



CROWN FIBRE HOLDINGS LIMITED

Statement of Intent

July 2014 – June 2018

June 2014



Presented to the House of Representatives

pursuant to the Crown Entities Act 2004

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1. Introduction

This Statement of Intent (**SOI**) is submitted by the Board of Directors of Crown Fibre Holdings Limited (**CFH**), pursuant to the Crown Entities Act 2004 and setting out CFH objectives and intentions from 1 July 2014 to 30 June 2018.

During this period, Ultra-Fast Broadband (**UFB**) will become increasingly common in our cities and towns. As at March 2014, UFB was available to just under one in three urban premises nationwide. By June 2018 this is expected to rise to around five in every six urban premises, including all schools and public hospitals, as well as nearly all businesses.

We expect to see increasing numbers of New Zealanders benefiting from this highly advanced technology, as are the early adopters described on page 6.

Schools already use UFB to engage students with e-learning and digital literacy programmes. Health facilities are allowing patients to book appointments online, access patient records remotely and conduct medical consultations via the internet.

Businesses stand to benefit greatly from the increasing availability of UFB. A study by Sapere Research¹ in March 2014 showed that productivity improvements through increased internet usage could deliver \$34 billion in value to New Zealand. Companies may use UFB to cut costs (for example, by putting data storage and applications “in the cloud”), increase revenues by online sales and marketing, reduce cycle times in the supply chain, improve business resilience or even offer a better work-life balance for busy employees.

CFH looks forward to continued progress with UFB deployment and an ever-increasing number of broadband users choosing UFB, in order to maximise its benefits to New Zealand.

CFH is responsible for the statements contained in this document, including the appropriateness of the underlying assumptions.



Simon Allen
Chair
5 June 2014

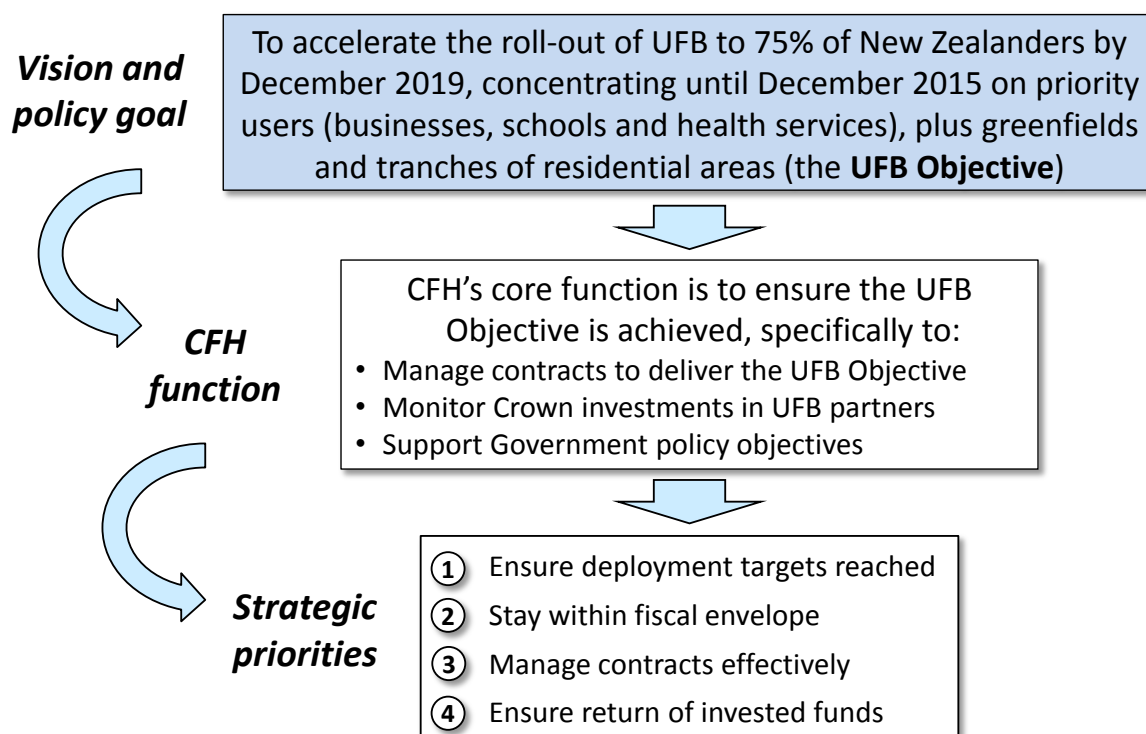


Keith Tempest
Director
5 June 2014

¹ Available at <http://www.innovationpartnership.co.nz/>, supported by Google and Internet NZ.

2. CFH vision, function, strategic priorities and scope

2.1 CFH vision, function and strategic priorities



2.2 The scope of CFH

CFH will:

- Deliver on the UFB Objective²;
- Operate in a financially sustainable manner within its fiscal funding envelope, the sum which it may invest with its Co-Investment Partners³ (**Partners**), being \$1.345 billion;
- Begin investing without providing a commercial return to the Crown; and
- When directed by its shareholding Ministers and the Minister for Communications and Information Technology, provide a commercial return on the Crown's investment.

² For the purposes of the UFB initiative, UFB means a broadband service making available a minimum uncontested 100 megabits per second (Mbps) downstream (from the internet to the user) and 50 Mbps upstream (from the user to the internet), capable of being upgraded to 10 times these speeds.

³ Co-Investment Partners and Local Fibre Companies (**LFCs**) and their relationships with CFH are described in Appendix 1.

3. The benefits of better broadband:

UFB is a technology infrastructure enabling a range of benefits for broadband users such as businesses, schools, health facilities and households. Key benefits which UFB can enable include productivity improvements, business innovation and improved health and education outcomes. Outlined below are some examples of each user group, illustrating potential improvements enabled by UFB.

Broadband user:

Before UFB:

With UFB:

Businesses:

Kevin Dore
Dominion Flooring
Christchurch



- Slow broadband constrained business
- Traditional tape measures
- Legacy servers & data storage
- Challenge to retain staff post-earthquake

- Rapid turnaround of tenders
- Measurement with digital lasers
- Cloud-based apps
- Higher staff retention

Schools:

Freemans Bay School
Auckland



- Legacy broadband could not meet demand
- Challenge to integrate online world into pedagogy

- Cloud-based e-learning & data storage
- Improved learning outcomes
- Increased student engagement
- Parents can access student portfolios

Health:

Dr Aniva Lawrence
GP
Whangarei



- Newly opened site
- Required practice management & clinical services across locations

- Improved practice management across multiple sites
- Video conferencing to remote clinics

Households:

Paula Penfold
Journalist
Auckland



- Limited broadband speed and reliability issues
- Challenging to work with large media files at home

- Fewer 'drop outs'
- Improved working from home
- Better streaming of movies etc.
- Lower telecommunications costs

4. Key strategies and actions

Key strategies and actions to achieve the outcome for which CFH is accountable, that is, delivering the UFB Objective within its fiscal envelope, are:

- Monitoring the performance of contracts with Partners as they relate to investment, quality and timeliness of UFB deployment, and delivery of the agreed UFB products.
- Agreeing annual deployment plans with Partners to ensure the UFB Objective is achieved and the coverage target for priority users (such as schools and businesses) is met⁴; monitoring implementation of such plans to meet agreed targets; and should these targets not be met, taking appropriate action.
- Matching investment to progress of the UFB build and, where applicable, ensuring funds through the sale of CFH shares⁵ in LFCs to Partners are realised.
- Monitoring its cashflow and accordingly providing up-to-date forecasts to Treasury and Ministers when capital calls are required.
- Managing CFH so as to avoid waste, increase efficiency and reduce future costs.
- Simplifying and automating UFB processes to increase the efficiency of the overall UFB project and reduce CFH costs from activities such as User Acceptance Testing (**UAT**), the final testing of each UFB network stage, and payments to Partners.
- In the event that CFH receives requests to make, or initiates, changes to the contracts with Partners which involve policy issues or may impact fiscal parameters, engaging with Ministers, the Treasury and the Ministry of Business, Innovation and Employment before agreeing to any such changes.

In addition to implementing the UFB Objective, CFH has a clear, but limited, role in encouraging users such as households and businesses to connect to UFB, including:

- Working with Partners to plan to achieve the coverage target for priority users.
- Encouraging Chorus and LFCs to interact with local Government around UFB deployment, and with central Government stakeholders as appropriate.
- Encouraging discussions among Chorus, LFCs and other utility providers to achieve efficiencies in relation to UFB deployment.
- Generally promoting UFB by interacting with industry groups, Retail Service Providers (**RSPs**) that provide retail telecommunications services to end users, and other stakeholders, to build awareness of UFB and the opportunities it may create.

⁴ Priority users are businesses (of any size, including private-sector health providers), schools (including state, state-integrated and independent schools) and health-service providers (hospitals and significant health-care provider sites, for example emergency and medical centres, and radiologists). The target is to make UFB available to 100% of schools and urban public hospitals, and at least 90% of businesses (including health facilities), by December 2015.

⁵ CFH contracts with two Partners, Northpower and Waikato Networks Limited, provide for the Partner to purchase from CFH its shares as the respective LFC connects end customers to the network with an agreed pricing mechanism.

5. CFH performance targets

CFH performance targets and measures through to 2018 include specific goals for deployment of the UFB infrastructure, as well as financial and operational efficiency, as set out below.

5.1 UFB deployment

As mentioned, achieving the UFB Objective within the fiscal envelope is CFH's key accountability, in particular ensuring that the UFB network is deployed on time and in line with the Government's policy requirements.

Progress towards the UFB Objective is regularly measured in terms of:

- Number of premises handed over by Partners to CFH or the applicable LFC for UAT;
- Progress towards achievement of the coverage target for priority users;
- Number of end users (such as households) able to connect to UFB; and
- Overall, the percentage of the UFB Objective which has been completed.

As at 31 March 2014, more than 420,000 end users were able to connect to UFB, reflecting investment by CFH of around \$356 million with Partners for completed UFB network stages. At that time, 30% of the overall UFB initiative was complete, with coverage to businesses and schools 59% and 79% respectively. This represents steady progress since full-scale UFB deployment commenced in fiscal 2012.

UFB deployment is expected to continue at rates broadly similar to those in fiscal 2013 and 2014. CFH forecasts suggest that coverage to each group of priority users will meet the Government's target by December 2015, after which the focus of Partners will be on deployment to residential suburbs, adjacent greenfields areas and any remaining priority users. The period up to fiscal 2018 is expected to see the UFB build completed (excluding any incremental greenfields stages) in approximately 21 of the 33 towns and cities that were candidate areas for UFB at the outset⁶.

A more detailed view of CFH deployment forecasts is shown in Appendix 2.

5.2 Financial and operational efficiency

Each year the CFH Board, in conjunction with its shareholding Ministers and the Minister for Communications and Information Technology, plans the future resourcing levels of CFH, depending on:

- Progress made towards achieving the UFB Objective;
- The performance of Partners in meeting obligations under CFH contracts; and
- The degree to which Crown investment is actively monitored, based on the current level of risk and the level of support required by the Government.

⁶ Candidate areas are the towns and cities eligible for UFB under Government policy, selected on the basis of Statistics New Zealand's 2021 population projections, to ensure the UFB Objective of 75% population coverage by December 2019 is met.

Over the next four years, CFH will continue to reduce operational expenditure. Some activities will be completed, while others (for example, commercial and contractual management of Partners) will become less onerous, or automated (for example, UAT processes). In consultation with Government, CFH may also determine that some functions are no longer required or can be performed more effectively by other Government agencies.

Details of CFH forecasts and financial statements are provided in its Statement of Performance Expectations (**SPE**) for the current and upcoming fiscal years. CFH also expects to see steady improvements in its operational efficiency. The ratio of operational costs to its annual investment in UFB infrastructure is expected to decline from 4% to 2% over this period.

6. Monitoring performance targets of Partners

To ensure contractually agreed levels are met, CFH monitors the operational and service performance of Partners as below. Falling outside CFH key performance indicators, such measures are regarded as non-reportable outputs for the purposes of CFH's SPE for the financial year 2015. However, progress against such targets is included in the CFH Annual Report to advise on UFB operational performance.

6.1 UFB service performance

Partners are responsible for meeting service performance targets agreed with CFH, including metrics tracking Partners' ability to provision new UFB services within agreed timeframes (four business days for standard residential connections, six for standard business connections or alternative dates as agreed with end users). Partners' timeframes for restoration of any outages are also measured, as is each Partner's technical performance using metrics such as frame loss (a measure of data loss between two specified points). As well as high-quality minimum performance, each LFC, as well as Chorus, also offers enhanced service levels with improved performance guarantees.

6.2 Occupational Health and Safety (OSH)

CFH will ensure its compliance with obligations under the Health and Safety in Employment Act 1992. CFH encourages its Partners to focus on OSH matters and benchmarks the Partners' performance against key safety measures, such as the Total Recorded Injury Frequency Rate.

7. Organisational health and capability

7.1 Capability development

CFH will:

- Maintain and increase the capability of its people and the quality of its systems;
- Ensure that services delivered are as cost-effective as possible;
- Ensure its capital spending supports essential capability development;
- Aim to achieve high levels of staff engagement;
- Aim to operate with reliable and cost-effective technology;
- Provide a safe environment for staff; and
- Maintain sound financial and governance systems.

7.2 Capability development

CFH operates with a rigorous approach to risk management, which includes a regularly updated register of risks to the delivery of its goals, managing these through an agreed management process, and oversight from the Board's Audit and Risk Committee as described in Section 8.3.

7.3 Ensuring CFH is a good employer

The successful achievement of the UFB Objective depends on adequate capability in a number of areas, including those relating to technical, commercial, financial and investment expertise. It is important that CFH attracts and retains skilled staff, is a good employer and offers an attractive place to work. Consistent with the *State Services Commission Guidance on Expectations for Pay and Employment Conditions in the State Sector*, CFH employer policies also aim to ensure that the company respects its equal-opportunity responsibilities.

7.4 Measuring progress

CFH will measure its progress in developing its capability by:

- Aiming to achieve as a minimum "Good" ratings (in accordance with the Audit NZ ESCO [environment, systems and controls] assessments) from audits of its management controls;
- Regularly reviewing its progress and priorities with its shareholding Ministers and the Minister for Communications and Information Technology; and
- Flexible allocation of resources to address changing requirements.

8. Governance

8.1 Organisation form

Incorporated in 2009 under the Companies Act 1993, CFH is a Crown-owned company, listed under Schedule 4A of the Public Finance Act 1989 and subject to the Crown Entities Act 2004, the Official Information Act 1982 and the Ombudsmen Act 1975. Its shareholders are the Minister of Finance and the Minister for State Owned Enterprises, who each hold 50% of the issued share capital. Aiming to provide services to the public rather than make a financial return, CFH has accordingly designated itself a public-benefit entity.

8.2 Board of Directors

Following its established policy of strategic planning, sound procedures and regulatory compliance, the Board is committed to a high standard of corporate governance in guiding and monitoring the business. Responsibility for CFH's operation and administration is that of the Chief Executive, who is accountable to the Board, which is made up of six non-executive Directors appointed by shareholding Ministers, following Cabinet approval.

8.3 Board committees

To help Directors carry out their duties and fulfil their responsibilities, the Board has two standing committees:

- The Audit and Risk Committee provides recommendations, counsel and information on accounting, reporting, risk management and responsibilities under legislation. Its Terms of Reference also cover the role of internal audit.
- The Remuneration Committee provides advice and recommendations on remuneration and human resources policies for CFH.

8.4 Consultation with Ministers

CFH expects to continue regular liaison with key officials and to engage with shareholding Ministers and the Minister for Communications and Information Technology as required. In particular, CFH will consult with its shareholding Ministers and the Minister for Communications and Information Technology on any matters involving Government policy and any substantial matter not contemplated in this SOI or annual SPE.

8.5 Crown Entities Act requirements

CFH is subject to various sections of the Crown Entities Act, including the following:

- Section 100 requires CFH to provide shareholding Ministers with advance notice of its intended investments during each financial year;
- Section 133 requires the Board to supply to its responsible Ministers any information relating to its operations or performance as requested by Ministers;
- Section 134 details good reasons for refusing to supply such information;
- Sections 139 and 150 require preparation of an SOI and Annual Report;
- Sections 149C and 149E require CFH to table an SPE outlining its reportable outputs and the intended achievement of each;
- Sections 154–156 relate to the preparation of the annual financial statements;
- Section 158 relates to bank accounts; and
- Sections 162 and 163 prohibit borrowing and restrict guarantees and indemnities.

8.6 Other statutory requirements

Under the Public Audit Act 2001, the Controller and Auditor-General is the auditor of CFH.

9. CFH Policies

9.1 Dividend policies

As set out in its Constitution, CFH is not expected to return any profit, distribution or dividend to the Government until the UFB Objective has been achieved.

9.2 Acquisition policies

The role of CFH necessitates regular investments in Chorus and LFCs for the completed UFB network, as described in Appendix 1.

Appendix 1: UFB investments and Co-Investment Partners

In 2010 and 2011, CFH agreed contracts with four Partners, as listed below, to invest in UFB infrastructure, in order to achieve the UFB Objective.

- Northpower Limited (**Northpower**) covering Whangarei, which in May 2014 became the first UFB candidate area in which fibre deployment has been completed;
- Waikato Networks Limited (**WNL**) – owned 85% by WEL Networks Limited and 15% by Waipa Networks Limited – covering Hamilton, Cambridge, Te Awamutu, Tauranga, Tokoroa, New Plymouth, Hawera and Wanganui;
- Christchurch City Holdings Limited (**CCHL**) – via subsidiary Enable Services Limited (**ESL**) – covering Christchurch, Rolleston, Rangiora and satellite towns; and
- **Chorus** Limited – a company listed on the NZX, covering Auckland, Waiheke Island, Pukekohe, Waiuku, Rotorua, Taupo, Whakatane, Gisborne, Napier, Hastings, Palmerston North, Feilding, Masterton, Kapiti, Levin, Wellington, Nelson, Blenheim, Greymouth, Ashburton, Timaru, Oamaru, Dunedin, Queenstown and Invercargill.

LFCs

CFH and its Partners have established three LFCs, which are constructing and operating UFB in their own contracted coverage areas. CFH has shareholdings in, and is represented on, the Board of each LFC, reflecting the level of its investment in each company. The LFCs, independent Chairs and CFH-appointed Directors are:

- Northpower Fibre Limited, with Northpower Limited. The independent Chair is Jo Brosnahan; CFH-appointed directors are Graham Mitchell (CFH Chief Executive) and Sean Wynne (CFH Chief Commercial Officer);
- Ultrafast Fibre Limited (**UFF**), with WNL. The independent Chair is Rodger Fisher; CFH-appointed directors are Graham Mitchell, Sean Wynne and Danelle Dinsdale (CFH Board member); and
- Enable Networks Limited (**ENL**), with CCHL via ESL. The independent Chair is Tim Lusk; CFH-appointed directors are Graham Mitchell, Sean Wynne and Murray Milner (CFH Board member).

Deployment drives the CFH level of investment in the LFCs, with each LFC purchasing completed UFB network from the applicable Partner, based on an agreed cost per premises passed with UFB (or ducting capable of having fibre optic cable inserted on demand from an end user). CFH in turn funds the LFC's purchase of each stage by subscribing for "A" shares which carry full voting rights, but no dividend rights until 10 years after the LFC's establishment.

The Partner is required to fund the cost to connect premises, the electronics which "light" the fibre, Ethernet aggregation switches and operational costs. In return the Partner generally receives "B" shares, which carry full dividend rights, but no voting rights until 10 years after the LFC's establishment. All A and B class shares in each LFC convert to ordinary voting dividend entitlement shares 10 years after the incorporation of the LFC. At the end of the concession period, CFH can sell its shares in each LFC, with a first offer to the respective Partner.

Chorus Limited

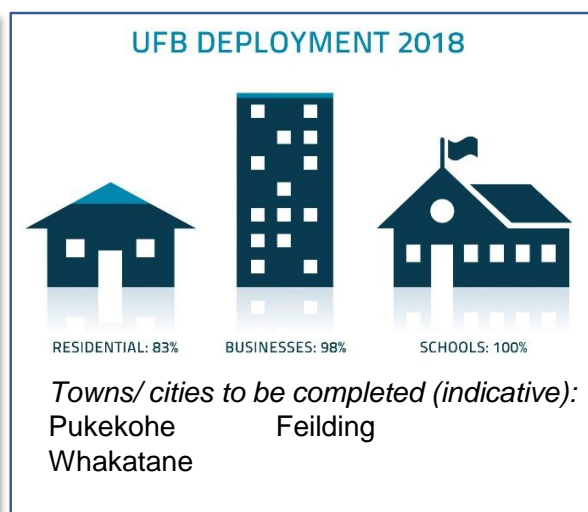
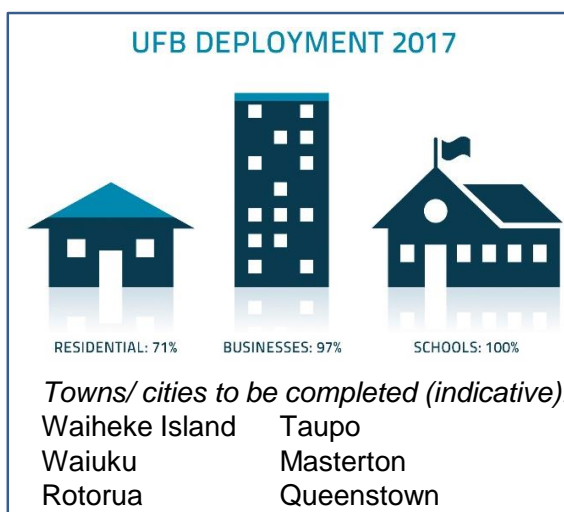
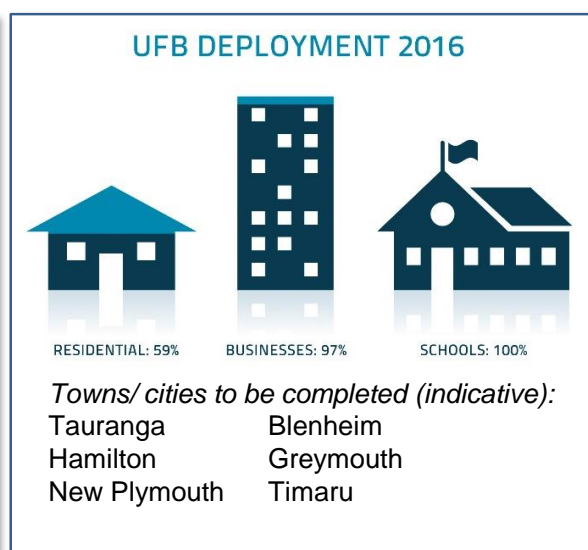
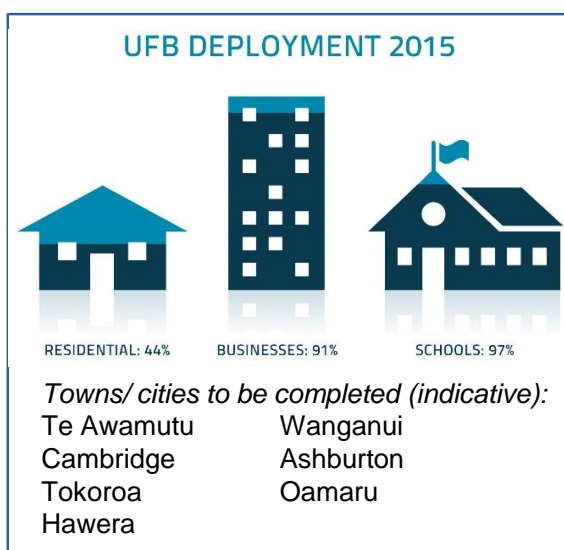
Chorus is deploying UFB in 24 candidate areas throughout New Zealand, with the fibre network to pass over 830,000 premises. CFH is investing directly in Chorus, an investment structure differing from the LFC model. CFH will invest up to \$929 million in Chorus, essentially via a 50:50 mix of debt and equity securities, again based on an agreed cost per premises passed with UFB fibre. As with the LFCs, Chorus funds the costs to connect end users, the electronics which "light" the fibre and operational costs. In the case of Chorus, the debt and equity securities hold redemption events, which will likely be triggered from 2025 to 2036 at face value.

Appendix 2: Expected progress of UFB deployment

Table 1: UFB coverage:

| Financial Year | Fiscal 2015 | | Fiscal 2016 | | Fiscal 2017 | | Fiscal 2018 | | Fiscal 2020 |
|---|--------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|---------------------|---------------------------------|
| | To June 2015 | | To June 2016 | | To June 2017 | | To June 2018 | | To December 2019 |
| <i>Premises (thousands)</i> | Plan | % Project Completed | Plan | % Project Completed | Plan | % Project Completed | Plan | % Project Completed | Estimated Total Premises Target |
| Total Priority Premises (Business, Schools, Hospitals) | 91 | 91% | 97 | 97% | 97 | 97% | 98 | 98% | 100 |
| Greenfields | 12 | 19% | 22 | 34% | 35 | 55% | 47 | 73% | 64 |
| Residential | 447 | 44% | 593 | 59% | 715 | 71% | 831 | 83% | 1,006 |
| Total Premises | 550 | 47% | 711 | 61% | 847 | 72% | 973 | 83% | 1,170 |
| Estimated End Users Able To Connect (thousands) | 647 | 48% | 812 | 61% | 970 | 72% | 1,115 | 83% | 1,340 |

Each premises is a single building or structure located on a defined geographical site (as evidenced by a certificate of title), which has a unique physical address recognised by New Zealand Post and is occupied by, or could readily be occupied by, a potential end user or users. To clarify, a multi-tenanted building, such as an apartment block or office building, constitutes a single premises for the purposes of the CFH funding of its Partners.



Note: Whangarei was completed in 2014. The remaining 12 centres (Auckland, Gisborne, Napier-Hastings, Palmerston North, Kapiti, Levin, Wellington, Nelson, Rangiora, Christchurch, Dunedin and Invercargill) will be completed by the end of calendar year 2019 or earlier.

Appendix 3: UFB coverage areas and Partners

