

CROWN FIBRE HOLDINGS LIMITED
ANNUAL REPORT
FOR YEAR ENDED 30 JUNE 2012




Crown Fibre Holdings
Ultra-fast broadband for New Zealanders



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CHAIRMAN'S REPORT

THE GOVERNMENT'S ULTRA FAST BROADBAND SCHEME IS ONE OF ITS MOST IMPORTANT POLICY INITIATIVES; OVER A 10 YEAR PERIOD IT WILL ENABLE DRAMATICALLY IMPROVED PRODUCTIVITY FOR NEW ZEALAND BUSINESSES, WHILE SUPPORTING INNOVATIVE NEW FORMS OF SERVICE DELIVERY IN HEALTH AND EDUCATION.



Crown Fibre Holdings has made excellent progress towards the Government's policy goals: Ultra-Fast Broadband (UFB) availability to 75% of New Zealand's population by the end of 2019 and coverage of Priority Users (businesses, schools and health facilities) by the end of 2015.

During 2011-12, CFH moved into its implementation phase with its four Co-Investment Partners, and in locations around New Zealand the UFB deployment began gaining momentum. Our priorities are now: managing the UFB contracts; monitoring Crown investment in the Co-Investment Partners; and supporting the Government where requested to ensure the new UFB infrastructure is effectively used.

Each of the CFH Co-Investment Partners – Northpower Limited (NP), Waikato Networks Limited (WNL), Christchurch City Holdings through its subsidiary Enable Services Limited (ESL), and Chorus Limited – has made good progress. At 30 June 2012, UFB deployment was underway in 22 towns and cities, and deployment stages had been completed in 17 of these.

The Government's goal of substantially passing more than 70,000 premises by 30 June was comfortably exceeded (76,000 premises substantially passed). Of these, 76% were available to the market, representing more than 77,000 potential end-

customers (households, businesses, schools and health facilities) now able to connect to UFB. Given that minimal premises were passed at 30 June 2011, this is an outstanding achievement by CFH and the four Co-Investment Partners.

The deployment will continue to ramp up from now onwards. Recent deployment run-rates have approached 14,000 premises substantially passed per month, which is well in line with the speed required to deliver our 2019 UFB coverage goal.

Although customer connection is at an early stage, with only one Co-Investment Partner having launched full UFB Services prior to 30 June 2012, over 1,200 end-user customers are already on the UFB network. All Co-Investment Partners are now in the process of launching their UFB networks to Retail Service Provider customers (RSPs) serving the market. RSPs are showing significant interest in selling services over the UFB network.

We look forward to seeing more RSPs actively selling UFB services to business, schools and households. This Annual Report includes examples of innovative uses and productivity improvements being achieved already by some UFB customers. It will be fantastic to hear more such stories as UFB adds increasing value to the work and home lives of New Zealanders.

Chorus became a CFH Co-Investment Partner after its de-merger from Telecom Corporation of New Zealand Limited (TNZ) during 2011-12. The establishment of Chorus as a "last mile" access business was a world first structural separation of an incumbent telecommunications company into access network and retail service companies. It has been a major event for New Zealand's telecommunications industry – and for the UFB deployment.

The past year has also seen the Government review CFH's role and other key aspects of the UFB initiative. The review was needed to provide the telecommunications industry with

certainty on CFH's future, and on its programme and funding to the end of UFB deployment in 2019. The review outcomes have been positively received since being communicated to the industry by Minister for Communications and Information Technology and the Minister of Finance in mid-2012.

Government decisions from the review will see CFH play a somewhat narrower role in relation to Co-Investment Partners and the RSP community. In approving new UFB products for RSPs, CFH will ensure that such products meet Government policy. CFH will also approve any changes to existing UFB products as long as they deliver at least as well as the terms contractually agreed between CFH and the Co-Investment Partners. This will leave the Co-Investment Partners and RSPs to decide what future UFB products are necessary to meet market demands. If requested by the Government, CFH will also work on activities aiming to build demand for UFB services.

CFH is moving to implement changes in its contracts with the Co-Investment Partners as a result of the review. CFH will continue with strong oversight of UFB contracts with the Co-Investment Partners to ensure that deployment is on time, and meets specifications and quality requirements. In addition, CFH has management oversight of Crown funds invested in the Co-Investment Partners.

During 2011-12, CFH achieved a substantial reduction of 58% in operating expenditure, reflecting the conclusion of partner selection in the previous year and the greater clarity achieved on CFH's role. Operating expenditure for 2011-12 was \$8.1 million, \$0.7 million lower than the budget figure of \$8.8 million in CFH's 2011 Statement of Intent.

CFH invested \$45 million with Co-Investment Partners during the year which funded UFB deployment for network stages that were

completed in the 2012 year. CFH's funding was by way of cash reserves of \$15.4 million and a \$127.5 million capital injection. CFH held cash investments on hand of \$89.3 million at 30 June 2012.

The UFB initiative will see the Government invest over \$1.3 billion through CFH with the four Investment Co-Partners. The commercial agreements with them will see this original investment returned to CFH as specified in the agreements with each Co-investment Partner. The repayment period with Chorus will extend to 2036.

CFH continues to monitor the Government's investment in UFB, especially through its directorships in the three Local Fibre Companies (LFCs, being the joint ventures formed between CFH and its Co-Investment Partners WNL, NP and ESL). For Chorus, a dedicated UFB Steering Committee oversees the UFB deployment, with CFH also having representation on this governance group.

I look forward to providing an update in 12 months' time on major progress throughout 2012-13. By then, around 20% of the UFB deployment will be completed, with increasing numbers of schools, health providers, businesses and households connected to UFB and enjoying its many benefits.

scale

Simon Allen
Chair
26 September 2012

CASE STUDY 1:

UFB IN USE: SOFTWARE DEVELOPMENT FROM WHANGAREI TO THE WORLD

Magnetism relies on high-speed symmetric broadband to service clients around NZ, and in Canada and the United Kingdom. The software development business has 22 people in its offices in Whangarei and Auckland. As a Microsoft partner, Magnetism can often move 30GB in a single file load and owner Mark Smith says without a UFB connection they simply couldn't operate.

Magnetism saves time with live business interactions, sharing screens in video and by teleconference – and saves money because staff do not need to travel or work offsite at a client's business. The UFB connectivity Magnetism enjoys has been one of the factors enabling it to reach a global marketplace. As a provider of information technology services, Mark foresees that

businesses of all sizes will begin to move data such as payroll and accounts to the cloud.

In his other role, as President of the Northland Chamber of Commerce, Mark believes UFB offers provincial youth the opportunity to gain the same skills as their urban counterparts. Further, he says UFB positions provincial towns for greater innovation, providing global opportunities which can be nurtured within close-knit business communities.



CHIEF EXECUTIVE'S REPORT

NEW ZEALAND'S NATIONAL UFB INITIATIVE IS GATHERING PACE, WITH TANGIBLE BENEFITS EMERGING AS MORE NEW ZEALANDERS GAIN MUCH IMPROVED BROADBAND SERVICES. I CAN REPORT EXCELLENT PROGRESS BY CFH DURING 2011-12 TOWARDS THE GOVERNMENT'S UFB OBJECTIVES.



KEY ACHIEVEMENTS IN 2012:

Progress has been achieved during the year and since 30 June 2012 under the following areas of focus by CFH.

UFB deployment

- Full-scale UFB deployment began through the Co-Investment Partners, initially in Whangarei, followed by all major cities: Auckland, Hamilton, Tauranga, Wellington, Christchurch and Dunedin. Deployment also commenced in Whanganui, New Plymouth, Hawera, Tokoroa, Rotorua, Taupo, Napier, Palmerston North, Masterton, Wellington, Blenheim, Ashburton, Timaru and Invercargill.
- A total of 88 Central Offices (the UFB equivalent of a telephone exchange where fibre optic electronic equipment is housed) have been commissioned, and 20 Points of Interconnect have gone live in major UFB locations (where RSPs connect to the network). Around 1,700 kilometres of optic fibre has been deployed by the Co-Investment Partners in locations around New Zealand.
- Each of the Co-Investment Partners has brought into the initiative their own fibre assets, with work continuing to integrate these into the UFB network.

UFB connections and launches

- Whangarei is currently the location with most new connections to the UFB network, due to Northpower's rapid project commencement and full product commercial launch. These events have sparked considerable interest from service providers and customers. In Whangarei, uptake neared 10% in the area covered within the first year of UFB deployment.
- The other three Co-Investment Partners are expected to launch their UFB networks for the mass market (households and small businesses) before 30 September 2012.
- At this early stage of the deployment, there are more than 1,200 customer connections in place.

Engaging Retail Service Providers

- More than 50 Retail Service Providers (RSPs) have signed wholesale agreements with Chorus and/ or the LFCs. These RSPs will be selling UFB services to end-customers such as businesses and households.
- All major RSPs have commercial and technical trials in UFB rollout areas; once trials conclude, RSPs will finalise their product offerings and then launch retail products to the market.
- More than 10 RSPs are now actively selling UFB services to customers. These include Orcon, who is offering free entry level UFB services until January 2013, and CallPlus, which is offering uncapped plans to schools.
- In general, most plans so far offer mass market customers greatly improved broadband services at prices which are comparable to existing copper-based broadband.

ENABLE CONTRACTOR, UNDERGROUND BROWN, SHOWS PUPILS HOW THE SERVICE LINE IS BUILT INTO AIDANFIELD SCHOOL IN HALSWELL.

Managing UFB contracts

- CFH manages the UFB contracts with the Co-Investment Partners to ensure UFB deployment is consistent with policy objectives, particularly in regard to deployment to Priority Users (business, schools and healthcare providers).
- During 2011-12, deployment plans were agreed with each Co-Investment Partner for initial deployment periods, and these were communicated to RSPs, end users and other stakeholders.
- During the year, CFH also began setting up systems to monitor the UFB deployment and to test each network stage to ensure it meets requirements (known as User Acceptance Testing or UAT). It also began building automated processes for payments to the Co-Investment Partners.
- By 30 June 2012, CFH had drawn \$163 million from the \$1.345 billion of Crown funds available. Of this, \$45 million had been invested with the Co-Investment Partners for the UFB deployment.

Stakeholder engagement

CFH has continued to lead communications with a large range of stakeholders about the UFB initiative. As the deployment accelerates, local councils, government agencies, healthcare and education providers, ICT (Information and Communications Technology) businesses and others will gain increased understanding of UFB and its potential in their communities of interest.

PROBITY:

CFH continues to uphold the highest standards of integrity across the UFB initiative, including:

- Full transparency in the disclosure of potential interests, and management of these in accordance with an interests policy framework;
- Probity in all aspects of overseeing the commercial engagement with the Co-Investment Partners for their implementation of UFB contracts;
- A comprehensive approach to risk management including governance oversight by an Audit and Risk sub-committee of the CFH Board; and
- High standards of governance and review by the CFH Board.

OUTLOOK FOR 2013:

CFH will push ahead during 2012-13 with the following priorities:

- Momentum in the UFB deployment will build further to reach

around 229,000 premises passed by 30 June 2013. To achieve this, Crown investment will amount to approximately \$190 million.

- Deployment plans for future years will be agreed with Chorus and the three Local Fibre Companies, and these plans will be released to customers and the wider community.
- Deployment will extend to four further towns and cities, bringing to 26 the number of urban centres with UFB deployment underway.
- Emphasis will continue on providing access to Priority Users so they make up a large proportion of both premises passed and UFB connections.
- More UFB retail plans will come into the market from major RSPs.
- UFB connection rate will accelerate as the network reaches critical mass in more and more locations.
- New technology innovations will come into the market so that end-customers can take increasing advantage of UFB broadband speeds and capabilities.

We face the next six years with confidence and keen anticipation of the benefits UFB will bring to New Zealanders. In 2012-13 and beyond, my small, experienced and focused team will build on what has been achieved by CFH and the Co-investment Partners so far.

We will continue to manage the UFB contracts and ensure deployment occurs fully in line with these. In doing this, we will place high priority on monitoring the Government's UFB investment, recognising that this includes monitoring the business performance of the Local Fibre Companies and our related financial exposures. Overall, CFH stands ready to support the Government with advice and other activities as New Zealand pushes ahead with an initiative of huge importance to our future.



Graham Mitchell
Chief Executive Officer
26 September 2012

CASE STUDY 2:

UFB IN USE: MANAIA VIEW LEADS THE WAY



Manaia View may be a Decile 1 school but it is also number 1 when it comes to UFB connection for enhanced learning outcomes. Located in Whangarei, Manaia View became the first school on UFB, through connection by Northpower Fibre in late 2010. Manaia View has since formed a buying cluster with other local schools also covered by UFB deployment, and together they specified their requirements to prospective Retail Service Providers. With an RSP now selected through a tender, Manaia View and the other schools are now using UFB for new forms of e-learning.

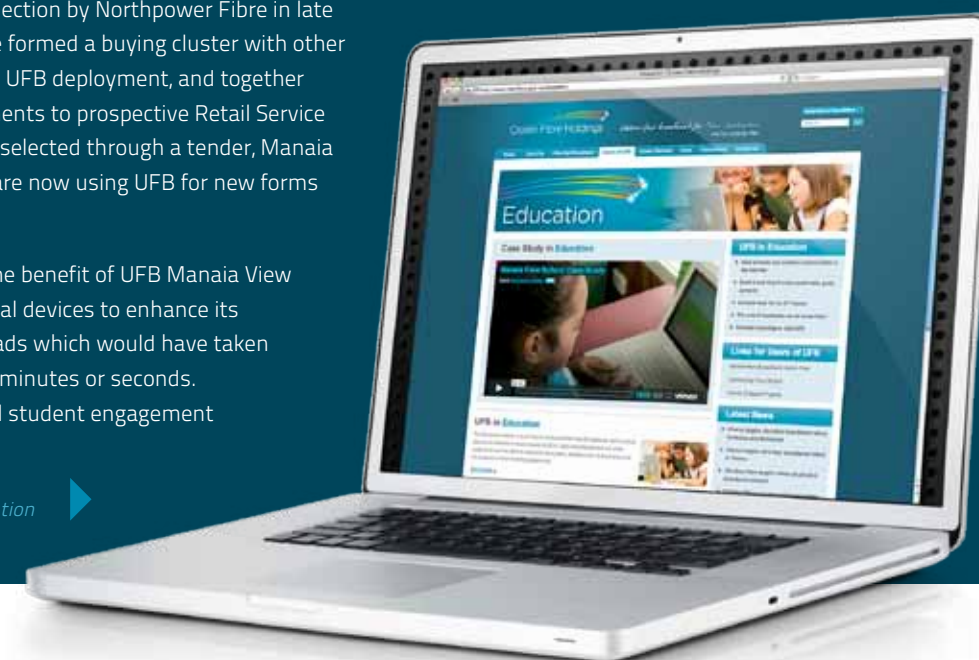
Already an ICT leader, with the benefit of UFB Manaia View has expanded its use of digital devices to enhance its pedagogy. Large file downloads which would have taken hours are now completed in minutes or seconds. With improved speed, overall student engagement

has also increased, with truancy and lateness levels have fallen. Pupils have 'digital desktops' so that parents can look over their work.

School principal Leanne Otene reports that students' reading results have improved, from 68 per cent recorded 'at and above' the expected level to 90 per cent just 9 months

after UFB went live. Manaia View has also achieved cost savings (for example by reducing photocopying).

View the full story at
www.crownfibre.govt.nz/education

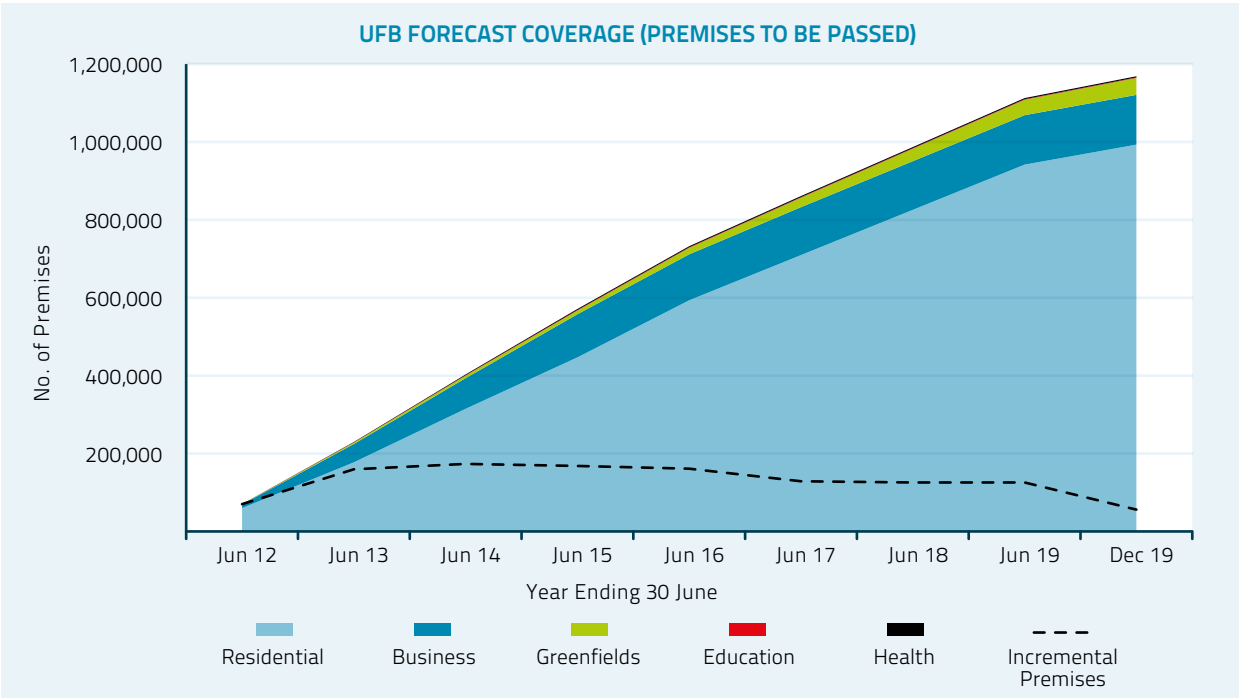


KEY PERFORMANCE INDICATORS

CFH uses three key performance measures to track progress towards the UFB goals.

- **UFB Coverage:** This is the total premises passed by fibre optic cable or conduit in which cable can be deployed on demand in all areas covered by the initiative. Targets for coverage are established for each LFC Candidate Area in the Network Deployment Plans (NDPs) approved with the LFCs and Chorus for each year. Where NDPs have not been approved, CFH sets a target based on other information including Co-Investment Partner Business Plans.

Figure 1: UFB Forecast Coverage (premises to be passed):



The Government’s goal was originally for 50,000 premises substantially passed by 30 June 2012 and subsequently this was increased to 70,000. This goal was comfortably achieved, with 76,000 premises substantially passed. Of these, 76% were available to the market, representing more than 77,000 potential end-customers (households, businesses, schools and health facilities) now able to connect to UFB.

Premises substantially passed is representative of actual build progress, i.e. civil works complete, ducting laid etc. rather than premises available for service. CFH will only pay partners for premises passed once the network stage has been certified as complete and the stage has passed user acceptance testing, and this is explained in more detail in Note 14 of the Financial Statements.

Table 1 in Appendix 2 splits out the premises passed by type, i.e. priority premises (Business, Schools, Health), Residential and Greenfields.

- **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.

Table 1: Service Performance Measures:

SERVICE	TARGET
SLA Provisioning per end customer: <ul style="list-style-type: none">▪ Residential▪ Business/Priority	<ul style="list-style-type: none">≤ 4 days (business days)≤ 6 days
Layer 2¹ Performance per end customer: <ul style="list-style-type: none">▪ Residential Restoration▪ Business/Priority Restoration	<ul style="list-style-type: none">≤ 12 hours≤ 12 hours
Layer 2 Network Performance per Candidate Area: <ul style="list-style-type: none">▪ Frame Loss (99% of Frames)▪ Frame Delay (99% of Frames)▪ Frame Delay Variation (99% of Frames)▪ Availability Time/Network	<ul style="list-style-type: none">≤ 0.1%≤ 5mS< 1mS< 30 minutes / > 99.99%
Layer 1² Performance per End User: <ul style="list-style-type: none">▪ Default Restoration▪ Level 1 SLA Restoration (Priority)▪ Level 2 SLA Restoration (Priority)▪ Level 3 SLA Restoration (Priority)	<ul style="list-style-type: none">≤ 48 hours≤ 24 hours≤ 12 hours≤ 8 hours
Layer 1 Performance by Candidate Area: <ul style="list-style-type: none">▪ Average downtime▪ Minimum availability	<ul style="list-style-type: none">≤ 2 hours99.98%

Connections on the UFB network are at an early stage; as a result it is not yet meaningful to measure the performance of Chorus and the LFCs against these service level targets. Reporting will be available in the next year’s Annual Report.

- **End Customer Connections:** This is the number of UFB network connections to end customers and it is the key indicator of customer uptake of UFB. To date, only Northpower and Enable have “active” UFB networks: They have made connections to end-customer premises and released these to the market for the offer of services to these premises. Northpower’s network has been largely a new UFB deployment and active penetration has reached approximately 10%. Enable has an existing fibre network with connection only to Priority Customers, with a penetration rate of approximately 6%.

Table 1 in Appendix 2 shows premises passed by candidate area, the estimated number of end users substantially passed, and premises and end users released to the market ready for service.

¹ Layer 2 of the Open Systems Interconnection Model of network architecture, normally associated with active fibre optic network infrastructure (the electronics that light fibre).

² Layer 1 of the Open Systems Interconnection Model of network architecture, normally associated with passive fibre optic network infrastructure.



DEPLOYMENT OVERVIEW

HOW IS UFB DEPLOYED?

UFB deployment along each street can be underground or aerial, depending on requirements in the District Plans for each Candidate Area. The lead-in to each premise from the street can also be either underground or aerial.

Figure 2: UFB Lead-in.

An Optical Network Termination (ONT) point will need to be installed in each premises. Generally the ONT is located in a central place in the building, near the other devices which a customer may wish to connect to the UFB network (see Figure 3. for a typical scenario for connection within the customer premises).

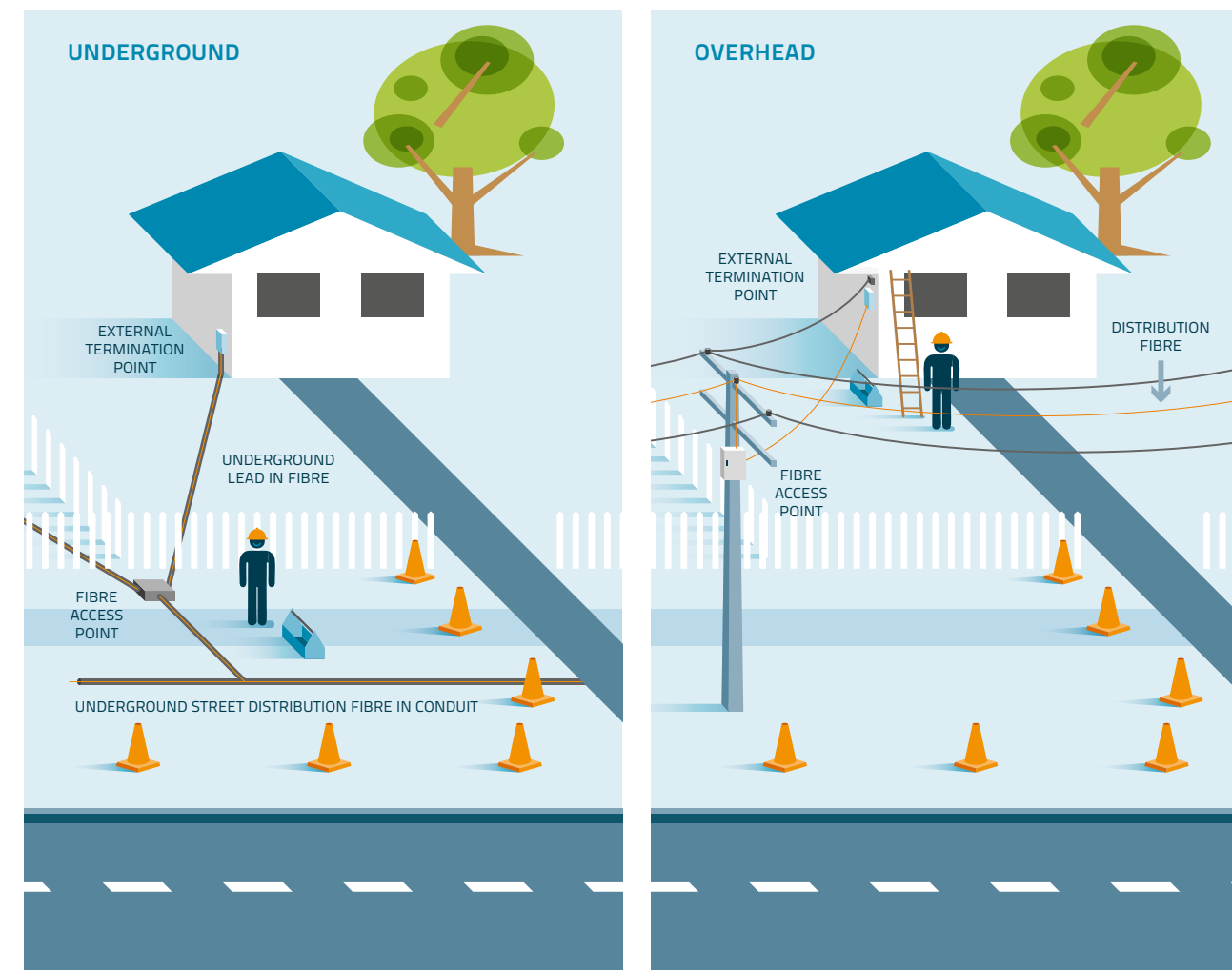
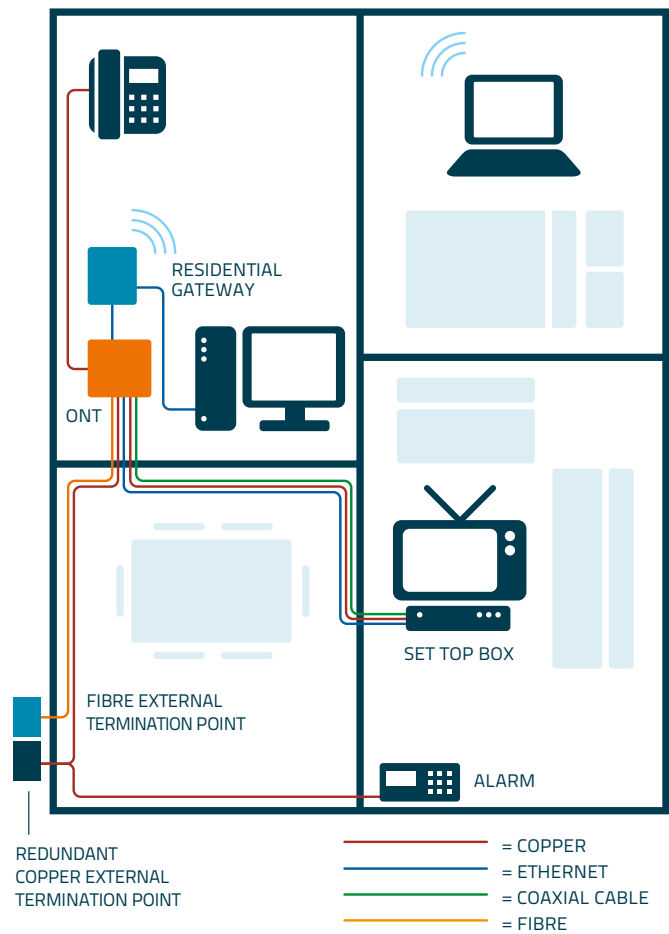


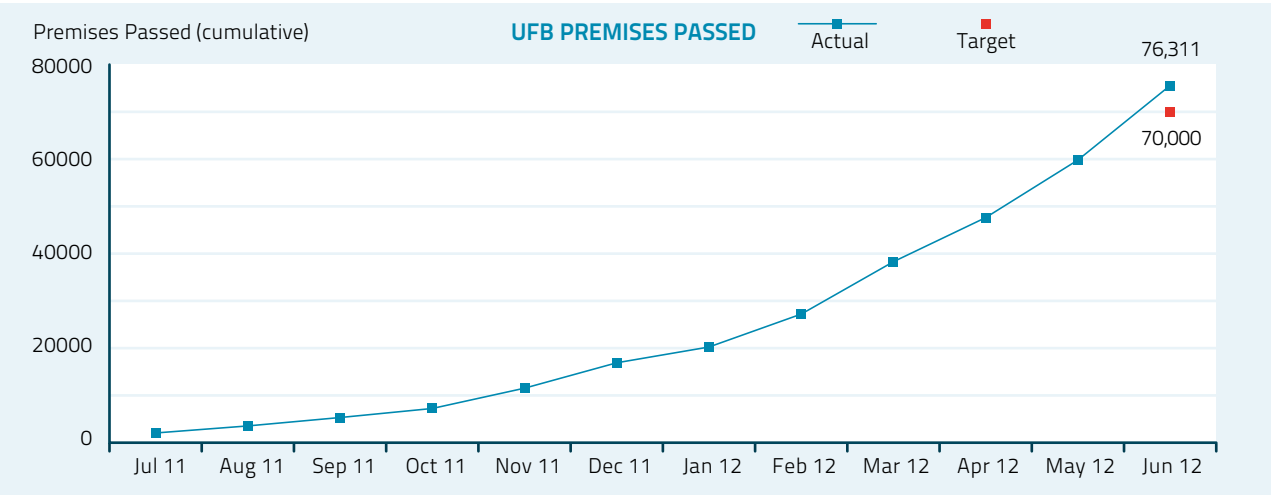
Figure 3: Indicative UFB In-Premise Installation.



The ONT requires connection to a power source and may be supported by a backup battery if the customer wishes. RSPs may offer customers a “Residential Gateway” device which enables connection to the ONT by TVs, phones and laptops. The Gateway may provide in-premises wireless connection of such devices and replace a DSL router.

The UFB deployment gained momentum through 2011-12 from a low base at the beginning of the year, as shown in Figure 4.

Figure 4: UFB premises passed.



³Compliant with ITU-T G.984.2
⁴See www.itu.int.

WHAT TECHNOLOGY IS USED FOR UFB?

The UFB technology is “Fibre To The Premise”, meaning that fibre optic cable is deployed to each end customer at the premises passed. Each UFB city or town has a Point of Interconnect which is the equivalent of a telephone exchange in the traditional copper local networks for voice telephony, that RSPs can connect to the UFB network to provide service to end customers. Fibre optic cable enables faster transmission of data and provides a more consistent service experience than do broadband services delivered over copper. Fibre is also upgradeable thereby meeting all New Zealand’s current and foreseeable future needs for broadband connectivity.

The UFB network uses technologies known as GPON and Point-to-Point:

- Gigabit Passive Optical Network (GPON) comprises an optical signal capable of delivering 2.488 Gbps (Gigabits per second) downstream and 1.244 Gbps upstream over a single fibre³, which is itself capable of being split into separate signals to deliver service to multiple customers. For UFB, the GPON split ratio is 1:24, enabling a single fibre to deliver 100Mbps downstream and 50Mbps upstream to up to 24 customers. As part of UFB deployment, each Co-Investment Partner is obliged to maintain currency with international GPON technical developments as defined by the International Telecommunications Union (the United Nations agency for IT and telecommunications)⁴. Each Co-Investment Partner must design the network so it is capable of upgrading to at least 10 times the current requirements (i.e. 1,000 mbps downstream and 500 mbps upstream).
- Point-to-point (P2P) fibre optic connections provide a dedicated fibre to the end customer and will mostly be used by larger business and government users. These are currently capable of supporting speeds of up to 10 Gbps. Service providers may purchase P2P services either as “dark fibre” (where the service provider uses their own electronics to activate or “light” the network, also known as Layer 1) or as “lit fibre” (where the connection is “lit” by the electronics equipment of the Co-Investment Partner, also known as Layer 2).

CASE STUDY 3:

UFB IN USE: THE BEST OF BOTH WORLDS

Different is a graphic design business with a difference. Based in Whangarei, Different services the often-complex requirements of clients around New Zealand by making creative use of UFB. The business is an early adopter having taken up the symmetric UFB service offered by a local service provider over Northpower Fibre more than a year ago. The two people working in Different can enjoy the best of both worlds: Northland’s more laidback lifestyle and opportunities to provide state-of-the-art design for clients who may be far away

Rapid, reliable upload speeds are crucial for sending large files to clients and enabling late design changes without chewing into production time. Now that Different can guarantee that files will get to the printer or the client in minutes rather than hours, there’s more time in the day and the company has been able to take on more work. Owner Matt Lewis is considering recruiting

additional staff to help with the growing business. With more time to work on the business as well as in it, Matt is looking at moving to a cloud based accounting service, remote data storage and back-up, and other services enabled by UFB.



WHAT SERVICES MAY BE ENABLED BY UFB?

New services enabled by UFB are now coming into the market and the potential for more services is huge. In the home, they include:

- High definition video conferencing (home-to-home);
- IPTV (video on demand, “catch up” and broadcast), as well as new advanced TV services such as 4K and 8K resolution;
- Online gaming, especially massive multiplayer games, against competitors around the world;
- Home Wide Area Network, allowing multiple homes (for example across an extended family) to easily store, access and share large amounts of information such as video or photos;
- Cloud computing applications for office applications, online backup, file syncing and so forth; and
- Tele-health and education applications in the home.

For businesses, examples of potential uses of the UFB network include:

- Improved Wide Area Network (WAN) connectivity across multiple sites;
- Cloud computing and Software as a Service (SaaS) applications such as Salesforce.com for customer relationship management, Google Docs on Microsoft 365 for office applications etc.;
- High definition video conferencing across multiple sites and multiple enterprises;

- IP Telephony to deliver improved integration of voice communications, contact centres, computer telephony integration across multiple sites;
- Collaboration across multiple sites and multiple enterprises, with improved information sharing, chat/ Instant Messaging, presence, location services etc.; and
- Server and storage virtualisation, to reduce the costs of hardware and provide better connectivity to corporate data.

Some schools are already on fibre optic networks around New Zealand and the benefits are reported to include:

- Tangible improvements in numeracy and literacy are occurring as students “create more than they consume” online;
- Students are more engaged as learning becomes a more interactive experience;
- A collaborative culture is built between teachers, and between teachers, parents and students as all parties access shared applications such as student portfolios stored in the cloud;
- Administrative systems are faster and more efficient, and reporting is transparent as fibre enables student and learning management systems to work optimally;
- Testing systems can deliver numerous individual assessments simultaneously while allowing students to work at their own pace and have their needs specifically targeted;
- Content can be accessed by multiple students at once; and
- Greater opportunities emerging for students with special needs as online learning accelerates students’ progress.

CO-INVESTMENT PARTNER PROFILE

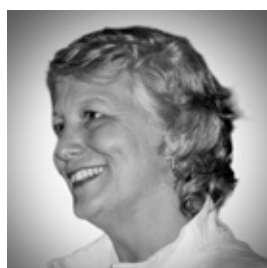


NORTHPOWER LIMITED:

Established in 1920, 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. The company has two distinct divisions: Northpower Network providing electricity and fibre infrastructure to Whangarei & Kaipara, and Northpower Contracting, operating throughout the North Island and in Australia.

Northpower and CFH are Co-Investment Partners in the Local Fibre Company Northpower Fibre (trading name for Whangarei Local Fibre Company Limited).

- Co-Investment Partner website: www.northpower.co.nz
- LFC website: www.northpowerfibre.co.nz
- LFC chair: Ms Jo Brosnahan (pictured)
- LFC Directors: Ms Nicole Davies-Colley, 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 over 84,000 homes, businesses and organisations throughout the Waikato region. Its network incorporates more than 5,100 kilometres of lines and has an annual throughput of over 1,160 Gigawatt hours. WEL employs 225 staff who are based at WEL's offices in Te Rapa Hamilton.

WEL, together with Waipa Networks (the electricity lines company serving Te Awamutu and Cambridge), established the Local Fibre Company Ultrafast Fibre Limited (UFF) in partnership with CFH in 2010.

UFF is responsible for building a 3,000km fibre network, passing about 162,000 premises in the urban areas of Hamilton, Tauranga, Whanganui, New Plymouth, Tokoroa, Hawera, Cambridge and Te Awamutu. This represents about 13% of the entire national ultra-fast broadband deployment.

- Co-Investment Partner website: www.wel.co.nz
- LFC website: www.ultrafastfibre.co.nz
- LFC chair: Mr Rodger Fisher (pictured)
- LFC Directors: Dr Julian Elder, Mr Mark Franklin, Mr Richard Prebble (WNL appointees); Mr Graham Mitchell, Mr Keith Tempest, 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 (ENL) is a Local Fibre Company formed by Enable Services Limited (ESL, a subsidiary of CCHL) in partnership with CFH to build and operate the UFB network for Christchurch and surrounding centres. ENL brought to the UFB scheme a world-class fibre network passing approximately 11,000 premises. In November 2011, it began extending the UFB network in Christchurch, and will in coming years pass homes, schools and businesses in Christchurch, Rangiora, Kaiapoi, Woodend, Lincoln, Prebbleton and Rolleston.

The ENL UFB network will play a vital role as Christchurch rebuilds – it will sit at the heart of the vision for a 21st century city. It will generate new industry, provide unprecedented access to global markets and services for local businesses, and enable the people of Christchurch to connect with each other in exciting new ways.

- Co-Investment Partner website: www.cchl.co.nz
- LFC website: www.enable.net.nz
- LFC chair: Mr Tim Lusk (pictured)
- LFC Directors: Mr Mark Bowman, Mr Brett Gamble, Mr William Luff (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. Chorus was formerly a division of Telecom Corporation of New Zealand Limited, and separated into an independent company listed on the NZ and Australian stock exchanges in late 2011. Chorus maintains around 1.8 million lines connected to homes and businesses throughout the country, including local telephone exchanges, cabinets and copper and fibre cables. Chorus is the largest partner of CFH's four Co-Investment Partners and is contracted to deliver UFB to over 830,000 premises by the end of the decade which is approximately 70% of the overall UFB initiative.

Chorus is not a Local Fibre Company; instead as described in Note 14 of the Financial Statements, CFH invests directly in Chorus as the UFB network is deployed in the form of non-voting equity and debt securities. Instead of a Board of Directors, CFH and Chorus have formed a Steering Committee to oversee Chorus's part of this initiative. The Committee, like the LFCs, has an independent Chair and equal representation from both CFH and Chorus.

- Co-Investment Partner website: www.chorus.co.nz
- Chorus UFB Steering Committee chair: Mr Gavin Walker (pictured)
- Steering Committee members: Mr Andrew Carroll, Mr Mark Ratcliffe, Dr Keith Turner (Chorus appointees); Mr Jack Matthews, Mr Graham Mitchell, Mr Sean Wynne (CFH appointees).



FUNDING STRUCTURE

LOCAL FIBRE COMPANIES (LFCs):

As each network stage is completed by the Co-Investment Partner (including successfully completing user acceptance testing (UAT)), the LFC purchases the UFB network from the Co-Investment Partner based on an agreed cost per premises passed (CPPP). CFH in turn funds the LFC's purchase of each stage by subscribing for A shares in the LFC at an issue price equal to the agreed CPPP (or in the case of ENL, proportionally with ESL). These A shares carry full voting rights, with no dividend rights until 10 years after the LFC's establishment.

The Co-Investment Partner is required to fund:

- the cost to connect each premise & end customer (essentially a fibre optic lead-in from the street);
- the electronics necessary to 'light' the fibre; and
- the LFC's operational costs including IT support platforms.

The Co-Investment Partner generally receives B shares for funding these obligations (B shares carry full dividend rights, but no voting rights until 10 years after the LFC's establishment), although a prudent level of debt is permitted in the LFC.

In the case of Northpower and WNL (WEL Networks), as the LFCs connect end customers to the network, the Co-Investment Partner is required to purchase from CFH its A shares based on the number of premises connected, the CPPP paid and an indexation mechanism (by Producer Price Index), this is referred to as "recycling". In the case of ESL (CCHL), it funds a portion of the CPPP in conjunction with CFH, and as a consequence is not required to purchase A shares when end customers connect. All A and B shares in each LFC convert to ordinary voting dividend entitlement shares 10 years after the LFC's establishment date.

CHORUS:

The investment structure with Chorus differs from model adopted for CFH's investment in the 3 Local Fibre Companies.

Chorus will self-fund the design and build work and carry the risk of any cost overruns in the network build. To assist in meeting the costs of the network build, CFH will invest up to \$929 million in Chorus progressively during the deployment as premises are passed and network build stages are completed, including

UAT. CFH's investment in Chorus is essentially a 50:50 mix of an interest-free debt instrument and equity notes that carry no dividend. CFH invests directly into Chorus, which is now a separate legal entity following the demerger from Telecom.

Chorus funds the same components of the network as the LFCs, as well as operational costs.

HOW MUCH IS CFH INVESTING?

The Government has budgeted \$1.345 billion to invest in Crown Fibre (CFH) to achieve the UFB Objective. Of this, CFH will progressively invest \$929 million in Chorus and approximately a net amount of \$370 million in the three Local Fibre Companies (LFCs).

WHO IS RECEIVING FUNDING FROM CFH?

CFH's funding is being invested in each of the three LFCs and Chorus.

The three LFCs are the co-investment vehicles of CFH and each of the UFB Partners, being Northpower (NP), and subsidiaries of WEL Networks (WEL) and Christchurch City Holdings Limited subsidiary Enable Services Limited (ESL).

WHAT RETURNS DOES CFH EXPECT TO RECEIVE ON ITS INVESTMENTS?

As a general rule, CFH is not entitled to dividends or interest from any of its investments for several years.

CFH receives no dividends on A Shares in LFCs until the end of each of the Concession Periods, at which time all of the shares in the LFC convert to ordinary shares with the same dividend rights.

CFH receives no interest or dividends on the CFH Securities received from Chorus, except in limited circumstances.

WHY IS THE VALUE OF ITS INVESTMENTS BEING WRITTEN DOWN IN THE CFH ACCOUNTS?

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 2021/22) need to be recorded as what they are worth today.

The costs of CFH's investment are reflected in the interest or dividends foregone, or the "time value of money". This year, this is shown in the financial statements as the "write down" of the \$45m that CFH has actually invested, from \$45m to \$19.2m, which is the actual amount recorded in CFH's accounts. This cost is described as the "UFB Contribution" in the Statement of Comprehensive Income and is \$25.8m for the 2012 year.

HOW MUCH DOES CFH EXPECT TO RECOVER ON ITS INVESTMENTS?

Chorus is to start repaying CFH for the CFH Debt Securities from 30 June 2025, finishing no later than 30 June 2036. The actual repayment schedule depends on the fibre uptake as at 30 June 2020. CFH Equity Securities are able to be redeemed at any time by Chorus.

CFH will be recovering its investment in the LFCs by either dividends received by CFH after the Concession Period or through the sale of shares. The value to CFH of the dividends or proceeds from the sale of shares has been assessed using standard valuation techniques to calculate the expected return given the risk of the cashflows in the LFC.

Based on current projections of the cashflows for the LFCs, assumed deployment rollouts, customer uptake profiles, credit risk, interest rates and cost of equity, CFH expects to receive the full face value of the net \$1.3billion it will be investing in Chorus and LFCs. The amount to be repaid is to be received through a combination of LFC recycling, sale of LFC shares and repayments/redemptions by Chorus of the CFH Securities.

WILL THE AMOUNT EXPECTED TO BE RECOVERED CHANGE OVER TIME?

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. \$1.3b). 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 repaid until the end of the concession period for the LFC's (2021 & 2022) and 2025 for Chorus, it is worth 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 LFC's and Chorus, and to \$1 immediately prior to being repaid.

BOARD OF DIRECTORS

DIRECTORS’ PROFILES AND INTERESTS HELD

Mr Simon Allen (Chair) – Simon Allen is a highly regarded company director with more than 25 years’ experience directing or advising Australian and New Zealand companies. He formed ABN AMRO New Zealand as a greenfields operation in 1988 (then known as BZW), leading it to become one of the country’s foremost investment banks. He resigned as Chief Executive in September 2009.

Mr Allen chaired New Zealand Exchange Limited (NZX) from 2001 until 2008 and has also served on the Boards of McConnell Properties, ABN AMRO Craigs and Auckland Healthcare. He is currently Chairman of the Financial Markets Authority and Auckland Council Investments Limited, and is Deputy Chairman of St Cuthbert’s College in Auckland, a director of Xylem Investments Limited and Simon Allen Consulting Limited, and a trustee of Snowvision, a charitable trust that promotes high-performance snow sports. Mr Allen made these general disclosures of interest pursuant to S140 (2) of the Companies Act 1993 and these were entered into CFH’s interests register.

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

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

- Director of Andrew Body Limited;
- Director and shareholder of Chartwell Trustee Company Limited;
- Director and shareholder of Upton Trust Company Limited;
- Director of Paterson Mews Limited;
- Member of the Work and Income Board (Ministry of Social Development); and
- Shareholder of McLaren Limited.

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

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

- Director of Auckland Council Investments Limited; and
- Chair of NZ On Air.

Danelle Dinsdale – Danelle Dinsdale has been legal adviser and negotiator on high-profile telecoms and technology contracts in the UK and globally. She has significant experience advising on contract management of major infrastructure projects and public-private partnership (PPP) projects in the UK. Since returning to New Zealand, Danelle has undertaken various assignments utilising her expertise in ICT contracting and her experience in change management and risk management.

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

- Director of PHO Health Hawke’s Bay; and
- Director of Medical Securities Limited.

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

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

- Director of Enable Networks Limited;
- Managing Director of Milner Consulting Limited;
- Chair of Harmonic Aotearoa Limited;
- Trustee and beneficiary of Milner Family Trust;
- Chair of National Health IT Board;
- Shareholder of Telecom New Zealand Limited;
- Shareholder of Chorus Limited;
- Member of the National Health Board;

- Trustee of NZ IPv6 Trust; and
- Member of the Health Capital Investment Committee.

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

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

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

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

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

BOARD ATTENDANCE

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

	2012				2011			
	No. of Regular Meetings	No. of Regular Meetings Attended	No. of Special Meetings	No. of Special Meetings Attended	No. of Regular Meetings	No. of Regular Meetings Attended	No. of Special Meetings	No. of Special Meetings Attended
DIRECTORS								
Simon Allen	11	11	n/a	n/a	11	11	5	5
Andrew Body	11	11	n/a	n/a	11	11	5	5
Miriam Dean	11	9	n/a	n/a	11	10	5	5
Danelle Dinsdale*	2	2	n/a	n/a	n/a	n/a	n/a	n/a
Jack Matthews	11	10	n/a	n/a	11	11	5	5
Murray Milner	11	11	n/a	n/a	11	8	5	3
Keith Tempest	11	9	n/a	n/a	11	11	5	5

* Danelle Dinsdale was appointed to the CFH Board in May 2012. There was no Special Board meeting held in 2012.

GOVERNANCE

ORGANISATION FORM

CFH was incorporated on 29 October 2009 under the Companies Act 1993. CFH is a Crown-owned Company, listed under Schedule 4 of the Public Finance Act 1989. CFH is subject to certain provisions of the Crown Entities Act 2004, and it is also subject to the Official Information Act 1982 and the Ombudsmen Act 1975. The shareholders in CFH are the Minister of Finance and Minister for State Owned Enterprises in their capacity as Ministers, and each holds 50% of the issued share capital. CFH is monitored by the Ministry for Innovation, Business and Employment (MBIE) Telecommunications branch and the Crown Ownership Monitoring Unit (COMU) 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 seven non-executive Directors. Their profiles can be read on pages 19 to 21 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 putting in place policies that ensure CFH 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). Some of these are less relevant at this stage of CFH's development given CFH is a relatively young company with fewer than 20 full-time employees:

- **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. It is expected that

with the completion of the Invitation to Participate (ITP) process, the establishment of the LFCs and the agreement with Telecom that the structure of CFH will evolve to meet the new requirements being placed on it and as such will create development opportunities for staff.

- **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).
- **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 is in the process of developing policies that are designed to encourage staff participation in health and safety. All staff are treated with respect regardless of sexuality. Staff are encouraged to take regular holidays and there are policies in place to help staff deal with stress-related complaints if necessary.

STATEMENT OF RESPONSIBILITY

FOR THE YEAR ENDED 30 JUNE 2012

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 2012.

Signed on behalf of the Board.



Simon Allen
Chairman

26 September 2012



Keith Tempest
Director

26 September 2012





INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF CROWN FIBRE HOLDINGS LIMITED AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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 62, that comprise the statement of financial position as at 30 June 2012, 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 62:
 - 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 2012; 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 26 September 2012. This is the date at which our opinion is expressed.

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

BASIS OF OPINION

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

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company and group's financial statements that fairly reflect 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. 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 Director's responsibilities arise from the Public Finance Act 1989 and the Financial Reporting Act 1993.

RESPONSIBILITIES OF THE AUDITOR

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

INDEPENDENCE

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

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

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

MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED FINANCIAL STATEMENTS

This audit report relates to the financial statements of Crown Fibre Holdings Limited (Crown Fibre Holdings) and group for the year ended 30 June 2012 included on Crown Fibre Holdings' website. Crown Fibre Holdings' Board is responsible for the maintenance and integrity of Crown Fibre Holdings' website. We have not been engaged to report on the integrity of Crown Fibre Holdings' website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements well as the related audit report dated 26 September 2012 to confirm the information included in the audited financial statements presented on this website.

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



FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	*Parent 2012 \$000	Group 2012 \$000	Parent & Group 2011 \$000
Income				
Interest income	2	1,997	2,024	654
UFB income	3	-	1,356	-
Fair value gains on derivatives	9,14	11	11	-
<i>Total income</i>		2,008	3,391	654
Expenses				
Network expenses		-	1,128	-
Directors' fees	5	215	654	280
Personnel costs	6	3,599	4,287	2,643
Depreciation expense	13	119	850	90
Professional advisory fees	7	1,059	1,621	13,825
Other expenses	8	3,070	4,196	2,315
Management fees to Partners	14	-	2,231	-
UFB contribution – LFCs	9,14	15,010	-	-
UFB contribution – Chorus Equity Securities	9,14	5,409	5,409	-
UFB contribution – Chorus Debt Securities	9,15	5,301	5,301	-
<i>Total expenses</i>		33,782	25,677	19,153
Surplus/(deficit) before tax		(31,774)	(22,286)	(18,499)
Tax expense/(credit)	10	-	(1,541)	-
Net surplus/(deficit) for the year		(31,774)	(20,745)	(18,499)
Other comprehensive income				
Net fair value changes on investments	9,14	73	73	-
<i>Total other comprehensive income</i>		73	73	-
Total comprehensive income/(loss) for the year		(31,701)	(20,672)	(18,499)
Net surplus/(deficit)				
Attributable to members of the parent		(31,774)	(16,764)	(18,499)
Attributable to non-controlling interests		-	(3,981)	-
		(31,774)	(20,745)	(18,499)
Total comprehensive income/(loss)				
Attributable to members of the parent		(31,701)	(16,691)	(18,499)
Attributable to non-controlling interests		-	(3,981)	-
		(31,701)	(20,672)	(18,499)

*Budget figures and explanations of major variances against 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 FINANCIAL POSITION

AS AT 30 JUNE 2012

	Notes	*Parent 2012 \$000	Group 2012 \$000	Parent & Group 2011 \$000
Assets				
Current assets				
Cash and cash equivalents	11	89,263	90,491	15,455
Trade and other receivables	12	369	3,110	51
Income tax receivable		-	-	-
Prepayments		59	852	90
<i>Total current assets</i>		89,691	94,453	15,596
Non-current assets				
Property, plant and equipment	13	234	64,813	253
Investments in LFCs	14	17,141	-	31
Investments in Chorus Equity Securities	14	1,056	1,056	-
Investments in Chorus Debt Securities	15	1,074	1,074	-
Other non-current assets		-	5	-
Deferred tax assets	16	-	1,541	-
<i>Total non-current assets</i>		19,505	68,489	284
Total assets		109,196	162,942	15,880
Liabilities				
Current liabilities				
Creditors and other payables	17	617	4,144	3,194
Employee entitlements		390	487	296
Deferred revenue		-	410	-
Income tax payable		-	-	-
<i>Total current liabilities</i>		1,007	5,041	3,490
Term liabilities				
Deferred revenue		-	676	-
<i>Total term liabilities</i>		-	676	-
Total liabilities		1,007	5,717	3,490
Net assets		108,189	157,225	12,390
Capital	18	162,900	162,900	35,400
Available-for-sale reserve	19	73	73	-
Retained earnings		(54,784)	(39,774)	(23,010)
Non-controlling interests		-	34,026	-
Total equity		108,189	157,225	12,390
Equity attributable to parent		108,189	123,199	12,390
Non-controlling interests		-	34,026	-
Total equity		108,189	157,225	12,390

* Budget figures and explanations of major variances against 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 2012

Parent*

	Capital	Available- for-sale reserve	Retained earnings	Non – controlling interests	Total \$000
Opening balance 1 July 2010	25,400	-	(4,511)	-	20,889
Comprehensive income					
Net surplus/(deficit)	-	-	(18,499)	-	(18,499)
Other comprehensive income	-	-	-	-	-
<i>Total comprehensive income/(loss) attributable to parent</i>	-	-	(18,499)	-	(18,499)
Owners transactions					
Capital contribution – Crown (note 18)	10,000	-	-	-	10,000
Closing balance 30 June 2011	35,400	-	(23,010)	-	12,390
Opening balance 1 July 2011	35,400	-	(23,010)	-	12,390
Comprehensive income					
Net surplus/(deficit)	-	-	(31,774)	-	(31,774)
Other comprehensive income	-	73	-	-	73
<i>Total comprehensive income/(loss) attributable to parent</i>	-	73	(31,774)	-	(31,701)
Owners transactions					
Capital contribution – Crown (note 18)	127,500	-	-	-	127,500
Closing balance 30 June 2012	162,900	73	(54,784)	-	108,189

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

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2012

Group

	Capital	Available- for-sale reserve	Retained earnings	Attributable to equity holders of parent	Non- controlling interests	Total \$000
Opening balance 1 July 2010	25,400	-	(4,511)	20,889	-	20,889
Comprehensive income						
Net surplus/(deficit)	-	-	(18,499)	(18,499)	-	(18,499)
Other comprehensive income	-	-	-	-	-	-
<i>Total comprehensive income/(loss)</i>	-	-	(18,499)	(18,499)	-	(18,499)
Owners transactions						
Capital contribution – Crown (note 18)	10,000	-	-	10,000	-	10,000
Closing balance 30 June 2011	35,400	-	(23,010)	12,390	-	12,390
Opening balance 1 July 2011	35,400	-	(23,010)	12,390	-	12,390
Comprehensive income						
Net surplus/(deficit)	-	-	(16,764)	(16,764)	(3,981)	(20,745)
Other comprehensive income	-	73	-	73	-	73
<i>Total comprehensive income/(loss)</i>	-	73	(16,764)	(16,691)	(3,981)	(20,672)
Owners transactions						
Share transactions with non-controlling interests	-	-	-	-	150	150
Capital contribution – Crown (note 18)	127,500	-	-	127,500	-	127,500
Capital contribution – non-controlling interests	-	-	-	-	37,857	37,857
Closing balance 30 June 2012	162,900	73	(39,774)	123,199	34,026	157,225

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	*Parent 2012 \$000	Group 2012 \$000	Parent & Group 2011 \$000
Cash flows from operating activities				
Receipts from customers		-	1,960	-
Interest received		1,712	1,739	683
Payments to suppliers		(6,901)	(8,860)	(16,030)
Payments to employees		(3,505)	(4,096)	(2,304)
Income tax paid		-	-	-
Goods and services tax (net)		(46)	(2,321)	1,312
Net cash outflow from operating activities	20	(8,740)	(11,578)	(16,339)
Cash flows from investing activities				
Purchase of property, plant and equipment		(100)	(33,354)	(195)
Acquisition of investments in LFCs		(32,270)	-	(31)
Acquisition of investments in Chorus Equity Securities		(6,366)	(6,366)	-
Acquisition of investments in Chorus Debt Securities		(6,366)	(6,366)	-
Proceeds from sale to non-controlling interests		150	150	-
Net cash outflow from investing activities		(44,952)	(45,936)	(226)
Cash flows from financing activities				
Capital contribution – Crown	18	127,500	127,500	10,000
Capital contribution – non-controlling interests		-	5,050	-
Net cash inflow from financing activities		127,500	132,550	10,000
Net increase/(decrease) in cash and cash equivalents		73,808	75,036	(6,565)
Cash and cash equivalents at the beginning of the year		15,455	15,455	22,020
Cash and cash equivalents at the end of the year	11	89,263	90,491	15,455

*Explanations of major variances against budget are detailed in note 30.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

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 (LFC's), namely:

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

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

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

Accordingly, CFH has designated itself as a public benefit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). CFH is a public authority and consequently is exempt from the payment of income tax. Accordingly, no provision has been made for income tax in the parent financial statements. However, subsidiaries are not exempt from the payment of income tax and accordingly the Group financial statements reflect tax of subsidiaries, in accordance with the income tax policy set out below.

In 2011, amounts reported for the parent and the Group were the same as the subsidiaries were not significant.

The financial statements of CFH and the Group are for the period ended 30 June 2012, and were approved by the Board of Directors on 26 September 2012.

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 includes 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 public benefit entities.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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.

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

There are a number of Standards, amendments and interpretations issued but not yet effective that have not been adopted early, and the Group may be subject to further significant changes in future in relation to expected revisions to the Accounting Standards Framework. While legislation has not yet been issued to change the New Zealand financial reporting framework, the Minister of Commerce has approved the External Reporting Board's (XRB) proposals for Accounting Standards which will apply to Public Sector Public Benefit Entities (PS PBEs), and the XRB have issued 41 Exposure Drafts of PBE Accounting Standards. As the changes have not yet been finalised, the Group has not assessed the likely effect of the changes. The proposed application date for the new Framework is periods beginning on or after 1 July 2014.

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 WLFC, 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 profit after tax of each LFC, before considering impairment. This is further discussed in 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 purchase of B shares in each LFC, and the A shares taken up by the non-controlling interest 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 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 2012

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

The investment in WLFC 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 over 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 fees) or the proportion of the on-going services provided (measured on a time basis) such as Access Revenues.

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 are comprised of 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 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 2012

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Investment in WLFC and UFL (LFC subsidiaries)

In the parent company financial statements, the Company’s investments in unlisted shares of WLFC 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.

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, 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 the 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 default on receivables.

The amount of the impairment is the difference between the receivable’s carrying amount and the present value of estimated future cash flows, discounted at the receivable’s original effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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

In the Company property, plant and equipment asset classes consist of computer hardware and other equipment. In the group financial statements, property plant and equipment consists of computer hardware, other equipment and the UFB network assets of the LFCs.

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 asset. 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 cost 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%–21%)
UFB network assets	5–40 years (2%–20%)

The residual value and useful life of an asset is 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 3–5 years. The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each balance date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

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 the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is the depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where 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, with interest expense recognised on an effective interest basis. Amounts which may be required to be settled within twelve 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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 position 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 asset 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 period in which the liability is settled or the asset 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 tax are recognised as an expense 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 tax is 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.

BUDGET FIGURES

The 2012 parent company budgeted deficit of \$8.342 million was approved in the 2011 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. Some of the prior year comparative figures have been reclassified to make comparison more consistent.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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 a material adjustment 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 instruments, 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 (DCF) method and makes assumptions that are based on market data and the key characteristics of the instruments. This includes, but is not limited to, management's assessments as to the LFC's cashflows, 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 instruments, this includes corporate bonds that have similar maturity dates, credit risk and industry characteristics.

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

Table 1 – Key assumptions for Chorus Debt and Equity Securities

Key Assumptions	Debt Securities			Equity Securities***		
	Assumption*	Possible Change	Impact \$000	Assumption*	Possible Change	Impact \$000
Fibre uptake at 2020	>20%	<20%	256	>20%	<20%	+ 226
Senior credit spread (BBB)	315-372 bps	+/- 50 bps	+/- 31	n/a	n/a	n/a
Subordinated credit spread (BBB)	561-578 bps	+/- 50 bps	+/- 66	561-578 bps	+/- 50 bps	+/- 87
Risk free term structure	3.74% to 4.53%	+/- 100 bps	+/- 194	3.74% to 4.53%	+/- 100 bps	+/- 175
Senior portion of debt	0% to 25%	n/a**	n/a	n/a	n/a	n/a
Dividends paid on equity securities	n/a	n/a	n/a	No	n/m	n/m
Principal amount of each security	\$1	n/a**	n/a	\$1	n/a**	n/a

* The estimated redemption and dividend profile is set out in Note 14 for Equity Securities, and Note 15 for Debt Securities.

** These assumptions are contractual terms that are not subject to change.

*** 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 them being similar in nature to a debt instrument rather than equity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Table 2 – Key assumptions for 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.

Key Assumptions	Equity Warrants	Possible Change	Impact \$000
Risk free interest rate	4.38% to 5.14%	+/- 50 bps	+/- 4
Value date	18 Jan 2012	n/a*	n/a
Expected dividend yield	7%	+/- 1%	+/- 3
Expected strike price	\$9.63 to \$22.20	n/a*	n/a
Warrant maturity	13 to 25 years	n/a*	n/a
Volatility	25%	+/- 5%	+/- 10

* These assumptions are contractual terms that are not subject to change.

Table 3 – Key assumptions for Local Fibre Companies (A share investments)

Key Assumptions	Assumption	Possible Change	Impact \$000
WLFC			
Cost of equity	12%	+/- 2%	-/+ 600
Terminal growth	2%	+/- 1%	+/- 100
CFH shareholding at concession end	41%	+/- 5%	-/+ 500
UFL			
Cost of equity	12%	+/- 2%	-/+ 1,700
Terminal growth	2%	+/- 1%	+/- 300
CFH shareholding at concession end	38%	+/- 5%	-/+ 1,100
ENL			
Cost of equity	12%	+/- 2%	-/+ 300
Terminal growth	2%	+/- 1%	+/- 100
CFH shareholding at concession end	66%	+/- 5%	-/+ 300

Note that the impact of a reasonably possible change in the cost of equity and debt/debt equity ratios above are not cumulative, as the two move in conjunction with each other. CFH has used a range of discount rates within the valuation models for the LFC's from to 5% to 12%.

Measurement of non-controlling interests

In consolidating the LFC entities, the Directors have determined that profit 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 LFC's (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 the asset, expected period of use of the asset by CFH, and expected disposal proceeds from the future sale of the asset.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

An incorrect estimate of the useful life or residual value will 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.

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 2012:

Determining the nature of the interest in the LFC’s

The nature of CFH’s investment in each LFC is not readily apparent, and requires significant judgement. On balance, 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, at 30 June 2012 the Group has consolidated the LFC’s. 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 for various forms of investment in Chorus. The investment takes three forms, and again significant judgement is required in determining the nature of these investments:

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

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. Directors have determined that at 30 June 2012, 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 WLFC and UFL s have been designated as at FVTPL on the basis that the recycling mechanisms represent embedded derivatives that are unable to be separated from the investment as a whole.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

2. INTEREST INCOME

	Parent 2012 \$000	Group 2012 \$000	Parent & Group 2011 \$000
Chorus Debt Securities	9	9	-
Chorus Equity Securities	15	15	-
Interest earned on cash balances with financial institutions	1,973	2,000	654
Total interest income	1,997	2,024	654

The effective weighted average interest rate for monies on deposit is 3.6% (2011: 3.1%).

3. UFB INCOME

	Parent 2012 \$000	Group 2012 \$000	Parent & Group 2011 \$000
Connection revenue	-	46	-
Access revenue	-	1,310	-
Total UFB income	-	1,356	-

4. GAIN ON SALE OF INVESTMENTS

	Parent 2012 \$000	Group 2012 \$000	Parent & Group 2011 \$000
Carrying value at time of sale	150	-	-
Less consideration received	(150)	-	-
Net gain/(loss) on sale of investments	-	-	-

In the current year CFH sold 149,743 WLFC A shares to the Partner, as a part of the recycling mechanism. The recycling mechanism is explained in note 14.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

5. DIRECTORS' FEES

Parent

	Parent 2012 \$000	Parent & Group 2011 \$000
Board member fees during the year were:		
Simon Allen	60	86
Andrew Body	30	39
Miriam Dean	30	41
Danelle Dinsdale	5	-
Jack Matthews	30	32
Murray Milner	30	42
Keith Tempest	30	40
Total Board member fees – Parent	215	280

LFC Subsidiaries

	Subsidiaries 2012 \$000	Parent & Group 2011 \$000
Board member fees during the year were:		
Tim Lusk (ENL – Independent Chair)	70	-
Mark Bowman (ENL)	14	-
Bill Dwyer (ENL)	11	-
Bill Luff (ENL)	19	-
Jo Brosnahan (WLFC – Independent Chair)	60	-
Nicole Davies-Colley (WLFC)	30	-
Rodger Fisher (UFL – Independent Chair)	80	-
Mark Franklin (UFL)	40	-
Richard Prebble (UFL)	40	-
CFH Board members who are also on LFC Board were:		
Keith Tempest	40	
Murray Milner	35	
Total Board member fees – Subsidiaries	439	280
Total Board member fees – Group	654	280

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

The Directors' Fees for the Group companies are those fees paid by the LFC's and these fees are funded by working capital contributed by each Partner.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

6. PERSONNEL COSTS

	Parent 2012 \$000	Group 2012 \$000	Parent & Group 2011 \$000
Salaries and wages	3,510	4,146	2,487
Employer contributions to defined contribution plans	43	49	24
Other staff benefits	46	92	132
Total personnel costs	3,599	4,287	2,643

CFH had 17 full-time equivalent employees and 10 contractors as at 30 June 2012 (2011: 14 and 6 respectively). The Group has 22 full-time equivalent employees and 10 contractors as at 30 June 2012 (2011: 14 and 6 respectively).

7. PROFESSIONAL ADVISORY FEES

	Parent 2012 \$000	Group 2012 \$000	Parent & Group 2011 \$000
Accounting	223	302	420
Economic modelling	-	-	898
Engineering	-	14	486
Investment advisory	-	-	7,527
Legal	821	1,193	4,068
Regulatory	-	-	329
Other	15	112	97
Total professional advisory fees	1,059	1,621	13,825

8. OTHER EXPENSES

	Parent 2012 \$000	Group 2012 \$000	Parent & Group 2011 \$000
Audit fees – Audit New Zealand	123	160	50
Audit fees – PricewaterhouseCoopers	-	27	-
Contractors and project management	1,615	1,663	1,268
Staff travel and accommodation	365	426	267
Operating lease expense	254	269	255
Information technology	173	266	141
Other	540	1,385	334
Total other expenses	3,070	4,196	2,315

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

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 2012 \$000	Group 2012 \$000	Parent & Group 2011 \$000
Recognised in surplus/(deficit)			
Fair value losses on financial assets designated as at FVTPL			
LFCs – UFB contribution	(13,477)	-	-
Fair value losses on AFS financial assets			
LFCs – UFB contribution	(1,533)	-	-
Chorus Equity Securities – UFB contribution	(5,409)	(5,409)	-
Fair value gains and losses on derivatives			
Chorus equity warrants – fair value gains	11	11	-
Fair value losses on loans and receivables			
Chorus Debt Securities – UFB contribution	(5,301)	(5,301)	-
Total recognised in surplus/(deficit)	(25,709)	(10,699)	-
Recognised in other comprehensive income			
Chorus Equity Securities – fair value gains	73	73	-
Total recognised in other comprehensive income	73	73	-

10. INCOME TAX

	Parent 2012 \$000	Group 2012 \$000	Parent & Group 2011 \$000
Income tax expense/(credit) recognised in surplus/(deficit)			
Deferred tax expense relating to tax losses and the origination and reversal of temporary differences	-	(1,541)	-
Total income tax expense/(credit)	-	(1,541)	-
Reconciliation			
Surplus/(deficit) for the period	(31,774)	(22,286)	(18,499)
Tax expense/(credit) calculated at 28% (2011: 30%)	(8,897)	(6,240)	(5,550)
Effect of other expenses that are not deductible	-	5	-
Effect of non-taxable status of parent company	8,897	4,694	5,550
Total income tax expense/(credit)	-	(1,541)	-

11. CASH AND CASH EQUIVALENTS

	Parent 2012 \$000	Group 2012 \$000	Parent & Group 2011 \$000
Cash on hand and at bank	8,463	9,691	5,455
Cash equivalents – term deposits	80,800	80,800	10,000
Total cash and cash equivalents	89,263	90,491	15,455

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 3.6% (2011: 3.1%).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

12. TRADE AND OTHER RECEIVABLES

	Parent 2012 \$000	Group 2012 \$000	Parent & Group 2011 \$000
Trade receivables	-	420	-
GST receivables	72	2,390	26
Other	297	300	25
Total trade and other receivables	369	3,110	51

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

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 2010	149	20	169
Additions during the year	97	98	195
Balance at 30 June 2011	246	118	364
Accumulated depreciation			
Balance at 1 July 2010	19	2	21
Depreciation charge for the year	81	9	90
Balance at 30 June 2011	100	11	111
Net book value at 1 July 2010	130	18	148
Net book value at 30 June 2011	146	107	253
Cost			
Balance at 1 July 2011	246	118	364
Additions during the year	96	4	100
Balance at 30 June 2012	342	122	464
Accumulated depreciation			
Balance at 1 July 2011	100	11	111
Depreciation charge for the year	101	18	119
Balance at 30 June 2012	201	29	230
Net book value at 30 June 2012	141	93	234

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group

	Computer Hardware \$000	Other Equipment \$000	UFB Network Assets \$000	Total \$000
Cost				
Balance at 1 July 2010	149	20	-	169
Additions during the year	97	98	-	195
Balance at 30 June 2011	246	118	-	364
Accumulated depreciation				
Balance at 1 July 2010	19	2	-	21
Depreciation charge for the year	81	9	-	90
Balance at 30 June 2011	100	11	-	111
Net book value at 1 July 2010	130	18	-	148
Net book value at 30 June 2011	146	107	-	253
Cost				
Balance at 1 July 2011	246	118	-	364
Additions during the year	99	115	65,196	65,410
Balance at 30 June 2012	345	233	65,196	65,774
Accumulated depreciation				
Balance at 1 July 2011	100	11	-	111
Depreciation charge for the year	102	30	718	850
Balance at 30 June 2012	202	41	718	961
Net book value at 30 June 2012	143	192	64,478	64,813

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

14. INVESTMENTS

As at 30 June 2012, the level of investment that CFH had made in the LFC's and Chorus, along with initial UFB contribution is set out in the table below (2011: \$30,751). The UFB contribution is the difference on initial recognition between the fair value of the investment and the actual cash investment by CFH in the LFCs and Chorus.

Parent

	WLFC \$000	UFL \$000	ENL \$000	Total \$000
Investments in LFCs				
Balance at 1 July 2011	31	-	-	31
Amount paid during the year	8,452	21,591	2,227	32,270
Less UFB contribution	(4,366)	(9,111)	(1,533)	(15,010)
<i>Initial investment recognised</i>	4,117	12,480	694	17,291
Less disposals	(150)	-	-	(150)
<i>Net investment at 30 June 2012</i>	3,967	12,480	694	17,141

	Chorus Equity Warrants \$000	Chorus Equity Securities \$000	Total \$000
Investments in Chorus Equity Securities			
Balance at 1 July 2011	-	-	-
Amount paid during the year	-	6,366	6,366
Less UFB contribution	-	(5,409)	(5,409)
<i>Initial investment recognised</i>	-	957	957
Fair value gains recognised in surplus or deficit	11	-	11
Fair value gains recognised in other comprehensive income	-	73	73
Interest	-	15	15
<i>Net investment at 30 June 2012</i>	11	1,045	1,056
Parent investments at 30 June 2012			18,197

Group

The Group investments are represented by the Chorus Equity Securities above.

INVESTMENTS IN SUBSIDIARIES – LFCs

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

- Northpower Limited for the Whangarei Candidate Area on 13 December 2010, resulting in the establishment of an LFC, Whangarei Local Fibre Company Limited (WLFC);
- WEL Networks Limited, and its subsidiary 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 (CCNL), for the Christchurch and Rangiora Candidate Areas on 31 May 2011, resulting in the establishment of the LFC Enable Networks Limited (ENL). CCNL has since changed its name to Enable Services Limited.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

14. INVESTMENTS (CONTINUED)

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

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

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

The deployment plans drive CFH's level of investment in the LFCs. As each stage of the deployment plan is completed by the Partner, the LFC will purchase the UFB network from the Partner based on an agreed cost per premises passed (CPPP) for the number of premises passed by fibre optic cable upon successful user acceptance testing (UAT). CFH will in turn fund most, if not all of the LFC's purchase of each stage by way of subscribing to A shares (these shares carry full voting rights, with no dividend rights until 10 years from establishment) in the LFC, the price for which is the agreed CPPP.

The Partner is required to fund the cost to connect a premise and end customer (essentially fibre optic lead in from street), the electronics necessary to light the fibre and LFC operational costs. The Partner generally receives B shares for funding these obligations (B shares carry full dividend rights, but no voting rights until year 10), although some prudent level of debt is permitted in each LFC. All A and B shares in each LFC convert to ordinary voting dividend entitlement shares 10 years from establishment date (WLFC 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 WLFC and UFL:

- As WLFC and UFL connect customers to the network, the Partner is required to purchase from CFH its 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 the Company'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 has the option, at any time, to buy (or to require the LFC to buy, subject to certain conditions) a portion of the Company's interest at a fixed price; and
- the Partner has a put and call option over the Company'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 present.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

14. INVESTMENTS (CONTINUED)

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

	WLFC		UFL		ENL	
	2012 #000	2011 #000	2012 #000	2011 #000	2012 #000	2011 #000
A shares held by CFH	8,317	31	21,591	-	2,227	-
A shares held by Partner	150	-	-	-	1,134	-
Total A shares	8,467	31	21,591	-	3,361	-
B shares held by Partner	3,395	100	2,200	1	31,113	-
Total number of shares	11,862	131	23,791	1	34,474	-
CFH interest in total number of shares (%)	70%	24%	91%	-	6%	-

WLFC and ENL acquired existing fibre assets from their partners (Northpower and Enable Services), as part of the agreements, in exchange for B shares valued at \$2.8m for WLFC and \$29.6m for Enable respectively.

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).

OTHER INVESTMENTS – CHORUS

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. These will be issued progressively by Chorus, and subscribed to by CFH on a per-premises-passed basis as stages are completed and satisfy UAT. Chorus will also issue to CFH equity warrants to allow CFH to participate in the upside of the financial performance of Chorus (one warrant for each \$1 of CFH Equity Securities). These warrants are exercisable by CFH at its election but it is unlikely that they will be exercised by CFH unless Chorus's Total Shareholder Return exceeds a return hurdle of 16% per annum in the relevant period. The terms of the CFH Equity Securities are set out below, with the key conditions precedent to any CFH investment being that the structural separation has been approved and made effective, that Chorus has not breached any banking covenants and that Chorus has maintained an investment-grade credit rating. At the time of this report, these conditions have been met. The terms of the 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 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 LFCs⁵) with fibre connections divided by the total number of premises with copper, fibre or Hybrid Fibre Co-Axial connections. If the uptake is greater than 20% (being the end-user fibre uptake threshold), the portion of CFH Equity Securities that attracts a dividend is weighted towards the latter half of the period 2025 to 2036. Conversely, if end-user fibre uptake is equal to or less than 20%, 66.7% of the CFH Equity Securities will attract a dividend by 30 June 2030. Table 1 overleaf provides the details of the timing and portion of CFH Equity Securities that attract dividends depending on whether the end-user fibre uptake threshold is met or not, and also represents the expected redemptions by Chorus. By 2035 or 2036 (depending on whether the end-user fibre uptake threshold is met), all CFH Equity Securities will attract dividends. Chorus can redeem the CFH Equity Securities in cash or by issuing Chorus ordinary shares (by reference to a formula) at any time.

If at any time Chorus's credit rating is three notches or more below its initial rating, no dividends will be scheduled or payable on the CFH Equity Securities. Standard & Poor's initially assigned Chorus a preliminary investment grade credit rating of BBB/Stable and Moody's assigned a preliminary credit rating of Baa2/Stable, and this remains unchanged at 30 June 2012.

⁵ A map of the UFB network coverage area is shown in Appendix 1 to the Annual Report.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

14. INVESTMENTS (CONTINUED)

The terms of the CFH Equity Securities do not prohibit payment of dividends on Chorus ordinary shares. However, provisions elsewhere in the agreements prohibit Chorus, without CFH's approval, paying any distributions on its ordinary shares during any period in which Chorus's credit rating is below investment grade.

Table 1: CFH Equity Securities 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 became payable	86	172	300	-	465	18.5%	36.9%	64.6%	-	100.0%

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

15. CHORUS DEBT SECURITIES

	Senior \$000	Subordinated \$000	Total \$000
Balance at 1 July 2011	-	-	-
Amount paid during the year	1,526	4,840	6,366
Less UFB contribution	(1,189)	(4,112)	(5,301)
Initial investment recognised	337	728	1,065
Interest revenue	2	7	9
Balance at 30 June 2012	339	735	1,074

The carrying amount approximates its fair value.

The CFH Debt Securities are unsecured, carry no interest and, like the CFH Equity Securities, have no voting rights. The principal amount of a CFH Debt Security will consist of a senior portion and a subordinated portion. The senior portion will rank equally with all other unsecured, unsubordinated creditors of Chorus, and shall have the benefit of any negative pledge covenant that may be contained in any of Chorus's debt arrangements. The 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, and the initial subordinated portion will be the difference between the issue price of the CFH Debt Security 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 on following page 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).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

15. CHORUS DEBT SECURITIES (CONTINUED)

Table 2: CFH Debt Securities repayment profile (\$m)

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

16. DEFERRED TAX ASSETS

	Parent 2012 \$000	Group 2012 \$000	Parent & Group 2011 \$000
Unused tax losses	-	1,541	-

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.

17. CREDITORS AND OTHER PAYABLES

	Parent 2012 \$000	Group 2012 \$000	Parent & Group 2011 \$000
Creditors	191	2,603	497
Accrued expenses	426	1,541	2,697
Total creditors and other payables	617	4,144	3,194

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.

18. CAPITAL – AUTHORISED AND FULLY PAID

	Parent 2012 \$000 & #000	Group 2012 \$000 & #000	Parent & Group 2011 \$000 & #000
Opening balance	35,400	35,400	25,400
Capital contribution	127,500	127,500	10,000
Balance at 30 June	162,900	162,900	35,400

The Crown investment made in CFH is represented by 1,345,400,200 \$1.00 ordinary shares issued, with 162,900,000 being fully paid (2011: 35,400,000) and 1,182,500,200 being unpaid (2011: 1,310,000,200). 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

19. AVAILABLE-FOR-SALE REVALUATION RESERVE

	Parent 2012 \$000	Group 2012 \$000	Parent & Group 2011 \$000
Opening balance	-	-	-
Fair value gains during the year	73	73	-
Balance at 30 June	73	73	-

On the sale of AFS financial assets, any balance in the AFS revaluation reserve is reclassified to surplus or deficit.

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

	Parent 2012 \$000	Group 2012 \$000	Parent & Group 2011 \$000
Net deficit after tax	(31,774)	(20,745)	(18,499)
Add/(less) non-cash items			
Interest income	(24)	(24)	-
Fair value gains on derivatives	(11)	(11)	-
Depreciation	119	850	90
UFB contribution	25,720	10,710	-
Deferred tax	-	(1,541)	-
Other non-cash items	-	31	-
Total non-cash items	25,804	10,015	90
Add/(less) movements in working capital items			
Trade and other receivables and prepayments	(287)	(3,826)	48
Creditors and other payables	(2,577)	950	1,814
Employee entitlements	94	191	208
Deferred revenue	-	1,086	-
Net movements in working capital items	(2,770)	(1,599)	2,070
Add/(less) items reclassified as investing			
Prepayments related to property, plant and equipment	-	751	-
Net cash from operating activities	(8,740)	(11,578)	(16,339)

During the year the LFC's acquired property, plant and equipment of \$32.8 million (being primarily UFB network assets) in exchange for issuing shares to the Partners.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

21. COMMITMENTS

OPERATING LEASES AS LESSEE

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

	Parent 2012 \$000	Group 2012 \$000	Parent & Group 2011 \$000
Not later than one year	198	249	191
Later than one year and not later than five years	711	762	739
Later than five years	-	110	122
Total non-cancellable operating leases	909	1,121	1,052

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

COMMITMENTS – UFB INVESTMENTS

CFH has entered into agreements to invest in the Local Fibre Companies (the subsidiaries) and Chorus, subject to certain conditions being met that are described in notes 14 and 15, to build the Ultra-Fast Broadband 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 each of the entities are expected to have built in each financial year, and CFH's investment is at an agreed amount per premise passed multiplied by the number of premises passed. The agreed amount per premise passed varies between each LFC and Chorus.

Number of premises passed #(000)	Financial Year 2013	Financial Year 2014	Financial Year 2015	Financial Year 2016	Financial Year 2017	Financial Year 2018	Financial Year 2019
Chorus	149	255	361	467	675	779	831
LFCs	81	148	210	267	325	325	325
Total premises passed	230	403	571	734	1,000	1,104	1,156
Total \$m	262	459	649	833	1,128	1,245	1,303

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

GROUP CAPITAL COMMITMENT

The LFCs have entered into commitments with the Partners to fund the capital deployment. This amounts to:

\$(000)	Less than 1 year	1-2 years	2-5 years	Greater than 5 years
Capital commitment	62,816	78,356	193,597	21,100

22. CONTINGENCIES

CONTINGENT LIABILITIES

The Group had \$0.43 million of contingent liabilities as at 30 June 2012 (2011: Nil), these relate to commercial arrangements entered into by ENL for the provision of network access.

CONTINGENT ASSETS

The Group has no contingent assets as at 30 June 2012 (2011: Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

23. CAPITAL RECYCLING MECHANISM

The Partners for WLFC and UFL are obligated to purchase the A shares from CFH when certain conditions are met as described in note 14. The forecasted amount of A shares to be purchased from CFH in the 2013 financial year is set out below:

	Forecast 2013 \$000	Actual 2012 \$000	Actual 2011 \$000
Value of A shares CFH expected to be sold	5,097	150	-

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 WLFC, 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 \$127.5 million (2011: \$10 million) for specific purposes as set out in its founding legislation and the scope of the relevant Government appropriations.

CFH and the Group enters into transactions with government departments, Crown entities and state-owned enterprises and other government related bodies such as local councils. These transactions occur within a normal supplier or client relationship on terms and conditions no more or less favourable than those that it is reasonable to expect CFH 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 significant.

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 also purchase goods and services from entities controlled, significantly influenced or jointly controlled by the Crown. These purchases included the purchase of travel from Air New Zealand and postal services from New Zealand Post, and are not collectively significant.

KEY MANAGEMENT PERSONNEL COMPENSATION

	Parent 2012 \$000	Group 2012 \$000	Parent & Group 2011 \$000
Salaries, short-term employee benefits and Directors’ fees	2,484	3,388	1,961
Defined contribution plans	26	30	-
Total key management personnel compensation	2,510	3,418	1,961

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

25. EMPLOYEE REMUNERATION

Total remuneration paid or payable for the year

	Parent 2012 # Staff	Group 2012 # Staff	Parent & Group 2011 # Staff
\$100,000 – \$109,999	1	1	-
\$110,000 – \$119,999	-	-	1
\$120,000 – \$129,999	-	1	1
\$130,000 – \$139,999	1	2	-
\$140,000 – \$149,999	2	2	-
\$150,000 – \$159,999	2	2	-
\$160,000 – \$169,999	-	-	1
\$170,000 – \$179,999	1	2	-
\$190,000 – \$199,999	1	1	-
\$210,000 – \$219,999	-	-	-
\$250,000 – \$259,999	1	1	-
\$260,000 – \$269,999	-	-	3
\$290,000 – \$299,999	1	1	-
\$300,000 – \$309,999	1	1	1
\$310,000 – \$319,999	1	1	-
\$340,000 – \$349,999	1	1	-
\$430,000 – \$439,999	-	-	1
\$460,000 – \$469,999	1	1	-
Total employees	14	17	8

During the year ended 30 June 2012, no employees received compensation and other benefits in relation to cessation (2011: Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

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 2012 \$000	Group 2012 \$000	Parent & Group 2011 \$000
Loans and receivables			
Cash and cash equivalents	89,263	90,491	15,455
Trade and other receivables	369	3,110	51
Investments in Chorus Debt Securities	1,074	1,074	-
Total loans and receivables	90,706	94,675	15,506
AFS financial assets			
Investments in LFCs	694	-	-
Investments in Chorus Equity Securities	1,045	1,045	-
Total AFS financial assets	1,739	1,045	-
Financial assets designated as at FVTPL			
Investments in LFCs	16,447	-	31
Total financial assets designated as at FVTPL	16,447	-	31
Held for trading financial assets			
Investments in Chorus warrants	11	11	-
Total held for trading financial assets	11	11	-
Total financial assets	108,903	95,731	15,537
Financial liabilities measured at amortised cost			
Creditors and other payables	617	4,144	3,194
Total financial liabilities measured at amortised cost	617	4,144	3,490
Total financial liabilities	617	4,144	3,490

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 series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into. Investments of a financial nature can only be transacted with New Zealand major trading banks or in Government securities.

MARKET RISK

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. CFH is exposed to fair value interest rate risk on the Chorus Equity Securities, which are accounted for at fair value.

CFH is also exposed to fair value interest rate risk in relation to its bank deposits (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 3.7% (2011: 3.1%).

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

27. FINANCIAL INSTRUMENT RISKS (CONTINUED)

Cash flow interest rate risk

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

Sensitivity analysis

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 2012, 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 \$450,000 (2011: \$77,274) higher/lower for CFH and the Group. This movement is attributable to the significant increase in cash and cash equivalents held at balance date, when compared with the prior year. However, this is not representative of the Group’s actual interest rate sensitivity as the average cash balances throughout the year are expected to be significantly lower. The significant cash balances at balance date represented funding under CFH’s uncalled capital mechanism for UFB investments that were initially expected to occur prior to 30 June 2012.

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.

Owing to the timing of their cash inflows and outflows, CFH and the Group invests surplus cash with major registered trading banks. CFH’s Investment Policy limits the amount of credit exposure to any one institution (up to \$50m 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 overdue or impaired assets at 30 June 2012 (2011: Nil).

CFH’s term deposits are currently held with the four major banks, all of which are registered New Zealand banks.

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 LFC’s 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 it’s funding through the uncalled capital mechanism, whereby CFH will draw down funds from the Crown as required to fund the UFB investment.

Contractual maturity analysis of financial liabilities

All of the CFH and Group creditors and other payables are due and payable within 6 months and are 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 LFC’s UFB network asset purchases is set out in note 21.

FAIR VALUE MEASUREMENTS

CFH 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 level three of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

28. CAPITAL MANAGEMENT

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

29. EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the balance date.

30. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET

The CFH full-year loss is \$23.4 million greater than budget. Almost all variances are due to the exclusion of UFB network investment related items from the budget, which were not budgeted as the deployment plans and timing of cash flows to LFCs and Chorus had not been finalised. In the summaries below, where the variance is favourable or unfavourable by greater than 100%, it is marked as ‘>100%/>(100)% for simplicity.

Statement of comprehensive income

	Ref	Parent Actual 2012 \$000	Parent Budget 2012 \$000	Variance Fav/(Unfav) 2012 \$000	Variance Fav/(Unfav) 2012 %
Income	A	2,008	541	1,467	>100%
Expenses					
Board operations		216	273	57	21%
Audit fees		123	100	(23)	(23)%
Depreciation and amortisation	B	119	147	28	19%
Occupancy costs		254	192	(62)	(32)%
Other company overheads	C	7,350	8,171	821	10%
UFB contribution	D	25,720	-	(25,720)	n/a
Total expenses		33,782	8,883	(24,899)	>(100)%
Surplus/(deficit) before tax		(31,774)	(8,342)	(23,432)	>(100)%
Tax expense/(credit)		-	-	-	-
Net surplus/(deficit) for the year		(31,774)	(8,342)	(23,432)	>(100)%
Other comprehensive income		73	-	73	n/a
Total comprehensive income/(loss) for the year		(31,701)	(8,342)	(23,359)	>(100)%

Explanation of significant variances:

- A – income
Interest revenue exceeds budget as the budget assumed an average cash balance of \$13m however actual cash held through-out the year was significantly higher as CFH receives capital funding in advance of expected UFB network investment.
- B – depreciation and amortisation
The budgeted additions to property plant and equipment of \$100,000 occurred later in the year than budgeted, resulting in a lower than anticipated actual depreciation expense.
- C – other company overheads
Overheads are lower than budget, primarily due to employees vacancies unfilled during the year.
- D – other expenses
The UFB network investment flows and the initial UFB contribution of \$25.7 million were not included in the 2012 budget.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

30. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET (CONTINUED)

Statement of financial position

	Ref	Parent Actual 2012 \$000	Parent Budget 2012 \$000	Variance Fav/(Unfav) 2012 \$000	Variance Fav/(Unfav) 2012 %
Assets					
Current assets					
Cash and cash equivalents	A	89,263	8,849	80,414	>100%
Other current assets		428	104	324	>100%
Total current assets		89,691	8,953	80,738	>100%
Non-current assets					
Property, plant and equipment		234	218	16	7%
Investments	B	19,271	-	19,271	n/a
Total non-current assets		19,505	218	19,287	>100%
Total assets		109,196	9,171	100,025	>100%
Liabilities					
Current liabilities					
		1,007	1,043	36	3%
Total liabilities		1,007	1,043	36	3%
Net assets		108,189	8,128	100,061	>100%
Capital	C	162,900	40,400	122,500	>100%
Available-for-sale reserve		73	-	73	n/a
Retained earnings	D	(54,784)	(32,272)	(22,512)	(70)%
Total equity		108,189	8,128	100,061	>100%

Explanation of significant variances:

- A – cash and cash equivalents
The significant cash balances at balance date represented funding under CFH’s uncalled capital mechanism for UFB network investments that were initially expected to occur prior to 30 June 2012.
- B – non-current assets
Investments (in LFCs, Chorus Equity Securities and Chorus Debt Securities) were excluded from the budget as the deployment plans and timing of cash flows to LFCs and Chorus had not been finalised.
- C – capital
Capital contributions relating to the UFB network were also unbudgeted.
- D – retained earnings
The key drivers of the retained earnings variance are set out in the statement of comprehensive income analysis above.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

30. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET
(CONTINUED)

Statement of changes in equity

	Ref	Parent Actual 2012 \$000	Parent Budget 2012 \$000	Variance Fav/(Unfav) 2012 \$000	Variance Fav/(Unfav) 2012 %
Opening equity		12,390	11,470	920	8%
Total comprehensive income	A	(31,701)	(8,342)	(23,359)	>(100)%
Capital contribution	A	127,500	5,000	122,500	>100%
Total equity		108,189	8,128	100,061	>100%

Explanation of significant variances:

A – equity

The key drivers of the total comprehensive income 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 2012 \$000	Parent Budget 2012 \$000	Variance Fav/(Unfav) 2012 \$000	Variance Fav/(Unfav) 2012 %
Cash flows from operating activities					
Receipts from customers – interest	A	1,712	576	1,136	>100%
Payments to suppliers		(6,901)	(6,972)	71	1%
Payments to employees	B	(3,505)	(4,235)	730	17%
Goods and services tax (net)		(46)	678	(724)	>(100)%
Net cash outflow from operating activities		(8,740)	(9,953)	1,213	12%
Cash flows from investing activities					
Purchase of property, plant and equipment		(100)	(100)	-	-
Other– acquisition of investments	C	(44,852)	-	(44,852)	n/a
Net cash outflow from investing activities		(44,952)	(100)	(44,852)	>(100)%
Cash flows from financing activities					
Capital contribution	D	127,500	5,000	122,500	>100%
Net cash inflow from financing activities		127,500	5,000	122,500	>100%
Net (decrease)/increase in cash and cash equivalents		73,808	(5,053)	78,861	>100%
Cash and cash equivalents at the beginning of the year		15,455	13,902	1,553	11%
Cash and cash equivalents at the end of the year		89,263	8,849	80,414	>100%

Explanation of significant variances:

A – receipts from customers – interest

Interest receipts were significantly higher than budget, for the same reasons as outlined for interest revenue above.

B – payments to employees

Savings achieved in relation to payments to employees relate primarily to unfilled vacancies during the year.

C and D – acquisition of investments and capital contributions

Investments (in LFCs, Chorus Equity Securities and Chorus Debt Securities) and capital contributions were unbudgeted, as above.

APPENDIX 1: UFB CANDIDATE AREAS



APPENDIX 2: UFB COVERAGE IN FISCAL 2012

Table 1: Premises Passed by Type

YEAR ENDED 30 June 2012		
PRIME CLASSIFICATION	Premises Substantially Passed	Potential End Users Available
Business	13,817	17,852
Schools	261	167
Health	140	99
Total Priority	14,218	18,118
Residential	62,051	58,547
Greenfields	43	56
Total Premises	76,312	76,721

This table contains aggregate data for premises passed across CFH's four Co-Investment Partners, with Priority Customers (businesses, schools and health facilities) distinguished from other customers. The table also shows potential end users available to connect to the UFB network.

APPENDIX 3: GLOSSARY

A Shares	A specific class of shares in an LFC that carry full voting rights in the LFC, with no dividend rights until 10 years after the incorporation of the LFC.
B Shares	A specific class of shares in an LFC that carry full dividend rights, but no voting rights until 10 years after the incorporation of the LFC. All A and B class shares in each LFC convert to ordinary voting dividend entitlement shares 10 years after the incorporation of the LFC.
Business Support Systems	The collection of computer systems that allow telecommunications companies to manage customer-facing processes, service order tracking, monthly billing and customer account information.
Candidate Areas	The candidate coverage area for the UFB Initiative. The Candidate Areas have been selected on the basis of population numbers using 2021 population projections to ensure the population figures are in keeping with the required 75% population coverage by project completion. There are 33 Candidate Areas which are essentially the number of urban areas required to be covered to meet the UFB Objective of UFB being available to 75% of New Zealand's population.
Chorus	Chorus Limited, the company that has been demerged from Telecom Corporation of New Zealand Limited to own and operate the fixed access networks.
Co-Investment Partner	An entity selected by CFH to co-invest with CFH in the deployment of UFB and with which CFH has entered into a formal agreement in relation to that investment.
Coverage	The geographic coverage area over which it is intended that the UFB network will be deployed being 75% of New Zealand's population.
CFH Debt Securities	The debt instruments issued by Chorus and subscribed to by CFH as the mechanism to fund 50% of CFH's investment in Chorus for its UFB build.
CFH Equity Securities	The equity instruments issued by Chorus and subscribed to by CFH as the mechanism to fund 50% of CFH's investment in Chorus for its UFB build.
Digital Leadership Forum	A forum bringing together local stakeholders on the demand and supply sides to realise the potential benefits of UFB. Generally Digital Leadership Forums are supported by TLAs and/or Chambers of Commerce, and aim to develop and execute strategies to realise local economic development goals using UFB.
Ethernet	A standard widely implemented throughout the world for data communications, and can support bandwidths up to 10Gbit/s. It is already found in most homes that have broadband services.
Fibre Uptake	The total number of premises with connections to the UFB network in a Candidate Area divided by the total number of premises with a fibre, copper or a hybrid fibre co-axial connection in the same Candidate Area. This only applies to the Chorus financial instruments.
Frame Loss	A measure of data loss between two specified points of measure.
Gigabit PON (GPON)	An International Telecommunication Union (ITU) standard describing a point-to-multipoint, fibre to the premises, passive optical network (PON) architecture, in which unpowered optical splitters are used to enable a single optical fibre to serve multiple premises.
Greenfields	A new subdivision or development that is within or adjoining a Candidate Area
Layer 1	Layer 1 of the OSI Model, which is normally associated with passive fibre optic network infrastructure.
Layer 2	Layer 2 of the OSI Model, which is normally associated with active fibre optic network infrastructure.
Local Fibre Company (LFC)	An entity in which CFH, the Government and a Co-Investment Partner hold shares, and through which the investment of CFH and the Partner in relation to the UFB Objective is effected.
Network Deployment Plan (NDP)	An operational document that sets out the agreed timings and design and build requirement for the deployment of the UFB network by each Co-Investment Partner.

APPENDIX 3: GLOSSARY (CONTINUED)

Network Performance	The time it takes for information to travel between two specific points of measure, such as between a Network Point of Interconnect and an end customer. This will be measured on a sample basis, with the actual mechanism to achieve this to be agreed between CFH, Chorus and the LFCs.
Optical Network Terminal (ONT)	The active equipment at the customer premises and is the point that the End User connects to GPON Services.
Optical Network Unit (ONU)	The active equipment at the customer premises that terminates high-speed Point-to-Point Ethernet Services.
OSI Model	Open Systems Interconnect Model for communications architecture
Operational Support Systems	The collection of computer systems that enable telecommunications companies to manage, monitor and control telecommunication networks.
Passings	Where premises have been passed with fibre optic cable, or conduit capable of having fibre optic cable inserted, and the premises are able to be connected to the nearest point of the premises' boundary
Premises	A single building or structure located on a defined geographical site (such as may be evidenced by a certificate of title), which has a unique physical address recognised by New Zealand Post and is occupied by or could readily be occupied by a potential end customer and, for the avoidance of doubt, a premises does not include a Non Business Access Point (NBAP), and a multi-tenanted building or structure constitutes a single premises.
Priority Users	Businesses (of any size, including private sector health providers), schools (including state, state integrated and independent schools) and health service providers (hospitals and significant health care provider sites, for example emergency and medical centres, and radiologists).
Retail Service Provider (RSP)	Any company who provides a retail telecommunications service to an end customer.
SLA Provisioning	A Service Level Agreement between an LFC or Chorus and an RSP for the provision of service to an end customer at a certain standard.
Telecom	Telecom Corporation of New Zealand Limited
Territorial Local Authority (TLA)	For example a local council.
Ultra Fast Broadband (UFB)	Broadband service offering a minimum of at least uncontested 100 megabytes per second (Mbps) downlink and 50 Mbps uplink, and capable of being upgradeable to ten times the stated Mbps speed.
User Acceptance Testing (UAT)	The acceptance testing of the UFB network in accordance with the processes and procedures agreed between CFH and a Co-Investment Partner
Wholesale Services Agreement (WSA)	An agreement between an LFC (or Chorus) and an RSP for the provision of wholesale UFB telecommunication services

DIRECTORY

Shareholders

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

Registered office

c/ – Bell Gully
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Auditor

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

Solicitor

Bell Gully

Banker

Westpac Banking Corporation, ASB, BNZ, and ANZ

Senior Management

Graham Mitchell, Chief Executive Officer
Philip Campbell, Planning Director
Rhys Clark, Finance Director
John Greenhough, Chief Technical Officer
Rohan MacMahon, Strategy Director
James Bishop, General Counsel
Tony Pigou, Project Manager
Sean Wynne, Chief Commercial Officer



The logo graphic consists of several thin, curved lines in shades of blue, green, and orange, sweeping upwards and to the right, ending in a small cluster of white dots.

Crown Fibre Holdings

Ultra-fast broadband for New Zealanders