



NBN Co Limited

Special Access Undertaking Report For the year ended 30 June 2020

Public Version

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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 2020 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 2020.

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 Right of Use Assets under Lease Arrangements

NBN Co accounts for its contractual right to use various assets, including: duct infrastructure, exchange sites, dark fibre, business premises, fleet vehicles, wireless tower sites and aggregation nodes, as finance leases over property, plant and equipment. In accordance with AASB 16, this involves capitalising the right of use (ROU) asset, amortising the value of the ROU 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 ROU assets under lease arrangements 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.

1.0 Basis of Preparation (continued)

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.

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.

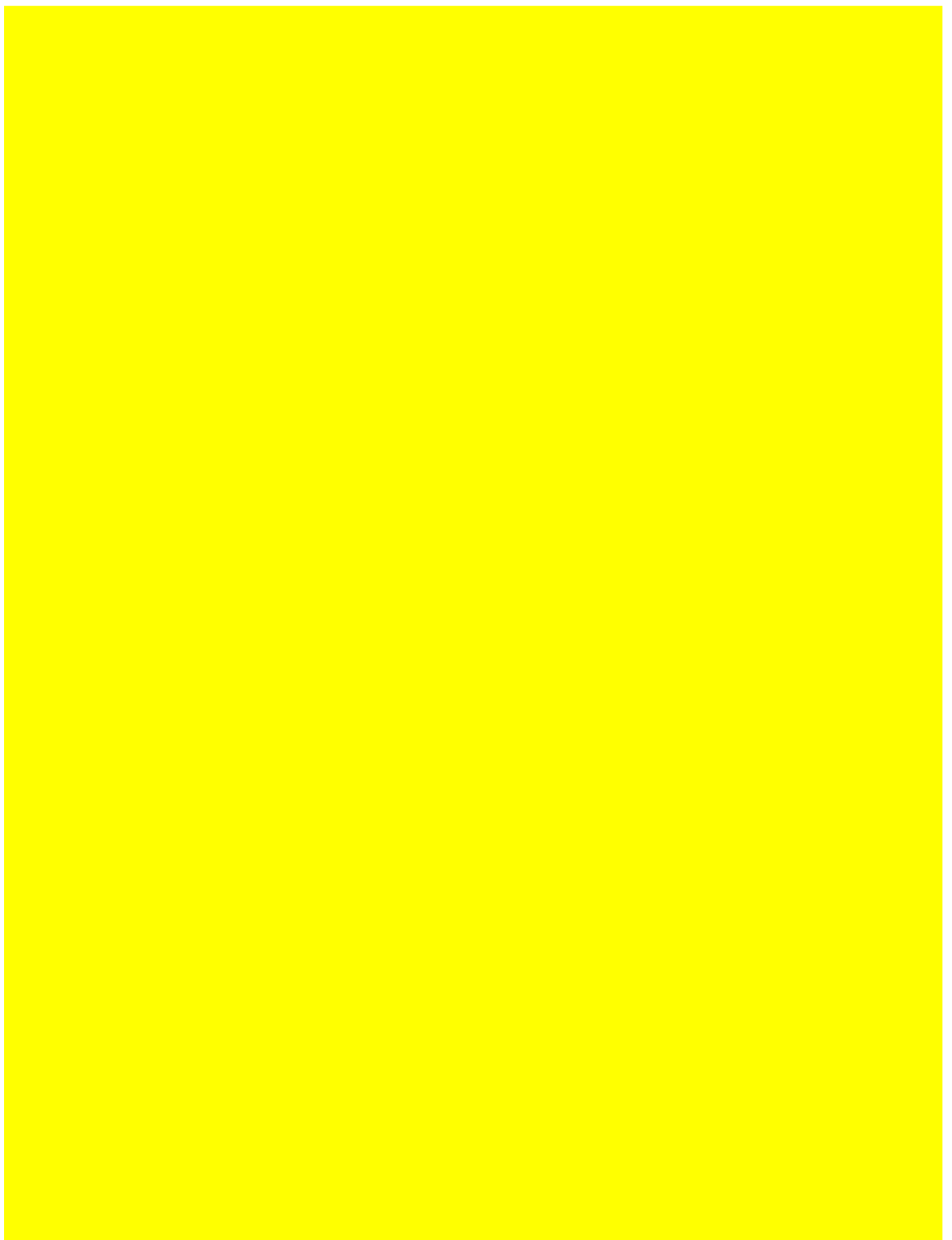
1.6 Provisions

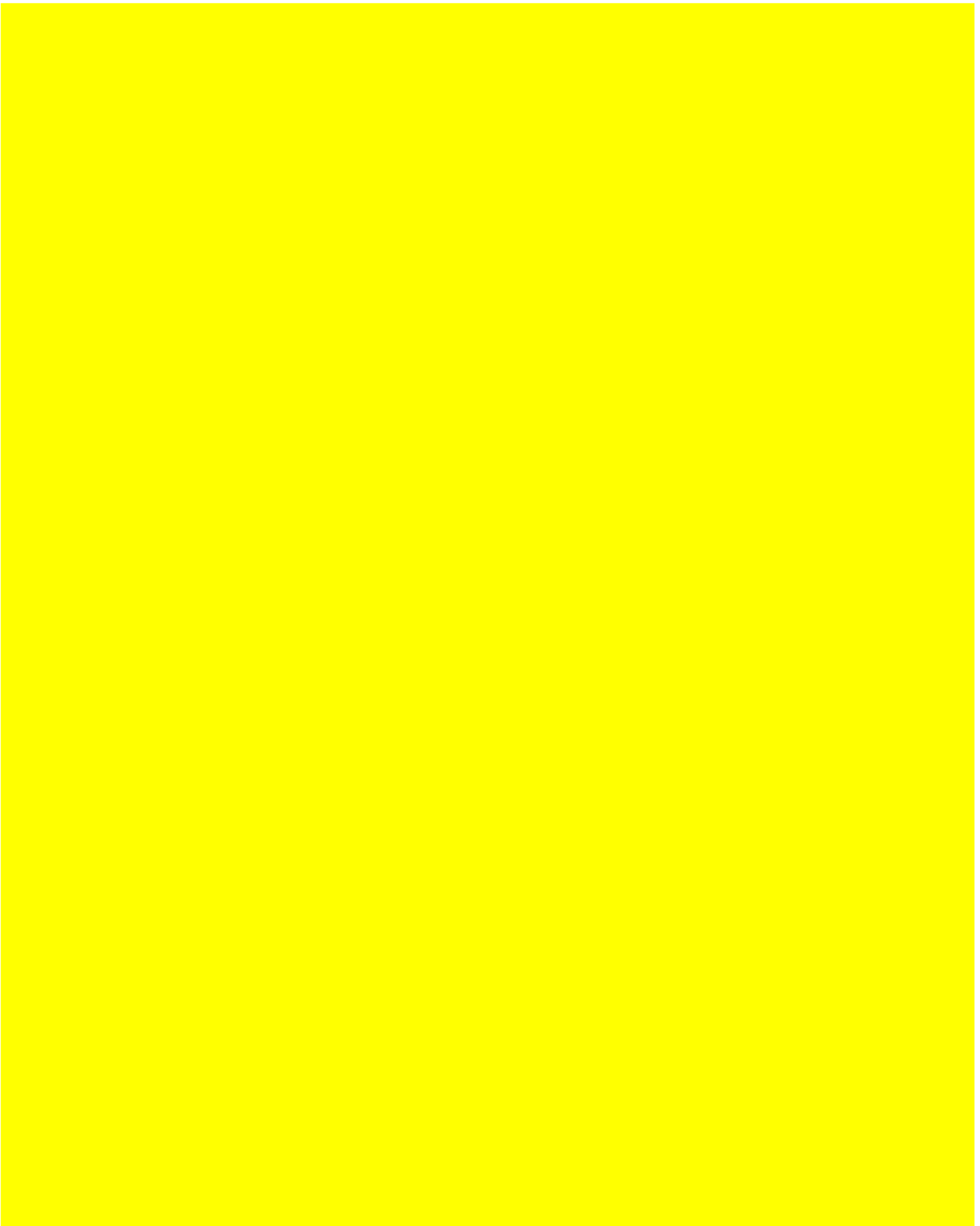
For the purpose of the SAU - Regulatory Information, provisions are omitted from Capital Expenditure and Operating Expenditure as they are estimates of a present obligation under accounting standards and this concept is not the same as incurred and does not necessarily represent a pending cash outflow.

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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 2020**

Asset Category	Description	FY 2020			
		Capital Expenditure	Disposals	Asset Lifetime	Taxation Asset Lifetime
		\$'000	\$'000	Years	Years









Total Non-Network Assets		300,674	-
Ref:	AAT 1.5 Inventory (Spares)	62,586	
Grand Total		6,669,153	-

		FY 2020	
		Closing Value	
		\$'000	
Construction in Progress (Excluding Working Inventory)		1,498,025	
Construction in Progress (Including Working Inventory)		1,699,456	
Reconciliation to NBN Co's Audited General Purpose Financial Statements			
Capital Expenditure per SAU		6,669,153	
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		61,061
AAT 1.4	Construction in Progress (Movement including Working Inventory)		(1,610,203)
AAT 1.6	Provisions		
Total Capital Expenditure		7,402,690	

Capital Additions per NBN Co's Audited General Purpose Financial Statements 7,402,690

nbn Annual Report Reference: \$'000

Non-current assets - Property, plant and equipment (Note 1) 7,004,325
Non-current assets - Intangible assets (Note 2) 398,365

Non-current assets - Total additions 7,402,690

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		
Total - Deemed Prudent Capital Expenditure		517,661

Note 1: Page 138 of NBN Co's Annual Report (Note C3)

Note 2: Page 142 of NBN Co's Annual Report (Note C4)

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Schedule 7 - Statement of Operating Expenditure For the year ended 30 June 2020

Operating Expenditure Category	Current Year
	FY 2020 \$'000
Direct telecommunications costs	3,772,087
<i>Non deemed prudent Operating Expenditure</i>	659,741
<i>Deemed prudent Operating Expenditure</i>	3,112,346
<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	825,498
IT and software expenses	199,431
Communication and public information	82,647
Other expenses	332,956
Total	5,212,619
Reconciliation to NBN Co's Audited General Purpose Financial Statements	
<i>Less</i>	
AAT 1.1 - Right-of-use Assets and Property Assets under Finance Leases	
Revenue	3,836,984
Interest income	20,163
Other income	24,436
<i>Add</i>	
AAT 1.2 - Migration payments	
AAT 1.6 - Provisions	
Depreciation and amortisation expense	3,154,236
Finance charges	1,480,578
Total	5,238,614
Loss Before Income Tax per NBN Co's Audited General Purpose Financial Statements	5,238,614

NBN Co Limited

Schedule 8 - Statement of Interest Expense For the year ended 30 June 2020

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	Current Year	
	FY 2020	
	\$'000	
Interest expense	649,327	
Reconciliation to NBN Co's Audited General Purpose Financial Statements		
<i>Ref:</i>	<i>Add</i>	
AAT 1.1	Finance charges on finance lease arrangements	829,568
AAT 1.6	Unwinding of the discount of other lease related provisions	1,684
	<i>Less</i>	
	Interest income	(20,163)
	Net finance costs per NBN Co's Audited General Purpose Financial Statements	1,460,415

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Schedule 9 - Statement of Revenue For the year ended 30 June 2020

	Current Year
	FY 2020
	\$'000
Telecommunications revenue	3,645,285
Other revenue	191,699
Revenue	3,836,984
Reconciliation to NBN Co's Audited General Purpose Financial Statements	
<i>Add</i>	
Interest income (where relevant) (Note 1)	
Total revenue per NBN Co's Audited General Purpose Financial Statements (Note 2)	3,836,984

Note 1: In NBN Co's Audited General Purpose Financial Statements for FY 2020 (as reported in NBN Co's 2020 Annual Report), interest income is not included in the calculation of total revenue. Therefore, the value of Revenue for FY 2020 (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 2020 is drawn from the 2020 Annual Report).

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Schedule 10 - Statement of LTRCM and RAB items For the year ended 30 June 2020

	Units	FY 2020 Value
June Quarter CPI	Percentage	-0.348%
Cumulative Inflation Factor	Index	1.080
Risk Free Rate	Percentage	1.395%
Nominal Rate of Return	Percentage	4.895%
Corporate Tax Rate	Percentage	30%
Dividend Imputation Franking Credits	Number	n/a
Nominal Straight Line Depreciation	\$'000	2,572,783
Nominal Tax Depreciation Expenses	\$'000	2,524,484
Nominal Regulatory Depreciation	\$'000	2,654,074
Opening RAB - Nominal	\$'000	23,330,671
Closing RAB - Nominal	\$'000	27,345,750
Opening RAB - Real	\$'000	21,521,935
Closing RAB - Real	\$'000	25,313,941
Annual Building Block Revenue Requirement	\$'000	9,170,768
Unrecovered Costs	\$'000	5,333,785
Opening ICRA - Nominal	\$'000	25,458,678
Closing ICRA - Nominal	\$'000	32,038,694
Opening ICRA - Real	\$'000	23,484,965
Closing ICRA - Real	\$'000	29,658,197
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 2020:
 - i. are prepared in accordance with the principles of the RAAM dated 26 June 2020;
 - ii. are prepared in accordance with 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: 29 October 2020

NBN Co Limited

Schedule 11 - Statement of Material Operating Expenditure, Capital Expenditure and Construction in Progress Variances
For the year ended 30 June 2020

Description	FY 2020			Commentary
	Forecast \$'000	Actual \$'000	Variance \$'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		6,305,893		
Non Network Assets		300,674		
Total Non Network Assets		300,674		
Inventory (Spare)		62,586		
Grand Total		6,669,153		
Construction in Progress				
Opening value (Including Working Inventory)		3,309,660		
Closing value (Including Working Inventory)		1,699,456		
Operating Expenditure				
Direct telecommunications costs		3,772,087		
Employee benefit expenses		825,498		
IT and software expenses		199,431		
Communication and public information		82,647		
Other expenses		332,956		
Total Operating Expenditure		5,212,619		

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

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Schedule 12 - Expenditure Compliance Report

For the year ended 30 June 2020

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 1F.2.1(a) OF NBN Co'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 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 2019 to 30 June 2020.

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: 29 October 2020

NBN Co Limited

¹ 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 2020

CERTIFICATION OF THE CHIEF PROCUREMENT OFFICER PURSUANT TO SECTION 1F.2.3(a) OF NBN Co'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 2019 to 30 June 2020:

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



Emily Hall

Executive General Manager Procurement of NBN Co²

Dated: 29 October 2020

¹ All capitalised terms and clause references are as per the NBN Co 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 Co's Executive General Manager Procurement, Emily Hall, as NBN Co's current equivalent to the Chief Procurement Officer role.

NBN Co Limited

Schedule 14 - Price Compliance Report

For the year ended 30 June 2020

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 1F.3(a) OF NBN Co'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 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 2019 to 30 June 2020.

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 2019 to 30 June 2020, 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 2019 to 30 June 2020, 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: 29 October 2020

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