advance of each meeting via **nbn's** Board portal.

Key **nbn** executives are invited to participate in Board meetings.

Performance

The performance of **nbn's** Board is reviewed annually and is facilitated internally by the Chairman. Unless otherwise directed by the Shareholder Ministers, on a biennial basis the performance of the Board is assessed by an independent external service provider and the Chairman will provide the report to the Shareholder Ministers.

Annual reviews of the performance of the whole of Board, Board Committees and individual Directors (including the Chairman) have been undertaken each year from 2011 to 2014. The most recent performance review was conducted in 2014 and no areas of concern were raised by the Chairman with **nbn's** Shareholder Ministers as a result of that review.

The 2015 performance review will be undertaken by an independent external service provider.

The performance review process is determined by **nbn's** Nominations Committee with the final performance report to be provided to the Board.

Remuneration

The Remuneration Tribunal determines the remuneration and travel allowances payable to Non-Executive Directors. Full details of Directors' and key executives remuneration are included in the Directors' report on pages 41 to 49.

The remuneration of the Managing Director is set by the Board in consultation with **nbn's** People and Remuneration Committee.

Shareholding interests

The Directors have no interests in **nbn** shares which are held solely by the Commonwealth of Australia.

Standing Committees – an overview

To assist in the performance of its responsibilities, the Board currently has four Committees, each of which is governed by a formal charter setting out its purpose, role, responsibilities, composition, structure and membership. Each Committee Charter is reviewed annually by the Committee and any proposed changes to a charter must be approved by the Board.

The **Audit and Risk Committee** was established on 13 August 2009 and assists the Board in satisfying itself that **nbn** and its subsidiaries are complying with their financial management, performance reporting, risk oversight and management, reporting obligations, and internal control and compliance with relevant laws and policies, and provides a forum for communication between the Board, senior management of **nbn**, and the internal and external auditors of **nbn**. In particular, the Committee supervises:

- The preparation of periodic financial statements of **nbn** to comply with its financial reporting requirements;
- The delivery and effective implementation of an annual strategic internal audit plan; an annual external audit plan; **nbn's** risk

management system; a plan setting out procedures and strategies for the effective prevention, detection and management of fraud and other inappropriate practices; and a system for the integration and alignment of assurance processes;

- The delivery of the Enterprise Risk Strategy, and the Fraud Risk and Investigations Strategy;
- Significant changes in accounting policies;
- The maintenance of effective and efficient internal and external audit processes;
- The approach followed in establishing **nbn's** business continuity planning arrangements;
- The steps management takes to embed a culture that promotes the proper use of Commonwealth resources and its commitment to ethical and lawful behaviour;
- Auditor independence and performance; and
- Compliance with laws and regulations by **nbn**.

Composition: The Committee comprises at least three members, the majority of whom are independent Non-Executive Directors. At least one member has financial expertise and the necessary technical knowledge and understanding of the industry in which **nbn** operates so as to be able to assist the Committee to effectively discharge its risk related mandate. Committee members during the period from 1 July 2014 to 30 June 2015 who continue as current members are Dr Kerry Schott AO (Chair appointed 12 November 2013), Mr Patrick Flannigan (appointed 28 November 2013) and Ms Alison Lansley (appointed 28 November 2013). Refer to pages 33 to 36 of the Directors' report for the relevant qualifications and experience of the Committee members.

For independence purposes, the Chair of the Committee is an independent Non-Executive Director and is not the Chairman of the Board. The Committee will schedule four meetings each year. In accordance with Section 3.5 (d) of its Charter, the Committee met separately with **nbn's** external auditors during the period from 1 July 2014 to 30 June 2015.

The **Communications Committee** was re-established on 12 November 2013 and assists the Board in supervising **nbn** and its subsidiaries' plans (with corresponding performance) for managing communications with **nbn's** key stakeholders, and reviewing plans of **nbn** management for the successful development of communications that will underpin the relationship with **nbn's** key stakeholders.

Composition: The Committee comprises at least two members, at least one of whom is to have experience in Communications / Media / Public Relations. Committee members during the period from 1 July 2014 to 30 June 2015 who are also the current members are Mr Justin Milne (Chair appointed 12 November 2013) and Mr Simon Hackett (appointed 12 November 2013). The Committee will schedule four meetings each year.

The **Nominations Committee** was established on 24 March 2015 and assists the Board in fulfilling its governance responsibilities in relation to the appointment, induction, independence and ongoing assessment of the skills and experience of Directors; Board composition; CEO recruitment; succession planning for Directors, the CEO and members of **nbn's** Executive Committee, and evaluating the performance of the Board, its Committees and Directors.

Composition: The Committee comprises at least three members including the Chairman of the Board, and Chairs of the Board's other sub committees with a

majority of independent Non-Executive Directors. Committee members during the period from 1 July 2014 to 30 June 2015 who are also the current members are Dr Ziggy Switkowski AO (Chairman and Chair), Mr Patrick Flannigan, Mr Simon Hackett, Ms Alison Lansley, Mr Justin Milne, Mr Bill Morrow and Dr Kerry Schott AO. All Committee members were appointed effective 24 March 2015. The Committee will schedule a minimum of one meeting each year.

The **People and Remuneration Committee** (formerly Remuneration and Nominations Committee) was established on 7 February 2014. Following a Board resolution at the Board meeting held on 24 March 2015 the Committee changed its name from Remuneration and Nominations Committee to People and Remuneration Committee, effective 24 March 2015. The remit for the Committee was also updated at this time. The Committee assists the Board in fulfilling its governance responsibilities in relation to establishing people management and remuneration policies for **nbn** that enable **nbn** to attract and retain employees who can create sustainable value for stakeholders; foster exceptional talent and performance while motivating and supporting employees to pursue the growth and success of the **nbn™** network consistent with **nbn's** Corporate Plan; and responsibly reward employees, having regard to the performance of **nbn**, individual performance, statutory and regulatory requirements, and current business norms.

Composition: The Committee comprises at least three members, the majority of whom are independent Non-Executive Directors. Committee members during the period from 1 July 2014 to 30 June 2015 who are also the current members are Dr Ziggy Switkowski AO (Chairman and Chair appointed 7 February 2014), Mr Patrick Flannigan (appointed 7 February 2014) and Mr Justin Milne (appointed 7 February 2014).

The Committee will schedule a minimum of three meetings each year.

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

Agendas for all Committee meetings are prepared and finalised by the Company Secretary in consultation with the Committee Chair and appropriate key **nbn** executives. Committee members receive Committee reports in advance of each meeting via **nbn's** Board portal.

Key **nbn** executives are invited to participate in Committee meetings.

Committee members are appointed by the Board for a term that coincides with the member's term of appointment as a Director or any lesser period that coincides with the termination of the Committee. The Chair of each Committee is appointed by the Board.

Each Committee operates pursuant to a Board approved Charter which is reviewed annually by the Committee and subsequently approved by the Board. Any changes to a Committee Charter require Board approval.

Each Committee Charter is available on **nbn's** website.

At the Board meeting immediately following a Committee meeting, the Board is provided with a report by the Chair of the Committee on the Committee's deliberations, conclusions, resolutions and recommendations. All Directors have access to Committee reports and minutes via **nbn's** Board portal.

Details of the number of Committee meetings each Director was eligible to attend and the number of meetings attended during the period from 1 July 2014 to 30 June 2015 are set out in the Directors' report on page 37.

Company Secretary

In accordance with rule 5.9.1 of **nbn's** Constitution, the Company Secretary holds office on terms and conditions determined by the Board. The appointment or removal of the Company Secretary is to be made or approved by the Board. Details of the Company Secretary are included on page 37.

The responsibilities of the Company Secretary are detailed in Section 7 of the Board Charter. Each Director has access to the Company Secretary.

The Company Secretary is accountable to the Board through the Chairman on all matters relating to the proper functioning of the Board and also has a management reporting line to the CEO or his delegate.

Recognising and managing risk

nbn is required to address risk management in the context of its status as a GBE. The PGPA Act and the GBE guidelines prescribe requirements **nbn** must meet to fulfil its obligations to its Shareholder Ministers to enable them to exercise their accountability to Parliament and to the general public. As a GBE, **nbn** is responsible for providing a Corporate Plan to its responsible Shareholder Ministers, of which risk identification, measurement and risk management strategies are key elements. **nbn's** Risk Management Policy and Framework communicate objectives, approach and responsibilities with regard to risk management throughout **nbn**. The policy and framework also communicate **nbn's** commitment to support the development of a sound risk management culture.

Internal Control Framework

The Board is responsible for the overall Internal Control Framework and for reviewing its effectiveness but recognises that even best practice internal control systems are unlikely to preclude all errors and irregularities. The framework is intended to provide appropriate assurance on:

- Accuracy and completeness of financial reporting against the key performance indicators in the GBE guidelines;
- Safeguarding of assets;
- Maintenance of proper accounting records;
- Segregation of roles and responsibilities;
- Compliance with applicable legislation, regulation and best practice; and
- Effectiveness and efficiency of operations and information technology systems.

Internal controls have been implemented to identify, evaluate and manage significant risks to the achievement of **nbn's** objectives. These internal controls cover financial, operational and compliance risk, and take the form of appropriate financial delegations, financial planning and reporting, compliance with appropriate procurement standards, strategic and operational planning, and internal audit practices.

nbn formally adopted and implemented the Integrated Assurance Framework which links enterprise level risks to controls and assurance activities.

Risk management

nbn has adopted a formal Risk Management Policy that is consistent with Standards Australia AS/NZS ISO 31000: 2009 Risk Management – Principles and Guidelines and the ASX Corporate Governance Principles and Recommendations (Principle 7: Recognise and Manage Risk).

The policy describes a “three lines of defence” principles-based approach to risk management, and forms part of a robust risk management framework to allow for the proactive identification, assessment and management of material risks.

Under **nbn's** Risk Management Framework, all business units maintain a risk profile detailing their material business risks, associated controls and mitigation strategies. **nbn** has identified seven main risk themes (see pages 25 and 26) that capture the most significant challenges to the rollout schedule and peak funding requirements.

The material risks are assessed on a regular basis, and **nbn's** Audit and Risk Committee and the Board receive and consider regular reports on their status.

The Board is ultimately accountable for the management of risk and ensuring that effective risk management practices are in place across **nbn**. In order to fulfil its risk

management responsibilities, the Board is assisted by the Audit and Risk Committee. The Board reviews **nbn's** strategic risk profile biannually.

Internal Audit

Internal Audit is a key component of **nbn's** Governance Framework. It provides independent and objective assurance and consulting activities designed to add value and improve **nbn's** operations.

The Internal Audit function is independent, with **nbn's** Chief Audit Executive, the General Manager – Risk and Internal Audit, reporting directly to the Chair of the Audit and Risk Committee to ensure free and unrestricted access to the Audit and Risk Committee and Board. The Audit and Risk Committee, in turn, has been constituted by the Board under Section 92 of the PGPA Act to review and endorse an annual internal audit plan. The Internal Audit function operates in accordance with a Board approved charter which is reviewed annually by the Audit and Risk Committee and the Board.

nbn operates a co-sourced internal audit model. Following a competitive tender process, KPMG was appointed as principal co-sourced provider on 1 July 2012 for a period of 3.5 years. Other providers are used on an as-needed basis.

Outcomes of the internal audit reviews are provided to the Audit and Risk Committee for its review in compliance with Section 28 of the PGPA Rule 2014. The internal audit activity also seeks to meet or exceed the mandatory guidance provided in the International Professional Practices Framework, published by the Institute of Internal Auditors.

External audit

Under Section 98 of the PGPA Act, the Auditor-General is responsible for auditing the financial statements of Commonwealth companies. In addition, **nbn's** annual report is tabled in Parliament and its financial accounts lodged with the Australian Securities and Investments Commission. The Australian National Audit Office has contracted with PwC to audit the Group on behalf of the Auditor-General.

nbn applies audit independence principles in relation to the external auditors.

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

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

Fees paid by **nbn** to the external auditors are provided in Note 15 to the financial statements.

Treasury

nbn has adopted a formal Treasury Policy, which establishes a prudential framework providing guidelines, controls and reporting systems for the management of nbn's treasury operations. Amongst other things, the Treasury Policy provides clear guidelines for managing treasury risk and making investment and hedging decisions which comply with the PGPA Act.

Certification by the Chief Executive Officer and Chief Financial Officer (CFO)

Prior to the approval of the annual consolidated financial statements by the Board, the CEO and the CFO provide confirmation in writing that the financial statements represent a true and fair view of nbn's operations and its financial position. The letter also includes representation to the Board in respect of the adequacy and effectiveness of nbn's risk management, internal compliance and control systems.

Based on the evaluation performed as at 30 June 2015, the CEO and the CFO concluded that, as of the evaluation date, such risk management, internal compliance and control systems were reasonably designed so that the Group's financial statements and notes are in accordance with the PGPA Act and the *Corporations Act 2001* and there are reasonable grounds to believe the Group will be able to pay its debts as and when they fall due.

Fraud risk and reporting

The Commonwealth Fraud Control Guidelines - 2011 outline the Government's requirements for Commonwealth agencies to put in place a comprehensive fraud control program that covers prevention, detection, investigation and reporting strategies. In addition, nbn has adopted a methodology consistent with the relevant recognised Australian Standards AS 8001-2008: Fraud and Corruption Control

and the AS/NZS ISO 31000:2009 Risk Management - Principles and Guidelines. As a GBE, nbn is committed to applying and adhering to these standards and as such, has a zero tolerance approach to fraudulent and/or corrupt behaviour.

nbn's Fraud and Corruption Control Policy and the Fraud and Corruption Control Plan also contribute to the sound management of fraud risk, and detail the requirements and responsibilities for the prevention, detection and response to fraud and corruption. In addition, the Fraud and Corruption Control Policy seeks to promote behaviour that is consistent with the Code of Conduct and allows nbn to act appropriately and consistently in the investigation and reporting of suspected fraudulent or corrupt activity.

nbn policies

Whistleblower

nbn has a formal Whistleblower Policy, which, amongst other things, captures the requirements of the *Public Interest Disclosure Act 2013 (Cth)* which came into operation in January 2014. The policy was created to promote and maintain an open working environment in which employees, Directors and suppliers are able to raise concerns regarding actual, unethical, unlawful or undesirable conduct, without fear of reprisal and with the support and protection of nbn.

Privacy

nbn has a Privacy Policy which is based on the Australian Privacy Principles that came into force on 12 March 2014 and is designed to inform individuals who interact with nbn about what will happen to personal information nbn handles. nbn also employs a Privacy Officer and has a cross functional privacy program. nbn is committed to compliance with privacy law in order to safeguard the personal information of individuals and to foster a corporate culture that values privacy.

Continuous disclosure

nbn has in place authorisation and monitoring processes in relation to its disclosures, announcements and other communications with stakeholders to ensure these are factual and timely.

Competition law

Compliance with the *Competition and Consumer Act 2010*, the *National Broadband Network Companies Act 2011* and the other regulatory obligations applying to nbn is a key focus for nbn. This includes the supply of certain services and the undertaking of related activities on a non-discriminatory basis, as well as implementing and complying with nbn's Special Access Undertaking, as accepted by the Australian Competition and Consumer Commission (ACCC) on 13 December 2013.

Diversity

nbn is committed to building a diverse workforce and creating an inclusive environment, and supports the GBE guideline (section 5.1(d)) that in making appointments of executives, management and senior staff nbn will have regard to Government policy on fostering a culture that embraces diversity.

As at 30 June 2015, diversity metrics showed that within nbn's workforce, women comprised:

Percentage of	FY2015 (%)	FY2014 (%)
all employees	30	29
all managers	20	20
senior managers	21	18
nbn's Board	29	29

nbn's Diversity Policy is subject a biennial review by nbn's People and Remuneration Committee.

Value for money

As a GBE, key principles regarding value for money, efficiency, transparency and competition are central to nbn's buying decisions.

nbn has developed and maintained Procurement Rules (comprising the Buying Guide and Procurement Manual) that contain a competitive tendering and procurement process which seeks to achieve value for money and also satisfies conditions of the Special Access Undertaking, as accepted by the ACCC on 13 December 2013.

nbn's policies relevant to procurement are mandatory so that all expenditure should comply with the Procurement Rules and be executed in accordance with the Delegations of Authority and agreed principles, ethics and audit requirements.

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

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

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

Commerciality - Select a procurement process that is efficient and most appropriate to the expenditure profile and target objectives for nbn and suppliers. Evaluate supplier proposals against applicable evaluation criteria, assessing all relevant costs, benefits and risks on a whole of life basis (best value for

money, using total cost of ownership).

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

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

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

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

Our environment

nbn aims to build a network that can be operated and used in a way that lowers environmental impact. Through the implementation of its Environment Management System, nbn is committed to adopting ecologically sustainable development principles. nbn is also committed to the principles of reducing its energy, water and natural resource consumption and waste; reducing pollution; and community consultation.



Dr Ziggy Switkowski AO
Chairman of the Board
nbn co limited
Level 11, 100 Arthur Street
North Sydney NSW 2060
Australia

**nbn co limited FINANCIAL REPORT 2014-15
AUDITOR'S INDEPENDENCE DECLARATION**

In relation to my audit of the financial report of the nbn Group (comprising nbn co limited and the entities it controlled at the year's end or from time to time during the year) for the year ended 30 June 2015, 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

Grant Hehir
Auditor-General
Canberra
17 August 2015

GPO Box 707 CANBERRA ACT 2801
19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777



Financial statements



Statement of profit or loss and other comprehensive income

For the year ended 30 June 2015

	Notes	nbn Group	
		30 June 2015	30 June 2014
		\$m	\$m
Revenue			
Telecommunications revenue		161	60
Other revenue		3	1
Total revenue		164	61
Interest income		21	35
Other income	11	8	5
Expenses			
Telecommunication and network costs		(535)	(397)
Employee benefits expenses	3	(410)	(384)
Advisory, corporate and outsourced services		(112)	(87)
IT and software expenses		(120)	(114)
Communication and public information		(28)	(14)
Depreciation and amortisation expense	7 & 8	(631)	(435)
Other expenses		(89)	(74)
Finance charges - leased assets	3	(302)	(223)
Total expenses		(2,227)	(1,728)
Loss before income tax		(2,034)	(1,627)
Income tax benefit/(expense)	4	15	(17)
Loss for the year		(2,019)	(1,644)
Loss attributable to the shareholder		(2,019)	(1,644)
Other comprehensive income/(loss)			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of cash flow hedges		51	(57)
Income tax (expense)/benefit relating to components of other comprehensive income/(loss)		(15)	17
Total other comprehensive income/(loss) for the year, net of tax		36	(40)
Total comprehensive loss for the year		(1,983)	(1,684)
Total comprehensive loss attributable to the shareholder		(1,983)	(1,684)

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

Statement of financial position

As at 30 June 2015

	Notes	nbn Group	
		30 June 2015	30 June 2014
		\$m	\$m
Current assets			
Cash and cash equivalents	5	948	499
Trade and other receivables	6	79	101
Inventories		16	12
Derivative financial assets		57	10
Held to maturity investments		290	245
Other current assets		64	33
Total current assets		1,454	900
Non-current assets			
Derivative financial assets		-	2
Property, plant & equipment	7	10,839	7,791
Intangible assets	8	958	769
Other non-current assets		8	6
Total non-current assets		11,805	8,568
Total assets		13,259	9,468
Current liabilities			
Trade and other payables	10	1,298	818
Other liabilities	11	9	6
Other financial liabilities	12	148	119
Derivative financial liability		-	3
Provisions	13	85	57
Total current liabilities		1,540	1,003
Non-current liabilities			
Trade and other payables	10	22	2
Other liabilities	11	285	179
Other financial liabilities	12	3,678	3,342
Derivative financial liability		-	3
Provisions	13	26	15
Total non-current liabilities		4,011	3,541
Total liabilities		5,551	4,544
Net assets		7,708	4,924
Equity			
Contributed equity	14	13,185	8,418
Other reserves		41	5
Accumulated losses		(5,518)	(3,499)
Total equity		7,708	4,924

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

Statement of changes in equity

For the year ended 30 June 2015

	nbn Group			
	Accumulated losses	Contributed equity	Other reserves	Total equity
	\$m	\$m	\$m	\$m
Balance at 30 June 2013	(1,855)	5,228	45	3,418
Loss for the year	(1,644)	-	-	(1,644)
Other comprehensive loss	-	-	(40)	(40)
Total comprehensive loss for the year	(1,644)	-	(40)	(1,684)
Transactions with owners in their capacity as owners:				
Contributions of equity	-	3,190	-	3,190
Balance at 30 June 2014	(3,499)	8,418	5	4,924
Loss for the year	(2,019)	-	-	(2,019)
Other comprehensive income	-	-	36	36
Total comprehensive (loss)/income for the year	(2,019)	-	36	(1,983)
Transactions with owners in their capacity as owners:				
Contributions of equity	-	4,767	-	4,767
Balance at 30 June 2015	(5,518)	13,185	41	7,708

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

Statement of cash flows

For the year ended 30 June 2015

	Notes	nbn Group	
		30 June 2015	30 June 2014
		\$m	\$m
Cash flows from operating activities			
Receipts from customers		159	61
Payments to suppliers and employees		(1,210)	(959)
Interest received		21	42
Net cash used in operating activities	20	(1,030)	(856)
Cash flows from investing activities			
Receipts from held to maturity investments		528	1,424
Payments for held to maturity investments		(573)	(755)
Payments for property, plant and equipment		(2,586)	(2,151)
Payments for intangible assets		(337)	(284)
Net cash used in investing activities		(2,968)	(1,766)
Cash flows from financing activities			
Payments for finance leases and right of use licences		(320)	(173)
Equity injection for ordinary shares by the Commonwealth of Australia		4,767	3,190
Net cash provided by financing activities		4,447	3,017
Net increase in cash and cash equivalents		449	395
Cash and cash equivalents at the beginning of the year		499	104
Cash and cash equivalents at the end of the year	5	948	499

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

Notes to the financial statements

1. Summary of significant accounting policies

nbn co limited (the Company, **nbn** or the 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 financial report, comprising of the consolidated financial statements and notes to the financial statements, for the year ended 30 June 2015, comprises the Company and its subsidiaries (together referred to as the **nbn** Group or the Group).

nbn is a for-profit entity for the purpose of preparing the financial report.

Except otherwise stated, the Group has consistently applied the accounting policies set out below to all periods presented in these consolidated financial statements.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with 1) Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB); 2) the *Corporations Act 2001*; and 3) the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), which superseded the *Commonwealth Authorities and Companies Act 1997* (CAC Act) on 1 July 2014.

The consolidated financial statements comply with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

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

The Company is incorporated under the *Corporations Act 2001* and is subject to (inter alia) the *National Broadband Network Companies Act 2011* (Cth).

(i) Going concern

The Group's current liabilities exceeded its current assets by \$86 million as at 30 June 2015 (2014: \$103 million). The financial report has been prepared on a going concern basis, which contemplates the continuity of normal operations and the remaining available equity funding from the Commonwealth Government of \$16.3 billion at 30 June 2015 (Note 14). The consolidated financial statements and the notes thereto have been prepared on the basis that **nbn** will continue to operate in accordance with the policy directions provided by the Commonwealth Government as set out in the Statement of Expectations issued on 8 April 2014.

(ii) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest million unless otherwise stated.

(b) New standards and interpretations available for early adoption

Certain new accounting standards, amendments to existing standards and interpretations have been published that are not mandatory for the 30 June 2015 reporting period. These standards, amendments to existing standards and interpretations have not been early adopted by the Group. The Directors have not fully assessed the impact of these new and amended standards and interpretations (to the extent that they are relevant to the Group). Unless otherwise stated, it is not expected these amendments will materially impact the consolidated financial statements of the Group. A summary of these new standards, amendments to existing standards and interpretations that may have an impact is set out below.

(i) AASB 9 Financial Instruments

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and financial liabilities and it also sets out new rules for hedge accounting. The standard will impact the annual reporting period commencing 1 July 2018.

(ii) AASB 15 Revenue from Contracts with Customers and AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The standard will impact the annual reporting period commencing 1 July 2017.

(iii) AASB 2015-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101

The amendments do not require any significant changes to current practice, but should facilitate improved reporting, including an emphasis on only including material disclosures, clarity on the aggregation and disaggregation of line items, the presentation of subtotals, the ordering of notes and the identification of significant accounting policies. The amendments will impact the annual reporting period commencing 1 July 2016.

Notes to the financial statements

(iv) AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality

AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards with the issue of the final amending standard to effect the withdrawal of *AASB 1031 Materiality*. Guidance on materiality is located in *AASB 101 Presentation of Financial Statements* going forward. These amendments will impact the annual reporting period commencing 1 July 2015.

(c) Revenue recognition

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

Revenue is recognised for the major activities as follows:

(i) Telecommunications revenue

Revenue from the provision of telecommunications services includes network access and other services and facilities provided, such as voice, data and connectivity components.

Telecommunications revenue is recognised in the accounting period in which the services are rendered.

(ii) Interest income

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

(d) Foreign currency translation

Foreign currency transactions are translated into the functional currency of the Group 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 profit or loss.

(e) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of nbn co limited as at 30 June 2015 and the results of all subsidiaries for the year ended 30 June 2015.

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

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 the Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. The accounting policies of subsidiaries are consistent with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost, net of any accumulated impairment losses, in the Statement of financial position of nbn co limited.

(f) Cash and cash equivalents

For the purpose of presentation in the Statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of four months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(g) Trade and other receivables

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

Notes to the financial statements

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

(h) Inventories

Inventories include spare parts to be used in maintaining the **nbn**TM network. Costs are assigned to individual items of inventory on the basis of weighted average costs. Inventories are valued at the lower of cost and net realisable value.

(i) Held to maturity investments

Held to maturity investments comprise term deposits held with financial institutions, with original maturities of over four months that management has the intention and ability to hold to maturity. These assets are initially recognised at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

(j) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The Group only has derivatives which are designated as cash flow hedges, being hedges of a particular risk associated with cash flows of recognised assets and liabilities and highly probable forecast transactions.

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

(i) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and

accumulated in reserves in equity. The ineffective portion is recognised immediately in profit or loss within other income or other expenses.

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

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

(k) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation.

Cost includes expenditure that is directly attributable to the acquisition of the asset, including the costs of materials and direct labour, and initial estimates of the costs of dismantling and removing the item and restoring the site on which it is located. Cost that is not directly attributable is recorded as an expense in profit or loss.

Assets under construction are recorded at cost based on the estimated percentage of completion. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the 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 profit or loss during the reporting period in which they are incurred.

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

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

Notes to the financial statements

The Group has assessed the current useful lives of assets as follows:

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

Residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date.

Gain or loss on disposal is determined by comparing the proceeds with the carrying amount of the asset. Gain or loss on disposal is recognised in profit or loss.

(I) Intangible assets

(i) Internally generated intangible assets

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; its intention to complete and its ability to use or sell the asset; how the asset will generate future economic benefits; the availability of resources to complete the development of the asset; and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Costs that are not directly attributable are expensed as incurred.

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

(ii) Software assets

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

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

Costs that are not directly attributable are expensed as incurred.

(iii) Acquired intangible assets

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

(iv) Amortisation

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The estimated useful lives of identifiable intangible assets are as follows:

Identifiable intangible asset type	Useful lives
Software assets	3-8 years
Telecommunications licences	Term of licence

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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

Notes to the financial statements

(m) Impairment of assets

(i) Non-financial assets

Tangible and intangible assets are measured using the cost basis and are written down to their recoverable amount where their carrying value exceeds the recoverable amount.

Intangible assets that are not yet subject to amortisation are tested on an annual basis for impairment, or where an indication of impairment exists. Property, plant and equipment and intangible assets subject to amortisation are reviewed for impairment wherever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

The Group has determined that assets which form part of the **nbn**TM network, work together to generate net cash flows. No one item of telecommunications equipment is of any value without the other assets to which it is connected in order to achieve the delivery of products and services. As a result, the Group has determined that the ubiquitous broadband network is a single CGU (the **nbn** CGU). Refer to Note 9 for further disclosures on impairment of non-financial assets.

(ii) Financial assets

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

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

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

(n) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the reporting date and which are unpaid. The amounts are unsecured and are usually paid within contracted terms. Trade and other payables are initially recognised at their fair value and carried at amortised cost using the effective interest method.

(o) Leases

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

Leases of property, plant and equipment (including network infrastructure), where the Group as lessee has substantially all the risks and rewards of ownership, are classified as finance leases.

Right of use arrangements with Telstra to access Telstra's network infrastructure, comprising ducts, pits, exchange rack space and dark fibre, are classified as finance leases for accounting purposes. In addition, a number of building leases are classified as finance leases.

Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. Incremental contingent rentals (e.g. movements in the Consumer Price Index (CPI)) are excluded from minimum lease payments and are therefore, not included in lease liabilities. Contingent rentals paid during the year are included as an expense in profit or loss. At inception, key elements of the lease arrangement such as interest rate, lease term and valuation methodology are assessed. Each lease payment is allocated between the liability and finance charges. The finance charges are expensed to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment (including network infrastructure) acquired under finance leases are depreciated over the shorter of the asset's useful life or the lease term. Depreciation on network and non-network assets under lease commences when they are installed and ready for use, otherwise termed as 'in service'.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the lease term. Lease incentives are recognised in profit or loss as an integral part of the total lease expense.

Notes to the financial statements

Operating leases include leases over certain properties, commercial vehicles and wireless base stations.

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

(p) Other liabilities

Other liabilities comprise Government grants and developer contributions for no consideration.

(i) Government grants

Government grants are recognised in the Statement of financial position as a deferred gain when the grant is received.

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

(ii) Developer contributions for no consideration

The Group receives network assets for no consideration from developers as part of the build of the nbn™ network in new development areas. Assets received for no consideration are recorded at fair value and the resulting gain is credited to deferred income. The gain is released to profit or loss on a straight-line basis over the expected useful life of the relevant assets.

(q) Provisions

Provisions are recognised when:

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

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

(r) Employee benefits

(i) Short-term employee benefit obligations

Short-term employee benefits include salaries and wages, including non-monetary benefits, short-term incentives and annual leave expected to be settled within 12 months of the reporting date. Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(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 is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using high quality corporate bond rates at the reporting date with terms to maturity and currency to match, as closely as possible to, the estimated future cash flows.

Remeasurement as a result of experience adjustments and changes in assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the Statement of financial position if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Retirement benefit obligations

The 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, and an expense is recognised when the Group is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without likelihood of withdrawal.

Notes to the financial statements

(v) Capitalisation of employee benefit expenses

Employee benefit expenses are capitalised and included in the cost of property, plant and equipment, and software upon initial recognition to the extent that they are directly attributable to constructing and bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(s) Share capital

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

(t) Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the Statement of financial position but are reported in Note 18. They may arise from uncertainty as to the existence of an asset or liability or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when the probability of settlement is greater than remote.

(u) Taxation

(i) Income tax

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

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

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

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

(ii) Tax consolidation legislation

nbn and its wholly owned subsidiaries have formed a tax consolidated group. The head entity, nbn co limited, and the subsidiaries in the tax consolidated group account for their own current and deferred tax amounts arising from temporary differences. In addition, nbn co limited accounts for any deferred tax assets arising from unused tax losses and tax credits for all entities in the tax consolidated group. Refer to Note 4 for further tax consolidation disclosures.

(iii) Goods and Services Tax (GST)

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

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

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) Comparative figures

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

Notes to the financial statements

2. Significant accounting judgements, estimates and assumptions

In applying the accounting policies listed in Note 1, the Group has made certain judgements and estimates on the amounts recorded in the consolidated financial statements. The principal accounting estimates adopted in the preparation of this financial report are set out below. These estimates have been consistently applied to all the periods presented, unless otherwise stated.

Determination of fair value less costs to sell when considering impairment

nbn has determined fair value less cost to sell as being the depreciated replacement cost of the assets given there is no active market for the **nbn**TM network assets. Depreciated replacement cost is an estimate of what it would cost to acquire or construct a substitute national broadband network to the stage of current completion, adjusted for obsolescence. Refer to Note 9 for impairment considerations.

Estimate of the present value of minimum lease payments under the right of use licences governed by the Definitive Agreements (DAs) and the Revised Definitive Agreements (RDAs) with Telstra

A number of assumptions have been made in arriving at the present value of minimum lease payments (MLP) associated with network infrastructure right of use licences with Telstra, which are accounted for as finance leases. In determining the present value of the MLP, a discount rate representing the Group's estimated incremental cost of borrowing at the inception date of the DAs has been applied. The discount rate remains unchanged under the RDAs. For lease accounting purposes, the term of each right of use licence, of up to 35 years, does not include possible renewal periods as the exercise of such options was not considered reasonably certain at inception of the agreements. A proportion of the MLP is expensed directly to profit or loss as repairs and maintenance costs.

Estimate of assets under construction

The percentage of completion method is used for assets under construction (e.g. network assets) and is based on the estimated costs of bringing the assets to their intended location and condition for them to operate in the manner intended by management.

2. Significant accounting judgements, estimates and assumptions (continued)

Estimated useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment based on factors such as business plans and strategies, expected level of usage and future technological developments. It is possible that future results of operations could be materially affected by changes in these estimates.

Estimate of liabilities for claims

The Group is subject to claims and other obligations arising from its contractual arrangements. The recognition of liabilities for claims is subject to a significant degree of estimation. Provision is made for loss when it is considered probable that an adverse outcome will occur and the amount of the loss can be estimated reliably. In making estimates, management takes into account the advice of legal counsel and internal specialists. Any ultimate resolution may differ from the amount provided depending on the outcome of negotiations and/or court proceedings.

3. Expenses

	nbn Group	
	Year ended 30 June 2015 \$m	Year ended 30 June 2014 \$m
Employee benefits		
Defined contribution superannuation expense	(37)	(33)
Other employee benefits, net of capital recoveries	(373)	(351)
Total employee benefits	(410)	(384)
Finance charges - leased assets		
Finance charges on finance lease arrangements	(297)	(221)
Unwinding of the discount on other lease related provisions	(5)	(2)
Finance charges - leased assets	(302)	(223)
Rental expense relating to operating leases	(55)	(44)

Notes to the financial statements

4. Income tax expense

	nbn Group	
	Year ended 30 June 2015	Year ended 30 June 2014
	\$m	\$m
(a) Income tax benefit/(expense)		
Deferred tax	15	(17)
Total	15	(17)
(b) Numerical reconciliation of income tax benefit/(expense) to prima facie tax payable		
Loss before income tax	(2,034)	(1,627)
Tax at the Australian tax rate of 30% (2014: 30%)	610	488
Current year tax losses not recognised	(542)	(451)
Temporary differences not recognised	(53)	(54)
Income tax benefit/(expense)	15	(17)
(c) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	(4,937)	(3,131)
Potential tax benefit @ 30%	(1,481)	(939)

i) Unrecognised tax losses

The cumulative amount of unrecognised tax losses of \$4,937 million (2014: \$3,131 million) may be available to offset against future income tax assessments when the Group generates taxable income.

4. Income tax expense (continued)

	nbn Group	
	Year ended 30 June 2015 \$m	Year ended 30 June 2014 \$m
(d) Unrecognised temporary differences		
Deductible temporary differences for which deferred tax assets have not been recognised or offset, relating to:		
Property, plant & equipment and Intangible assets	476	330
Provisions and accruals	133	51
This is offset by:		
Taxable temporary differences (deferred tax liabilities)		
Cash flow hedges	(57)	(6)
Net temporary differences for which deferred tax assets have not been recognised	552	375
Unrecognised deferred tax asset relating to the above net deductible and taxable temporary differences	166	113

(e) Tax consolidation

nbn co limited and its wholly owned subsidiaries have formed a tax consolidated group. Members of the group have not yet entered into tax funding or tax sharing arrangements. As at 30 June 2015, no contributions to subsidiaries' equity accounts have been recognised for subsidiaries' tax losses assumed by the head entity because no amounts of unused tax losses have been recognised as deferred tax assets (2014: nil).

Notes to the financial statements

5. Cash and cash equivalents

	nbn Group	
	30 June 2015	30 June 2014
	\$m	\$m
Cash at bank	836	384
Term deposits	112	115
Total	948	499

6. Trade and other receivables

	nbn Group	
	30 June 2015	30 June 2014
	\$m	\$m
Current		
Trade receivables	30	8
Interest receivable	3	3
Other receivables	-	52
GST receivable	46	38
Total	79	101

7. Property, plant and equipment

a) Property, plant and equipment

	nbn Group					Total
	Freehold land	Buildings and leasehold improvements	Furniture and equipment	IT equipment	Network assets	
	\$m	\$m	\$m	\$m	\$m	\$m
At 30 June 2013						
Cost	13	228	7	46	3,557	3,851
Accumulated depreciation	-	(22)	(2)	(15)	(95)	(134)
Net book value	13	206	5	31	3,462	3,717
Year ended 30 June 2014						
Opening net book value	13	206	5	31	3,462	3,717
Additions	-	116	3	8	4,243	4,370
Depreciation charge	-	(19)	(3)	(11)	(263)	(296)
Net book value	13	303	5	28	7,442	7,791
At 30 June 2014						
Cost	13	344	10	54	7,800	8,221
Accumulated depreciation	-	(41)	(5)	(26)	(358)	(430)
Net book value	13	303	5	28	7,442	7,791
Year ended 30 June 2015						
Opening net book value	13	303	5	28	7,442	7,791
Additions	-	16	1	8	3,481	3,506
Reclassification	-	-	-	(14)	14	-
Depreciation charge	-	(25)	(3)	(3)	(427)	(458)
Net book value	13	294	3	19	10,510	10,839
At 30 June 2015						
Cost	13	360	11	48	11,295	11,727
Accumulated depreciation	-	(66)	(8)	(29)	(785)	(888)
Net book value	13	294	3	19	10,510	10,839

Notes to the financial statements

7. Property, plant and equipment (continued)

Property, plant and equipment is analysed as follows:

	nbn Group	
	30 June 2015	30 June 2014
	\$m	\$m
Constructed and purchased assets	3,972	2,303
Assets in the course of construction	3,049	2,050
Leased assets	3,524	3,253
Assets acquired for no consideration and under government grant	294	185
Property, plant and equipment - net book value	10,839	7,791

b) *Assets in the course of construction*

The carrying value of property, plant and equipment includes \$3,049 million (2014: \$2,050 million) of expenditure on assets which are in the course of construction. The majority of assets in the course of construction are network assets. As these assets have not been installed and are not ready for use, no depreciation is charged on these assets.

c) *Leased assets*

The net carrying amount included in property, plant and equipment is \$22 million (2014: \$23 million) for buildings and \$3,502 million (2014: \$3,230 million) for network assets.

d) *Assets acquired for no consideration and indefeasible right of use assets*

Included within network assets are assets acquired from developers for no consideration and an indefeasible right of use arrangement with the Department of Communications to use certain Regional Backbone Blackspots Program assets for no consideration (Refer to Note 11).

e) *Non-current assets pledged as security*

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

8. Intangible assets

a) Intangible assets

	nbn Group			
	Software	Licences	Other	Total
	\$m	\$m	\$m	\$m
At 30 June 2013				
Cost	656	121	-	777
Accumulated amortisation	(92)	(65)	-	(157)
Net book value	564	56	-	620
Year ended 30 June 2014				
Opening net book value	564	56	-	620
Additions	263	22	3	288
Amortisation	(112)	(27)	-	(139)
Net book value	715	51	3	769
At 30 June 2014				
Cost	919	143	3	1,065
Accumulated amortisation	(204)	(92)	-	(296)
Net book value	715	51	3	769
Year ended 30 June 2015				
Opening net book value	715	51	3	769
Additions	353	-	9	362
Amortisation	(142)	(27)	(4)	(173)
Net book value	926	24	8	958
At 30 June 2015				
Cost	1,272	143	12	1,427
Accumulated amortisation	(346)	(119)	(4)	(469)
Net book value	926	24	8	958

Notes to the financial statements

8. Intangible assets (continued)

b) Assets in the course of construction

The carrying amount of the intangible assets includes expenditure recognised on software assets, that are in the course of construction. As these assets have not been installed and are not ready for use, no amortisation is charged on these amounts. Total software assets in the course of construction are \$278 million, (2014: \$148 million).

9. Impairment

As set out in Note 1(m)(i), the assets which form part of the **nbn**[™] network currently work together to generate net cash flows. As a result, the Group has determined that it currently has one single cash generating unit (**nbn** CGU).

At 30 June 2015, the Group has performed an impairment test using fair value less cost to sell. In performing the impairment test the Group has estimated the depreciated replacement cost (DRC) of the national broadband assets within the **nbn** CGU and consider DRC to be representative of the fair value less cost to sell of those assets. Depreciated replacement cost is an estimate of what it would cost to acquire or construct a substitute national broadband network, on a like for like basis, to the stage of current completion, adjusted for any obsolescence of the existing assets. In determining depreciated replacement cost, the Group considers the cost of recently constructed assets, current purchase prices and the current estimates of cost at completion of assets under construction.

As a result of this assessment and consistent with prior periods, it has been determined that the recoverable amount is not less than the carrying amount of the **nbn** CGU as at 30 June 2015.

10. Trade and other payables

	nbn Group	
	30 June 2015	30 June 2014
	\$m	\$m
Current		
Trade and other payables	317	198
Accruals	981	620
Total	1,298	818
	nbn Group	
	30 June 2015	30 June 2014
	\$m	\$m
Non-current		
Accruals	22	2
Total	22	2

a) *Accruals*

The accruals balance includes \$816 million (2014: \$517 million) relating to property, plant and equipment and intangible assets, based on an assessment of the estimated cost to complete and percentage of completion of assets at the reporting date.

Notes to the financial statements

11. Other liabilities

	nbn Group	
	30 June 2015	30 June 2014
	\$m	\$m
Current		
Deferred gain on developer contributions and government grants	9	6
Total	9	6

	nbn Group	
	30 June 2015	30 June 2014
	\$m	\$m
Non-current		
Deferred gain on developer contributions and government grants	285	179
Total	285	179

	nbn Group	
	30 June 2015	30 June 2014
	\$m	\$m
Deferred gain on developer contributions and government grants		
Carrying amount at the beginning of the year	185	123
Developer contributions and government grants received during the year	117	67
Released to other income in the profit or loss	(8)	(5)
Carrying amount at the end of the year	294	185

There are no unfulfilled conditions or contingencies attaching to the developer contributions and government grants.

12. Other financial liabilities

	nbn Group	
	30 June 2015	30 June 2014
	\$m	\$m
Current		
Lease liabilities and right of use licences	148	119
Total	148	119

	nbn Group	
	30 June 2015	30 June 2014
	\$m	\$m
Non-current		
Lease liabilities and right of use licences	3,678	3,342
Total	3,678	3,342

The majority of other financial liabilities relates to right of use licences to access Telstra's network infrastructure, comprising ducts, pits, exchange rack space and dark fibre. These right of use licences are accounted for as finance leases. The Group also leases industrial buildings under finance leases with various occupancy terms of up to 20 years.

The Telstra Definitive Agreements (DAs) which commenced on 7 March 2012 have been renegotiated and revised to address the change of provisioning technology by nbn from primarily an FTTP model to an MTM model. All conditions precedent to the Revised Definitive Agreements (RDAs) have been met or waived, with commencement occurring on 26 June 2015 (Refer to Note 16).

Under the RDAs, the right of use arrangements for exchange rack space and ducts were revised. The commencement of the RDAs during the year did not result in any significant impact on the Statement of profit or loss and other comprehensive income or the Statement of financial position for the year ended 30 June 2015.

In addition, during the year, nbn and Telstra agreed on a resolution of the dispute over the contractual interpretation as to the date from which CPI adjustments are to be made to the infrastructure prices applicable under the DAs, specifically the Infrastructure Services Agreement. The resulting impact of the resolution of the dispute on the 30 June 2015 financial statements was not material.

Notes to the financial statements

13. Provisions

	nbn Group	
	30 June 2015	30 June 2014
	\$m	\$m
Current		
Employee benefits	65	40
Other provisions	20	17
Total	85	57
Non-current		
Employee benefits	14	7
Other provisions	12	8
Total	26	15

14. Contributed equity

a) Share capital

	nbn co limited		nbn co limited	
	30 June 2015	30 June 2014	30 June 2015	30 June 2014
	Number of shares	Number of shares	\$m	\$m
Share capital				
Ordinary shares				
Fully paid	13,185,445,092	8,418,445,092	13,185	8,418
Total contributed equity			13,185	8,418

b) Ordinary shares

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

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

14. Contributed equity (continued)

c) Movements in ordinary share capital

Date	nbn co limited		nbn co limited	
	Details	Number of shares	Issue price \$	Value of shares \$m
30 June 2013	Closing balance	5,228,445,092	1.00	5,228
16 July 2013	Equity injection	1,250,000,000	1.00	1,250
4 February 2014	Equity injection	270,000,000	1.00	270
28 February 2014	Equity injection	410,000,000	1.00	410
31 March 2014	Equity injection	130,000,000	1.00	130
30 April 2014	Equity injection	370,000,000	1.00	370
29 May 2014	Equity injection	510,000,000	1.00	510
27 June 2014	Equity injection	250,000,000	1.00	250
30 June 2014	Closing balance	8,418,445,092	1.00	8,418
29 July 2014	Equity injection	440,000,000	1.00	440
29 August 2014	Equity injection	317,000,000	1.00	317
30 September 2014	Equity injection	240,000,000	1.00	240
31 October 2014	Equity injection	240,000,000	1.00	240
28 November 2014	Equity injection	490,000,000	1.00	490
23 December 2014	Equity injection	250,000,000	1.00	250
30 January 2015	Equity injection	380,000,000	1.00	380
27 February 2015	Equity injection	530,000,000	1.00	530
31 March 2015	Equity injection	480,000,000	1.00	480
30 April 2015	Equity injection	210,000,000	1.00	210
29 May 2015	Equity injection	640,000,000	1.00	640
30 June 2015	Equity injection	550,000,000	1.00	550
Total contributed equity at 30 June 2015		13,185,445,092	1.00	13,185

Notes to the financial statements

14. Contributed equity (continued)

d) Capital risk management

The Group's objectives when managing capital are to safeguard the ability of the Group to continue as a going concern while maximising the return to the Commonwealth Government and maintaining an optimal capital structure. The capital structure of the Group consists of cash and cash equivalents disclosed in Note 5, held to maturity investments and contributed equity.

e) Equity funding

On 22 June 2011, the Commonwealth and **nbn** entered into an Equity Funding Agreement, whereby the Commonwealth provided assurances to the Company in relation to the provision of equity funding until 30 June 2021 unless terminated earlier. The total funding pursuant to the agreement was initially capped at \$27.5 billion, excluding any amounts payable in the event of termination of the Telstra and Optus agreements. This capital limit was subsequently increased to \$30.4 billion under an amendment entered into on 8 August 2012.

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

As at 30 June 2015, a total of \$13.2 billion had been made available to the Company, and the expected future equity funding available to the Company as at 30 June 2015 was \$16.3 billion.

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

f) Dividends declared

No dividends were declared or paid during the year (2014: nil).

15. Remuneration of auditors

Under Section 98 of the PGPA Act (2014: section 35 of the CAC Act) the Auditor-General is responsible for auditing the financial statements of nbn co limited and its subsidiaries. On 31 March 2011, the Australian National Audit Office (ANAO) appointed PwC as contractors to the financial statement audit process.

nbn has engaged PwC on assignments additional to their contract auditor duties and may decide to continue to do so, where their expertise and experience with the Group is important and no potential conflicts of interest exist. Any such engagement with PwC is subject to prior approval by the ANAO and having regard to their independence policies.

The Directors are satisfied that the provision of advisory services by PwC did not compromise auditor independence requirements, having a specific regard to PwC's role as the contractor to the ANAO. During the year the following fees were paid or payable for services provided by the auditor and PwC.

Notes to the financial statements

15. Remuneration of auditors (continued)

	nbn Group	
	Year ended 30 June 2015	Year ended 30 June 2014
	\$	\$
Australian National Audit Office		
Audit of annual financial statements	1,570,000	1,535,000
Review of half-year financial statements	470,000	383,000
Non recurring audit fees	500,000	-
Total remuneration for audit and other assurance services	2,540,000	1,918,000
PwC Australia		
Other assurance related services		
- <i>Accounting advice</i>	50,000	23,000
- <i>Regulatory audit and reviews</i>	537,000	459,000
- <i>IT control review</i>	-	120,330
- <i>Other reviews</i>	117,000	132,510
Total remuneration for other assurance related services	704,000	734,840
Other services		
- <i>Risk advisory support</i>	-	66,501
- <i>Other</i>	201,341	53,500
Total remuneration for other services	201,341	120,001
Total auditor's remuneration	3,445,341	2,772,841

16. Significant contractual arrangements

nbn has entered into a large number of contracts that will underpin the delivery of the **nbn**[™] network. In addition to entering into contractual arrangements with delivery partners for the build of the network, **nbn** has entered into strategic agreements with Telstra and SingTel Optus (Optus) that provide **nbn** with the required infrastructure to deliver very fast broadband to all Australians. These strategic agreements are essential to **nbn** in regard to its ability to achieve its short and long term objectives.

a) Telstra Revised Definitive Agreements

nbn and Telstra announced on 23 June 2011 that binding agreements (the Telstra Definitive Agreements or the DAs) had been entered into for the rollout of the **nbn**[™] network. The DAs became unconditional following the satisfaction of conditions precedent including Telstra shareholder approval in November 2011 and ACCC acceptance of Telstra's Migration Plan and Structural Separation Undertaking in March 2012.

Following the completion of the 2013 Strategic Review, the Government provided **nbn** with a new Statement of Expectations under which the **nbn**[™] network rollout was to transition from a primarily FTTP model to an MTM model.

On 14 December 2014, **nbn** and Telstra announced they had renegotiated the DAs and entered into a number of new agreements to provide for the shift to an MTM network rollout (the Revised Definitive Agreements or the RDAs).

As with the DAs, the RDAs continue to provide **nbn** access to certain Telstra network infrastructure comprising ducts, pits, lead-in conduits (ownership of lead-in conduits transfers to **nbn**), exchange rack space and dark fibre to facilitate the efficient rollout of the **nbn**[™] network. The RDAs also continue to require Telstra to progressively disconnect premises connected to its copper and Hybrid Fibre Coaxial (HFC) networks (subject to exceptions for certain copper-based services and pay-TV services provided over parts of the spectrum on the HFC network) as the **nbn**[™] network is rolled out¹. Telstra will continue to be entitled to payments from **nbn** for disconnecting premises from its networks, and **nbn** will continue to expense these payments.

¹ Services provided over the **nbn**[™] network will replace phone and internet services provided over most of the existing landline networks, including copper and the majority of HFC networks within the fixed line footprint. Services provided over existing fibre networks (including in-building, health and education networks) and some special and business services may not be affected.

Notes to the financial statements

16. Significant contractual arrangements (continued)

In addition, the RDAs will see **nbn** progressively take ownership of, and the operational and maintenance responsibility for, elements of Telstra's copper and HFC networks and use of those network elements where it represents the fastest and most cost effective way to deliver fast broadband to families and businesses. These copper and HFC network elements will be used as access technologies as part of the overall design of the MTM rollout. The payment structure remains linked to the rollout of the **nbn**TM network.

Under the RDAs, **nbn** has also agreed to reimburse Telstra for any direct, reasonable, substantiated and incremental (DRSI) costs incurred as a result of the move from the FTTP rollout to the MTM rollout, subject to certain exceptions. **nbn** is capitalising these costs as they are incurred.

As with the DAs, the estimated value of the RDAs is based on a range of dependencies and assumptions over the long term life of the agreements. On a like for like basis, the estimated net present value payable to Telstra under the RDAs is equivalent to that under the DAs.

The RDAs contain a new arrangement relating to **nbn** rollout cessation and related consequences for **nbn**. In addition, there are new provisions relating to **nbn's** liability for performing work on Telstra's live networks. These are both disclosed as contingent liabilities (Refer to Note 18).

All conditions precedent to the RDAs have either been satisfied or waived, and the RDAs came into effect on 26 June 2015.

b) Optus HFC Subscriber Agreement

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

On 19 July 2012, the ACCC published a final determination granting authorisation of the 2011 Optus HFC Subscriber Agreement. The 2011 Optus HFC Subscriber Agreement is now unconditional.

Under the terms of the 2011 Optus HFC Subscriber Agreement:

- Optus agrees to progressively migrate HFC customers to the **nbn**TM network as it is rolled out. Optus agrees to a fixed line network preference in favour of **nbn** for residential and small business customers served by Optus' HFC network; and

16. Significant contractual arrangements (continued)

- **nbn** agrees to make progressive payments to Optus based on the actual number of customers that migrate from its HFC network to the **nbn**TM network.

The majority of the payment to Optus is expensed when incurred.

On 14 December 2014, **nbn** and Optus announced they had signed agreements (the Revised HFC Subscriber Agreement) amending the 2011 Optus HFC Subscriber Agreement. The Revised HFC Subscriber Agreement will see **nbn** progressively take ownership of parts of Optus' HFC network. These assets will also be used as an access technology as part of the overall design of the MTM rollout where it is efficient and/or cost effective to do so. In addition, the Revised HFC Subscriber Agreement continues to require Optus to progressively migrate HFC customers to the **nbn**TM network as it is rolled out.

The Revised HFC Subscriber Agreement is subject to a number of conditions precedent, which **nbn** expects will be satisfied in the first half of FY2016.

17. Commitments

During the year **nbn** revised the reporting of commitments to focus on core capital commitments associated with the construction of the **nbn**TM network. Comparatives have been adjusted to conform with the presentation of commitments as at 30 June 2015.

a) Capital commitments

Total capital expenditure contracted for at the reporting date but not provided for in the Statement of financial position is as follows:

	nbn Group	
	30 June 2015	30 June 2014
	\$m	\$m
Within one year	1,464	1,148
From one to five years	2,236	234
More than five years	3,587	844
Total capital commitments	7,287	2,226

Capital commitments include committed right of use and infrastructure ownership payments under the DAs and RDAs with Telstra, fixed term commercial contracts and other ordered capital expenditure.

Notes to the financial statements

17. Commitments (continued)

Under the RDAs the payment mechanism for right of use arrangements for exchange rack space and ducts was revised. In addition, the payment mechanism for acquired infrastructure (i.e. lead-in conduits) was also revised to incorporate the progressive ownership transfer of certain elements of Telstra's copper and HFC networks. While the estimated net present value payable to Telstra under the RDAs is equivalent to that under the DAs on a like for like basis, **nbn's** committed capital expenditure for accounting disclosure purposes has increased under the terms of the RDAs.

Given the long term nature of **nbn's** capital commitments under the RDAs, which include right of use payments that will occur until 2047 and scheduled infrastructure ownership payments throughout the rollout period, capital expenditure commitments relating to the RDAs in periods beyond 12 months have been discounted for the purpose of the disclosure above. Other capital commitments beyond 12 months have also been discounted.

Payments to Telstra in exchange for Telstra disconnecting premises from its copper and HFC networks are excluded from the disclosure above as the payments do not constitute capital expenditure.

b) Finance leases

As discussed in Note 12, the agreements with Telstra provide **nbn** with access rights to various infrastructure, comprising dark fibre, exchange rack space in exchange buildings, ducts and associated duct infrastructure, which are recognised as finance lease liabilities. In addition, finance lease liabilities have been recognised for certain property leases of industrial buildings.

17. Commitments (continued)

	nbn Group	
	30 June 2015	30 June 2014
	\$m	\$m
Finance lease and right of use licences are payable as follows:		
Within one year	445	394
Later than one year but not later than five years	1,315	1,185
Later than five years	8,793	8,194
Minimum lease payments	10,553	9,773
Future finance charges	(6,727)	(6,312)
Recognised as a liability	3,826	3,461
Representing lease liabilities:		
Current	148	119
Non-current	3,678	3,342
Total finance lease and right of use licence liabilities	3,826	3,461

c) *Operating leases*

The Group leases certain properties, commercial vehicles and wireless base stations with various terms that are due to expire within one to twenty years. Lease payments generally comprise a base amount plus an incremental contingent rental based on movements in the Consumer Price Index and reviews to market-based levels.

Notes to the financial statements

17. Commitments (continued)

	nbn Group	
	30 June 2015	30 June 2014
	\$m	\$m
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	58	46
Later than one year but not later than five years	119	120
Later than five years	259	230
Total	436	396

Not included in the above commitments are contingent rental payments which may arise. Furthermore operating commitments have not been discounted.

18. Contingent liabilities

The details of **nbn's** significant contingent liabilities are set out below:

a) Telstra Revised Definitive Agreements – Rollout cessation

Under the revised Telstra Definitive Agreements, if **nbn** ceases rollout or there is a very slow rollout after 75 per cent of premises are passed or adequately served, then Telstra may terminate the RDAs and claim compensation for **nbn** not completing the rollout to 92 per cent of premises in Australia. Once such rollout cessation occurs, Telstra's network preference and disconnection obligations reduce to **nbn's** fixed line footprint that exists at the time of the rollout cessation. If **nbn** ceases rollout or there is a slow rollout after 20 per cent (but less than 75 per cent) of premises are passed or adequately served, **nbn** is required to pay Telstra a rollout termination amount. The rollout termination amount is \$500 million at the time when 20 per cent of 93 per cent of premises have been passed and reduces proportionately to the time when 93 per cent of premises have been passed or adequately served, when the payment is zero.

18. Contingent liabilities (continued)

b) Telstra Revised Definitive Agreements - Customer loss

Under the revised Telstra Definitive Agreements, **nbn** has a right to undertake copper, HFC and associated passive infrastructure (API) pre-construction and construction works on Telstra's networks pre-asset transfer. **nbn** has indemnified Telstra against any loss or claim for death, personal injury or damage, that **nbn** causes, and contractual liabilities of Telstra to its customers arising as a result of **nbn** undertaking such works on Telstra's networks pre-asset transfer.

c) Contracts contingent on future events

The Group has entered into contracts whereby the Group may be exposed to possible obligations, which can only be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. At 30 June 2015, it is not probable that an outflow of resources will be required to settle any obligation arising under these contracts. These contingent liabilities are not recognised in the consolidated financial statements.

d) ASIC deed of cross guarantee

nbn co limited and nbn tasmania ltd are parties to a deed of cross guarantee as disclosed in Note 25. Each company guarantees the payment in full of the debt of the other named company in the event of their winding up.

e) Legal action

As at 30 June 2015, **nbn** had no outstanding legal action that would materially impact the 30 June 2015 financial statements. However, from time to time the Group may be subject to a lawsuit or proceedings for which it may be required, either by law or based on its business judgement, to make payments to settle or otherwise resolve matters.

f) Construction related claims and disputes

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

Notes to the financial statements

19. Related party transactions

a) Parent entity

The parent entity within the Group is nbn co limited. The ultimate parent entity and ultimate controlling entity is the Commonwealth of Australia.

b) Acquisitions

There were no acquisitions in the year.

c) Subsidiaries

The interest in the subsidiaries is set out in Note 23.

d) Transactions with related parties

The following transactions occurred with related parties:

	nbn Group	
	Year ended	Year ended
	30 June 2015	30 June 2014
	\$	\$
Equity injections		
Equity injected by the Commonwealth of Australia into nbn co limited (Refer to Note 14)	4,767,000,000	3,190,000,000
	nbn Group	
	Year ended	Year ended
	30 June 2015	30 June 2014
	\$	\$
Other transactions		
Service qualification fee from the Department of Communications	-	1,650,152

19. Related party transactions (continued)

e) Key management personnel

Disclosures relating to key management personnel are set out below:

	nbn Group	
	Year ended 30 June 2015	Year ended 30 June 2014
	\$	\$
Short-term employee benefits	8,805,867	8,978,446
Post-employment benefits	181,291	232,754
Long-term benefits	630,621	(203,155)
Termination benefits	-	5,491,294
Total	9,617,779	14,499,339

f) Other directors' interests

During FY2014, a contract was entered into for \$60,000 with Cicomilne Pty Ltd, of which Justin Milne is 100 per cent shareholder. The contract was for the provision of strategic advice or recommendations as required by **nbn** in relation to the negotiations between **nbn** and Telstra in relation to the Revised Definitive Agreements. Mr Milne excused himself from discussions on the awarding of the contract.

For the year ended 30 June 2015, an amount of \$6,600 was paid in relation to this contract. On 14 December 2014, **nbn** signed the Revised Definitive Agreements with Telstra, which resulted in no further services being required from Cicomilne Pty Ltd. As a result, the contract ceased with no further fees payable to Cicomilne Pty Ltd during FY2015.

Notes to the financial statements

20. Reconciliation of loss for the year to net cash used in operating activities

	nbn Group	
	Year ended 30 June 2015	Year ended 30 June 2014
	\$m	\$m
Loss for the year	(2,019)	(1,644)
Add/(less): non-cash items		
Depreciation and amortisation	631	435
Other income	(8)	(5)
Finance charges - leased assets	302	223
Income tax (benefit)/expense	(15)	17
Other items	8	-
(Increase)/decrease in assets		
Increase in trade and other receivables	(22)	(6)
(Increase)/decrease in GST receivable	(8)	6
Increase in prepayments	(33)	(2)
Decrease in interest receivable	-	7
Increase in inventories	(4)	(6)
Increase/(decrease) in liabilities		
Increase in trade and other payables	116	9
(Decrease)/increase in accruals	(10)	85
Increase in provisions	32	25
Net cash used in operating activities	(1,030)	(856)

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

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

Acquisition of assets by means of non-cash transactions represents those assets acquired via finance leases or contributed for no consideration.

	nbn Group	
	Year ended 30 June 2015	Year ended 30 June 2014
	\$m	\$m
Acquisition of network infrastructure by means of finance leases	408	2,076
Acquisition of network infrastructure by means of developer contributions and government grants	117	67
Acquisition of assets by non-cash transactions	525	2,143

21. Financial risk management

a) Financial risk management objectives

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

The Group's principal financial instruments are outlined in the following table. The main risks arising from the Group's financial instruments are market risks (interest rate risk, foreign currency risk), liquidity risk and credit risk.

Notes to the financial statements

21. Financial risk management (continued)

b) Financial assets and liabilities

All of the below financial assets and liabilities are carried at amortised cost except for derivative financial assets and liabilities which are measured at fair value.

	nbn Group	
	30 June 2015	30 June 2014
	\$m	\$m
Financial assets		
Cash and cash equivalents	948	499
Interest receivable	3	3
Trade and other receivables	30	60
Held to maturity investments	290	245
Derivative financial asset	57	12
Carrying amounts of financial assets	1,328	819
Financial liabilities		
Trade and other payables	1,320	820
Other financial liabilities	3,826	3,461
Derivative financial liabilities	-	6
Carrying amounts of financial liabilities	5,146	4,287

c) Net income and expenses from financial assets and liabilities

The net income and expenses earned from financial assets and liabilities for the year ended 30 June 2015 was a net expense of \$276 million (2014: net expense of \$186 million).

d) Foreign currency risk management

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to foreign currency risk due to fluctuations in foreign exchange rates for certain transactions.

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

21. Financial risk management (continued)

The Group operates USD and EUR foreign currency denominated bank accounts.

As at 30 June 2015, the carrying amount of monetary liabilities denominated in foreign currencies as expressed in Australian dollars was as follows:

	nbn Group			
	Year ended 30 June 2015		Year ended 30 June 2014	
	USD \$m	EUR \$m	USD \$m	EUR \$m
Foreign exchange risk				
Trade payables	51	3	18	3
Current foreign exchange risk	51	3	18	3
Forward Exchange Contracts				
Buy foreign currency (cash flow hedges)	317	-	463	-
Forward exchange contract risk	317	-	463	-

The Group has entered into forward exchange contracts to hedge its exposure to currency risk in relation to highly probable forecast transactions relating to the purchase of satellites, the construction of ground stations, associated orbital launch services and the purchase of network equipment, which are denominated in foreign currency. In order to protect against exchange rate movements, the Group has entered into forward exchange contracts to purchase US dollars. The Group's strategy is to hedge up to 80 per cent of all highly probable forecast purchases at any point in time.

i) Sensitivity analysis of monetary liabilities denominated in foreign currencies

The possible fluctuations in foreign exchange rates would not have a material impact on the measurement of monetary liabilities denominated in foreign currencies and profit or loss for the current and prior periods.

ii) Sensitivity analysis of derivatives

Other components of equity would have been \$93.9 million higher/\$11.9 million lower (2014: \$65.9 million higher/\$41.2 million) had the Australian dollar weakened/strengthened by 10.9 per cent (2014: 11.5 per cent) against the US dollar, arising from foreign forward exchange contracts designated as cash flow hedges.

Notes to the financial statements

21. Financial risk management (continued)

The method used to arrive at the possible risk of 10.9 per cent (2014: 11.5 per cent) movement against the US dollar is based on both statistical and non-statistical analysis. The statistical analysis has been based on a basket of currencies (USD, EUR, GBP, JPY and NZD) movement for the last five years to which the Commonwealth of Australia is exposed to.

e) Interest rate risk management

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

	Note	nbn Group	
		Carrying amount	Weighted average effective interest rate
		\$m	%
At 30 June 2015			
Cash and cash equivalents	5	948	2.20%
Held to maturity investments		290	2.81%
At 30 June 2014			
Cash and cash equivalents	5	499	2.82%
Held to maturity investments		245	3.35%

i) Cash flow sensitivity analysis

Given the nature and quantum of interest-bearing instruments, any possible movements in interest rates would have an immaterial impact on profit or loss.

21. Financial risk management (continued)

f) Credit risk exposure

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Group. Counterparty exposure is measured as the total value of the exposures to all obligations of any single legal or economic entity (e.g. a group of companies).

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, the favourable position of derivative financial instruments, and held to maturity investments, as well as credit exposures to retail service providers, including outstanding receivables and committed transactions.

The Group's maximum exposure to credit risk at the end of the reporting period is the carrying amount of the financial assets as recorded in the Statement of financial position.

The credit quality of financial assets can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Notes to the financial statements

21. Financial risk management (continued)

	nbn Group	
	30 June 2015	30 June 2014
	\$m	\$m
Trade receivables		
A1	-	5
A2	10	-
A3	3	-
<i>Counterparties without external credit rating*</i>		
Group 1	8	-
Group 2	8	3
Group 3	1	-
Trade receivables	30	8
Cash at bank and short-term bank deposits		
AA-	948	499
	948	499
Held to maturity investments		
AA-	290	245
	290	245
Derivative financial assets		
AA-	57	12
	57	12

- * Group 1 - new customers (less than 6 months)
 Group 2 - existing customers (more than 6 months) with no defaults in the past
 Group 3 - existing customers (more than 6 months) with defaults in the past, subsequently remediated.

21. Financial risk management (continued)

The Group did not have any material receivables that were past due or impaired at 30 June 2015 and 30 June 2014.

g) Liquidity risk

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

The Group's financial liabilities are trade and other payables, and finance lease liabilities. The Group's capacity to meet its liabilities arises from the funding commitment from the Commonwealth Government described in Note 14(e).

Notes to the financial statements

21. Financial risk management (continued)

The following table illustrates the maturities for financial liabilities:

	nbn Group			Total contractual cash flows	Carrying Amount (assets)/ liabilities
	Within 1 year	1 to 5 years	Greater than 5 years		
At 30 June 2015	\$m	\$m	\$m	\$m	\$m
Non-derivatives					
Trade and other payables	1,298	22	-	1,320	1,320
Finance lease liabilities	445	1,315	8,793	10,553	3,826
Total non-derivatives	1,743	1,337	8,793	11,873	5,146
Derivatives					
Gross settled (forward foreign exchange contracts - cash flow hedges)					
- inflow	375	-	-	375	-
- outflow	(317)	-	-	(317)	(57)
Total derivatives	58	-	-	58	(57)
At 30 June 2014					
Non-derivatives					
Trade and other payables	818	2	-	820	820
Finance lease liabilities	394	1,185	8,194	9,773	3,461
Total non-derivatives	1,212	1,187	8,194	10,593	4,281
Derivatives					
Gross settled (forward foreign exchange contracts - cash flow hedges)					
- inflow	347	123	-	470	-
- outflow	(327)	(136)	-	(463)	(6)
Total derivatives	20	(13)	-	7	(6)

22. Fair value measurement of financial instruments

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

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

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

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

a) *Fair value of derivative assets and liabilities*

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

The fair value of derivatives used for hedging is determined using forward exchange rates at the reporting dates.

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

b) *Fair value of other financial instruments*

The Group has a number of financial instruments which are not measured at fair value in the Statement of financial position as discussed in Note 21(b). Their carrying amounts approximate their fair value as at the reporting date.

23. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(e).

Name of entity	Country of incorporation	Class of shares	Equity holding as at 30 June 2015	Equity holding as at 30 June 2014
nbn tasmania ltd	Australia	Ordinary	100%	100%
nbn co spectrum pty ltd	Australia	Ordinary	100%	100%

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

Notes to the financial statements

24. Parent entity disclosures

a) Financial position of parent entity

	nbn co limited	
	30 June 2015	30 June 2014
	\$m	\$m
Assets		
Total current assets	1,454	898
Total non-current assets	11,873	8,609
Total assets	13,327	9,507
Liabilities		
Total current liabilities	1,608	1,070
Total non-current liabilities	4,012	3,541
Total liabilities	5,620	4,611
Equity		
Contributed equity	13,185	8,418
Other reserves	41	5
Accumulated losses	(5,519)	(3,527)
Total equity	7,707	4,896

b) Result of parent entity

	nbn co limited	
	Year ended 30 June 2015	Year ended 30 June 2014
	\$m	\$m
Loss for the year	(1,992)	(1,746)
Total comprehensive loss for the year	(1,956)	(1,786)

Parent entity receivables and investments have been written down by a total of \$1.5 million (2014: \$132.0 million) to reflect the net assets of the subsidiaries. There is no impact on the consolidated position.

24. Parent entity disclosures (continued)

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

Commitments disclosed in Note 17 represent the total commitment of the parent entity for the acquisition of property, plant and equipment.

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

Other than the deed of cross guarantee as disclosed in Note 25, no guarantees have been entered into by the parent entity in relation to debts of its subsidiaries.

e) *Contingent liabilities of the parent entity*

The contingent liabilities disclosed in Note 18 all relate to the parent entity.

25. Deed of cross guarantee

nbn co limited and nbn tasmania ltd are parties to a deed of cross guarantee under which each company guarantees the debts for the other. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

a) *Statement of profit or loss and other comprehensive income, Statement of financial position and Summary of movements in accumulated losses*

nbn co limited and nbn tasmania ltd represent a 'closed group' for the purpose of the Class Order and as there are no other parties to the deed of cross guarantee, they also represent the 'extended closed group'.

Set out on the following pages are a Statement of profit or loss and other comprehensive income, Statement of financial position and a Summary of movements in accumulated losses for the year ended 30 June 2015 of the closed group.

Notes to the financial statements

25. Deed of cross guarantee (continued)

b) Statement of profit or loss and other comprehensive income

For the year ended 30 June 2015

	nbn co & nbn tasmania	
	Year ended 30 June 2015	Year ended 30 June 2014
	\$m	\$m
Revenue		
Telecommunications revenue	161	60
Other revenue	3	1
Total revenue	164	61
Interest income	22	37
Other income	8	5
Telecommunication and network costs	(536)	(464)
Employee benefits expenses	(410)	(384)
Advisory, corporate and outsourced services	(112)	(87)
IT and software expenses	(120)	(114)
Communication and public information	(28)	(14)
Depreciation and amortisation expense	(604)	(409)
Other expenses	(89)	(131)
Finance charges - leased assets	(302)	(223)
Total expenses	(2,201)	(1,826)
Loss before income tax	(2,007)	(1,723)
Income tax benefit/(expense)	15	(17)
Loss for the year	(1,992)	(1,740)
Loss attributable to the shareholder	(1,992)	(1,740)
Other comprehensive income/(loss)		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of cash flow hedges	51	(57)
Income tax (expense)/benefit relating to components of other comprehensive income/(loss)	(15)	17
Total other comprehensive income/(loss) for the year, net of tax	36	(40)
Total comprehensive loss for the year	(1,956)	(1,780)
Total comprehensive loss attributable to the shareholder	(1,956)	(1,780)

25. Deed of cross guarantee (continued)

c) Statement of financial position

As at 30 June 2015

	nbn co & nbn tasmania	
	30 June 2015	30 June 2014
	\$m	\$m
Current assets		
Cash and cash equivalents	948	499
Trade and other receivables	79	101
Inventories	16	12
Derivative financial assets	57	10
Held to maturity investments	290	245
Other current assets	64	33
Total current assets	1,454	900
Non-current assets		
Derivative financial assets	-	2
Property, plant & equipment	10,839	7,791
Intangible assets	957	741
Other non-current assets	8	6
Total non-current assets	11,804	8,540
Total assets	13,258	9,440
Current liabilities		
Trade and other payables	1,298	818
Other liabilities	9	6
Other financial liabilities	148	119
Derivative financial liability	-	3
Provisions	85	57
Total current liabilities	1,540	1,003
Non-current liabilities		
Trade and other payables	22	2
Other liabilities	285	179
Other financial liabilities	3,678	3,342
Derivative financial liability	-	3
Provisions	26	15
Total non-current liabilities	4,011	3,541
Total liabilities	5,551	4,544
Net assets	7,707	4,896
Equity		
Contributed equity	13,185	8,418
Reserves	41	5
Accumulated losses	(5,519)	(3,527)
Total equity	7,707	4,896

Notes to the financial statements

25. Deed of cross guarantee (continued)

d) *Summary of movements in accumulated losses*

	nbn co & nbn tasmania	
	Year ended 30 June 2015	Year ended 30 June 2014
	\$m	\$m
Balance at 1 July	(3,527)	(1,787)
Loss for the year	(1,992)	(1,740)
Balance at 30 June	(5,519)	(3,527)

26. Events occurring after the reporting period

On 31 July 2015, nbn received \$480 million in equity funding from the Commonwealth Government.

Other than the receipt of additional equity funding from the Commonwealth Government, no matter or circumstance has arisen since 30 June 2015 to the date of signing of this report that has significantly affected, or may affect:

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

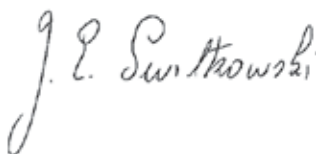
Directors' declaration

- (1) The financial statements and notes set out on pages 69 to 128 are in accordance with the *Corporations Act 2001* and the *Public Governance, Performance and Accountability Act 2013* (the PGPA Act), including:
 - (i) Complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) Giving a true and fair view of the Group's financial position as at 30 June 2015 and of its performance for the financial year ended on that date.
- (2) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (3) At the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 25 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee pursuant to ASIC Class Order 98/1418 (as amended) described in Note 25.

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

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

Signed in accordance with a resolution of the Directors.



Dr Ziggy Switkowski AO
Chairman



Bill Morrow
Chief Executive Officer

17 August 2015



INDEPENDENT AUDITOR'S REPORT

To the members of nbn co limited

I have audited the accompanying financial report of nbn co limited, which comprises the Statement of financial position as at 30 June 2015, Statement of profit or loss and other comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended, Notes to the financial statements comprising a Summary of significant accounting policies and other explanatory information, and Directors' declaration of the nbn Group comprising nbn co limited and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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



the accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Opinion

In my opinion the financial report of nbn co limited is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the **nbn** Group's financial position as at 30 June 2015 and its performance for the year ended on that date;
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- c) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Australian National Audit Office

Grant Hehir
Auditor-General
Canberra
17 August 2015

Regulatory reporting requirements index

For the year ended 30 June 2015

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Sch 2, cl 4(2)(b)	Health and safety outcomes (including the impact on injury rates of workers) achieved as a result of initiatives mentioned under paragraph (a) or previous initiatives	Regulatory report	137-140

Sch 2, cl 4(2)(c)	Statistics of any notifiable incidents of which the entity becomes aware during the year that arose out of the conduct of businesses or undertakings by the entity	Regulatory report	137-140
Sch 2, cl 4(2)(d)	Any investigations conducted during the year that relate to businesses or undertakings conducted by the entity, including details of all notices given to the entity during the year under Part 10 of this Act	Regulatory report	137-140
Sch 2, cl 4(2)(e)	Such other matters as are required by guidelines approved on behalf of the Parliament by the Joint Committee of Public Accounts and Audit	Regulatory report	137-140
Environment Protection and Biodiversity Conservation Act 1999			
Section	Subject	Location	Pages
s. 516A(4) and (6)	Report on the implementation of the Ecologically Sustainable Development program within nbn including social, economic, culture and environmental performance	Regulatory report	140-141
Superannuation Benefits (Supervisory Mechanisms) Act 1990			
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s. 6(1)(b)	Report on operation of superannuation arrangement	Regulatory report	137
National Greenhouse and Energy Reporting Act 2007			
Section	Subject	Location	Pages
s. 19	Report to be given to the Regulator: (1) A corporation registered under Division 3 of Part 2 must, in accordance with this section and in respect of each financial year mentioned in subsection (2), provide a report to the Regulator relating to the: (a) greenhouse gas emissions (b) energy production (c) energy consumption from the operation of facilities under the operational control of the corporation and entities that are members of the corporation's group, during that financial year (2) A report under subsection (1) is required for: (a) the corporation's trigger year (within the meaning of subsection 12(1) or (3)); and (b) any financial year in which the corporation is registered at the end of that year	Regulatory report	139
The Freedom of Information Act, 1982			
Section	Subject	Location	Pages
s. 93	Provide information to the Information Commissioner (IC)	Regulatory report	141-143

Regulatory report

For the year ended 30 June 2015

Introduction

During the year, **nbn** is subject to various statutory reporting requirements under the *Public Governance, Performance and Accountability Act 2013*, the *Corporations Act 2001*, the *Freedom of Information Act 1982*, the *Work Health and Safety Act 2011*, the *Superannuation Benefits (Supervisory Mechanisms) Act 1990*, the *Environment Protection and Biodiversity Act 1999*, and the *National Greenhouse and Energy Reporting Act 2007*.

The regulatory reporting requirement index on pages 132 and 133 shows where the relevant information can be found in this annual report.

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

Legislation

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

- **nbn's** ownership arrangements and wholesale mandate;
- Certain line of business restrictions on **nbn**; and
- The framework for the eventual privatisation of **nbn**.

nbn ownership and structure

Under the **nbn** Act, the Commonwealth must retain ownership of **nbn** until at least:

- The Communications Minister has declared that the **nbn**TM network is built and fully operational;
- The Productivity Minister has tabled a Productivity Commission inquiry report in both Houses of Parliament;
- The Parliamentary Joint Committee on the ownership of **nbn** has examined the report; and
- The Finance Minister has declared that conditions are suitable for **nbn** sale scheme.

Corporate Plan

nbn has prepared the Corporate Plan 2016, which covers the reporting periods of FY2016 to FY2018 inclusively, and provides an outlook for FY2019.

Objective

nbn's key objective is to ensure all Australians have access to very fast broadband as soon as possible, at affordable prices, and at least cost to taxpayers.

To achieve this objective, the **nbn**TM network has been structured as a wholesale-only access network available on equivalent terms to all access seekers. This is intended to level the playing field for Australian telecommunications and create real and vibrant competition within the industry.

Commonwealth Government policies

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

The Commonwealth Government expects that **nbn** will use flexible discretion in the design, build and operation of the **nbn**TM network, within the constraints of a public equity capital limit of \$29.5 billion to provide access to very fast broadband to Australian premises. The Commonwealth Government expects **nbn** to provide download data rates of at least 25 Mbps^(*) at the wholesale level to all premises and at least 50 Mbps^(*) at the wholesale level to 90 per cent of Australian fixed line premises.

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

(*) The **nbn**TM network is being designed to provide these peak speeds to **nbn's** retail service providers at **nbn's** network boundary. End-user experience, including the speeds actually achieved over the **nbn**TM network, depends on the technology over which services are delivered to premises and some factors outside **nbn's** control, such as end-user equipment quality, software and retail broadband plans and how the retail service provider designs its network.

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

The **nbn** Security Group is accountable for information, physical and personnel security, security investigations, privacy and security knowledge management. This recognises that the boundaries between threat environments have become progressively blurred and that connections are increasingly being seen between these previously independent disciplines. **nbn's** role as a provider of "critical infrastructure"^(**) requires it to maintain robust controls and detection capabilities, plus high levels of resilience to attack.

nbn continues to develop its security resilience focusing on its capabilities to plan and prepare, adapt to changing circumstances, and withstand and recover rapidly from disruptions. Resilience includes the capability to withstand and/or recover from deliberate attacks, accidents, or naturally occurring threats or incidents.

(**) The Australian, State and Territory governments define critical infrastructure as 'those physical facilities, supply chains, information technologies and communication networks which, if destroyed, degraded or rendered unavailable for an extended period, would significantly impact the social or economic wellbeing of the nation or affect Australia's ability to conduct national defence and ensure national security'.

Regulatory report

nbn has adopted a holistic security framework, measuring its overall security compliance against Australian Government security requirements and telecommunications industry obligations. The adoption of a multi-disciplinary **nbn** security group, supported by investment in cyber security compliance controls and independent security reviews, provides a balanced security foundation where a cross-disciplinary team of security professionals commit to protecting **nbn's** reputation, people, assets and information.

Parliamentary oversight

Responsible Minister

nbn has two Shareholder Ministers. As at the date of this report these were the Minister for Communications, the Hon Malcolm Turnbull MP and the Minister for Finance, Senator the Hon Mathias Cormann.

Reporting Requirements and Transparency

As part of regular reporting to the Commonwealth Government and Parliament, **nbn** provides regular reporting to its Shareholder Ministers and the public in accordance with the Government's requirement for a high degree of transparency of the project. This includes weekly online reporting of key network deployment metrics, monthly reports to Shareholder Ministers and quarterly financial and operational briefings of stakeholders and the media.

Parliamentary and Other Committees

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

In addition to the questions answered during the hearings, **nbn** received 315 questions on notice arising from these hearings.

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

During FY2015, **nbn** lodged a number of "significant event notices" with the Commonwealth Government in accordance with its obligations under the *Commonwealth Government Business Enterprise Governance and Oversight Guidelines (August 2015)* and the *Public Governance, Performance and Accountability Act 2013*.

No Ministerial Directions were received by **nbn** during FY2015 (FY2014: nil).

Other Commonwealth Government obligations

Superannuation

During FY2015, **nbn** complied with all relevant guidelines and made no significant changes to superannuation arrangements for employees.

Health, Safety and Environment

In accordance with our Health, Safety and Environment (HSE) Policy and Statement of Commitment, **nbn** is committed to ensuring that HSE is considered above all other business matters. **nbn** requires its employees and contractors to comply with all applicable laws and regulations in relation to their work on the **nbn**TM network and has an ongoing commitment to adopt and apply ecologically sustainable development principles.

nbn reports on HSE matters as per Schedule 2, Part 4 of the *Work Health and Safety Act 2011* and Section 516A of the *Environment Protection and Biodiversity Conservation Act 1999*.

HSE governance

nbn's HSE Policy and HSE Statement of Commitment, which were reviewed, updated and endorsed by the Board and

the Chief Executive Officer during FY2015, outline **nbn**'s commitment to a set of principles that focus on achieving safe workplaces and environments, through the implementation of our HSE Management System.

During FY2015, **nbn**'s HSE Management System was independently re-certified to the following Australian and international standards:

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

nbn is also an accredited organisation under the Australian Government Building and Construction OHS Accreditation Scheme.

Comcare (the Commonwealth agency for work health and safety) completed an audit of the **nbn** employee Rehabilitation Management System in FY2015. The audit found that **nbn** is committed to providing early intervention and appropriate rehabilitation for workplace injuries, and a high compliance score was achieved.

Regulatory report

The Executive Committee has accountability for HSE governance and oversight at **nbn**. The Executive Committee meets monthly and HSE is a regular topic on the agenda, with discussion on HSE performance, strategy, initiatives and emerging issues. Additionally:

- The Board of Directors reviews monthly HSE performance and compliance;
- The Board Audit and Risk Committee reviews HSE risk and assurance; and

- The Safety Leadership Team discusses and manages pertinent safety issues at an operational level and consists of executive general managers from across **nbn**.

HSE performance

HSE performance at **nbn** is measured through a variety of lead and lag indicators, including but not limited to 12 month rolling averages for lost time injury frequency rate (LTIFR) and medical treatment injury frequency rate (MTIFR).

Health and Safety lag indicators		
Indicators	FY2015	FY2014
Lost time injury frequency rate (LTIFR) - employees	1.2 lost time injuries per million work hours for employees	0.9 lost time injuries per million work hours for employees
Lost time injury frequency rate (LTIFR) - contractors	2.9 lost time injuries per million work hours for contractors	2.4 lost time injuries per million work hours for contractors
Medically treated injuries frequency rate (MTIFR) - employees	1.6 injuries requiring medical treatment per million work hours for employees	2.8 injuries requiring medical treatment per million work hours for employees
Medically treated injuries frequency rate (MTIFR) - contractors	11.6 injuries requiring medical treatment per million work hours for contractors	10.8 injuries requiring medical treatment per million work hours for contractors

In addition to lag HSE indicators, **nbn** monitors HSE performance through lead indicators including the timely reporting of incidents and the near-miss incident frequency rate to track progress towards a 'no blame', proactive HSE reporting culture. **nbn** has also introduced performance metrics on the management of high potential incidents, to ensure that events that could have resulted in a serious injury or environmental damage are prioritised in terms of management focus, investigation and lessons learnt.

During FY2015, **nbn** had zero fatalities. There were a number of **nbn** work health and safety incidents that were notified to Comcare, and a small number of notices issued by Comcare, with which **nbn** fully cooperated. **nbn** did not receive any fines or notices under any environmental regulations. However, there were four environmental incidents of note, mainly relating to slurry spills.

Energy usage has increased in FY2015 from FY2014, in line with the growth of **nbn's** business. Emissions data will be reported in **nbn's** first *National Greenhouse and Energy Reporting (NGER) Act 2007* report in October 2015. The following are estimates of energy usage and greenhouse gas emissions as at 13 July 2015 for FY2015, which will be finalised in the NGER report:

- 23,642,991 kWh in electricity energy use and 20,862 tCO₂-e in electricity emissions for **nbn** facilities.

Additionally, **nbn** now collects and monitors **nbn** facility waste data to determine waste-to-landfill and recycling rates, to inform the management of waste and for future reporting purposes.

Key HSE improvement initiatives

In FY2015, a significant re-organisation was undertaken to centralise and improve the delivery of HSE strategies, systems and services provided to the business. A central HSE function was established, led by the General Manager HSE, and supported by two HSE Business Partners and five specialist HSE Managers.

The re-organisation allowed the HSE function to focus on better meeting **nbn's** HSE commitments, by:

- Providing integrated HSE support for the management of HSE risks associated with the design, construction and operation of the **nbn**TM network;
- Renewing the focus on continuous improvement of **nbn's** HSE Management System, core HSE processes and HSE IT platforms;
- Establishing a consistent methodology and framework for assessing and measuring HSE compliance across **nbn** and its supply chain;

Regulatory report

- Enhancing the quality and reliability of HSE data and reports to drive HSE performance and inform decision-making; and
- Enhancing and streamlining HSE capability frameworks, Executive HSE leadership framework, integration into **nbn** reward and recognition programs and HSE communications channels across **nbn** to increase visibility of HSE.

Other key HSE activities undertaken in FY2015 included:

- Undertaking reviews of **nbn**TM network equipment under an Multi-Technology Mix (MTM) design to increase energy efficiency and reduce carbon footprint, packaging and end of life requirements;
- Establishing MTM supply chain requirements for equipment supply contracts that cover energy efficiency, better environmental management practices, environmental performance reporting, waste, hazardous materials, packaging, electronic waste, eco design and noise emissions; and
- Installing solar power systems across **nbn**'s Satellite Earth Stations and Aggregation Nodes and Depots to reduce our overall carbon footprint - 2,571 panels at a capacity of 99kWh each were purchased. This is in addition to offsetting emissions from **nbn** office facilities through the purchase of 3,689 MWh of GreenPower certificates.

Environment Protection and Biodiversity Conservation Act 1999 reporting requirements

As a Commonwealth GBE, **nbn** reports each year in compliance with Section 516A of the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act) on the following matters:

- How the activities of **nbn** accorded with the principles of ecologically sustainable development (ESD);
- The effect of **nbn**'s activities on the environment; and
- Measures being taken to minimise the impact of activities by **nbn** on the environment and the mechanisms for reviewing and increasing the effectiveness of these measures.

The EPBC Act defines the goal of ESD as *'development that improves the total quality of life, both now and in the future, in a way that maintains the ecological processes on which life depends'* and includes reference to the integration, precautionary, intergenerational, biodiversity and valuation ESD principles in Section 3A.

nbn strives to act according to the ESD principles at all stages of its operations. During FY2015 this was demonstrated by the following activities:

- Implementing the MTM model which aims to provide fast, reliable and affordable landline phone and internet services with benefits to the health, education, wealth and sustainability of Australians, is in accordance with the 'integration principle';
- Responding to the threat of climate change through a number of adaptation and mitigation measures such as installing solar power panels to generate renewable energy which demonstrates commitment to the 'precautionary principle';
- Establishing major new planning, design, construction and operation contracts to support the implementation of the MTM model, with requirements for the identification, design and management of environmental risks, is in accordance with the 'intergenerational principle';
- Preparing Planning Assessment Reports for all major construction works to identify areas of environmental significance to ensure that EPBC Act and other statutory permits are secured, and designs reflect issued conditions or environmental constraints before construction commences,

supporting the 'biodiversity principle'; and

- Establishing an energy bill data capture, validation and reporting service to improve **nbn's** ability to understand and manage our energy and carbon costs, supports the 'valuation principle'.

The effects of **nbn's** activities on the environment are discussed in the 'HSE performance' section above. **nbn's** integrated Health Safety and Environment Management System that is certified to ISO 14001, is the key measure used to identify, minimise and review the impact of **nbn's** activities on the environment.

Freedom of information report

The *Freedom of Information Act 1982* (the FOI Act) gives members of the public a general right of access to documents held by Australian Government agencies, Ministers and Government Business Enterprises, such as **nbn**. In addition to the general exemptions under the FOI Act, Parliament has determined that documents relating to **nbn's** commercial activities are exempt from the operation of the FOI Act. Similar exemptions operate for other Commonwealth businesses, and research and other organisations, such as Australia Post, CSIRO and Comcare.

Regulatory Report

During FY2014, **nbn** received 63 new FOI requests, finalised 70 requests under the FOI Act and carried over four requests into the next financial year. During FY2015, **nbn** received 57 new FOI requests, finalised 59 requests under the FOI Act and carried over four FOI requests into the next financial year.

Those applications were processed as follows:

Granted in full	3
Granted in part	4
Access refused	5
No documents held	4
Request transferred	1
Application withdrawn	42

During FY2015, the Office of the Australian Information Commissioner (OAIC) initiated a review of one of **nbn's** FOI determinations. As at 30 June 2015, **nbn** continues to work with the OAIC in order to complete this review. **nbn** also finalised four Internal Review requests during this period. Each Internal Review confirmed the original decisions. In addition, the Company was not subject to any reviews or appeals at the Administrative Appeals Tribunal.

How to make FOI requests

nbn recognises that information is a vital and an invaluable resource, both for the Company and for the broader Australian community. **nbn** promotes a pro-disclosure culture, with the goal of creating an organisation that is open, transparent and accountable. As such, a large amount of information is freely available on **nbn's** website.

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

- Specify that documents are being sought for the purposes of the FOI Act;
- Provide a postal or email address where correspondence can be sent. A telephone number will also help in case further information is required; and
- Describe as clearly as possible the information being sought, including any reference numbers or details that may assist in identifying specific material.

FOI applications can be emailed to: FOlofficer@nbnc.com.au

Or posted to:

FOI Requests
nbn co limited
Level 11, 100 Arthur Street
North Sydney NSW 2060

Information publication scheme

Part 2 of the FOI Act requires Commonwealth Government agencies, Ministers and certain Government Business Enterprises to establish an Information Publication Scheme (IPS). As a GBE, **nbn** is required to adhere to the IPS provisions and outline the Company's obligations to provide the Australian community with access to information regarding the Company's operations, activities and other matters. In addition to publishing a broad range of information on the website, **nbn** has published its IPS Plan, which explains how the Company implements and administers its publication scheme. This may be found at the following:

<http://www.nbnco.com.au/corporate-information/about-nbn-co/freedom-of-information/information-publication-scheme.html>.

While section 7(3A) of the FOI Act exempts **nbn** from releasing information relating to its commercial activities, **nbn** regularly releases information about its operations on a proactive basis. **nbn's** objective is to continue along this path without compromising its commercial, business or operational objectives, or those of its partners.

nbn welcomes input from the community regarding its IPS, along with suggestions

regarding information that our Company might consider publishing. In that regard, please forward any comments or suggestions to the FOIofficer@nbnco.com.au. If **nbn** is unable to publish the information requested, **nbn** staff will be in contact to discuss the reasons that the information was unavailable. **nbn** will also endeavour to provide other options regarding information that may be available.

Privacy and access to personal information

Under the *Privacy Act 1988* individuals have, subject to certain exceptions permitted by law, a right to request access to their personal information. For further information please see **nbn's** Privacy Policy, available on the website.

Individuals may apply for access to their personal information held by **nbn** by writing to:

Privacy Officer
nbn co Limited
Level 11, 100 Arthur Street
North Sydney NSW 2060

Or email to: privacyofficer@nbnco.com.au

Glossary

Term	Definition
Access Distribution Area (ADA)	Geographic area served by a common primary access network technology choice. Typically serving 100-200 premises.
Access Seeker	A customer acquiring nbn wholesale services with the intention to supply broadband services to service providers or end users.
Access Technology	The technology used by nbn to deliver the nbn TM network from the exchange location to the network distribution point.
Access Virtual Circuit (AVC)	The bandwidth acquired by RSPs which can be allocated to an end user's premises. The AVC is a virtual point to point connection from nbn's network boundary associated with an end user's premises back to the POI.
April 2014 Statement of Expectations (SOE)	Letter to nbn from its Shareholder Ministers dated 08 April 2014. See: https://www.communications.gov.au/sites/g/files/net301/f/SOE_Shareholder_Minister_letter.pdf .
Asymmetric Digital Subscriber Line (ADSL)	A technology for delivering high speed data transmission over a copper phone line. Provides different downstream (network to end user) and upstream (end user to network) bandwidth.
Average Revenue Per User (ARPU)	Calculations include all telecommunications revenue generated including AVC, CVC and NNI products.
Base Station	The base station connects end user's premises to nbn's fixed wireless network. It consists of antennas, cables and equipment cabinets, mounted either on nbn's infrastructure, or collocated on third-party infrastructure.
Brownfields	Pre-existing premises.
Capital Expenditure (Capex)	The cost of purchasing tangible and intangible assets.
Common Network Infrastructure (CNI)	Network infrastructure installed at nbn's FAN, POI and other transit network sites.
Connectivity Serving Area (CSA)	A logical collection of end user's premises defined by nbn . Each CSA has approximately the same number of end user's premises.
Connectivity Virtual Circuit (CVC)	Determines the capacity of an RSP to be able to serve each CSA. The CVC is virtual Ethernet broadband capacity acquired by an RSP that can be allocated by them to their aggregated AVCs at a CSA.

Term	Definition
Copper Network	Telstra's copper-based customer access network, which is used to deliver standard voice telephony and broadband services.
Customer Engagement Metric (CEM)	Scoring from 1-10 given to nbn by its customers.
Customers	A customer to nbn also defined as an access seeker or a service provider.
Dark Fibre	Optical fibre with no active electronics attached.
Data Over Cable Service Interface Specification (DOCSIS)	A telecommunications standard that permits the addition of high speed data transfer and internet access through HFC infrastructure.
Delivery Partners	A third party involved in the build of the nbn TM network. A delivery partner is a contractor, which has a contract with nbn for the delivery of a certain amount of work/activities in relation to the build and operation of the nbn TM network.
Distribution Network	The part of the network that connects the FAN to the ADA.
DSL	Digital Subscriber Line. A family of technologies that deliver high speed data transmission over a copper phone line.
Duct	A tubular structure usually underground used to house communications cables and equipment.
End Users	Final downstream customers to nbn's service providers.
Exabytes (EB)	A multiple of the unit byte for digital information. The symbol for the exabyte is EB. 1 EB = 1000 ⁶ bytes = 10 ¹⁸ bytes = 1 billion gigabytes.
Fibre Access Node (FAN)	A facility that houses the active equipment providing services to a FSA.
Fibre Distribution Area (FDA)	The geographic area served via a single Fibre Distribution Hub (FDH) which connects addresses to the serving FAN site(s) via Local Fibre. Typically serving up to 200 Premises.
Fibre Distribution Hub (FDH)	The equipment located in a Fibre Distribution Area where Distribution Fibre is split to provide local fibre that runs down each street.
Fibre Network, also defined as nbn Fibre Network or the FTTP Network	nbn's optical fibre telecommunications network that is owned or controlled by nbn and which has been accepted into service, ready for the provision of commercial (non-trial) nbn TM services. nbn's fibre network is based on GPON architecture.

Term	Definition
Fibre-to-the-Premises (FTTP)	<p>Network design in which the fibre network is deployed to each premises.</p> <p>It involves connecting homes and businesses with an optical fibre cable which can be used to provide a range of high speed broadband services and phone services.</p>
Fibre-to-the-Basement (FTTB)	<p>Network design in which the fibre network is deployed to the basement of a building.</p>
Fibre-to-the-Node (FTTN)	<p>Network design in which the fibre network is deployed to the node (i.e. a VDSL cabinet), while copper lines are used for the connection between the node and the premises.</p>
Fixed Line (FL)	<p>Delivery of voice, data and broadband services over a physical line from the exchange location to the end user's premises (with termination at that premises).</p>
Fixed Line Brownfields	<p>nbn's Fixed Line footprint of Brownfields premises.</p>
Fixed Line Greenfields	<p>nbn's Fixed Line footprint of Greenfields premises.</p>
Fixed Line Serving Area (FSA)	<p>The area served by a single FAN site. FSAs can be as small as 1,000 premises in regional areas and up to 30,000 premises for large FSAs in metro areas.</p>
Fixed Wireless	<p>Network design in which network connections are provided through radio signals.</p>
Geocoded National Address File (GNAF)	<p>GNAF® information is provided by PSMA Australia Limited (PSMA). GNAF® lists all valid physical addresses in Australia. It contains approximately 12.6 million physical addresses, each linked to its unique geocode (that is, the specific latitude and longitude of the address). Data used to build GNAF® comes from contributors that include the Australian Electoral Commission, Australia Post, state, territory and Australian Government mapping agencies and land registries.</p>
Gigabit-Capable Passive Optical Network (GPON)	<p>A point to multi-point Fibre-to-the-Premises Network architecture that uses combination of electronics network and passive optical splitters to deliver speeds up to 1,000 Mbps to retail service providers. The GPON active layer technology uses electronics that are designed to be compatible with a fibre that is subsequently split into multiple downstream fibres.</p> <p>The nbn™ network is being designed to provide these peak speeds to nbn's retail service providers at nbn's network boundary. End-user experience, including the speeds actually achieved over the nbn™ network, depends on the technology over which services are delivered to premises and some factors outside nbn's control, such as end-user equipment quality, software and retail broadband plans, and how the retail service provider designs its network.</p>



Term	Definition
Government	Reference to the Commonwealth or Cth is used interchangeably with Government.
Government Business Enterprise (GBE)	Commonwealth entity or Commonwealth company as defined by the <i>Public Governance, Performance and Accountability Act 2013</i> .
Greenfields	A new development that can be either New Developments or Infills. Greenfields developments represent the growth of the premises market.
Hybrid Fibre Coaxial (HFC) Cable Networks	Networks utilising both optical fibre and coaxial cable for the delivery of Pay TV, internet and voice services.
Infills	A type of Greenfields development where new premises or a redevelopment (i.e. demolition and rebuild) are planned to be built on currently developed land that is surrounded by established areas, where Telstra copper services are currently available.
Integrated Assurance Operating Model	Integrated Assurance Operating Model provides a high level view of assurance functions, processes, people and systems and how they will interact to better enable the collaboration of their efforts and to achieve the greatest benefits to the business.
Interim Satellite Service (ISS)	nbn's Interim Satellite Service was launched on 1 July 2011 to provide access to broadband services to people in homes, small businesses and indigenous communities in some of the most remote areas of Australia. The Interim Satellite Service is a temporary measure until nbn launches its own Long Term Satellite Service scheduled for 2016.
Layer 2 Network / Wholesale Services	The transmission layer that encodes and decodes information bits across layer 1 infrastructure. Layer 2 is the active layer of an optical fibre network.
Lead-in Conduit (LIC)	A lead-in conduit is the pipe or conduit carrying the lead-in cable between the customer's premises and the nearest pit.
Local Network (LN)	The part of the network from the Fibre Distribution Hub down each street.
Local Network Distribution Network (LNDN)	<p>The network infrastructure from the Fibre Access Nodes (FANs) outward towards the premises. Consists of:</p> <ul style="list-style-type: none"> • Local Network: The part of the network from the Fibre Distribution Hub (FDH) down each street to the premises lead-ins; and • Distribution Network: The part of the network that connects the FAN to the FDH.

Term	Definition
Long Term Satellite Service (LTSS)	nbn launched satellites which will provide broadband service to Australia in predominantly rural locations.
Megabits Per Second (Mbps)	A unit of measurement of transmission speeds. One Megabit Per Second is equal to 1,000 kbps. X / Y Mbps means a maximum wholesale downstream speed of X Mbps and a maximum upstream speed of Y Mbps at nbn's network boundary.
MTM	Multi-Technology Mix
Multiple Dwelling Unit (MDU)	<p>Premises that contains more than one dwelling unit, which can range from duplexes to 200+ unit apartment blocks. Each dwelling unit is assumed as equivalent to one GNAF (e.g. a 50 unit apartment block will have 50 GNAFs).</p> <p>MDUs come in a variety of formats and may include vertical buildings, horizontal buildings, gated communities, business parks, etc.</p>
nbn TM network	The nation-wide broadband network that will be deployed by nbn and third parties engaged on behalf of nbn .
Network-to-Network Interface (NNI)	The port at nbn's Point of Interconnect (POI) where Service Providers connect their internet transmission backhaul.
New Developments (Greenfields Estates)	<p>A New Development is defined as an estate that complies with the New Development Policy statements released by the Government.</p> <p>For the role of nbn with regards to Greenfields developments, refer to the appropriate policy as befitting the circumstance. http://www.nbnco.com.au/industry/new-developments.html</p>
Point of Interconnect (POI)	The connection point that allows RSPs and WSPs to connect to the nbn access capability. In the field, this is the physical port on the Ethernet Fanout Switch (EFS) switch located at nbn's POI, where an Access Seeker connects to establish exchange of traffic with nbn TM network.
Premises	Premises are defined as addressable locations which nbn is required to connect and are included at Attachment A - Premises Definition, of the December 2010 Statement of Expectations. The Statement of Expectations refers to this definition as the basis for measuring nbn's achievement of the Government's coverage objectives.

Term	Definition
Premises Activated	<p>Refers to premises which have an active service installed.</p> <p>Premises are activated after receiving and provisioning a service order from a retail service provider (Service Provider) to install a new service at the premises.</p>
Premises Covered	Premises covered refers to Fixed Wireless and Satellite areas where premises have Fixed Wireless or Satellite coverage and can access a service via nbn's Service Providers, but where no physical infrastructure passes the premises.
Premises Passed	Premises passed by the nbn™ network, including premises activated and those which cannot yet access a service (i.e. Service Class Zero).
Premises Ready for Service (premises RFS)	<p>Brownfield Premises in a Rollout Region that is Ready For Service, Greenfield Lots/Premises Passed and/or Premises Covered by Fixed Wireless and Satellite.</p> <p>Premises at Service Class Zero are included.</p>
Premises Serviceable	Premises Ready For Service less premises at Service Class Zero.
PSMA - Australia	Public Sector Mapping Agencies - Australia.
Ready for Service (RFS)	A Rollout Region is Ready For Service when nbn is ready to begin activating Premises in that Rollout Region to the nbn™ network, which is when the nbn™ network has passed at least 90% of the premises in the nbn™ footprint in that Rollout Region.
Retail Service Provider (RSP)	A third party provider of retail broadband services to end users.
Rollout Region	A region served by the nbn™ network. A Rollout Region is typically, but not always, a Serving Area Module (SAM).
Service Area Module (SAM)	An area, defined by a collection of ADAs, selected by nbn in accordance with the nbn design rules that covers a maximum of 5,000 Premises.
Service Class (SC)	Means the classification under the WBA for the purposes of determining at what stage of readiness for connection to the nbn™ network a premises is (depends on status of physical infrastructure applicable to that premises). See WBA Dictionary at http://www.nbnco.com.au/content/dam/nbnco/documents/sfaa-wba2-dictionary_20140430.pdf .

Term	Definition
Service Class Zero	Category given to a premises that is in the nbn TM fibre network footprint but which cannot presently be provided with an nbn TM fibre service and is further defined in the WBA Dictionary at: http://www.nbnco.com.au/content/dam/nbnco/documents/sfaa-wba2-dictionary_20140430.pdf
Service Providers (SPs)	A third party provider of broadband services whether to end users and/or Retail Service Providers (See also Retail Service Providers and Wholesale Service Providers).
Special Services	Particular types of services as defined in the Telstra DAs which are provided over the Copper Network and which may not be disconnected on the Disconnection Date for a Rollout Region. A separate regime (with a different timeframe for disconnection) applies to disconnection of special services provided over the Copper Network. Disconnection protocols have been agreed to govern this.
Strategic Reviews	Includes the December 2013 Strategic Review and the May 2014 Fixed Wireless and Satellite Strategic Review.
Transit Fibre	Connection between POIs where Service Providers connect to the nbn TM network, and the regional based FANs. Transit Fibre can also provide connectivity for the Metropolitan FANs to POIs if required.
Transit Network	The fibre rings which connect the regional FAN sites and the nearest POI, served by transit fibre.
Three Lines of Defence	<p>Three lines of defence model provides a simple and effective way to enhance communications on risk management, control and assurance by clarifying essential roles and duties while improving the effectiveness of risk management systems.</p> <p>The model distinguishes between the following three groups (or lines) involved in effective risk management and delivery of assurance:</p> <ul style="list-style-type: none"> • 1st Line Operational Management • 2nd Line Risk Management, Compliance and Other Assurance Functions • 3rd Line Independent assurance <p>Under this model, the second line acts as strategic partner and trusted advisor to ensure that the business – the first line – manages their risk and control environment. The third line provides independent and objective assurance to the Board, through the Audit Committee – thus bringing a systematic, disciplined approach to evaluating and improving the effectiveness of process management, asset management, risk management, control and governance processes.</p>



Term	Definition
TTFN	Temporary Transit Fibre Network.
VDSL	Very-High-Bit-Rate Digital Subscriber Line.
Vertigan Cost-Benefit Review	Means the cost-benefit analysis and review of the regulatory arrangements for nbn being conducted by the panel comprising Dr Michael Vertigan AC, Ms Alison Deans, Professor Henry Ergas and Mr Tony Shaw PSM.
Wholesale Broadband Agreement (WBA)	A document which sets out nbn's supply terms for the nbn Ethernet Bistream Service and other related products and services.
Wholesale Service Provider (WSP)	A provider of wholesale services to Service Providers.

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