Crown Fibre Holdings

Ultra-fast broadband for New Zealanders

CROWN FIBRE HOLDINGS LIMITED

ANNUAL REPORT

For the year ended 30 June 2011

Contents

Crown Fibre Holdings Limited

Chairman's Report

Crown Fibre Holdings Limited (CFH) had a very successful year in 2011 with the completion of four contracts (with Telecom Corporation of New Zealand Limited [Telecom], Christchurch City Networks Limited [CCNL], WEL Networks Limited and Northpower Limited) to deploy the Ultra Fast Broadband (UFB) network to 75% of New Zealand's population within budget, a notable highlight. I am delighted to report that the UFB deployment is now underway in a number of towns and cities across the nation. The Government's aim of accelerating the rollout of UFB to 75% of New Zealanders by the end of 2019 and to priority users (businesses, schools and health facilities) by the end of 2015 (the UFB Objective) is well on track. CFH's focus on making superior broadband services available to priority users will, I believe, soon bear fruit – helping businesses to increase productivity, and with schools and health services using UFB to improve education and service delivery.

CFH in its second year had a strong focus on completing the partner selection process as set out in the 'Ultra-Fast Broadband Initiative Invitation to Participate' dated October 2009 (ITP). By May 2011, with the confirmation of four partnerships, contracts were in place for the rollout across all 33 urban areas that are expected to receive UFB as stated in the ITP. This represents excellent progress towards the UFB Objective. The partnerships are strong commercial agreements that meet the Government's key policy criteria. The selected partners offer significant industry experience, financial strength and the ability to complete the UFB deployment within the Government's allocated budget and timeframe.

The UFB initiative is supported by Government funding of up to $1.5 billion, of which $1.3 billion is to be invested by CFH in partnerships with the private sector to build the UFB network ($150 million is being spent separately preparing schools for UFB). The net present value cost to the Government of the UFB Initiative is in the order of $600 million, taking into account the timing of investment outflows during the next eight and a half years and capital returns post 2021. This level of Government investment will result in a UFB network, once completed, costing up to $3.5 billion. Overall, this represents an excellent leverage of Government funds in combination with private sector partners to deliver key infrastructure for New Zealand's future.

CFH's operating expenditure for the period ended 30 June 2011 was $19.1 million, with additional capital expenditure of $0.195 million. These figures compare favourably with the approved Government budget as outlined in CFH's 2011 Statement of Intent of $19.47 million for the period to 30 June. CFH's funding was by way of cash reserves and a $10 million capital injection. CFH held cash investments on hand of $15.4 million as at 30 June 2011. It is also notable that the 2011 Budget allocated funds to CFH towards the completion of the UFB initiative, a further indication of the Government's strong commitment to the delivery of this critical new infrastructure.

It was pleasing that the Government's goal of commencing the UFB build by the end of 2010 was met. As we move towards the end of 2011, I look forward to seeing deployment commence in more urban locations around New Zealand, and the instigation of retail UFB services at scale. As businesses, schools, health facilities and households start to access UFB services, we expect to see genuine benefits and the emergence of new and innovative services enabled by UFB.

Simon Allen
Chairman

Crown Fibre Holdings Limited

Chief Executive's Report

The implementation of the UFB initiative is now well underway, and CFH in its second year has continued its path to develop greatly improved broadband services for New Zealanders. I am pleased to report that CFH made excellent progress towards the Government's UFB Objective during 2011.

Key Achievements in 2011:

- **Partner selection process:** During 2010 and 2011 CFH pursued complex and commercially sensitive negotiations with the Respondents (bidders) to the ITP, which necessarily involved liaising closely with external advisers (legal and investment advisers in particular). Refined proposals were received from Respondents in August 2010. In December 2010 the first UFB partner contracts were executed with Northpower Limited (Whangarei) and Ultrafast Fibre Limited, a subsidiary of WEL Networks Limited (for six central North Island towns and cities including Hamilton, Tauranga and New Plymouth).

  In May 2011 CFH announced that it had selected and signed UFB contracts with Telecom Corporation of New Zealand Limited (Telecom) and Christchurch City Holdings Limited (through its subsidiary Christchurch City Networks Limited (CCNL) for the remaining UFB candidate areas. As part of these agreements, Telecom has agreed to structurally separate its infrastructure business unit, Chorus, from the rest of Telecom, via a court-approved scheme of arrangement by late 2011. Chorus will be a nationwide fixed-line access network infrastructure owner and operator, and will cover 24 UFB candidate areas including Auckland, Wellington and Dunedin. CCNL, trading as Enable Networks, will cover the UFB candidate areas of Christchurch, Rangiora and surrounding areas.

- **Audit findings:** Audit New Zealand, in the course of its audit of CFH, reported that CFH had followed a "very good process" for the selection of partners and that the process was "well-planned, formal and consistent with that set out in the Invitation to Participate and its own internal ITP guidelines".

- **UFB deployment:** The Government through its partners commenced the delivery of its UFB Objective by the end of 2010 as expected. UFB is now being rolled out in a number of towns and cities. Deployment has already commenced in Hamilton, Whanganui and Tauranga (with WEL Networks Limited); Whangarei (with Northpower Limited); and Auckland and Wellington (with Chorus). It is anticipated that deployment will commence in Christchurch and a number of other cities by the end of 2011.

- **Retail Service Provider engagement:** Successfully connecting Retail Service Providers (RSPs) is a key focus for CFH and its UFB deployment partners. During 2011 more than 20 RSPs indicated that they intended to provide UFB services to their customers. As at the time of writing, a number of RSPs are well progressed with commercial and technical trials in initial rollout areas. Interconnection to backhaul networks, the establishment of interim provisioning and operational systems, and the development of co-marketing promotional plans between Local Fibre Companies (LFCs) and Chorus with RSPs are all progressing.

- **Product, pricing, technical and legal framework:** CFH has established contractually capped UFB prices to December 2019 with its partners that are attractive to RSPs and are below current wholesale access prices in the market for a number of services. These are expected to support the uptake of UFB services at appealing prices for customers such as businesses and households. A wholesale services agreement has been developed with the assistance of substantial industry consultation, and standards and specifications for the UFB network have been further developed with the benefit of industry consultation through the Telecommunications Carriers' Forum.

- **UFB equipment selection:** CFH has assisted the UFB deployment partners in tendering for equipment needed to roll out UFB services, at both Layer 1 and Layer 2. Individual purchasing decisions for UFB equipment are the responsibility of the UFB deployment partners, not CFH.

- **Stakeholder engagement:** CFH has involved a large range of stakeholders and potential participants in the UFB initiative in discussions aimed at building a shared vision and plan for UFB in New Zealand. These have included groups such as the information and communications technology (ICT) sector and RSPs, local councils, government agencies and the health and education sectors, and industry associations.

Probity

CFH has the highest standards of ethical conduct and integrity. During 2011 CFH continued to maintain a robust probity system, with a particular focus on ensuring that ITP Respondents were treated fairly and on their merits. This included:

- Strict protocols governing the receipt, opening, storage and security of, and access to, information;
- Requiring adherence to confidentiality requirements by Respondents and CFH Directors, personnel and advisers;
- Careful management of engagement with Respondents;
- Conducting the partner selection process in accordance with the ITP and associated guidelines;
- Full transparency in the disclosure of potential interests, and management of such interests in accordance with an interests policy framework;
- Obtaining probity and legal advice and oversight of the conduct of the partner selection process;
- A high-level review by Audit New Zealand of probity practices; and
- Governance and review by the Board of Directors of CFH.

Outlook for 2012

As anticipated in CFH's Statement of Intent, CFH's focus is already shifting following the conclusion of the partner selection process. In the next year CFH's focus will increasingly move to deployment and uptake, where key activities will include:

- Coordinating with partners on UFB deployment;
- Managing UFB contracts and the Government's UFB investment to support the delivery of the UFB Objective;
- Ensuring that the business plans, marketing plans and deployment plans of the LFCs and Chorus meet Government UFB policy objectives;
- Ensuring that partners launch and market UFB products to RSPs, which in turn sell UFB offerings to end customers;
- Ensuring that partners maintain and develop a UFB product development roadmap to meet market demands; and
- As required by the Government, facilitating demand-side initiatives in conjunction with the Ministry of Economic Development, local communities, industry sector groups, the education and health sectors, and RSPs as appropriate.

As CFH approaches the end of 2011, UFB is being rolled out in New Zealand on a wide scale for the first time. These services will enable major increases in New Zealand's productivity and innovation, as well as improvements in service delivery in critical areas such as health and education.

I am very confident that the small, highly experienced, focused team at CFH will continue to deliver tangible progress towards the UFB Objective, and I look forward to providing a further update in 12 months' time.

Graham Mitchell
Chief Executive Officer

Crown Fibre Holdings Limited

Board of Directors

Directors' Profiles and Interests Held

Mr Simon Allen (Chair) - Simon Allen is a highly regarded investment banker with more than 20 years' experience advising New Zealand's major industries. He formed ABN AMRO New Zealand as a greenfields operation in 1988, leading it to become one of the country's foremost investment banks. He resigned as Chief Executive in September 2009. Previously Mr Allen had advised the Crown on the sale of Contact Energy Limited, the Auckland Energy Trust on its investment in Mercury Energy (now Vector) and Telecom on the largest share buyback in New Zealand history.

Mr Allen chaired New Zealand Exchange Limited (NZX) from 2001 until 2008 and has also served on the Boards of McConnell Properties, ABN AMRO Craigs and Auckland Healthcare. He is currently Chairman of the Financial Markets Authority and Auckland Council Investments Limited, and is a trustee of St Cuthbert's College in Auckland, and Snowvision, a charitable trust that promotes high-performance snow sports.

The following are general disclosures of interest given by Mr Allen pursuant to S140 (2) of the Companies Act 1993 and entered into CFH's interests register:

- Chairman of the Financial Markets Authority;
- Chairman of Auckland Council Investments Limited;
- Trustee of St Cuthbert's College;
- Trustee of Snowvision, a charitable trust;
- Director of Xylem Investments Limited;
- Director of Environment Investments Limited;
- Director of S3 Limited;
- Director of Simon Allen Consulting Limited; and
- Director of Breakwater Investments Limited.

Mr Andrew Body - Andrew Body has more than 20 years' experience as a successful investment banker and private banker. He was a shareholder and Director of FR Partners until 2001. Since then, he has continued his interest in investment banking, with a focus on mergers and acquisitions, and strong experience in network industries.

The following are general disclosures of interest given by Mr Body pursuant to S140 (2) of the Companies Act 1993 and entered into CFH's interests register:

- Director of Andrew Body Limited;
- Director and shareholder of Chartwell Trustee Company Limited;
- Director and shareholder of Upton Trust Company Limited;
- Director of Paterson Mews Limited;
- Director of Avon Picture Mouldings Limited; and
- Shareholder of McLaren Limited.

Ms Miriam Dean QC - Miriam Dean has extensive governance and commercial law experience. A former Partner at Russell McVeagh, Ms Dean is currently a barrister sole whose practice focuses on commercial and competition law, arbitration and mediation. She was made Queen's Counsel in 2004 and in 2010 was made a Companion of the New Zealand Order of Merit for services to law and business.

The following is a general disclosure of interest given by Ms Dean pursuant to S140 (2) of the Companies Act 1993 and entered into CFH's interests register:

- Director of Auckland Council Investments Limited

Dr Murray Milner - Murray Milner is a world-class telecommunications technology expert with a doctorate in electrical engineering and 34 years' experience in the New Zealand ICT industry. He held a variety of senior positions within Telecom including, until September 2005, Chief Technology Officer. Since leaving Telecom in 2005 he has worked as a consultant and has also held a range of governance positions including Chair of Harmonic, a software development firm specialising in applications for the telecommunications and agriculture sectors.

The following are general disclosures of interest given by Dr Milner pursuant to S140 (2) of the Companies Act 1993 and entered into CFH's interests register:

- Director of Enable Networks Limited;
- Managing Director of Milner Consulting Limited;
- Chair of Harmonic Aotearoa Limited;
- Trustee and beneficiary of Milner Family Trust;
- Chair of National Health IT Board; and
- Shareholder of Telecom:
  - 9,092 shares held personally; and
  - 27,924 shares held via family trust.

Mr Keith Tempest - In December 2009 Keith Tempest retired as Chief Executive of TrustPower, a Bay of Plenty-based electricity generator, after 23 years with the company. As Chief Executive, he was recognised as having overseen strong commercial performance and had a strong track record of managing large capital projects.

The following are general disclosures of interest given by Mr Tempest pursuant to S140 (2) of the Companies Act 1993 and entered into CFH's interests register:

- Director of Ultrafast Broadband Limited;
- Director of New Zealand Bus Limited;
- Director of New Zealand Bus Finance Company Limited;
- Director of Ports of Tauranga;
- Director of Transpower New Zealand Limited; and
- Director and shareholder of GAP Business Solutions Limited.

Mr Jack Matthews - Jack Matthews is Chief Executive Metropolitan Media at Fairfax Media Limited. He was previously Chief Executive of Sydney-based Fairfax Digital, which manages Australia's two leading daily newspapers, the Sydney Morning Herald and The Melbourne Age. Prior to this he was involved in a number of online ventures in Japan and the United States. Born in the United States with New Zealand citizenship, Mr Matthews was also the driving force behind the rollout of Saturn's (now TelstraClear's) hybrid fibre-coax cable network in Wellington and Christchurch, which offers triple-play services including telephony, pay TV and broadband. Mr Matthews brings an end-user focus and a strategic understanding of digital media to the Board of CFH.

Mr. Matthews has made no general disclosures of interest pursuant to S140 (2) of the Companies Act 1993.

Crown Fibre Holdings Limited

Governance

Organisation Form

CFH was incorporated on 29 October 2009 under the Companies Act 1993. CFH is a Crown-owned Company, listed under Schedule 4 of the Public Finance Act 1989. CFH is subject to certain provisions of the Crown Entities Act 2004, and it is also subject to the Official Information Act 1982 and the Ombudsmen Act 1975. The shareholders in CFH are the Minister of Finance and Minister for State Owned Enterprises in their capacity as Ministers, and each holds 50% of the issued share capital. CFH's aim is to provide services to the public, rather than make a financial return. Accordingly, CFH has designated itself as a public benefit entity.

Management of the Company

The Board of Directors is responsible for the overall direction of CFH's business and other activities on behalf of shareholding Ministers in the manner set out in CFH's Constitution and CFH's Statement of Intent. CFH's purpose is to accelerate the rollout of UFB to 75% of New Zealanders over 10 years, concentrating up to 31 December 2015 on priority users such as businesses, schools and health services, plus greenfields developments and certain tranches of residential areas, with the remainder of the deployment completed by 31 December 2019.

Board of Directors

The Board has established strategic policy, guides and monitors the business and affairs of CFH and is committed to a high standard of corporate governance. Responsibility for the operation and administration of CFH is delegated to the Chief Executive, who is accountable to the Board. The Board places emphasis on strategic planning, the implementation of sound administrative systems and procedures, and regulatory compliance.

Board Membership

The Board is made up of six non-executive Directors. Their profiles can be read on pages 6 and 7 of this Annual Report. Directors are appointed by shareholding Ministers following Cabinet approval.

Board Committees

To assist Directors to carry out their duties, the Board has two standing committees (as further described below). Other ad hoc and standing committees may be formed from time to time.

Audit and Risk Committee

The Audit and Risk Committee assists the Board in fulfilling its responsibilities by providing recommendations, counsel and information concerning accounting, reporting and responsibilities under legislation. Its Terms of Reference also cover the role of internal audit.

The Audit and Risk Committee ensures oversight by the Board of all matters related to the financial accounting, planning and reporting of CFH. The Audit and Risk Committee monitors the processes that are undertaken by management and both external and internal auditors. The Audit and Risk Committee ensures that the Board meets all financial governance and accountability requirements and responsibilities. In that regard the Crown Entities Act 2004 sets out the specific statutory planning and reporting obligations of CFH, including the requirements for key accountability documents, the Statement of Intent and the Annual Report. The Audit and Risk Committee also monitors and assesses risks to the business.

Remuneration Committee

The Committee assists the Board in fulfilling its responsibilities by providing advice and recommendations regarding the appropriate remuneration policies and human resources policies for the Company.

Crown Fibre Holdings Limited

Statement of Responsibility

For the year ended 30 June 2011

In terms of the Public Finance Act 1989, the Board is responsible for the preparation of Crown Fibre Holdings Limited's financial statements and for the judgements made in them.

The Board of Directors of Crown Fibre Holdings Limited has the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting for the Company.

In the Board's opinion, these financial statements fairly reflect the financial position and operation of Crown Fibre Holdings Limited for the period ended 30 June 2011.

Signed on behalf of the Board.

Simon Allen	Keith Tempest
Chairman	**Director**
27 September 2011	27 September 2011

Independent Auditor's Report

To the readers of Crown Fibre Holdings Limited and group's financial statements for the year ended 30 June 2011

The Auditor-General is the auditor of Crown Fibre Holdings Limited (the Company) and group. The Auditor-General has appointed me, Clare Helm, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Company and group on her behalf.

We have audited the financial statements of the Company and group on pages 13 to 38, that comprise the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

Opinion on the financial statements

In our opinion the financial statements of the Company and group on pages 13 to 38:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the Company and group's:
  - financial position as at 30 June 2011; and
  - financial performance and cash flows for the year ended on that date.

Opinion on other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the Company and group as far as appears from an examination of those records.

Our audit was completed on 30 September 2011. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the company and group's preparation of the financial statements that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the Company and group's financial position, financial performance and cash flows.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors' responsibilities arise from the Public Finance Act 1989 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the Company and group.

Clare Helm

Clare Helm
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Matters relating to the electronic presentation of the audited financial statements.

This audit report relates to the financial statements of Crown Fibre Holdings Limited and group for the year ended 30 June 2011 included Crown Fibre Holdings Limited's website. Crown Fibre Holdings Limited's Board is responsible for the maintenance and integrity of Crown Fibre Holdings Limited's website. We have not been engaged to report on the integrity of Crown Fibre Holdings Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements as well as the related audit report dated 30 September 2011 to confirm the information included in the audited financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Crown Fibre Holdings Limited

Statement of Comprehensive Income

For the year ended 30 June 2011

	Notes	Parent and Group Actual 2011 $	Budget 2011 $	Actual 2010 $
Income				
Interest income		654,425	430,735	352,090
Total income		654,425	430,735	352,090
Expenditure				
Directors' fees	**2**	280,115	350,900	265,010
Personnel costs	**3**	2,511,350	3,964,812	496,110
Depreciation and amortisation expense	**8**	89,950	132,084	20,361
Professional advisory fees	**4**	13,824,993	13,945,840	3,160,380
Other expenses	**5**	2,447,241	1,509,679	921,705
Total expenditure		19,153,649	19,903,315	4,863,566
Net deficit for the year		**(18,499,224)**	**(19,472,580)**	**(4,511,476)**
Other comprehensive income		-	-	-
Total comprehensive income for the year		**(18,499,224)**	**(19,472,580)**	**(4,511,476)**

Explanations of major variances against budget are detailed in note 23. The 2010 period is for the eight months from the incorporation of Crown Fibre Holdings Limited.

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

Crown Fibre Holdings Limited

Statement of Financial Position

As at 30 June 2011

	Notes	Parent and Group Actual 2011 $	Budget 2011 $	Actual 2010 $
Assets				
Current assets				
Cash and cash equivalents	**6**	15,454,798	3,353,726	22,019,645
Other receivables	**7**	51,358	404,673	129,895
Prepayments		90,265	39,463	60,000
Total current assets		15,596,421	3,797,862	22,209,540
Non-current assets				
Property, plant and equipment	**8**	253,154	187,094	147,778
Intangibles		-	27,560	-
Investments	**16**	30,751	-	-
Total non-current assets		283,905	214,654	147,778
Total assets		**15,880,326**	**4,012,516**	**22,357,318**
Liabilities				
Current liabilities				
Creditors and other payables	**9**	3,194,565	2,894,561	1,379,893
Employee entitlements	**10**	296,261	589,799	88,701
Total current liabilities		3,490,826	3,484,360	1,468,594
Total liabilities		**3,490,826**	**3,484,360**	**1,468,594**
Net assets		**12,389,500**	**528,156**	**20,888,724**
Equity				
General funds	**12**	12,389,500	528,156	20,888,724
Total equity		**12,389,500**	**528,156**	**20,888,724**

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

Crown Fibre Holdings Limited

Statement of Changes in Equity

For the year ended 30 June 2011

	Note	Parent and Group Actual 2011 $	Budget 2011 $	Actual 2010 $
Balance at 1July		20,888,724	20,000,736	-
Comprehensive income:				
Net deficit		(18,499,224)	(19,472,580)	(4,511,476)
Total comprehensive income		(18,499,224)	(19,472,580)	(4,511,476)
Owner transactions:				
Capital contribution		10,000,000	-	25,400,200
Balance at 30 June	**12**	**12,389,500**	**528,156**	**20,888,724**

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

Crown Fibre Holdings Limited

Statement of Cash Flows

For the year ended 30 June 2011

	Notes	Parent and Group Actual 2011 $	Budget 2011 $	Actual 2010 $
Cash flows from operating activities				
Interest received		683,370	430,735	297,994
Payments to suppliers		(16,030,133)	(15,689,760)	(3,471,115)
Payments to employees		(2,303,790)	(3,604,170)	(407,409)
Goods and services tax (net)		1,311,783	1,088,575	368,114
Net cash outflow from operating activities	**11**	**(16,338,770)**	**(17,774,620)**	**(3,212,416)**
Cash flows from investing activities				
Purchase of property, plant and equipment		(195,326)	(102,000)	(168,139)
Purchase of intangible assets		-	(53,000)	-
Acquisition of investments		(30,751)	-	-
Net cash outflow from investing activities		**(226,077)**	**(155,000)**	**(168,139)**
Cash flows from financing activities				
Capital contribution	**12**	10,000,000	-	25,400,200
Net cash inflow from financing activities		**10,000,000**		**25,400,200**
Net (decrease)/increase in cash and cash equivalents		**(6,564,847)**	**(17,929,620)**	**22,019,645**
Cash and cash equivalents at the beginning of the year		22,019,645	21,283,151	-
Cash and cash equivalents at the end of the year	**6**	**15,454,798**	**3,353,531**	**22,019,645**

The 2010 period is for eight months.

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

1. Statement of accounting policies

Reporting entity

Crown Fibre Holdings Limited (CFH), a limited liability company incorporated in New Zealand under the Companies Act 1993, is a Crown entity as defined by the Crown Entities Act 2004. It is listed in Schedule 4 of the Public Finance Act 1989.

The purpose of the Company is to implement the Government's objectives in relation to the availability of, and access to, Ultra Fast Broadband (UFB) by co-investing with private sector participants to deploy telecommunications network infrastructure. As such, CFH's aim is to provide services to the public, rather than make a financial return.

Accordingly, CFH has designated itself as a public benefit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). CFH is a public authority and consequently is exempt from the payment of income tax. Accordingly, no provision has been made for income tax.

The Crown does not guarantee the liabilities of CFH in any way and CFH is prevented from borrowing funds unless authorised by Shareholding Ministers as per S162 and S160 of the Crown Entities Act 2004.

The financial statements of CFH are for the period ended 30 June 2011, and were approved by the Board of Directors on 1 September 2011.

Basis of preparation

Statement of compliance

The financial statements of CFH have been prepared in accordance with the relevant requirements of the Public Finance Act 1989 and the Crown Entities Act 2004, which include the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP). The financial statements are for the 12-month period from 1 July 2010 to 30 June 2011.

The financial statements comply with NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

CFH has been granted an exemption by the Minister of Finance from S151(b) of the Crown Entities Act 2004, which requires that an annual report contain a statement of service performance in accordance with S153 of the Crown Entities Act 2004.

Measurement base

The financial statements have been prepared on a historical cost basis.

Functional and presentation currency

The financial statements are presented in New Zealand dollars, and all values are rounded to the nearest dollar ($). The functional currency of CFH is New Zealand dollars.

Early adopted amendments to standards

The following amendments to standards have been early adopted and incorporated in CFH's accounting policies:

- NZ IAS 24 *Related Party Disclosures (Revised 2009)* – The effect of early adopting the revised NZ IAS 24 is:
  - more information is required to be disclosed about transactions between CFH and entities controlled, jointly controlled or significantly influenced by the Crown;
  - commitments with related parties require disclosure; and
  - information is required to be disclosed about any related party transactions with Ministers of the Crown.

Standards, amendments and interpretations issued that are not yet effective and have not been adopted early

Standards, amendments and interpretations issued but not yet effective that have not been adopted early, and which are relevant to CFH, are:

- NZ IFRS 9 *Financial Instruments* will eventually replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus/deficit. The new standard is required to be adopted for the year ended 30 June 2014. CFH has not yet assessed the effect of the new standard.

Significant accounting policies

Revenue

Interest

Interest income is recognised using the effective interest method. Interest income on an impaired financial asset is recognised using the original effective interest rate.

Leases

Operating leases

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to CFH are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease in the surplus or deficit in the statement of comprehensive income. Lease incentives received are recognised in the surplus or deficit in the statement of comprehensive income over the lease term as an integral part of the total lease expense.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less, and bank overdrafts. All investments are held in New Zealand. Accrued interest on term deposits is shown separately as a receivable.

Debtors and other receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Impairment of a receivable is established when there is objective evidence that CFH will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, the probability that the debtor will enter into bankruptcy, and defaults in payment are considered indicators that the debtor is impaired.

Property, plant and equipment

Property, plant and equipment asset classes consist of office equipment and computer hardware.

Property, plant and equipment are shown at cost or valuation, less any accumulated depreciation and impairment losses.

Additions

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that the future economic benefits or service potential associated with the item will flow to CFH and the cost of the item can be measured reliably.

Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit in the statement of comprehensive income.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that the future economic benefits or service potential associated with the item will flow to CFH and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant and equipment are recognised in the surplus or deficit in the statement of comprehensive income as they are incurred.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of asset have been estimated as follows:

Office equipment	4-17 years (6%-21%)
Computer hardware	2.5 years (40%)

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial period end.

Intangible assets

Software acquisition and development

Assets under construction are held in work in progress until they are completed.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Costs associated with the maintenance of the CFH website are recognised as an expense when incurred.

Impairment of non-financial assets

Property, plant and equipment and intangible assets that have finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts might not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is the depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where CFH would, if deprived of the asset, replace its remaining future economic benefits or service potential.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount.

Creditors and other payables

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying values of creditors and other payables approximate their fair values.

Employee entitlements

Short-term employee entitlements
Employee entitlements that CFH expects to be settled within 12 months of balance date are measured at undiscounted nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, and annual leave earned but not yet taken at balance date. A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that it will be used by staff to cover those future absences.

A liability and an expense are recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

Superannuation schemes

Defined contribution schemes
Obligations for contributions to KiwiSaver are accounted for as defined contribution superannuation schemes and are recognised as an expense in the surplus or deficit in the statement of comprehensive income as incurred.

Goods and services tax

All items in the financial statements are presented exclusive of goods and services tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, Inland Revenue is included as part of receivables or payables in the statement of financial position. The net GST paid to or received from Inland Revenue, including the GST relating to investing and financing activities, is classified as operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Income tax

CFH is a public authority and consequently is exempt from the payment of income tax. Accordingly, no provision has been made for income tax.

Statement of cash flows

The following are the definitions of the terms used in the statement of cash flows:

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily converted to known amounts of cash and are subject to an insignificant risk of changes in value.

Operating activities are the principal revenue-producing activities of the Company and other activities that are not investing or financing activities.

Investing activities are those activities relating to the acquisition and disposal of current and non-current investments, property, plant and equipment, intangible assets and other non-current assets.

Financing activities are those activities that result in changes in the size and composition of the contributed equity of the Company.

Budget figures

The 2011 budget figure is the amount of $19.47 million as approved in the 2010 Statement of Intent. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by CFH in preparing these financial statements. Elements of the budget have been reclassified to better reflect CFH's operations; there is no change to the aggregate budget figure.

Critical accounting estimates and assumptions

In preparing these financial statements CFH has made estimates and assumptions concerning the future. These estimates and assumptions may differ from subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Property, plant and equipment useful lives and residual values

At balance date CFH reviews the useful lives and residual values of its property, plant and equipment. Assessing the appropriateness of useful life and residual value estimates of property, plant and equipment requires CFH to consider a number of factors, such as the physical condition of the asset, expected period of use of the asset by CFH, and expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life or residual value will impact on the depreciation expense recognised in the surplus or deficit in the statement of comprehensive income, and the carrying amount of the asset in the statement of financial position. CFH minimises the risk of this estimation uncertainty by:

- Physical inspections of assets; and
- Asset replacement programmes.

The carrying amounts of property, plant and equipment are disclosed in note 8.

Critical judgements in applying accounting policies

Management has exercised the following critical judgements in applying CFH's accounting policies for the period ended 30 June 2011:

Lease classification

Determining whether a lease agreement is a finance or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to CFH.

Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the statement of financial position as property, plant and equipment, whereas for an operating lease no such asset is recognised.

CFH has exercised its judgement on the appropriate classification of equipment leases, and has determined that no lease arrangements are finance leases.

Reporting period

These financial statements cover the 12-month period from 1 July 2010 to 30 June 2011. The prior-year comparative figures cover the eight-month period from the incorporation of CFH on 29 October 2009 through to 30 June 2010.

2. Directors' fees

	Actual 2011 $	Actual 2010 $
Board member fees during the year were:		
Simon Allen	85,690	76,510
Andrew Body	38,555	50,548
Miriam Dean	40,865	34,855
Jack Matthews	32,450	19,080
Murray Milner	42,268	56,653
Keith Tempest	40,287	27,364
Total Board member fees	**280,115**	**265,010**

CFH has effected Directors' and Officers' Liability insurance to cover Directors and Officers. CFH indemnifies the Directors against costs and liabilities incurred by Directors for acts or omissions made in their capacity as Directors to the extent permitted by CFH's Constitution and the Companies Act 1993.

The shareholding Ministers approved ordinary fees of $210,250 (2010: $203,000) and special fees of $140,000 (2010: $140,000), totalling $350,250 (2010: $343,000) of approved fees, of which actual spend was $280,115 (2010: $265,010). Differences in Directors' individual fees reflect payments to Directors from these special fees for additional work done by them during various stages of the partner selection process.

The number of Board meetings held and attendance are detailed in the table below.

	2011				2010			
Directors	No. of Regular Meetings	No. of Regular Meetings Attended	No. of Special Meetings	No. of Special Meetings Attended	No. of Regular Meetings	No. of Regular Meetings Attended	No. of Special Meetings	No. of Special Meetings Attended
Simon Allen	11	11	5	5	4	4	2	2
Andrew Body	11	11	5	5	4	4	2	2
Miriam Dean	11	10	5	5	4	4	2	2
Murray Milner	11	8	5	3	4	3	2	2
Keith Tempest	11	11	5	5	4	4	2	2
Jack Matthews	11	11	5	5	4	4	2	1

3. Personnel costs

	Actual 2011 $	Actual 2010 $
Salaries and wages	2,280,088	404,442
Employer contributions to defined contribution plans	23,702	2,967
Increase in employee entitlements (note 10)	207,560	88,701
Total personnel costs	**2,511,350**	**496,110**

CFH had 14 full-time employees and six contractors as at 30 June 2011.

4. Professional advisory fees

	Actual 2011 $	Actual 2010 $
Accounting	419,925	282,752
Economic modelling	898,191	1,020,819
Engineering	485,767	253,645
Investment advisory	7,527,429	431,000
Legal	4,067,510	961,296
Regulatory	329,473	87,192
Other	96,698	123,676
Total professional advisory fees	**13,824,993**	**3,160,380**

5. Other expenses

	Actual 2011 $	Actual 2010 $
Audit fees for the financial statements' audit	50,000	21,800
Contractors and project management	1,268,667	422,297
Staff travel and accommodation	266,791	103,494
Operating lease expense	255,012	70,121
Information technology	141,107	41,774
Other	465,664	262,219
Total other expenses	**2,447,241**	**921,705**

6. Cash and cash equivalents

	Actual 2011 $	Actual 2010 $
Cash on hand and at bank	5,454,798	2,019,645
Cash equivalents – term deposits	10,000,000	20,000,000
Total cash and cash equivalents	**15,454,798**	**22,019,645**

All cash on hand is held with one or more of New Zealand's major trading banks. The carrying value of short-term deposits with maturity dates of three months or less approximates their fair values. The weighted average effective interest rate for monies on deposit is 3.1% (2010: 4.4%).

7. Other receivables

	Actual 2011 $	Actual 2010 $
GST receivables	26,007	75,599
Interest receivables	25,151	54,096
Other receivables	200	200
Less provision for impairment	-	-
Total other receivables	**51,358**	**129,895**

The carrying value of receivables approximates their fair value.

As at 30 June 2011 the status of all receivables has been assessed at:

	2011 $	2010 $
Current	51,358	129,895
Total	**51,358**	**129,895**

8. Property, plant and equipment

Movements for each class of property, plant and equipment are as follows:

	Computer Hardware $	Office Equipment $	Total $
Cost			
Balance at 29 Oct 2009	-	-	-
Additions during the period	148,609	19,530	168,139
Balance at 30 June 2010	148,609	19,530	168,139
Accumulated depreciation			
Balance at 29 Oct 2009	-	-	-
Charge for the period	18,826	1,535	20,361
Balance at 30 June 2010	18,826	1,535	20,361
Net book value at 30 June 2010	**129,783**	**17,995**	**147,778**
Cost			
Balance at 1 July 2010	148,609	19,530	168,139
Additions during the period	97,299	98,027	195,326
Balance at 30 June 2011	245,908	117,557	363,465
Accumulated depreciation			
Balance at 1 July 2010	18,826	1,535	20,361
Charge for the year	80,931	9,019	89,950
Balance at 30 June 2011	99,757	10,554	110,311
Net book value at 30 June 2011	**146,151**	**107,003**	**253,154**

9. Creditors and other payables

	Actual 2011 $	Actual 2010 $
Creditors	497,740	684,982
Accrued expenses	2,696,825	694,911
Total creditors and other payables	**3,194,565**	**1,379,893**

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value. This includes an amount of $2,480,000 payable to the investment adviser, Greenhill Caliburn, as disclosed in note 14.

10. Employee entitlements

	Actual 2011 $	Actual 2010 $
Current employee entitlements are represented by:		
Annual leave and short-term entitlements	296,261	88,701
Total current portion	**296,261**	**88,701**
Total employee entitlements	**296,261**	**88,701**

11. Reconciliation of net deficit to net cash from operating activities

	Actual 2011 $	Actual 2010 $
Net deficit after tax	(18,499,224)	(4,511,476)
Add/(less) non-cash items:		
Depreciation and amortisation expense	89,950	20,361
Total non-cash items	89,950	20,361
Add/(less) movements in working capital items		
Other receivables and prepayments	48,272	(189,895)
Creditors and other payables	1,814,672	1,379,893
Employee entitlements	207,560	88,701
Net movements in working capital items	2,070,504	1,278,699
Net cash from operating activities	**(16,338,770)**	**(3,212,416)**

12. Equity

	Actual 2011 $	Actual 2010 $
General funds		
Balance at 1 July	20,888,724	-
Capital introduced	10,000,000	25,400,200
Deficit for the year	(18,499,224)	(4,511,476)
Total equity at 30 June	**12,389,500**	**20,888,724**

The Crown investment made in CFH is represented by 1,345,400,200 $1.00 ordinary shares issued, with 35,400,200 being fully paid and 1,310,000,200 being unpaid. Half of the issued capital is held by each Shareholding Minister. On 16 June 2011, CFH issued 1,140,000,000 new unpaid shares. Subsequently on 23 August 2011 CFH cancelled then reissued these unpaid shares to align with the Budget Appropriation of $520 million and subsequent allocation of $408 million under Imprest Supply approved by Cabinet on 22 August 2011.

To ensure an efficient use of capital, CFH and the Crown have in place an uncalled capital mechanism. As CFH's operating expenses, capital expenditure and UFB investment flow are required to be funded, CFH will make a call on the uncalled capital from the Crown equal to the value of the funding required. It is forecast that in this financial year CFH will make two capital calls totalling $77.5 million (2011: $10 million) to fund its operating costs and UFB investments.

13. Commitments – operating lease commitments

Operating leases as lessee

The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

	Actual 2011 $	Actual 2010 $
Not later than one year	191,220	27,752
Later than one year and not later than five years	739,120	12,920
Later than five years	122,328	-
Total non-cancellable operating leases	**1,052,668**	**40,672**

CFH leases premises in Auckland at Level 10, PricewaterhouseCoopers Tower, 188 Quay Street. The lease expires in February 2017 with a rent review in March 2014.

Commitments – capital commitments

CFH has no capital commitments as at 30 June 2011 (2010: Nil).

14. Contingencies

Contingent liabilities

In the 2010 financial statements a contingent liability relating to a maximum fee of $3.72 million payable to CFH's investment advisers contingent upon the successful conclusion of the Invitation to Participate (ITP) process was disclosed. This fee represented approximately 0.3% of the total funds CFH will be investing. With the successful conclusion of the ITP process during the 2011 financial year, and management being satisfied that the conditions attached to the fee have been met, the unpaid portion of this amount has been recognised in the 2011 financial statements. Consistent with the agreement, one-third of the outstanding fee ($1.24 million) was paid in 2011 and the outstanding balance has been accrued and disclosed in note 9. There are no contingent liabilities as at 30 June 2011.

Contingent assets

CFH has no contingent assets as at 30 June 2011 (2010: Nil).

15. Related party transactions and key management personnel

Related party transactions

CFH is a wholly owned entity of the Crown. The Government significantly influences the role of CFH in addition to being its major source of funding.

Significant transactions with government-related entities

CFH has been provided with funding from the Crown of $10 million (2010: $25.4 million) for specific purposes as set out in its founding legislation and the scope of the relevant Government appropriations.

CFH enters into transactions with government departments, Crown entities and state-owned enterprises. These transactions occur within a normal supplier or client relationship on terms and conditions no more or less favourable than those that it is reasonable to expect CFH would have adopted if dealing with those entities at arm's length in the same circumstances. These have not been disclosed as related party transactions.

Collectively, but not individually, significant transactions with government-related entities

In conducting its activities, CFH is required to pay various taxes and levies (such as GST, PAYE and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies is based on the standard terms and conditions that apply to all tax and levy payers. CFH is exempt from paying income tax.

CFH also purchases goods and services from entities controlled, significantly influenced or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2011 totalled $169,481 (2010: $355,200). These purchases included the purchase of travel from Air New Zealand and postal services from New Zealand Post.

Key management personnel compensation

	Actual 2011 $	Actual 2010 $
Salaries, short-term employee benefits and Directors' fees	1,961,263	672,419
Total key management personnel compensation	**1,961,263**	**672,419**

Key management personnel include the Directors, Chief Executive Officer and Senior Management team members.

16. Investments

Local Fibre Companies (LFCs)

In the course of the 2011 financial year CFH entered into agreements with three partners to establish LFCs to fulfil the UFB Objective through the construction, deployment and operation of the UFB network by the LFCs in their coverage areas. These agreements were entered into with:

- Northpower Limited for the Whangarei Candidate Area on 13 December 2010, resulting in the establishment of an LFC, Whangarei Local Fibre Company Limited (WLFC);
- WEL Networks Limited, and its subsidiary Ultrafast Fibre Limited, for the Hamilton (including Te Awamutu and Cambridge), Tauranga, New Plymouth, Whanganui, Hawera and Tokoroa Candidate Areas on 15 December 2010, resulting in the establishment of an LFC, Ultrafast Broadband Limited (UBL); and
- Christchurch City Holdings Limited and its subsidiary Christchurch City Networks Limited, for the Christchurch (which includes the Kaiapoi and Rolleston areas) and Rangiora Candidate Areas on 31 May 2011, resulting in the establishment of the LFC Enable Networks Limited.

The agreements set out the key commercial terms of the relationships between CFH and the LFCs and their partners. This includes CFH having shareholdings in each of the LFCs that will reflect the level of CFH's investment, in conjunction with its partner, in the deployment of the UFB network in each of the LFCs' Candidate Areas.

CFH has board representation on each of the LFCs as does the partner, with there being an independent chair for each LFC. CFH's board representation for each of the LFCs is set out below:

- WLFC – Graham Mitchell (CFH Chief Executive) and Sean Wynne (CFH Chief Commercial Officer). The independent chair is Jo Brosnahan;
- UBL – Graham Mitchell, Sean Wynne and Keith Tempest (CFH Board member). The independent chair is Rodger Fisher; and
- Enable Networks Limited – Graham Mitchell, Sean Wynne and Murray Milner (CFH Board member). The independent chair is Tim Lusk.

Deployment plans have been approved for WLFC for the Whangarei Candidate Area, which will result in approximately 8,500 premises being passed with fibre optic cable this financial year (2011/12). UBL has had stage one of its deployment plan approved through to December 2011 covering approximately 10,000 premises; stage two to 30 June 2012 will be approved shortly. The deployment plan for Enable Networks Limited is in the process of being developed and agreed. Based on the LFC deployment plans approved, on acceptance of the network, CFH will invest up to $22.7 million by 30 June 2012.

The deployment plans drive CFH's level of investment in the LFCs. As each stage of the deployment plan is completed by the partner, the LFC will purchase the UFB network from the partner based on an agreed cost per premises passed (CPPP) for the number of premises passed by fibre optic cable upon successful user acceptance testing (UAT). CFH will in turn fund the LFC's purchase of each stage by way of subscribing to A shares (these shares carry full voting rights, with no dividend rights until 10 years from establishment) in the LFC, the price for which is the agreed CPPP. As the LFCs connect customers to the network, the partner is either required, or has the option, to purchase from CFH its A shares based on the number of premises connected, the CPPP paid and an indexation mechanism (by Produce Price Index). The partner is required to fund the cost to connect a premise and end customer (essentially fibre optic lead in from street), the electronics necessary to light the fibre and LFC operational costs. The partner generally receives B shares for funding these obligations (B shares carry full dividend rights, but no voting rights until year 10), although some prudent level of debt is permitted in the LFC. All A and B class shares in each LFC convert to ordinary voting dividend entitlement shares 10 years from establishment date.

In the 2011 financial year the LFCs have been in a start-up phase and have undertaken a very limited and immaterial level of operations, primarily in relation to set-up and establishment activities. The initial build of the UFB network commenced in May and June 2011. It is expected, and is consistent with deployment plans described above that have been approved by CFH, that early in the 2012 financial year deployment of the UFB network will increase in scale. Commensurate with this, CFH's level of investment, and its shareholding, will increase to reflect the level of UFB network deployment.

As at 30 June 2011, $30,751 had been invested in WLFC through the issue of A shares to reflect initial deployment consistent with these agreements (2010: Nil).

A summary of the LFCs' financial performance and financial position at 30 June 2011 is set out below.

Summary Profit and Loss Statement to 30 June 2011	**Ultrafast Broadband Limited $(000)'s**	**Whangarei Local Fibre Company Limited $(000)'s**
Revenue		
Revenue – UFB	0	0
Revenue – interest	0	0
Total revenue	0	0
Costs		
LFC overheads	274	98
LFC outsourced functions	90	6
Total costs	364	104
Net profit/(loss) before tax	**(364)**	**(104)**

Note that at balance date CFH's interest in UBL is one share; this is not shown due to rounding. CFH's interest in UBL's profit/(loss) for the period would be less than 0.1%.

CFH's interest in WLFC is 24%, reflecting the level of investment as at 30 June 2011 and this is held at cost on CFH's balance sheet as an investment in WLFC. CFH's interest in WLFC's profit/(loss) for the period is approximately $25,000. This is not considered material and has not been reflected in CFH's accounts.

As a combined result the LFCs are not material to CFH's result and as such CFH has not prepared group accounts.

Summary Balance Sheet to 30 June 2011	Ultrafast Broadband Limited $(000)'s	Whangarei Local Fibre Company Limited $(000)'s
Cash	168	53
Debtors	37	9
Total current assets	205	62
UFB assets	0	31
Other assets	102	6
Creditors and accruals	69	72
Net assets	**238**	**27**
Share capital – CFH	0	31
Share capital – partner	500	100
Retained losses	(262)	(104)
Total equity	**238**	**27**

Enable Networks Limited was incorporated on 31 May 2011 and has not incurred any material costs to 30 June 2011, and only had establishment share capital of $3 representing one share held by each of CFH, the Minister of Finance on behalf of the Crown and Christchurch City Networks Limited. The Minister of Finance also holds one share in each of UBL and WLFC.

17. Employee remuneration

Total remuneration paid or payable for the year

	Actual 2011	Actual 2010
$110,000 - $119,999	1	-
$120,000 - $129,999	1	-
$160,000 - $169,999	1	-
$180,000 - $189,999	-	1
$260,000 - $269,999	3	-
$300,000 - $309,999	1	-
$430,000 - $439,999	1	-
Total employees	**8**	**1**

During the year ended 30 June 2011, no employees received compensation and other benefits in relation to cessation.

18. Events after the balance sheet date

Agreement with Telecom Corporation of New Zealand Limited (Telecom)

In May 2011 CFH entered into agreements with Telecom (which will be transferred to Chorus once it has been separated from Telecom[1]) to partner with CFH in the deployment of UFB. It is a requirement of these agreements that the proposed structural separation through a demerger of Telecom into Chorus (fixed-line [both fibre and copper] access network infrastructure) and New Telecom (being the balance of Telecom's existing business) become effective. Telecom has advised that this is targeted to occur by the end of 2011 following its shareholders voting on the proposal.

The key terms of these agreements are for Chorus to deploy fibre to 24 Candidate Areas throughout New Zealand, with the fibre network to pass approximately 830,900 premises. The initial deployment is expected to result in approximately 149,000 premises being passed by 30 June 2013, with 43,000 to be passed by June 2012. Thereafter, the plan is to deploy fibre to approximately 106,000 premises each year through to December 2019. During the period until June 2015, the deployment will focus on "priority users" (being businesses, schools and health facilities) and residential premises within proximity of the fibre network deployment areas and greenfields. Fibre must be deployed to "priority users" by 31 December 2015.

Chorus will self-fund the design and build work and will carry the risk of any cost overruns in the network build. To assist in funding the cost of the network build, CFH will invest up to $929 million in Chorus progressively during the period of the deployment as premises are passed and network build stages are completed and satisfy User Acceptance Testing (UAT). CFH's investment in Chorus equates to a CPPP of

[1] In this section, the counterparty to the agreements with CFH is referred to as "Chorus". This is the correct entity after the demerger of Telecom (into two separate companies). However, until the demerger is effective, the legal counterparty is Telecom. The reference to "Chorus" in this section is intended to make the reading of this information easier and in no way prejudges or assumes the outcome of the Telecom shareholder vote on the demerger proposal, which is to be held in October 2011 and effective by the end of November 2011.

$1,118. CFH will advance no funds to Chorus for any UFB deployment until after the structural separation has occurred. Thereafter, CFH's investment will be made progressively.

The key terms of CFH's investment in Chorus are described below.

Chorus will meet the connection costs of standard residential customers. Chorus also has the obligation to fund the cost to connect end customers, the necessary layer 2 equipment (electronics to light fibre and customers' premises' equipment), necessary IT support platforms and operational costs.

CFH's investment will be directly into Chorus once it has been established as a separate legal entity following the demerger process. This investment structure differs from the LFC model adopted for CFH's investment in WLFC, UBL and Enable Networks Limited as described in note 16 of these accounts.

CFH's investment in Chorus will be by way of an equal share of debt and equity securities i.e. 50% CFH Debt Securities and 50% CFH Equity Securities. These will be issued progressively by Chorus, and subscribed to by CFH on a per-premises basis as stages are completed and satisfy UAT. Chorus will also issue to CFH equity warrants to allow CFH to participate in the upside of the financial performance of Chorus (one warrant for each $1 of CFH Equity Securities). These warrants are exercisable by CFH at its election but it is unlikely that they will be exercised by CFH unless Chorus's Total Shareholder Return exceeds a return hurdle of 16% per annum in the relevant period. The respective terms of the CFH Equity Securities and Debt Securities are set out below, with the key conditions precedent to any CFH investment being that the structural separation has been approved and made effective, that Chorus has not breached any banking covenants and that Chorus has obtained an investment-grade credit rating.

The CFH Equity Securities carry no rights to vote at meetings of ordinary Chorus shareholders but rank ahead of ordinary shareholders in the event of liquidation. Dividends will become payable on a portion of the CFH Equity Securities from 2025 onwards, with the portion increasing with time until all of the CFH Equity Securities attract a dividend. The dividend rate will equal the New Zealand 180-day bank bill rate plus a margin of 6%. End-user (customer) fibre uptake will be measured as at 30 June 2020, the measure being the total number of premises in Chorus's Candidate Areas with fibre connections divided by the total number of premises with copper, fibre or Hybrid Fibre Co-Axial connections. If the uptake is greater than 20% (being the end-user fibre uptake threshold), the portion of CFH Equity Securities that attracts a dividend is weighted towards the latter half of the period 2025 to 2036. Conversely, if end-user fibre uptake is equal to or less than 20%, 66.7% of the CFH Equity Securities will attract a dividend by 30 June 2030. Table 1 on page 35 provides the details of the timing and portion of CFH Equity Securities that attract dividends depending on whether the end-user fibre uptake threshold is met or not. By 2035 or 2036 (depending on whether the end-user fibre uptake threshold is met), all CFH Equity Securities will attract dividends. Chorus can redeem the CFH Equity Securities in cash or by issuing Chorus ordinary shares at any time.

If at any time Chorus's credit rating is three notches or more below its initial rating, no dividends will be scheduled or payable on the CFH Equity Securities. The terms of the CFH Equity Securities do not prohibit payment of dividends on Chorus ordinary shares. However, provisions elsewhere in the agreements prohibit Chorus, without CFH's approval, paying any distributions on its ordinary shares during any period in which Chorus's credit rating is below investment grade.

Table 1: CFH Equity Securities Dividend Table ($m)

	30-June					30-June				
30 June 2020 test	**2025**	**2030**	**2033**	**2035**	**2036**	**2025**	**2030**	**2033**	**2035**	**2036**
Fibre uptake less than or equal to 20%										
Equity on which dividends become payable	155	310		465		33.3%	66.7%		100.0%	
Fibre uptake greater than 20%										
Equity on which dividends become payable	86	172	300		465	18.5%	36.9%	64.6%		100.0%

The CFH Debt Securities are unsecured, carry no interest rate and, like the CFH Equity Securities, have no voting rights. The principal amount of a CFH Debt Security will consist of a senior portion and a subordinated portion. The senior portion will rank equally with all other unsecured, unsubordinated creditors of Chorus, and shall have the benefit of any negative pledge covenant that may be contained in any of Chorus's debt arrangements. The value of the senior portion will be the present value (using a discount rate of 8.5%) of the sum repayable on the CFH Debt Securities. Until 30 June 2020, the timing of repayments will be based on the end-user fibre uptake threshold <u>not</u> being met.

The repayment profile is based on a similar regime to that for the CFH Equity Securities, including the 20% end-user fibre uptake threshold test. Table 2 below details the redemption profile of the CFH Debt Securities under both scenarios of end-user fibre uptake (being i) less than or equal to 20% at 30 June 2020 and ii) greater than 20% at 30 June 2020). The subordinated portion will be the difference between the issue price of the CFH Debt Security and the value of the senior portion.

Table 2: CFH Debt Securities Repayment Profile ($m)

	30-June					30-June				
30 June 2020 test	**2025**	**2030**	**2033**	**2035**	**2036**	**2025**	**2030**	**2033**	**2035**	**2036**
Fibre uptake less than or equal to 20%										
Debt repayment	155	155		155		33.3%	33.3%		33.3%	
Fibre uptake greater than 20%										
Debt repayment	86	86	129		164	18.5%	18.5%	27.7%		35.4%

The agreements between CFH and Chorus are conditional on the structural separation proposal becoming effective, which is subject to a number of shareholder, bondholder and regulatory approvals. The first investment of funds by CFH under this arrangement is expected in late 2011, once the demerger is complete.

The agreements between CFH and Chorus also contain a pricing schedule that effectively sets agreed price caps for specified UFB wholesale services until 31 December 2019, require Chorus to satisfy various fibre commitments, including seeking to maximise uptake on the network and offer fibre access services, undertake activities and make decisions in a manner that are consistent with it being only a fibre access operator, and provide a number of information disclosure obligations to and governance rights for CFH.

19. Categories of financial assets and liabilities

The carrying amounts of financial assets and liabilities in each of the NZ IAS 39 categories are as follows:

	Actual 2011 $	Actual 2010 $
Loans and receivables:		
Cash and cash equivalents	15,454,798	22,019,645
Other receivables	51,358	129,895
Total loans and receivables	**15,506,156**	**22,149,540**
Financial liabilities measured at amortised cost:		
Creditors and other payables	3,194,565	1,379,893
Total financial liabilities measured at amortised cost	**3,194,565**	**1,379,893**

20. Financial instrument risks

CFH's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. CFH has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into. Investments of a financial nature can only be transacted with New Zealand major trading banks or in Government securities.

Market risk

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. CFH's exposure to fair value interest rate risk is limited to its bank deposits, which are held at fixed rates of interest. However, because these bank deposits are not accounted for at fair value, fluctuations in interest rates do not have an impact on the surplus/deficit of CFH or the carrying amount of the financial instruments recognised in the statement of financial position.

The average interest rate on CFH's term deposits is 3.1% (2010: 4.4%).

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Investments and borrowings issued at variable interest rates expose CFH to cash flow interest rate risk. CFH currently has no variable rate financial instruments, however term deposits are re-priced every quarter.

Sensitivity analysis

As at 30 June 2011, if the deposit rate had been 50 basis points higher or lower, with all other variables held constant, the surplus/deficit for the period would have been $77,274 (2010: $110,128) higher/lower. This movement is attributable to increased or decreased interest income on the cash deposits.

Credit risk

Credit risk is the risk that a third party will default on its obligation to CFH, causing CFH to incur a loss.

Owing to the timing of its cash inflows and outflows, CFH invests surplus cash with major registered trading banks. CFH's Investment Policy limits the amount of credit exposure to any one institution.

CFH's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents (note 6) and other receivables (note 7). There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

CFH's term deposits are currently held with only one bank, which is a registered major New Zealand bank holding a Standard & Poor's credit rating of AA or better.

Liquidity risk

Liquidity risk is the risk that CFH will encounter difficulty raising liquid funds to meet commitments as they fall due. CFH's primary mechanism for managing liquidity risk is via the uncalled capital mechanism as described in note 12. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. CFH aims to maintain flexibility in funding by keeping committed credit lines available.

In meeting its liquidity requirements, CFH maintains a target level of investments that must mature within specified timeframes.

Contractual maturity analysis of financial liabilities

The table below analyses CFH's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows. The contractual undiscounted amounts are equal to the carrying amounts.

	Less than 6 Months $	Between 6 Months and 1 Period $	Between 1 and 5 Periods $
2010			
Creditors and other payables (note 9)	1,379,893	-	-
2011			
Creditors and other payables (note 9)	3,194,565	-	-

21. Capital management

CFH's capital is its equity, which comprises accumulated funds and share capital. Equity is represented by net assets.

CFH is subject to certain financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions in relation to borrowings and issuing guarantees and indemnities.

CFH manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments and general financial dealings to ensure CFH effectively achieves its objectives and purpose, whilst remaining a going concern.

22. Equal employment opportunities

CFH places high importance on attracting skilled staff in order to deliver on the Government's UFB Objective. As a result CFH has put in place policies that ensure CFH is a "good employer" that provides equal employment opportunities (EEO). There are six areas on which CFH is focusing in order to ensure it is a "good employer" (based on guidance from the EEO Commissioner). Some of these are less relevant at this stage of CFH's development given that CFH is a relatively young company with fewer than 20 full-time employees:

1. **Leadership, accountability and culture:** All job descriptions are consistent with EEO principles and there is no gender or ethnicity bias with a genuine EEO culture.
2. **Recruitment, selection and induction:** CFH has recruited a number of executives through a variety of means, including industry networks, recommendations and recruitment companies. All staff have been treated under an EEO framework that includes logic reasoning and psychometric testing.
3. **Employee development, promotion and exit:** CFH encourages employee development and promotion. It is expected that with the completion of the ITP process, the establishment of the LFCs and the agreement with Telecom the structure of CFH will evolve to meet the new requirements being placed on it and as such will create development opportunities for staff.
4. **Remuneration, recognition and conditions:** CFH has a gender-neutral remuneration policy. Remuneration is market based and includes a small incentive scheme that is designed to reward employee contributions (regardless of race and gender).
5. **Harassment and bullying prevention:** CFH has a zero-tolerance approach to all forms of harassment and bullying. CFH has policies in place to deal with harassment complaints should they arise.
6. **Safe and healthy environment:** CFH is in the process of developing policies that are designed to encourage staff participation in health and safety. All staff are treated with respect regardless of sexuality. Staff are encouraged to take regular holidays and there are policies in place to help staff deal with stress-related complaints if necessary.

23. Explanation of significant variances against budget

Statement of comprehensive income

There were no significant variances to budget, with CFH having a full-year result that is 5% below and favourable to budget. The key drivers behind the variance were a tight control of costs and a longer-than-anticipated ramp-up in CFH's operations owing to the ITP process taking longer than expected.

Statement of financial position

There are no significant variances to budget.

Statement of changes in equity

The lower-than-budgeted deficit flowed directly into the statement of changes in equity. At 30 June 2011 CFH has lower expenditure than budget, resulting in higher equity.

Statement of cash flows

There are no significant variances to budget.

Directory

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Minister for State Owned Enterprises (Hon Tony Ryall)

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Auditor
The Auditor-General pursuant to section 15 of the Public Audit Act 2001. Clare Helm of Audit New Zealand was appointed to perform the audit on behalf of the Auditor-General.

Solicitor
Bell Gully

Banker
Westpac Banking Corporation

Senior Management
Graham Mitchell, Chief Executive Officer
Philip Campbell, Planning Director
Rhys Clark, Finance Director
John Greenhough, Chief Technical Officer
Rohan McMahon, Strategy Director
Kathryn Mitchell, General Counsel
Tony Pigou, Project Manager
Sean Wynne, Chief Commercial Officer