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
PO Box 6022
Parliament House
CANBERRA ACT 2600

1 9 OCT 2012

Dear Mr Oakeshott

The government has undertaken to provide the Committee with a six-monthly report on the progress of the National Broadband Network (NBN) based on information provided by NBN Co.

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

- progress on the rollout;
- deployment;
- take up rates;
- key financial information: statement of comprehensive income; 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.

This is the third report and as such reflects initial reporting while systems and reporting processes are still in 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. We can advise that the information will become more detailed as the rollout progresses and more premises are connected.

The government is supportive of providing the Joint Committee with quality information to inform its review of the NBN rollout. The enclosed report also includes an unaudited schedule of commitments, tables that summarise NBN Co's financial results, the number of premises where construction has commenced or completed, the number of premises with an active service, 2012-15 Corporate Plan targets, NBN Co's resources and key performance information.

Parliament House, Canberra ACT 2600 Tel: (02) 6277 7400

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

Yours sincerely
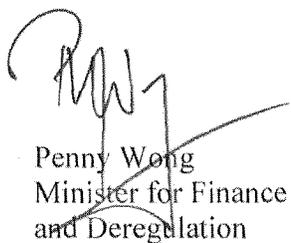
Penny Wong
Minister for Finance
and Deregulation

Stephen Conroy
Minister for Broadband,
Communications and the
Digital Economy

Government Report to Joint Committee on the National Broadband Network on NBN Co Limited

30 June 2012

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Introduction

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

1) A summary of the key milestones achieved by the Company for the six months to 30 June 2012.
2) Half year and year to date financial statements for the period ended 30 June 2012, comprising profit and loss statements, balance sheets, and statement of cash flows for the NBN Co Consolidated Group, comprising NBN Co, NBN Tasmania Limited and NBN Co Spectrum Pty Limited.
3) Measurement against agreed Key Performance Indicators (KPIs) for the Company as at 30 June 2012.

References in this report to "NBN Co" or "the Company" includes all members of the NBN Co Consolidated Group.

Reference to an "Access Seeker" refers to a customer acquiring NBN Co wholesale services with the intention to supply internet services to Retail Service Providers or End-Users. Reference to a "Retail Service Provider" means a third party provider of retail broadband services to End-Users. Reference to "End Users" refers to final downstream customers to NBN Co's Access Seekers.

This is the third government report to the Joint Committee on the National Broadband Network.

Executive Summary

Key milestones achieved during the period include:

- On 20 January 2012, NBN Co lodged new applications for authorisation in respect to aspects of the HFC Subscriber Agreement (Optus Agreement) with the Australian Competition and Consumer Commission (ACCC).
- On 7 February 2012, the Spacecraft and Telemetry, Tracking and Control contract was entered into with Space Systems Loral.
- On 15 February 2012, NBN Co released a quarterly update of the twelve month Fibre Rollout Plan, with construction to commence or be complete for 758,000 premises by end 2012.
- On 27 February 2012, the ACCC accepted Telstra's Structural Separation Undertaking (SSU) and draft Migration Plan.
- On 7 March 2012, the definitive agreements with Telstra Corporation Limited (Telstra) became unconditional.
- On 26 March 2012, Work Package 4 negotiations covering the rollout of the National Broadband Network (NBN) in Tasmania were concluded with Visionstream Australia and agreements signed.
- On 29 March 2012, NBN Co released its first three year fibre rollout plan, with construction to commence or be complete for 3.5 million premises by mid-2015.
- On 30 March 2012, NBN Co began a community information activity as part of the engagement process around the rollout.

- On 2 April 2012, the Fixed Wireless Broadband service achieved initial release or trial status.
- On 11 April 2012, NBN Co announced that a new customer contact centre would be located on the Gold Coast, Queensland.
- By 30 April 2012, the first Fixed Wireless sites were brought into service in Armidale, Ballarat, Tamworth and Toowoomba.
- On 10 May 2012, NBN Co completed its first Dark Fibre Transit Ring located on the New South Wales Central Coast. These rings are the backbone of the fibre optic cables that will connect communities to retail service providers and the NBN's central operations hub.
- By May 2012, the first business-to-business order was completed within Operational Support Systems.
- On 19 June 2012, two contracts with a combined value of $183m were awarded to Visionstream Pty Ltd and Service Stream Ltd to provide additional rollout capacity and support a new approach to the management of fibre deployment in new estates.
- Over the period to 30 June 2012, network construction activities were completed in Tasmania Stage 2 (Triabunna, Sorell, Deloraine, Kingston Beach, Georgetown and St Helens), South Morang and Armidale 4.
- As at 30 June 2012, 41 Access Seekers have signed the Wholesale Broadband Agreement (WBA).
- The delivery of the Transit schedule with 142 exchanges and 99 dark fibre links was handed over at the end of June 2012.
- Over the reporting period, NBN Co announced the selection of three locations, Wolumla, near Merimbula (18 April 2012) and Bourke (10 May 2012) in New South Wales and Geeveston (29 June 2012) in Tasmania for the establishment of satellite ground stations that will enable Australians in remote areas access to fast broadband.

As reported in post-closing events, since finalising the government report a number of key developments around the rollout of the NBN have taken place including:

- Between 3 and 12 July 2012, NBN Co announced local government areas in New South Wales and Queensland to receive high-speed fixed wireless broadband services from mid- to late 2013.

- On 12 July 2012 NBN Co published its Network Extension Program, describing a process for communities, businesses or individuals to apply for an extension of the fibre or fixed wireless network to their premises.

- On 12 July 2012, NBN Co announced that ViaSat of Carlsbad, California had been selected as provider of the long term satellite service (LTSS) ground systems.

- On 19 July 2012, the ACCC authorised the agreement between NBN Co and Optus to migrate Optus HFC subscribers to the NBN.

- On 8 August 2012, the Commonwealth Government released NBN Co's updated Corporate Plan for 2012-15.

- On 9 August 2012, NBN Co welcomed the opening of an expansion to the Prysmian fibre manufacturing facility in Dee Why, New South Wales.

- On 16 August 2012, the Attorney-General tabled the report by Mr Stuart Morris, QC on the review of the operation of the *Freedom of Information Act 1982*, insofar as it applies to documents held by NBN Co.

- On 24 August 2012, NBN Co announced that Ceduna in the West Coast region of South Australia had been selected as a fourth location for a satellite ground station.

- On 4 September 2012, NBN Co released *NBN for Business*, the first of a series of enhancements to the fibre optic network to help enable Australian businesses make the most of high-speed broadband.

- On 6 September 2012, NBN Co announced that Silcar and Service Stream had been contracted to carry out NBN network maintenance and installation over the next two years.

- On 6 September 2012, the government announced that NBN fixed wireless services are available in Geraldton, Western Australia.

- On 19 September 2012, NBN Co announced the official opening of NBN Co's National Contact Centre at Varsity Lakes, Queensland.

- On 28 September 2012, NBN Co lodged its revised Special Access Undertaking (SAU) with the ACCC.

- On 28 September 2012, NBN Co announced that telecommunications providers are now able to sign up to use its Multicast feature.

- On 1 October 2012, NBN Co announced that Western Australia had been selected as the location for three new satellite ground stations to help Australians in remote areas connect to high-speed broadband. The locations are Geraldton, Carnarvon and Kalgoorlie.

Key Performance Indicators

The key results for the period are summarised below:

Cumulative Metrics	Cumulative Current Half Year Cumulative as at 30 June 2012	Cumulative Previous Half Year Cumulative as at 31 Dec 2011
Construction Commenced[1]		
Brownfields	280,142	77,357
New Development Lots	13,885	12,723
Fixed Wireless and Satellite	7,062	1,952
Premises passed/covered		
Brownfields	28,860	18,243
New Development Lots	10,054	951
Fixed Wireless and Satellite	173,885	165,000

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[1] Construction Commenced represents contract instructions have been issued together with the initial Network Design Document so that construction partners can commence work on the detailed design, field inspections and rodding / roping activities in a Fibre Serving Area Module (FSAM). This is followed by the release of a rollout map for the FSAM on the NBN Co web site showing the coverage area for that FSAM and the estimated number of premises to be passed / covered.

Cumulative Metrics	Cumulative Current Half Year Cumulative as at 30 June 2012	Cumulative Previous Half Year Cumulative as at 31 Dec 2011
Premises activated		
Brownfields	3,364	2,095
New Development Premises	503	110
Fixed Wireless and Satellite	9,669	2,197

Unaudited Financial Metrics	Current Half Year (Jan to Jun) YTD	Previous Half Year (Jul to Dec) YTD	Year to date For the period 1 July 2011 to 30 June 2012 YTD
Operating expenditure[2]	$287m	$222m	$509m
Total capital expenditure	$517m	$346m	$863m

Health, Safety & Environment

Health, Safety & Environment (HSE)

The frequency of lost time injuries in the quarter to 30 June 2012 for NBN Co employees was zero and for contractors it was zero lost time injuries per million work hours[3]. This compares to 1.6 for NBN Co employees and zero lost time injuries per million work hours for contractors during the March quarter.

The frequency of medical treatment injuries in the quarter to 30 June 2012 for NBN Co employees was 1.4 and for contractors it was 2.6 medical treatment injuries per million work hours. This compares to 1.6 for NBN Co employees and 10.6 medical treatment injuries per million work hours for contractors during the March quarter.

No medical treatment injuries incurred to date have developed into a lost time injury.

In May 2012, NBN Co achieved accreditation for AS4801, ASOHS18001 and ISO14001 and is now certified until April 2013.

The harmonised Work Health and Safety laws came into force from 1 January 2012. Training on the new laws and duty of care has been provided to relevant staff.

NBN Co has introduced measures to control its critical risks known as the Critical Risk Controls (CRCs). There are nine CRCs to control high risk activity. The controls have been introduced into all new high risk contracts.

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[2] Operating expenditure includes direct telecommunication costs.
[3] The level of lost time injuries is due to a minor injury with 1 day lost for 1 person.

Commercial Interactions

Telstra Deal Implementation

The definitive agreements entered into with Telstra (Telstra Definitive Agreements) became unconditional on 7 March 2012, when the conditions precedent were satisfied.

The following key milestones have been achieved during the six months to 30 June 2012:

- Delivery of the Transit schedule with 142 exchanges and 99 dark fibre links handed over at the end of June 2012.

- Significant work has been undertaken in relation to Network Design Documents and detailed processes developed.

- In conjunction with Telstra, NBN Co has updated its design rules to reduce excess remediation and to reduce the amount of augmentation required.

Optus Deal Implementation

As at 30 June 2012 the Optus Agreement remained conditional on authorisation by the ACCC. Authorisation was subsequently received on 19 July 2012.

Network Construction Negotiation

Activity in the six months included:

- **Fixed Wireless:** NBN Co has signed an interim agreement with Telstra for the First Release Sites (FRS) towers. This provides access for three years and allows for a full agreement covering volume rollout to be negotiated. The agreement supplements the other framework agreements already in place for FRS including with Optus, Crown Castle, SPAusnet and Prime Media Group.

- **Design and Construction:** Invitations for Work Packages 5-9 were issued to five construction companies. The scope of the work packages include the construction of local and distribution network and build drops. The packages are for additional contractors in Brisbane, Sydney, Melbourne, New South Wales North and New South Wales South, respectively. Responses were received in the first half of FY2013 with award recommendations expected in the December quarter.

- **Field Service Delivery (FSD) and Network Augmentation and Restoration (NARA):** Additional contracts for this work were awarded to Silcar and Service Stream in early September 2012. The contracts provide for the ongoing maintenance, repair and augmentation of the fibre optic network.

- **Carrier Supply-Backhaul Managed Services:** At 30 June 2012, 452 sites had been quoted and 118 individual Managed Service Backhaul leases had been ordered to support First Release Sites (FRS) Satellite, Transit, Fixed Wireless and New Developments.

Communications

Government Relations

For the period 1 January 2012 to 30 June 2012, executives of NBN Co appeared before the Senate Environment and Communications Legislation Committee on 14 February 2012 and 24 May 2012. NBN Co later responded to 214 Questions on Notice arising from these hearings.

On 16 April 2012, executives of NBN Co appeared before the Joint Committee on the NBN and responded to a total of 19 questions arising from this hearing.

Corporate Communications

NBN Co began the development of a messaging framework to underpin all corporate communications and public relations activity. The key communications framework is designed to broaden understanding and awareness of the NBN.

The four core messages are:
1. transforming the telecommunications landscape for the benefit of consumers;
2. improving lives and lifestyles (including examples of healthcare, learning, business and entertainment, arts and culture);
3. rolling out the network in a timely, cost-effective manner; and
4. using the best technology possible to meet Australia's growing communications needs.

Three Year Announcement

On 29 March 2012, with the release of the three year rollout plan, NBN Co launched an information and education campaign. This involved a national print campaign, radio live reads and radio pre-recorded announcements, online advertising and search.

The communications activity comprised the following elements:

- An announcement was made by NBN Co on 29 March. Key activities included a media conference conducted at National ICT Australia Limited (NICTA) in Sydney attended by the Prime Minister and the Minister for Broadband, Communications and the Digital Economy; a regional media event held in Bendigo on 29 March 2012; and a technology media briefing on the more detailed engineering and technical aspects of the three year rollout held in NBN Co's Sydney Offices on 2 April 2012.

- A national information campaign was conducted from 30 March to 28 April 2012. Media channels employed were print - national, metropolitan, primary regional and regional; radio included both 30 second pre-recorded spots and live reads on metro and regional stations, digital advertising and paid search.

- A local information campaign, including information specific to the areas included in the three year rollout plan, was conducted from 14 April to 18 May 2012. Media channels employed were print - metropolitan, primary regional, regional and community; radio which included both 30 second pre-recorded spots and live reads on metro and regional stations; and digital advertising targeted at rollout areas.

To support the communications activity, a tender was conducted and Universal McCann was appointed as NBN Co's media planner buyer in late January 2012.

Media activity following the release of the three year rollout plan was aimed at improving consumer awareness and satisfying the enormous demand among media outlets across the country for basic information about the NBN.

The three year fibre rollout announcement generated 561 separate articles across print (19%), TV (9%), radio (45%) and online (27%). As the rollout gathers pace, the company has begun adding a greater consumer focus to public relations activity to underline the potential sectoral and societal benefits of the NBN.

Public Information on Migration Campaign

The Public Information on Migration Campaign (PIM) implements the government's 2010 announcement that NBN Co would be responsible for an information and education campaign to inform the public about the imminent migration of services from copper to fibre in their area. NBN Co is developing the campaign in consultation with the Department of Broadband, Communications and the Digital Economy, Telstra (as the existing infrastructure provider) and other industry stakeholders.

The campaign objective of the PIM is to ensure, to the greatest practical extent, that all Australians with a service to be migrated will have advance notice of migration, know the actions needed to migrate and start the migration process before their existing service is decommissioned.

The PIM governance framework officially commenced in June 2012 with three Reference Groups:

- NBN Co Customer PIM Reference Group.
  - o This group of NBN Co's access seekers will meet on a monthly basis.
- Industry PIM Reference Group.
  - o This group of industry bodies (across cabling, business, local government, housing, electronic manufacturers and retailers) will meet with NBN Co on a quarterly basis.
- Consumer PIM Reference Group.
  - o This group of consumer bodies including the Australian Communications and Consumer Action Network (ACCAN) will meet with NBN Co on a quarterly basis.

Existing bilateral engagement with the regulators, the Australia Communications and Media Authority (ACMA), Telecommunications Industry Ombudsman (TIO), ACCC and the Telecommunications Universal Service Management Agency (TUSMA) was extended to incorporate the PIM as a standing agenda item.

Local Public Information: Fibre

NBN Co undertook a direct mail trial into First Fibre Release Sites as well as to premises in the fixed wireless and interim satellite solution coverage areas with the objective of increasing awareness of NBN services. The activity was designed to provide end users with information about how they can get connected to the NBN. A simple key message was used describing 'Getting connected' to the NBN in three easy steps:

1. Call
2. Select
3. Connect

'For Schools' website launch

On 30 May 2012 the *'For Schools'* micro site on the NBN Co website went live. During research for the site, a survey was commissioned by NBN Co to capture parental attitudes towards online learning in the home. The New South Wales Parents Association provided a parental perspective in the launch materials for the site and acted as NBN Co's spokesperson for radio outreach, with survey data segmented by state and regionally.

Within two months of the launch there were 1500 visits to NBN Co's *For Schools* webpage. There were 190 pieces of media coverage regarding the survey and the launch of the site including 18 major metro and regional print articles, 28 online articles and 26 radio news clips that were syndicated to 138 radio stations.

A pilot project for teacher professional development was created by NBN Co in partnership with Bruce Dixon and Richard Olsen of ideasLAB. The project included a 10 week course and an eight week project for NBN-enabled schools including an initial face to face introduction with the remainder of the course being completed online. The objective was to use an anytime/anywhere professional learning model that leverages high-speed broadband through the NBN to assist teachers to develop effective broadband-enabled project ideas and lessons, for students across all ages, for use in schools across Australia. The course began in June 2012.

NBN Co has engaged the services of dk2[4] an Australian-owned consultancy that specialises in ICT innovation in education, online learning and educational resource development to help create the lesson and project plans, ensure all NBN Co school-specific materials are relevant and map to the school curriculum.

Stakeholder and Industry Relations

NBN Co continued to engage with state-based NBN taskforces, local government and regional interest groups, industry associations and key stakeholder groups in research, business, health and education.   NBN Co continued to present at a variety of industry events covering education, aged care, health, regional development and small business.

NBN Co engaged state governments and universities as part of the six month pilot proposal for connecting public interest premises: schools, hospitals and aged care facilities. NBN Co selected 10 schools, three hospitals and three aged care facilities as part of a six month pilot project to

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[4] Website: www.dk2.com.au

document the design process for the connection of public interest premises and understand the cost implications for that activity.

Demonstration Facilities

As at 30 June 2012, the NBN Co Discovery Truck had visited 77 towns in Tasmania, Victoria, New South Wales and the Australian Capital Territory and hosted more than 15,210 visitors with an average of 147 visitors a day. The NBN Co Discovery Truck featured at the Centre for Office Automation, Information Technology and Telecommunications conference (CeBIT) between 22-24 May 2012, with 6,000 people passing through the Truck. Media coverage included the Channel 7 Sunrise program. Refer to Appendix A for a map of the NBN Co Discovery Truck journey.

As at 30 June 2012, the NBN Co Discovery Centre at Docklands was open for more than 80 days and conducted more than 131 tours comprising more than 1,000 visitors.

Operational Achievements

Customers

Following the release of the Wholesale Broadband Agreement (WBA) on 30 November 2011 for execution by Access Seekers and Retail Service Providers (RSPs), the WBA has been published as NBN Co's Standard Form of Access Agreement (SFAA).

As at 30 June 2012, 41 Access Seekers have signed the WBA. Access Seekers that have executed the WBA constitute over 94 percent of the fixed broadband market, including Telstra, Optus, iiNet, TPG, Internode and Primus.

In addition, 12 Access Seekers have signed the Interim Satellite Services Agreement and 16 Access Seekers have signed the Fixed Wireless Trial Agreement.

Product Definition

NBN Co's product roadmap is enabled by four network releases:

- *Active Network Release 1 (ANR1)* delivers Active Network broadband services with voice and lawful interception capabilities.
- *Active Network Release 2 (ANR2)* delivers the design and site deployment of Dense Wavelength Division Multiplexing (DWDM) capability, fibre product capability including multicast capability, fixed wireless design and capability for initial launch and lawful interception enhancements.
- *Active Network Release 3 (ANR3)* delivers product enhancements specific to voice and multicast and both network and system enhancements and upgrades.
- *Active Network Release 4 (ANR4)* delivers operational network enhancements. The high-level scope consists of implementing the Quality of Service (QoS) redesign and enhancements enabling automation of Customer Virtual Circuit (CVC) provisioning and the National Connectivity Network (NCN).

The NBN Co Facilities Access Service was launched in April 2012, at the points of interconnect (PoIs) in Hobart and Launceston. The Facilities Access Service product allows RSPs to house equipment in

NBN Co PoI's and connect the NBN Co fibre, fixed wireless and satellite access networks to RSP long-distance transmission links.

At 30 June 2012, five RSPs were connected to the Hobart PoI being Telstra, Internode, iiNet, Aurora and Primus. These RSPs are now connecting homes and businesses in Triabunna, Kingston Beach and Sorrell. The Launceston PoI is in the process of connecting four RSPs being Telstra, Primus, iiNet and Aurora.

Fibre

Testing of the Multicast product was successfully completed during the period with planned release in the first half of FY2013.

Fixed Wireless

The fixed wireless access service achieved 'Initial Release' (i.e. trial) status on 2 April 2012. During Initial Release, the service will be trialled at no charge to RSPs. The trial ended on 30 September 2012. The service was launched in Armidale New South Wales, and was initially offered through five RSPs. Since launching, another seven RSPs have become accredited for the fixed wireless product.

The NBN Co fixed wireless network has since expanded and services are connected in the regions around Armidale, Toowoomba, Tamworth, Geraldton and Ballarat.

Networks

On 29 March 2012 NBN Co released its first 'three year Fibre Rollout Plan', which has an objective of Construction Commenced or Completed for approximately 3.5 million fibre premises by 30 June 2015, across 1,500 communities in every state and territory of Australia.

Network Planning and Design

In the six months to 30 June 2012, capabilities to support the provision of Network Design Documents to Telstra and within NBN Co's SpatialNet system have been implemented to allow the required volume and quality of Network Design Documents to be produced.

FTTP- Brownfields

On 26 March 2012, Work Package 4 (WP4) negotiations covering the rollout of the NBN in Tasmania were concluded with Visionstream Australia. Visionstream Australia, part of the Leighton Holdings Limited group of companies, was awarded the contract to install high speed fibre optic broadband network in cities, towns and suburbs covering around 200,000 homes and businesses.

As at 30 June 2012, network construction was complete in a further six FSAMs in Tasmania being Triabunna, Sorell, Deloraine, Kingston Beach, Georgetown and St Helens. Network construction was also completed in South Morang and the first tranche of Armidale 4, while Armidale 5 and 6 remained under construction.

As of 24 September 2012, the average take-up rate in brownfields across Australia was over 14.5 percent. Take-up rates for brownfields premises nationally averaged over 24 percent in sites active for more than six months, with take-up above 40 percent in some areas.

FTTP- New Developments

As at 30 June 2012 NBN Co had 2,589 active applications from developers covering 132,090 new development lots; 10,054 new development lots had been passed and there were 503 new development premises receiving active services.

Cumulative Metrics	Total *
Active Applications	2,589
New Development Lots Passed	10,054
New Development Premises receiving active services	503

*as at 30 June 2012

While service demand from developers is strong, the primary challenge remains in completing service build to new estates, particularly those requiring extensive backhaul. The contraction in the traditional 'metro expansion' new developments activity has meant that new service demand is more dispersed, and skewed to non metropolitan areas.

Builder compliance with NBN Co's 'Preparation and Installation Guide for SDUs and MDUs' requirements has been an issue in some land development estates. Following input from the construction industry, NBN Co made a number of changes to these requirements to improve ease of compliance. NBN Co has formally notified developers of their obligations to inform purchasers of lots of the requirements for preparing their new homes for the NBN.

On 19 June 2012, NBN Co awarded contracts with a total value of approximately $183 million over 19 months to Visionstream Pty Ltd and Service Stream Ltd to provide additional rollout capacity and support a new approach to the management of fibre deployment in New Developments. On-boarding of the new delivery partners was complete in all regions as at 30 June 2012.

Transit

The Transit Project includes planning for three elements: Dark Fibre Links, Fibre Access Nodes (FAN) and Aggregation Nodes (AN). A dark fibre ring is a series of dark fibre links where the optical fibre terminates at either end to an optical connector within an exchange building. A transit link is a fibre connection used for transmission between ANs and FANs and between FANs.

During the period 1 January 2012 to 30 June 2012 the following progress had been achieved;

- 27 Dense Wavelength Division Multiplexing (DWDM) Ring network design documents (NDDs) and 197 site NDDs were completed;
- 20 Optical Line Terminals (OLTs) were installed;
- construction and operational acceptance of the Berkley Vale 1 DWDM Ring on 10 May 2012;
- Berkley Vale 2 DWDM Ring was accepted into operations, the Bunbury DWDM Ring had been integrated and was in final acceptance and hand over testing;
- the Hamilton and Armidale DWDM Rings were both integrated into the network; and
- the Geraldton and South Morang AN achieved practical completion and had been accepted into operation.

FTTP- Active and Passive Equipment

Two supply contracts for National Connectivity Network equipment were concluded during the six month period. The suppliers are Cisco (Switches, Routers and Security Firewalls) and Alcatel Lucent (Small Ethernet Switches).

Fixed Wireless

In the period 1 January 2012 to 30 June 2012, an important contract milestone was achieved confirming that the fixed wireless technology meets the technical and operational requirements of NBN Co.

This enabled the first fixed wireless sites to be brought into service in Armidale. Business Readiness Testing (BRT) commenced with the initial installation and activation of Fixed Wireless Services in Armidale with three Access Seekers - APN, iiNet and Skymesh.

The launch of the fixed wireless service was achieved on 30 April 2012. Activations have commenced in first release site areas including Armidale, Ballarat, Tamworth and Toowoomba.

As at 30 June 2012, the activation of fixed wireless services was initially performed by five Access Seekers.

During the period Ericsson and NBN Co have continued with planning and site acquisition activities for the volume rollout.

Satellite

An enhancement to network and rollout capacity was completed in February 2012 following the commissioning of all Optus and IPStar satellite capacity and beams. The NBN Co interim satellite network now covers the entire country with 11 Very Small Aperture Terminal (VSAT) hubs in operation in Kalgoorlie (Western Australia), Broken Hill (New South Wales) and Belrose (New South Wales).

The Spacecraft and Telemetry, Tracking and Control (TT&C) contract with Space Systems Loral (SS/L) was executed on 7 February 2012. Delivery of the spacecraft to NBN Co for launch is scheduled for the first quarter of 2015. The contract is valued at approximately $620 million.

The Spacecraft and TT&C contract progressed well during the period with SS/L completing a number of milestones as planned.

Following the execution of the SS/L contract in February 2012, ground system requirements were issued to short-listed ground segment suppliers in March 2012 for proposed pricing.

Securing ground station locations for the long term satellite service progressed during the period with local councils and other authority consultation. On 19 April 2012, NBN Co selected Wolumla, near Merimbula on the New South Wales Far South Coast as the site of its first satellite ground station gateway. The first of 10 such satellite facilities, construction is set to begin next year and it is scheduled to be operating in 2015.

As at 30 June 2012 specific ground station sites had been identified, with sites acquired in three locations, Wolumla, near Merimbula (New South Wales), Bourke (New South Wales) and Geeveston (Tasmania).

The request for proposal (RFP) for launch services was released during the period with evaluation of RFP responses expected in the September 2012 quarter.

Frequency coordination associated with the International Telecommunications Union orbital slot confirmation process continued. NBN Co has continued active dialogue with the Australian Communications and Media Authority (ACMA) on the availability of further spectrum, and with owners of existing spectrum licences.

As at 30 June 2012, there were 11 RSPs selling services over NBN Co's interim satellite network.

Quality Assurance

ISO Certification

NBN Co engaged the British Standards Institute to provide ISO9001 certification and review existing policies and practices.

Following the satisfactory completion of the review, the focus is now on deploying the NBN Co Quality Framework across all areas of the business, finalising the quality internal audit program for 2012-13, managing KPIs and metrics, and the application of continual improvement practices to deliver the NBN.

In preparation and to drive good practice, NBN Co commenced a series of internal audits against the ISO9001 Quality Management System standard. Non-conformances are being captured and addressed as part of the audit cycle.

Supply

NBN Co is deploying a Logistics Coordination Centre to be the 'operations centre' for all fibre activities.

Detailed reviews of extended supply chain were conducted with key suppliers during the period. Visits targeted an understanding of the ability to respond to NBN Co planned and unforseen demand, a close examination of manufacturing capability utilised to produce NBN material and detailed reviews on delivery performance and order management issues.

A number of supply oriented forums have been initiated with all equipment suppliers and key delivery partners to increase the level of transparency and collaboration across the end to end supply chain. Material forecasting has been a key focus of the forums and a set of recommended changes to how NBN Co, the delivery partners, and material suppliers will plan material requirements is being implemented.

The Logistics Coordination Centre, which is responsible for actively monitoring and mitigating key supply chain events, is now operational.

Local Content

Local content is actively promoted as part of NBN Co procurement processes. Certain contracts are inherently local such as construction and network operations. For other contracts, NBN Co has sought to maximise the local content, particularly where local manufacturers are already established.

Local content was 51 percent at 30 June 2012. Future Australian construction and operations contracts are expected to increase the proportion of local content.

Network Operations

Active Premises

As at 30 June 2012 there were:

- 3,364 premises receiving active fibre services.
- 10, 054 new developments lots passed and a total of 503 active premises.
- 9,669 active fixed wireless and satellite premises.

As of 24 September 2012, the average take-up rate in brownfields across Australia was over 14.5 percent. Take-up rates for brownfields premises nationally averaged over 24 percent in sites active for more than six months, with take-up above 40 percent in some areas.
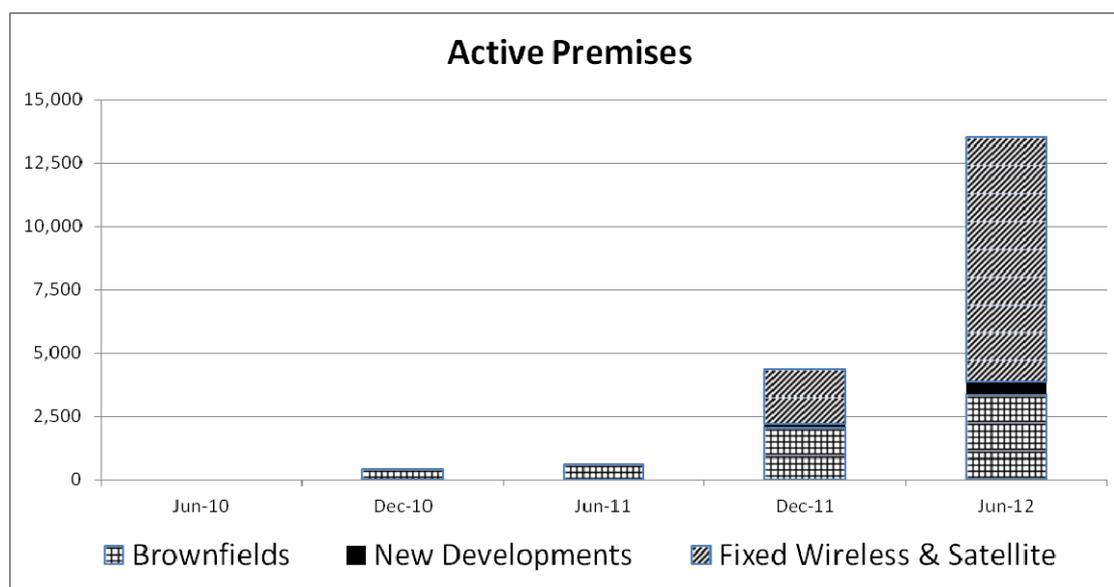
Operational On-Boarding

On-Boarding activities continued in a 'Business As Usual' (BAU) mode for the period with the first Access Seekers completing iB2B, Wireless, and Redundant NNI certifications.

On-boarding of Access Seekers, contractors and infrastructure providers is a sequential process from initial engagement to full operational capabilities being available. At 30 June 2012, 26 access seekers had completed accreditation for data services and, of these, six had completed voice

on-boarding activities with five also accredited for voice services. A total of 11 Access Seekers have been accredited for satellite services and twelve for fixed wireless services.

National Operations and Test Facility

During the period installation of the final components of the new Second System Integration Test (SIT) line was completed. This test line includes full Fibre and Operational Support Systems (OSS) environments, being Active Network Equipment, OSS, and Portals and Online Services (POS) platforms.

Contact Centre

NBN Co announced on 11 April 2012 a new customer contact centre to be located on the Gold Coast. The customer contact centre started taking calls in July 2012, and has capacity to employ approximately 130 people, of which up to 100 may be employed within twelve months.

During the reporting period the current NBN Co Contact Centre received a total of 22,332 contacts from the public. Of that number, 20,208 were enquiries, 1,968 were complex enquiries and 156 were complaints.

96 percent of enquiries were resolved on the day they were received, complex enquiries took six business days on average to resolve and complaints on average took seven business days to resolve.

Complaint Policy Strategy

During the past six months a comprehensive complaints strategy was developed, including a new complaints policy, creating a Case Management function managing high level complaints and in-sourcing the NBN Co contact centre.

The complaints policy has been drafted following benchmarking against telecommunications companies, other infrastructure utilities and customer service professional organisations. Feedback from the Telecommunications Industry Ombudsman (TIO) has been incorporated and the policy has been published on NBN Co's website[5].

Training and Accreditation

A three month project to address training and accreditation was initiated on 4 June 2012. This project will implement an Accreditation Framework that ensures that all relevant employees, contractors, Access Seekers and suppliers are appropriately accredited to work on the NBN. The framework will allow NBN suppliers and contractors to identify their training and accreditation requirements. A cross functional dedicated team is working to implement an effective accreditation program and to build the supporting training infrastructure.

Business Continuity Management

NBN Co's Business Continuity and Crisis Management planning capability continued to develop during the period. The NBN Co Crisis Management Team undertook a five hour crisis training

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[5] https://www.nbnco.com.au/online_channel/contact_us

simulation during June 2012 to identify strengths and potential areas for improvement in NBN Co's crisis response.

Resources

People

As at 30 June 2012, NBN Co's headcount of 1,674 comprised 1,620 employees, 19 contractors and 35 labour hires. This is an increase from 906 at 30 June 2011.

Of the current workforce, 794 are based in NSW, 693 in Victoria, 6 in the ACT, 20 in Tasmania, 94 in Queensland, 29 in South Australia, 2 in Northern Territory and 36 in Western Australia.

The average tenure of the workforce is 12.9 months and the average age is 40.6 years. NBN Co has one percent of the workforce employed on a part-time basis, with 28 percent of the workforce being women, while 20 percent of management roles and 17 percent of General Manager and above roles are filled by women.

Malcolm Shore was appointed to the position of Principal Security Officer on 21 February 2012.

Robin Payne was appointed to the position of Chief Financial Officer on 3 April 2012. Mr Payne was previously acting in this role since the retirement of Jean-Pascal Beaufret in January 2012.

Tim Smeallie, Head of Commercial and Telstra Contract left the organisation on 11 May 2012.

Organisational Effectiveness

Senior Leadership Forums have been conducted during the period with the top 25 executives to enhance team effectiveness.

As part of the continuing performance management process, manager feedback sessions and mid-year ratings have been completed for all employees.

The Induction Program was refreshed through the update of three modules and the simplification of all manager and new starter communications. Induction completion rates are at 95 percent.

External Workforce Strategy

During the period NBN Co commenced the next phase of implementing the workforce development strategy, with the Tasmanian Government providing a 40 percent increase in the level of funding for employment based NBN traineeships and new funding for up to 300 training places for unemployed job seekers and school leavers.

Further discussions were also held during March 2012 with senior representatives of training departments of a number of State Governments in conjunction with the Federal Department of Education, Employment and Workplace Relations (DEEWR).

NBN Co finalised the appointment of four approved training providers in April and May 2012. The NBN Safety and Awareness course commenced delivery during the period. Roundtables with State

Governments were completed during the period, connecting NBN Co delivery partners and training providers with key government departments to ensure the efficient provision of funding for courses.

Work commenced on determining the accreditation workers will be required to have to perform specific tasks on the NBN.   The NBN Co workforce development strategy was communicated broadly with the launch of a dedicated section on the NBN Co website (refer to www.nbnco.com.au/working-for-us/building-the-workforce.html).

Premises

Ten Aggregation Nodes/Depot sites have been secured to date by NBN Co.   Design and construction work continues on these sites which are due for completion progressively throughout 2012 and 2013.

The Contact Centre on the Gold Coast fit-out design and construction progressed during the reporting period.

Securing ground station locations for the long term satellite service progressed during the period with local councils and other authority consultation. On 19 April 2012, NBN Co selected Wolumla, near Merimbula, on the New South Wales Far South Coast as the site of its first satellite ground station gateway. The first of 10 such satellite facilities, construction is set to begin next year and it is scheduled to be operating in 2015.

NBN Co is in the process of signing either a heads of agreement or a direct acquisition agreement for land lots at the majority of the remaining ground station locations. The heads of agreement are subject to NBN Co performing due diligence activities (e.g. geotechnical, heritage, flood, town planning, radio interference), with contracts to exchange once due diligence activities are completed.

A Strategic Engagement Report has been approved for issue to each Council to assist with planning approvals and land acquisition where land for the Satellite Earth Stations is being purchased from Council. A Request for Capability Statement has been issued to select contractors across Australia.

Fleet Management

NBN Co now has a total of 148 Tool of Trade and operational vehicles, including hire vehicles.

Information Technology

Portals and Online Services

In January 2012 and April 2012, additional functionality to the Community Relationship Management (CRM) system was added to allow property developers to interface to the project and portfolio management system in relation to new developments and to therefore enable those property developers to submit applications to NBN Co more efficiently.

The Business to Business (B2B) gateway offers Access Seekers the opportunity to automate transactions and provides flexibility of choice in interaction with NBN Co. On 23 March 2012 iPrimus successfully achieved B2B Interoperability Certification becoming the first Access Seeker eligible to

directly integrate with the NBN Co operational support platform, to automate the placement of Network to Network, Connectivity Virtual Circuit (CVC), and NBN Co Fibre Access Service (NFAS) orders.

In May 2012, NBN Co received the first automated fibre order from iPrimus via the B2B Gateway. The Integration and B2B platform also deployed Service Limiting capability governing Access Seekers' requests against contract limits and the automatic delivery of billing documents.

In June 2012, Service Portal capability was enhanced, providing Network-Network Interface Redundancy and Facilities Access that allows Access Seekers to raise appointments so they can gain access to NBN Co PoIs.

Operational Support Systems

On 19 February 2012 a standalone enhancement to the Physical Network Inventory (PNI) system was delivered which provided interfaces to the Logical Network Inventory system to allow for location-based service qualification (site qualification and order feasibility) which were the pre-cursors to automatic design and assign.

Deployment of Operational Support Systems (OSS) Release 3a.1 was successfully completed on 27 February 2012, with an earlier release of billing capability on 4 February 2012. The integrated release automated Lead to Cash ordering and provisioning and provided initial support for electronic Access Seeker orders, including wireless orders. Importantly, it enabled the beginning of fixed wireless business readiness testing. Billing capability upgrades enabled significant reductions in manual and electronic handling time, and improved customer experience by introducing daily billing event files.

The commercial negotiations were concluded with IBM for Release 4 of the OSS program during the period. The release will introduce the Multicast product, support for small-business broadband, further automation of Lead to Cash activities and support for key Telstra disconnect triggers and enhanced Service Level Agreement management.

OSS Release 3b went live on 30 April 2012, enabling Access Seekers to interact seamlessly with the fulfilment and billing systems via the B2B gateway. Where the Network Termination Device (NTD) is already installed an RSP can automatically provision or cease a service.

Access Seekers now have enhanced document delivery, design and assign capability, improved order flow and the ability to check addresses for serviceability status. Billing integration allows Access Seekers to automate the handling of charges and invoices. Order feasibility capability which improves order flow-through and efficiency was also redeployed with the release.

OSS capability delivered on 9 May 2012 provided increased automation for the capture of electrical utilities information during the network field design process and improvements to the efficiency of loading designs into the SpatialNet Physical Network Inventory (PNI) system.

OSS Trouble-to Resolve (T2R) Root Cause Analysis capability was implemented on 15 May 2012 and enables support staff to identify and resolve certain network issues more quickly.

IBM has completed Release 5 (R5) high level design of the OSS during June 2012. A sub-set of this scope has been contracted for detailed design and delivery based upon business priorities and

capacity constraints. IBM and Accenture have been engaged to provide regular enhancements to the SpatialNet PNI System.

Business Support Systems

An Oracle upgrade release was implemented on 27 February 2012, for Business Intelligence and Primavera Contract Management, bringing new reporting and contract management capabilities.

Business Support Systems (BSS) Release 3b was successfully deployed on 19 March 2012 which included enhancements for supply chain, asset management and content management. These bring on new user groups, new functionality and automate processing.

The Business Support Systems (BSS) Program delivered a number of independent releases throughout May 2012. The rostering time and attendance capability was delivered on 5 May 2012 to support compliance with Enterprise Bargaining Agreement (EBA) conditions.

BSS Release 4 went live on 25 June 2012 delivering enhanced controls and requirement planning for inventory materials, the ability to monitor third party warranty obligations for supplied materials and improved construction cost compliance to agreed construction contracts.

IBM and Accenture have been engaged to undertake high level scoping of technology solutions for the next major round of capability delivery, due in Release 5, scheduled for November 2012. A sub-set of this scope will be contracted for detailed design and delivery based upon business priorities, capacity constraints and funding availability.

Business Process Development

Development of the four End-to-End Processes, Planning to Handover (P2H), Lead to Cash (L2C), Trouble to Resolve (T2R) and Citizen-to-Advocate (C2A) continues and is currently focused on the top three business priority areas of building the network, on-boarding Access Seekers and providing information to End-Users.

Regulatory

Regulatory

Telstra's Structural Separation Undertaking

Important milestones for the reporting period included the ACCC's acceptance of Telstra's Structural Separation Undertaking (SSU) and approval of the Migration Plan on 27 February 2012; both key conditions precedent for the coming into full effect of the Telstra Definitive Agreements.   In parallel with the ACCC finalising its assessment of the SSU and Migration Plan and scrutiny of the Telstra Definitive Agreements, Telstra and NBN Co submitted to the ACCC a section 87B undertaking to provide the ACCC with appropriate regulatory oversight of future variations to the Telstra Definitive Agreements in accordance with the substantial adverse events regime.

Special Access Undertaking

The ACCC's assessment of the proposed Special Access Undertaking (SAU) continued during the period, with the release of a second consultation paper in mid February 2012. In light of feedback from the ACCC, Access Seekers and RSPs on the SAU, a revised approach to the SAU was developed and released to industry on 20 June 2012.

On 12 July the ACCC held a constructive industry forum to discuss the revised SAU approach, leading to substantial drafting of a revised SAU.

On 28 September 2012, NBN Co lodged its revised SAU with the ACCC.

The timing for approval of the proposed SAU will depend upon how long the ACCC requires for its assessment process.

Contract Development Process

The Contract Development Process (CDP) in relation to the WBA proceeded steadily in the reporting period with substantial progress being made in relation to key issues such as the term and structure of the WBA and its interaction with the SAU, intellectual property and confidential information and an appropriate approach to service levels including the development of service levels over time. Following lodgement of the revised SAU, NBN Co has proposed to its customers that current agreements be extended while the ACCC considers the revised SAU.

Optus HFC Agreement

On 19 July 2012, the ACCC authorised the agreement between NBN Co and Optus to migrate Optus HFC subscribers to the NBN.

Accounting Separation

Progress has continued in relation to implementing the accounting separation arrangements in the Statement of Expectations, including engagement with the ACCC and the Department of Broadband, Communications and the Digital Economy (DBCDE). NBN Co has provided an updated Regulatory Accounting & Allocation Manual to DBCDE and the ACCC reflecting feedback to enable regulatory reporting to be undertaken for the 2011-2012 year.

Points of Interconnect

NBN Co anticipates that the ACCC will shortly make public the list of Points of Interconnect (PoIs) for the purposes of section 151DB of the *Competition and Consumer Act 2010*.

Board Governance

Board Composition

Under rule 5.4.1 of the NBN Co constitution, the Board is to consist of a minimum of three and a maximum of nine directors, including the Chairman. The Chairman is appointed by the Commonwealth from amongst the directors in accordance with rule 7.3.1 of the constitution. Further, section 2.7(b) of the *Commonwealth Government Business Enterprise Governance and Oversight Guidelines*, October 2011 (GBE Guidelines) states that the Chair shall not also be an

executive of the GBE, unless otherwise agreed by the Shareholder Ministers. The Board Chairman is not an executive of NBN Co.

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

The current Board comprises six Non-Executive Directors and one Executive Director.

Board, Committees and Individual Directors' Performance

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

Board Diversity

In accordance with its obligations under the GBE Guidelines and cognisant of the Commonwealth Government's commitment to 40 percent representation of women on Government boards by 2015, the Board of Directors of NBN Co through its Nominations Committee, provides its Shareholder Ministers with recommendations on Board composition and membership. In making recommendations to the Shareholder Ministers, the Board endeavours to achieve a balance of relevant skills in the areas of telecommunications, civil construction, financial, legal, media/public relations and information technology.

As at 2 October 2012, women comprised 37.5 percent of Board appointments.

Risks

NBN Co has an enterprise-wide risk management framework to facilitate the identification of significant business risks and implementation of appropriate risk mitigation or treatment plans and monitoring processes.

The approach adopted by NBN Co is consistent with the international risk management standard, Australia / New Zealand ISO 31000:2009. NBN Co's Risk Management Policy defines the way in which the Company establishes the risk context, identifies, assesses, analyses, evaluates and treats risk to effectively manage its business, and assign roles and responsibilities for risk management. Risks mitigation actions and treatment plans are reported quarterly to the Board.

A summary of the key risks of NBN Co and the associated mitigation strategies are provided below.

Safety

With thousands of people working on the project in traffic exposed locations using large machines or potentially working at heights close to power lines, the probability of an incident is high.

Mitigation strategies include:

- comprehensive Health Safety and Environment (HSE) program established to AS4801/ISO 14001 standards;

- monthly Health, Safety, and Environment Committee (HSEF) review chaired by the Chief Executive Officer;
- HSE Key Performance Indicators reported at every Board meeting;
- stringent HSE requirements in all construction contracts;
- piloted Safe Driver Programme;
- maintaining a 'no fear' culture, no blame for the reporting of incidents and near misses without injury;
- introducing an eLearning induction programme for all NBN Co employees; and
- use of industry experts to advise on establishing a 'no blame' safety culture across NBN Co.

Quality

The Quality risk lies in product or process failures resulting in unacceptable operational performances.

Mitigation strategies include:

- implementation of a comprehensive Quality Framework consistent with ISO 9001;
- implementation of ISO 27001, ISO 20000 and Capability Maturity Model Integration (CMMI);
- reporting and review of Quality performance at Board and Management level, including the establishment of a Quality Improvement Council;
- quality Key Performance Indicators and issues reviewed at each Implementation Committee meeting;
- implementation of a Corrective and Preventative Actions (CAPA) system to capture and manage quality improvement opportunities;
- requirement specifications, qualifications and audits for vendors and suppliers;
- implementation of a Quality Internal Audit Plan and Schedule; and
- a staged deployment.

Telstra Definitive Agreements

The Telstra Definitive Agreements implementation risks include lack of capacity for management of the Telstra Definitive Agreements.

Mitigation strategies include:

- specialist team appointed to manage delivery of the Telstra Definitive Agreements requirements; and
- IT systems are currently being developed to manage the agreement, and to automate interactions with Telstra.

Optus HFC Agreement

The Optus HFC Agreement implementation risks include lack of capacity for management of the Optus HFC Agreement.

Mitigation strategies include:

- specialist team appointed to manage implementation of the Optus HFC Agreement.

Construction

The key construction risk is associated with systematic cost overruns in relation to the forecast cost per premises and is a significant risk.

Mitigation strategies include:

- the appointment of Silcar, Syntheo, Transfield Services and Visionstream as delivery partners based on the 'benchmark' model;
- ability to value engineer the design to reduce cost;
- ability to cap actual costs vs. modelled costs;
- development of robust commercial and operational processes which define and track unit cost components as an ongoing management tool; and
- work with the construction delivery partners and relevant bodies regarding training for the NBN rollout workforce.

Revenue

The key risks to Revenue relate to the failure to meet aggregated Revenue projections. They include speed and usage; wireless substitution; short term lower than anticipated take-up; longer term impact of cherry-picking (including Point-to-Point (P2P); regulated pricing at levels lower than assumed for the purposes of the Corporate Plan; and the impact of backhaul costs on demand related to the number of Points of Interconnect (PoIs).

Mitigation strategies include:

- building out sales channels to support Retail Service Providers (RSPs) to generate additional demand and sales pipeline for new entrants;
- rigorous pre-sales, on-boarding process to prepare RSPs to be NBN ready;
- fostering a Wholesale Aggregation Model to support a range of business models;
- detailed strategic marketing plan to promote the NBN value proposition and address competition from wireless substitution;
- development and lodgement of a Special Access Undertaking (SAU), to provide regulatory certainty for NBN Co and Access Seekers;
- a Contract Development Process (CDP) established to manage the development of the longer-term Wholesale Broadband Agreement (WBA);
- product lifecycle management of core NBN Co products to ensure new opportunities are captured;
- application sponsoring (e.g. Health, Education) to stimulate End-User interest; and

- the inclusion of a Public Information on Migration (PIM) campaign over the deployment period.

Operational Support Systems

The Operational Support Systems (OSS) are key support systems to the project. The OSS provides the capabilities needed to provision, configure, manage and operate the network. Delays in deployment of these systems are a key risk to the project.

Mitigation strategies include:

- contracting IBM as Prime System Integrator (SI); and
- a three-way collaborative approach to detailed design, development and testing involving business stakeholders, delivery teams and vendors, with one SI.

New Developments

The key risk relating to new developments is the failure to meet NBN Co's obligations as infrastructure provider of last resort.

Mitigation strategies include:

- engaging with external contractors to progress construction;
- deploying temporary FAN sites to service new developments ahead of permanent FAN sites; and
- arranging interim Transit to each estate directly with Transit providers.

Spectrum

This key risk is associated with spectrum acquisition for the Fixed Wireless network.

Mitigation strategies include:

- the majority of Fixed Wireless spectrum requirements have been secured commercially; and
- NBN Co is evaluating alternative strategies in the event that the preferred spectrum is not available in areas not covered by existing commercial agreements.

Financials (Unaudited)

Equity Funding

NBN Co received $350 million of Commonwealth equity funding in the six months to 30 June 2012. As at 30 June 2012 a total of $2,832 million had been made available to the Company, of which $1,470 million has been provided in the financial year to 30 June 2012.

Financial Result[6]

Consistent with being in the start up phase of its evolution, NBN Co generated an operating loss for the six months to 30 June 2012 of $300 million ($520 million for the 12 months to 30 June 2012). The main components for the six months to June 2012 were:

- $122 million of employee-related expenses ($222 million for the 12 months to 30 June 2012);
- $84 million for IT and direct telecommunication costs ($136 million for the 12 months to 30 June 2012); and
- $48 million for outsourced technical and legal advice expenses ($89 million for the 12 months to 30 June 2012).

Property, plant and equipment included additions of $369 million for the period to 30 June 2012. This consisted of network assets of $288 million for the construction of the transit, fibre, satellite and wireless networks. Buildings and leasehold improvements additions were $61 million which included aggregation depots held under a finance lease and additional property improvements. Intangible assets included additions of $282 million, primarily for the development of the BSS/OSS environments. Construction in progress increased by $126 million in the period to 30 June 2012.

Commitments increased by $3,121 million to $3,929 million in the period, primarily due to the recognition of Fibre Network and Satellite infrastructure obligations:

- Network Asset commitments increased by a net $512 million, largely due to the execution of the Satellite contract with SSL.
- Finance lease commitments increased by a net $2,485 million due to confirmation of orders for rack spaces, dark fibre and ducts.

Since 30 June 2011, commitments payable have increased by $3,555 million.

Unaudited financial statements are presented in the following section. Further information is available in the audited financial statements included in the 2011-12 Annual Report.

Taxes

The Company expects to be in a tax loss situation for the current year. This situation is expected to continue for the next several financial years. As a result, this progress report includes a nil income tax expense.

In accordance with the Australian Accounting Standards, no deferred tax asset has been recognised for these tax losses at this stage.

Post closing events

This report includes all announcements and events up to 1 October 2012.

- Between 3 and 12 July 2012, NBN Co announced the local government areas in the Central West and Mid-Western regions of New South Wales and the Rockhampton, Townsville and

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[6] *Comparative information has been aligned to any changes in current period presentation.*

Mackay regions of Queensland where planning proposals would be lodged to deliver fixed wireless broadband. Subject to final radio frequency planning and other approvals the fixed wireless network plans to cover up to 54,500 premises across more than 24 councils.

- On 8 July 2012 OSS Release 4a went live delivering fulfilment support of Small Business Broadband, Multicast, Speed Tiers and a second UNI-V port per household. The billing components of the OSS received reporting enhancements and product catalogue upgrades.

- On 12 July 2012 NBN Co published its Network Extension Program, describing a process for communities, businesses or individuals to apply for an extension of the fibre or fixed wireless network to their premises.

- On 12 July 2012, NBN Co announced that ViaSat of Carlsbad, California had been selected as provider of the long term satellite service (LTSS) ground systems. In addition, ViaSat will supply the equipment to be installed in end user premises. The ground systems contract is in US dollars and has been hedged in line with NBN Group Treasury policy. The initial contract value in Australian dollars is approximately $280 million.

- On 19 July 2012, the ACCC authorised the agreement between NBN Co and Optus to migrate Optus HFC subscribers to the NBN. As the migration progresses, Optus will decommission parts of the HFC network.

- On 3 August 2012, Senator Stephen Conroy (Minister for Broadband, Communications and the Digital Economy) and Senator Penny Wong (Minister for Finance and Deregulation) announced the appointment of Mr Brad Orgill to NBN Co's Board, as well as the reappointments of Ms Diane Smith-Gander and Ms Siobhan McKenna.

- Mr Peter Hay's term as a director and Mr Gene Tilbrook's term as a director and as Chair of the Audit Committee ended on 4 August 2012. Mr Tilbrook was appointed as an interim independent member of NBN Co's Audit Committee effective from 5 August 2012.

- On 8 August 2012, the Commonwealth Government released NBN Co's updated Corporate Plan for 2012-15.

- On 9 August 2012, NBN Co welcomed the opening of an expansion to the Prysmian fibre manufacturing facility in Dee Why, New South Wales.

- On 14 August 2012, Mr Clement Doherty retired as a director.

- On 16 August 2012, the Attorney-General tabled the report by Mr Stuart Morris, QC on the review of the operation of the Freedom of Information Act 1982 (FOI Act), insofar as it applies to documents held by NBN Co Limited. The report found that NBN Co has fulfilled its lawful responsibilities under the FOI Act to a high standard and has generally adopted a pro-disclosure attitude, sought to minimise costs for applicants where possible and operated in a timely manner.

- On 24 August 2012, NBN Co announced that Ceduna, South Australia has been selected as the location for a satellite ground station that will enable Australians in isolated areas access to fast broadband.

- On 4 September 2012, NBN Co released NBN for Business, the first of a series of enhancements to the fibre optic network to help enable Australian businesses to make the most of high-speed broadband.

- On 6 September 2012, NBN Co announced contracts with Silcar and Service Stream that provide for technicians to install and activate NBN equipment in homes and businesses as the high-speed broadband network is rolled out across the country. The contracts also provide for the contractors to carry out ongoing maintenance, repair and augmentation of the fibre optic network.

- On 6 September 2012, the government announced that NBN fixed wireless services were now available in Geraldton, Western Australia. Two of six NBN fixed wireless sites are now online, providing 354 homes and businesses in Geraldton with broadband speeds of up to 12 Mbps. Once the NBN's fixed wireless deployment is complete, around 1300 premises will be covered in Geraldton.

- On 19 September 2012, NBN Co announced the official opening of NBN Co's National Contact Centre in Queensland. NBN Co CEO, Mike Quigley officially opened the NBN Contact Centre at Varsity Lakes, accompanied by Gold Coast Mayor Councillor Tom Tate and other local leaders, and met the first 22 employees at the facility that is forecast to accommodate more than 100 workers.

- On 28 September 2012, NBN Co lodged its revised Special Access Undertaking (SAU) with the ACCC. The SAU sets out over a 30-year period a number of key terms and conditions of access to the NBN by telecommunications service providers.

- On 28 September 2012, NBN Co announced that telecommunications providers are now able to sign up to use its Multicast feature. The Multicast feature is the latest in a series of enhancements to the fibre optic network designed to help service providers broaden their NBN product offerings and enable consumers to make the most of high-speed broadband.

- On 28 September 2012, Dr Kerry Schott was appointed to the NBN Co Board.

- On 1 October 2012, NBN Co announced that Western Australia had been selected as the location for three new satellite ground stations to help Australians in remote areas connect to high-speed broadband. The facilities in Geraldton, Carnarvon and Kalgoorlie will act as essential transmission centres to deliver services over the NBN to remote communities across the country.

Unaudited Year to Date Statement of Comprehensive Income

For the year ended 30 June 2012

	NBN Group	
	Year ended 30 June 2012 $'000	Year ended 30 June 2011 $'000
Revenue		
Telecommunications Revenue	1,924	-
Other revenue	19	-
Interest income	60,164	32,616
Total Revenue	**62,107**	**32,616**
Direct telecommunications costs	(64,991)	(5,591)
Employment costs	(222,110)	(118,883)
External services costs – systems and organisation	(67,809)	(107,095)
Legal and negotiation support costs	(21,472)	(54,082)
IT and communications expenses	(71,497)	(23,873)
Occupancy expenses	(24,801)	(13,279)
Travel costs	(12,615)	(6,777)
Insurance expense	(2,846)	(1,242)
Depreciation and amortisation expense	(73,940)	(19,249)
Other expenses	(20,828)	(5,766)
Finance costs	(6,143)	-
Total Expenses	**(589,052)**	**(355,837)**
(Loss) before income tax	**(526,945)**	**(323,221)**
Income tax (expense)/benefit	6,740	-
(Loss) for the year	**(520,205)**	**(323,221)**
(Loss) attributable to the shareholders	**(520,205)**	**(323,221)**
Other comprehensive income/(loss)		
Changes in the fair value of cash flow hedges	22,466	-
Income tax relating to components of other comprehensive income	(6,740)	-
Total other comprehensive income/(loss) for the year, net of tax	**15,726**	**-**
Total comprehensive income/(loss) for the year	**(504,479)**	**(323,221)**
Total comprehensive income/(loss) attributable to the shareholders	**(504,479)**	**(323,221)**

Amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar. Comparative information has been aligned to any changes in current period presentation.

Unaudited Half Year Statement of Comprehensive Income

For the six months ended 30 June 2012

	NBN Group	
	Six Months ended 30 June 2012 $'000	Six Months ended 31 December 2011 $'000
Revenue		
Telecommunications revenue	1,571	354
Other revenue	17	2
Interest income	30,845	29,319
Total Revenue	**32,433**	**29,674**
Other income	-	-
Direct telecommunications costs	(40,325)	(24,665)
Employment costs	(121,583)	(100,527)
External services costs – systems and organisation	(39,298)	(28,511)
Legal and negotiation support costs	(8,173)	(13,298)
IT and communications expenses	(43,752)	(27,746)
Occupancy expenses	(12,641)	(12,160)
Travel costs	(7,022)	(5,593)
Insurance expense	(1,795)	(1,051)
Depreciation and amortisation expense	(45,494)	(28,447)
Other expenses	(12,591)	(8,237)
Finance costs	(6,138)	(6)
Total Expenses	**(338,812)**	**(250,241)**
(Loss) before income tax	**(306,379)**	**(220,567)**
Income tax (expense)/benefit	6,740	-
(Loss) for the half year	**(299,639)**	**(220,567)**
Other comprehensive income/(loss)		
Changes in the fair value of cash flow hedges	22,466	-
Income tax relating to components of other comprehensive income	(6,740)	-
Total other comprehensive income/(loss) for the year, net of tax	**15,726**	**-**
Total comprehensive income/(loss) for the half year	**(283,913)**	**(220,567)**
Total comprehensive income/(loss) attributable to the shareholders	**(283,913)**	**(220,567)**

Amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar. Comparative information has been aligned to any changes in current period presentation.

Unaudited Year to Date Statement of Cash Flows

For the year ended 30 June 2012

	NBN Group	
	Year ended 30 June 2012 $'000	Year ended 30 June 2011 $'000
Cash flows from operating activities		
Receipts from customers (Incl GST)	1,655	-
Payments to suppliers and employees (Incl GST)	(482,917)	(367,693)
GST Received	48,978	23,451
Other revenue	1,286	-
Interest received	53,736	27,623
Interest paid	(15)	-
Net cash (used in) operating activities	**(377,277)**	**(316,619)**
Cash flows from investing activities		
Payment for held to maturity investment	(75,000)	-
Payment for property, plant and equipment	(462,439)	(167,364)
Payment for intangibles	(314,027)	(240,110)
Net cash (used in) investing activities	**(851,466)**	**(407,474)**
Cash flows from financing activities		
Payment for finance leases and right of use licences	(542)	-
Equity injection for ordinary shares by the Commonwealth of Australia	1,470,000	1,050,000
Net cash provided by financing activities	**1,469,458**	**1,050,000**
Net increase in cash and cash equivalents	**240,715**	**325,907**
Cash and cash equivalents at the beginning of the financial year	**538,237**	**212,330**
Cash and cash equivalents at the end of the financial year	**778,952**	**538,237**

Amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar. Comparative information has been aligned to any changes in current period presentation.

Unaudited Half Yearly Statement of Cash Flows

	Six Month ended 30 June 2012 $'000	Six Month ended 31 December 2011 $'000
Cash flows from operating activities		
Receipts from customers (Incl GST)	2,323	(580)
Payments to suppliers and employees (Incl GST)	(239,564)	(243,285)
GST Received	30,542	18,366
Other revenue	491	792
Interest received	28,395	25,254
Interest expense	(10)	-
Net cash (used in) operating activities	**(177,822)**	**(199,453)**
Cash flows from investing activities		
Payment for held to maturity investment	(75,000)	-
Payment for property, plant and equipment	(272,499)	(189,941)
Payment for intangibles	(188,828)	(125,199)
Net cash (used in) investing activities	**(536,327)**	**(315,141)**
Cash flows from financing activities		
Payment for finance leases and right of use licences	(542)	-
Equity injection for ordinary shares by the Commonwealth of Australia	350,000	1,120,000
Net cash provided by financing activities	**349,458**	**1,120,000**
Net increase in cash and cash equivalents	**(364,691)**	**605,406**
Cash and cash equivalents at the beginning of the financial quarter	**1,143,643**	**538,237**
Cash and cash equivalents at the end of the financial quarter	**778,952**	**1,143,643**

Amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar. Comparative information has been aligned to any changes in current period presentation.

Unaudited Balance Sheet

As at 30 June 2012

	NBN Group	
	As At 30 June 2012 $'000	As At 30 June 2011 $'000
Current assets		
Cash and cash equivalents	778,952	538,237
Receivables	26,865	19,005
Inventory	1,672	1,660
Derivative financial asset	11,938	-
Held to maturity investment	75,000	-
Other current assets	21,452	35,665
Total current assets	**915,879**	**594,567**
Non-current assets		
Receivables	1,029	2,214
Derivative financial asset	10,528	-
Property, plant & equipment	1,027,745	232,765
Intangible assets	504,162	250,803
Other non current assets	8,068	2,325
Total non-current assets	**1,551,532**	**488,107**
Total assets	**2,467,411**	**1,082,674**
Current liabilities		
Trade and other payables	276,991	109,356
Other current liabilities	4,942	-
Provisions	16,265	7,115
Total current liabilities	**298,198**	**116,471**
Non-current liabilities		
Other non current liabilities	232,441	-
Provisions	12,446	7,398
Total non-current liabilities	**244,887**	**7,398**
Total liabilities	**543,085**	**123,869**
Net assets	**1,924,326**	**958,805**
Equity		
Contributed equity	2,832,000	1,362,000
Reserves	15,726	-
(Accumulated losses)	(923,400)	(403,195)
Total equity	**1,924,326**	**958,805**

Amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar. Comparative information has been aligned to any changes in current period presentation.

Unaudited Schedule of Commitments

As at 30 June 2012

	NBN Group	
	As At 30 June 2012 $'000	As At 30 June 2011 $'000
By type		
Equity funding		
Expected equity funding	24,668,000	26,138,000
Total equity funding	**24,668,000**	**26,138,000**
Commitments payable - Capital		
Leasehold Improvements	1,026	1,742
Network Assets	837,253	118,396
Total capital commitments	**838,279**	**120,138**
Commitments payable - Intangible		
Software	32,422	114,703
Total intangible commitments	**32,422**	**114,703**
Commitments payable - Other		
Operating leases	169,895	96,324
Finance leases and right of use licences	2,730,944	0
Other commitments	157,937	43,612
Total other commitments	**3,058,776**	**139,936**
Total commitments payable	**3,929,477**	**374,777**
By maturity		
Equity funding		
Within one year	5,788,000	3,438,000
From one to five years	17,500,000	18,700,000
Over five years	1,380,000	4,000,000
Total equity funding	**24,668,000**	**26,138,000**
Commitments payable - Capital		
Within one year	427,254	109,409
From one to five years	411,025	10,728
Total capital commitments	**838,279**	**120,138**
Commitments payable - Intangible		
Within one year	17,605	105,691
From one to five years	14,817	9,013
Total intangible commitments	**32,422**	**114,703**
Commitments payable - Operating lease		
Within one year	24,421	13,494
From one to five years	82,422	57,334
Over five years	63,052	25,495
Total operating lease commitments	**169,895**	**96,324**
Commitments payable - Finance lease and right of use licences		
Within one year	2,145	-
From one to five years	616,457	-
Over five years	2,112,342	-
Total finance lease commitments	**2,730,944**	**-**
Commitments payable - Other		
Within one year	143,811	40,694
From one to five years	13,528	2,918
Over five years	598	-
Total other commitments	**157,937**	**43,612**
Total commitments payable	**3,929,477**	**374,777**

Corporate Key Performance Indicators[7]

This is the third report and as such reflects initial reporting while systems and reporting processes are still in 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. Further KPIs will be brought online as agreed with the Shareholders.

#	Measure	Key Performance Indicator	Definition	Current Half Year Cumulative as at 30 June 2012	Previous Half Year Cumulative as at 31 December 2011	FY2012 Corporate Plan Target
1	**Health, Safety & Environment**					
1.1	**Safety Scoreboard – NBN Co[8]**	Lost Time Injury (LTI)	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.	Jun - 0.0 Mar – 1.6	Dec - 0.0 Sep – 0.0	
		Medical Treatment Injury (MTI)	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.	Jun - 1.4 Mar – 1.6	Dec - 1.8 Sep – 1.3	
		Events without Injury	Any unplanned incident that occurred at the workplace which, although not resulting in any injury or disease, had the potential to do so.	Jun – 2 Mar – 1	Dec – 2 Sep - 7	
	Safety Scoreboard – Contractors	Lost Time Injury (LTI)	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.	Jun - 0.0 Mar – 0.0	Dec – 3.1 Sep – 3.5	

[7] Comparative information has been amended to include restated information where applicable and alignment to current period presentation.
[8] Health, Safety and Environment (HSE) measures are calculated on a quarterly basis. Comparative figures for HSE may change due to workers compensation claims being accepted or denied by the statutory authority, or a revision of hours worked.

#	Measure	Key Performance Indicator	Definition	Current Half Year Cumulative as at 30 June 2012	Previous Half Year Cumulative as at 31 December 2011	FY2012 Corporate Plan Target
1.2	**Safety Scoreboard – Contractors**	Medical Treatment Injury (MTI)	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.	Jun - 2.6

Mar – 10.6 | Dec – 8.9

Sep – 24.4 | |
| | | Events without Injury | Any unplanned incident that occurred at the workplace which, although not resulting in any injury or disease, had the potential to do so. | Jun – 8

Mar - 15 | Dec – 14

Mar - 10 | |
2.	**Deployment**					
2.1	**Fibre to the Premises (FTTP) Brownfields**	Premises Passed (As at the Period End)	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.	28,860	18,243	29,000
			Metro - Premises Passed.	6,120	3,938	
			Non Metro - Premises Passed.	22,740	14,305	
		Premises Connected & Activated (As at the Period End)	Number of premises with active service generating revenue to NBN Co.

A premise is 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. | 3,364 | 2,095 | 3,000 |
| | | Construction Commenced (As at the Period End) | Number of premises in roll out areas currently undergoing construction activities, where NBN Co has issued a Contract Instruction to a Subcontractor, but it is not deemed passed. | 280,142 | 77,297 | |
| 2.2 | **FTTP New Developments** | Requests Received (# of premises) (As at the Period End) | Number of requests received from New Development developers expressed in # premises. | 132,090 | 71,050 | |

#	Measure	Key Performance Indicator	Definition	Current Half Year Cumulative as at 30 June 2012	Previous Half Year Cumulative as at 31 December 2011	FY2012 Corporate Plan Target
		Requests Received (# of development locations) (As at the Period End)	Number of requests received from New Development developers expressed in # of development locations (new estates).	2,589	1,114	
		Lots Passed – Build (As at the Period End)	Number of Lots (NBN Co Build) passed.	10,054	951	10,000
		Lots Passed – Build (As at the Period End)	Metro - Lots Passed.	6,315	798	
		Lots Passed – Build (As at the Period End)	Non Metro – Lots Passed.	3,739	153	
		Premised Connected & Activated (As at the Period End)	Number of premises (NBN Co Build) with active service generating revenue to NBN Co.	503	110	500
		Construction Commenced (As at the Period End)	Number of lots in roll out areas, currently undergoing construction activities, where NBN Co has issued a Contract Instruction to a Subcontractor, but it is not deemed passed.	13,885	12,723	
2.3	**Fixed Wireless and Satellite**	Premises Covered (As at the Period End)	Based on coverage estimate.	173,885	165,000	174,000
		Premises Connected & Activated (As at the Period End)	Number of premises with active service generating revenue to NBN Co.	9,669	2,197	10,000
		Construction Commenced (As at the Period End)	Number of premises in rollout areas currently undergoing construction activities, where NBN Co has issued a Contract Instruction to a Subcontractor, but it is not deemed passed.	7,062	1,952	
2.4	**Key Project Milestones** Project Milestone Commentary	Business Support Systems (**BSS**)	The Business Support Systems (BSS) Programme delivered a number of independent releases throughout May 2012. The Rostering Time and Attendance capability was delivered on 5 May 2012 to support compliance with Enterprise Bargaining Agreement (EBA) conditions. BSS Release 4 went live on 25 June 2012.			

#	Measure	Key Performance Indicator	Definition	Current Half Year Cumulative as at 30 June 2012	Previous Half Year Cumulative as at 31 December 2011	FY2012 Corporate Plan Target
		Operational Support Systems (**OSS**)	OSS Release 3b went live on 30 April, enabling Access Seekers to interact seamlessly with the fulfilment and billing systems via the B2B gateway. Capability delivered on 9 May 2012 provided increased automation for the capture of electrical utilities information during the network field design process and improvements to the efficiency of loading designs into the SpatialNet Physical Network Inventory (PNI) system. Trouble-to Resolve (T2R) Root Cause Analysis capability was implemented on 15 May 2012 and enables support staff to identify and resolve certain network issues more quickly.			
		NSOC /NTF Facilities	The NSOC/NTF was officially opened on 25 November 2011.			
		Data Centres	Data Centre 1 and 2 have been extended to support growth in business requirements and in particular OSS requirements.			
3.	**Complaint Handling**					
3.1	**Construction**	Rollout Complaints	Number of rollout complaints related to the construction of the fibre, fixed wireless and satellite networks.	31	24	
		Rollout Complaints Resolved and Time to Resolve	Performance and timeliness of NBN Co processes to resolve construction rollout complaints. (Percentage resolved within 5 working days).	17 or 55%	13 or 54%	
3.2	**Retail Service Providers**	Complaint Handling - RSP Complaints	Number of retail service provider complaints relating to the accessing of the fibre, fixed wireless and satellite networks.	29[9]	n/a	
		Complaint Handling - RSP Complaints Resolved and Time to Resolve	Performance and timeliness of NBN Co processes to resolve retail service provider complaints. (Percentage resolved within 5 working days).	14 or 48%	n/a	

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[9] *The RSP complaints handling year to date metrics are not available.*

#	Measure	Key Performance Indicator	Definition	Current Half Year Cumulative as at 30 June 2012	Previous Half Year Cumulative as at 31 December 2011	FY2012 Corporate Plan Target
4.	Local Content					
4.1	**Local Content**	Local Content (As at the Period End)	All services performed in Australia are regarded as 100% local content – construction, installation, design, testing and most consulting. All equipment substantially manufactured in Australia is counted as 100% local content even though a certain small percentage comprises imported components. All imported equipment is assigned zero local content even though the contract value may include 10 – 20% local services for installation, commissioning and ongoing support.	51%	52%	