



**NBNCo**

Bringing broadband to life

# Half-Year REPORT

For the six months ended 31 December 2014

ABN 86 136 533 741



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The Half-Year financial statements were authorised for issue by the directors on 26 February 2015. The directors have the power to amend and reissue the Half-Year financial statements.

## Legal Notice

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The Chief Financial Officer  
NBN Co Limited,  
Level 11, 100 Arthur Street  
North Sydney NSW 2060  
Australia

This Half-Year Report should be read in conjunction with the glossary of terms included in the 2013-14 Financial Report.

### Date

This Half-Year Report is for the six months period to 31 December 2014.





# About NBN Co

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

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

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

Established in 2009, NBN Co is a Government Business Enterprise (GBE) incorporated under the Corporations Act 2001 and under the Public Governance, Performance and Accountability Act 2013 (PGPA Act).









# NBN Co Objectives

NBN Co's objectives are set by the Shareholder Ministers in a document referred to as a Statement of Expectations (SoE), which is supplemented from time to time by policy directives and correspondence.

NBN Co's current objectives are set out in the 8 April 2014 SoE, which outlines the Government's commitment to complete the National Broadband 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 Co's overriding objective is to fulfil this commitment.

Refer to pages 8 to 9 of the 2013-14 Financial Report for a list of NBN Co's objectives.

# Directors' Report

The directors of NBN Co Limited (the Company or NBN Co) present their Half-Year Report on NBN Co and its subsidiaries (the **NBN Group**), together with the Half-Year financial statements of the NBN Group for the Half-Year ended 31 December 2014 and the Auditor's review report thereon.







# Board of Directors

The names and details of the directors in office at any time during the Half-Year and the period until the date of this report are as follows:

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**Dr Zygmunt (Ziggy)  
Switkowski AO**  
Non-Executive Chairman



**Ms Alison Lansley**  
Non-Executive Director



**Mr William (Bill) Morrow**  
CEO and Executive Director



**Mr Justin Milne**  
Non-Executive Director



**Mr Patrick Flannigan**  
Non-Executive Director



**Dr Kerry Schott**  
Non-Executive Director



**Mr Simon Hackett**  
Non-Executive Director

# Strategy Update

NBN Co continues to make significant progress in the delivery of high speed broadband to all Australians.

In the six months to 31 December 2014, a further 195,934 premises were made serviceable, an increase of more than a third over the period.

An additional 111,763 premises were connected to the National Broadband Network across all access technologies, an increase of more than 50 per cent.

It brings total premises serviceable for the period to 748,552 and total active end users to 322,391 and puts the company on course to achieve its end of year targets.

These achievements are a direct result of a concerted effort by management to deliver improved levels of service to retail service providers and householders as well as to stabilise the Fibre to the Premises (FTTP) program.

In addition, the company made substantial headway in the transition of the rollout to the Optimised Multi-Technology Mix model (OMTM).

On 14 December 2014, NBN Co signed revised agreements with Telstra and SingTel Optus. These agreements enable NBN Co to take ownership progressively of elements of SingTel Optus and Telstra's Hybrid Fibre Coaxial (HFC) networks and Telstra's copper network in those parts of the country where it represents the fastest and most cost effective way to deliver fast broadband. The agreements are subject to conditions precedent.

In preparation for the transition to the OMTM, the company continued to undertake trials of Fibre to the Basement (FTTB) and Fibre to the Node (FTTN) technologies, including the construction of initial FTTN nodes. This work is critical in the development of new deployment techniques and additional product constructs and will help in the acceleration of the build in line with NBN Co's objectives.

The company anticipates the initial FTTB product release will occur in the first quarter of calendar 2015 with the FTTN product release anticipated to occur in the second half of the calendar year.

During the period, the company announced the design rules that will determine the selection of technology by area and released the initial rollout plan to deliver the multi technology National Broadband Network.

A separate HFC division was established in November 2014, reporting directly to the CEO, and plans are underway to integrate into the network homes in the HFC footprint.

Outside the fixed-line footprint, there was an acceleration in the Fixed Wireless program, with a further 217 sites acquired and 157 base stations made ready for service.

During the period, construction of all 10 satellite ground stations was declared complete. These facilities will support NBN Co's Long Tern Satellite Service. The first of two purpose-built communications satellites remains on track for launch in the current calendar year.

Finally, a significant milestone was reached with the completion of all 121 Points of Interconnect (Pols), exchange-like facilities that enable service providers to connect to the National Broadband Network.



# Operations and Financial Review

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<b>Key Operational Data – for the six months to</b>	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>	<b>31 Dec 2012</b>
Cumulative			
Premises Serviceable	748,552	379,814	121,202
Premises Activated	322,391	130,759	34,523

<b>Key Financial Data (\$m) – for the six months to</b>	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>	<b>31 Dec 2012</b>
Telecommunications revenue	64	22	5
Loss before interest and tax	(776)	(645)	(402)
Net loss after tax	(902)	(716)	(408)
Capital expenditure on property, plant and equipment and intangibles	1,433	1,188	792

<b>Key Financial Data (\$m) – as at</b>	<b>31 Dec 2014</b>	<b>30 June 2014</b>	<b>30 June 2013</b>
Total assets	10,936	9,468	5,519
Contributed equity	10,395	8,418	5,228

The NBN Co Group generated an operating loss after tax for the six months to 31 December 2014 of \$902 million. It also generated telecommunications revenues of \$64 million.

As at 31 December 2014 NBN Co had total assets of \$10,936 million, an increase of \$1,468 million driven by \$1,433 million in capital expenditure on property, plant and equipment and intangibles, and a net

\$240 million increase in assets acquired under finance lease (associated with the handover of network infrastructure from Telstra). Note, the capital expenditure excludes assets acquired finance lease, developer contributions and government grants.

During the period the Company received Commonwealth Government equity injections of \$1,977 million.

## Revenue – six months to 31 December

<b>Telecommunications Revenue - for the six months to</b>	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>	<b>31 Dec 2012</b>
Telecommunications Revenue – \$millions	64	22	5
Average Revenue Per User (ARPU)	\$39	\$36	\$36
Active Premises	322,391	130,759	34,523

Telecommunications revenue increased by 191% to \$64 million compared to the corresponding prior period, driven by a

\$42 million or a 147% increase in Active Premises to 322,391 and a \$3 increase in ARPU to \$39.

The increase in ARPU was driven by higher CVC revenues due to greater demand for capacity as RSP's dimensioned their networks for expected future demand and an increase in NNI revenues as result the full 121 Pols being brought into service. As at 31 December 2014 there was an average of 5.4 RSPs per Pol, in line with 30 June 2014 average of 5.2 RSPs per Pol.

The speed mix of end users also contributed to the positive ARPU result. As at

31 December 2014, 19% of Fibre end-users were on the 100/40 Mbps<sup>1</sup> wholesale service (30 June 2014: 20%), 38% were on the 25/5 Mbps<sup>1</sup> wholesale service (30 June 2014: 37%); and 38% were on the 12/1 Mbps<sup>1</sup> wholesale service (30 June 2014: 38%).

This resulted in the average speed ordered and provisioned across all Fibre End-Users of 35 Mbps<sup>1</sup>, a slight decrease of 1 Mbps<sup>1</sup> since 30 June 2014 to 31 December 2014.

## Expenditure — six months to 31 December

Expenses (\$m) — for the six months to	31 Dec 2014	31 Dec 2013	31 Dec 2012
Telecommunication and network expenses	226	164	74
Employee related expenses	178	189	153
IT and communications expenses	56	57	48
Other expenses	102	90	59
<b>Operating Expenditure</b>	<b>562</b>	<b>500</b>	<b>334</b>
Depreciation and amortisation expense	283	169	74
Finance costs	148	95	20
<b>Total Expenses</b>	<b>993</b>	<b>764</b>	<b>428</b>

Total expenses increased by \$229 million (30%) on the corresponding prior period. The key drivers include:

**Telecommunication and network expenses** which increased by \$62 million to \$226 million. The increase is primarily attributable to network operating costs and end-user migration and disconnection costs in line with the growth of build.

**Employee related expenses** which decreased by 6% to \$178 million compared to the corresponding prior period due to a greater capitalisation of labour costs in line with build activity.

**Other expenses** which increased by 13% or \$12 million to \$102 million. The increase was primarily due to costs associated with the renegotiation of arrangements with Telstra and Optus.

**Depreciation and amortisation expense** which increased by \$114 million to \$283 million and reflects the increase in network assets being placed into service.

**Finance costs** have increased by \$53 million to \$148 million, primarily driven by increased volumes of infrastructure handed over by Telstra which are accounted for by NBN Co as a Finance lease.

<sup>1</sup> NBN Co is designing the National Broadband Network to provide these speeds to NBN Co's wholesale customers, telephone and internet service providers via fibre, fixed wireless and satellite. Speeds actually achieved by retail end users will depend on a number of factors including the quality of their equipment and in-premises connection, the broadband plans offered by their service provider and how their service provider designs its network to cater for multiple end users.

# Operations and Financial Review (continued)

## Capital Expenditure — six months to 31 December

Capital expenditure (\$m) — for the six months to	31 Dec 2014	31 Dec 2013	31 Dec 2012
Transit Network	125	236	163
FTTx Access Networks	797	398	269
Fixed Wireless	145	125	42
Satellite	175	287	164
Common Capex	191	142	154
	<b>1,433</b>	<b>1,188</b>	<b>792</b>

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Capital expenditure excluding assets acquired under finance lease, developer contributions and government grants for the six months to 31 December 2014 was \$1,433 million. Capital expenditure has increased by \$245 million on the corresponding prior year period. The key drivers for the increase in the capital expenditure are:

**Transit Network** — Capital expenditure of \$125 million associated with labour and equipment costs to deploy active equipment and the initial capacity requirements of the distribution network.

During the six months to 31 December 2014 NBN Co integrated an additional 5 Pols sites bringing the total to the planned 121 Pols. NBN Co also integrated a further 61 Dense Wavelength Division Multiplexing rings for a cumulative total of 161.

In the six months to 31 December 2014, a total of 3,799kms of Dark Fibre was deployed, with a life-to-date cumulative total of 55,527kms<sup>2</sup>.

**FTTx Access Networks** — Capital expenditure incurred constructing the FTTx Access Networks, connecting/migrating Fibre end-users, and MDU cabling activity and the acquisition of Telstra lead-in's for the six months was \$797 million.

The capital spend has resulted in a further 227,761 premises passed at an average of 8,665 premises passed per week for the six months to 31 December 2014, an increase from 7,071 premises passed per week in the six months to 30 June 2014. There were also a total of 102,756 premises activated, bringing the cumulative total to 253,883 end-user premises with an active connection.

**Fixed Wireless** — During the six months to 31 December 2014, capital expenditure incurred for Fixed Wireless was \$145 million.

During the six months to 31 December 2014, NBN Co acquired 217 Wireless sites and made ready for service 157 Base Stations, bringing the cumulative total to 1,222 and 599 respectively.

<sup>2</sup> Excludes Dark Fibre acquired from the Regional Backbone Blackspots Program



The capital expenditure has resulted in a further 47,271 premises covered during the six months bringing the total to 159,479. These were 11,239 new activations bringing the cumulative total to 27,792 end-user premises with an active connection.

**Satellite** — Capital expenditure for the Long Term Satellite project for the six months to 31 December 2014 was \$175 million. The capital expenditure related to progress on the construction of the two satellites and the development of the ground stations.

### Cost Per Premise

During the period, the Company undertook a review of its methodology for calculating the average cost per premise of the construction, connection and in-premise activation of the National Broadband Network, and reflects the cost of building from the transit network to the in-premise activation.

The updated approach is a refinement of the way the Cost Per Premises (CPP) has been

**Common Capex** — \$191 million was incurred in the development of the systems and software to support the functionality of the Active Network Release (ANR) program supporting network capability, the Operational Support Systems (OSS) and Business Support System (BSS).

**Finance Leases** — Finance lease arrangements have increased by a discounted net present value of \$240 million, primarily relating to network infrastructure assets acquired from Telstra, comprising dark fibre, rack space and access to duct.

reported previously. It now reflects a more comprehensive view of costs including, for example, design, internal labour and external delivery partner activity. The net present value of leases have also been included.

Given certain costs were previously excluded from the cost per premise calculation; the comparatives below have been restated on the same basis.

Cost per premise (CPP)	31 Dec 2014	30 June 2014
FTTP Brownfields	4,316	4,359
FTTP Greenfields	2,780	3,104
Fixed Wireless	3,637	3,724

# NBN Co's Organisation

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## Business Risks

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

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

- Inability to scale IT systems and operational processes to meet anticipated increases in activity
- Commercial negotiation results in unfavourable terms or is not finalised in a timely manner
- Challenges in implementing the OMTM including the integration of Telstra and Optus deal outcomes
- Long term business plan results in unacceptable operational or financial outcomes, or fails to prioritise and deliver strategic objectives
- Increased direct competition
- Inadequate or unscaleable end user connection processes to support product delivery
- Unfavourable Policy or Regulatory environment
- Material failure of the Health, Safety and Environmental Management Program

## Significant events subsequent to reporting date

On 30 January 2015, NBN Co received \$380 million of Commonwealth equity funding.

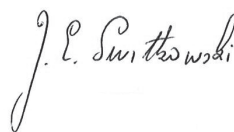
Except for the item noted above, no other matter or circumstance has arisen since 31 December 2014 to the date of signing of this report.

## Rounding of amounts

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

## Auditor Independence

The directors received an Independence Declaration from the Auditor-General Delegate. A copy of this report has been included with the Half-Year Financial Report.



**Dr Ziggy Switkowski AO**  
Non-Executive Chairman

26 February 2015



Dr Ziggy Switkowski AO  
Non-Executive Chairman  
NBN Co Limited  
Level 11, 100 Arthur Street  
North Sydney NSW 2060  
Australia



**NBN CO LIMITED HALF-YEAR FINANCIAL REPORT FOR THE PERIOD ENDED 31  
DECEMBER 2014  
AUDITOR'S INDEPENDENCE DECLARATION**

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In relation to my review of the Half-Year financial report of the NBN Group (comprising NBN Co Limited and the entities it controlled at the period's end or from time to time during the Half-Year ended 31 December 2014), to the best of my knowledge and belief, there have been:

- i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- ii) no contravention of any applicable code of professional conduct.

Australian National Audit Office

Michael J Watson  
Group Executive Director

Delegate of the Auditor-General

Canberra  
26 February 2015





# Financial Statements



# Statement of Profit and Loss and Other Comprehensive Income

For the six months ending	Notes	NBN Group	
		31 December 2014	31 December 2013
		\$m	\$m
<b>Revenue</b>			
Telecommunications revenue		64	22
Other revenue		1	-
<b>Total revenue</b>		<b>65</b>	<b>22</b>
Interest income		10	26
Other income		4	2
<b>Expenses</b>			
Telecommunication and network costs		(226)	(164)
Employee benefits expenses	3	(178)	(189)
Advisory, corporate and outsourced services		(31)	(36)
Legal expenses		(24)	(6)
IT and software expenses		(56)	(57)
Occupancy expenses		(19)	(18)
Communication and public information		(8)	(5)
Depreciation and amortisation expense	4,5	(283)	(169)
Other expenses		(20)	(25)
Finance costs	3	(148)	(95)
<b>Total expenses</b>		<b>(993)</b>	<b>(764)</b>
<b>Loss before income tax</b>		<b>(914)</b>	<b>(714)</b>
Income tax benefit/(expense)		12	(2)
<b>Loss for the period</b>		<b>(902)</b>	<b>(716)</b>
<b>Loss attributable to the shareholders</b>		<b>(902)</b>	<b>(716)</b>
<b>Other comprehensive income/(loss)</b>			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of cash flow hedges		39	(6)
Income tax (expense)/benefit relating to components of other comprehensive income		(12)	2
<b>Total other comprehensive (loss)/income for the period, net of tax</b>		<b>27</b>	<b>(4)</b>
<b>Total comprehensive loss for the period</b>		<b>(875)</b>	<b>(720)</b>
<b>Total comprehensive loss attributable to the shareholders</b>		<b>(875)</b>	<b>(720)</b>

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

# Statement of Financial Position

As at	Notes	NBN Group	
		31 December 2014	30 June 2014
		\$m	\$m
<b>Current assets</b>			
Cash and cash equivalents		491	499
Trade and other receivables		51	101
Inventories		13	12
Derivative financial assets	12	44	10
Held to maturity investment		252	245
Other current assets		42	33
<b>Total current assets</b>		<b>893</b>	<b>900</b>
<b>Non-current assets</b>			
Derivative financial assets	12	2	2
Property, plant & equipment	4	9,185	7,791
Intangible assets	5	851	769
Other non-current assets		5	6
<b>Total non-current assets</b>		<b>10,043</b>	<b>8,568</b>
<b>Total assets</b>		<b>10,936</b>	<b>9,468</b>
<b>Current liabilities</b>			
Trade and other payables		882	818
Other liabilities		8	6
Other financial liabilities	6	133	119
Derivative financial liabilities	12	-	3
Provisions		54	57
<b>Total current liabilities</b>		<b>1,077</b>	<b>1,003</b>
<b>Non-current liabilities</b>			
Trade and other payables		2	2
Other liabilities		242	179
Other financial liabilities	6	3,569	3,342
Derivative financial liabilities	12	-	3
Provisions		20	15
<b>Total non-current liabilities</b>		<b>3,833</b>	<b>3,541</b>
<b>Total liabilities</b>		<b>4,910</b>	<b>4,544</b>
<b>Net assets</b>		<b>6,026</b>	<b>4,924</b>
<b>Equity</b>			
Contributed equity	7	10,395	8,418
Other reserves		32	5
Accumulated losses		(4,401)	(3,499)
<b>Total equity</b>		<b>6,026</b>	<b>4,924</b>

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



# Statement of Changes in Equity

	NBN Group			Total equity \$m
	Accumulated losses \$m	Contributed equity \$m	Other reserves \$m	
<b>Balance at 30 June 2013</b>	<b>(1,855)</b>	<b>5,228</b>	<b>45</b>	<b>3,418</b>
Loss for the year	(1,644)	-	-	(1,644)
Other comprehensive loss	-	-	(40)	(40)
<b>Total comprehensive loss for the period</b>	<b>(1,644)</b>	<b>-</b>	<b>(40)</b>	<b>(1,684)</b>
<b>Transactions with owners in their capacity as owners:</b>				
Contributions of equity, net of transaction costs	-	3,190	-	3,190
<b>Balance at 30 June 2014</b>	<b>(3,499)</b>	<b>8,418</b>	<b>5</b>	<b>4,924</b>
Loss for the year	(902)	-	-	(902)
Other comprehensive income	-	-	27	27
<b>Total comprehensive loss for the period</b>	<b>(902)</b>	<b>-</b>	<b>27</b>	<b>(875)</b>
<b>Transactions with owners in their capacity as owners:</b>				
Contributions of equity, net of transaction costs	-	1,977	-	1,977
<b>Balance at 31 December 2014</b>	<b>(4,401)</b>	<b>10,395</b>	<b>32</b>	<b>6,026</b>

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

# Statement of Cash Flows

For the six months ending	<b>NBN Group</b>	
	31 December 2014	31 December 2013
	\$m	\$m
<b>Cash flows from operating activities</b>		
Receipts from customers	65	22
Payments to suppliers and employees	(520)	(436)
Interest received	9	27
<b>Net cash used in operating activities</b>	<b>(446)</b>	<b>(387)</b>
<b>Cash flows from investing activities</b>		
Receipts from held to maturity investments	256	978
Payments for held to maturity investments	(263)	(509)
Payment for property, plant and equipment	(1,215)	(999)
Payment for intangibles	(172)	(147)
<b>Net cash used in investing activities</b>	<b>(1,394)</b>	<b>(677)</b>
<b>Cash flows from financing activities</b>		
Payment for finance leases and right of use licences	(145)	(57)
Equity injection for ordinary shares by the Commonwealth of Australia	1,977	1,250
<b>Net cash provided by financing activities</b>	<b>1,832</b>	<b>1,193</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(8)</b>	<b>129</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>499</b>	<b>103</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>491</b>	<b>232</b>

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 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 which is the ultimate parent entity and controlling entity. The Half-Year Financial Report, comprising of the financial statements and notes to the financial statements, for the Half-Year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as **the NBN Group**).

### (a) Basis of preparation

This non-statutory Half-Year Financial Report has been prepared in accordance with AASB 134 'Interim Financial Reporting'. The Half-Year Financial Report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

This Half-Year 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 Half-Year Financial Report is presented in Australian dollars and values are rounded to the nearest million dollars unless otherwise stated.

NBN Co's current liabilities exceed its current assets by \$184 million as at 31 December 2014. The financial report has been prepared on a going concern basis, which contemplates the continuity of normal operations and the remaining available equity funding of \$19.1 billion at 31 December 2014 (Note 7). The financial statements and the notes thereto have been prepared on the basis that NBN Co will continue to operate in accordance with the policy directions provided by the Commonwealth Government as set out in the Statement of Expectations issued on 8 April 2014.

### (b) Accounting policies

NBN Co is incorporated under the *Corporations Act* and is subject to (inter alia) the *National Broadband Network Companies Act 2011 (Cth)*. Consolidated annual financial statements are also required by the *Public Governance, Performance and Accountability Act 2013 (PGPA Act)*.

The accounting policies have been consistently applied to all periods presented and consistent with the 2013-2014 Annual Report, unless otherwise stated.

New standards that have become applicable for the first time for the December 2014 Half Year Financial Report are AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets, AASB 13 Fair Value Measurement and AASB 124 Related Party Disclosures. These standards have introduced new disclosures but had no material impact on the financial position or performance of the NBN Group.

### *Future Australian Accounting Standard Requirements*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2014 reporting period. The NBN Group's assessment of the impact of these new standards and interpretations 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.

#### (c) **Comparative Figures**

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

## **2. Significant accounting judgements, estimates and assumptions**

### *Accounting estimates*

In the process of applying the accounting policies listed in this note, the NBN Group has made certain judgements on the amounts recorded in the financial report. Estimates made in relation to the NBN Group Financial Report are consistent to those noted in the 2013-2014 Financial Report, Note 2.

These estimates have been consistently applied to all the periods presented, unless otherwise stated.



# Notes to the Financial Statements

## 3. Expenses

For the six months ending	NBN Group	
	31 December 2014	31 December 2013
	\$m	\$m
<b>Employee benefits</b>		
Defined contribution superannuation expense	(17)	(17)
Other employee benefits	(161)	(172)
<b>Total employee benefits</b>	<b>(178)</b>	<b>(189)</b>
<b>Finance costs</b>		
Interest and finance charges paid/payable for financial liabilities	(147)	(94)
Provisions: unwinding of discount	(1)	(1)
<b>Finance costs expensed</b>	<b>(148)</b>	<b>(95)</b>
Rental expense relating to operating leases	(25)	(20)

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## 4. Non-current Assets - 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
<b>At 30 June 2014</b>						
Cost	13	344	10	54	7,800	8,221
Accumulated depreciation	-	(41)	(5)	(26)	(358)	(430)
<b>Net book value</b>	<b>13</b>	<b>303</b>	<b>5</b>	<b>28</b>	<b>7,442</b>	<b>7,791</b>
<b>Period ended 31 December 2014</b>						
Opening net book value	13	303	5	28	7,442	7,791
Additions	-	6	-	-	1,599	1,605
Depreciation charge	-	(11)	-	(5)	(195)	(211)
<b>Net book value</b>	<b>13</b>	<b>298</b>	<b>5</b>	<b>23</b>	<b>8,846</b>	<b>9,185</b>
<b>At 31 December 2014</b>						
Cost	13	350	10	54	9,399	9,826
Accumulated depreciation	-	(52)	(5)	(31)	(553)	(641)
<b>Net book value</b>	<b>13</b>	<b>298</b>	<b>5</b>	<b>23</b>	<b>8,846</b>	<b>9,185</b>

#### 4. Non-current Assets - Property, Plant and Equipment (continued)

Depreciation of \$211 million (31 December 2013: \$105 million) is included in depreciation and amortisation expense in the Statement of Profit and Loss and Other Comprehensive Income.

##### b) Assets in the course of construction

The carrying amounts of property, plant and equipment includes expenditure recognised as assets which are in the course of construction. As these assets were not installed and ready for use there is no depreciation charged on these amounts.

As at	NBN Group	
	31 December 2014	30 June 2014
	\$m	\$m
Network assets	2,518	2,040
Buildings and Leasehold improvements	14	9
Furniture and equipment	1	1
<b>Total assets in the course of construction</b>	<b>2,533</b>	<b>2,050</b>

##### c) Leased assets

Buildings and network assets include the following amounts where the substance of the underlying contractual arrangement is considered to be a finance lease.

As at	NBN Group	
	Period ended 31 December 2014	Year ended 30 June 2014
	\$m	\$m
<b>Buildings</b>		
Cost	26	26
Accumulated depreciation	(4)	(3)
<b>Net book value</b>	<b>22</b>	<b>23</b>
<b>Network assets</b>		
Cost	3,597	3,357
Accumulated depreciation	(194)	(127)
<b>Net book value</b>	<b>3,403</b>	<b>3,230</b>

##### d) Non-current assets pledged as security

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

# Notes to the Financial Statements

## 5. Non-current Assets – Intangible Assets

### a) Intangible assets

	NBN Group			
	Software \$m	Licences \$m	Other \$m	Total \$m
<b>As at 30 June 2014</b>				
Cost	918	143	3	1,064
Accumulated amortisation	(203)	(92)	-	(295)
<b>Net book value</b>	<b>715</b>	<b>51</b>	<b>3</b>	<b>769</b>
<b>Period ended 31 December 2014</b>				
Opening net book amount	715	51	3	769
Additions	151	-	3	154
Amortisation	(57)	(14)	(1)	(72)
<b>Net book value</b>	<b>809</b>	<b>37</b>	<b>5</b>	<b>851</b>
<b>At 31 December 2014</b>				
Cost	1,069	143	6	1,218
Accumulated amortisation	(260)	(106)	(1)	(367)
<b>Net book value</b>	<b>809</b>	<b>37</b>	<b>5</b>	<b>851</b>

Amortisation of \$72 million (31 December 2013: \$64 million) is included in depreciation and amortisation expense in the Statement of Profit and Loss and Other Comprehensive Income.

### b) Assets in the course of construction

The carrying amount of the intangible assets includes expenditure recognised on assets which are in the course of construction. As these assets were not installed and ready for use there is no amortisation being charged on these amounts.

	NBN Group	
	Period ended 31 December 2014 \$m	Year ended 30 June 2014 \$m
Software	237	148
Licences	23	23
<b>Total assets in the course of construction</b>	<b>260</b>	<b>171</b>

## 6. Other Financial Liabilities

	<b>NBN Group</b>	
	Period ended	Year ended
	31 December 2014	30 June 2014
	\$m	\$m
<b>Current</b>		
Lease liabilities and right of use licences	133	119
<b>Non Current</b>		
Lease liabilities and right of use licences	3,569	3,342

The NBN Group accounts for various infrastructure assets and premises as finance leases and right of use licences. The finance leases and right of use licences have terms expiring within 20 to 35 years.

Included within the carrying amount of property, plant and equipment in Note 4 is an amount for infrastructure assets of \$3,403 million (30 June 2014: \$3,230 million) and premises of \$22 million (30 June 2014: \$23 million) acquired under a finance lease or right of use licence arrangement.

As at	<b>NBN Group</b>	
	31 December 2014	30 June 2014
	\$m	\$m
<b>Finance lease and right of use licences payable:</b>		
Within one year	427	394
Later than one year but not later than five years	1,270	1,185
Later than five years	8,622	8,194
<b>Minimum lease payments</b>	<b>10,319</b>	<b>9,773</b>
Future finance charges	(6,617)	(6,312)
<b>Recognised as a liability</b>	<b>3,702</b>	<b>3,461</b>
<b>Representing lease liabilities:</b>		
Current	133	119
Non-current	3,569	3,342
<b>Total finance lease and right of use licence liabilities</b>	<b>3,702</b>	<b>3,461</b>



# Notes to the Financial Statements

## 6. Other Financial Liabilities (continued)

Property and network infrastructure finance leases and right of use licences provide for the payment of incremental contingent rentals based on movements in a relevant variable price index (for example – Consumer Price Index). Contingent rentals are not included in lease liabilities or right of use licence liabilities. Contingent rentals paid during the period are included as an expense in the Statement of Profit and Loss and Other Comprehensive Income.

The finance lease and right of use licence liabilities are recognised at the net present value (NPV) of the minimum lease payments (MLP). The difference between the NPV and the MLP is the future interest charge.

## 7. Contributed Equity

### a) Movements in ordinary share capital

NBN Group				
Date	Details	Number of Shares	Issue price \$	Value of Shares \$
30 June 2014	Opening Balance	8,418,445,092	1.00	8,418,445,092
29 July 2014	Equity injection	440,000,000	1.00	440,000,000
29 August 2014	Equity injection	317,000,000	1.00	317,000,000
30 September 2014	Equity injection	240,000,000	1.00	240,000,000
31 October 2014	Equity injection	240,000,000	1.00	240,000,000
28 November 2014	Equity injection	490,000,000	1.00	490,000,000
23 December 2014	Equity injection	250,000,000	1.00	250,000,000
<b>Total consolidated contributed equity at 31 December 2014</b>		<b>10,395,445,092</b>	<b>1.00</b>	<b>10,395,445,092</b>

### b) Capital risk management

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

### c) Equity Funding

On 22 June 2011, the Commonwealth and NBN Co entered into an Equity Funding Agreement, whereby the Commonwealth provided assurances to the Company in relation to the provision of equity funding until 30 June 2021 unless terminated earlier. The Commonwealth has committed to provide funding sufficient to meet the forecast expenditure of the Company in the 2014-2017 Corporate Plan. In March 2014, this agreement was amended and the equity funding cap was set at \$29.5 billion.

## 7. Contributed Equity (continued)

To the extent that the Commonwealth has provided for equity funding in forward budget estimates, NBN Co has recorded this as expected equity funding in the Schedule of Commitments. As at 31 December 2014 a total of \$10.4 billion had been made available to the Company. Based on a cap of \$29.5 billion, the expected future equity funding to the Company as at 31 December 2014 was \$19.1 billion.

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

Refer to Note 13 Events Occurring After the Reporting Period.

## 8. Commitments

### a) Commitments receivable

The value of commitments receivable has been determined in accordance with the equity funding agreement as disclosed in Note 7.

As at	NBN Group	
	31 December 2014 \$m	30 June 2014 \$m
<b>By type</b>		
<b>Commitments receivable</b>		
Equity receivable	19,105	21,082
<b>Total commitments receivable</b>	<b>19,105</b>	<b>21,082</b>

# Notes to the Financial Statements

## 8. Commitments (continued)

### b) Commitments payable

The value of commitments payable has been determined in accordance with Note 1(n) of the 2013-2014 Annual Report and has been compiled on the basis that the NBN Group is a going concern (refer to Note 1(a)) and should be read in conjunction with Note 9.

As at	NBN Group	
	Period ended 31 December 2014	Year ended 30 June 2014
By type	\$m	\$m
<b>Commitments payable</b>		
Assets ordered under finance lease and right of use licence arrangements	4,200	3,254
Property, plant and equipment	1,093	1,234
Intangible software assets	31	22
Operating leases	395	366
Other operating commitments	503	479
<b>Aggregate commitments payable, gross of future interest charges</b>	<b>6,222</b>	<b>5,355</b>
Future interest charges on finance lease and right of use licences	(2,724)	(2,123)
<b>Aggregate commitments payable, net of future interest charges</b>	<b>3,498</b>	<b>3,232</b>
<b>By maturity</b>		
<b>Commitments payable</b>		
Within one year	1,653	1,623
Later than one year but no later than five years	703	695
More than five years	3,866	3,037
<b>Aggregate commitments payable, gross of future interest charges</b>	<b>6,222</b>	<b>5,355</b>
Future interest charges on finance lease and right of use licences	(2,724)	(2,123)
<b>Aggregate commitments payable, net of future interest charges</b>	<b>3,498</b>	<b>3,232</b>

## 8. Commitments (continued)

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

At 31 December 2014, NBN Co had placed orders for assets under finance lease and right of use license arrangements which had not been handed over as at that date. The total commitments relating to these assets under those orders are outlined below:

As at	NBN Group	
	31 December 2014	30 June 2014
	\$m	\$m
<b>Commitments in relation to assets ordered under finance lease and right of use licence arrangements is as follows:</b>		
Within one year	73	67
Later than one year but not later than five years	503	373
Later than five years	3,624	2,814
<b>Minimum lease payments</b>	<b>4,200</b>	<b>3,254</b>
Future finance charges	(2,724)	(2,123)
<b>Recognised as a commitment</b>	<b>1,476</b>	<b>1,131</b>

The Telstra Definitive Agreements provides access to various infrastructure including dark fibre links, rack spaces in exchanges, ducts and associated duct infrastructure (pits and manholes) which have been recognised as finance leases when the infrastructure is handed over to NBN Co.

The rights of access have an initial term of 35 years, with two options each exercisable at NBN Co's discretion, of 10 further years each. Key elements of the lease arrangement including interest rate, lease term and valuation methodology were assessed at the inception of the lease. Inception date for the finance lease arrangements has been determined as 7 March 2012 when the Telstra Definitive Agreements became unconditional.

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

These assets will be recognised as finance leases or right of use licenses under other financial liabilities when the infrastructure is handed over to NBN Co or when the property lease commences.

# Notes to the Financial Statements

## 8. Commitments (continued)

### d) Operating Leases

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

	NBN Group	
	31 December 2014	30 June 2014
	\$m	\$m
<b>Commitments for minimum lease payments in relation to non-cancellable operating leases</b>		
Within one year	42	39
Later than one year but not later than five years	112	109
Later than five years	241	218
<b>Total</b>	<b>395</b>	<b>366</b>

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

### e) Other commitments payable

Other commitments payable represent estimates of amounts calculated in accordance with Note 1(n) of the 2013-2014 Annual Report for property, plant and equipment, intangible assets and other operating commitments.

## 9. Contingent Liabilities

The significant contingent liabilities are consistent with those set out in the previous financial year and described in the 2013-2014 Annual Report Note 19, pages 114 and 115, except for those set out below:

### (a) Legal Action

On 17 July 2014, the Supreme Court of NSW handed down judgment in Telstra's favour in the litigation between NBN Co and Telstra. The dispute between NBN Co and Telstra relates to the Telstra Definitive Agreements, specifically the Infrastructure Services Agreement (ISA). The subject matter of the dispute is one of contractual interpretation as to the date from which Consumer Price Index (CPI) adjustments are to be made to the infrastructure prices applicable under the ISA. NBN Co considers that adjustments should be made from 1 January 2013, whereas Telstra considers it should be from 1 January 2012. On 27 August 2014, NBN Co appealed the decision of the Supreme Court of NSW. The appeal is set down for hearing in the Court of Appeal (NSW) on 9 and 10 April 2015.

## 9. Contingent Liabilities (continued)

Other than the Telstra CPI matter above, as at 31 December 2014, NBN Co had no outstanding legal action that would materially impact upon the 31 December 2014 financial statements, however, from time to time the Company may be subject to a lawsuit or proceedings for which it may be required, either by law or based on its business judgment, to make payments to settle or to otherwise resolve matters.

### *(b) Construction related claims and disputes*

Various claims and disputes arise from time to time in the ordinary course of business. Where the costs of resolution (if any) are not able to be measured with sufficient reliability, no allowance for these claims or disputes is made as at 31 December 2014. To the extent claims or disputes could be reliably measured adequate allowance has been made for resultant liabilities at period end. The disclosure of any further information about claims or disputes would be prejudicial to the interests of the Company.

## 10. Significant Contractual Arrangements

NBN Co has entered into a large number of contracts that will underpin the delivery of the network infrastructure. NBN Co's contracts with its Delivery Partners are subject to periodic renewal. NBN Co will progressively incur further commitments through the life of these contractual arrangements as they are executed and delivered during the build of the network.

On 14 December 2014, NBN Co and Telstra announced they had signed a number of new agreements and made changes to the 2011 Definitive Agreements. The revised definitive agreements will see NBN Co progressively take ownership and the operational and maintenance responsibilities of elements of Telstra's copper and Hybrid Fibre Coaxial (HFC) cable networks as the National Broadband Network is rolled out. These copper and HFC network elements will be used as access technologies as part of the overall design of the Optimised Multi-Technology Mix (OMTM) rollout. The payment structure remains linked to the rollout of the National Broadband Network.

NBN Co has agreed to reimburse Telstra for costs incurred as a result of the shift from the Fibre to the Premises (FTTP) rollout to the OMTM rollout where those costs are direct, reasonable, substantiated and incremental, subject to certain exceptions.

As with the 2011 Definitive Agreements, the estimated value of the revised Definitive Agreements is based on a range of dependencies and assumptions over the long term life of the agreements.

On 14 December 2014, NBN Co and SingTel Optus announced they had signed agreements amending the Migration Agreement. The revised definitive agreements will see NBN Co progressively take ownership of parts of SingTel Optus' copper and HFC cable networks. These assets will also be used as an access technology as part of the overall design of the OMTM rollout.



# Notes to the Financial Statements

## 10. Significant Contractual Arrangements (continued)

The above agreements are subject to a number of conditions precedent which NBN Co expects will be satisfied within the current Financial Year.

## 11. Related Party Transactions

### a) Transactions with related parties

The following transactions occurred with related parties:

	NBN Group	
	Period ended 31 December 2014	Period ended 31 December 2013
	\$	\$
<b>Equity injections</b>		
Equity injected by the Commonwealth of Australia into NBN Co Limited (Refer to Note 7)	1,977,000,000	1,250,000,000
	NBN Group	
	31 December 2014	31 December 2013
	\$	\$
<b>Other transactions</b>		
Service qualification fee from the Department of Communications	90,000	825,075

During the year ended 30 June 2014, a contract was entered into for \$60,000 with Cicomilne Pty Ltd, of which Justin Milne is 100% shareholder. The contract was for the provision of strategic advice or recommendations as required by NBN Co in relation to the negotiations between NBN Co and Telstra Corporation Limited in respect of the proposed amendments to the 'Definitive Agreements'. Mr Milne excused himself from discussions on the contract. During the year ended 30 June 2014, an amount of \$49,850 was paid in relation to this contract. On 14 December 2014, NBN Co signed revised agreements with Telstra and Optus which resulted in no further services being required from Cicomilne Pty Ltd. As such, no further fees will be received from Cicomilne Pty Ltd.

## 12. Fair Value Measurement of Financial Instruments

The NBN Group uses the following fair value hierarchy for determining and disclosing the fair value of financial instruments by valuation technique as required by *AASB 7 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).

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

The following table presents the group's financial assets and financial liabilities measured and recognised at fair value at 31 December 2014 and 30 June 2014 on a recurring basis:

	Fair value measurement using			
	Total	Quoted prices in	Significant	Significant
		active markets (Level 1)	observable inputs (Level 2)	unobservable input (Level 3)
	\$m	\$m	\$m	\$m
<b>At 31 December 2014</b>				
<b>Assets measured at fair value</b>				
Derivatives used for hedging	46	-	46	-
<b>Liabilities measured at fair value</b>				
Derivatives used for hedging	-	-	-	-
	Fair value measurement using			
	Total	Quoted prices in	Significant	Significant
		active markets (Level 1)	observable inputs (Level 2)	unobservable input (Level 3)
	\$m	\$m	\$m	\$m
<b>At 30 June 2014</b>				
<b>Assets measured at fair value</b>				
Derivatives used for hedging	12	-	12	-
<b>Liabilities measured at fair value</b>				
Derivatives used for hedging	6	-	6	-

### a) Valuation techniques used to derive level 2 and level 3 fair values

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

# Notes to the Financial Statements

## 12. Fair Value Measurement of Financial Instruments (continued)

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- i) The use of quoted market prices or dealer quotes for similar instruments.
- ii) The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- iii) The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date.
- iv) Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

All of the resulting fair value estimates are included in level 2.

## 13. Events Occurring After the Reporting Period

On 30 January 2015, NBN Co received \$380 million of Commonwealth equity funding.

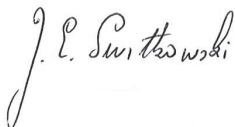
Except for the item noted above, no other matter or circumstance has arisen since 31 December 2014 to the date of signing of this report.

# Directors' Declaration

- (1) these non-statutory financial statements and notes set out on pages 20 to 38 are in accordance with AASB 134 *Interim Financial Reporting*, the *Corporations Act* and the *PGPA Act*, giving a true and fair view of the NBN Group's financial position and of its performance for the financial period ended on that date and
- (2) there are reasonable grounds to believe that the NBN Group will be able to pay its debts as and when they become due and payable

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  
Non- Executive Chairman

26 February 2015



## Independent Auditor's Review Report

### To the members of NBN Co Limited

I have reviewed the accompanying half-year financial report of NBN Co Limited (the Company), which comprises the Statement of Financial Position as at 31 December 2014, the Statement of Profit and Loss and Other Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows for the half-year ended on that date, Summary of significant accounting policies and other explanatory notes and the Directors' Declaration for the NBN Group. The NBN Group comprises the Company and the entities it controlled at 31 December 2014 or from time to time during that half-year.

#### *Directors' responsibility for the half-year financial report*

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

#### *Auditor's responsibility*

My responsibility is to express a conclusion on the half-year financial report based on my review. I conducted my review in accordance with the Australian National Audit Office Auditing Standards which incorporate Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to my attention that causes me to believe that the financial report does not give a true and fair view of NBN Group's financial position as at 31 December 2014 and its performance for the half-year ended on that date in accordance with Accounting Standard AASB 134 *Interim Financial Reporting*. As the auditor of the Company, ASRE 2410 requires that I comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable me to obtain assurance that I would become aware of all significant matters that might be identified in an audit. Accordingly, I do not express an audit opinion.

### ***Independence***

In conducting my review, I have complied with the independence requirements of the Australian professional accounting bodies.

### ***Conclusion***

Based on my review, which is not an audit, I have not become aware of any matter that makes me believe that the half-year financial report of NBN Co Limited does not give a true and fair view of the financial position of the NBN Group as at 31 December 2014 and of the Group's financial performance for the half year ended on that date, in accordance with Accounting Standard AASB 134 *Interim Financial Reporting*.

Australian National Audit Office



Michael J. Watson  
Group Executive Director

Delegate of the Auditor-General

Canberra  
26 February 2015





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