

# **NBN Co Limited**

## **Special Access Undertaking Report For the year ended 30 June 2019**

Public version

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NBN Co Limited  
Level 11, 100 Arthur Street  
North Sydney NSW 2060  
Australia

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## 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 Co Regulatory Accounting & Allocation Manual (RAAM). The RAAM is established and maintained by management to assist it to discharge NBN Co's obligations under Schedule 1F of the NBN Co SAU.

This SAU – Regulatory Information has been prepared from the underlying financial records which were the basis for the preparation of NBN Co'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 Co transfers assets between categories to align with current business operations. Capital Expenditure transfers for the 2019 Financial Year are not illustrated within **Schedule 6**, consistent with the methodology applied to previous submissions.

In accordance with NBN Co's accounting policies and the requirements of Australian Accounting Standards, during the financial year, NBN Co 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 2019.

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 Co 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 Co 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 as an expense only. 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 resulting in an intangible asset will be brought to account on a cash basis and included within Operating Expenditure each year.

### 1.3 Assets received for Zero Consideration & Government Grants

Through its developer agreements with New Developments, NBN Co 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.

## 1.0 Basis of Preparation (continued)

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 Co 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 Co 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 Co 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 2019

|                |             | FY 2019             |           |                |                         |
|----------------|-------------|---------------------|-----------|----------------|-------------------------|
|                |             | Capital Expenditure | Disposals | Asset Lifetime | Taxation Asset Lifetime |
| Asset Category | Description | \$'000              | \$'000    | Years          | Years                   |

|                             |                  |          |
|-----------------------------|------------------|----------|
| <b>Total Network Assets</b> | <b>5,183,520</b> | <b>-</b> |
|-----------------------------|------------------|----------|

**Non Network Assets**

|                                 |                |          |
|---------------------------------|----------------|----------|
| <b>Total Non-Network Assets</b> | <b>580,266</b> | <b>-</b> |
|---------------------------------|----------------|----------|

|                            |                  |          |
|----------------------------|------------------|----------|
| Ref:                       |                  |          |
| AAT 1.5 Inventory (Spares) | 2,896            |          |
| <b>Grand Total</b>         | <b>5,766,682</b> | <b>-</b> |

|  |                |
|--|----------------|
|  | <b>FY 2019</b> |
|  | Closing Value  |
|  | \$'000         |
| Construction in Progress (Excluding Working Inventory) | 3,014,693      |
| Construction in Progress (Including Working Inventory) | 3,309,660      |

**Reconciliation to NBN Co's Audited General Purpose Financial Statements**

|                             |           |
|-----------------------------|-----------|
| Capital Expenditure per SAU | 5,766,682 |
|-----------------------------|-----------|

|         |   |         |
|---------|---|---------|
| 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                          | 141,252 |
| AAT 1.4 | Construction in Progress (Movement including Working Inventory) | 126,813 |
| AAT 1.6 | Provisions  |         |

|                            |         |
|----------------------------|---------|
| Less reconciling items:    |         |
| AAT 1.5 Inventory (Spares) | (2,896) |

|                                  |                  |
|----------------------------------|------------------|
| <b>Total Capital Expenditure</b> | <b>7,132,104</b> |
|----------------------------------|------------------|

|  |                  |
|--|------------------|
| <b>Capital Additions per NBN Co's Audited General Purpose Financial Statements</b> | <b>7,132,104</b> |
|--|------------------|

|                                     |               |
|-------------------------------------|---------------|
| <b>nbn Annual Report Reference:</b> | <b>\$'000</b> |
|-------------------------------------|---------------|

|  |                  |
|--|------------------|
| <b>Non-current assets - Property, plant and equipment (Note 1)</b> | <b>6,647,721</b> |
| <b>Non-current assets - Intangible assets (Note 2)</b>             | <b>484,383</b>   |

|   |                  |
|---|------------------|
| <b>Non-current assets - Total additions</b> | <b>7,132,104</b> |
|---|------------------|

|  |                     |
|--|---------------------|
|  | Capital Expenditure |
|  | \$'000              |

|   |                |
|---|----------------|
| Deemed Prudent Capital Expenditure Category       |                |
| 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                |                |
| <b>Total - Deemed Prudent Capital Expenditure</b> | <b>517,661</b> |

Note 1: Page 118 of NBN Co's Annual Report (Note C3)  
Note 2: Page 121 of NBN Co's Annual Report (Note C4)

## NBN Co Limited

### Schedule 7 - Statement of Operating Expenditure For the year ended 30 June 2019

| Operating Expenditure Category   | Current Year      |
|--|-------------------|
|  | FY 2019<br>\$'000 |
| Direct telecommunications costs  | 3,045,777         |
| Non deemed prudent Operating Expenditure   | 632,673           |
| Deemed prudent Operating Expenditure   | 2,413,104         |
| <i>NBN Co Interim Satellite Network</i><br><i>Interim Transit Arrangements</i><br><i>Tasmania Tri-Area Service Arrangements</i><br><i>First Release Trial Sites</i><br><i>Telstra Arrangements</i><br><i>Optus Arrangements</i><br><i>Third Party Funded Network Changes</i><br><i>Urgent or Unforeseen Network Issues</i><br><i>Force Majeure</i> |                   |
| Employee benefit expenses  | 826,968           |
| IT and software expenses   | 149,650           |
| Communication and public information   | 79,291            |
| Other expenses   | 352,574           |
| <b>Total</b>   | <b>4,454,260</b>  |
| <b>Reconciliation to NBN Co's Audited General Purpose Financial Statements</b>   |                   |
| Less   |                   |
| AAT 1.1 - Licenced Assets and Property Assets under Finance Leases   |                   |
| Revenue  | 2,824,879         |
| Interest income  | 10,031            |
| Other income   | 22,849            |
| Add  |                   |
| AAT 1.2 - Migration payments   |                   |
| AAT 1.6 - Provisions   |                   |
| Depreciation and amortisation expense  | 2,613,674         |
| Finance charges  | 1,002,883         |
| <b>Total</b>   | <b>4,878,852</b>  |
| <b>Loss Before Income Tax per NBN Co's Audited General Purpose Financial Statements</b>  | <b>4,878,852</b>  |



## NBN Co Limited

### Schedule 8 - Statement of Interest Expense For the year ended 30 June 2019

|  |   | <b>Current Year</b> |
|--|---|---------------------|
|  |   | <b>FY 2019</b>      |
|  |   | <b>\$'000</b>       |
| <hr/>  |   |                     |
| Interest expense   |   | 351,672             |
| <hr/>  |   |                     |
| <b>Reconciliation to NBN Co's Audited General Purpose Financial Statements</b>     |   |                     |
| <i>Ref:</i>  | <i>Add</i>  |                     |
| AAT 1.1  | Finance charges on finance lease arrangements               | 649,183             |
| AAT 1.6  | Unwinding of the discount of other lease related provisions | 2,028               |
|  | <i>Less</i>   |                     |
|  | Interest income   | (10,031)            |
| <hr/>  |   |                     |
| <b>Net finance costs per NBN Co's Audited General Purpose Financial Statements</b> |   | <b>992,852</b>      |
| <hr/>  |   |                     |

## NBN Co Limited

### Schedule 9 - Statement of Revenue For the year ended 30 June 2019

|   | <b>Current Year</b> |
|---|---------------------|
|   | <b>FY 2019</b>      |
|   | <b>\$'000</b>       |
| Telecommunications revenue  | 2,643,296           |
| Other revenue   | 181,583             |
| <b>Revenue</b>  | <b>2,824,879</b>    |
| <b>Reconciliation to NBN Co's Audited General Purpose Financial Statements</b>          |                     |
| <b>Total revenue per NBN Co's Audited General Purpose Financial Statements (Note 2)</b> | <b>2,824,879</b>    |

Note 1: In NBN Co's Audited General Purpose Financial Statements for FY 2019 (as reported in NBN Co's 2019 Annual Report), interest income is not included in the calculation of total revenue. Therefore, the value of Revenue for FY 2019 (as determined in accordance with the SAU), is the same as the total revenue value as per NBN Co's Audited General Purpose Financial Statements.

Note 2: For the purposes of this schedule, total revenue per NBN Co's Audited General Purpose Financial Statements are those values published in NBN Co's Annual Report for the Financial Year to which the value relates (e.g. Total revenue per NBN Co's Audited General Purpose Financial Statements for FY 2019 is drawn from the 2019 Annual Report).

## NBN Co Limited

### Schedule 10 - Statement of LTRCM and RAB items For the year ended 30 June 2019

|   | Units      | FY 2019<br>Value |
|---|------------|------------------|
| June Quarter CPI                          | Percentage | 1.593%           |
| Cumulative Inflation Factor               | Index      | 1.084            |
| Risk Free Rate                            | Percentage | 2.716%           |
| Nominal Rate of Return                    | Percentage | 6.216%           |
| Corporate Tax Rate                        | Percentage | 30%              |
| Dividend Imputation Franking Credits      | Number     | n/a              |
| Nominal Straight Line Depreciation        | \$'000     | 2,123,707        |
| Nominal Tax Depreciation Expenses         | \$'000     | 2,058,752        |
| Nominal Regulatory Depreciation           | \$'000     | 1,815,015        |
| Opening RAB - Nominal                     | \$'000     | 19,379,004       |
| Closing RAB - Nominal                     | \$'000     | 23,330,671       |
| Opening RAB - Real                        | \$'000     | 18,161,385       |
| Closing RAB - Real                        | \$'000     | 21,521,935       |
| Annual Building Block Revenue Requirement | \$'000     | 7,671,752        |
| Unrecovered Costs                         | \$'000     | 4,846,872        |
| Opening ICRA - Nominal                    | \$'000     | 19,405,530       |
| Closing ICRA - Nominal                    | \$'000     | 25,458,678       |
| Opening ICRA - Real                       | \$'000     | 18,186,245       |
| Closing ICRA - Real                       | \$'000     | 23,484,965       |
| 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 Co'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) reflects the business and structure of NBN Co and meets the financial reporting requirements of the NBN Co 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 2019:
  - i. are prepared in accordance with the principles of the RAAM dated 27 August 2018;
  - ii. note 1 (Basis of Preparation); and
  - iii. have been reconciled with NBN Co'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.



Philip Knox

Chief Financial Officer of NBN Co

Date: 25 October 2019

**NBN Co Limited**

**Schedule 11 - Statement of Material Operating Expenditure, Capital Expenditure and Construction in Progress Variances**  
**For the year ended 30 June 2019**

|   | FY 2019  |           |          |            |
|---|----------|-----------|----------|------------|
|   | Forecast | Actual    | Variance | Commentary |
| 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                                |          |           |          |            |
| Network Assets - Intangible                 |          |           |          |            |
| Wireless - Passive                          |          |           |          |            |
| Total Network Assets                        |          | 5,183,520 |          |            |
| Non Network Assets                          |          | 580,266   |          |            |
| Total Non Network Assets                    |          | 580,266   |          |            |
| Inventory (Spares)                          |          | 2,896     |          |            |
| Grand Total                                 |          | 5,766,682 |          |            |
|   | Forecast | Actual    | Variance | Commentary |
| Description                                 | \$'000   | \$'000    | \$'000   |            |
| Construction In Progress                    |          |           |          |            |
| Opening value (Including Working Inventory) |          | 3,182,847 |          |            |
| Closing value (Including Working Inventory) |          | 3,309,660 |          |            |
|   | Forecast | Actual    | Variance | Commentary |
| Description                                 | \$'000   | \$'000    | \$'000   |            |
| Operating Expenditure                       |          |           |          |            |
| Direct telecommunications costs             |          | 3,045,777 |          |            |
| Employee benefit expenses                   |          | 826,968   |          |            |
| IT and software expenses                    |          | 149,650   |          |            |
| Communication and public information        |          | 79,291    |          |            |
| Other expenses                              |          | 352,574   |          |            |
| Total Operating Expenditure                 |          | 4,454,260 |          |            |

Note 1: The actual values have been reported on a basis consistent with the presentation of NBN Co's Audited General Purpose Financial Statements.

## NBN Co Limited

### Schedule 12 - Expenditure Compliance Report

For the year ended 30 June 2019

#### **CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 1F.2.1(a) OF NBN Co's SPECIAL ACCESS UNDERTAKING<sup>1</sup>**

As Chief Financial Officer, I have not become aware of any matter that would lead me to believe that NBN Co Limited (NBN Co) 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 Co Special Access Undertaking for the period 1 July 2018 to 30 June 2019.

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).



Philip Knox

Chief Financial Officer of NBN Co

Dated: 25 October 2019

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<sup>1</sup> All capitalised terms and clause references are as per the NBN Co Special Access Undertaking as accepted by the ACCC on 13 December 2013.

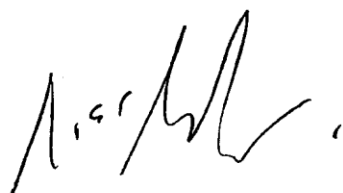
## NBN Co Limited

### Schedule 13 - Procurement Rules Compliance Report For the year ended 30 June 2019

#### **CERTIFICATION OF THE CHIEF PROCUREMENT OFFICER PURSUANT TO SECTION 1F.2.3(a) OF NBN Co's SPECIAL ACCESS UNDERTAKING<sup>1</sup>**

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 2018 to 30 June 2019:

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



Ross Elsted

Acting Executive General Manager Procurement of NBN Co<sup>2</sup>

Dated: 25 October 2019

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<sup>1</sup> All capitalised terms and clause references are as per the NBN Co Special Access Undertaking as accepted by the ACCC on 13 December 2013.

<sup>2</sup> The role of Chief Procurement Officer for the purposes of this Procurement Rules Compliance Report is currently fulfilled by NBN Co's Acting Executive General Manager Procurement, Ross Elsted, as successor to the Chief Procurement Officer role



## **NBN Co Limited**

### **Schedule 14 - Price Compliance Report**

#### **For the year ended 30 June 2019**

#### **CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 1F.3(a) OF NBN Co's SPECIAL ACCESS UNDERTAKING<sup>1</sup>**

As Chief Financial Officer, I have not become aware of any matter that would lead me to believe that NBN Co Limited (NBN Co) 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 Co Special Access Undertaking for the period 1 July 2018 to 30 June 2019.

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 2018 to 30 June 2019, 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 2018 to 30 June 2019, 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.



Philip Knox

Chief Financial Officer of NBN Co

Dated: 25 October 2019

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<sup>1</sup> All capitalised terms and clause references are as per the NBN Co Special Access Undertaking as accepted by the ACCC on 13 December 2013.