



# nbn co limited

## **Special Access Undertaking Report For the year ended 30 June 2015**

Public version

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The Chief Financial Officer  
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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 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 2015 Financial Year are not illustrated within **Schedule 6**, consistent with the methodology applied to the 2014 submission.

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 2015.

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 and dark fibre and aggregation nodes as finance leases over property, plant and equipment. This involves capitalising the finance leases, amortising the value of the leases over time and recognising a notional finance charge each year on the residual value of each lease. 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** accounts for its migration payments as part expense and part capitalised intangible asset. The basis for the capitalisation and the accounting for the resulting intangible asset over time are 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.

### 1.3 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.

## 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** 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.

### 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 is accounted for under an AAT it is treated as a non-depreciable asset.

### 1.6 Provisions

For the purposes of the SAU - Regulatory Information, provisions are omitted from Capital Expenditure and Operating Expenditure as they are estimates and do not necessarily represent a pending cash outflow.

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**Schedule 6 - Statement of Capital Expenditure, Disposals, Construction in Progress, Asset Lifetimes and Taxation Asset Lifetimes**  
For the year ended 30 June 2015

[illegible]



## nbn co limited

### Schedule 7 Statement of Operating Expenditure For the year ended 30 June 2015

Operating Expenditure Category	Current Year	Prior Year
	FY 2015 \$'000	FY 2014 \$'000
Direct telecommunications costs	861,699	564,603
Non deemed prudent Operating Expenditure	202,085	149,442
Deemed prudent Operating Expenditure (Note 1)	659,614	415,161
NBN Co Interim Satellite Network		
Interim Transit Arrangements		
Tasmania Tri-Area Service Arrangements		
First Release Trial Sites		
Telstra Arrangements		
Optus Arrangements		
Third Party Funded Network Changes		
Urgent or Unforeseen Network Issues		
Force Majeure		
Employee benefit expenses	378,314	359,868
Advisory, corporate and outsourced services (Note 2)	112,434	86,596
IT and software expenses	119,644	114,226
Occupancy expenses	43,559	39,699
Communication and public information	28,468	13,887
Other expenses (Note 2)	90,661	76,335
<b>Total</b>	<b>1,591,220</b>	<b>1,215,514</b>
<b>Reconciliation to nbn's Audited General Purpose Financial Statements</b>		
Less		
AAT 1.1 - Licenced Assets and Property Assets under Finance Leases		
AAT 1.2 - Migration Payments		
Add		
AAT 1.6 - Provisions		24,513
Depreciation and Amortisation Expense	630,689	435,375
Finance Costs	301,938	222,909
<b>Total</b>	<b>2,226,665</b>	<b>1,728,208</b>
<b>Total Expense per nbn's Audited General Purpose Financial Statements</b>	<b>2,226,665</b>	<b>1,728,208</b>

Note 1: Deemed prudent categories are as defined in the SAU. While deemed prudent categories only come into consideration for inclusion of Operating Expenditure in the ABBRR from the SAU Commencement Date (13 December 2013) onwards, Operating Expenditure incurred in connection with each category is reported here (including for the prior year 2013-14, in which the SAU Commencement Date falls) to facilitate ready comparisons between the amount of Operating Expenditure incurred in connection with each deemed prudent category for each Financial Year (prior to and post SAU commencement).

Note 2: Consistent with the presentation of nbn's Audited General Purpose Financial Statements, the Advisory, corporate and outsourced services category now includes expenditure that was in prior years separately categorised as Legal expenses. The Other expenses category also now includes expenditure that was in prior years separately categorised as Occupancy expenses and Travel and entertainment costs. Prior year expenditure has been re-categorised accordingly.



## nbn co limited

### Schedule 8 Statement of Interest Expense For the year ended 30 June 2015

	<b>Current Year</b>	<b>Prior Year</b>
	<b>FY 2015</b>	<b>FY 2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest Expense	59	1
Reconciliation to nbn's Audited General Purpose Financial Statements		
<i>Ref:</i> <i>Add</i>		
AAT 1.1 Finance charges on finance lease arrangements	297,299	221,430
AAT 1.6 Unwinding of the discount of other lease related provisions	4,580	1,479
<b>Finance Costs per nbn's Audited General Purpose Financial Statements</b>	<b>301,938</b>	<b>222,909</b>

## nbn co limited

### Schedule 9 Statement of Revenue For the year ended 30 June 2015

	Current Year	Prior Year
	FY 2015	FY2014
	\$'000	\$'000
Telecommunication Revenue	160,495	59,970
Other Revenue	3,372	988
<b>Revenue</b>	<b>163,867</b>	<b>60,958</b>

#### Reconciliation to nbn's Audited General Purpose Financial Statements

Add

Interest Income (where relevant) (Note 1)

<b>Total Revenue per nbn's Audited General Purpose Financial Statements (Note 2)</b>	<b>163,867</b>	<b>60,958</b>
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Note 1: In **nbn's** Audited General Purpose Financial Statements for FY 2015 (as reported in **nbn's** 2014/15 Annual Report), Interest Income is not included in the calculation of Total Revenue. Therefore, the value of Revenue for FY 2015 (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 of the Financial Year to which the value relates (e.g. Total Revenue Per **nbn's** Audited General Purpose Financial Statement for FY 2015 is drawn from the 2014/15 Annual Report).

**nbn co limited**

**Schedule 10 Statement of LTRCM and RAB items  
For the year ended 30 June 2015**

	Units	Current Year FY 2015 Value	Prior Year FY 2014 Value
June Quarter CPI	Percentage	1.511%	3.016%
Cumulative Inflation Factor	Index	1.015	1.000
Risk Free Rate	Percentage	3.749%	3.578%
Nominal Rate of Return	Percentage	7.249%	7.078%
Corporate Tax Rate	Percentage	30%	30%
Dividend Imputation Franking Credits	\$'000	n/a	n/a
Nominal Straight Line Depreciation	\$'000	292,935	307,909
Nominal Tax Depreciation Expenses	\$'000	288,228	300,744
Nominal Regulatory Depreciation	\$'000	249,103	260,417
Opening RAB - Nominal	\$'000	2,901,139	1,574,878
Closing RAB - Nominal	\$'000	4,818,889	2,901,139
Opening RAB - Real	\$'000	2,901,139	1,612,525
Closing RAB - Real	\$'000	4,747,166	2,901,139
Annual Building Block Revenue Requirement	\$'000	2,218,490	1,681,744
Unrecovered Costs	\$'000	2,054,623	1,620,786
Opening ICRA - Nominal	\$'000	3,899,511	2,128,102
Closing ICRA - Nominal	\$'000	6,236,825	3,899,511
Opening ICRA - Real	\$'000	3,899,511	2,178,973
Closing ICRA - Real	\$'000	6,143,998	3,899,511
Carry Forward Revenue Adjustment	\$'000	n/a	n/a
Regulated Revenue	\$'000	n/a	n/a
Revenue Variation	\$'000	n/a	n/a

Note 1: For 2014-15, the Annual Construction in Progress Allowance (ACIPA) that forms part of the Annual Building Block Revenue Requirement is calculated with reference to Construction in Progress including Working Inventory. Working Inventory comprises equipment held by **nbn** before being released into particular construction projects. It is distinct in this regard from Spares Inventory, which comprises of equipment held for network maintenance purposes. In prior years, Working Inventory was omitted from Construction in Progress and (unlike Spares Inventory) was not reflected in any aspect of the LTRCM.

## 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 2015:
  - i. are prepared in accordance with the principles of the RAAM dated 30 June 2015;
  - ii. note 1 (Basis of Preparation); and
  - iii. have been reconciled with the 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.



Chief Financial Officer of **nbn**

Date: 30 October 2015

nbn co limited

**Schedule 11 - Statement of Material Operating Expenditure, Capital Expenditure and Construction in Progress Variances**  
**For the year ended 30 June 2015**

	FY 2015			
	Forecast	Actual	Variance	Commentary
Description	\$'000	\$'000	\$'000	
<b>Capital Expenditure</b>				
<b>Network Assets - Tangible</b>				
Access - Passive				
Access - Active				
Transit - Passive				
Transit - Active				
Wireless - Passive				
Wireless - Active				
Satellite - Active				
<b>Network Assets - Intangible</b>				
Access - Passive				
Access - Active				
<b>Total Network Assets</b>		<b>1,874,384</b>		
Non Network Assets		288,083		
<b>Total Non Network Assets</b>		<b>288,083</b>		
Inventory (Spares)		4,387		
<b>Grand Total</b>		<b>2,166,854</b>		
	Forecast	Actual	Variance	Commentary
	\$'000	\$'000	\$'000	
<b>Construction in Progress</b>				
Opening value (Excluding Working Inventory)		2,221,088		
Closing value (Excluding Working Inventory)		3,349,936		
	Forecast	Actual	Variance	Commentary
	\$'000	\$'000	\$'000	
<b>Operating Expenditure</b>				
Direct telecommunications costs		861,699		
Employee benefit expenses		378,314		
Advisory, corporate and outsourced services		112,434		
IT and software expenses		119,644		
Communication and public information		28,468		
Other expenses		90,661		
<b>Total Operating Expenditure</b>		<b>1,591,220</b>		

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

Note 2: The forecast and actual values above have been reported on a like for like basis. Consistent with the presentation of nbn's Audited General Purpose Financial Statements, a number of the Operating Expenditure categories are now different to those reported in prior years, as explained in Note 2 to Schedule 7. The forecast values have been re-categorised accordingly to be comparable to the actual values.

**nbn co limited**  
**Schedule 12 -Expenditure Compliance Report**  
**For the year ended 30 June 2015**

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO  
SECTION 1F.2.1(a) OF NBN'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**) 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 2014 to 30 June 2015.

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).



Chief Financial Officer of **nbn**

Dated: 30 October 2015

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<sup>1</sup> 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 2015**

**CERTIFICATION OF THE CHIEF PROCUREMENT OFFICER PURSUANT TO SECTION  
1F.2.3(a) OF NBN'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 2014 to 30 June 2015:

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



Chief Procurement Officer of **nbn**

Dated: 30 October 2015

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<sup>1</sup> 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 14 -Price Compliance Report**

**For the year ended 30 June 2015**

#### **CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 1F.3(a) OF NBN'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**) 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 2014 to 30 June 2015.

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 2014 to 30 June 2015, 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 2014 to 30 June 2015, 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.



Chief Financial Officer of **nbn**

Dated: 30 October 2015

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