



nbn co limited

Special Access Undertaking Report For the year ended 30 June 2017

Public version

Legal Notice

Copyright © nbn co limited 2017 (**nbn**).

Copyright subsists in this SAU - Regulatory Information. **nbn** owns that copyright. Other than as permitted under the *Copyright Act 1968 (Cth)*, the SAU - Regulatory Information (in part or as a whole) cannot be reproduced, published, communicated or adapted without the prior written consent of **nbn**. Any request or inquiry to so use the SAU – Regulatory Information should be addressed to:

The Chief Financial Officer
nbn co limited
Level 11, 100 Arthur Street
North Sydney NSW 2060
Australia

Table of Contents	Page
Basis of Preparation	4
Schedule 6 Statement of Capital Expenditure, Disposals, Construction in Progress, Asset Lifetimes and Taxation Asset Lifetimes	6
Schedule 7 Statement of Operating Expenditure	8
Schedule 8 Statement of Interest Expense	9
Schedule 9 Statement of Revenue	10
Schedule 10 Statement of LTRCM and RAB items	11
SAU Declaration - Statement by Chief Financial Officer	12
Schedule 11 Statement of Material Operating Expenditure, Capital Expenditure and Construction in Progress Variances	13
Schedule 12 Expenditure Compliance Report	14
Schedule 13 Procurement Rules Compliance Report	15
Schedule 14 Price Compliance Report	16

1.0 Basis of Preparation

This Special Access Undertaking (**SAU**) – Regulatory Information, which comprises the Statement of Capital Expenditure, Disposals, Construction in Progress, Asset Lifetimes and Taxation Asset Lifetimes (Schedule 6), Statement of Operating Expenditure (Schedule 7), Statement of Interest Expense (Schedule 8), Statement of Revenue (Schedule 9), Statement of LTRCM and RAB items (Schedule 10), Statement of Material Operating Expenditure, Capital Expenditure and Construction in Progress Variances (Schedule 11), Expenditure Compliance Report (Schedule 12), Procurement Rules Compliance Report (Schedule 13) and Price Compliance Report (Schedule 14) (together referred to as the Schedules), has been prepared in accordance with the principles of the **nbn** Regulatory Accounting & Allocation Manual (RAAM). The RAAM is established and maintained by management to assist it to discharge **nbn**'s obligations under Schedule 1F of the **nbn** SAU.

This SAU – Regulatory Information has been prepared from the underlying financial records which were the basis for the preparation of **nbn**'s General Purpose Financial Statements. The numbers contained within this report have been presented in Australian dollars, and values are rounded to the nearest thousand dollars unless otherwise stated.

From time to time, **nbn** transfers assets between categories to align with current business operations. Capital Expenditure transfers for the 2017 Financial Year are not illustrated within **Schedule 6**, consistent with the methodology applied to previous submissions.

In accordance with **nbn**'s accounting policies and the requirements of Australian Accounting Standards, during the financial year, **nbn** undertook a review of the useful lives of its assets to ensure they remain appropriate. Any revised lives have been adopted and reported within the SAU – Regulatory Information as at 30 June 2017.

The SAU – Regulatory Information has been prepared based on Australian Accounting Standards, except as noted below where an "Alternate Accounting Treatment (**AAT**)" has been adopted.

1.1 Licenced Assets and Property Assets under Finance Leases

nbn accounts for its licenced assets for duct access, exchange access, dark fibre and aggregation nodes as finance leases over property, plant and equipment. This involves capitalising the leased asset, amortising the value of the leased asset over time and recognising a notional interest expense each year on the residual value of the lease liability. This accounting approach is inconsistent with the approach used in the Long Term Revenue Constraint Methodology (**LTRCM**), so for the purposes of the SAU – Regulatory Information, the payments for Licenced Assets and Property Assets under Finance Leases are brought to account on a cash basis and included within Operating Expenditure each year.

1.2 Migration Fees

nbn previously accounted for the payments of Migration Fees as part expense and part capitalised intangible asset, and from 1 July 2015 accounted for these payments only as an expense. The basis for the previous capitalisation and the accounting for the resulting intangible asset over time were inconsistent with the LTRCM. For the purposes of the SAU – Regulatory Information, the payment of Migration Fees will be brought to account on a cash basis and included within Operating Expenditure each year.

1.0 Basis of Preparation (continued)

1.3 Assets received for Zero Consideration & Government Grants

Through its developer agreements with New Developments, **nbn** receives Pit and Pipe assets at no cost. Assets have also been received under Government Grants. These items are capitalised as assets with an equivalent deferred gain recognised. The asset and the deferred gain are depreciated and brought to account into the profit and loss statement over the useful life of the asset.

For the purposes of the Statement of Capital Expenditure, Disposals, Construction in Progress, Asset Lifetimes and Taxation Asset Lifetimes (Schedule 6), the effects of these transactions are reversed such that the relevant assets are ascribed a zero Capital Expenditure value and no gain is recognised in revenue.

For corporate tax purposes, however, the value of assets received for zero consideration is treated as assessable income in the year in which **nbn** takes ownership of the assets, and results in tax depreciation over time. This tax treatment is reflected in the calculations underpinning the Statement of LTRCM and RAB items (Schedule 10).

1.4 Construction in Progress

nbn recognises in the carrying amount of an item of property, plant and equipment the value of assets in the course of construction. For the purposes of the SAU – Regulatory Information, consistent with the LTRCM, construction in progress is not allocated to items of property, plant and equipment or intangible assets, and is reported as an aggregate value as at the start and end of each financial year.

Construction in Progress includes Working Inventory, which comprises equipment held by **nbn** before being released into particular construction projects. It is distinct in this regard from Spares Inventory, which comprises equipment held for network maintenance purposes and has a separate AAT (Refer to AAT 1.5 below).

1.5 Inventory (Spares)

For the purposes of the SAU – Regulatory Information, net increases in Inventory are included as additions to Capital Expenditure, while net decreases in Inventory are included as Disposals. Any write-offs of Inventory will be accounted for as Operating Expenditure. When Inventory (Spares) is accounted for under an AAT it is treated as a non-depreciable asset.

1.6 Provisions

For the purpose of the SAU - Regulatory Information, provisions are omitted from Capital Expenditure and Operating Expenditure as they are estimates of a present obligation under accounting standards and this concept is not the same as incurred and does not necessarily represent a pending cash outflow.

nbn co limited

Schedule 6 - Statement of Capital Expenditure, Disposals, Construction in Progress, Asset Lifetimes and Taxation Asset Lifetimes
 For the year ended 30 June 2017

		FY 2017			
Asset Type		Capital Expenditure	Disposals	Asset Lifetime	Taxation Asset Lifetime
Asset Category	Description	\$'000	\$'000	Years	Years
[Redacted Content]					
Total Network Assets		5,266,311			

nbn co limited

**Schedule 6 - Statement of Capital Expenditure, Disposals, Construction in Progress, Asset Lifetimes and Taxation Asset Lifetimes
For the year ended 30 June 2017**

		FY 2017			
Asset Type		Capital Expenditure	Disposals	Asset Lifetime	Taxation Asset Lifetime
Asset Category	Description	\$'000	\$'000	Years	Years
Total Non-Network Assets		754,848	-		
Ref:	AAT 1.5 Inventory (Spares)	5,757			
Grand Total		6,026,916	-		
		FY 2017			
		Closing Value			
		\$'000			
Construction in Progress (Excluding Working Inventory)		3,319,268			
Construction in Progress (Including Working Inventory)		3,739,873			
Reconciliation to nbn's Audited General Purpose Financial Statements					
Capital Expenditure per SAU		6,026,916			
Ref:	Add reconciling items				
AAT 1.1	Licensed Assets and Property Assets under Finance Leases				
AAT 1.2	Migration fees				
AAT 1.3	Assets received for zero consideration	129,447			
AAT 1.4	Construction in Progress (Movement including Working Inventory)	(248,439)			
AAT 1.6	Provisions				
Less reconciling items:					
AAT 1.5	Inventory (Spares)	(5,757)			
Total Capital Expenditure		7,199,123			
Capital Additions per nbn's Audited General Purpose Financial Statements		7,199,123			
nbn Annual Report Reference:		\$'000			
Non-current assets - Property, plant and equipment (Note 1)		6,515,072			
Non-current assets - Intangible assets (Note 2)		684,051			
Non-current assets - Total additions		7,199,123			
Capital Expenditure					
Deemed Prudent Capital Expenditure Category		\$'000			
Incurred prior to SAU commencement					
Incurred post SAU commencement:					
NBN Co Interim Satellite Network					
Interim Transit Arrangements					
Telstra Arrangements					
Optus Arrangements					
Tasmania Tri-Area Service Arrangements					
First Release Trial Sites					
Third Party Funded Network Changes					
Total - Deemed Prudent Capital Expenditure		337,683			

Note 1: Page 105 of nbn's Annual Report (Note C3)

Note 2: Page 108 of nbn's Annual Report (Note C4)

Note 3: From 1 July 2016, nbn revised its Chart of Accounts to: increase the efficiency and effectiveness of nbn's governance and reporting environments; and accommodate additional technologies under the multi-technology mix (MTM) model. As a consequence, the Asset Types previously used to report Capital Expenditure have been discontinued. From 1 July 2016, Capital Expenditure is reported using Asset Types based on detailed information within the fixed asset register and are not directly comparable to the Asset Types used in prior years. Although not presented in this Schedule, the prior year Asset Types (and associated prior year Capital Expenditure, Asset Lifetimes and Taxation Asset Lifetimes) continue to be relevant to, and are maintained in, the LTRCM Spreadsheet.

nbn co limited

Schedule 7 - Statement of Operating Expenditure For the year ended 30 June 2017

Operating Expenditure Category	Current Year FY 2017 \$'000
Direct telecommunications costs	2,452,031
<i>Non deemed prudent Operating Expenditure</i>	443,280
<i>Deemed prudent Operating Expenditure</i>	2,008,751
<i>NBN Co Interim Satellite Network</i>	
<i>Interim Transit Arrangements</i>	
<i>Tasmania Tri-Area Service Arrangements</i>	
<i>First Release Trial Sites</i>	
<i>Telstra Arrangements</i>	
<i>Optus Arrangements</i>	
<i>Third Party Funded Network Changes</i>	
<i>Urgent or Unforeseen Network Issues</i>	
<i>Force Majeure</i>	
Employee benefit expenses	733,790
Outsourced and corporate services	177,308
IT and software expenses	124,666
Communication and public information	79,175
Other expenses	160,016
Total	3,726,986
Reconciliation to nbn's Audited General Purpose Financial Statements	
<i>Less</i>	
<i>AAT 1.1 - Licenced Assets and Property Assets under Finance Leases</i>	
<i>AAT 1.2 - Migration payments</i>	
<i>Add</i>	
<i>AAT 1.6 - Provisions</i>	
<i>Depreciation and amortisation expense</i>	1,488,049
<i>Finance charges</i>	402,488
Total	5,289,965
Total Expense per nbn's Audited General Purpose Financial Statements	5,289,965

nbn co limited

**Schedule 8 - Statement of Interest Expense
 For the year ended 30 June 2017**

	<u>Current Year</u> <u>FY 2017</u> <u>\$'000</u>
Interest expense	5

Reconciliation to nbn's Audited General Purpose Financial Statements

<i>Ref:</i>	<i>Add</i>	
AAT 1.1	Finance charges on finance lease arrangements	400,468
AAT 1.6	Unwinding of the discount of other lease related provisions	2,015
	Finance Charges per nbn's Audited General Purpose Financial Statements	402,488

nbn co limited

Schedule 9 - Statement of Revenue For the year ended 30 June 2017

	<u>Current Year</u> <u>FY 2017</u> <u>\$'000</u>
Telecommunications revenue	921,885
Other revenue	79,117
Revenue	<u>1,001,002</u>
Reconciliation to nbn's Audited General Purpose Financial Statements	
<i>Add</i>	
Interest income (where relevant) (Note 1)	
Total revenue per nbn's Audited General Purpose Financial Statements (Note 2)	<u>1,001,002</u>

Note 1: In **nbn's** Audited General Purpose Financial Statements for FY 2017 (as reported in **nbn's** 2017 Annual Report), interest income is not included in the calculation of total revenue. Therefore, the value of Revenue for FY 2017 (as determined in accordance with the SAU), is the same as the total revenue value as per **nbn's** Audited General Purpose Financial Statements.

Note 2: For the purposes of this schedule, total revenue per **nbn's** Audited General Purpose Financial Statements are those values published in **nbn's** Annual Report for the Financial Year to which the value relates (e.g. Total revenue per **nbn's** Audited General Purpose Financial Statement for FY 2017 is drawn from the 2017 Annual Report).

nbn co limited

Schedule 10 - Statement of LTRCM and RAB items For the year ended 30 June 2017

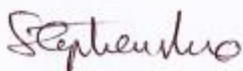
	Units	Current Year FY 2017 Value
June Quarter CPI	Percentage	1.934%
Cumulative Inflation Factor	Index	1.045
Risk Free Rate	Percentage	2.129%
Nominal Rate of Return	Percentage	5.629%
Corporate Tax Rate	Percentage	30%
Dividend Imputation Franking Credits	Number	n/a
Nominal Straight Line Depreciation	\$'000	775,001
Nominal Tax Depreciation Expenses	\$'000	760,053
Nominal Regulatory Depreciation	\$'000	602,036
Opening RAB - Nominal	\$'000	8,944,763
Closing RAB - Nominal	\$'000	14,369,643
Opening RAB - Real	\$'000	8,722,380
Closing RAB - Real	\$'000	13,746,569
Annual Building Block Revenue Requirement	\$'000	5,057,117
Unrecovered Costs	\$'000	4,056,114
Opening ICRA - Nominal	\$'000	9,428,175
Closing ICRA - Nominal	\$'000	14,014,956
Opening ICRA - Real	\$'000	9,193,772
Closing ICRA - Real	\$'000	13,407,261
Carry Forward Revenue Adjustment	\$'000	n/a
Regulated Revenue	\$'000	n/a
Revenue Variation	\$'000	n/a

Special Access Undertaking (SAU) Declaration – Statement by CFO

Statement by nbn’s Chief Financial Officer

In my opinion, to the best of my knowledge and belief, I declare that:

- (a) The Regulatory Accounting & Allocation Manual (RAAM) has been appropriately updated to reflect changes in the business or structure of **nbn** and to meet the financial reporting requirements of the **nbn** Special Access Undertaking (SAU).
- (b) Schedules 6 to 9, Statement of Capital Expenditure, Disposals, Construction in Progress, Asset Lifetimes and Taxation Asset Lifetimes (Schedule 6), Statement of Operating Expenditure (Schedule 7), Statement of Interest Expense (Schedule 8), Statement of Revenue (Schedule 9) as at 30 June 2017:
 - i. are prepared in accordance with the principles of the RAAM dated 04 August 2017;
 - ii. note 1 (Basis of Preparation); and
 - iii. have been reconciled with **nbn**’s Audited General Purpose Financial Statements.
- (c) Schedule 10, Statement of LTRCM and RAB items has been prepared in accordance with the reporting requirements of the SAU.



Stephen Rue

Chief Financial Officer of **nbn**

Date: 23 October 2017

nbn co limited

**Schedule 11 - Statement of Material Operating Expenditure, Capital Expenditure and Construction in Progress Variances
For the year ended 30 June 2017**

Description	FY 2017			Commentary
	Forecast	Actual	Variance	
Description	\$'000	\$'000	\$'000	
Capital Expenditure				
Network Assets - Tangible				
Access - Passive				
Access - Active				
Transit - Passive				
Transit - Active				
Wireless - Passive				
Wireless - Active				
Satellite - Active				
HFC - Passive				
HFC - Active				
Other				
Network Assets - Intangible				
Access- Passive				
Total Network Assets		5,266,311		
Non Network Assets		754,848		
Total Non Network Assets		754,848		
Inventory (Spares)		5,757		
Grand Total		6,026,916		
Construction in Progress				
Opening value (Including Working Inventory)		3,991,030		
Closing value (Including Working Inventory)		3,739,873		
Operating Expenditure				
Direct telecommunications costs		2,452,031		
Employee benefit expenses		733,790		
Outsourced and corporate services		177,308		
IT and software expenses		124,666		
Communication and public information		79,175		
Other expenses		160,016		
Total Operating Expenditure		3,726,986		

Note 1: No commentary has been provided in respect of line item variances that are immaterial.

Note 2: The actual values have been reported on a basis consistent with the presentation of nbn's Audited General Purpose Financial Statements.

nbn co limited
Schedule 12 - Expenditure Compliance Report
For the year ended 30 June 2017

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 1F.2.1(a) OF nbn's SPECIAL ACCESS UNDERTAKING¹**

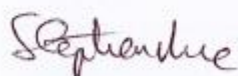
As Chief Financial Officer, I have not become aware of any matter that would lead me to believe that nbn co limited (**nbn**) has not maintained, in all material respects, key control procedures that were adequately designed and operated effectively in relation to the requirements of Clause 1F.2.1(a) of the **nbn** Special Access Undertaking for the period 1 July 2016 to 30 June 2017.

Based on my knowledge of the effective operation of the key control procedures over Expenditure Compliance and on the basis that nothing has come to my attention that causes me to believe anything to the contrary, the Capital Expenditure proposed for inclusion in the RAB was in all material respects:

- incurred in accordance with the Prudent Cost Condition and the Prudent Design Condition; or
- incurred between the Cost Commencement Date and the SAU Commencement Date or in connection with one of the matters specified in clause 1D.3.2(a)(ii).

Based on my knowledge of the effective operation of the key control procedures over Expenditure Compliance Reporting and on the basis that nothing has come to my attention that causes me to believe anything to the contrary, the Operating Expenditure proposed for inclusion in the ABBRR was in all material respects:

- incurred in accordance with clause 1E.8.3; or
- incurred between the Cost Commencement Date and the SAU Commencement Date; or in connection with one of the matters specified in clause 1E.8.2(a)(ii).



Stephen Rue

Chief Financial Officer of **nbn**

Dated: 23 October 2017

¹ All capitalised terms and clause references are as per the **nbn** Special Access Undertaking as accepted by the ACCC on 13 December 2013.

nbn co limited
Schedule 13 - Procurement Rules Compliance Report
For the year ended 30 June 2017

**CERTIFICATION OF THE CHIEF PROCUREMENT OFFICER PURSUANT TO SECTION
1F.2.3(a) OF nbn's SPECIAL ACCESS UNDERTAKING¹**

Based on my knowledge, and on the basis that nothing has come to my attention that causes me to believe anything to the contrary, during the period 1 July 2016 to 30 June 2017:

- the Procurement Rules satisfied the requirements in clause 1D.5.1.



Katarzyna Stapleton
Executive General Manager Procurement of **nbn**²

Dated: 23 October 2017

¹ All capitalised terms and clause references are as per the **nbn** Special Access Undertaking as accepted by the ACCC on 13 December 2013.

² The role of Chief Procurement Officer for the purposes of this Procurement Rules Compliance Report is currently fulfilled by **nbn**'s Executive General Manager Procurement, Katarzyna Stapleton, as successor to the Chief Procurement Officer role.

nbn co limited
Schedule 14 - Price Compliance Report
For the year ended 30 June 2017

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION
1F.3(a) OF nbn's SPECIAL ACCESS UNDERTAKING¹**

As Chief Financial Officer, I have not become aware of any matter that would lead me to believe that nbn co limited (**nbn**) has not maintained, in all material respects, key control procedures that were adequately designed and operated effectively in relation to the requirements of Clause 1F.3(a) of the **nbn** Special Access Undertaking for the period 1 July 2016 to 30 June 2017.

Based on my knowledge of the effective operation of the key control procedures over Price Compliance Reporting and on the basis that nothing has come to my attention that causes me to believe anything to the contrary:

- the Price for the supply of each NBN Offer did not exceed, at any time during the period 1 July 2016 to 30 June 2017, the Maximum Regulated Price applicable to that NBN Offer at the relevant point in time;
- the Price of each Other Charge imposed did not exceed, at any time during the period 1 July 2016 to 30 June 2017, the Maximum Regulated Price for that Other Charge at the relevant point in time; and
- Prices complied with the requirements of Schedule 1C (NBN Offers and Other Charges).

For the purpose of this certification, the Price of each NBN Offer and Other Charge at any time during the Financial Period was ascertained from the relevant Standard Form of Access Agreement.



Stephen Rue

Chief Financial Officer of **nbn**

Dated: 23 October 2017

¹ All capitalised terms and clause references are as per the **nbn** Special Access Undertaking as accepted by the ACCC on 13 December 2013.