



nbn co limited

Special Access Undertaking Report For the year ended 30 June 2016

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** 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 2016 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 2016.

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 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 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 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.

1.3 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.

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.

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 of a present obligation under accounting standards and this concept is not the same as incurred, which results in the recognition of an accrual.

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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 2016

Asset Type (level 6 asset categories)		FY 2016				FY 2015			
		Capital Expenditure	Disposals	Asset Lifetime	Taxation Asset Lifetime	Capital Expenditure	Disposals	Asset Lifetime	Taxation Asset Lifetime
Code	Description	\$'000	\$'000	Years	Years	\$'000	\$'000	Years	Years
[Redacted Content]									
Total Network Assets		4,018,643	-			1,874,384	-		

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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 2016

Asset Type (level 6 asset categories)	FY 2016				FY 2015			
	Capital Expenditure	Disposals	Asset Lifetime	Taxation Asset Lifetime	Capital Expenditure	Disposals	Asset Lifetime	Taxation Asset Lifetime
Code Description	\$'000	\$'000	Years	Years	\$'000	\$'000	Years	Years
[Redacted Content]								
Total Non Network Assets	494,206	-			288,083	-		
Ref: AAT 1.5 Inventory (Spares)	10,598		N/A	N/A	4,387		N/A	N/A
Grand Total	4,523,447	-			2,166,854	-		
	FY 2016				FY 2015			
	Closing Value				Closing Value			
	\$'000				\$'000			
Construction in Progress (Excluding Working Inventory)	3,494,649				3,349,936			
Construction in Progress (Including Working Inventory)	3,991,030				3,482,834			
Reconciliation to nbn's Audited General Purpose Financial Statement								
Capital Expenditure per SAU	4,523,447				2,166,854			
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	97,633				117,429			
AAT 1.4 Construction in Progress (Movement including Working Inventory)	508,196				1,167,418			
AAT 1.6 Provisions								
Less reconciling items:								
AAT 1.5 Inventory (Spares)	(10,598)				(4,387)			
Total Capital Expenditure	5,644,340				3,868,058			
Capital Additions per nbn's Audited General Purpose Financial Statements	5,644,340				3,868,058			
nbn Annual Report Reference:	\$'000				\$'000			
Non-current assets - Property, plant and equipment (Note 1)	5,088,802				3,506,446			
Non-current assets - Intangible assets (Note 2)	555,538				361,612			
Non-current assets - Total additions	5,644,340				3,868,058			
Deemed Prudent Capital Expenditure Category								
	Capital Expenditure				Capital Expenditure			
	\$'000				\$'000			
Incurring prior to SAU commencement								
Incurring 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	506,555				143,828			

Note 1: Page 99 of nbn's Annual Report (Note C3)
Note 2: Page 102 of nbn's Annual Report (Note C4)

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Schedule 7 - Statement of Operating Expenditure

For the year ended 30 June 2016

Operating Expenditure Category	Current Year	Prior Year
	FY 2016 \$'000	FY 2015 \$'000
Direct telecommunications costs	1,294,835	861,699
<i>Non deemed prudent Operating Expenditure</i>	264,051	202,085
<i>Deemed prudent Operating Expenditure</i>	1,030,784	659,614
<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 (Note 1)	558,457	372,216
Outsourced and corporate services	93,276	112,434
IT and software expenses (Note 1)	149,433	125,742
Communication and public information	51,009	28,468
Other expenses	112,765	90,661
Total	2,259,775	1,591,220
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 fees</i>		
<i>Add</i>		
<i>AAT 1.6 - Provisions</i>		
<i>Depreciation and amortisation expense</i>	884,423	630,689
<i>Finance charges</i>	322,472	301,938
Total	3,201,049	2,226,665
Total Expense per nbn's Audited General Purpose Financial Statements	3,201,049	2,226,665

Note 1: Consistent with the presentation of nbn's Audited General Purpose Financial Statements, the IT and software expenses now includes expenditure that was in prior years categorised under Employee benefit expenses. Prior year expenditure has been re-categorised accordingly.

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Schedule 8 - Statement of Interest Expense

For the year ended 30 June 2016

	Current Year	Prior Year
	FY 2016	FY 2015
	\$'000	\$'000
<u>Interest Expense</u>	<u>247</u>	<u>59</u>
Reconciliation to nbn 's Audited General Purpose Financial Statements		
<i>Ref:</i> <i>Add</i>		
AAT 1.1 Finance charges on finance lease arrangements	320,094	297,299
AAT 1.6 Unwinding of the discount of other lease related provisions	2,131	4,580
<u>Finance Costs per nbn's Audited General Purpose Financial Statements</u>	<u>322,472</u>	<u>301,938</u>

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Schedule 9 Statement of Revenue

For the year ended 30 June 2016

	Current Year	Prior Year
	FY 2016	FY2015
	\$'000	\$'000
Telecommunication Revenue (<i>Note 1</i>)	403,555	160,481
Other Revenue (<i>Note 1</i>)	17,900	3,386
Revenue	421,455	163,867

Reconciliation to nbn's Audited General Purpose Financial Statements

Add

Interest Income (where relevant) (*Note 2*)

Total Revenue per nbn's Audited General Purpose Financial Statements (Note 3)	421,455	163,867
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Note 1: Consistent with the presentation of **nbn's** Audited General Purpose Financial Statements, the Other revenue now includes income that was in prior years categorised under Telecommunications revenue. Prior year income has been re-categorised accordingly.

Note 2: In **nbn's** Audited General Purpose Financial Statements for FY 2016 (as reported in **nbn's** 2015/16 Annual Report), Interest income is not included in the calculation of Total revenue. Therefore, the value of Revenue for FY 2016 (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 3: 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 2016 is drawn from the 2015/16 Annual Report).

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Schedule 10 Statement of LTRCM and RAB items For the year ended 30 June 2016

	Units	Current Year FY 2016 Value	Prior Year FY 2015 Value
June Quarter CPI	Percentage	1.023%	1.511%
Cumulative Inflation Factor	Index	1.025	1.015
Risk Free Rate	Percentage	3.021%	3.749%
Nominal Rate of Return	Percentage	6.521%	7.249%
Corporate Tax Rate	Percentage	30%	30%
Dividend Imputation Franking Credits	Number	n/a	n/a
Nominal Straight Line Depreciation	\$'000	446,880	292,935
Nominal Tax Depreciation Expenses	\$'000	443,314	288,228
Nominal Regulatory Depreciation	\$'000	397,570	249,103
Opening RAB - Nominal	\$'000	4,818,889	2,901,139
Closing RAB - Nominal	\$'000	8,944,763	4,818,889
Opening RAB - Real	\$'000	4,747,166	2,901,139
Closing RAB - Real	\$'000	8,722,380	4,747,166
Annual Building Block Revenue Requirement	\$'000	3,198,728	2,218,490
Unrecovered Costs	\$'000	2,777,273	2,054,623
Opening ICRA - Nominal	\$'000	6,243,728	3,905,948
Closing ICRA - Nominal	\$'000	9,428,175	6,243,728
Opening ICRA - Real	\$'000	6,150,798	3,905,948
Closing ICRA - Real	\$'000	9,193,772	6,150,798
Carry Forward Revenue Adjustment	\$'000	n/a	n/a
Regulated Revenue	\$'000	n/a	n/a
Revenue Variation	\$'000	n/a	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 2016:
 - i. are prepared in accordance with the principles of the RAAM dated 18 October 2016;
 - 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: 20 October 2016

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Schedule 11 – Statement of Material Operating Expenditure, Capital Expenditure and Construction in Progress Variances
For the year ended 30 June 2016

Description	FY 2016			Commentary
	Forecast \$'000	Actual \$'000	Variance \$'000	
Capital Expenditure				
Network Assets - Tangible				
Access - Passive				
Access - Active				
FTTN - Passive				
FTTN - Active				
Transit - Passive				
Transit - Active				
Wireless - Passive				
Wireless - Active				
Satellite - Active				
Network Assets - Intangible				
Access- Passive				
Access- Active				
Total Network Assets		4,018,643		
Non Network Assets		494,206		
Total Non Network Assets		494,206		
Inventory (Spares)		10,598		
Grand Total		4,523,447		
Description	Forecast \$'000	Actual \$'000	Variance \$'000	Commentary
Construction in Progress				
Opening value (Excluding Working Inventory)		3,349,936		
Closing value (Excluding Working Inventory)		3,494,649		
Description	Forecast \$'000	Actual \$'000	Variance \$'000	Commentary
Operating Expenditure				
Direct telecommunications costs		1,294,835		
Employee benefit expenses		558,457		
Outsourced and corporate services		93,276		
IT and software expenses		149,433		
Communication and public information		51,009		
Other expenses		112,765		
Total Operating Expenditure		2,259,775		

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 1 to Schedule 7.

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Schedule 12 -Expenditure Compliance Report

For the year ended 30 June 2016

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 2015 to 30 June 2016.

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: 20 October 2016

nbn co limited

Schedule 13 -Procurement Rules Compliance Report

For the year ended 30 June 2016

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 2015 to 30 June 2016:

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



Stephen Rue

Chief Financial Officer of **nbn**, being a person responsible for the performance of the Chief Procurement Officer function of **nbn**

Dated: 20 October 2016

nbn co limited

Schedule 14 -Price Compliance Report

For the year ended 30 June 2016

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 2015 to 30 June 2016.

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 2015 to 30 June 2016, 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 2015 to 30 June 2016, 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: 20 October 2016