



Submission No. 19

SENATOR THE HON PENNY WONG
Minister for Finance and Deregulation

SENATOR THE HON STEPHEN CONROY
Minister for Broadband, Communications and
the Digital Economy

Mr Rob Oakeshott MP
Chair
Joint Committee on the National Broadband Network
Parliament of Australia
Parliament House
CANBERRA ACT 2600

23 SEP 2011

Dear Mr Oakeshott

Thank you for your letter dated 18 August 2011 concerning the reporting arrangements for the Committee and confirming your agreement to receiving the first report on the National Broadband Network (NBN) rollout in mid September.

We are pleased to enclose a copy of the first report on the NBN rollout for consideration by the Committee. This report provides quantitative and qualitative advice outlining NBN Co's key performance information across the following areas:

- progress on the rollout;
- deployment and installation;
- take up rates;
- key financial information: profit and loss statement; balance sheet; cash flow statement; and cash flow reconciliation;
- quality of service including service levels and faults;
- industry and consumer consultation including complaint handling; and
- issues associated with health, safety and environment.

We note that, at least initially, some information provided to the Committee on the above matters may be limited as NBN Co is in the early stages of the rollout. However, we can advise that the information will become more detailed as the rollout progresses as more premises are connected and as NBN Co's operating and business systems come online during 2012.

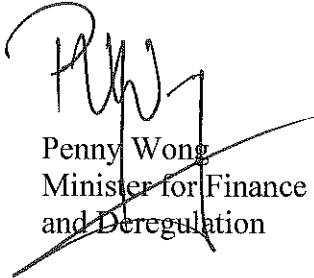
We note your advice that following the Committee's first report and pending an amendment to the Committee's Resolution of Appointment that the Committee will table its report every six months at the end of June and the end of December until the rollout is complete. The Government has undertaken to provide the Committee with an update on the status of the NBN rollout based on information provided by NBN Co.

We note your request to realign the twice yearly reporting schedule to the end of June and the end of December and are in agreement with this change. The Government will look to

facilitate the introduction of a straightforward amendment to the Committee's Resolution of Appointment as per your request.

We welcome the Joint Committee's continued interest in this important infrastructure project.

Yours sincerely



Penny Wong
Minister for Finance
and Deregulation



Stephen Conroy
Minister for Broadband,
Communications and the
Digital Economy

**Government report to Joint Committee
on the National Broadband Network on
NBN Co Limited and its subsidiaries as
at 30 June 2011**

Introduction

This report has been prepared based on information provided by NBN Co Limited to provide:

- 1) A summary of the key milestones achieved by the Company;
- 2) Year to Date Financial reports for the period ended 30 June 2011, comprising profit & loss statements, balance sheets and a consolidated statement of cash flows; and
- 3) Measurement against Key Performance Indicators (KPI's) for the Company as at 30 June 2011.

References in this report to 'NBN Co' or 'the Company' include references to NBN Co Limited and its subsidiaries NBN Tasmania Limited and NBN Spectrum Pty Limited.

This is the first report and as such reflects initial early reporting while systems and reporting processes are still under development. The data will become more meaningful against actual and forecast measures as the reporting series builds up over time. This report is consistent with a start up company in the early years of the rollout.

Executive Summary

Key milestones achieved:

- Execution of mission-critical agreements with Telstra Corporation Limited (Telstra) and SingTel Optus Pty Ltd and other Optus entities (Optus);
- Securing of a funding agreement from the Commonwealth Government covering the anticipated \$27.5 billion equity to be provided by the Government shareholders over time;
- Conclusion of the first major construction contract with Silcar Pty Ltd;
- The first switch-on of the National Broadband Network (NBN) on mainland Australia, in Armidale, NSW;
- First Release Satellite launch; and
- Commencement of construction in a further 7 Tasmania stage two sites.

The key financial results are summarised in Figure 1.

Key Metrics	Actual Result	Corporate Plan
OPEX	\$356m	\$309m
CAPEX	\$463m	\$1,420m
Premises Passed	18,243	17,000 ¹
Premises Activated	622	-
Headcount	906	1,091

1. The Corporate plan only included 13,000 FTTP Brownfields premises and excluded approximately 4,000 Pre-Release Tasmania premises

The variation in OPEX is driven by bringing forward a change in approach to greenfields for managed services and \$8m of unbudgeted costs associated with the Telstra and Optus transactions. CAPEX incurred to date is largely stand-up CAPEX associated predominantly with Corporate IT systems and operational facilities, and limited investment in the rollout. This is partly due to the delays in signing the Telstra Definitive Agreements and timeliness selection and evaluation of the Long Term Satellite solution.

Commercial Negotiations & Events

Telstra & Optus Definitive Agreements

On the 23 June 2011 NBN Co announced it had signed binding Definitive Agreements with Telstra, subject to certain conditions precedent being met, including shareholder and regulatory approvals.

The Definitive Agreements achieve a number of objectives for NBN Co including:

1. NBN Co is granted access to certain Telstra facilities and infrastructure over a minimum period of 35 years, ensuring that the NBN can be rolled out more efficiently and avoiding wasteful duplication of infrastructure; and
2. Telstra has committed to progressively disconnect customers from its copper and Hybrid Fibre Coaxial (HFC) networks (other than HFC pay-TV customers) and to give the NBN a network preference as its preferred fixed-line network for a period of 20 years.

In addition interim arrangements provide NBN Co with immediate access to some Telstra infrastructure before the main agreements become binding.

The Definitive Agreements reached with Telstra are expected to be financially beneficial to NBN Co, as anticipated in the company's Corporate Plan dated 17 December 2010.

Also on the 23 June 2011, NBN Co announced that it had signed a binding agreement with Optus to migrate Optus' subscribers to the NBN. The agreement is subject to Australian Competition and Consumer Commission (ACCC) approval and confirmation of tax treatments.

The Optus agreement provides for the progressive disconnection of Optus' HFC customers and the migration of those customers to the NBN.

The agreement is expected to be financially beneficial to NBN Co, resulting in an improvement in NBN Co's Internal Rate of Return when compared to the Company's Corporate Plan of December 2010.

Commonwealth Funding Agreement

On 22 June 2011, the Commonwealth and NBN Co entered into an equity funding agreement, whereby the Commonwealth provides assurances to the Company that it will provide equity funding to the Company until 30 June 2021, unless the agreement is terminated earlier. The Commonwealth will provide funding sufficient to meet the forecast expenditure of the Company in the Corporate Plan. The total funding pursuant to the agreement is capped at \$27.5 billion with reference to the Corporate Plan dated 17 December 2010 and excluding any amounts payable in the event of termination. As at the date of this report a total of \$1.362 billion has been made available to the Company.

Communication

The CEO has appeared before the Senate Estimates and before the Joint Parliamentary Committee on the NBN.

The first mainland connections in Armidale were launched at a ceremony attended by the Prime Minister in May 2011.

NBN Co engaged with Local Government and regional interest groups through the Federal Government's Regional Development Australia (RDA), presenting to a wide range of audiences in regional Australia.

Community information sessions were held in Tasmania at Triabunna, Sorell and Kingston Beach.

Operational Achievements

Product Definition

On 19 May, 2011 the Company commenced its second public consultation process on its Wholesale Broadband Agreement. The Wholesale Broadband Agreement (WBA) contains the terms and conditions NBN Co is proposing to use for the supply of its products and services to the market. This consultation continues the ongoing industry WBA processes commenced in late October 2010.

NBN Co has also released information papers "Preparing for the NBN and NBN User Guide" and the "National Broadband Network - Information Pack".

The Active Network Release (ANR) program delivers capability via a series of product releases. The First Product Release enabled Broadband, Voice over data and Lawful Intercept into the Network.

The "Pricing Calculator" was released to the ACCC. The following pricing constructs have been progressed:

- Pricing for Ancillary Services which will now be included in the WBA Product Catalogue;
- An alternative Connectivity Virtual Circuit (CVC) pricing construct to address customer concerns about "linear" CVC pricing in a market with increasing download volumes;
- A revised pricing paper for Facilities Access; and
- A Mobile Backhaul Product with pricing yet to be developed.

Networks

F 7uh -Tasmania Stage One

As at 30 June 2011, the following progress has been made in Tasmania:

	Number
Services	761
Premises ordered	633
Premises active	604
Premises passed	3,987

- A total of 3,987 premises have been passed by the fibre network;
- 761 Services have been delivered to 633 premises, with 604 premises being active.;
- Redundancy has been secured by putting secondary backhaul links in place between Hobart and Smithton/Scottsdale; and

- The first Multicast service has been provided to an end-user.

FTTP- First Release Sites

First Release Site	Construction Contractor	Date of Construction Contract	Premises Passed*
Armidale	Silcar Pty Ltd	Jul-10	4,852
Brunswick	Telstra	Aug-10	3,023
Kiama and Minnamurra Downs	Transfield Services	Jul-10	2,454
Townsville	Ergon Energy	Jul-10	2,773
Willunga	ETSA Utilities	Jul-10	1,154
TOTAL			14,256

*Based on current data subject to adjustment

The five mainland First Release Sites (FRS) being Armidale (NSW), Brunswick (Victoria), Minnamurra (NSW), Townsville (Queensland) and Willunga (South Australia) have all achieved practical completion, operations handover and provisional acceptance. The FRS project has now moved to transition and closure phase, which includes a post implementation review to examine the quality of the outcomes and to ensure that the lessons learnt have been documented, communicated and are applied in subsequent projects.

End-user Field Trials began on 18 April, 2011 in Armidale. Residents are progressively being connected to the network as part of customer trials by four telecommunications providers who have already completed the certification process (iiNet, Internode, iPrimus and Telstra).

This test phase is a critical step in building the network, working with telecommunications providers and integrating NBN Co operating systems. The first switch-on event of the NBN on mainland Australia, in Armidale, NSW featured demonstrations of education, health and business applications that will be enabled by the NBN as well as testimonials from some of the first Armidale customers connected to the network.

FTTP – Tasmania Stage Two

On 28 April, 2011 NBN Co released the fibre maps for construction of the NBN in the next seven towns in Tasmania - Deloraine, Kingston Beach, George Town, Sorell, South Hobart, St Helens and Triabunna.

A total of approximately 11,150 homes and businesses are within the fibre footprint across the seven sites.

NBN Co has also announced the construction start dates involving a rolling schedule that makes the most efficient use of the workforce given the geographic spread of the locations. Work commenced in Triabunna and Sorell in late July 2011, followed by Deloraine and St Helens, Kingston Beach, George Town and South Hobart.

Location	Premises - approx	Construction start date*
Deloraine	1400	Commenced
George Town	2600	Commenced
Sorell	1500	Commenced
Triabunna	500	Commenced
Kingston Beach	950	Mid October
St Helens	2200	Late October
South Hobart	2000	Late October

* approval of detailed design

Planning approvals for the initial sites has already been obtained, and NBN Co's agent, Aurora, commenced make-ready works in early May 2011 in these sites in preparation for the fibre rollout. Construction in each location is expected to take from approximately four to six months depending on the size of the site.

FTTP – Transit and Second Release

The Transit Project includes planning for three elements: Dark Fibre Links, Fibre Access Nodes, and Aggregation Nodes.

NBN Co is also in the process of selecting a Construction contractor for the provision and installation of the Transit Network.

The Planning process to refine the site priorities with Telstra following the signing of the Definitive Agreements commenced on 23 June and is scheduled for completion after 12 weeks on 15 September 2011.

FTTP –Access network construction

On 1 April 2011 NBN Co announced that it had indefinitely suspended its network construction tender after four rounds of pricing negotiations.

On 1 June 2011 NBN Co announced that it had reached an agreement with Silcar Pty Ltd which enables NBN Co to prepare for the first large-scale deployment of optic fibre for the NBN. Agreement was reached on terms and prices for construction worth \$380 million over the next two years, with the option of a further two years.

The Silcar Agreement covers Queensland, New South Wales and the ACT, and represents almost 40 per cent of national construction activity planned over the next two years and is in line with NBN Co's Corporate Plan assumptions.

Negotiations have been initiated with other construction contractors on Work Package 2 and 3 covering Victoria and Western Australia (WP2) and South Australia and Northern Territory (WP3).

FTTP- Greenfields

At 30 June 2011, NBN had received more than 1,700 applications from developers, with 1,188 active applications covering approximately 75,000 lots. There have been 403 developer contracts signed at the end of June, 2011. To meet its policy obligation, the Company has determined it will require approximately 300 temporary FAN sites to be built and connected via leased interim managed backhaul.

	Number
Developer applications (approx.)	1,700
Active applications	1,188
Total lots	75,000
Contracts signed	403

To enable the Company to deliver on its Greenfields obligations, Fujitsu Australia Limited was appointed as its prime partner on 13 May 2011. Under the agreement Fujitsu will manage the design, construction and associated works for the deployment of fibre to new developments.

At the end of June, 2011 NBN Co completed the transition of the call centre and developer liaison team activities from the Telstra New Estates Managed Service back to NBN Co.

Fibre construction commenced on 9 June 2011 at the Elinya Multi Dwelling Unit (MDU) in Rhodes in NSW followed by Bunya Single Dwelling Unit (SDU) development in Doonside NSW.

FTTP- Active and Passive Equipment

Commercial forums have started with Corning, Tyco Electronics, Prysmian and Warren & Brown to ensure equipment supply for First Release Tasmania and the first Greenfields locations, and technical governance meetings continue to integrate the selected passive equipment.

The Company is continuing to evaluate best and final offer responses for equipment for the cabling of low-rise and high-rise MDUs.

The equipment rack contract for Fibre Access Node (FAN) Sites and Aggregation Nodes has been awarded to Australian Manufacturer B&R Racking. Negotiations for DC power distribution equipment have been completed. Requests for proposals for DC power supplies and management routers are still in progress.

Wireless

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

The fixed-wireless network service is designed to offer peak speeds of 12Mbps to retail service providers to offer to people living in approximately 3-4 per cent of premises not covered by fibre being about half of those that will not be receiving fibre. Design of the fixed-wireless network has started. Purchase orders have been issued for the first 3 of 4 wireless clusters (Fibre Serving Area equivalents).

Satellite

Satellite First Release contracts with Optus and IPStar were finalised on 6 May 2011. These contracts allow the Company to offer a wholesale Interim Satellite Service capable of peak download speeds up to 6Mbps, to be available via participating retail service providers. Under the Interim Satellite Service, the satellite equipment and installation will be provided by NBN Co, at no cost to the end-user for a standard installation.

On the 26 May 2011 NBN Co released more detailed eligibility criteria for potential rural and remote users of its Interim Satellite Service, confirming that, where high demand exists first priority will be given to those people who have no access to alternate broadband services, subject to a service qualification process. To manage demand levels and ensure continuity between the outgoing Australian Broadband Guarantee (ABG) program and the Interim Satellite Service, the end-user service qualification process will be conducted using similar processes as applied for the ABG.

Interoperability testing has been completed with Harbour IT, Bordernet, Skymesh, Clear Networks, APN, Orion Satellite and Optus.

Evaluation of the Long Term Satellite sourcing plan has continued to progress with updated requirement specifications based on learnings from supplier proposals.

Customer Connection

All first five release sites have been accepted for operation as at 30 June 2011. The total Brownfield premises passed, including Pre-Release, stands at 18,243, with 622 premises activated and receiving services.

NBN Co has signed trial agreements with 18 Access Seekers to participate in the FRS trials. Interoperability testing has been completed for 8 Access Seekers (iiNet, Internode, Primus, Telstra, Optus, Nextgen, Exetel, and Platform Networks), with a further 10 in process.

On 14 April 2011 NBN Co released the NBN User Guide, prepared for home and business owners providing information regarding connection to the NBN when the rollout occurs in their area.

On 15 April 2011 NBN Co released the *National Broadband Network Information Pack*, a comprehensive document covering NBN Co's legislative obligations to community consultation, planning and design, construction of the network and the activation of services

An outsourced contact call centre capability was launched on 19 April 2011 providing a centralised number available to all members of the public wishing to communicate directly with NBN Co. The Centre manages all general NBN enquiries, Greenfields developer applications and public complaints made to NBN Co.

National Operations and Test Facility (NOTF) and On-Boarding

On 6 May 2011 NBN Co published an update to the B2B industry interface specifications, based on the feedback that had been received from the first draft released in January, 2011.

12 Access Seekers have signed to take part in the end-user trials across the five first release sites on the Australian mainland (AAPT, AARNet, Comscentre, Exetel, iiNet, Internode, iPrimus, Nextgen Networks, Optus, Platform Networks, SkyMesh and Telstra).

The interim Test Facility (ITF) has been transitioned to the National Test Facility (NTF). The Application Demonstration Area's detailed design has been finalised, with construction to commence shortly.

Quality

NBN Co continued to work with contractor crews on the first release mainland sites to rectify minor defects following practical completion.

An audit program of critical suppliers has continued (NSN, Corning, Prysmian, ISG) with Quality Systems Actions raised. Corrective and preventative actions are being tracked with follow up by in-factory visits by NBN Quality Staff (Warren & Brown).

Resources

People

At 30 June 2011 NBN Co had a total headcount of 906 comprising 855 employees, 33 contractors and 18 labour hire. This is an increase of 644 from the 30 June 2010 headcount of 262 (207 employees and 55 contractors).

Headcount	June 11 Actual
Operations	
Construction	98
Network Operations	224
Technology	182
Commercial Strategy	25
Product Development & Sales	67
TOTAL Operations Staff	596
Sales, General & Administration (S, G & A)	
Network Operations - CIO	124
All Other S,G & A	286
TOTAL S, G & A Staff	310
TOTAL Headcount (including Contractors)	906

Of the current workforce, 440 are based in NSW, 422 in Victoria, 3 in the ACT, 5 in Tasmania, 22 in Queensland, 9 in South Australia and 5 in Western Australia.

The average tenure of the workforce is 7.6 months; the average age is 42.2 years. NBN Co has 1.3% of the workforce employed on a part-time basis, with 27% of the workforce being women, while 18% of management roles and 11% of General Manager roles and above are filled by women.

Organisational Effectiveness

Phase one of the Company's "Freedom of Information" training was delivered across the company. Drug and Alcohol training is now available on-line and it is part of on-boarding requirements for all new hires during their induction phase.

Health, Safety & Environment (HSE)

The frequency of Lost Time Injuries (LTI) for NBN Co employees was zero and for contractors it was 10.6 Lost Time Injuries per million work hours¹.

The frequency of Medical Treatment Injury (MTI) for NBN Co employees was 2.8 per million work hours and for contractors it was 32.1 Medical Treatment Injuries per million work hours. Medical treatment of employees and contractors by a medical practitioner is encouraged by NBN Co. No MTI's incurred to date have developed into an LTI.

¹ The level of LTI is due to a minor injury with 1 day lost for 1 person

Industrial Relations

NBN Co has provided the ACTU, CEPU and other unions with an update on the progress of the NBN. Further meetings were held with the CEPU on inductions courses and the proposed Certificate II (Cabling Installation and Maintenance) and installation in the aerial corridor and safety matters.

Premises & Security

As part of the Transit Project, the commitments for the initial 10 depots, including points of interconnect have started, focussing on a prefabricated modular solution to allow NBN to execute on its Greenfields obligations.

A Heads of Agreement for permanent premises in Perth has been signed.

Multiple security awareness training courses were conducted in Melbourne and Sydney. Security remediation work at the Sydney & Brisbane data centre continues. A Principal Security Officer was appointed and has responsibility to oversee the strategy and execution of activities to ensure a secure network, safe custody of information, comprehensive physical security of facilities, practical personal security and effective relationships with agencies and government.

Information Technology

The newly designed NBN Co website (www.nbnco.com.au) was launched during June 2011. A content management platform has been created to provide authoring and publishing capabilities to different NBN Co business units, removing the dependency on IT.

NBN Co and IBM commenced the mobilisation and work on the Operational Support System (OSS) and Business Support System (BSS) domain.

Enterprise Resource Planning (ERP) release 6 has been deployed with security access, documents and records, supply chain, assets and property, automated reporting for HSE and business performance, on-boarding of Access Seekers and new developments. Since June 2010, the company has now deployed 6 releases of its ERP systems.

The second Data Centre in Brisbane was commissioned in June 2011 and Fujitsu who were awarded the End User Technology Desktop Services contract transitioned in.

Regulatory & Legal

Regulatory

Work has continued on the regulatory aspects of the Telstra Definitive Agreements, including review work on Ministerial instruments, Telstra's proposed Structural Separation Undertaking and Migration plan, as well as engagement with the ACCC on the Definitive Agreements and the Optus transaction.

NBN Co has engaged with the ACCC as it continues to develop the WBA and interpret the NBN Companies and Access Arrangements Acts, particularly the definition of the 'reasonably necessary to achieve uniform national pricing' element of the authorisation provisions.

Work has continued on powers and immunities in anticipation of public consultation on changes to the low-impact facilities regime (to encompass aerial cabling and MDU's).

The Company continued its engagement activity with the Australian Communications and Media Authority (ACMA) in relation to spectrum requirements of the Long Term Satellite.

Legal

NBN Co has entered into negotiated settlement with one supplier of Pre-Release and has received a claim from another supplier. NBN Co has settled with one Contractor Company who was delayed in the FRS deployment.

Risks

Safety

A serious or significant incident resulting in severe injuries or fatality of an employee or contractor, and exposure to reputation and prosecution as a result of one of these incidents. To mitigate the risks to Safety, mitigation strategies include adherence to AS4801/ISO 14001; the allocation of specific Health, Safety and Environment resources; and ensuring that compliance auditing is conducted.

Quality

Product and process quality controls fail to build and operate a network at an acceptable level of reliable operational performance. To mitigate the risks to Quality, mitigation strategies include adherence to ISO 9001; the allocation of specific Quality resources; and ensuring that compliance auditing is conducted.

Telstra

Implementation risks include failure to satisfy Telstra Conditions Precedent (CPs) requirements; and lack of capacity for management of the Telstra Agreements. To mitigate the risks relating to Telstra, mitigation strategies include active engagement with ACCC and the Australian Taxation Office (ATO); and appointment of a dedicated team to manage delivery of the Telstra requirements.

Optus

Implementation risks include failure to satisfy Optus Conditions Precedent (CPs) requirements; and a lack of capacity for managing the Optus Agreement. To mitigate the risks relating to Optus, mitigation strategies include active engagement with ACCC and ATO; and appointment of a dedicated team to manage delivery of the Optus requirements.

Construction

Cost overruns in relation to the target cost per premise. To mitigate the risks relating to Construction, mitigation strategies include commencing with a “benchmark partner”; engagement with other selected contractors based on “benchmark” model; and the ability to value engineer the design to reduce cost.

Revenue

Failure to meet revenue projections. To mitigate the risks relating to Revenue, mitigation strategies include building out the sales channel to support Retail Service Providers (RSPs); a rigorous presales, on-boarding process to prepare RSPs to be NBN ready; and fostering the Wholesale Aggregation Model to support a range of business models.

Operational Support Systems

Implementation of the OSS does not meet timetable to facilitate operation and support of forecast connections. To mitigate the risks relating to OSS, mitigation strategies include the contracted Prime System Integrator; and a three way collaborative approach to detailed design, development and testing involving business stakeholders, delivery teams and vendors, with one system integrator.

Greenfields

Failure to meet the obligation as infrastructure provider of last resort. To mitigate the risks relating to Greenfields, mitigation strategies include the transfer of bow wave applications back to Telstra; and the contract with one supplier, Fujitsu, to undertake the design and build to strengthen NBN capability.

Financials (Unaudited)

The unaudited financial statements provided by NBN Co are consistent with the financials in NBN Co's audited 2010-11 annual report.

Corporate Plan

On 8 June 2011, the Shareholder Ministers confirmed the Company's Corporate Plan and the associated reporting framework.

Financial Result

The consolidated operating loss for the twelve months to 30 June 2011 was \$323m, with no operational revenues. The main components for the twelve months were:

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

Cash increased \$326m over the past twelve months following equity injections of \$1,050m offset by capital expenditure of \$477m, of which \$118m was spent on the acquisition of the 2.3GHz wireless spectrum and \$247m to support operational requirements.

During the year, net assets increased by \$727m of which cash accounted for \$326m.

Total capital costs incurred over the past twelve months are \$463m with the rollout of the Fibre network amounting to \$85m, and \$118m spent on the Satellite and Wireless solutions, predominantly on the 2.3GHz wireless spectrum. A total of \$198m was spent on Systems and Processes, including Data Centres, National Support and Operations Centre (NSOC), BSS and OSS.

Taxes

The Company expects to be in a tax loss situation for at least the current financial year. As a result, this Progress Report includes a nil income tax expense. No deferred tax asset has been recognised for these tax losses at this stage. The deferred tax asset associated with the loss will only be realised in the future when it becomes probable that future taxable profits will allow the tax losses to be utilised subject to loss recoupment rules.

Post closing events

On 5 July 2011 the Company received a further \$350 million in Commonwealth equity.

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

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

Also released on 28 July 2011 was a discussion paper providing an overview of NBN Co's planned Special Access Undertaking (SAU). The SAU outlines the longer-term approach to price setting and cost recovery under the control of the Australian Competition and Consumer Commission.

On 29 July 2011, Kiama Downs and Minnamurra were officially switched on to the NBN.

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

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

On 4 August 2011, the first release site of Brunswick was officially switched on.

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

On 1 September 2011, the first release site of Townsville was officially switched on to the NBN.

On 6 September 2011, NBN Co announced the schedule of Second Release Sites in Western Australia and Victoria following the signing of contracts with Transfield Services and Syntheo.

On 7 September 2011, the first new broad-acre development was connected to the NBN in Bunya Estate, Doonside.

On 16 September 2011, the first release site of Willunga was officially switched on.

Unaudited Statement of Comprehensive Income*

For the year ended 30 June 2011

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

* The unaudited financial statements provided by NBN Co are consistent with the financials in NBN Co's audited 2010-11 annual report.

Unaudited Quarterly Statement of Comprehensive Income

For the quarter ended

	NBN Group	
	Quarter ended 30 June 2011 \$'000	Quarter ended 31 March 2011 \$'000
Revenue		
Interest income	9,653	9,323
Total Revenue	9,653	9,323
Direct telecommunications costs	(4,240)	(1,3)
Employment costs	(37,606)	(31,253)
External services costs - systems and organisation costs	(38,005)	(38,503)
Legal and negotiation support costs	(22,367)	(14,226)
IT and communications expenses	(12,119)	(4,521)
Occupancy expenses	(4,804)	(3,979)
Travel costs	(2,377)	(1,800)
Insurance expense	1,862	(1,234)
Depreciation and amortisation expense	(14,952)	(3,012)
Other expenses	(2,901)	(1,095)
Total Expenses	(137,508)	100,9)
(Loss) before income tax	(127,855)	(91,631)
Income tax expense/benefit	-	-
(LOSS) FOR THE QUARTER	(127,855)	(91,631)
Other comprehensive income		
TOTAL COMPREHENSIVE (LOSS) FOR THE QUARTER	(127,855)	(91,631)
Total comprehensive (loss) attributable to the Australian Government	(127,855)	(91,631)

*)

Unaudited Statement of Cash Flows*

For the year ended 30 June 2011

	NBN Group	
	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
Cash flows from operating activities		
Payments to suppliers and employees (incl GST)	(367,693)	(79,677)
GST Received	23,451	6,124
Interest received	27,623	3,250
Net cash (used in) operating activities	(316,619)	(70,302)
Cash flows from investing activities		
Payment for property, plant and equipment	(167,364)	(22,838)
Payment for intangibles	(240,110)	(6,530)
Net cash (used in) investing activities	(407,474)	(29,368)
Cash flows from financing activities		
Equity injection for ordinary shares by the Commonwealth of Australia	1,050,000	302,000
Net cash provided by financing activities	1,050,000	302,000
Net increase in cash and cash equivalents	325,908	202,330
Cash and cash equivalents at the beginning of the financial year	212,330	10,000
Cash and cash equivalents at the end of the financial	538,237	212,330

* The unaudited financial statements provided by NBN Co are consistent with the financials in NBN Co's audited 2010-11 annual report.

Unaudited Quarterly Statement of Cash Flows

For the quarter ended

	NBN Group	
	Quarter ended 30 June 2011 \$'000	Quarter ended 31 March 2011 \$'000
Cash flows from operating activities		
Payments to suppliers and employees	(223,277)	(62,412)
GST Received	9,592	4,818
Interest received	12,242	4,567
Net cash (used in) operating activities	(201,443)	(53,027)
Cash flows from investing activities		
Payment for property, plant and equipment	(83,446)	(88,102)
Payment for intangibles	(44,048)	(109,672)
Net cash (used in) investing activities	(127,494)	(197,774)
Cash flows from financing activities		
Equity injection for ordinary shares by the Commonwealth of Australia	350,000	-
Net cash provided by financing activities	350,000	-
Net increase in cash and cash equivalents	21,063	(250,801)
Cash and cash equivalents at the beginning of the financial quarter	517,174	767,975
Cash and cash equivalents at the end of the financial quarter	538,237	517,174

Unaudited Balance Sheet*

For the year ended 30 June 2011

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

* The unaudited financial statements provided by NBN Co are consistent with the financials in NBN Co's audited 2010-11 annual report.

Comments on FY11 Actuals

Table 1

Key Indicators	FY10	Corporate Plan FY11	FY11	Notes
	\$m	\$m	\$m	
Capex	(41)	(1,420)	(463)	a
Opex	(84)	(309)	(356)	b
Interest Income	4	8	33	c
Equity Funding	302	1,788	1,050	d
Outstanding Commitments	(197)	N/A	(375)	e
Net Income	(80)	(356)	(323)	

Notes

- a. Telstra DA's and Satellite delayed – Most of Capex is Fibre \$85m, Wireless \$118m, OSS \$72m, BSS \$56m, NSOC & NOTF \$41m, Data Centres \$29m and Interim Satellite \$11m
- b. Greenfields \$37m and Deal Costs \$8m not included in the FY11 budget
- c. Impact of deferred Capex
- d. Reduced in line with Capex activity
- e. OSS/BSS \$108m, Facilities leases \$96m, Alcatel Lucent active equipment \$29m, First Release Satellite \$12m, Wireless \$13m, Interim Backhaul \$12m, Alcatel Lucent JEP \$12m
 - excess of cash kept all year long over commitments

Table 2 - FY11 Opex

	FY10 \$m	CP FY11 \$m	FY11 \$m
Direct Costs	0	23	6
Staff-Related Costs (incl Capex Recovery)	38	132	124
Non Staff-Related Costs	46	154	227
External Consulting	14	60	43
Outsourced Operations	4	4	63
Legal	15	42	54
IT Costs	6	11	23
Other	7	37	43
Total Opex	84	309	356
Head Count	262	1,091	906

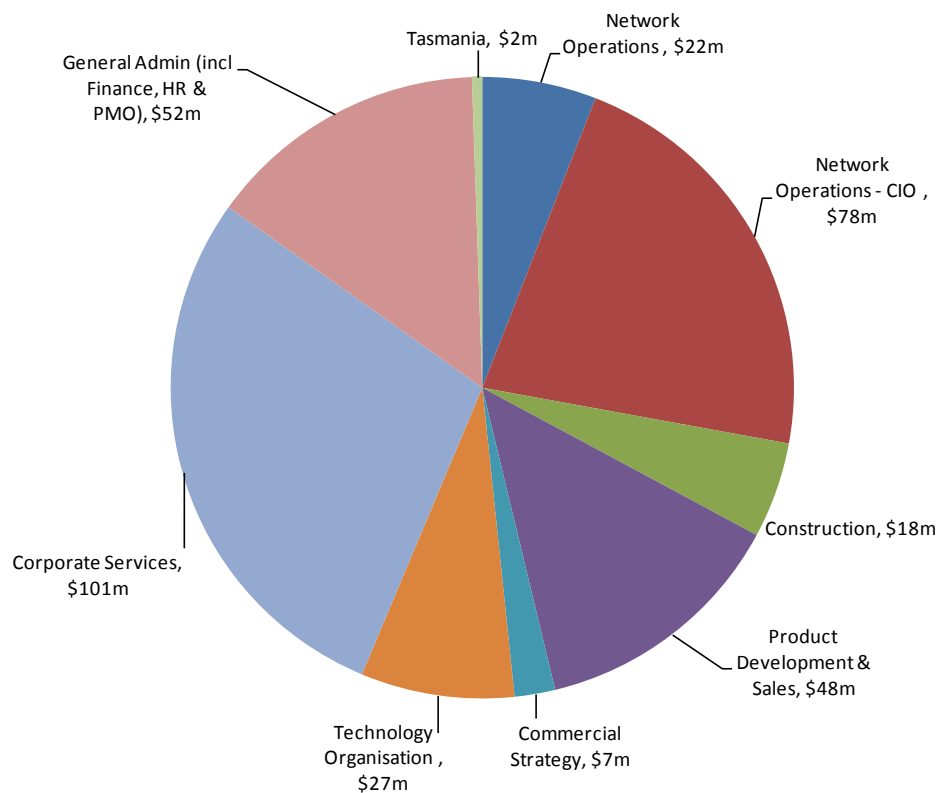
Comment

1. Opex in line with Corporate Plan and Headcount in below Corporate Plan at 906
2. Less operational cost than anticipated opex impacted by higher ICT, call centre & developer applications and deal costs
3. Outsourced operations \$63m comprising;
 - a. Greenfields \$37m

Comments on FY11 Actuals

- b. IT Outsourcing \$11m
- c. HRBPO \$6m
- d. Procurement \$6m
- e. PMO \$3m
- 4. Consultants;
 - a. IT \$21m (OSS/BSS, Portals & workforce augmentation)
 - b. Technology - \$10m (Product Development)

Table 3 – Breakdown of Cost by Function



1. General and admin and Corporate Services includes deal transaction costs of \$34.2m

Comments on FY11 Actuals

Table 4 - FY11 Balance Sheet

Balance Sheet	30 June 2010	30 June 2011
	\$m	\$m
Cash	212	538
Work in Progress	34	235
Fixed Assets - WDV	13	249
Prepayments & Receivables	6	60
TOTAL ASSETS	259	1,082
Trade Creditors	-	19
Accruals	26	90
Employee Provisions & Other Liabilities	1	14
TOTAL LIABILITIES	27	124
NET ASSETS	232	958
Contributed Equity	312	1,362
Accumulated Result	(80)	(404)
TOTAL EQUITY	232	958

Comments:

1. \$267m Assets Capitalised (Spectrum, Pre Release Tasmania, ERP 1-6, Data Centre, NSOC, Armidale and Willunga)
2. \$231m Work in Progress (Fibre \$61m, OSS \$72m, NSOC & NOTF \$20m, Data Centres \$14m, Interim Satellite \$11m, Facilities \$10m, Active Network Program \$11m)
3. Minimal capitalisation of internal resources (\$11m)
4. Capex related accruals (\$47m) – 0.7 months of Capex
5. \$33m interest income generated by high average cash balance

Table 5 – Life to date analysis

Cashflow life to date	\$m
Equity Injections	1,362
Less	
- Opex	(377)
- Capex	(447)
Cash on hand @ 30 June 2011	538

Corporate Key Performance Indicator's

This is the first report and as such reflects initial early reporting while systems and reporting processes are still under development. The data will become more meaningful against actual and forecast measures as the reporting series builds up over time. This report is consistent with a start up company in the early years of the rollout. Corporate Plan targets presented are consisted with the current Corporate Plan. The next Corporate Plan will provide updated targets which will be reflected in future reporting.

#	Measure	Key Performance Indicator	Definition	NBN Co Current Quarter	NBN Co Previous Quarter	Contractor Current Quarter	Contractor Previous Quarter	
1.	Health, Safety & Environment							
1.1	Safety Scoreboard – NBN Co & Contractors	Lost Time Injury (LTI)	<ul style="list-style-type: none"> Any work related injury or illness where a person loses one full shift from work after the date of injury. Measurement is expressed as a frequency rate as the number of lost time injuries per million work hours. 	0	0	10.6	6.3	
		Medical Treatment Injury (MTI)	<ul style="list-style-type: none"> Any work related injury or illness where a person is treated by a Doctor, Paramedic or Allied Therapist . Measurement is expressed as a frequency rate as the number of medical treatment injuries per million work hours. 	2.8	3.4	32.1	12.6	
		Events without Injury	<ul style="list-style-type: none"> Any unplanned incident that occurred at the workplace which, although not resulting in any injury or disease, had the potential to do so. 	4	1	4	6	

#	Measure	Key Performance Indicator	Definition	Current Quarter	Previous Quarter	Regional ²	Metro ²	Corporate Plan Target
2.	Deployment							
2.2	Fibre to the Premise (FTTP) Brownfields	Premises Passed	<ul style="list-style-type: none"> A premise is passed / covered when the shared network and service elements are installed, accepted, commissioned and ready for service, which then enables an end-user to order and purchase a broadband service from their choice of retail service provider. 	18,243	3,987	14,066	4,177	17,000 ¹
		Premises Connected & Activated	<ul style="list-style-type: none"> Number of premises with active service generating revenue to NBN Co. A premise is connected/activated after a valid service order is provisioned and after the dedicated optic fibre cable connection to the premises, optical network termination unit, and reliable power supply unit with battery backup option (for Fibre premises), are installed and in service . 	622	567	622	NIL	-
		Premises in areas under construction	<ul style="list-style-type: none"> Number of premises in rollout areas currently undergoing construction activities but not deemed 'passed'. 	-	NIL ³	-	-	-
2.3	FTTP Greenfields	Total Requests Received	<ul style="list-style-type: none"> Number of requests received from Greenfields developers expressed in # premises and # of development locations (new estates). 	-	1,700	-	-	-
		Premises Passed	<ul style="list-style-type: none"> Number of premises (NBN Co Build) passed. 	-	NIL ⁴	-	-	-
		Premises Connected & Activated	<ul style="list-style-type: none"> Number of premises (NBN Co Build) with active service generating revenue to NBN Co. 	-	NIL	-	-	-
		Premises in areas under construction	<ul style="list-style-type: none"> Number of premises in rollout areas currently undergoing construction activities but not deemed 'passed'. 	-	NIL ³	-	-	-

#	Measure	Key Performance Indicator	Definition	Current Quarter	Previous Quarter	Regional ²	Metro ²	Corporate Plan Target
2.	Deployment							
2.4	First Release Satellite Solution (FRSS)	Premises Covered	▪ Based on coverage estimate.	-	165,000	-	-	165,000
		Premises Connected & Activated	▪ Number of premises with active service generating revenue to NBN Co.	-	NIL ⁵	-	-	NIL
		Uptake	▪ Premises Connected & Activated / Premises Covered.	-	NIL	-	-	NIL
2.5	Wireless	Premises Covered	▪ Number of premises covered.	-	NIL	-	-	NIL
		Premises Connected & Activated	▪ Number of premises with active service generating revenue to NBN Co.	-	NIL	-	-	NIL
		Uptake	▪ Premises Connected & Activated / Premises Covered.	-	NIL	-	-	NIL
		Premises in areas under construction	▪ Number of premises in rollout areas currently undergoing construction activities but not deemed 'passed'.	-	NIL ³	-	-	-

1. Tasmania Pre-Release not included in Corporate Plan targets these have been added back in to obtain a like-for-like basis
2. Metro and Regional definitions based on the Australian Bureau of Statistics ASGC Remoteness Structure
3. Delayed due to finalisation of Definitive Agreements and construction contracts
4. Delayed due to change in greenfields model, first greenfields site launched 7 September 2011
5. Commercial services commenced 1 July 2011