

NBN Co Limited

Special Access Undertaking Report For the year ended 30 June 2018

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 2018 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 2018.

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 2018

		FY 2018			
Asset Type	Description	Capital Expenditure	Disposals	Asset Lifetime	Taxation Asset Lifetime
Asset Category		\$'000	\$'000	Years	Years

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 2018

Asset Type Asset Category	Description	FY 2018			
		Capital Expenditure \$'000	Disposals \$'000	Asset Lifetime Years	Taxation Asset Lifetime Years
Total Network Assets		5,238,209	-		
Total Non-Network Assets		906,547	-		
Ref:	AAT 1.5 Inventory (Spare)	3,304			
Grand Total		6,148,060	-		
		FY 2018			
		Closing Value			
		\$'000			
Construction in Progress (Excluding Working Inventory)		2,877,253			
Construction in Progress (Including Working Inventory)		3,182,847			
Reconciliation to NBN Co's Audited General Purpose Financial Statements					
Capital Expenditure per SAU		6,148,060			
Ref:	<i>Add reconciling items</i>				
AAT 1.1	Licensed Assets and Property Assets under Finance Leases				
AAT 1.2	Migration fees				
AAT 1.3	Assets received for zero consideration		233,896		
AAT 1.4	Construction in Progress (Movement including Working Inventory)		(557,026)		
AAT 1.6	Provisions				
<i>Less reconciling items:</i>					
AAT 1.5	Inventory (Spare)		(3,304)		
Total Capital Expenditure		6,967,570			
Capital Additions per NBN Co's Audited General Purpose Financial Statements		6,967,570			
nbn Annual Report Reference:		\$'000			
Non-current assets - Property, plant and equipment (Note 1)		6,348,231			
Non-current assets - Intangible assets (Note 2)		619,339			
Non-current assets - Total additions		6,967,570			
Deemed Prudent Capital Expenditure Category					Capital Expenditure
					\$'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		515,235			

Note 1: Page 117 of NBN Co's Annual Report (Note C3)
Note 2: Page 120 of NBN Co's Annual Report (Note C4)

NBN Co Limited

Schedule 7 - Statement of Operating Expenditure For the year ended 30 June 2018

Operating Expenditure Category	Current Year FY 2018 \$'000
Direct telecommunications costs	2,932,370
<i>Non deemed prudent Operating Expenditure</i>	607,758
<i>Deemed prudent Operating Expenditure</i>	2,324,612
<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	785,164
IT and software expenses	139,917
Communication and public information	80,164
Other expenses	384,919
Total	4,322,534
Reconciliation to NBN Co's Audited General Purpose Financial Statements	
<i>Less</i>	
<i>AAT 1.1 - Licenced Assets and Property Assets under Finance Leases Revenue</i>	1,978,207
<i>Interest income</i>	26,318
<i>Other income</i>	18,833
<i>Add</i>	
<i>AAT 1.2 - Migration payments</i>	
<i>AAT 1.6 - Provisions</i>	
<i>Depreciation and amortisation expense</i>	2,167,357
<i>Finance charges</i>	606,314
Total	4,778,839
Loss Before Income Tax per NBN Co's Audited General Purpose Financial Statements	4,778,839

NBN Co Limited

Schedule 8 - Statement of Interest Expense For the year ended 30 June 2018

	Current Year
	FY 2018
	\$'000
<u>Interest expense</u>	<u>69,905</u>
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	534,257
AAT 1.6 Unwinding of the discount of other lease related provisions	2,152
	<i>Less</i>
Interest income	(26,318)
<u>Net finance costs per NBN Co's Audited General Purpose Financial Statements</u>	<u>579,996</u>

NBN Co Limited

Schedule 9 - Statement of Revenue For the year ended 30 June 2018

	Current Year
	FY 2018
	\$'000
Telecommunications revenue	1,818,700
Other revenue	159,506
Revenue	1,978,206
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)	1,978,206

Note 1: In NBN Co's Audited General Purpose Financial Statements for FY 2018 (as reported in NBN Co's 2018 Annual Report), interest income is not included in the calculation of total revenue. Therefore, the value of Revenue for FY 2018 (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 2018 is drawn from the 2018 Annual Report).

NBN Co Limited

Schedule 10 - Statement of LTRCM and RAB items For the year ended 30 June 2018

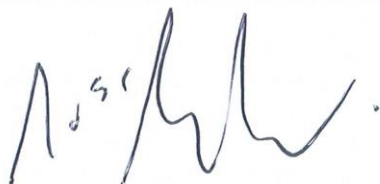
	Units	FY 2018 Value
June Quarter CPI	Percentage	2.078%
Cumulative Inflation Factor	Index	1.067
Risk Free Rate	Percentage	2.438%
Nominal Rate of Return	Percentage	5.938%
Corporate Tax Rate	Percentage	30%
Dividend Imputation Franking Credits	Number	n/a
Nominal Straight Line Depreciation	\$'000	1,437,255
Nominal Tax Depreciation Expenses	\$'000	1,396,821
Nominal Regulatory Depreciation	\$'000	1,138,698
Opening RAB - Nominal	\$'000	14,369,643
Closing RAB - Nominal	\$'000	19,379,004
Opening RAB - Real	\$'000	13,746,569
Closing RAB - Real	\$'000	18,161,385
Annual Building Block Revenue Requirement	\$'000	6,536,574
Unrecovered Costs	\$'000	4,558,368
Opening ICRA - Nominal	\$'000	14,014,956
Closing ICRA - Nominal	\$'000	19,405,530
Opening ICRA - Real	\$'000	13,407,261
Closing ICRA - Real	\$'000	18,186,245
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) has been appropriately updated to reflect changes in the business or structure of NBN Co and to meet 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 2018:
 - 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.



Ross Elsted

Acting Chief Financial Officer of NBN Co

Date: 26 October 2018

NBN Co Limited

**Schedule 11 - Statement of Material Operating Expenditure, Capital Expenditure and Construction in Progress Variances
For the year ended 30 June 2018**

Description	FY 2018			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				
Network Assets - Intangible				
Wireless - Passive				
Total Network Assets		5,238,209		
Non Network Assets		906,547		
Total Non Network Assets		906,547		
Inventory (Spares)		3,304		
Grand Total		6,148,060		
	Forecast	Actual	Variance	Commentary
Description	\$'000	\$'000	\$'000	
Construction in Progress				
Opening value (Including Working Inventory)		3,739,873		
Closing value (Including Working Inventory)		3,182,847		
	Forecast	Actual	Variance	Commentary
Description	\$'000	\$'000	\$'000	
Operating Expenditure				
Direct telecommunications costs		2,932,370		
Employee benefit expenses		785,164		
IT and software expenses		139,917		
Communication and public information		80,164		
Other expenses		384,919		
Total Operating Expenditure		4,322,534		

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 2018

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 2017 to 30 June 2018.

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).



Ross Elsted

Acting Chief Financial Officer of NBN Co

Dated: 26 October 2018

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 2018

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 2017 to 30 June 2018:

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



Katarzyna Stapleton

Executive General Manager Procurement of NBN Co²

Dated: 26 October 2018

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, Katarzyna Stapleton, as successor to the Chief Procurement Officer role.

NBN Co Limited

Schedule 14 - Price Compliance Report

For the year ended 30 June 2018

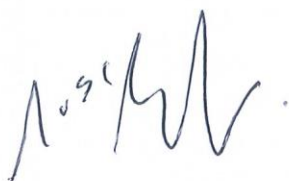
CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 1F.3(a) OF NBN Co's SPECIAL ACCESS UNDERTAKING¹

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 2017 to 30 June 2018.

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 2017 to 30 June 2018, 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 2017 to 30 June 2018, 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.



Ross Elsted
Acting Chief Financial Officer of NBN Co
Dated: 26 October 2018

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.