CROWN FIBRE HOLDINGS LIMITED

ANNUAL REPORT

FOR YEAR ENDED 30 JUNE 2014

Crown Fibre Holdings

Ultra-fast broadband for New Zealanders

Crown Fibre Holdings

WHAT WAS ACHIEVED

1st IN OECD FOR GROWTH IN FIBRE COVERAGE

26% OF NEW ZEALANDERS ABLE TO CONNECT

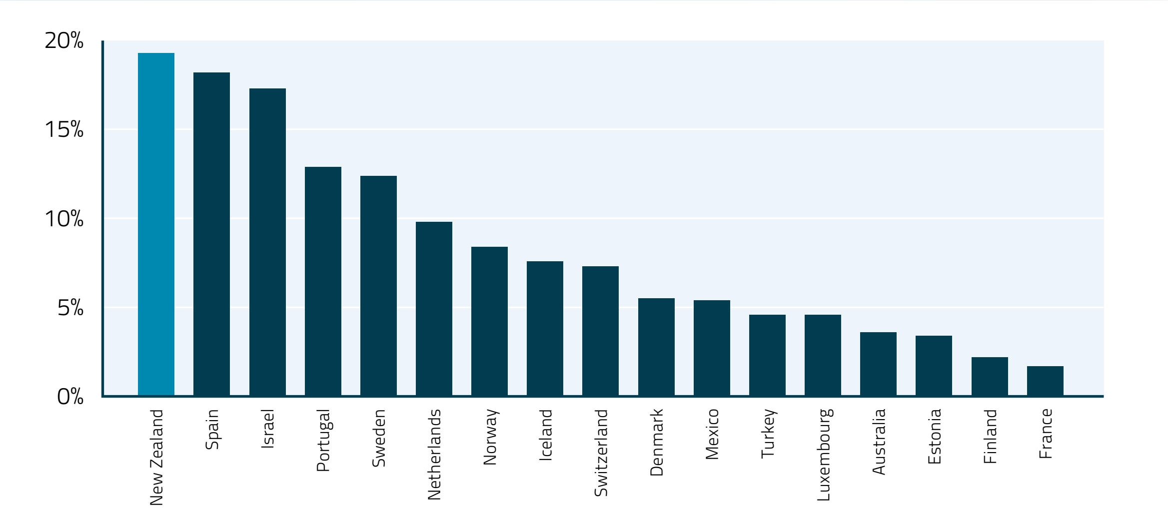
39,510 CUSTOMERS CONNECTED

77% OF BUSINESSES ABLE TO CONNECT

93% OF SCHOOLS ABLE TO CONNECT[1]

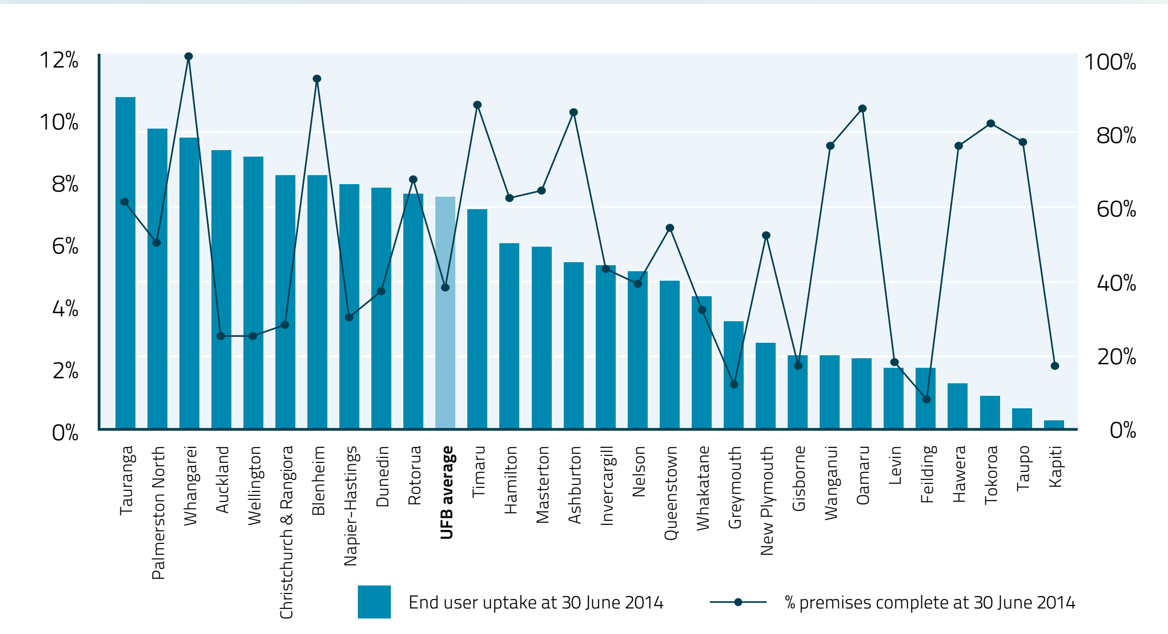
32/33 CANDIDATE AREAS WHERE FULL SCALE DEPLOYMENT HAS BEGUN

CHANGE IN FIBRE TO THE HOME/BUILDING COVERAGE FROM 2012 TO 2013



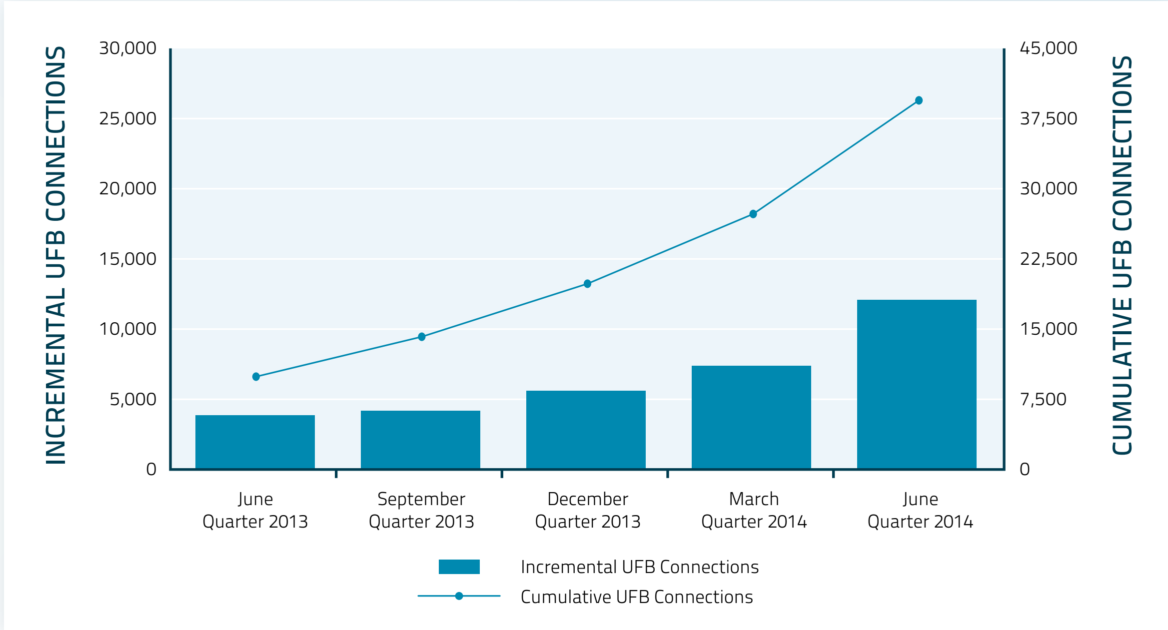
Source: IDATE for Chorus, July 2014

DEMAND IS STRONGEST IN THE LARGER CITIES



The Auckland region includes four Candidate Areas: Auckland, Waiheke Island, Pukekohe and Waiuku. The Hamilton Candidate Area includes Te Awamutu and Cambridge. Christchurch and Rangiora are two separate Candidate Areas. Figures for these two areas exclude new growth.

CONNECTIONS IN THE FINAL QUARTER ALMOST TRIPLED THOSE IN Q4 2013



PRIORITY USERS A FOCUS IN DEPLOYMENT

32% OF HOMES ABLE TO CONNECT

77% OF BUSINESSES ABLE TO CONNECT

93% OF SCHOOLS ABLE TO CONNECT

[1] This excludes those already fibred outside the UFB initiative.

THE INTERNET IS A CRITICAL ENABLER FOR EVERYTHING STUDENTS DO - JUST AS TEXTBOOKS AND BLACKBOARDS USED TO BE.

REPORT OF THE CHAIR AND CHIEF EXECUTIVE OFFICER

IT IS PLEASING TO REPORT THAT THE ULTRA FAST BROADBAND (UFB) INITIATIVE EXCEEDED ITS DEPLOYMENT TARGET THIS FINANCIAL YEAR, WITH THE PROJECT NOW 38% COMPLETE, ACHIEVING 26% POPULATION COVERAGE. THIS RESULT WAS DELIVERED WITHIN CROWN FIBRE HOLDINGS LIMITED'S (CFH) FISCAL ALLOCATION FOR THE YEAR.

According to international research firm IDATE, New Zealand's growth in terms of households covered by UFB (fibre to the premises[1]) in the past year has been the fastest in the Organisation for Economic Co-operation and Development (OECD) – a truly excellent result and a tribute to the efforts of CFH's Co-Investment Partners[2] (Partners). It is encouraging to see customer demand for UFB services increasing strongly, with all major Retail Service Providers[3] (RSPs) now offering UFB. The number of connections added in the final quarter came close to tripling those during the same period in 2013.

DEPLOYMENT

The deployment goal of 389,000 premises was passed ahead of time. By 30 June, more than 420,000 premises represented 517,000 end users (households, schools and businesses) able to connect, due to a strong effort by all Partners. The completed coverage of Whangarei by Northpower Fibre Limited (NFL) made that city the first in Australasia in which every end-user can connect to fibre optic broadband – an achievement of which NFL, Whangarei District Council and the local community can be justly proud. To mark the milestone, NFL, along with the information and communications technology industry and local stakeholders, led a highly successful promotional campaign, spearheaded by a UFB experience centre demonstrating applications and services. Subsequently UFB orders in Whangarei grew to more than four times the previous monthly average.

Waikato Networks Limited (WNL) tracked consistently above target all year. Enable Services Limited (ESL) advanced deployment in Christchurch, completing coverage in the satellite towns of Rolleston and Lincoln and commencing the build in Rangiora. CFH's largest Partner, Chorus, also exceeded its deployment targets, completing the coverage of most of Auckland's challenging central business district.

[1] A premise is a single building ie house, apartment block, high rise commercial building.
[2] Co-Investment Partners and their relationships with CFH are described on page 18.
[3] Retail service providers provide retail telecommunications services to end users.

Partners continued their focus on priority users, in line with the Government's policy objective to ensure UFB access for all urban schools and hospitals, and at least 90% of businesses by the end of 2015. The percentage of schools able to connect increased from 68% to 93% during the course of the year. Pleasingly, uptake amongst schools with UFB access already exceeds 60%, the highest of any customer segment. Six months after the Network for Learning[4] (N4L) launched over UFB in December 2013, almost 280 schools in UFB areas were connected to its managed network.

In addition to Whangarei where work was finished, 17 towns and cities saw half or more of their UFB roll-outs completed this year. Te Awamutu, Cambridge, Tokoroa and Oamaru were substantially advanced and by this December, the build will have also ended there. Full-scale deployment got underway in smaller towns such as Waiuku, Pukekohe, Feilding and Greymouth. In Waiheke, where schools can already connect, the build to households and businesses will start by the end of this calendar year.

CONNECTIONS

The extent of UFB availability over an increased geographical area has significantly improved New Zealanders' access to high-speed broadband services. The two largest RSPs, Spark (formerly known as Telecom) and Vodafone, have progressively launched UFB services in more towns and cities and a retail UFB service can now be purchased in the 31 Candidate Areas[5] with UFB access. UFB connections quadrupled this year to nearly 40,000, while uptake more than doubled to 7.5%.

Competition among major RSPs has triggered attractive UFB offers for broadband customers, notably unlimited broadband plans. Chorus launched new products at lower prices with higher bandwidth, followed by tempting offers from Local Fibre Companies[6] (LFCs). At the end of the year, Ultrafast Fibre Limited (UFL) announced a 1 Gbps[7] service for residential customers. Spark, Vodafone, Sky Television, TVNZ, MediaWorks and Quickflix are also bringing innovative new online entertainment services to market.

MANAGING CONTRACTS AND MONITORING INVESTMENTS

During the year to 30 June 2014, CFH met its fiscal operating targets as set out in the Statement of Intent. Its net loss before fair value movements on UFB investments was $5.2 million, compared with a planned net loss of $6.9 million. CFH funding was by way of cash reserves of $74.5 million and a $200 million capital injection from the Crown in line with the budget for the fiscal year. CFH held cash investments on hand of $52.8 million at 30 June 2014, while additional interest income was derived from favourable rates and prudent cash flow management.

CFH's cumulative net loss, including fair value and UFB contributions, was $165 million, compared with a planned net loss of $153.6 million for the year. The variance reflects the exceeded deployment target and the timing of payments to build partners. Accelerated deployment saw increased CFH investment in Chorus and LFCs to the tune of $220.5 million, which funded UFB roll-out to more than 191,000 additional premises.

Fair value movements reflect the opportunity cost of providing UFB funding to Co-Investment Partners without receiving interest or dividends on the investment. This cost is described as the "UFB contribution" in CFH's statement of comprehensive income. Over time, the fair value movements will become positive as the interest or dividend free periods end and CFH approaches the point when it can realise the funds invested, less any shortfall in expected commercial returns. Please see Note 14 to the Financial Statements for more detail.

Further deployment plans were developed by Partners in consultation with CFH and external stakeholders. Service levels for UFB residential installations by Partners increased from 73.6% to 85.1%, due to improved operational capabilities and forecasting. Overall, UFB network availability was high and within target.

OUTLOOK FOR 2015

The principal goal this coming year will be to maintain the strong pace of deployment, with a particular focus on significantly advancing the roll-out to priority users. By 30 June 2015, CFH expects some 47% of the initiative to be completed, with UFB delivered past 550,000 premises, allowing around 647,000 end users to connect. During this period, Chorus and WNL are expected to complete the UFB build in several towns and cities. CFH forecasts that by December 2015, 90% of businesses, and all schools and public hospitals within the initiative will be able to receive UFB in line with the policy objective.

CFH wishes to thank all who have supported the UFB initiative this year, whether as Partners, stakeholders, RSPs or contractors. Maximising UFB for New Zealand is a team effort and CFH greatly appreciates the commitment, skill and ingenuity displayed by its Partners in delivering such pleasing results. It looks forward to achieving more milestones together and to seeing New Zealanders enjoy the productivity and the social and educational benefits that UFB can provide.

Simon Allen
Chair
4 September 2014

Graham Mitchell
Chief Executive Officer
4 September 2014

[4] The Network for Learning is a Crown-owned company operating a managed network for primary and secondary schools.
[5] 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.
[6] Local Fibre Companies and their relationships with CFH are described on page 18.
[7] 1 Gigabit, data transfer at the rate of 1 billion bits per second.

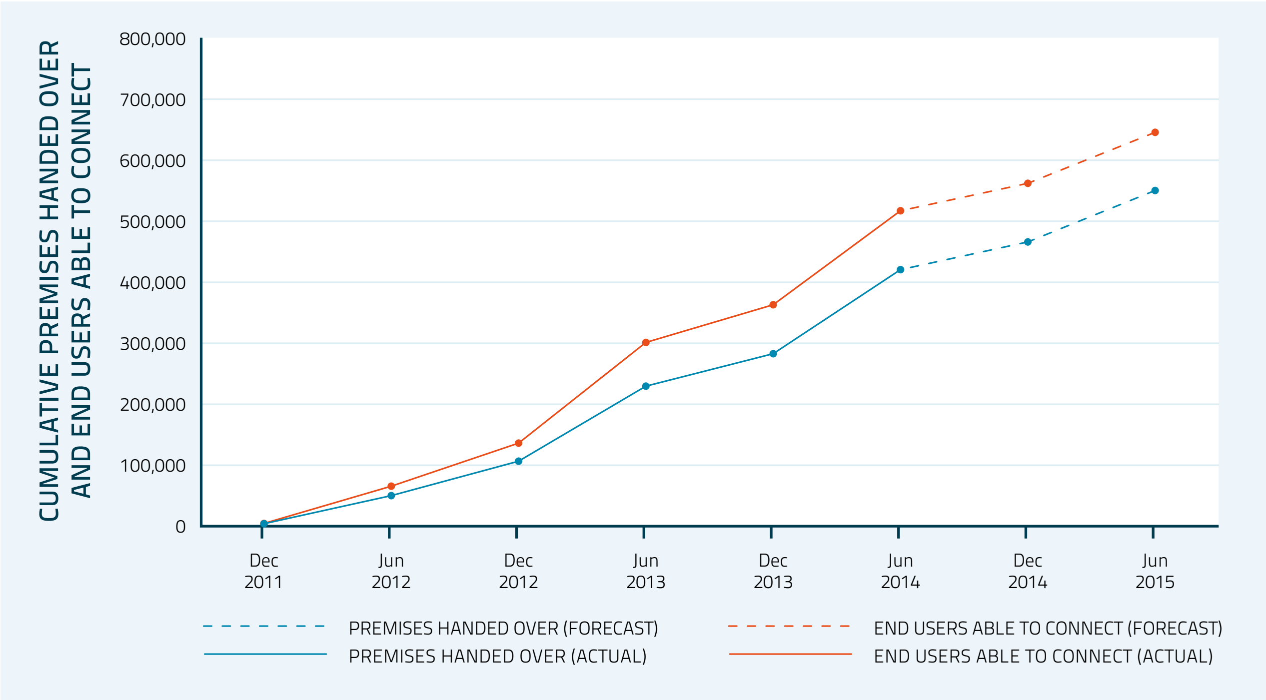
KEY PERFORMANCE INDICATORS

Two key aspects of CFH's contractual oversight of the UFB initiative are: to ensure that UFB coverage is achieved; and that Partners deliver on commitments to meet minimum service level requirements such as connecting customers on time.

UFB Deployment: CFH monitors performance of its Partners with regard to deployment progress and coverage targets under the UFB policy objective:

- **Deployment Performance against UFB Contractual Targets**
  Under the UFB contracts, CFH pays Partners on the basis of a premise passed. This measures the overall Partners' performance in meeting their contractual deployment targets. CFH's target as set out in its Statement of Intent was 388,873 premises passed by 30 June 2014. This goal was exceeded, with 420,650 premises passed, tested and available to the market.
- **Deployment Performance against UFB Policy Coverage Targets**
  CFH also measures end users capable of connection to record progress against Government policy objectives of 75% of the population covered by 2019 (households) and priority users (all schools and hospitals and 90% of businesses) by December 2015. By 30 June 2014 93% of schools and 77% of businesses were able to connect to UFB, with population coverage at 26%.

Figure 1: Premises passed and end users able to connect:



Service Performance: This is the performance of the LFCs and Chorus in connecting new end-customers to the UFB network, fixing customer faults, network availability and network performance. The performance is measured against set Service Level Agreements (SLAs) for priority and non-priority customers. Not all service measures are currently contractually in force, or where in force are not yet statistically significant.

Provisioning, faults and product performance SLAs are between the LFCs and Chorus, and their RSPs. Overall Layer 1 and 2 network availability SLAs are between the LFCs and Chorus, and CFH.

Table 1: Service Performance Measures:

	SERVICE	TARGET	ACTUAL
1	**Provisioning[1] per end user** ▪ Residential ▪ Business/Priority	▪ Within 4 business days ▪ Within 6 business days (or date & time as agreed with customer)	85.1% 76.8%
2	**Layer 2[2] performance per end user** ▪ Residential Restoration ▪ Business/Priority Restoration	▪ Within 12 hours	99.86%
3	**Layer 2 Network Performance per Candidate Area** ▪ Frame Loss[3] (99% of Frames) ▪ Frame Delay (99% of Frames) ▪ Frame Delay Variation (99% of Frames) ▪ Availability Time/Network	▪ No more than 0.1% ▪ No more than 5ms (milliseconds) ▪ Less than 1ms ▪ Less than 30 minutes or 99.99%	Not yet reported or incomplete data set.
4	**Layer 1[4] Performance per end user** ▪ Default Restoration ▪ Level 1 Restoration (Priority) ▪ Level 2 Restoration (Priority) ▪ Level 3 Restoration (Priority)	▪ Within 48 hours ▪ Within 24 hours ▪ Within 12 hours ▪ Within 8 hours	99.76% Not yet statistically significant
5	**Layer 1 Performance across all Candidate Areas** ▪ Average Downtime ▪ Minimum Availability	▪ No more than 2 hours ▪ At least 99.98%	Not yet statistically significant

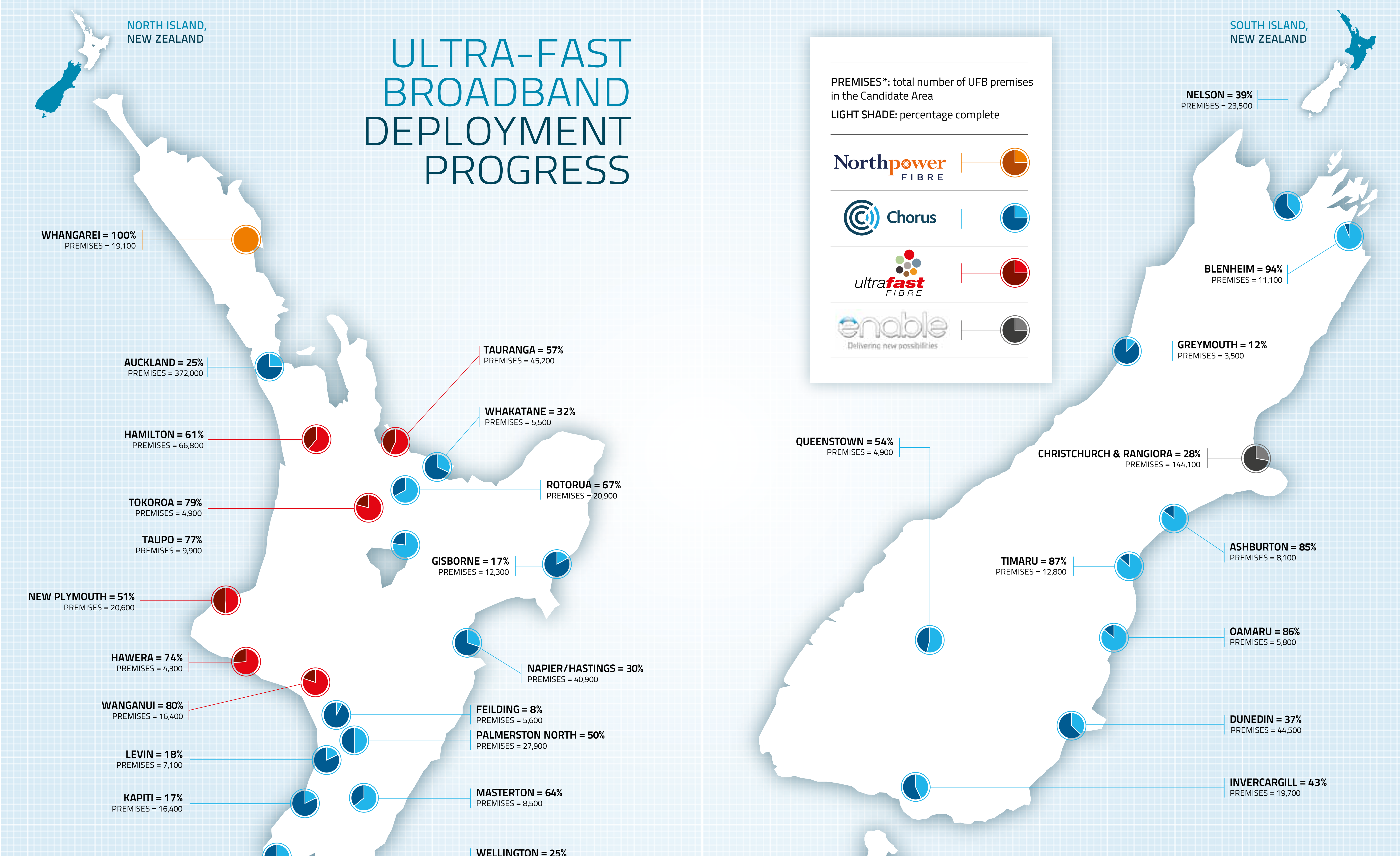
- **Provisioning per end user:** Business installations showed a marked improvement during the year with the adoption of improved systems and processes by the LFCs and Chorus. Residential installation SLAs improved from almost 75% in 2013 to 85%.
- **Layer 2 Performance per end user :** This measure represents the number of Layer 2 network faults repaired in compliance with the SLA. LFCs and Chorus reported that 99.86% of Layer 2 connection faults saw service restored within 12 hours. Note: Fault service levels for Layer 2 are measured independently of Layer 1.
- **Layer 2 Network Performance per Candidate Area:** This measures the average downtime per end customer across a Candidate Area, against targets for minimum network availability each year. These measurements will not be in force until there are either 3,000 premises connected per Candidate Area, or 20% uptake has been achieved. This threshold has not yet been reached in sufficient Candidate Areas for long enough to make this a meaningful measure. The average outage time per end user is dependent on having a large enough quantity of end users, such that a single event does not skew the results.
- **Layer 1 Performance per end user:** This measure represents the number of Layer 1 network faults repaired in compliance with the SLA. LFCs and Chorus reported that 99.76% of Layer 1 connection faults met the default restoration service levels. Note: The quantity of provisioned enhanced service levels is currently too small to be statistically relevant.
- **Layer 1 Performance across all Candidate Areas:** This measures the average downtime per end customer across all Candidate Areas, against targets for minimum network availability each year. These measurements will not be in force until there are either 3,000 premises connected per Candidate Area, or 20% uptake has been achieved. This threshold has not yet been reached in sufficient Candidate Areas for long enough to make this a meaningful measure.

Occupational Safety and Health (OSH): While ensuring coverage is achieved and service levels are delivered, CFH also complies with obligations under the Health and Safety in Employment Act 1992. It encourages its Partners to focus on OSH matters and benchmarks their performance against key safety measures such as the Total Recorded Injury Frequency Rate.

[1] Provisioning means installation and activation of a UFB service for an end user such as a household or business.
[2] Layer 2 of the Open Systems Interconnection (OSI), associated with active fibre optic network infrastructure.
[3] A measure of data loss between two specified points.
[4] Layer 1 of the OSI Model, associated with passive fibre optic network infrastructure.

ULTRA-FAST BROADBAND DEPLOYMENT PROGRESS

ULTRA-FAST BROADBAND DEPLOYMENT PROGRESS



The Auckland region includes four Candidate areas: Auckland, Waiheke Island, Pukekohe and Waiuku.
The Hamilton Candidate Area includes Te Awamutu and Cambridge.
Christchurch and Rangiora are two separate Candidate Areas.
* Premises figures are rounded and exclude new growth (greenfields sites) and the Christchurch Red Zone.

UFB A CATALYST FOR INNOVATION

In exceeding its targets this year, the UFB initiative has broken new ground both figuratively and literally. The rapid pace of build has been verified by international research company IDATE which confirms that in the two years to December 2013 New Zealand has risen from 26th to 14th in OECD rankings for the proportion of households with access to fibre.

Greater UFB availability has been driven by, and is the catalyst for, innovation on a number of fronts: construction, product development, marketing and usage.

Upon completion of a partly aerial build in Whangarei, NFL revealed its secret to saving time and money. Faced with a time-consuming journey to the ground each time a fibre joint was needed, Northpower developed its own weatherproof elevated platform allowing mid-air fibre splicing by technicians.

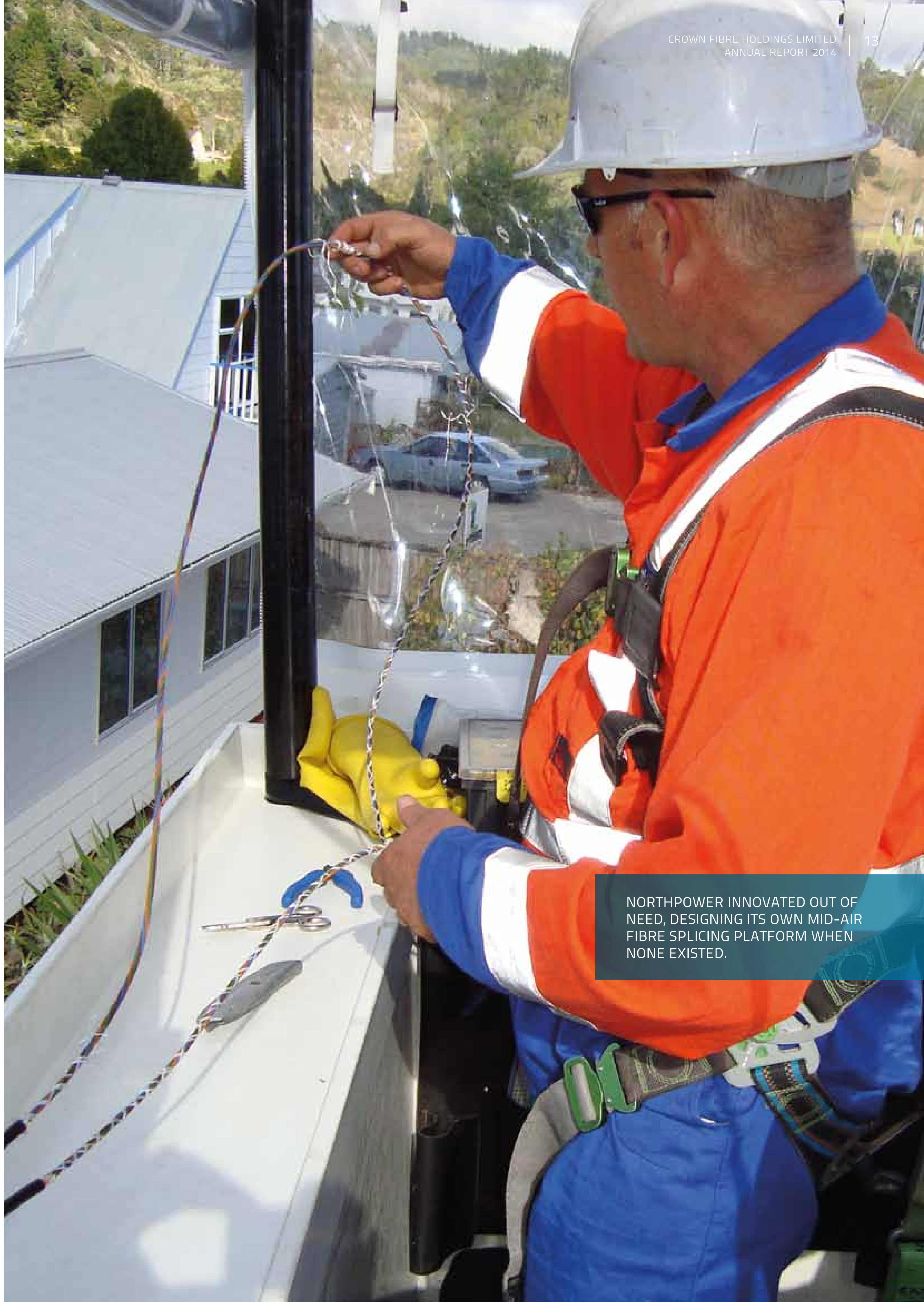
An expanding market has also stimulated innovation in products and pricing. CFH's largest Partner, Chorus, has released faster and cheaper 100 and 200 Mbps[12] services, while UFL is trialling 1 Gbps UFB to the home. RSPs have been on the move, too. Vodafone and Spark have announced TV-over-the-internet services. All-you-can-eat cloud gaming and integrated wifi products are emerging, and major RSPs have released new broadband plans without the constraint of data caps. Trustpower has expanded nationally with an "all utility" telephone, broadband, power and gas offer. Smaller RSPs, such as Snap and NOW, have extended their coverage footprints far beyond their traditional bases. Fibre-only, Singapore-based MyRepublic announced in January 2014 that it would sell UFB services in New Zealand.

UFB-related marketing has also been innovative. Chorus raised UFB awareness with thousands of New Zealanders participating in its Gigatown competition over social media. The idea has seen provincial towns vying with each other to receive gigabit services to the home at a concessional price. In Whangarei, young ICT-savvy "digital ambassadors" demonstrated relevant applications at a pop-up experience centre created to celebrate the completion of the UFB build.

Unexpected ways of using UFB have also come to light. In Christchurch, Dominion Flooring determines the size of carpets with digital lasers instead of tape measures, uploading floor plans over UFB. By conducting other such processes online, New Zealand businesses will extract greater economic benefit from the internet. Research for New Zealand's Innovation Partnership[13], supported by Google and Internet NZ, found that if low-internet company users switched to high use, productivity gains could be worth as much as $34bn.

With continued strong progress in UFB deployment in the first half of 2014, CFH expects to see New Zealand advance even further in IDATE's next OECD report. The challenge for businesses will be to realise the value of the potential economic benefits and innovation opportunities unleashed by UFB.

[12] Megabits per second, data transfer at a rate of 1 million bits per second.
[13] The Value of Internet Services to NZ Businesses, March 2014, Sapere Research Group.



NORTHPOWER INNOVATED OUT OF NEED, DESIGNING ITS OWN MID-AIR FIBRE SPLICING PLATFORM WHEN NONE EXISTED.

HOW FIBRE IS BEING USED

KARL MOEN: A BETTER, CHEAPER WAY TO KEEP IN TOUCH WITH FAMILY

CHRISTCHURCH, ENABLE, RESIDENTIAL

SKYPE IMAGES ARE CRISP AND CLEAR OVER UFB.

RETIRED COUPLE KARL AND PAM MOEN DECIDED TO SWITCH TO FIBRE BROADBAND FOR A BETTER CONNECTION EXPERIENCE AT A CHEAPER PRICE.

Their big motivator was keeping in contact with their relatives by Skype. They video call their family members in Melbourne on a regular basis, sometimes as often as once a day depending on what's going on.

"We used to find that after 20 minutes our connection would drop out, and when the kids in the neighbourhood came home from school the picture and sound quality got very poor," Karl says. "The quality with Skype on fibre is lovely. Our family are now so clear and they say the picture at their end is also better."

The bonus is that by choosing a 30/10 Mbps plan with a phone line included, Karl and Pam are now paying a lot less than previously. Download speed has been another big difference. Surfing the internet and downloading books and movies are faster over fibre broadband.

The bigger the files the more they've experienced the benefits. Attempts to download movies over their copper broadband were regularly aborted when they would take 48 hours to complete. The first weekend with UFB, Karl was delighted to download a high-definition movie at what he says was literally "a click of the fingers". It was so fast and easy he immediately downloaded another one.

Books are the content the couple most frequently access from the internet. Karl says his family bought him an iPad for his 70th birthday and since then there's been no looking back. Together, Karl and Pam now have eight internet-capable devices. And how does he support all that technology? "I'm the family's helpdesk at times," he says.

HOW FIBRE IS BEING USED

MASSEY PRIMARY: E-LEARNING DRIVING STUDENT ENGAGEMENT

AUCKLAND, CHORUS, EDUCATION

UFB LETS CHILDREN LEARN INDEPENDENTLY, AT THEIR OWN PACE.

MASSEY PRIMARY SCHOOL WAS THE FIRST IN NEW ZEALAND TO BENEFIT FROM THE MANAGED NETWORK BEING ROLLED OUT TO ALL SCHOOLS BY THE N4L.

This service provides predictable, fast internet connections over UFB, with network security and content filtering services to help schools create safe environments for their students. The school joined the network in November 2013 and found the students absorbed in their online studies from the outset. The children are able to learn independently, at their own pace.

Teacher Anna Hermann says the N4L connection is already making a big difference. Not only does it make internet access easier and faster, and prevent outages (a not-insignificant benefit in a room full of seven-year-olds), but more importantly it is a big help with the personalised learning programme she uses in her classroom, allowing the children to take charge of their own learning tasks. "Because so much of the work is visual, it caters for different learning styles and the students are more engaged and enthusiastic," Anna says.

Massey Primary was among the first to be chosen for an N4L connection, in part because of its vision around e-learning and commitment to effective pedagogy using the internet. The Board of Trustees is fully committed to resourcing both devices and the professional development of teachers. The school enrolled in a professional development programme at the end of 2012. A group of teachers worked with an outside e-learning facilitator on how to use digital technology and these teachers have been supporting the school's other staff in 2014.

Massey Primary Principal, Bruce Barnes says one of the most important steps in the school's journey towards digital learning was dismantling the school's IT room and distributing the computers throughout the school. Now computers aren't just something used to make students' work look good. Instead, the philosophy is of the internet as a critical enabler for everything students do – just as textbooks and blackboards used to be.

HOW FIBRE IS BEING USED

ATIHAU: FIBRE-POWERED FARM MANAGEMENT FROM HQ

WHANGANUI, ULTRAFAST FIBRE, BUSINESS

UFB AND WIRELESS DELIVER A "SINGLE BUSINESS" VIEW OF SEVERAL FARMS.

ATIHAU WHANGANUI INCORPORATION MANAGES AROUND 42,000 HECTARES OF MAORI LAND THAT HAS BEEN PROGRESSIVELY RETURNED TO WHANGANUI MAORI. THERE ARE EIGHT STATIONS FARMING SHEEP, CATTLE AND DAIRY, AS WELL AS FORESTRY INTERESTS.

Chief Executive Chris Scanlon says the aim is a fully integrated, "one-farm" operation – able to combine data from on and off the farm speedily to understand the state of the entire business at any given time.

Atihau uses a farm management system, Farm HQ, to support this, but needed better connectivity at head office and across the farms to communicate internally and make it work properly. So an in-farm wireless network was constructed, using 10 towers to deliver speeds of 5 Mbps to the farm managers' desktops. That's been connected to a 100/50 Mbps UFB service at the office in Whanganui.

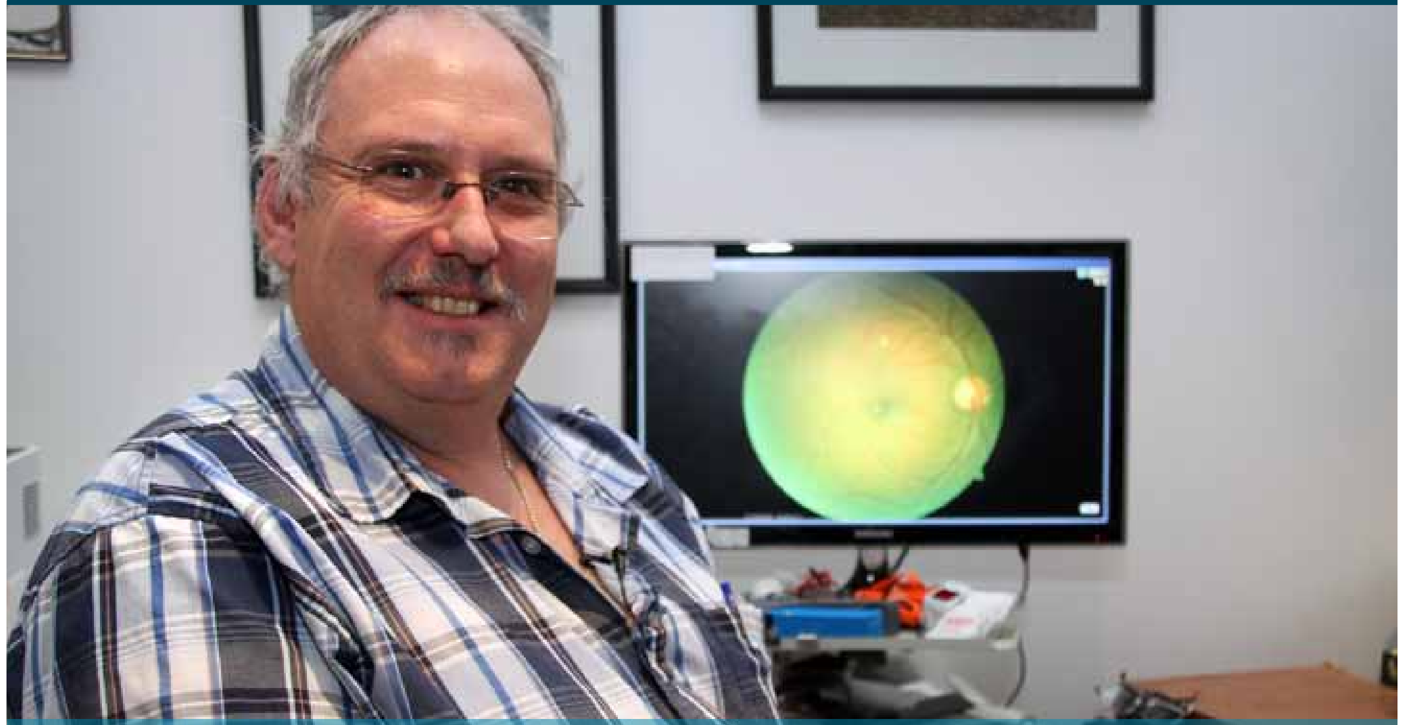
Ohorea Station Manager Rex Martin hated the old, slow system, which frequently crashed. "The worst thing for me was that on a wet day I'd want to be in the office, but then I couldn't do anything. I like to spend most of my time on the farm, and the office job is a chore for me, so I want it to be easy. It is now."

Rex's wife Lisa is a keen photographer. She's now able to email photos along with other large files through to head office so it has a visual record of weather events, construction and other developments. "Having ultra fast broadband has certainly sped this up and keeps everyone in the picture so to speak." The team back at HQ love the ease of communication for data gathering. Chris Scanlon says the advent of UFB has been really positive: "You have to embrace it. Make technology your friend - like we are".

HOW FIBRE IS BEING USED

EYE CARE: FASTER FOR THE DOCTOR, FASTER FOR THE PATIENT

WHANGAREI, NORTHPOWER FIBRE, HEALTH



SCREENING FOR EYE DISEASE IS FASTER AND MORE EFFICIENT WITH UFB.

DR DAVID DALZIEL IS THE CLINICAL DIRECTOR OF OPHTHALMOLOGY WITH THE NORTHLAND DISTRICT HEALTH BOARD. HE HOLDS EYE CLINICS IN WHANGAREI AND REGULARLY AROUND THE REGION.

His job includes checking for diabetic eye disease, a complication of diabetes where the retina is damaged. Untreated, it can eventually lead to blindness. David has been involved in a screening programme to reduce this risk.

The images from eye checks are all kept online, which means downloading large files. That was a hassle over the old copper connection. "It used to take so long to download images, you felt like you could go and have a cup of tea," says David. That's all changed with UFB. "Now it's much faster and makes my job so much easier and more efficient," he says.

Eye screening allows David to detect early signs of diabetic eye disease, even before the patient is aware of a problem. This allows timely intervention, saving people's sight. Before UFB was deployed to Kensington Hospital, the downloads took so long that David would sometimes take files over to the public hospital so he could read them. Now he can report back to patients between views, so they get their results faster and can in turn take action.

David says the health system is moving online and UFB is the way of the future. As well as the screening results, x-rays and blood test results have to be accessed remotely and he says ultra fast internet speeds are increasingly vital for clinicians to do their work properly.

Sometimes David's son pops in to the clinic after school. He's found there's a happy "technical side-effect" to hanging out with Dad at work. UFB delivers a seamless gaming experience while he waits... when Dad's not making him do his homework of course.

CO-INVESTMENT PARTNER PROFILE

NORTHPOWER LIMITED:

Northpower has expanded from a Northland owned and operated electricity distribution network to become one of the largest multi-utility contractors in New Zealand, with a reputation for excellence and innovation.

Northpower is the Co-Investment Partner with CFH in the LFC Northpower Fibre Limited (NFL), which is responsible for building the network in Whangarei, almost 2% of the nationwide UFB total.

- LFC Chair: Ms Jo Brosnahan
- LFC Directors: Mr Ken Hames (replaced Ms Nicole Davies-Colley, whose term ended during the year), Mr Mark Gatland (Northpower appointees); Mr Graham Mitchell, Mr Sean Wynne (CFH appointees).

WAIKATO NETWORKS LIMITED (WEL NETWORKS LIMITED AND WAIPA NETWORKS LIMITED):

WEL Networks provides electricity infrastructure, delivering energy to more than 84,000 homes, businesses and organisations throughout the Waikato region. Its network incorporates more than 5,100 kilometres of lines.WEL Networks, together with Waipa Networks (the electricity lines company serving Te Awamutu and Cambridge), formed Waikato Networks Limited (WNL).

In turn, WNL established the LFC Ultrafast Fibre Limited (UFL) in partnership with CFH. UFL is responsible for building fibre networks in the urban areas of Hamilton, Tauranga, Whanganui, New Plymouth, Tokoroa, Hawera, Cambridge and Te Awamutu. This represents around 14% of the entire UFB deployment.

- LFC Chair: Mr Rodger Fisher
- LFC Directors: Mr Mark Franklin, Mr Richard Prebble, Mrs Margaret Devlin (WNL appointees); Mr Graham Mitchell, Ms Danelle Dinsdale, Mr Sean Wynne (CFH appointees).

CHRISTCHURCH CITY HOLDINGS LIMITED:

Christchurch City Holdings Limited (CCHL) is the wholly owned investment arm of Christchurch City Council, holding shares in eight trading companies, including the Lyttelton Port Company, Christchurch International Airport and Orion (the local electricity lines company).

Enable Networks Limited is an LFC formed by Co-Investment Partner, Enable Services Limited (ESL, a subsidiary of CCHL) with CFH to build and operate the UFB network in Christchurch, Rangiora and surrounding areas, making up some 13% of the national build.

- LFC Chair: Mr Tim Lusk
- LFC Directors: Mr Mark Bowman, Mr Brett Gamble, Mr Owen Scott (CCHL/ESL appointees); Dr Murray Milner, Mr Graham Mitchell, Mr Sean Wynne (CFH appointees).

CHORUS LIMITED:

Chorus is New Zealand's largest telecommunications infrastructure company. Formerly a division of Telecom Corporation of New Zealand Limited (now Spark New Zealand Limited), it separated into an independent company in late 2011. Chorus is the largest of CFH's four Co-Investment Partners and is contracted to deliver UFB to more than 830,000 premises by the end of the decade, around 71% of the overall UFB initiative.

Chorus is not an LFC. Instead of a Board of Directors, CFH and Chorus have formed a Steering Committee to oversee Chorus's part of this initiative.

- Chorus UFB Steering Committee Independent Chair: Mr Gavin Walker
- Steering Committee members: Mr Andrew Carroll, Mr Mark Ratcliffe, Mr Keith Turner (Chorus appointees); Mr Jack Matthews, Mr Graham Mitchell, Mr Sean Wynne (CFH appointees).

BOARD OF DIRECTORS

DIRECTORS' PROFILES AND INTERESTS HELD

The following profiles include general disclosures of interest given by Board members pursuant to S140 (2) of the Companies Act 1993 and entered into CFH's interests register.

Mr Simon Allen (Chair) is a professional company director following a 20-year career as Chief Executive of BZW and ABN AMRO. He is Chairman of the Financial Markets Authority, with his second term ending in late 2014, and chairs Auckland Council Investments Limited. He is Deputy Chairman of St Cuthbert's College. Mr Allen is also a Trustee of the Snowvision charitable trust.

Ms Miriam Dean CNZM QC has extensive governance and commercial law experience. She currently chairs NZ On Air, the Banking Ombudsman Scheme and the Legal Aid Advisory Board of the Ministry of Justice. Ms Dean is a Director of Auckland Council Investments Limited and a Trustee of the Royal New Zealand Ballet. She holds an interest in a Spark debt bond.

Ms Danelle Dinsdale has advised on contract management for major infrastructure and public-private partnership projects in the United Kingdom. She is a Director of Ultrafast Fibre Limited and the Medical Assurance Society New Zealand, as well as being a director of Hawke's Bay Regional Investment Company Limited, which is considering an investment in the Ruataniwha Water Storage Scheme.

Mr Jack Matthews has held Chief Executive roles in Australia with Fairfax Media and Fairfax Digital. He was the driving force behind Saturn's deployment of a Hybrid Fibre Co-Axial cable network in Wellington and Christchurch. He is currently Chairman of Rewardle Holdings in Australia, a Director of New Zealand's Network for Learning Limited, and a Director of Trilogy Limited.

Dr Murray Milner has more than 35 years' experience in the New Zealand ICT industry and holds a doctorate of electrical engineering. He chairs Harmonic Analytics Limited, the National Health IT Board and the Emergency Services Interagency Resilience Working Group. Dr Milner is a Director of Enable Networks Limited and the Managing Director of Milner Consulting Limited. He is a Trustee of the NZ IPv6 Trust. He is also a member of the Expert Advisory Group on Information Security, the National Health Board and the Health Capital Investment Committee. He holds shares in Spark.

Mr Keith Tempest spent 23 years with electricity generator Trustpower, resigning as Chief Executive in 2009. He holds directorships with NZ Bus Limited, Port of Tauranga Limited, Transpower New Zealand Limited and Bay Venues Limited; and is a Director and shareholder of GAP Business Solutions Limited.

	2014		2013	
DIRECTORS	No. of Regular Meetings Attended	No. of Special Meetings Attended	No. of Regular Meetings Attended	No. of Special Meetings Attended
Simon Allen	11	4	11	1
Miriam Dean	9	3	11	0
Danelle Dinsdale	10	4	11	1
Jack Matthews	11	3	9	1
Murray Milner	11	4	9	1
Keith Tempest	11	3	11	1

GOVERNANCE

ORGANISATION FORM

CFH was incorporated on 29 October 2009 under the Companies Act 1993. CFH is a Crown-owned Company, listed under Schedule 4a 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 is monitored by the Ministry for Innovation, Business and Employment Telecommunications branch and the Commercial Operations Division of the Treasury for policy and shareholding Ministers. 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 page 19 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.

CFH AS A GOOD EMPLOYER

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 it is a 'good employer' that provides equal 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).

- **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.

- **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.

- **Employee development, promotion and exit:**
  CFH encourages employee development and promotion. With the initiative now in a phase of steady-state deployment, the structure of CFH has changed to meet evolving requirements, creating opportunities for development.

- **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 or gender). Flexible working is supported.

- **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.

- **Safe and healthy environment:**
  CFH has developed 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.

STATEMENT OF RESPONSIBILITY

FOR THE YEAR ENDED 30 JUNE 2014

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 year ended 30 June 2014.

Signed on behalf of the Board.

Simon Allen
Chair

4 September 2014

Keith Tempest
Director

4 September 2014

AN ENABLE TECHNICIAN MONITORS THE DEPTH AND DIRECTION OF A FIBRE DRILL.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF CROWN FIBRE HOLDINGS LIMITED AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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 28 to 67, that comprise the statement of financial position as at 30 June 2014, 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

Financial statements

In our opinion the financial statements of the company and group on pages 28 to 67:

- 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 2014; and
    - financial performance and cash flows for the year ended on that date.

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 4 September 2014. 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, in our judgement, are likely to influence readers' 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 preparation of the company and group's 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 and group'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. Also we did not evaluate the security and controls over the electronic publication 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 is also responsible for the publication of the financial statements, whether in printed or electronic form.

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 External Reporting Board.

In addition to the audit and the audits of Enable Networks Limited and Northpower Fibre Limited, we have carried out regulation audits relating to Enable Networks Limited and Northpower Fibre Limited, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the company or any of its subsidiaries.

Clare Helm

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	*Parent 2014 $000	Group 2014 $000	Parent 2013 $000	Group 2013 $000
Income					
Interest income	2	5,502	5,580	3,930	3,987
UFB income	3	-	9,980	-	6,626
Other income		480	480	-	-
Fair value gains on FVTPL[1] investments	9,14	8,451	-	1,249	-
Net fair value gains on derivatives	9,14	111	111	34	34
Total income		14,544	16,151	5,213	10,647
Expenses					
Network expenses		-	12,827	-	7,529
Directors' fees	5	206	716	211	669
Personnel costs	6	4,469	6,109	3,916	5,365
Depreciation expense	13	72	8,608	92	3,998
Professional advisory fees	7	1,159	2,068	583	933
Other expenses	8	1,991	5,067	2,478	5,067
Interest expense		16	373	-	-
Management fees to Partners	14	-	4,286	-	3,627
UFB contribution – LFCs	9,14	37,615	-	32,078	-
UFB contribution – Chorus Equity Securities	9,14	69,884	69,884	43,434	43,434
UFB contribution – Chorus Debt Securities	9,15	65,001	65,001	42,169	42,169
Fair value loss on AFS[2] investments	9,14	-	-	116	-
Total expenses		180,413	174,939	125,077	112,791
Surplus/(deficit) before tax		**(165,869)**	**(158,788)**	**(119,864)**	**(102,144)**
Tax expense/(credit)	10	-	(3,848)	-	(3,816)
Net surplus/(deficit) for the year		**(165,869)**	**(154,940)**	**(119,864)**	**(98,328)**
Other comprehensive income					
Net fair value changes on AFS investments	9,14	902	601	172	172
Total other comprehensive income		902	601	172	172
Total comprehensive income/(loss) for the year		**(164,967)**	**(154,339)**	**(119,692)**	**(98,156)**
Net surplus/(deficit)					
Attributable to members of the parent		(165,869)	(135,222)	(119,864)	(88,524)
Attributable to non-controlling interests		-	(19,718)	-	(9,804)
		(165,869)	**(154,940)**	**(119,864)**	**(98,328)**
Total comprehensive income/(loss)					
Attributable to members of the parent		(164,967)	(134,621)	(119,692)	(88,352)
Attributable to non-controlling interests		-	(19,718)	-	(9,804)
		(164,967)	**(154,339)**	**(119,692)**	**(98,156)**

* Budget figures and explanations of major variances against the budget are detailed in note 30.

[1] Fair value through profit and loss.
[2] Available for sale.

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

	Notes	*Parent 2014 $000	Group 2014 $000	Parent 2013 $000	Group 2013 $000
Assets					
Current assets					
Cash and cash equivalents	11	52,828	55,001	74,505	77,517
Trade and other receivables	12	394	4,431	257	2,740
Prepayments		11	42	72	538
Total current assets		53,233	59,474	74,834	80,795
Non-current assets					
Property, plant and equipment	13	211	247,430	214	142,849
Investments in LFCs	14	101,140	-	56,176	-
Investments in Chorus Equity Securities	14	30,500	30,500	10,954	10,954
Investments in Chorus Debt Securities	15	35,825	35,825	12,064	12,064
Deferred tax assets	16	-	9,205	-	5,357
Total non-current assets		167,676	322,958	79,408	171,224
Total assets		**220,909**	**382,434**	**154,242**	**252,019**
Liabilities					
Current liabilities					
Creditors and other payables	17	31,912	38,590	369	9,517
Employee entitlements		467	666	376	526
Deferred revenue		-	1,026	-	553
Total current liabilities		32,379	40,282	745	10,596
Non-current liabilities					
Deferred revenue		-	499	-	586
Borrowings	27	-	16,436	-	-
Other non-current liabilities		-	1,087	-	-
Total non-current liabilities		-	18,022	-	586
Total liabilities		**32,379**	**58,304**	**745**	**11,182**
Net assets		**188,530**	**324,130**	**153,497**	**240,837**
Capital	18	527,900	527,900	327,900	327,900
AFS reserve	19	1,147	846	245	245
Retained earnings		(340,517)	(263,534)	(174,648)	(128,313)
Non-controlling interests		-	58,918	-	41,005
Total equity		**188,530**	**324,130**	**153,497**	**240,837**
Equity attributable to parent		188,530	265,212	153,497	199,832
Non-controlling interests		-	58,918	-	41,005
Total equity		**188,530**	**324,130**	**153,497**	**240,837**

* Budget figures and explanations of major variances against the budget are detailed in note 30.

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

Parent*	Capital $000	Available-for-Sale Reserve $000	Retained Earnings $000	Non – controlling Interests $000	Total $000
Opening balance 1 July 2012	**162,900**	**73**	**(54,784)**	**-**	**108,189**
Comprehensive income					
Net surplus/(deficit)	-	-	(119,864)	-	(119,864)
Other comprehensive income	-	172	-	-	172
Total comprehensive income/(loss) attributable to parent	-	172	(119,864)	-	(119,692)
Owners' transactions					
Capital contribution – Crown (note 18)	165,000	-	-	-	165,000
Closing balance 30 June 2013	**327,900**	**245**	**(174,648)**	**-**	**153,497**
Opening balance 1 July 2013	**327,900**	**245**	**(174,648)**	**-**	**153,497**
Comprehensive income					
Net surplus/(deficit)	-	-	(165,869)	-	(165,869)
Other comprehensive income	-	902	-	-	902
Total comprehensive income/(loss) attributable to parent	-	902	(165,869)	-	(164,967)
Owners' transactions					
Capital contribution – Crown (note 18)	200,000	-	-	-	200,000
Closing balance 30 June 2014	**527,900**	**1,147**	**(340,517)**	**-**	**188,530**

*Budget figures and explanations of major variances against the budget are detailed in note 30.

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

Group	Capital $000	Available-for-Sale Reserve $000	Retained Earnings $000	Attributable to Equity Holders of Parent $000	Non-controlling Interests $000	Total $000
Opening balance 1 July 2012	**162,900**	**73**	**(39,774)**	**123,199**	**34,026**	**157,225**
Comprehensive income						
Net surplus/(deficit)	-	-	(88,524)	(88,524)	(9,804)	(98,328)
Other comprehensive income	-	172	-	172	-	172
Total comprehensive income/(loss)	-	172	(88,524)	(88,352)	(9,804)	(98,156)
Owners' transactions						
Share transactions with non-controlling interests (note 4)	-	-	(15)	(15)	1,092	1,077
Capital contribution – Crown (note 18)	165,000	-	-	165,000	-	165,000
Capital contribution – non-controlling interests	-	-	-	-	15,691	15,691
Closing balance 30 June 2013	**327,900**	**245**	**(128,313)**	**199,832**	**41,005**	**240,837**
Opening balance 1 July 2013	**327,900**	**245**	**(128,313)**	**199,832**	**41,005**	**240,837**
Comprehensive income						
Net surplus/(deficit)	-	-	(135,222)	(135,222)	(19,718)	(154,940)
Other comprehensive income	-	601	-	601	-	601
Total comprehensive income/(loss)	-	601	(135,222)	(134,621)	(19,718)	(154,339)
Owners' transactions						
Share transactions with non-controlling interests (note 4)	-	-	1	1	3,628	3,629
Capital contribution – Crown (note 18)	200,000	-	-	200,000	-	200,000
Capital contribution – non-controlling interests	-	-	-	-	34,003	34,003
Closing balance 30 June 2014	**527,900**	**846**	**(263,534)**	**265,212**	**58,918**	**324,130**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	*Parent 2014 $000	Group 2014 $000	Parent 2013 $000	Group 2013 $000
Cash flows from operating activities					
Receipts from customers		-	9,365	-	5,906
Interest received		2,361	2,484	3,165	3,227
Other receipts		250	250	-	-
Payments to suppliers		(3,093)	(26,583)	(3,565)	(14,630)
Payments to employees		(4,336)	(5,969)	(3,930)	(5,326)
Interest paid		(16)	(185)	-	-
Goods and services tax (net)		27	(571)	42	1,041
Net cash outflow from operating activities	**20**	**(4,808)**	**(21,209)**	**(4,288)**	**(9,782)**
Cash flows from investing activities					
Purchase of property, plant and equipment		(34)	(92,269)	(72)	(71,352)
Acquisition of investments in LFCs		(77,456)	-	(71,057)	-
Acquisition of investments in Chorus Equity Securities		(71,504)	(71,504)	(52,709)	(52,709)
Acquisition of investments in Chorus Debt Securities		(71,504)	(71,504)	(52,709)	(52,709)
Proceeds from sale to non-controlling interests		3,628	3,628	1,077	1,077
Proceeds from disposal of property, plant and equipment		-	39	-	-
Net cash outflow from investing activities		**(216,869)**	**(231,610)**	**(175,470)**	**(175,693)**
Cash flows from financing activities					
Capital contribution – Crown	**18**	200,000	200,000	165,000	165,000
Capital contribution – non-controlling interests		-	27,436	-	7,501
Debt drawndown		-	2,867	-	-
Net cash inflow from financing activities		**200,000**	**230,303**	**165,000**	**172,501**
Net increase/(decrease) in cash and cash equivalents		**(21,677)**	**(22,516)**	**(14,758)**	**(12,974)**
Cash and cash equivalents at the beginning of the year		74,505	77,517	89,263	90,491
Cash and cash equivalents at the end of the year	**11**	**52,828**	**55,001**	**74,505**	**77,517**

* Budget figures and explanations of major variances against the budget are detailed in note 30.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1. STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

The reporting entity is Crown Fibre Holdings Limited (CFH, the parent and the Company). The Group includes CFH and its controlled entities, being the Local Fibre Companies (LFCs), namely:

- Northpower Fibre Limited (NFL), previously Whangarei Local Fibre Company Limited (WLFC);
- Ultrafast Fibre Limited (UFL); and
- Enable Networks Limited (ENL).

CFH's parent accounts reflect only CFH operations and the direct investments made in each of the three LFCs and Chorus. The CFH Group accounts have the direct investment in Chorus and consolidate the results of the operations of CFH and the LFCs, and hence include the Ultra Fast Broadband (UFB) network built by the LFCs.

CFH is a limited liability company incorporated in New Zealand under the Companies Act 1993 and is a Schedule 4A entity of the Public Finance Amendment Act 2013.

The purpose of the Company is to implement the Government's objectives in relation to the availability of, and access to, 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 (PBE) 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 in the parent financial statements. However, subsidiaries are not exempt from the payment of income tax and accordingly the Group financial statements reflect the tax of subsidiaries, in accordance with the income tax policy set out below.

The financial statements of CFH and the Group are for the period ended 30 June 2014, and were approved by the Board of Directors on 4 September 2014.

STATEMENT OF COMPLIANCE

The financial statements of the Company and the Group 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 comply with NZ IFRS and other applicable Financial Reporting Standards as appropriate for PBEs.

The Company and Group have 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.

BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments as set out below.

FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in New Zealand dollars, and all values are rounded to the nearest one thousand dollars ($000). The functional currency of the Company and each member of the Group is New Zealand dollars.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY

The External Reporting Board has separated NZ IFRS standards into those applicable to for-profit entities and PBEs. The for-profit entity framework continues the current NZ IFRS framework based on International Financial Reporting Standards.

The framework for the Company and Group (as a PBE) is based on International Public Sector Accounting Standards (IPSAS) and is effective for periods beginning on and after 1 July 2014. As a result, the Company and Group will be adopting the new IPSAS-based accounting framework in the June 2015 financial statements.

Whilst a detailed review of the potential impacts of the change has yet to be completed, based on initial investigations the impacts on recognition and measurement are not expected to be material.

SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries, being NFL, UFL and ENL). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The assessment of why the Company is considered to control these entities is further discussed in the critical judgements section below.

Non-controlling interests (i.e. the interests of the Partners to the LFC agreements) in the net assets of consolidated subsidiaries are identified separately from equity attributed to equity holders of the parent. The amount ascribed to non-controlling interests represents:

- 100% of the profit after tax of each LFC, before considering impairment. This is further discussed in the critical accounting estimates and assumptions section below; and
- capital contributions by the non-controlling interests to each LFC, being the contribution by the Partner on the purchase of A or B shares in each LFC; and
- the A shares taken up by the non-controlling interests under the recycling mechanisms, measured at the original issued capital amount; less
- distributions made to non-controlling interests.

Further details on the nature of the LFC arrangements are set out in note 14.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group accounting policies.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

- the aggregate of the fair value of the consideration received and the fair value of any retained interests; and
- the previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit and loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as fair value on initial recognition for subsequent accounting under NZ IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

The investment in NFL and UFL (along with the recycling mechanism) is designated as at fair value through profit and loss (FVTPL) in the parent company's financial statements. The investment in ENL is recorded as an available-for-sale (AFS) financial instrument in the parent company's financial statements. Further information on the treatment of these instruments is set out below.

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.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income in the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees and points paid or received between the parties to the contract that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial instrument at the time of initial recognition.

UFB income

UFB income is recognised in the period in which the UFB service is provided by reference to either the completion of a specific transaction (connection, move, add or change fees) or the proportion of the ongoing services provided measured on a time basis (such as access revenue).

Leases

Operating leases

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to the Group 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. Lease incentives received are recognised in the surplus or deficit over the lease term as an integral part of the total lease expense.

Cash and cash equivalents

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. These amounts are brought to account at face value. All investments are held in New Zealand.

Investments

Investments of the Company comprise the following financial instruments:

Investment in ENL (LFC subsidiary)

In the parent company financial statements, the Company's investments in unlisted shares of ENL are categorised as AFS, and are measured at fair value. Fair value is determined in the manner described in the critical accounting estimates and assumptions section below. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated as a separate component of equity in the AFS revaluation reserve, with the exception of impairment losses and losses upon initial investment, which are recognised directly in surplus or deficit. Any difference on initial recognition between the fair value of the investment and the contribution by CFH represents CFH's and the Crown's contribution towards the deployment of UFB in New Zealand, and is reflected in the UFB contribution line in surplus or deficit.

A significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the AFS revaluation reserve is reclassified from equity to surplus or deficit (as a reclassification adjustment).

Impairment losses previously recognised through surplus or deficit are not reversed through surplus or deficit. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated as a separate component of equity in the AFS revaluation reserve.

Dividends are recognised in surplus or deficit when the Company's right to receive the dividends is established.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Investment in NFL and UFL (LFC subsidiaries)

In the parent company financial statements, the Company's investments in unlisted shares of NFL and UFL, together with the recycling mechanisms described in note 14, are designated as at FVTPL and are initially recognised at fair value and subsequently re-measured to fair value, with gains and losses arising from changes in fair value recognised in surplus or deficit. Fair value is determined in the manner described in the critical accounting estimates and assumptions section below. Any difference on initial recognition between the fair value of the investment and the contribution by CFH represents CFH's and the Crown's contribution towards the deployment of UFB in New Zealand, and is reflected in the UFB contribution line in surplus or deficit.

Other investments – Chorus

In the Company and Group financial statements, the investment in unlisted Equity Securities of Chorus is categorised as AFS and is measured at fair value. Fair value is determined in the manner described in the critical accounting estimates and assumptions section below.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated as a separate component of equity in the AFS revaluation reserve, with the exception of impairment losses and interest calculated using the effective interest method, which are recognised directly in surplus or deficit. Any difference on initial recognition between the fair value of the investment and the contribution by CFH represents CFH's and the Crown's contribution towards the deployment of UFB in New Zealand, and is reflected in the UFB contribution line in surplus or deficit.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the AFS revaluation reserve is reclassified from equity to surplus or deficit (as a reclassification adjustment). If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through surplus or deficit to the extent that the carrying amount at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Dividends are recognised in surplus or deficit when the Company's right to receive the dividends is established.

The Group's investment in Equity Warrants of Chorus is a derivative categorised as a held-for-trading FVTPL financial instrument and is measured at fair value and is accounted for in the same manner as the FVTPL instruments above. Fair value is determined in the manner described in the critical accounting estimates and assumptions section below.

The Group's investment in Chorus Debt Securities is categorised as loans and receivables and is measured initially at fair value and subsequently at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest method. Any difference on initial recognition between the fair value of the investment and the contribution by CFH represents CFH's and the Crown's contribution towards the deployment of UFB in New Zealand, and is reflected in the UFB contribution line in surplus or deficit. Impairment is determined in accordance with the policy described under other receivables below.

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. The impairment of a receivable is established when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of a debtor, the probability that the debtor will enter into bankruptcy, and defaults in payment are considered indicators that the debtor is impaired.

Debtors that are assessed not to be impaired individually are also subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, and observable changes in national or local economic conditions that correlate with defaults on receivables.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

The amount of the impairment is the difference between a receivable's carrying amount and the present value of estimated future cash flows, discounted at the receivable's original effective interest rate. The carrying amount of the receivable is reduced by the impairment loss directly for all receivables with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through surplus or deficit to the extent that the carrying amount of the receivable at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Property, plant and equipment

Property, plant and equipment are shown at cost, 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 the Group 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 assets. Gains and losses on disposals are included in the surplus or deficit.

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 the Group 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 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 costs 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:

Computer hardware	2.5 years (40%)
Other equipment	4-17 years (6%-25%)
UFB network assets	5-40 years (2%-20%)

The residual value and useful life of an asset are reviewed, and adjusted if applicable, at each balance date.

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.

The useful lives and associated depreciation rates of software are three to five years. The residual value and useful life of an asset are reviewed, and adjusted if applicable, at each balance date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

Property, plant and equipment and intangible assets that have finite useful lives are reviewed for impairment at each balance date and 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 an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Value in use is the depreciated replacement cost of 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 the Group would, if deprived of the asset, replace its remaining future economic benefits or service potential.

For the purpose of the Group accounts, the assets of the LFCs are regarded as cash-generating assets and a value-in-use calculation for impairment is applied.

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.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised immediately in surplus or deficit.

Debt

Interest-bearing debt is initially measured at fair value net of transaction costs and subsequently at amortised cost using the effective interest method. Amounts that may be required to be settled within 12 months are presented as current liabilities, and the remainder are presented as non-current liabilities.

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 the Group 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. Employee entitlements that are not expected to be settled within 12 months of balance date are measured as the present value of the estimated future cash outflows, in respect of services provided by employees up to balance date.

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 based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that it is expected to be used by staff to cover 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 as incurred.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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 other receivables or creditors and other 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 in the Company financial statements.

However, subsidiaries are not exempt from the payment of income tax and accordingly the Group financial statements reflect the tax positions of subsidiaries in accordance with the following policies:

- the tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from the surplus/(deficit) as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period;
- deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and tax losses, and deferred tax assets are generally recognised for all deductible temporary differences and tax losses to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised and any necessary shareholder continuity will be maintained. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit;
- the carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered and shareholder continuity will be maintained;
- deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which the liabilities are settled or the assets realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities;
- deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis; and
- current and deferred taxes are recognised as expenses or income in surplus or deficit, except when they relate to items recognised in other comprehensive income or directly in equity, in which case the taxes are also recognised in other comprehensive income or directly in equity.

Statement of cash flows

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

- operating activities are the principal revenue-producing activities and other activities that are not investing or financing activities;
- investing activities are those activities relating to the acquisition and disposal of non-current investments, property, plant and equipment, intangible assets and other non-current assets; and
- financing activities are those activities that result in changes in the size and composition of the contributed equity of the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

BUDGET FIGURES

The 2014 parent company budgeted deficit of $153.5 million was approved in the 2014 Statement of Intent. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Group in preparing these financial statements. Elements of the budget have been reclassified to better reflect the Group's operations; however, there is no change to the aggregate budget figure.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing these financial statements the Group 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 material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Fair value of financial instruments

The fair value of financial assets, being CFH's investment in the Chorus Debt and Equity Securities and Equity Warrants and the LFC shares, is determined by using valuation techniques. CFH uses a discounted cash flow method and makes assumptions that are based on market data and the key characteristics of the instruments. These include, but are not limited to, management's assessments as to the LFCs' cash flows, capital expenditure, profitability and market penetration over the estimated period of the investment. For the Chorus securities, management has made estimates based on market-observable data of similar types of instrument; these include corporate bonds that have similar maturity dates, credit risks and industry characteristics.

The nature of the fair value models and the key assumptions for each of the instruments in which CFH invests are set out below, along with information on a reasonably possible change and the potential impacts of such a change on the investment carrying value.

Key assumptions for Chorus Debt and Equity Securities

			Debt Securities		Equity Securities [2]	
Key Assumptions/Inputs	Assumption[1]	Possible Change	2014 Impact $000	2013 Impact $000	2014 Impact $000	2013 Impact $000
Fibre uptake at 2020	>20%	<20%	+4,300	+2,600	+6,800	+3,000
Senior credit spread (BBB) [3]	97-176 bps	+/ – 50 bps	-570/+630	-290/+310	n/a	n/a
Subordinated credit spread (BBB-/BB) [3]	260-391 bps	+/ – 50 bps	-1,100/+1,200	-530/+580	-2,100/+2,300	-800/+900
Risk-free term structure[3]	4.65%-5.02%	+/ – 100 bps	-3,100/+3,700	-1,600/+1,900	-4,100/+4,900	-1,500/+1,800

[1] The estimated redemption and dividend profile is set out in note 14 for Equity Securities, and note 15 for Debt Securities.

[2] CFH has elected to treat the Chorus Equity Securities as a debt instrument. This is because there are a number of conversion and redemption features unique to these instruments that result in their being similar in nature to a debt instrument rather than equity.

[3] Standard & Poor's reconfirmed Chorus' credit rating at BBB negative outlook. Moody downgraded its credit rating for Chorus from Baa2 to Baa3 in January 2014. This prompted CFH to review the basket of international bonds used to calculate the spreads for senior and subordinated bonds. Following that review CFH updated their subordinated credit rating from BB as used in 2013 to use BBB- for the remained of the 2014 financial year. The 2013 assumptions were:

- senior credit spread (BBB) 85-283 basis points (bps);
- subordinated credit spread (BB) 488-560 bps; and
- risk-free term structure 3.91-5.05%.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Chorus Equity Warrants

For the valuation of the Chorus Equity Warrants CFH uses a Black and Scholes pricing model with inputs from market-observable data such as the Chorus share price and volume of trades. At 30 June 2014 (and 30 June 2013) the warrant carrying values and sensitivity to change are not considered significant.

Key assumptions for LFCs (A share investments)

Key Assumptions/Inputs[1]	Assumption	Possible Change	2014 Impact $000	2013 Impact $000
NFL				
Cost of equity [2]	9%	+/ – 2%	-1,740/+3,000	-850/+1,250
Terminal growth	2%	+/ – 1%	+710/-510	+260/-190
CFH shareholding at concession end [3]	41%	+/ – 5%	-3,650/+2,540	– 1,380/+1,180
UFL				
Cost of equity [2]	10%	+/ – 2%	-12,250/+19,250	– 5,500/+8,230
Terminal growth	2%	+/ – 1%	+4,380/-3,220	+1,750/-1,300
CFH shareholding at concession end [3]	40%	+/ – 5%	-18,040/+15,020	– 6,610/+5,960
ENL[4]				
Cost of equity [2]	12%	+/ – 2%	-3,430/+5,470	– 1,130/+1,780
Terminal growth	2%	+/ – 1%	+1,780/-1,310	+500/-380

[1] CFH has used a range of discount rates within the valuation models for the LFCs, from 5% to 12% (2013: 5% to 12%).

[2] The 2013 assumption in respect of the cost of equity was 12%.

[3] The 2013 assumptions in respect of the CFH shareholding at concession end were:

- 43% for NFL;
- 37% for UFL; and
- 62% for ENL.

[4] The ENL shareholding at concession end does not have key assumptions/inputs as it is not sensitive to changes in the same way as NFL and UFL due to there being no recycling, and the funding by both Enable Services Limited and CFH is fixed pursuant to the shareholder's agreement.

Measurement of non-controlling interests

In consolidating the LFC entities, the Directors have determined that the profit or loss after tax (before considering impairment) of each LFC should be attributed to non-controlling interests, as it approximates the anticipated distributable earnings to each Partner. The apportionment of any impairment recognised by LFCs (if any) will be considered as it arises.

Property, plant and equipment useful lives and residual values

At balance date the Group 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 the Group to consider a number of factors, such as the physical condition of each asset, the expected period of use of the asset by the Group, and the expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life or residual value will have an impact on the depreciation expense recognised in the surplus or deficit, and the carrying amount of the asset in the statement of financial position. The Group 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 13.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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 2014:

Determining the nature of the interest in the LFCs

The nature of CFH's investment in each LFC is not readily apparent, and requires significant judgement. On balance, the Directors consider that CFH has an equity interest in each LFC, and CFH has control over each LFC as it has extensive rights over the design, build and operations phases of UFB deployment. Accordingly, the Group has consolidated the LFCs. The apportionment of earnings to non-controlling interests has been determined based on the distribution rights under each agreement.

Determining the nature of the interest in Chorus

CFH is supporting the deployment of UFB by subscribing to various forms of investment in Chorus. The investments take three forms, and again significant judgement is required in determining the nature of these investments:

- Chorus Equity Securities (unlisted);
- Chorus Debt Securities; and
- Chorus Equity Warrants, providing CFH with the right to purchase Chorus ordinary shares under certain circumstances.

The Directors have considered whether the interest in Chorus represents control (a subsidiary), joint control (a jointly controlled entity), significant influence (an associate) or an interest with less-than-significant influence. The Directors have determined that, on balance, the interest represents less-than-significant influence.

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.

Derivatives

The investments in NFL and UFL have been designated as at FVTPL on the basis that the recycling mechanisms represent embedded derivatives that are unable to be separated from the investments as a whole.

2. INTEREST INCOME

	Parent 2014 $000	Group 2014 $000	Parent 2013 $000	Group 2013 $000
Chorus Debt Securities	1,626	1,626	450	450
Chorus Equity Securities	1,581	1,581	417	417
Interest earned on cash balances with financial institutions	2,295	2,373	3,063	3,120
Total interest income	**5,502**	**5,580**	**3,930**	**3,987**

The effective weighted average interest rate for monies on deposit with financial institutions is 3.8% (2013: 3.6%). The interest income on the Chorus Debt Securities and Chorus Equity Securities is the imputed interest calculated to approximate the effect of interest income to CFH on these instruments. The imputed interest is in effect the write-back of the discount on the investment for the year under review.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

3. UFB INCOME

	Parent 2014 $000	Group 2014 $000	Parent 2013 $000	Group 2013 $000
Connection revenue	-	373	-	352
Access revenue	-	9,607	-	6,274
Total UFB income	**-**	**9,980**	**-**	**6,626**

Connection revenue is the revenue generated through Chorus and the LFCs connecting customers to the network and relates to business and RSPs' connections.

Access revenue is the recurring revenue received from RSPs for the various wholesale products purchased by RSPs, which are in turn sold to retail customers.

4. REALISED GAIN OR LOSS ON SALE OF INVESTMENTS

	Parent 2014 $000	Group 2014 $000	Parent 2013 $000	Group 2013 $000
Consideration received	3,629	3,629	1,077	1,077
Less carrying value	(2,223)	(3,628)	(642)	(1,092)
Net gain/(loss) on sale of investments	**1,406**	**1**	**435**	**(15)**

In the current year CFH sold 1,092,915 NFL A shares and 2,733,122 UFL A shares to the respective Partners as part of the recycling mechanism (2013: 498,520 NFL A shares and 611,449 UFL A shares). The recycling mechanism is explained in note 14.

Net gains/losses on sales of investments are included as fair value gains on FVTPL investments in the parent financial statements and are accounted for as equity transactions in the Group financial statements.

5. DIRECTORS' FEES

Parent	Parent 2014 $000	Parent 2013 $000
Board member fees during the year were:		
Simon Allen	58	58
Andrew Body [1]	-	8
Miriam Dean	29	29
Danelle Dinsdale	29	29
Jack Matthews	29	29
Murray Milner	29	29
Keith Tempest[2]	32	29
Total Board member fees – parent	**206**	**211**

[1] Term ended in September 2012.

[2] Keith Tempest received an additional fee due to his acting as an alternate director on the UFL Board.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

5. DIRECTORS' FEES (CONTINUED)

LFC subsidiaries

	Subsidiaries 2014 $000	Subsidiaries 2013 $000
Board member fees during the year were:		
Tim Lusk (ENL – Independent Chair)	70	70
Mark Bowman (ENL)	25	22
Brett Gamble (ENL) [1]	25	24
Bill Luff (ENL) [2]	-	14
Owen Scott (ENL) [2]	25	-
Jo Brosnahan (NFL – Independent Chair)	60	60
Nicole Davies-Colley (NFL)	30	30
Rodger Fisher (UFL – Independent Chair)	80	80
Mark Franklin (UFL)	40	40
Richard Prebble (UFL)	40	40
Margaret Devlin (UFL) [3]	40	3
CFH Board members also on LFC Boards were:		
Danelle Dinsdale (UFL) [4]	40	17
Keith Tempest (UFL) [4]	-	23
Murray Milner (ENL)	35	35
Total Board member fees – subsidiaries	**510**	**458**
Total Board member fees – Group	**716**	**669**

[1] Bill Dwyer stepped down during the 2013 financial year, and Brett Gamble was appointed.

[2] Bill Luff stepped down during the 2014 financial year, and Owen Scott was appointed in the 2014 financial year.

[3] Margaret Devlin was appointed during 2013.

[4] Keith Tempest stepped down during the 2013 financial year, and Danelle Dinsdale was appointed.

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

The Directors' fees for the subsidiaries are paid by the LFCs and are funded by working capital contributed by each Partner.

6. PERSONNEL COSTS

	Parent 2014 $000	Group 2014 $000	Parent 2013 $000	Group 2013 $000
Salaries and wages	4,392	5,966	3,795	5,161
Employer contributions to defined contribution plans	36	71	56	74
Other staff benefits	41	72	65	130
Total personnel costs	**4,469**	**6,109**	**3,916**	**5,365**

CFH has 19 full-time-equivalent employees and six contractors as at 30 June 2014 (2013: 19 and six respectively). The Group has 27 full-time-equivalent employees and six contractors as at 30 June 2014 (2013: 27 and seven respectively).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

7. PROFESSIONAL ADVISORY FEES

	Parent 2014 $000	Group 2014 $000	Parent 2013 $000	Group 2013 $000
Accounting	176	284	45	98
Legal	707	1,013	475	698
Other	276	771	63	137
Total professional advisory fees	**1,159**	**2,068**	**583**	**933**

Accounting fees relate to non-audit accounting services provided; legal fees relate to the provision of legal services relating to the UFB contracts; and other advisory fees predominantly relate to the provision of technical advice on the UFB project.

8. OTHER EXPENSES

	Parent 2014 $000	Group 2014 $000	Parent 2013 $000	Group 2013 $000
Audit fees – Audit New Zealand	108	162	120	176
Other services from Audit New Zealand – regulatory reporting	-	46	-	15
Audit fees – PricewaterhouseCoopers	-	46	-	40
Other services from PricewaterhouseCoopers – regulatory reporting	-	16	-	24
Contractors and project management	873	873	1,324	1,585
Staff travel and accommodation	241	338	273	411
Operating lease expenses	260	1,538	253	1,638
Information technology	152	1,008	168	168
Other	357	1,039	340	1,010
Total other expenses	**1,991**	**5,066**	**2,478**	**5,067**

Audit New Zealand, on behalf of the Office of the Auditor-General, is the auditor of CFH, NFL and ENL and PricewaterhouseCoopers is the auditor of UFL on behalf of the Office of the Auditor-General.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

9. INCOME AND EXPENSES BY CATEGORY

The income and expenses (excluding interest, which is set out in note 2) in each of the NZ IAS 39 categories are as follows:

	Parent 2014 $000	Group 2014 $000	Parent 2013 $000	Group 2013 $000
Recognised in surplus/(deficit)				
Fair value gains/(losses) on financial assets designated as at FVTPL				
LFCs – UFB contribution	(21,500)	-	(25,329)	-
LFCs – fair value gains	8,451	-	1,249	-
Fair value gains/(losses) on AFS financial assets				
LFCs – UFB contribution	(16,115)	-	(6,749)	-
LFC – fair value losses	-	-	(116)	-
Chorus Equity Securities – UFB contribution	(69,884)	(69,884)	(43,434)	(43,434)
Fair value gains and losses on derivatives				
Chorus Equity Warrants – fair value gains	111	111	34	34
Fair value losses on loans and receivables				
Chorus Debt Securities – UFB contribution	(65,001)	(65,001)	(42,169)	(42,169)
Total recognised in surplus/(deficit)	**(163,938)**	**(134,774)**	**(116,514)**	**(85,569)**
Recognised in other comprehensive income				
Chorus Equity Securities – fair value gains	601	601	172	172
LFCs – fair value gains/(losses)	301	-	(116)	-
LFCs – fair value losses reclassified to surplus/(deficit) above	-	-	116	-
Total recognised in other comprehensive income	**902**	**601**	**172**	**172**

LFCs' fair value gains represent the change in the book value to the value that CFH believes it would attain in the market as at balance date. CFH uses a discounted cash flow method and makes assumptions that are based on market data and the key characteristics of the instruments. The LFC fair value movement is in effect the write-back of the discount on the investment for the year under review.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

10. INCOME TAX

	Parent 2014 $000	Group 2014 $000	Parent 2013 $000	Group 2013 $000
Income tax expense/(credit) recognised in surplus/(deficit)				
Deferred tax expense relating to tax losses and the origination and reversal of temporary differences	-	(3,848)	-	(3,816)
Total income tax expense/(credit)	**-**	**(3,848)**	**-**	**(3,816)**
Reconciliation				
Surplus/(deficit) for the period	(165,869)	(158,788)	(119,864)	(102,144)
Tax expense/(credit) calculated at 28% (2013: 28%)	(46,443)	(44,461)	(33,562)	(28,600)
Effect of other expenses that are not deductible	-	415	-	-
Prior period adjustment	-	122	-	-
Unrecognised tax losses	-	2,212	-	-
Effect of non-taxable status of parent company	46,443	37,864	33,562	24,784
Total income tax expense/(credit)	**-**	**(3,848)**	**-**	**(3,816)**

The parent is not an income-tax-paying entity, and as such has no income tax to pay. The Group is made up of entities that are income tax payers, and the tax liability and assets arise as a result of their activity.

11. CASH AND CASH EQUIVALENTS

	Parent 2014 $000	Group 2014 $000	Parent 2013 $000	Group 2013 $000
Cash on hand and at bank	12,828	15,001	4,505	7,517
Cash equivalents – term deposits	40,000	40,000	70,000	70,000
Total cash and cash equivalents	**52,828**	**55,001**	**74,505**	**77,517**

All cash on hand is held with 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 3.8% (2013: 3.6%).

12. TRADE AND OTHER RECEIVABLES

	Parent 2014 $000	Group 2014 $000	Parent 2013 $000	Group 2013 $000
Trade receivables	-	2,126	-	1,205
GST receivables	12	1,921	30	1,306
Other	382	384	227	229
Total trade and other receivables	**394**	**4,431**	**257**	**2,740**

The carrying value of trade and other receivables approximates their fair value.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

13. PROPERTY, PLANT AND EQUIPMENT

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

Parent	Computer Hardware $000	Other Equipment $000	Total $000
Cost			
Balance at 1 July 2012	342	122	464
Additions during the year	71	1	72
Balance at 30 June 2013	413	123	536
Accumulated depreciation			
Balance at 1 July 2012	201	29	230
Depreciation charge for the year	74	18	92
Balance at 30 June 2013	275	47	322
Net book value at 30 June 2012	**141**	**93**	**234**
Net book value at 30 June 2013	**138**	**76**	**214**
Cost			
Balance at 1 July 2013	413	123	536
Additions during the year	70	-	70
Disposals during the year	(129)	(2)	(131)
Balance at 30 June 2014	354	121	475
Accumulated depreciation			
Balance at 1 July 2013	275	47	322
Depreciation charge for the year	55	17	72
Disposals during the year	(129)	(1)	(130)
Balance at 30 June 2014	201	63	264
Net book value at 30 June 2014	**153**	**58**	**211**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Computer Hardware $000	Other Equipment $000	UFB Network Assets $000	Total $000
Cost				
Balance at 1 July 2012	345	233	65,196	65,774
Additions during the year	80	135	81,835	82,050
Disposals during the year	-	(17)	-	(17)
Balance at 30 June 2013	425	351	147,031	147,807
Accumulated depreciation				
Balance at 1 July 2012	202	41	718	961
Depreciation charge for the year	77	62	3,859	3,998
Disposals during the year	-	(1)	-	(1)
Balance at 30 June 2013	279	102	4,577	4,958
Net book value at 30 June 2012	**143**	**192**	**64,478**	**64,813**
Net book value at 30 June 2013	**146**	**249**	**142,454**	**142,849**
Cost				
Balance at 1 July 2013	425	351	147,031	147,807
Additions during the year	77	64	113,094	113,235
Disposals during the year	(129)	(74)	-	(203)
Balance at 30 June 2014	373	341	260,125	260,839
Accumulated depreciation				
Balance at 1 July 2013	279	102	4,577	4,958
Depreciation charge for the year	61	74	8,473	8,608
Disposals during the year	(129)	(28)	-	(157)
Balance at 30 June 2014	211	148	13,050	13,409
Net book value at 30 June 2014	**162**	**193**	**247,075**	**247,430**

14. INVESTMENTS

Accounting treatment of the investments

Under New Zealand's accounting standards CFH is required to record the value of its investments as the amount it expects to receive. The amount in the balance sheet is to be recorded as the present-day value, not the nominal amount expected in the future. So the amounts expected from Chorus (from 2025) and the LFCs (in 2020/21) need to be recorded as what they are worth today.

The costs of CFH's investment reflect the interest or dividends foregone, or the "time value of money", along with any shortfall in expected commercial returns. This is shown in this year's financial statements as the 'write-down" of the amount that CFH has actually invested, which is $77 million (2013: $71 million), to the actual amount recorded in CFH's accounts of $40 million (2013: $39 million). This cost is described as the "UFB contribution" in the statement of comprehensive income and is $38 million (2013: $32 million).

As the dates for the investments to be repaid get closer, the accounting standards require CFH to "write back" the value of the investments, increasing them to the original amount (i.e. $1.3 billion) less any shortfall in expected commercial returns. On the first day of an investment, this "write-down" is greatest to reflect the longest time value period before funds are returned. Over time, this 'write-down" decreases as the period remaining before CFH is to be repaid reduces.

By way of example, if CFH invests $1 today and this is not due to be realised (through sale, repayment, redemption or conversion) until the end of the concession period for the LFCs (2020/21) and 2025 through to 2036 for Chorus, it is worth approximately 43 cents to CFH today. By 2018 (all other things being equal), the 43 cents will have increased to 74 cents in anticipation of receiving the $1 back from the LFCs and Chorus, and to $1 immediately prior to being repaid.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

14. INVESTMENTS (CONTINUED)

The level of investment that CFH has in the LFCs and Chorus, along with the initial UFB contributions, follows.

Parent

Investments in LFCs	**NFL $000**	**UFL $000**	**ENL $000**	**Total $000**
Net investments at 1 July 2012	3,967	12,480	694	17,141
Amount paid during the year	7,292	53,713	10,052	71,057
Less UFB contribution	(3,587)	(21,742)	(6,749)	(32,078)
Initial investment recognised	3,705	31,971	3,303	38,979
Less disposal proceeds	(498)	(579)	-	(1,077)
Net fair value movements during the year[1]	879	370	(116)	1,133
Net investments at 30 June 2013	8,053	44,242	3,881	56,176
Amount paid during the year	9,761	43,798	23,897	77,456
Less UFB contribution	(4,748)	(16,752)	(16,115)	(37,615)
Initial investment recognised	5,013	27,046	7,782	39,841
Less disposal proceeds	(1,093)	(2,536)	-	(3,629)
Net fair value movements during the year[1]	1,544	6,907	301	8,752
Net investments at 30 June 2014	13,517	75,659	11,964	101,140

[1] The fair value movements include recognised gains disclosed in note 4.

THE 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 NFL (previously known as the Whangarei Local Fibre Company) ;
- WEL Networks Limited, and its subsidiary Waikato Networks Limited (previously called 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). UBL has since changed its name to Ultrafast Fibre Limited (UFL); and
- Christchurch City Holdings Limited and its subsidiary Christchurch City Networks Limited (which has since changed its name to Enable Services Limited (ESL)), for the Christchurch (which includes the Kaiapoi and Rolleston areas) and Rangiora Candidate Areas on 31 May 2011, resulting in the establishment of ENL.

The agreements set out the key commercial terms of the relationships between CFH and the LFCs and their Partners. This includes CFH having a shareholding in each of the LFCs that reflects the level of CFH's investment, in conjunction with its Partner, in the deployment of the UFB network in the Candidate Area(s).

CFH has Board representation in each of the LFCs, as does the Partner, with there being an independent chair for each LFC. CFH's Board representation in each of the LFCs at 30 June 2014 is set out below:

- NFL – Graham Mitchell (CFH Chief Executive) and Sean Wynne (CFH Chief Commercial Officer);
- UFL – Graham Mitchell, Sean Wynne and Danelle Dinsdale (CFH Board member); and
- ENL – Graham Mitchell, Sean Wynne and Murray Milner (CFH Board member).

Under this model the Crown's investment funds the communal infrastructure and the Partners' investments fund the build to each premises. CFH recovers the investment in the LFCs either by dividends received after the concession period or through the sale of shares.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

14. INVESTMENTS (CONTINUED)

The deployment plans drive CFH's level of investment in the LFCs. As each stage of a plan is completed by the Partner, the LFC purchases the UFB network from the Partner by paying it an agreed cost per premises passed (CPPP) for the number of premises that have successfully completed user acceptance testing for the stage. In turn, that purchase is funded by CFH 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. In respect of ENL, the Partner (ESL) funds a portion of the purchase by also subscribing to A shares.

The Partner is required to fund the cost to connect a premises and the end customer (essentially the fibre optic lead-in from the street), the electronics necessary to light the fibre and the 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 each LFC. All A and B shares in each LFC convert to ordinary voting dividend entitlement shares 10 years from the establishment date (NFL and UFL: December 2010, ENL: May 2011).

The Partners also provide management and operational services to the LFCs, which are included in the management fees to Partners line in surplus/(deficit).

LFC RECYCLING MECHANISMS

In relation to NFL and UFL:

- as NFL and UFL connect customers to the network, the Partners are required to purchase CFH's A shares based on the number of premises connected, the CPPP paid and an indexation mechanism (by Producer Price Index); and
- the Partners have a put and call option over CFH's remaining interest during the concession period, at fair value.

These arrangements represent derivatives and are categorised as FVTPL financial instruments together with the underlying investment.

In relation to ENL, the Partner (ESL) funds a portion of the CPPP together with CFH; there is no recycling mechanism and therefore the Partner is not required to purchase A shares when end customers connect.

Instead the Partner:

- has the option, at any time, to buy (or to require the LFC to buy, subject to certain conditions) a portion of CFH's interest at a fixed price; and
- has a put and call option over CFH's remaining interest during the concession period, at a fixed price.

These arrangements also represent derivatives and are categorised as FVTPL financial instruments separately from the underlying investment, which is treated as an AFS instrument. These arrangements are considered to have no value at 30 June 2014 (30 June 2013: Nil).

The ownership of each LFC at balance date is summarised below:

	NFL		**UFL**		**ENL**	
	2014 #000	**2013 #000**	**2014 #000**	**2013 #000**	**2014 #000**	**2013 #000**
A shares held by CFH	23,868	15,200	121,282	76,798	36,176	12,279
A shares held by Partner	1,742	648	3,345	611	34,738	6,250
Total A shares	25,610	15,848	124,627	77,409	70,914	18,529
B shares held by Partner	8,334	4,682	34,559	9,736	12,039	32,813
Total number of shares	33,944	20,530	159,186	87,145	82,953	51,342
CFH interest in total number of shares (%)	**70%**	**74%**	**76%**	**88%**	**44%**	**24%**
CFH interest in total number of voting (A) shares (%)	**93%**	**96%**	**97%**	**99%**	**51%**	**66%**

In the year ended 30 June 2014 NFL, UFL and ENL purchased new fibre-related assets from their Partners (Northpower, WEL Networks and Enable Services) as part of the agreements, in exchange for B shares valued at $0.4 million, $14.2 million and $0.9 million respectively. ENL was also issued with $3.1 million of A shares and funded $13.6 million of the network purchase through new borrowings.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

14. INVESTMENTS (CONTINUED)

In the year ended 30 June 2013 NFL, UFL and ENL purchased new fibre-related assets from their Partners (Northpower, WEL Networks and Enable Services) as part of the agreements, in exchange for B shares valued at $0.6 million, $0.9 million and $1.6 million respectively. ENL was also issued with $5.1 million of A shares.

The Minister of Finance, acting on behalf of the Crown, also owns one share in each LFC. As discussed in the critical judgements section of the accounting policies, even when CFH has less than a 50% ownership interest based on the total shares issued by each LFC, it is considered to have control of each of the LFCs as it holds the majority of the voting shares (A shares).

INVESTMENT IN CHORUS

Group and Parent

The Group and Parent investments are represented by the Chorus Equity Securities below.

	Chorus Equity Warrants $000	Chorus Equity Securities $000	Total $000
Investments in Chorus Equity Securities			
Net investments at 1 July 2012	11	1,045	1,056
Amount paid during the year	-	52,709	52,709
Less UFB contribution	-	(43,434)	(43,434)
Initial investment recognised	-	9,275	9,275
Fair value gains recognised in surplus or deficit	34	-	34
Fair value gains recognised in other comprehensive income	-	172	172
Interest	-	417	417
Net investments at 30 June 2013	45	10,909	10,954
Net investments at 1 July 2013	45	10,909	10,954
Amount paid during the year	-	71,504	71,504
Amount payable at balance date	-	15,633	15,633
Less UFB contribution	-	(69,884)	(69,884)
Initial investment recognised	-	17,253	17,253
Fair value gains recognised in surplus or deficit	111	-	111
Fair value gains recognised in other comprehensive income	-	601	601
Interest	-	1,581	1,581
Net investments at 30 June 2014	156	30,344	30,500
Parent investments at 30 June 2012			**18,197**
Parent investments at 30 June 2013			**67,130**
Parent investments at 30 June 2014			**131,638**

Table 1: CFH Equity Securities redemption and 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%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

14. INVESTMENTS (CONTINUED)

The investment structure with Chorus differs from the model adopted for CFH's investment in the three LFCs. Chorus self-funds the design and build work and carries the risk of any cost overruns in the network build. CFH invests up to $929 million in Chorus progressively as deployment stages are completed. Chorus is required to repay the Crown for its investment, either between 2025 and 2036 or earlier, subject to conditions around fibre uptake that are discussed in the following paragraphs.

CFH's investment in Chorus is by way of an equal share of Debt and Equity Securities i.e. 50% CFH Debt Securities and 50% CFH Equity Securities. CFH and Chorus recently reached an agreement whereby these securities will be issued progressively by Chorus, and subscribed to by CFH, partly as work is completed, and final payments as stages are completed and satisfy user acceptance testing. This arrangement will continue for an initial period to June 2015, as long as a number of conditions continue to be met regarding Chorus's financial position, and will be reviewed further after that.

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 the CFH Equity Securities). These warrants are exercisable by CFH at its election. 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 terms of the CFH Equity Securities are set out below, with the key conditions precedent that Chorus has not breached any banking covenants and that Chorus has maintained an investment-grade credit rating. At the time of this report, these conditions have been met. The terms of the CFH Debt Securities are set out in note 15.

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. These dividends are at the discretion of the Chorus Board; however, ordinary Chorus shareholders cannot be paid a dividend if the CFH Equity Securities' dividends are unpaid.

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 (being those areas not covered by the LFCs) 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 will be weighted towards the latter half of the period 2025 to 2036. Conversely, if the 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 above provides the details of the timing and portion of CFH Equity Securities that attract dividends depending on whether the 20% threshold is met or not, and also represents the expected redemptions by Chorus. By 2035 or 2036 (depending on whether the 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 (by reference to a formula) at any time.

At 30 June 2014 the Standard & Poor's rating is BBB negative outlook and the Moody's rating is Baa3 (2013: Standard & Poor's rating BBB/Stable and Moody's rating Baa2/negative outlook). Both credit ratings are investment grade.

The terms of the CFH Equity Securities do not prohibit the 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.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

15. CHORUS DEBT SECURITIES

Parent and Group	Senior $000	Subordinated $000	Total $000
Balance at 1 July 2012	339	735	1,074
Amount paid during the year	13,480	39,229	52,709
Less UFB contribution	(9,838)	(32,331)	(42,169)
Initial investment recognised	3,642	6,898	10,540
Interest revenue	105	345	450
Balance at 30 June 2013	**4,086**	**7,978**	**12,064**
Balance at 1 July 2013	4,086	7,978	12,064
Amount paid during the year	19,764	51,740	71,504
Amount payable at balance date	4,471	11,161	15,632
Less UFB contribution	(16,676)	(48,325)	(65,001)
Initial investment recognised	7,559	14,576	22,135
Interest revenue	449	1,177	1,626
Balance at 30 June 2014	**12,094**	**23,731**	**35,825**

The fair value of the Chorus Debt Securities is disclosed in note 27.

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%										
Dept repayment	155	155	-	155	-	33.3%	33.3%	-	33.3%	-
Fibre uptake greater than 20%										
Dept repayment	86	86	129	-	164	18.5%	18.5%	27.7%	-	35.4%

The CFH Debt Securities are unsecured and carry no interest, but in accordance with NZ IAS 39 they do have imputed interest calculated and shown in the face of the financial statements, as explained in note 2, and, like the CFH Equity Securities, have no voting rights. The principal amount of a CFH Debt Security consists of a senior portion and a subordinated portion. The senior portion ranks equally with all other unsecured, unsubordinated creditors of Chorus, and has the benefit of any negative pledge covenant that may be contained in any of Chorus's debt arrangements. The subordinated portion ranks above ordinary shares of Chorus. The initial 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. The initial subordinated portion is the difference between the issue price of the CFH Debt Securities and the value of the senior portion.

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 above 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).

16. DEFERRED TAX ASSETS

	Parent 2014 $000	Group 2014 $000	Parent 2013 $000	Group 2013 $000
Unused tax losses	-	9,205	-	5,357

A deferred tax asset has been recognised by subsidiaries as it is considered probable that there will be future taxable profits available against which to utilise the losses and that shareholder continuity will be maintained until these losses are utilised. This is evidenced by the LFC projections and their annual business plans.

The Group has $9 million of unrecognised tax losses (2013: Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

17. CREDITORS AND OTHER PAYABLES

	Parent 2014 $000	Group 2014 $000	Parent 2013 $000	Group 2013 $000
Creditors	31,346	35,269	125	6,184
Accrued expenses	566	1,896	244	3,333
Other payables	-	1,425	-	-
Total creditors and other payables	**31,912**	**38,590**	**369**	**9,517**

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.

At 30 June 2014 the parent and Group creditors include $31.3 million due to Chorus in respect of the completed UFB network build, which was settled in July (2013: Nil).

18. CAPITAL – AUTHORISED AND FULLY PAID

	Parent 2014 $000 & #000	Group 2014 $000 & #000	Parent 2013 $000 & #000	Group 2013 $000 & #000
Opening balance	327,900	327,900	162,900	162,900
Capital contribution	200,000	200,000	165,000	165,000
Balance at 30 June	**527,900**	**527,900**	**327,900**	**327,900**

The Crown investment made in CFH is represented by 1,345,400,200 $1.00 ordinary shares issued, with 527,900,000 being fully paid (2013: 327,900,000) and 817,500,200 being unpaid (2013: 1,017,500,200). The Crown holds all the issued capital of CFH. All shares have equal voting and dividend rights and share equally in any distribution on wind-up.

19. AVAILABLE-FOR-SALE REVALUATION RESERVE

	Parent 2014 $000	Group 2014 $000	Parent 2013 $000	Group 2013 $000
Opening balance	245	245	73	73
Chorus Equity Securities – fair value gains	601	601	172	172
LFCs – fair value gains/(losses)	301	-	(116)	-
LFCs – fair value losses reclassified to surplus/(deficit)	-	-	116	-
Balance at 30 June	**1,147**	**846**	**245**	**245**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

20. RECONCILIATION OF NET DEFICIT TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Parent 2014 $000	Group 2014 $000	Parent 2013 $000	Group 2013 $000
Net deficit after tax	**(165,869)**	**(154,940)**	**(119,864)**	**(98,328)**
Add/(less) non-cash items				
Interest income	(3,207)	(3,207)	(867)	(867)
Fair value gain on FVTPL investments	(8,451)	-	(1,249)	-
Fair value gains on derivatives	(111)	(111)	(34)	(34)
Fair value loss on AFS investments	-	-	116	-
Depreciation	72	8,608	92	3,998
UFB contribution	172,500	134,885	117,681	85,603
Deferred tax	-	(3,848)	-	(3,816)
Other non-cash items	1	7	-	16
Total non-cash items	160,804	136,334	115,739	84,900
Add/(less) movements in working capital items				
Trade and other receivables and prepayments	(76)	(1,197)	99	689
Creditors and other payables	31,542	29,073	(248)	5,373
Employee entitlements	91	140	(14)	39
Deferred revenue	-	386	-	53
Net movements in working capital items	31,557	28,403	(163)	6,154
Add/(less) items reclassified as investing				
Movements in creditors and other payables related to property, plant and equipment	(36)	259	-	(2,185)
Movements in creditors and other payables related to Chorus investments	(31,265)	(31,265)	-	-
Movements in creditors and other payables funded through borrowings	-	-	-	-
Prepayments related to property, plant and equipment	-	-	-	(323)
Net cash from operating activities	**(4,808)**	**(21,209)**	**(4,288)**	**(9,782)**

During the year the LFCs acquired property, plant and equipment of $18.7 million (being primarily UFB network assets) in exchange for issuing shares to the Partners (2013: $8.2 million).

21. COMMITMENTS

OPERATING LEASES AS LESSEE

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

	Parent 2014 $000	Group 2014 $000	Parent 2013 $000	Group 2013 $000
Not later than one year	210	805	197	746
Later than one year and not later than five years	373	1,336	514	1,261
Later than five years	-	3,125	-	1,083
Total non-cancellable operating leases	**583**	**5,266**	**711**	**3,090**

CFH leases premises in Auckland at Level 10, PricewaterhouseCoopers Tower, 188 Quay Street. The lease expires in February 2017 and a rent review occurred in March 2014. The Group also leases power poles in some areas, as part of the UFB network.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

21. COMMITMENTS (CONTINUED)

In addition, UFL currently leases a pre-existing fibre network from its Partner, which will eventually be overbuilt by the UFB network. UFL collects revenue from the legacy customers using this network, and pays WNL a network access fee of 80% of legacy customer revenue. This arrangement will continue until the legacy customers have migrated to UFL's new UFB network or the legacy customer contracts expire, whichever occurs first.

COMMITMENTS – UFB INVESTMENTS

CFH has entered into agreements to invest in the LFCs (the subsidiaries) and Chorus, subject to certain conditions being met that are described in notes 14 and 15, to build the UFB network. The Crown, through CFH, will invest over $1.3 billion with the LFCs and Chorus (the Chorus portion being up to $929 million). The table below summarises the number of premises that the entities are expected to have built in each financial year. CFH's investment is at an agreed amount per premises passed multiplied by the number of premises passed. The agreed amount per premises passed varies between each LFC and Chorus.

Cumulative Number of Premises Passed #000	Financial Year 2015	Financial Year 2016	Financial Year 2017	Financial Year 2018	Financial Year 2019
Chorus	362	469	575	677	830
LFCs	188	242	272	296	340
Total premises passed #000	**550**	**711**	**847**	**973**	**1,170**
Total investment $m	**628**	**811**	**962**	**1,107**	**1,315**

Note: both the premises numbers and the funding shown above are cumulative.

The total investment is shown before the impact of the recycling mechanism; see note 14.

GROUP CAPITAL COMMITMENT

The LFCs have entered into commitments with the Partners to fund the UFB deployment. The expected commitment, based on forecast UFB deployment timing and forecast customer uptake, is:

	Group 2014 $000	Group 2013 $000
Not later than one year	137,490	117,081
Later than one year and not later than five years	332,505	300,731
Later than five years	75,279	151,629
Total	**545,274**	**569,441**

22. CONTINGENCIES

The Group has $0.35 million of contingent liabilities as at 30 June 2014 (2013: $0.39 million); these relate to commercial arrangements entered into by ENL for the provision of network access.

At 30 June 2013 ENL's Partner, ESL, was in dispute with its build contractor, Transfield New Zealand Limited. This dispute was settled during the year. ENL has a fixed-price, output-based contract with ESL, and therefore ENL and the Group have no exposure to, and are protected from, any dispute between ESL and Transfield.

The Group and Parent have no other contingencies as at 30 June 2014 (2013: Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

23. CAPITAL RECYCLING MECHANISM

The Partners for NFL and UFL are obligated to purchase the A shares from CFH when certain conditions are met, as described in note 14. The amount of A shares purchased from CFH and the forecast amount to be purchased in the 2015 financial year is set out below:

	Forecast 2015 $000	Actual 2014 $000	Actual 2013 $000
CFH A shares expected to be sold	1,244	3,629	1,077

24. 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.

The CFH subsidiaries are NFL, UFL and ENL. CFH's transactions with subsidiaries are set out in note 14.

SIGNIFICANT TRANSACTIONS WITH GOVERNMENT-RELATED ENTITIES

CFH has been provided with funding from the Crown of $200 million (2013: $165 million) for specific purposes as set out in its founding legislation and the scope of the relevant Government appropriations.

OTHER TRANSACTIONS WITH GOVERNMENT-RELATED ENTITIES

In conducting its activities, CFH and the Group are required to pay various taxes and levies (such as income tax, GST, PAYE and ACC levies and rates) 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 but the LFCs are not exempt.

CFH and the Group enter into transactions with government departments, Crown entities and state-owned enterprises (e.g. New Zealand Post) and other government-related bodies (e.g. Air New Zealand and local councils). These transactions occur within normal supplier or client relationships on terms and conditions no more or less favourable than those that it is reasonable to expect CFH and the Group 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 and are not individually or collectively significant.

KEY MANAGEMENT PERSONNEL COMPENSATION

	Group 2014 $000	Group 2013 $000
Salaries, short-term employee benefits and Directors' fees	2,514	2,489
Defined contribution plans [1]	36	58
Total key management personnel compensation	2,550	2,547

[1] KiwiSaver

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

No compensation or termination benefits have been paid during the year (2013: Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

25. EMPLOYEE REMUNERATION

Total remuneration paid or payable for the year

	Parent 2014 # Staff	Group 2014 # Staff	Parent 2013 # Staff	Group 2013 # Staff
$100,000 – $109,999	1	1	1	1
$110,000 – $119,999	1	1	-	1
$120,000 – $129,999	-	-	1	1
$130,000 – $139,999	-	1	-	1
$140,000 – $149,999	-	-	1	2
$150,000 – $159,999	2	4	-	-
$160,000 – $169,999	-	-	2	4
$170,000 – $179,999	1	1	1	1
$180,000 – $189,999	3	3	-	-
$190,000 – $199,999	-	1	1	1
$200,000 – $209,999	2	3	-	-
$210,000 – $219,999	-	-	-	1
$230,000 – $239,999	1	1	1	1
$240,000 – $249,999	-	1	-	-
$270,000 – $279,999	-	-	1	1
$290,000 – $299,999	-	-	1	1
$300,000 – $309,999	1	1	1	1
$310,000 – $319,999	1	1	1	1
$330,000 – $339,999	-	-	-	1
$350,000 – $359,999	-	1	1	1
$370,000 – $379,999	1	1	-	-
$410,000 – $419,999	1	1	-	-
$470,000 – $479,999	-	-	1	1
$480,000 – $489,999	1	1	-	-
Total employees	**16**	**23**	**14**	**21**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

26. 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:

	Parent 2014 $000	Group 2014 $000	Parent 2013 $000	Group 2013 $000
Loans and receivables				
Cash and cash equivalents	52,828	55,001	74,505	77,517
Trade and other receivables	394	4,431	257	2,740
Investments in Chorus Debt Securities	35,825	35,825	12,064	12,064
Total loans and receivables	89,047	95,257	86,826	92,321
AFS financial assets				
Investments in LFCs	11,964	-	3,881	-
Investments in Chorus Equity Securities	30,344	30,344	10,909	10,909
Total AFS financial assets	42,308	30,344	14,790	10,909
Financial assets designated as at FVTPL				
Investments in LFCs	89,176	-	52,295	-
Total financial assets designated as at FVTPL	89,176	-	52,295	-
Held-for-trading financial assets				
Investments in Chorus Equity Warrants	156	156	45	45
Total held-for-trading financial assets	156	156	45	45
Total financial assets	**220,687**	**125,757**	**153,956**	**103,275**
Financial liabilities measured at amortised cost				
Creditors and other payables	31,912	38,590	369	9,517
Borrowings	-	16,436	-	-
Total financial liabilities measured at amortised cost	31,912	55,028	369	9,517
Total financial liabilities	**31,912**	**55,028**	**369**	**9,517**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

27. 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 range 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 and the Group are exposed to fair value interest rate risk on the Chorus Equity Securities, which are accounted for at fair value.

The Group is also exposed to fair value interest rate risk in relation to its bank deposits and borrowings (which are held at fixed rates of interest) and the Chorus Debt Securities. However, because these items 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 recognised in the statement of financial position.

The average interest rate on CFH's bank term deposits is 3.8% (2013: 3.7%).

At 30 June 2014, from total borrowings of $16.4 million, $11.4 million is subject to a fixed interest rate to maturity and is not sensitive to changes in interest rates. The average interest rate on these borrowings at 30 June 2014 is 6.7% (2013: Nil).

The terms of the Chorus Equity Securities and Debt Securities are set out in notes 14 and 15.

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 and the Group to cash flow interest rate risk.

At 30 June 2014, from total borrowings of $16.4 million, $5 million has an average interest rate of 5.4% (2013: Nil), which was reset in August 2014 to long-term fixed interest rates of 6.5% until maturity at 2021/22 (2013: Nil). Accordingly these borrowings are also not subject to significant interest sensitivity.

CFH and the Group currently have no other variable rate financial instruments; however, term deposits are re-priced every quarter.

Sensitivity analysis

The sensitivities of the Chorus Equity Securities and Debt Securities are set out in the critical accounting estimates and assumptions section of the accounting policies.

In relation to bank deposits, as at 30 June 2014, 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 approximately $275,000 (2013: $390,000) higher/lower for CFH and the Group. This sensitivity is less than in the prior year as less cash and cash equivalents are held at balance date when compared with the prior year.

CREDIT RISK

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

Credit risk arises in CFH and the Group from exposure to counterparties where CFH deposits its surplus cash and through its exposure to trade debtors, Chorus through its investment in the Chorus Debt Securities, and the Partners in respect of the options and forward sale arrangements in respect of LFC shares. The process for managing credit risk in relation to CFH's surplus cash is described below and for managing the credit risk with Chorus in note 15.

CFH and the Group invest surplus cash with major registered trading banks. CFH's term deposits are currently held with three (2013: two) major banks, which are registered New Zealand banks. CFH's Investment Policy limits the amount of credit exposure to any one institution (up to $50 million with any one bank and subject to each bank having a credit rating of AA or better).

CFH's maximum credit exposure is represented by the carrying amounts. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired. There are no material overdue or impaired assets at 30 June 2014 (2013: Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

27. FINANCIAL INSTRUMENT RISKS (CONTINUED)

LIQUIDITY RISK

Liquidity risk is the risk that CFH and the Group will encounter difficulty raising liquid funds to meet commitments as they fall due. CFH's primary mechanism for managing liquidity risk is capital funding from the Crown, and the LFCs fund their working capital requirements by debt or equity contributions from the Partners. 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.

In meeting its liquidity requirements, CFH maintains a target level of investments that must mature within specified timeframes. CFH accesses its funding through the uncalled capital mechanism, whereby CFH draws down funds from the Crown as required to fund the UFB investment.

CONTRACTUAL MATURITY ANALYSIS OF FINANCIAL LIABILITIES

The table below sets out the undiscounted contractual maturities of the Group's financial liabilities; the amounts include principal and interest payable for the tenor of the borrowings:

Group	Less than 1 Year 2014 $000	1-5 Years 2014 $000	More than 5 Years 2014 $000
Creditors and other payables	38,590	1,087	-
Employee entitlements	666	-	-
Borrowings	1,033	23,175	-
Total	**40,289**	**24,262**	**-**

Parent	Less than 1 Year 2014 $000	1-5 Years 2014 $000	More than 5 Years 2014 $000
Creditors and other payables	31,912	-	-
Employee entitlements	467	-	-
Borrowings	-	-	-
Other non-current liabilities	-	-	-
Total	**32,379**	-	-

At 30 June 2013 all of the CFH and Group financial liabilities were due and payable within six months and of a "business as usual" nature. The contractual undiscounted amounts are equal to the carrying amounts.

Additional information on CFH's commitment to fund the LFCs' UFB network asset purchases is set out in note 21.

FAIR VALUE MEASUREMENTS

The Chorus Debt Securities (carrying amount $35.8 million) have a fair value of $40.9 million, predominantly due to mark-to-market interest rates falling compared with the amortised cost used in the initial recognition of the debt. The carrying amounts of all other financial assets and liabilities approximate their fair values (30 June 2013: The carrying amounts of all financial assets and liabilities approximate their fair values).

CFH's and the Group's financial assets measured at fair value, and the movements therein, are set out in note 14. These financial assets are all considered to be at level three of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

28. CAPITAL MANAGEMENT

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

ENL's ability to borrow is restricted to borrowings from the Partner only.

CFH and the Group manage their equity as a by-product of prudently managing revenue, expenses, assets, liabilities, investments and general financial dealings to ensure that CFH and the Group achieve their objectives and purposes effectively, whilst remaining going concerns.

29. EVENTS AFTER THE BALANCE SHEET DATE

Chorus and CFH, on 17July 2014, entered into a conditional agreement with CFH, that gives Chorus the option to bring forward part of CFH's existing investment funding earlier in the build of the UFB network. Under the agreement Chorus has the option of bringing forward CFH funding of up to $178 million that is budgeted to be spent on Chorus's UFB programme in the 2018 and 2019 financial years. This facility provides useful additional financial flexibility and liquidity if needed and does not have any ongoing financial costs unless drawn. The facility will automatically terminate if Chorus does not use it by 30 June 2016. There are no changes to Chorus's underlying contractual obligation to pass all premises in Chorus's coverage area before December 2019, or changes to the network requirements. The effective finance rate is 8.5% at 17 July 2014, and would translate into Chorus receiving between $141 million and $149 million of advance funding if fully drawn, depending on the timing of the drawdown.

CFH, on 15 July 2014, agreed to amendments to the transaction documentation between UFL and WNL. As a result of the changes, for the period up to 30 June 2016 CFH will receive either dividend-bearing shares or proceeds from a sale of A Shares under the recycling mechanism, at the option of WNL. Post 1 July 2016, WNL will have an obligation to purchase shares from CFH under the recycling mechanism up to an agreed level, then has the option to purchase shares from CFH or allow CFH to convert its A shares into dividend-bearing shares. These deed of amendments were adopted by all parties on 31 July 2014.

On 1 July CFH issued a capital call to the Crown for $50 million and the funds were received on 15 July 2014.

On16 July 2014 Chorus issued and CFH subscribed to a further $31 million in Chorus Debt and Equity Securities. Chorus also issued a further $2 million in Debt and Equity Securities on 18 August, to which CFH subscribed.

CFH has also invested a further $13 million in the two LFCs for UFB networks completed in July and August 2014.

There were no other significant events after balance date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

30. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET

The Parent full-year deficit is $11 million and the Group is $27 million greater than budgeted. Explanations for key variances are set out below.

Statement of comprehensive income

	Ref	Parent Actual 2014 $000	Parent Budget 2014 $000	Group Actual 2014 $000	Group Budget 2014 $000
Income	A	14,544	1,024	16,151	17,746
Expenses					
Board fees		206	261	716	726
Audit fees		108	120	162	184
Depreciation and amortisation	B	72	105	8,608	10,964
Occupancy costs		260	265	1,226	1,213
Other Company overheads	C	7,266	6,736	29,342	27,303
UFB contribution	D	172,500	147,240	134,885	110,045
Total expenses		180,412	154,727	174,939	150,435
Surplus/(deficit) before tax		**(165,869)**	**(153,703)**	**(158,788)**	**(132,689)**
Tax expense/(credit)	E	-	-	(3,848)	(5,089)
Net surplus/(deficit) for the year		**(165,869)**	**(153,703)**	**(154,940)**	**(127,600)**
Other comprehensive income	F	902	153	601	153
Total comprehensive income/(loss) for the year		**(164,967)**	**(153,550)**	**(154,339)**	**(127,447)**

Explanation of significant variances:

A – Income
Parent Income exceeds the budget for a number of reasons. Interest on cash balances exceeds the budget by $1.3 million as the budget assumed an average cash balance of approximately $20 million; however, the actual average cash held throughout the year was significantly higher (approximately $60 million) with higher interest rates. CFH receives capital funding in advance of expected UFB network investment, and there has been a greater-than-forecast timing difference between UFB deployment and investment flows. In addition, due to the nature of the investments, fair value gains on the LFC investments of $8.4 million and interest of $3.2 million on the Chorus investments were unbudgeted. They were previously budgeted in UFB contributions.
The Group's Income, although benefiting from the income uplift described above, was offset by less than expected income on the LFC Wholesale UFB product revenues. The volume of this income increased noticeably during the year, but finished the year behind budget.

B – Depreciation
The Group had favourable depreciation expense, as this is a factor of the timing of the recognition of the UFB build assets, noting that the UFB project hit its build milestone for the full year 30 June 2014.

C – Other Company overheads
Parent Overheads are higher than budgeted due to additional advisory costs incurred in responding to Chorus, and providing funding in a manner aligned to the completed build. The additional advisory costs were largely offset by the reimbursement from Chorus shown in other income in the statement of comprehensive income. Other Company overheads were within budget.
The Group company overheads are greater than budget, with the favourable variances in staff and contractor cost, and interest expense, offset by advisor costs, and increased network expenses.

D – UFB contribution
For both the Parent and the Group the UFB contribution is greater than budgeted mostly due to a delayed payment to Chorus for work completed at 30 June 2013 but which did not meet the criteria for payment. These amounts were included in the 2013 budget, but not contemplated in the budget for 2014. As a result of the timing difference there was a positive variance in 2013 of $19.1 million and a negative variance in 2014 of $25.2 million. The additional variance relates to fair value gains and imputed interest being shown in income, but budgeted in UFB contributions. Chorus completed its annual build programme within the timeframes agreed with CFH in both 2013 and 2014, and Chorus is now entitled to partial payment as the network build is completed, ahead of residual payments for stage completions.

E – Tax expense
The tax expense is less than budget by $1.2 million as the LFCs have discounted their tax assets using their business cases to base their respective ability to utilise these assets to offset taxable income in the future.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

30. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET (CONTINUED)

F – Other comprehensive income
Other comprehensive income is represented by fair value gains on the ENL investment and the Chorus Equity Securities investment. As this amount is so uncertain, only a nominal amount was included in the budget.

Statement of financial position

	Ref	Parent Actual 2014 $000	Parent Budget 2014 $000	Group Actual 2014 $000	Group Budget 2014 $000
Assets					
Current assets					
Cash and cash equivalents	A	52,828	31,298	55,001	40,933
Other current assets		405	145	4,473	2,960
Total current assets		53,233	31,443	59,474	43,953
Non-current assets					
Property, plant and equipment		211	221	247,430	245,389
Investments in LFCs and Chorus	B	167,465	147,520	66,325	50,095
Deferred tax assets		-	-	9,205	9,899
Total non-current assets		167,676	147,741	322,960	305,383
Total assets		**220,909**	**179,184**	**382,434**	**349,336**
Liabilities					
Current liabilities	C	32,379	758	40,282	3,927
Non-current liabilities	D	-	-	18,022	27,135
Total liabilities		**32,379**	**758**	**58,304**	**31,062**
Net assets		**188,530**	**178,426**	**324,130**	**318,274**
Capital		527,900	527,900	527,900	527,900
AFS reserve	E	1,147	745	846	588
Retained earnings	E	(340,517)	(350,219)	(263,534)	(266,411)
Non-controlling interest	E	-	-	58,918	56,197
Total equity including non-controlling interest		**188,530**	**178,426**	324,130	318,274
Equity attributable to parent		188,530	178,426	265,212	262,077
Non-controlling interests		-	-	58,918	56,197
Total equity		**188,530**	**178,426**	**324,130**	**318,274**

Explanation of significant variances:

A – Cash and cash equivalents
The key drivers of the cash and cash equivalents variance are set out in the statement of cash flows analysis below.

B – Investments in LFCs and Chorus
The investments in the LFCs and Chorus reflect that the UFB deployment targets for the year ended 30 June 2014 were exceeded, and are greater than budget predominantly due to the timing of payments to Chorus. In the year ended 30 June 2014 there was a delayed payment of $19.1 million to Chorus from the previous year, which was not contemplated in the budget contained in the 2014 Statement of Intent.

CFH has accrued Chorus investments (refer C below) as a result of the revised payment schedule to a partial payment as the network build is completed, and the residual payment on completion of the stage. At 30 June 2014 this totalled $31 million. The accrual together with the related UFB contribution (as set out in the statement of comprehensive income analysis) and the lower-than-expected level of recycling (as set out in the statement of cash flows analysis) have resulted in investments being $27 million higher than budgeted.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

30. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET (CONTINUED)

C – Current liabilities
Chorus is now entitled to a partial payment as the network build is completed, and the residual payment on completion of the stage. Accordingly, CFH recognised a liability of $31 million at balance date in respect of amounts due to Chorus for its completed 30 June 2014 build.

D – Non Current liabilities
ENL has not drawn down as much in borrowing as budgeted during the year, which resulted in a favourable variance in Non-current liabilities.

E – Available-for-sale reserve and retained earnings
The key drivers of the AFS reserve and retained earnings' variance are set out in the statement of comprehensive income analysis above.

Statement of changes in equity

	Ref	Parent Actual 2014 $000	Parent Budget 2014 $000	Group Actual 2014 $000	Group Budget 2014 $000
Opening equity		153,497	131,976	240,837	214,342
Total comprehensive income/(loss)	A	(164,967)	(153,550)	(154,339)	(127,447)
Capital contribution	A	200,000	200,000	237,632	231,379
Total equity		**188,530**	**178,426**	**324,130**	**318,274**

Explanation of significant variances:
A – Equity
The key drivers of the total comprehensive income/(loss) and capital contribution variances are set out in the statement of comprehensive income and statement of financial position analysis above.

Statement of cash flows

	Ref	Parent Actual 2014 $000	Parent Budget 2014 $000	Group Actual 2014 $000	Group Budget 2014 $000
Cash flows from operating activities					
Receipts from customers	A	-	-	9,365	16,027
Interest received	B	2,361	610	2,484	626
Other receipts		250	-	250	-
Payments to suppliers	C	(3,094)	(2,786)	(26,583)	(21,195)
Payments to employees		(4,336)	(4,519)	(5,969)	(6,158)
Interest paid		(16)	-	(185)	(1,898)
Goods and services tax (net)		27	(171)	(571)	1,129
Net cash outflow from operating activities		**(4,808)**	**(6,866)**	**(21,209)**	**(11,469)**
Cash flows from investing activities					
Purchase of property, plant and equipment	D	(34)	(75)	(92,230)	(132,629)
Investments in LFCs	D	(77,456)	(87,853)	-	-
Investments in Chorus	E	(143,008)	(133,918)	(143,008)	(133,918)
Sale to non-controlling interests	F	3,629	11,536	3,629	11,536
Net cash outflow from investing activities		**(216,869)**	**(210,310)**	**(231,609)**	**(255,011)**
Cash flows from financing activities					
Capital contribution		200,000	200,000	227,436	229,014
Debt draw down		-	-	2,867	26,500
Net cash inflow from financing activities		**200,000**	**200,000**	**230,303**	**255,514**
Net (decrease)/increase in cash and cash equivalents		**(21,677)**	**(17,176)**	**(22,516)**	**(10,966)**
Cash and cash equivalents at the beginning of the year		74,505	48,474	77,517	51,959
Cash and cash equivalents at the end of the year		**52,828**	**31,298**	**55,001**	**40,993**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

30. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET (CONTINUED)

Explanation of significant variances:
A – Receipts from customers
Receipts from customers was behind budget due to less than expected income on the LFC Wholesale UFB product revenues. The volume of this income increased noticeably during the year, but finished the year behind budget.

B – Interest received
Interest receipts were significantly higher than budgeted for the same reasons as outlined for interest revenue in the statement of comprehensive income analysis above (excluding Chorus interest, which is non-cash).

C – Payments to suppliers
The increase in payments to suppliers mainly relates to the increased advisory costs related to the Chorus arrangements outlined in the statement of comprehensive income analysis above; these additional advisory costs were largely recovered from Chorus, shown in other income in the statement of comprehensive income.

D – Investments in LFCs
The cash investment in the LFCs is $10 million less than budgeted, and is detailed in the statement of financial position analysis above. This is reflected in the Group's property plant and equipment.

E – Investments in Chorus
Investments in Chorus Equity Securities and Chorus Debt Securities are higher than budgeted for the reasons outlined in the statement of financial position analysis above.

F – Sale to non-controlling interests
Recycling has occurred more slowly than budgeted as UFL focuses on progressing the build of passing infrastructure rather than connections. Despite this, the number of connections has increased in the second half of the financial year.

DIRECTORY

Shareholders

Minister of Finance (Hon Bill English); and Minister for State Owned Enterprises (Hon Tony Ryall)

Registered office

c/ – Bell Gully
Level 22, Vero Centre
48 Shortland Street
Auckland 1010
New Zealand

Contact address

PO Box 105321
Auckland City
Auckland 1143
New Zealand

Email: info@crownfibre.govt.nz
Web: www.crownfibre.govt.nz
Phone: +64 9 912 1970
Fax: +64 9 368 9201

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

Bankers

ASB, BNZ and ANZ

Senior Management

Graham Mitchell, Chief Executive Officer
Philip Campbell, Planning Director
John Greenhough, Chief Technical Officer
Rohan MacMahon, Strategy Director
Kathryn Mitchell, General Counsel
Sean Wynne, Chief Commercial Officer

Crown Fibre Holdings

Ultra-fast broadband for New Zealanders