CRONW FIBRE HOLDINGS LIMITED

ANNUAL REPORT

FOR YEAR ENDED 30 JUNE 2017

Crown Fibre Holdings

Ultra-fast broadband for New Zealanders

Crown Fibre Holdings

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HIGHLIGHTS

1.2 MILLION HOUSEHOLDS AND BUSINESSES ABLE TO CONNECT

35% UPTAKE

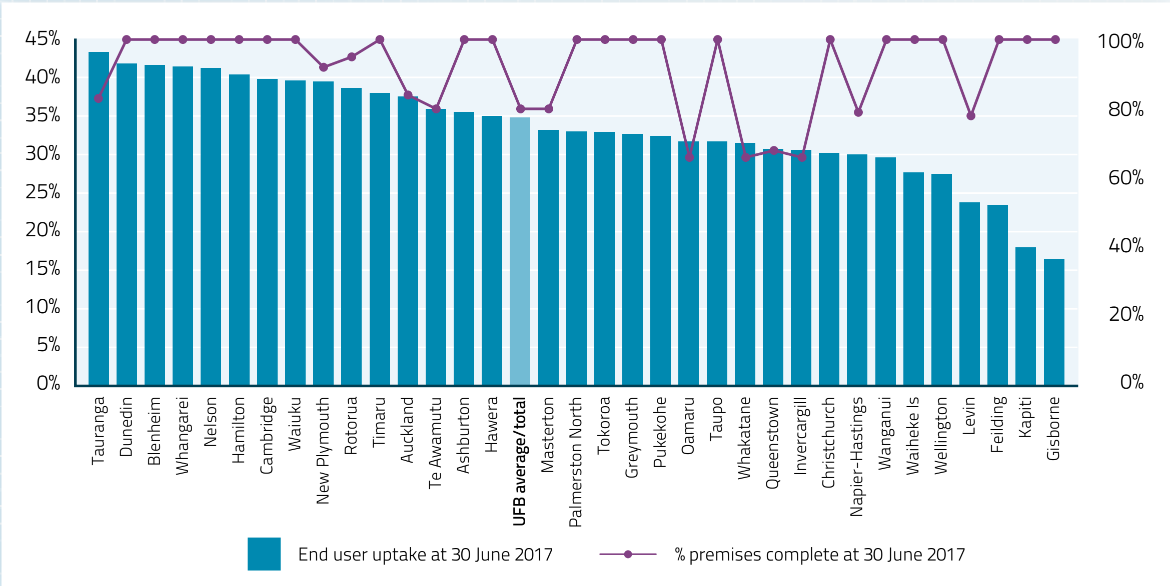
413,047 CUSTOMERS CONNECTED

61% OF POPULATION ABLE TO CONNECT

68% OF CONNECTIONS ≥100Mbps+

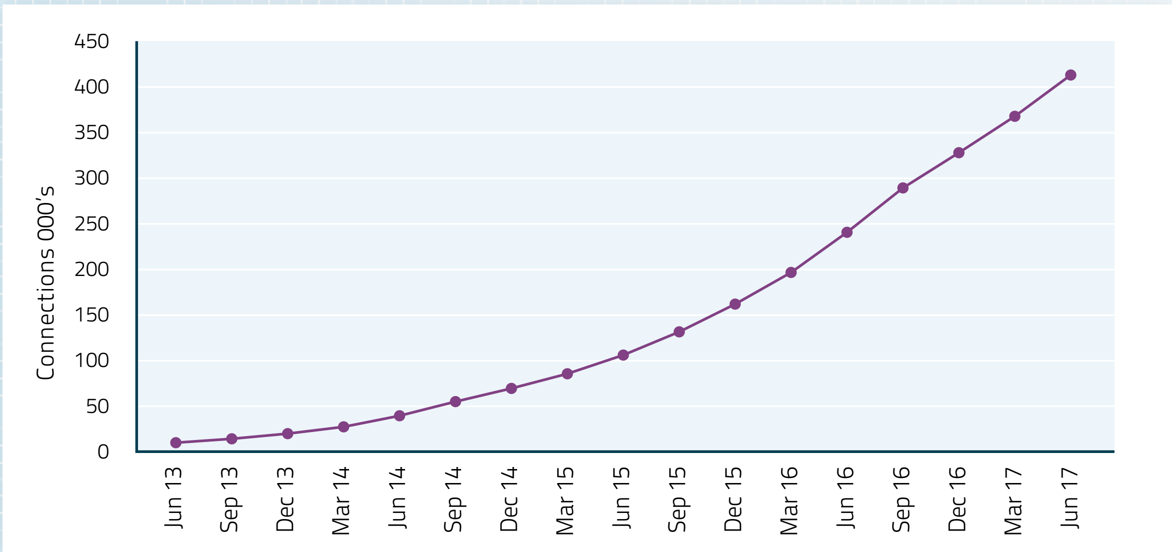
22 TOWNS & CITIES COMPLETED

STRONG UPTAKE ACROSS ALL CENTRES

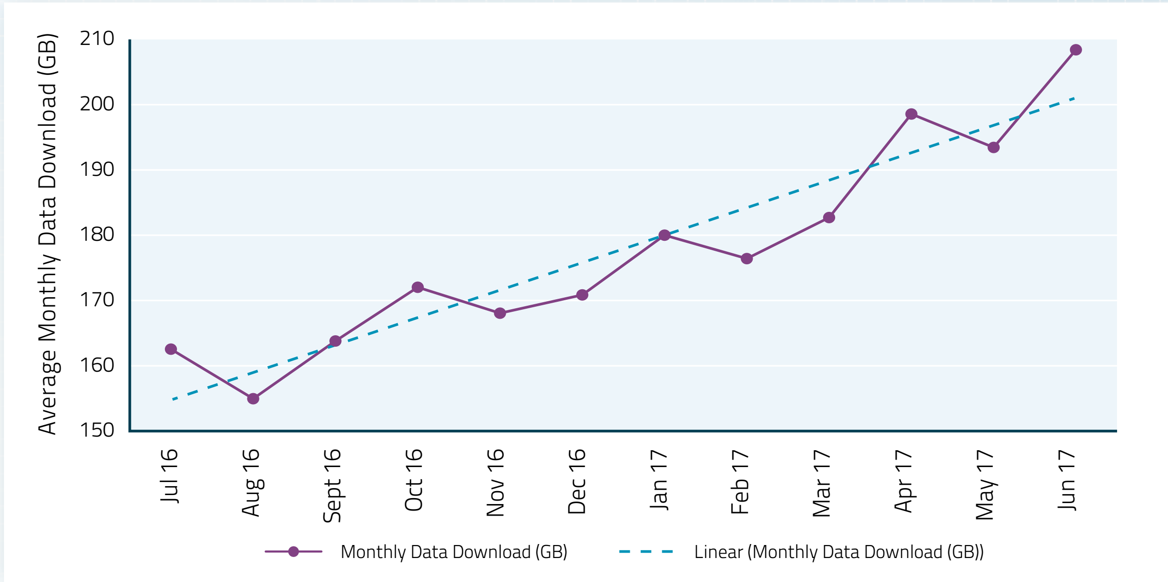


The Auckland region includes four Candidate Areas: Auckland, Waiheke Island, Pukekohe and Waiuku. The Hamilton Candidate Area includesTe Awamutu and Cambridge. Christchurch includes Rangiora and surrounding towns.

UFB UPTAKE ACCELERATING

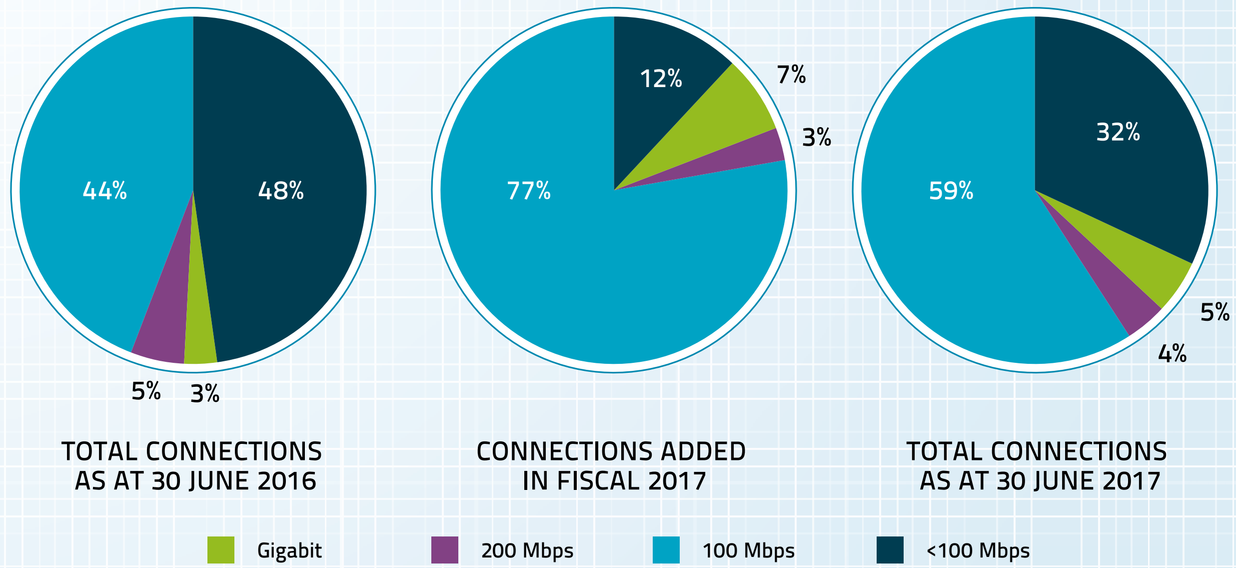


UFB MONTHLY DOWNLOADS PER CUSTOMER



The monthly average volume in Gigabytes (GB) of Internet data downloaded per connected UFB connection during fiscal 2017.

UFB PRODUCT MIX



REPORT OF THE CHAIR AND CHIEF EXECUTIVE

CURRENTLY CLOSE TO 60% OF NEW ZEALANDERS CAN CONNECT TO ULTRA-FAST BROADBAND (UFB). DEMAND IS AT RECORD LEVELS AND THE PROGRAMME HAS BEEN EXPANDED FROM 75% TO 87% POPULATION COVERAGE.

PROGRESS WITH THE UFB PROGRAMME

Deployment is ahead of schedule…

This year has seen New Zealand's broadband connectivity come a long way.

New Zealand continues to advance in the OECD country rankings for population coverage with fibre available, from 14th in 2015 to 11th in 2016, and once the UFB programme is complete in 2022 New Zealand should be in the top five in the OECD for fibre availability.

The first phase of the UFB programme[1] deployment is now 6% ahead of schedule at 79.5%[2] complete. All schools and 99% of businesses in the first phase of UFB have access to fibre.

More than 1.19 million businesses, schools, health centres and homes are passed by and can connect to the UFB network. Twenty-two towns and cities have been completed to date, with Whakatāne, Levin and Waiheke Island being completed this fiscal year.

It's forecast that by 30 June 2018 a further 171,000 end users, or an additional 10% of the New Zealand population, will be able to connect to UFB (70% of the population), and it is expected that deployment will be completed in Christchurch, Rangiora, Pukekohe, Feilding, Gisborne, Dunedin, Invercargill and Nelson.

CFH has contracted a further 10.5% population coverage for the UFB expansion…

The Prime Minister and the Minister for Communications have made two announcements regarding the future of broadband in New Zealand. The first, regarding the expansion of the UFB programme at the end of January 2017, will see another 423,000 New Zealanders able to access fibre in a further 151 towns. On 28 August 2017, a second announcement was made detailing a further expansion with approximately an additional 2% of the population to receive fibre coverage in an additional 190 towns.

The expansions will result in around 340 towns being completed by 2022. On completion of these expansions, the total population coverage of UFB and private fibre will be 87%, covering some 390 towns and cities across New Zealand. As part of the UFB expansions, CFH entered into contracts or contractual variations with Chorus, Ultrafast Fibre, Northpower and Enable Services Limited (ESL) for additional UFB deployment.

During the second half of fiscal year 2017, UFB expansion deployment commenced in Hokitika, Hikurangi, Waipū, Picton, Horotui and One Tree Point, along with Te Puna, Otaki, Thames, Ngāruawāhia, Ōmokoroa, Dargaville and Stratford.

[1] The first phase of the UFB programme is to achieve 75% population coverage by 2019 and the second phase is the expansion to 87% population coverage by 2022 (86% UFB and 1% private fibre).

[2] This is calculated as brownfields and greenfields complete, against target brownfields and actual greenfields.

… and uptake is exceeding expectations

This year the UFB programme also passed another significant milestone, with 35% of homes and businesses and close to 100% of urban schools passed by the UFB network being connected. This is a significant 413,000 users connected to UFB – a 72% increase in connected users since June 2016. The top five cities for UFB uptake are Tauranga 43.3%, Dunedin 41.8%, Blenheim 41.6%, Whāngārei 41.4% and Nelson 41.2%, with Hamilton also over 40%.

Such high demand is pushing up speeds and the volume of Internet traffic nationally. Akamai[3] reports that New Zealand's peak connection speeds to Akamai servers in the first quarter of 2017 averaged 70.8 megabits per second (Mbps). This compares with the peak New Zealand connection speed to Akamai servers of 13.7 Mbps in the first quarter of 2011[4] (when the UFB project commenced).

During fiscal year 2017, all four UFB partners released gigabit-speed wholesale residential products, which means that New Zealand now has gigabit speeds available on the entire UFB network. This product launch and the consequent extensive gigabit footprint have made New Zealand one of the leading countries in the OECD for gigabit services. Demand has exceeded expectations, with 8% of residential connections in the second half of fiscal year 2017 being for gigabit services.

RURAL BROADBAND INITIATIVE EXPANSION AND MOBILE BLACK SPOTS PROGRAMME

CFH is now expanding its focus to improving rural broadband and mobile coverage…

During fiscal year 2017, CFH began implementing the Government's Rural Broadband Initiative expansion and Mobile Black Spots programme. The Rural Broadband Initiative expansion (RBI2) builds on the progress of the first Rural Broadband Initiative[5] to improve the availability of fast broadband to further underserved rural households and businesses. The Mobile Black Spots (MBS) programme is focused on improving the availability of mobile services to support safety on state highways and enhancing visitor experiences at key tourist destinations that do not currently have coverage from any mobile operators.

On 28 August 2017, the Prime Minister and the Minister for Communications announced that CFH has entered into contracts with 10 telecommunications operators to deliver the RBI2/MBS programme. The programme will initially result in coverage for at least 74,000[6] rural end users (81% of end users in scope for RBI2, being rural households and businesses covering about 3% of the population). The programme will also deliver mobile coverage to around 1,000 kilometres of state highways and around 100 tourism locations. Further expansion is also likely above this coverage.

This is hugely significant for rural New Zealand. This will ensure that some of our biggest sectors that operate in rural New Zealand – such as agriculture and tourism – can benefit from the advantages that better connectivity offers.

FINANCIAL RESULTS

During the year, CFH exceeded its financial targets and managed within its internal cash resources as set out in the Statement of Performance Expectations 2016-2017. CFH's net loss before fair value movements on UFB investments was $4.6 million compared with a planned net loss of $10.1 million. CFH's cumulative net loss as at 30 June 2017, including fair value and UFB contributions, was $68.2 million compared with a planned net loss of $125.6 million for the year.

The significantly positive variance reflects the timing of payments to build partners, although deployment is on track. The other key driver was the interest rate markets remaining subdued, as uncertainty around the globe saw investors looking for safe-haven returns. For CFH, this meant that the impairment of investments was less than forecast.

CFH Group funding was by way of cash reserves assisted by the early exit of its shareholding in Ultrafast Fibre, with $84.5 million on hand at 30 June 2017, and pleasingly CFH has not made a capital call from the Government since June 2016. New investment in UFB partners for UFB deployment in fiscal 2017 was $157 million.

MANAGING CONTRACTS

CFH continues to actively manage its contractual relationships with UFB partners…

An important aspect of CFH's role is active monitoring and contract management of the UFB partners given the Government's significant investment in the UFB programme. CFH is pleased that all UFB partners that are deploying UFB (that is, Chorus and ESL) met their annual contractual deployment targets in fiscal year 2017, with ESL considerably exceeding its target.

CFH also monitors the experience of customers connecting to the UFB network, and, although there is still room for improvement by UFB partners, it was pleasing to see the average days taken by a UFB partner to connect a residential standard dwelling decrease from 39 days to 26 days, and customer satisfaction among those connected increasing to 76%.

CFH commenced management of the contracts for the UFB expansion, with all deployment start milestones being met.

WORKPLACE HEALTH AND SAFETY

The Total Recordable Injury Frequency Rate is currently at 2.92 across the UFB programme, a decrease from 6.79 at this time last year. It was pleasing to see a continued reduction throughout the year[7], a reflection of CFH's and the UFB partners' continued focus on workplace safety. This compares favourably with the New Zealand construction industry rate of 10.25 (14.5 in the same period last year). CFH continued to operate a regular health and safety forum with UFB partners where incidents are reviewed, performance is reviewed and industry best practice and any actions raised from incident recommendations are discussed. There is a continued focus on health and safety improvements across the UFB programme.

CROWN INFRASTRUCTURE PARTNERS

An announcement was made on 24 July 2017 by the Prime Minister and the Minister of Finance regarding the repurposing of CFH to Crown Infrastructure Partners Limited (CIP) and the proposed scope of work CIP will undertake. CFH's purpose will be increased to include investigating and implementing commercial models, including those that will enable co-investment from the private sector or any other sector, to achieve the Government's objectives for the deployment of water and roading infrastructure to support a timely increase in housing supply. CFH will be renamed as CIP on 1 September 2017. Resourcing capability will be assessed and if necessary the Company will expand to support this additional focus.

OUTLOOK FOR 2018

In the next fiscal year, CFH's focus and principal goals will include:

UFB - Increasing availability to 1.35 million businesses and households, completing 14 cities and towns, commencing deployment for 30 towns, and continuing to focus on improving connection performance;

RBI2/MBS - Commencing deployment under the RBI2/MBS programme and establishing further expansion of coverage;

Infrastructure to support housing - Developing a framework for the approach, including the processes and base commercial model for financing engaging with councils, developers and potential investors to identify projects to increase housing supply; and

Health and safety - Maintaining a strong focus on health and safety in the UFB and RBI2/MBS programmes.

CFH extends a warm thank-you to the various individuals and organisations who have continued supporting us this year. CFH's partners are critical to our success, and CFH greatly appreciates their commitment and skill in delivering such strong results in both deployment and connections.

We are excited about the possibilities that the RBI2/MBS programme will bring and the wider benefits to the New Zealand economy that will be derived from having vastly improved broadband and mobile cellular connectivity in our regions. Equally exciting is the new opportunity to co-invest in infrastructure to improve housing supply in urban areas. We look forward to achieving the long-term goal of supporting the wider market for infrastructure provision in New Zealand.

Simon Allen
Chair
31 August 2017

Graham Mitchell
Chief Executive
31 August 2017

[3] https://www.akamai.com/uk/en/about/news/press/2017-press/akamai-first-quarter-2017-state-of-the-internet-connectivity-report.jsp
[4] https://www.akamai.com/us/en/multimedia/documents/state-of-the-internet/akamai-q1-2011-state-of-the-internet-connectivity-report.pdf
[5] The first Rural Broadband Initiative was managed by the Ministry of Business, Innovation and Employment.
[6] Includes commercial expansion by some Mobile Network Operators.
[7] The calculation is made in relation to the number of injuries against one million man-hours.

UFB UPTAKE 35% ↑11%

UFB CONNECTIONS ↑172,422
413,047

UFB 22 CITIES/TOWNS COMPLETE ↑3

UFB AVAILABILITY 1.2 million
HOUSEHOLDS + BUSINESSES ↑171,000

UFB POPULATION COVERAGE 60% ↑10%

HEALTH & SAFETY
TRIFR
TOTAL RECORDABLE INJURY FREQUENCY RATE
2.92 ↓3.87
NZ CONSTRUCTION INDUSTRY RATE IS 10.25

UFB INVESTMENT
$160m
INVESTMENT MADE
FUNDED **INTERNALLY**

GIGABIT CONNECTIONS
12,288 ↑143%
This nationwide product launch gigabit has made New Zealand one of the leading countries in the OECD for gigabit services.

DATA **DOWNLOADED**
PER UFB CONNECTION
208Gb
+46Gb

CONNECTION PERFORMANCE
26 AVERAGE DAYS RESIDENTIAL ↓13
76% ↑5%
INSTALLATION SATISFACTION

OECD FIBRE COVERAGE
11TH ↑ 5TH

UFB TARGET POPULATION COVERAGE BY 2022
87% ↑10.5%

UFB EXPANSION
TOWNS +340
POPULATION +10.5%
FUNDING $437m

NEW TARGETED RURAL COVERAGE
74,000 END USERS
POPULATION % 3%+
Includes some mobile commercial coverage.

MOBILE **COVERAGE**
STATE HIGHWAYS 1000km+
TOURIST SITES 100+
INCREASED POPULATION COVERAGE +3%
INCREASED LAND MASS COVERAGE +20%

INFRASTRUCTURE
Funding roading and water infrastructure to increase housing supply.

INCREASED PURPOSE
Crown Fibre Holdings → Crown Infrastructure Partners

RURAL BROADBAND AND MOBILE BLACK SPOTS INITIATIVES

CFH has contracted with ten telecommunication operators, which will result in improved rural broadband and increased mobile coverage throughout regional New Zealand and the Chatham Islands. This is hugely significant for rural New Zealand. It ensures that some of our largest sectors that operate in rural New Zealand – such as agriculture and tourism – can benefit from the productivity improvements that improved broadband and mobility offers.

STATE HIGHWAY/MOBILE COVERAGE

- >1,000 kilometres
- 32 state highways with improved mobile coverage
- Key highways such as Haast (SH6) and Te Anau-Milford (SH94)

TOURISM SITES – MOBILE COVERAGE

- Around 100 sites with mobile coverage
- Iconic tourism sites such as Milford Sound, Cape Farewell, Tasman Glacier walks, Ninety Mile Beach and Tāne Mahuta

RURAL BROADBAND COVERAGE

- Around 74,000 households and businesses
- Up to 3% of the population
- Agricultural benefits: productivity, traceability, monitoring, safety

RURAL CONNECTIVITY GROUP

- Joint venture: Spark, Vodafone, 2degrees
- Mobile land coverage +20-30%
- 4G mobile population coverage up 3% to 98%
- Mobility, Internet of Things and broadband
- Base contract: $150 million; expansion: $100 million

REGIONAL WIRELESS INTERNET PROVIDERS

- Amuri.net, AoNet, Gisborne Net, Inspire Net, New Zealand Technology Group, PrimoWireless, Ultimate Broadband, Unifone, WIZwireless
- Local community focused, offering wireless fixed broadband
- Contract values of around $8 million for up to 7,000 end users

ULTRA FAST BROADBAND (UFB) EXPANSION

CFH executed contracts with existing UFB partners to expand UFB to cover a further 8.6% of the population for $307 million in January 2017 and in August 2017 to cover a further 1.9% of the population for $120 million. In total, both expansions will result in a 10.5% further population coverage, including private fibre up to 87% population coverage when complete in 2022.

UFB is already one of the biggest infrastructure projects ever undertaken in New Zealand, and the expansion to over 340 towns is a significant nationwide undertaking, from Kaitaia in the far north, to Bluff in the far south. All 78 of the mainland local Territorial Authorities will receive UFB coverage. Twelve towns have already commenced deployment and a further 30 will commence in 2018.

It is very pleasing to know that these smaller New Zealand towns will receive world-class connectivity, with up to 1 gigabit broadband speeds, on par with the major cities in New Zealand and ahead of most cities globally. This will provide a boost for the regions which can lead to improved health and education outcomes, new and improved business opportunities and greater connectivity with main centres as well as internationally.

There will be a material improvement in UFB coverage across all regions.

Chorus deployment in action.

REGIONS OF NEW ZEALAND	PROJECTED 2023 POP.	POP. COVERED BY UFB 1 (#)	POP. COVERED BY UFB 1 (%)	POP. COVERED BY UFB 2 (#)	POP. COVERED BY UFB 2 (%)	TOTAL POP. COVERED BY ALL UFB (%)
NORTHLAND	175,356	52,557	30%	49,332	28%	58%
AUCKLAND	1,767,277	1,625,226	92%	48,906	3%	95%
WAIKATO	463,018	237,395	51%	117,984	25%	77%
BAY OF PLENTY	304,675	206,899	68%	45,037	15%	83%
GISBORNE	48,204	35,047	73%	2,028	4%	77%
TARANAKI	122,168	69,655	57%	24,237	20%	77%
HAWKE'S BAY	164,431	116,615	71%	19,218	12%	83%
MANAWATU-WANGANUI	236,799	143,130	60%	42,475	18%	78%
WELLINGTON	517,912	474,843	92%	19,627	4%	95%
NELSON / TASMAN	105,049	64,984	62%	17,734	17%	79%
MARLBOROUGH	46,353	27,045	58%	8,957	19%	78%
WEST COAST	34,041	7,640	22%	14,489	43%	65%
CANTERBURY	637,334	483,144	76%	48,029	8%	83%
OTAGO	225,564	142,984	63%	47,117	21%	84%
SOUTHLAND	98,879	45,365	46%	28,578	29%	75%
TOTAL ACROSS REGIONS	**4,947,061**	**3,732,527**	**75%**	**533,749**	**11%**	**86%** [1]

[1] Excludes private fibre coverage of 1%.

2017 CFH CASE STUDY

SKYLINE QUEENSTOWN:

A FAST FIBRE BROADBAND NETWORK IS THE FOUNDATION OF EVERYTHING WE DO

"With UFB you can start small; you don't have to commit to an expensive connection. Then once you have fibre, you have options for expansion at your fingertips."

Jonathan Clark - Skyline Enterprises IT, Architecture & Infrastructure Manager

THERE PROBABLY AREN'T MANY VISITORS TO QUEENSTOWN WHO DON'T INTERACT IN SOME WAY WITH TOURISM COMPANY SKYLINE. THE COMPANY STARTED IN 1963 AS A KOMBI-VAN OPERATION, TAKING VISITORS UP BOB'S PEAK, BUT IN THE LAST 50 YEARS IT HAS GROWN INTO A MULTI-MILLION DOLLAR INTERNATIONAL BUSINESS.

Skyline offers a range of activities, including gondola, luge rides, stargazing, mountain biking, and Maori cultural show. The company also has tourism operations in Rotorua, the West Coast, Dunedin, Milford Sound, Singapore and Canada.

Keeping an operation that size operating smoothly requires considerable technological "grunt", says Jonathan Clark, Skyline Enterprises' manager of IT, Architecture & Infrastructure. Having multiple sites, good broadband is essential.

"All our applications are centralised; our network is our core piece of infrastructure," Jonathan says. "That means the broadband connectivity has to be rock solid and always available. Critical business applications are hosted at our Christchurch datacentre, or through the cloud server in Australia, and all our local and international sites need to be able to connect up with high reliability and the lowest possible latency… we need a good data connection right through the day."

CUSTOMER EXPERIENCE

Fibre broadband is integral to customers' experience at Skyline Queenstown – now and in the future, Jonathan says.

Take online ticketing – currently, if a customer purchases a Skyline package via a mobile phone, they receive a voucher, which they then exchange for a ticket once they get to the complex. In the future, however, broadband will make it possible to remove the voucher step altogether, Jonathan says.

"Customers will be able to have a seamless experience buying tickets online and heading straight to the gate without the need to exchange vouchers - a customer receiving a ticket to their mobile phone and then just scanning that at the gate," Jonathan says.

Meanwhile, broadband is also at the centre of being able to offer a better luge photography service for customers, says Skyline Queenstown assistant general manager Wayne Rose. Five cameras dotted around the luge course take photos of riders as they shoot down the hill, and then feed them back to staff in the kiosk. However, in the past, slow connection speeds could be frustrating.

"Before we got UFB connected last year, it could take up to 40 minutes to upload a luge photo because of the number of people coming through – that was too long for some of our customers to wait. Since installing fibre we have seen a huge improvement in customer service as the team and guests are able to interact much faster, and that's had a great impact on photo sales," Wayne says.

FREE, FAST Wi-Fi

A fibre connection also allows Skyline to operate a high-speed guest Wi-Fi service throughout the complex, so visitors can contact friends and family back home, share their experiences on social media, and log into a Skyline portal for special offers, Jonathan says. And the connection has to be fast: guests are expecting to have the same delay-free Internet access as they do back home and around the rest of the world, despite the fact they are standing on top of a hill surrounded by mountain ranges, hundreds of miles from any bustling metropolis, he says.

"UFB allows us to get the latency as low as possible and the speeds as high as possible, so tourists can connect quickly and easily to websites overseas, and they are happy with their experience."

RECRUITMENT AND MARKETING

Broadband allows the Skyline management team to use Skype for recruitment interviews with potential staff in other parts of New Zealand or overseas, something that wasn't possible with slower Internet speeds, Wayne says.

The UFB network is also fundamental for the company's interactive social media and onsite marketing campaigns. Wayne says increasingly sophisticated data gathering and evaluation methods will mean in the future Skyline will be able to target its marketing more closely to individual customers and vary offers depending on what suits that demographic best.

THE BASICS

Skyline initially connected to UFB with a 100 Mbps plan through Kordia. Later, the company decided to switch over to a Kordia managed network, to give it an opportunity to access higher speeds. "Another good thing with UFB is you can start small; you don't have to commit to an expensive connection," Jonathan says. "Then once you have fibre, you have options for expansion at your fingertips."

2017 CFH CASE STUDY

WHITE ISLAND TOURS: PEOPLE CAN GO WILD WITH UNCAPPED, FREE WI-FI

WHAKATANE-BASED WHITE ISLAND TOURS OPERATES BOAT TOURS TO WHITE ISLAND'S ACTIVE VOLCANO AND THE MOUTOHORA WILDLIFE SANCTUARY, AS WELL AS RUNNING A 38-ROOM MOTEL AND AN ONSITE CAFÉ. OWNERS PETER AND JENNY TAIT KNEW VIRTUALLY ALL THEIR CUSTOMERS HAD SMARTPHONES.

So, offering them free, fast, unlimited Wi-Fi Internet access was important, so they saved the not inconsiderable cost of putting in phone lines to the standalone cabins.

CUSTOMER SATISFACTION

"People can go wild with uncapped, free Wi-Fi," says White Island Tours Marketing Manager Patrick O'Sullivan. "They are all communicating with family and friends via Facebook, Skype, FaceTime etc, and they can send photos and video. They can stream a movie to their laptop in the evening if the weather is bad."

The Wi-Fi extends to the café, and White Island Tours encourages its customers to stop in after visiting the volcano to buy a coffee and a snack, share their photos and video online, and – hopefully – post a rave review on a travel website like TripAdvisor.

"In the past, travellers referred to guide books for their information. Now, they are looking for recommendations from other travellers, so sites like Facebook and TripAdvisor are increasingly important. We feel we have a fantastic product and our reviews reflect that, so we want as many people as possible to shout about what we do, whether it's their trip to the islands, their stay in the motel, or the food in the café."

SAFE STORAGE

Moving to broadband has revolutionised how the company runs its business. In the past, there was a server on the premises, now everything is in the cloud.

"Being able to get rid of our server and moving to Microsoft Office 365 for our file manager was a big step for us. But you can't get rid of your server and start operating in the cloud without a high-speed and reliable broadband connection."

Cloud storage has also given the owners peace of mind that the business could get back up and running quickly after a disaster. Although the motel is too far from the volcano to be in much danger from an eruption, the town is in an earthquake-prone area. In addition, a fire on one of the tour boats earlier in the year was a timely reminder that life can be unpredictable, Patrick says.

"We are very aware of how something completely unexpected can devastate your business. In the event of a disaster we could be up and running - from someone's house, say - almost immediately." Patrick recently got fibre installed at home too - for just that eventuality, as well as to feed his family's Netflix addiction!

OVERSEAS MARKETING

Fast, reliable Internet is increasingly important for selling White Island Tours to potential customers, Patrick says. New Zealand's only active volcano is a strong drawcard for overseas visitors, with 80% of the company's 15,000 customers a year being international tourists.

Patrick spent two weeks in the United States and Canada last September, and he found broadband really came into its own when he got back. "You have to follow up your contacts, sending them your brochure electronically, and providing the travel agents with access to video and images. The crucial thing is getting our product in front of them so they can understand the experience. Once they see White Island, it kind of sells itself."

The latest trend with tourism marketing is 360-degree video and virtual reality, Patrick says, and they really are large files. He is also planning to put together webinars about White Island Tours to train travel agents selling the product.

GROWING THE REGION

Passenger numbers at White Island Tours have grown 40% since 2013, and the aim is to grow another 20% for the 2018 season, to reach 18,000 a year.

This isn't just good for White Island Tours, but is critical for the Whakatane region as a whole, says Gerard Casey from the Eastern Bay of Plenty Chamber of Commerce. White Island visitors provide a big boost to the economy of the region, Gerard says, "We will build around what's happening at White Island. If they grow, the town has the potential to grow. UFB is a game-changer."

UNLIMITED DATA

Initially White Island Tours had a 50 GB monthly data plan, but the company decided to upgrade to unlimited data for the peak summer period, Patrick says. "Even then, the cost won't be much higher than what we were paying for ADSL broadband, and we get significantly more data per month and much greater reliability. It's such good value."

"We will build around what's happening at White Island. If they grow, the town has the potential to grow. UFB is a game-changer."

Gerard Casey - Eastern Bay of Plenty Chamber of Commerce

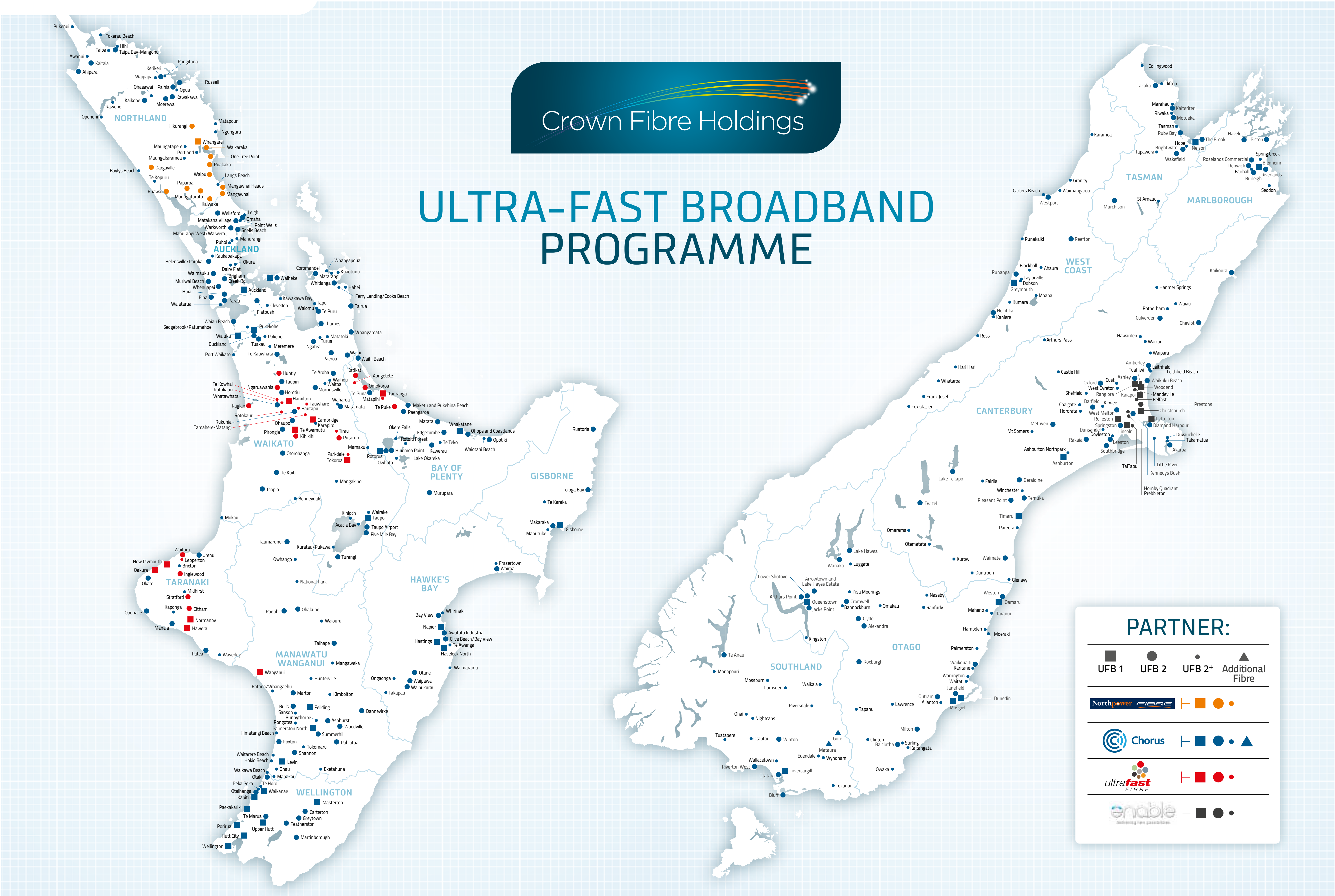

Ultra-fast fibre
is coming to
Moerewa
by March 2018
Chorus
New Zealand Government


Ultra-Fast Broadband
fibre rolling out soon...
Waipu Jun 2017 – Jan 2018
Ph: 0800 744 445
Northpower FIBRE
New Zealand Government


Ultra-Fast Broadband
fibre rolling out soon...
One Tree Point Jul 2017 – Jul 2018
Ph: 0800 744 445
Northpower FIBRE
New Zealand Government


COOPER TYRES
& MECHANICAL
KIA ORA HUNTLY!
Fibre Broadband is coming...
Visit - fibreiscoming.co.nz
New Zealand Government

ULTRA-FAST BROADBAND PROGRAMME



CO-INVESTMENT UFB PARTNER PROFILE

In fiscal year 2017, CFH's partnership profiles changed as Waikato Networks Limited took an early exit option by purchasing CFH's shares in Ultrafast Fibre Limited (UFF), and CFH restructured its shareholding in Enable Networks Limited in June 2016. The partner profiles reflect these changes in arrangements and the new UFB expansion contracts.

NORTHPOWER LIMITED

Northpower is an electricity distribution network operator in Northland and one of the largest multi-utility contractors in New Zealand.

Northpower and CFH are joint shareholders in Local Fibre Company (LFC) Northpower Fibre Limited (NFL), which has completed the UFB network deployment in Whāngārei. NFL sells wholesale fibre services to Retail Service Providers (RSPs). The Chair is Ms Jo Brosnahan, and Directors are Ms Josephine Boyd, Ms Nicole Davies-Colley, Mr Darren Mason (Northpower appointees), and Mr Graham Mitchell and Mr Sean Wynne (CFH appointees).

Northpower and CFH are Co-Investment Partners in Northpower LFC2 Limited, which is a wholly owned subsidiary of Northpower Limited. Northpower LFC2 Limited is responsible for deploying UFB in 12 more towns throughout Kaipara and Whāngārei districts under the UFF expansion programme.

CHORUS LIMITED

Chorus is New Zealand's major telecommunications infrastructure company. It is the largest of CFH's Co-Investment Partners and is deploying UFB in over 340 cities and towns throughout New Zealand, passing over one million premises. Chorus sells wholesale fibre and copper services to Retail Service Providers (RSPs). CFH provides funding to Chorus through interest free debt and equity securities.

CFH and Chorus are members of a Steering Committee that oversees Chorus's part of the initiative. The Independent Chair of the Steering Committee is Mr Gavin Walker, NZOM, and the members are Ms Kate McKenzie, Mr Andrew Carroll, Mr Keith Turner (Chorus appointees), and Mr Graham Mitchell, Ms Danelle Dinsdale and Mr Sean Wynne (CFH appointee).

ULTRAFAST FIBRE LIMITED

WEL Networks provides electricity infrastructure throughout the Waikato region and, together with Waipa Networks (the electricity lines company serving Te Awamutu and Cambridge), formed Waikato Networks Limited (WNL). WNL, who was CFH's partner for the first phase of UFB, took the option to have an early exit and purchased CFH's A shares in Ultrafast Fibre (UFF) in September 2016.

UFF, now 100% owned by WNL, is the LFC which has deployed UFB in the urban areas of Hamilton, Tauranga, Whanganui, New Plymouth, Tokoroa, Hawera, Cambridge and Te Awamutu. UFF sells wholesale fibre services to RSPs for these cities. UFF is also deploying UFB to 13 towns throughout the central north island as part of the UFB expansion programme.

ENABLE SERVICES LIMITED

Enable Services Limited (ESL, a subsidiary of Christchurch City Holdings Limited (CCHL)) is contracted with CFH to build and operate the UFB network in Christchurch, Rangiora and surrounding areas, in partnership with CFH. ESL owns Enable Networks Limited (ENL), the LFC that owns and operates the UFB network and sells wholesale fibre services to RSPs.

CFH advances funds interest free to CCHL, who provides funding to ESL (UFB build partner), who in turn advances funds to ENL to fund the build of the UFB network. The advance is repayable in May 2021 and is secured over the assets of ENL and the shares and debt held by ESL in ENL. CFH restructured its equity holding in ENL into a secured loan with CCHL in June 2016.

GOVERNANCE

ORGANISATIONAL FORM

CFH was incorporated on 29 October 2009 under the Companies Act 1993. CFH is a Crown-owned company, listed under Schedule 4A of the Public Finance Act 1989.

CFH is subject to certain provisions of the Crown Entities Act 2004, and is also subject to the Official Information Act 1982 and the Ombudsmen Act 1975. The shareholders in CFH are the Minister of Finance and the 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 of Business, Innovation and Employment's ICT Policy and Programmes Group and the Commercial Operations group of the Treasury for policy and shareholding Ministers. CFH's aim is to provide services to the public, rather than make a financial return. Accordingly, CFH has designated itself as a public benefit entity.

REPURPOSING OF CFH

An announcement was made on 24 July 2017 regarding the repurposing of CFH to Crown Infrastructure Partners Limited (CIP).

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 Performance Expectations.

The Company's purposes including the new repurposing are to:

- implement the Government's objectives in relation to improving the performance and availability of, and access to, ultra-fast broadband, rural broadband and mobile voice and data coverage, by co-investing with, or making grants to, private sector participants in order to deploy telecommunications network infrastructure; and
- investigate, design and implement new commercial models to attract co-investment from the private or other sectors to support achievement of the Government's objectives for the efficient deployment of water and roading infrastructure, to support the timely increase of housing supply.

BOARD OF DIRECTORS

The Board has established strategic policy, guides and monitors the business and affairs of the Company and is committed to a high standard of corporate governance. Responsibility for the operation and administration of the Company 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 five non-executive Directors. Their profiles can be read on page 22 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.

BOARD OF DIRECTORS

DIRECTORS' PROFILES AND INTERESTS HELD

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

Mr Simon Allen (Chair) is a professional company director following a 20-year career as Chief Executive of BZW and ABN AMRO. He is Chair of the New Zealand Refining Company Limited. Mr Allen is also a non-executive director of IAG New Zealand. He is a director of Xylem Investments Limited and Simon Allen Consulting Limited as well as Chair of St Cuthbert's College Board of Trustees and a trustee of the Antarctic Heritage Trust.

Ms Miriam Dean CNZM QC is a Queen's Counsel (focusing on strategic legal advice, mediation and review work) and a professional director. She currently chairs the Banking Ombudsman Scheme, NZ On Air and the Legal Aid Advisory Board to the Ministry of Justice, and is a director of Ōtākaro Limited, the Crown company responsible for the building of the Government's key anchor projects in Christchurch. Previous roles have included membership of the Auckland Transition Agency Board responsible for the amalgamation of the previous councils to form Auckland Council. Ms Dean is also a trustee of the Royal New Zealand Ballet Board.

Ms Danelle Dinsdale has enjoyed a career as a technology lawyer specialising in major infrastructure and public-private partnership projects in the United Kingdom. She now has a portfolio of non-executive directorships. Ms Dinsdale is a director of the Medical Assurance Society New Zealand Limited (and its subsidiaries the Medical Insurance Society Limited, the Medical Life Assurance Society Limited and Medical Funds Management Limited) and the Hawke's Bay Regional Investment Company Limited. She also represents Crown Fibre's interests on the Chorus Steering Committee.

Dr Murray Milner has more than 40 years' experience in the New Zealand ICT industry and holds a doctorate of electrical engineering. He chairs Harmonic Analytics Limited, the Data Exchange Technical Advisory Group and the Whole of Government Radio Network Governance Board. Dr Milner is the Managing Director of Milner Consulting Limited and is a trustee and beneficiary of the Milner Family Trust. He is also a trustee of the New Zealand IPv6 Task Force Trust and a member of the Digital Advisory Board and Capital Investment Committee for Health. He holds shares in Spark New Zealand Limited.

Mr Keith Tempest spent 23 years with electricity generator Trustpower, resigning as Chief Executive in 2009. He holds directorships with NZ Bus Limited, the NZ Bus Finance Company Limited and Bay Venues Limited, and is a director and shareholder of GAP Business Solutions Limited.

REMUNERATION COMMITTEE

Ms Miriam Dean (Chair), Mr Simon Allen.

AUDIT AND RISK COMMITTEE

Mr Keith Tempest (Chair), Mr Simon Allen, Ms Danelle Dinsdale.

	2017		2016	
DIRECTORS	No. of Regular Meetings Attended	No. of Special Meetings Attended	No. of Regular Meetings Attended	No. of Special Meetings Attended
Simon Allen	8	4	8	1
Miriam Dean	8	4	9	1
Danelle Dinsdale	8	4	9	1
Jack Matthews*	4	4	8	1
Murray Milner	8	5	8	1
Keith Tempest	8	5	9	1

*Jack Matthews resigned from the CFH Board on 24 March 2017.

CFH AS A GOOD EMPLOYER

CFH places high importance on attracting skilled staff in order to deliver on the Government's UFB Objective, the RBI2/MBS programme and now infrastructure to support housing supply. As a result, CFH has put in place policies that ensure it is a "good employer" that provides equal employment opportunities (EEO). There are six areas on which CFH is focusing in order to ensure that it is a "good employer" (based on guidance from the EEO Commissioner).

- **Leadership, accountability and culture:**
  All job descriptions are consistent with EEO principles and there is no gender or ethnicity bias with a genuine EEO culture.
- **Recruitment, selection and induction:**
  CFH has recruited a number of executives through a variety of means, including industry networks, recommendations and recruitment companies. All staff have been treated under an EEO framework that includes logic, reasoning and psychometric testing.
- **Employee development, promotion and exit:**
  CFH encourages employee development and promotion. With the initiative now in a phase of steady-state deployment, the structure of CFH has changed to meet evolving requirements, creating opportunities for development.
- **Remuneration, recognition and conditions:**
  CFH has a gender-neutral remuneration policy. Remuneration is market based and includes a small incentive scheme that is designed to reward employee contributions (regardless of race or gender). Flexible working is supported.
- **Harassment and bullying prevention:**
  CFH has a zero-tolerance approach to all forms of harassment and bullying. CFH has policies in place to deal with harassment complaints should they arise.
- **Safe and healthy environment:**
  CFH has developed policies that are designed to encourage staff participation in health and safety. All staff are treated with respect regardless of sexuality. Staff are encouraged to take regular holidays and there are policies in place to help staff deal with stress-related complaints if necessary.

STATEMENT OF PERFORMANCE

The outputs listed in this Statement of Performance track CFH's progress towards achieving the UFB Objective, that is, to accelerate the roll-out of UFB1 to 75% of New Zealanders by December 2019, and an additional 8.6% of New Zealanders for UFB2 by December 2022. For reporting against revenue and expense targets, see note 20.

Under the UFB contracts, CFH pays partners on the basis of premises[1] passed. This measures the partners' overall performance in meeting their contractual deployment targets. CFH also measures the number of end users (households and businesses) capable of connection.

As well as the contractual service levels measuring partners' performance, two other measures that CFH will focus on with partners for fiscal 2017 are: average days to connect to UFB for a residential single dwelling unit (essentially, a typical New Zealand household), and end user satisfaction with UFB installation.

CFH's performance targets for UFB deployment:

	FINANCIAL YEAR	2015/2016	2016/2017			2019/2020
		Actual #000	Plan[2] #000	Actual #000	Actual % variance	To December 2019
1	UFB1 PREMISES HANDED OVER BY PARTNERS	756	847	900	6%	1,174
2	UFB2 PREMISES HANDED OVER BY PARTNERS	New measure	–	–[3]	–	TBC
3	NUMBER OF BROADBAND END USERS ABLE TO CONNECT TO UFB UNDER UFB1 AND UFB2	1,007	–	1,185	7.6%	TBC

CFH's performance targets for financial and operational efficiency:

	FINANCIAL YEAR	2014/2015	2015/2016		
		Actual	Plan	Actual	Comment
1	CFH FUNDING PER PREMISES HANDED OVER	$1,096	$1,105	$1,117	Measures level of CFH funding for each premises handed over
2	PERCENTAGE OF UFB1 OBJECTIVE COMPLETED	68%	82%[4]	80%	Measures progress towards target of 75% population coverage for UFB and percentage of fiscal envelope utilised
3	PERCENTAGE OF FISCAL ENVELOPE INVESTED	62%	75%	76%	
4	PERCENTAGE OF UFB2 OBJECTIVE COMPLETED	New measure	–[5]	–	Measures CFH's efficiency over time against annual investment
5	PERCENTAGE OF FISCAL ENVELOPE INVESTED (UFB2)	New measure	–[6]	–	
6	NET CFH OPERATIONAL COST AS PERCENTAGE OF ANNUAL INVESTMENT/GRANTS	4%	4%	5%[7]	Measures CFH's efficiency over time against annual investment

[1] CFH has a geospatial premises database with more than one million unique premises identifiers. It was built in 2011 and is based on Land Information New Zealand (LINZ) land parcels. This is the sole basis for determining the total number of premises in each stage, and for tracking milestone progress, testing and payment.
[2] Per Statement of Performance Expectations 2016-2017.
[3] Although UFB2 deployment commenced in 2016/2017 this is a new measure and no premises were handed over during the fiscal year.
[4] Plan was calculated on brownfields only; actual calculation includes greenfields completed, which is a more appropriate measure.
[5] Although UFB2 deployment commenced in 2016/2017 this is a new measure and no premises were handed over during the fiscal year.
[6] Although UFB2 deployment commenced in 2016/2017 this is a new measure and no premises were handed over during the fiscal year.
[7] CFH did not make a capital call during the year; as a proxy CFH has used total investment during 2016/2017 in UFB.

Successful and timely installation of UFB

	CFH'S PERFORMANCE TARGETS FOR UFB1 INSTALLATION	PLAN	ACTUAL
1	AVERAGE DAYS TO CONNECT TO UFB FOR A RESIDENTIAL SINGLE DWELLING UNIT (ESSENTIALLY, A TYPICAL NZ HOUSEHOLD)	Improvement in June 2016 weighted average of 39 calendar days	Weighted average of 26 calendar days
2	END USER SATISFACTION WITH UFB INSTALLATION	Improvement in June 2016 weighted average of 71% satisfied with installation	Weighted average of 76% satisfied with installation

The improvement in average days to connect by 13 days is particularly pleasing given the increased demand for connections during the year. Installation satisfaction also increased during the year. This is the first year these measures are being reported.

Stakeholder engagement

CFH updated its stakeholder and communications strategy in fiscal year 2017 and has surveyed key stakeholders on its performance.

	CFH'S PERFORMANCE TARGETS FOR STAKEHOLDER ENGAGEMENT	PLAN	ACTUAL
1	STAKEHOLDER AND COMMUNICATIONS STRATEGY AND PLAN	Agreed plan milestones to be achieved	Achieved
2	PERCENTAGE OF KEY STAKEHOLDERS SATISFIED WITH CFH'S PERFORMANCE IN COMMUNICATING TO THEM THE BENEFITS OF UFB; AND WORKING WITH THEM TO SUPPORT UPTAKE OF UFB/FASTER BROADBAND	80%	76%

This is a positive result, and is on par with stakeholder engagement levels we see from other organisations. This result reflects, in particular, the positive perceptions of CFH staff and their interactions with stakeholders.[8] This is the first year these measures are being reported.

[8] This is a quote from Colmar Brunton's report.

PARTNERS' PERFORMANCE TARGETS

CFH monitors the performance of the LFCs and Chorus in connecting new end users to the UFB network, fixing customer faults, network availability and network performance. Performance is measured against set service level agreements (SLAs).

Provisioning, faults and product performance SLAs are between the LFCs and Chorus, and their Retail Service Provider (RSP) customers. SLAs for Layer 1 and 2 network performance across Candidate Areas are between CFH, and the LFCs and Chorus. CFH reviews performance against all SLAs under contract.

Following a period of industry consultation, the Layer 2 traffic monitoring and reporting regime was determined in fiscal year 2017 and implementation has now commenced. Initial reports indicate that the networks continue to be uncongested with no Layer 2 traffic issues arising.

Provisioning[1] performance per end user as reported by LFCs and Chorus

UFB PARTNER	BUSINESS (CONNECTIONS % MET TARGET) Target: Within 6 business days or date as agreed with the end user	RESIDENTIAL (CONNECTIONS % MET TARGET) Target: Within 4 business days or date as agreed with the end user
CHORUS	85%	88%
ENL	92%	94%
NFL	96%	98%
UFL*	84%	86%
TOTAL	91%	93%

*UFL results are based on six months' data due to UFL system changes during 2017.

This measure represents the ratio of orders that met the target provisioning date based on the monthly order forecast and averaged over the period. It is common practice that a date is agreed with the RSP or the end user for provisioning. Both residential and business service level agreements were stable despite significant uplift in volumes.

Maximum downtime performance per end user as reported by LFCs and Chorus

	RESTORATION	TARGET	FAULTS REPAIRED WITHIN TARGET
LAYER 2[2] PERFORMANCE	Residential & business	<12 hours	99.92%
LAYER 1[3] PERFORMANCE	Default	<48 hours	99.54%

Layer 2 Performance per end user: Measures the number of Layer 2 faults repaired in compliance with the SLA. LFCs and Chorus reported that 99.85% of Layer 2 connection faults for all end users, whether business or residential, saw service restored within 12 hours.

Layer 1 Performance per end user: Measure represents the number of Layer 1 network faults repaired in compliance with the SLA. LFCs and Chorus reported that 99.60% of Layer 1 connection faults met the default restoration service levels.

[1] Provisioning means the installation and activation of a UFB service for an end user.

[2] Layer 2 of the Open Systems Interconnection (OSI) Model, associated with active fibre optic network infrastructure.

[3] Layer 1 of the OSI Model, associated with passive fibre optic network infrastructure.

Average downtime across eligible Candidate Areas as reported by LFCs and Chorus

UFB PARTNER	LAYER 2 AVERAGE NETWORK PERFORMANCE ACROSS ELIGIBLE CANDIDATE AREAS[4] Target <30 minutes (99.990%)		LAYER 1 AVERAGE NETWORK PERFORMANCE ACROSS ELIGIBLE CANDIDATE AREAS Target <120 minutes (99.980%)	
CHORUS	06:08 min	99.998%	57:57 min	99.988%
ENL	00:10 min	99.999%	27:15 min	99.994%
NFL	10:44 min	99.997%	07:19 min	99.998%
UFL	01:21 min	99.999%	43:58 min	99.991%

Layer 2 Network Performance across eligible Candidate Areas: Measures the average downtime per end user across eligible Candidate Areas, against a target of no more than 30 minutes' average downtime each year. Performance was above target.

Layer 1 Network Performance across eligible Candidate Areas: Measures the average downtime per end user across eligible Candidate Areas, with a target of no more than 120 minutes' average downtime per year. Performance was above target.

[4] An eligible Candidate Area is one of the 33 towns and cities selected for UFB, where either 3,000 end users or 20% of premises are connected to the network.

STATEMENT OF RESPONSIBILITY

FOR THE YEAR ENDED 30 JUNE 2017

IN TERMS OF THE PUBLIC FINANCE ACT 1989, AND PARTICULARLY SECTION 19A, THE BOARD IS RESPONSIBLE FOR THE PREPARATION OF CROWN FIBRE HOLDINGS LIMITED'S ANNUAL REPORT, WHICH INCLUDES FINANCIAL STATEMENTS AND A STATEMENT OF PERFORMANCE, AND FOR THE JUDGEMENTS MADE THEREIN.

The Board of Directors of Crown Fibre Holdings Limited has 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 and statement of performance fairly reflect the financial position and performance of Crown Fibre Holdings Limited for the year ended 30 June 2017.

Signed on behalf of the Board.

Simon Allen Chair	Keith Tempest Director
31 August 2017	31 August 2017

HON. SIMON BRIDGES TALKS WITH JOHN WITKOWSKI FROM HEXATRONIC

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF CROWN FIBRE HOLDINGS LIMITED AND GROUP'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2017

The Auditor-General is the auditor of Crown Fibre Holdings Limited (the Company) and its controlled entities (collectively referred to as "the Group"). The Auditor-General has appointed me, Leon Pieterse, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information, including the performance information for appropriations, of the Company and Group on his behalf.

OPINION

We have audited:

- the financial statements of the Company and Group on pages 34 to 71, that comprise the statement of financial position as at 30 June 2017, the statement of comprehensive revenue and expense, 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; and
- the performance information of the Company and Group on pages 24 to 25.

In our opinion:

- the financial statements of the Company and Group on pages 34 to 71:
  - present fairly, in all material respects:
    - their financial position as at 30 June 2017; and
    - their financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.
- the performance information on pages 24 to 25:
  - presents fairly, in all material respects, the Company and Group's performance for the year ended 30 June 2017, including:
    - for each class of reportable outputs:
      - the standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
      - the actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year;
    - what has been achieved with the appropriations; and
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 31 August 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, and we explain our independence.

BASIS FOR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS FOR THE FINANCIAL STATEMENTS AND THE PERFORMANCE INFORMATION

The Board of Directors is responsible on behalf of the Company and Group for preparing financial statements and performance information that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

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

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Company and Group for assessing the Company and Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Company and Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Director's responsibilities arise from the Public Finance Act 1989 and the Crown Entities Act 2004.

RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS AND THE PERFORMANCE INFORMATION

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and performance information.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the Company and Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 33, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENCE

We are independent of the Company and Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1(Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit we have carried quality assurance engagements on procurement and, for Northpower Fibre Limited, on their Disclosure information. These assignments are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in Crown Fibre Holdings Limited or the Group.

Leon Pieterse
Audit New Zealand
On behalf of the Auditor-General
Auckland, New Zealand

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	Parent 2017 $000	Group[1] 2017 $000	Parent 2016 $000	Group[1] 2016 $000
Continuing operations:					
Income					
Interest income	6	20,704	20,730	11,415	11,415
UFB income		-	5,677	-	4,434
Other income		-	-	-	-
Fair value gains on FVTSD[2] investments	4, 12	1,534	-	1,860	-
Net fair value gains on derivatives	4, 12	-	-	206	206
Total income		22,238	26,407	13,481	16,055
Expenses					
Network expenses		-	1,684	-	1,836
Directors' fees	7	286	368	273	341
Personnel costs	8	4,568	4,977	4,491	4,680
Depreciation expense	5	87	2,306	91	1,964
Professional advisory fees	9	2,027	2,096	1,033	1,199
Other expenses	10	2,558	2,975	2,058	2,221
Management fees to Partners	4	-	406	-	354
UFB contribution – LFCs	4, 12	65	-	-	-
UFB contribution – Chorus Equity Securities	4, 12	40,802	40,802	43,745	43,745
UFB contribution – Chorus Debt Securities	4, 12	36,012	36,012	39,320	39,320
UFB contribution – CCHL loan	4, 12	4,448	4,448	-	-
Net fair value losses on derivatives	4, 12	202	202	-	-
Total expenses		91,055	96,276	91,011	95,660
Surplus/(deficit) before tax		**(68,817)**	**(69,869)**	**(77,530)**	**(79,605)**
Tax expense/(credit)	11	**-**	124	**-**	(769)
Net surplus/(deficit) from continuing operations		**(68,817)**	**(69,993)**	**(77,530)**	**(78,836)**
Net surplus/(deficit) from discontinued operations	3	**(1,592)**	**(201)**	**44,036**	**(43,282)**
Net surplus/(deficit)		**(70,409)**	**(70,194)**	**(33,494)**	**(122,118)**
Other comprehensive revenue and expense					
Net fair value gains/(losses) on AFS[3] investments	4, 12	2,162	2,162	11,944	9,189
Reclassification to surplus/deficit on disposal	3	-	-	(5,723)	-
Total other comprehensive revenue and expense		2,162	2,162	6,221	9,189
Total comprehensive revenue and expense		**(68,247)**	**(68,032)**	**(27,273)**	**(112,929)**
Net surplus/(deficit)					
Attributable to members of the Parent					
Net surplus/(deficit) from continuing operations		(68,817)	(70,286)	(77,530)	(79,390)
Net surplus/(deficit) from discontinued operations		(1,592)	(20)	44,036	(28,369)
		(70,409)	(70,306)	(33,494)	(107,759)
Attributable to minority interests					
Net surplus/(deficit) from continuing operations		-	293	-	554
Net surplus/(deficit) from discontinued operations		-	(181)	-	(14,913)
		-	112	-	(14,359)
		(70,409)	**(70,194)**	**(33,494)**	**(122,118)**
Total comprehensive revenue and expense					
Attributable to members of the Parent		(68,247)	(68,144)	(27,273)	(98,570)
Attributable to minority interests		-	112	-	(14,359)
		(68,247)	**(68,032)**	**(27,273)**	**(112,929)**

[1] Budget figures and explanations of major variances against the budget are detailed in note 19.
[2] Fair value through surplus or deficit.
[3] Available for sale.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Notes	Parent 2017 $000	Group[1] 2017 $000	Parent 2016 $000	Group[1] 2016 $000
Assets					
Current assets					
Cash and cash equivalents		48,285	49,508	102,447	103,244
Short-term bank deposits		35,000	35,000	-	-
Trade and other receivables		753	1,443	252	920
GST receivables		78	78	66	240
Prepayments		39	47	160	161
		84,155	86,076	102,925	104,565
Assets classified as held for sale	3	-	-	131,900	292,553
Total current assets		84,155	86,076	234,825	397,118
Non-current assets					
Property, plant and equipment	5	130	38,842	144	36,706
Investments in LFC(s)	4	16,728	-	16,258	-
Investments in Chorus Equity Securities	4	104,233	104,233	77,200	77,200
Investments in Chorus Debt Securities	4	112,012	112,012	82,053	82,053
CCHL loan	4	106,445	106,445	71,498	71,498
Deferred tax assets	11	-	1,468	-	1,592
Total non-current assets		339,548	363,000	247,153	269,049
Total assets		**423,703**	**449,076**	**481,978**	**666,167**
Liabilities					
Current liabilities					
Creditors and other payables	14	10,790	11,248	921	3,193
Employee entitlements		732	765	629	653
Deferred revenue		-	477	-	357
		11,522	12,490	1,550	4,203
Liabilities directly associated with assets classified as held for sale	3	-	-	-	30,384
Total current liabilities		11,522	12,490	1,550	34,587
Total liabilities		**11,522**	**12,490**	**1,550**	**34,587**
Net assets		**412,181**	**436,586**	**480,428**	**631,580**
Contributed capital	16	927,900	927,900	927,900	927,900
AFS reserve	17	12,117	12,117	9,955	9,955
Retained earnings		(527,836)	(524,302)	(457,427)	(453,996)
Equity attributable to the Parent		412,181	415,715	480,428	483,859
Minority interests relating to assets classified as held for sale	3	-	-	-	130,269
Other minority interests		-	20,871	-	17,452
Total minority interests		-	20,871	-	147,721
Total equity		**412,181**	**436,586**	**480,428**	**631,580**

[1] Budget figures and explanations of major variances against the budget are detailed in note 19.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

Parent	Capital $000	AFS reserve $000	Retained earnings $000	Minority interests $000	Total $000
Opening balance 1 July 2015	**737,900**	**3,734**	**(423,933)**	**-**	**317,701**
Comprehensive income					
Net surplus/(deficit)	-	-	(33,494)	-	(33,494)
Other comprehensive revenue and expense	-	6,221	-	-	6,221
Total comprehensive revenue and expense attributable to the Parent	-	6,221	(33,494)	-	(27,273)
Owners' transactions					
Capital contribution – Crown (note 16)	190,000	-	-	-	190,000
Closing balance 30 June 2016	**927,900**	**9,955**	**(457,427)**	**-**	**480,428**
Opening balance 1 July 2016	**927,900**	**9,955**	**(457,427)**	**-**	**480,428**
Comprehensive income					
Net surplus/(deficit)	-	-	(70,409)	-	(70,409)
Other comprehensive revenue and expense	-	2,162	-	-	2,162
Total comprehensive revenue and expense attributable to the Parent	-	2,162	(70,409)	-	(68,247)
Owners' transactions					
Capital contribution – Crown (note 16)	-	-	-	-	-
Closing balance 30 June 2017	**927,900**	**12,117**	**(527,836)**	**-**	**412,181**

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

Group[1]	Capital $000	AFS reserve $000	Retained earnings $000	Attributable to equity holders of Parent $000	Minority interests $000	Total $000
Opening balance 1 July 2015	**737,900**	**766**	**(346,237)**	**392,429**	**99,541**	**491,970**
Comprehensive income						
Net surplus/(deficit)	-	-	(107,759)	(107,759)	(14,359)	(122,118)
Other comprehensive revenue and expense	-	9,189	-	9,189	-	9,189
Total comprehensive revenue and expense	-	9,189	(107,759)	(98,570)	(14,359)	(112,929)
Owners' transactions						
Share transactions with minority interests	-	-	-	-	37,391	37,391
Disposal of subsidiary (note 3)	-	-	-	-	(26,311)	(26,311)
Capital contribution – Crown (note 16)	190,000	-	-	190,000	-	190,000
Capital contribution – minority interests	-	-	-	-	52,084	52,084
Dividend to minority interests	-	-	-	-	(625)	(625)
Closing balance 30 June 2016	**927,900**	**9,955**	**(453,996)**	**483,859**	**147,721**	**631,580**
Opening balance 1 July 2016	**927,900**	**9,955**	**(453,996)**	**483,859**	**147,721**	**631,580**
Comprehensive income						
Net surplus/(deficit)	-	-	(70,306)	(70,306)	112	(70,194)
Other comprehensive revenue and expense	-	2,162	-	2,162	-	2,162
Total comprehensive revenue and expense	-	2,162	(70,306)	(68,144)	112	(68,032)
Owners' transactions						
Share transactions with minority interests	-	-	-	-	15,330	15,330
Disposal of subsidiary (note 3)	-	-	-	-	(156,039)	(156,039)
Capital contribution – minority interests	-	-	-	-	15,574	15,574
Dividend to minority interests	-	-	-	-	(1,827)	(1,827)
Capital contribution – Crown (note 16)	-	-	-	-	-	-
Closing balance 30 June 2017	**927,900**	**12,117**	**(524,302)**	**415,715**	**20,871**	**436,586**

[1] Budget figures and explanations of major variances against the budget are detailed in note 19.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	Parent 2017 $000	Group[1] 2017 $000	Parent 2016 $000	Group[1] 2016 $000
Cash flows from operating activities					
Receipts from customers		-	13,096	-	46,228
Interest received		4,427	4,467	1,818	1,928
Other receipts		40	40	83	83
Payments to suppliers		(4,726)	(12,477)	(3,771)	(33,816)
Payments to employees		(4,311)	(6,538)	(4,314)	(11,475)
Interest paid		-	-	-	(2,127)
Goods and services tax (net)		(12)	1,390	(20)	2,615
Net cash outflow from operating activities	**13**	**(4,582)**	**(22)**	**(6,204)**	**3,436**
Cash flows from investing activities					
Purchase of property, plant and equipment		(41)	(16,091)	(90)	(131,856)
Investment in short-term bank deposits		(35,000)	(35,000)	-	-
Acquisition of investments in LFC(s)		(1,946)	-	(53,651)	-
Acquisition of investments in Chorus Equity Securities		(54,629)	(54,629)	(71,380)	(71,380)
Acquisition of investments in Chorus Debt Securities		(54,629)	(54,629)	(71,380)	(71,380)
Acquisition of investment in CCHL loan		(36,607)	(36,607)	-	-
Net cash inflow on disposal of subsidiary	3	117,942	111,660	-	(1,550)
Proceeds from sale to minority interests prior to disposal		15,330	15,330	37,391	37,391
Net cash outflow from investing activities		**(49,580)**	**(69,966)**	**(159,110)**	**(238,775)**
Cash flows from financing activities					
Capital contribution – Crown	16	-	-	190,000	190,000
Capital contribution – minority interests		-	11,993	-	47,167
Debt drawdown		-	-	-	28,271
Dividend to minority interests		-	(1,827)	-	(625)
Net cash inflow from financing activities		**-**	**10,166**	**190,000**	**264,813**
Net increase/(decrease) in cash and cash equivalents		**(54,162)**	**(59,822)**	**24,686**	**29,474**
Cash and cash equivalents at the beginning of the year		102,447	109,330	77,761	79,856
Cash and cash equivalents at the end of the year		**48,285**	**49,508**	**102,447**	**109,330**
Represented by cash and cash equivalents:					
In the statement of financial position		48,285	49,508	102,447	103,244
Included within assets classified as held for sale	3	-	-	-	6,086
		48,285	**49,508**	**102,447**	**109,330**

[1] Budget figures and explanations of major variances against the budget are detailed in note 19.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

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 any controlled entities.

At 30 June 2016 the controlled entities were the remaining Local Fibre Companies (LFCs), namely:

- Northpower Fibre Limited (NFL); and
- Ultrafast Fibre Limited (UFL).

UFL was held for sale at 30 June 2016, and CFH's shareholding was sold to Waikato Networks Limited (WNL), who also hold shares in UFL, on the 6 September 2016.

At 30 June 2017 the remaining controlled entity of CFH is NFL.

CFH's Parent accounts reflect only CFH operations, and the direct investments made in Chorus Limited, Christchurch City Holdings Limited (CCHL), and NFL (2016: Chorus Limited, CCHL, NFL and UFL).

The CFH Group accounts have the direct investment in Chorus and CCHL, and consolidate the results of the operations of CFH and each controlled entity (up until the date of disposal).

CFH is a limited liability company incorporated in New Zealand under the Companies Act 1993 and is a Schedule 4A entity of the Public Finance Act 1989.

The purpose of the Company is to implement the Government's objectives in relation to the availability of, and access to, UFB by co-investing with private sector participants to deploy fibre optical telecommunications network infrastructure, and to provide grant funding to industry operators to extend rural broadband coverage and reduce mobile black spots.

On 1 September 2017 CFH will change its name to Crown Infrastructure Partners Limited (CIP), as part of a repurposing, and in addition to CFH's current purpose of the government's Ultrafast Broadband (UFB), Rural Broadband and Mobile Blackspot initiatives, is to investigate and implement commercial models, including those that will enable coinvestment from the private or any other sector, to achieve the government's objectives for the deployment of water and roading infrastructure to support the timely increase of housing supply.

CFH's aim is to provide services to the public, rather than make a financial return and CFH is a public benefit entity (PBE) for the purposes of financial reporting under Public Sector PBE Standards (PBE Standards).

The financial statements of CFH and the Group are for the year ended 30 June 2017, and were approved by the Board of Directors on 22 August 2017.

STATEMENT OF COMPLIANCE

The financial statements of the Company and the Group have been prepared in accordance with the relevant requirements of the Public Finance Act 1989 and the Crown Entities Act 2004, which include the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).

These financial statements are presented and prepared in accordance with Tier 1 PBE Standards and comply with PBE Standards.

BASIS OF PREPARATION

The financial statements have been prepared on a going-concern basis, and the accounting policies have been applied consistently for all periods presented.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

GENERAL ACCOUNTING POLICIES

Significant accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

There have been no new accounting policies adopted. New or amended PBE Standards that are not yet effective are not expected to have a material impact when they are adopted in the periods they become mandatory. No new or amended PBE Standards have been early adopted.

Significant accounting policies in respect of items that do not have specific notes are set out below:

UFB income

UFB income is predominantly recurring access revenue, which is recognised based on the proportion of the ongoing services provided measured on a time basis. There is a portion of one-off connection revenue, which is not material in the period under review. This income consolidates from controlled entities, and CFH parent does not generate such revenues.

Impairment of financial assets carried at amortised cost

Financial assets carried at amortised cost are assessed for impairment. Objective evidence of impairment could include indications that the Group will not be able to collect amounts due according to the original terms of the receivable, significant financial difficulties of a debtor, the probability that the debtor will enter into bankruptcy, and defaults in payment.

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

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

2. COMPOSITION OF THE GROUP

CONSOLIDATION OF THE LFC(S) IN THE GROUP

Determining the nature of the interest in the LFC(s)

The nature of CFH's investment in an LFC(s) (2017: NFL; 2016: NFL and UFL) is not readily apparent, and requires significant judgement. On balance, even when CFH has less than a 50% ownership interest based on the total shares issued, it is considered to have control as it holds the majority of the voting shares (A shares) and extensive rights over the design, build and operations phases of UFB deployment. Accordingly, the Group has consolidated NFL (2016: NFL and UFL) as it has a remaining A share interest at balance date. The apportionment of earnings to minority interests has been determined based on the distribution rights under each agreement.

The Minister of Finance, acting on behalf of the Crown, also owns one share in NFL (2016: NFL and UFL). This does not give rise to control.

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

The financial statements of a subsidiary are prepared for the same reporting period as the Parent and, while predominantly based on New Zealand equivalents to International Financial Reporting Standards, are consistent with the Parent's accounting policies. Adjustments are made to bring into line any dissimilar accounting policy that may exist.

A subsidiary is consolidated from the date on which control is obtained to the date on which control is lost. Changes in the Group's interest in a subsidiary that do not result in a loss of control (for example, recycling) are accounted for as equity transactions. Any difference between the amount by which the minority 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

2. COMPOSITION OF THE GROUP (CONTINUED)

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 minority interests.

Amounts previously recognised in other comprehensive revenue and expense in relation to the subsidiary are reclassified to surplus or deficit. Note 3 sets out the impact of the disposal of subsidiaries in 2017 and 2016.

Measurement of minority interests in each controlled entity

The amount ascribed to minority interests represents:

- 100% of the profit after tax, before considering impairment, as it approximates the anticipated distributable earnings to a Partner; and
- capital contributions by the minority interests, being the contribution by the Partner on the purchase of A or B shares in an LFC; and
- the A shares taken up by the minority interest(s) under the recycling mechanisms, measured at the original issued capital amount; less
- distributions made to minority interest(s).

OTHER INVESTMENTS

Determining the nature of the interests in Chorus

CFH is supporting the deployment of UFB by subscribing to various forms of investment in Chorus. The investments take three forms, and 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.

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

Determining the nature of the interest in CCHL

CFH is also supporting the deployment of UFB in the ENL Candidate Area by advancing funds to CCHL (note 4). The terms of this arrangement are also considered to represent less-than-significant influence.

RELATED PARTY TRANSACTIONS

Significant transactions with government-related entities

During 2017 CFH has been provided with no funding from the Crown (2016: $190 million) for specific purposes, as set out in its founding legislation and the scope of the relevant Government appropriations.

Other transactions with government-related entities

In conducting its activities, CFH and the Group are required to pay various taxes and levies (such as income tax, GST, PAYE and ACC levies and rates) to the Crown and entities related to the Crown. The payment of these taxes and levies is based on the standard terms and conditions that apply to all tax and levy payers. CFH is exempt from paying income tax but an LFC(s) is not exempt.

CFH and the Group enter into transactions with government departments, Crown entities and state-owned enterprises (e.g. New Zealand Post) and other government-related bodies (e.g. Air New Zealand and local councils). These transactions occur within normal supplier or client relationships on terms and conditions no more or less favourable than those that it is reasonable to expect CFH and the Group would have adopted if dealing with those entities at arm's length in the same circumstances. These have not been disclosed as related party transactions and are not individually or collectively significant.

Key management personnel

Compensation of key management personnel is set out in note 8.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

3. DISCONTINUED OPERATIONS

UFL was held for sale at 30 June 2016, and was sold to Waikato Networks Limited (WNL) for a lump sum in settlement of the remaining recycling payments and put option on 6 September 2016. UFL will continue to operate the UFB network in the central North Island. As a result UFL was deconsolidated in the current year.

On 29 June 2016 CFH sold its interest in ENL to the Partner ESL, and is instead providing debt funding via a loan to CCHL. As a result ENL was deconsolidated in 2016.

Details of the balances deconsolidated are set out below.

CFH will continue to have oversight of key matters such as price caps, network service level agreements, and product specification, and network requirements through separate Deed of Undertakings with both WNL (and UFL) and ESL (and ENL) in favour of the Crown and CFH until 31 December 2019.

UFL and ENL were established to facilitate the construction, deployment and operation of the UFB network in certain parts of the central North Island and Christchurch City and surrounding towns respectively, and represented major geographical areas of the Group. Accordingly, the results of UFL for the two months to 6 September 2016 are presented as discontinued operations (2016: the results of ENL and UFL for the full year are presented as discontinued operations).

Notes relating to statement of comprehensive revenue and expense items present information for continuing operations only, unless stated otherwise.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

3. DISCONTINUED OPERATIONS (CONTINUED)

Details of the assets and liabilities that were disposed of on 6 September 2016 (2016: held for sale) are set out below:

	Sold Parent 2017 $000	Sold Group 2017 $000	HFS[1] Parent 2016 $000	HFS[1] Group 2016 $000
Assets				
Cash and cash equivalents	-	6,282	-	6,086
Trade and other receivables	-	4,928	-	3,936
Prepayments	-	-	-	264
Property, plant and equipment[2]	-	291,940	-	268,670
Investments in LFCs	131,900	-	131,900	-
Deferred tax assets	-	14,170	-	13,597
Assets classified as held for sale	**131,900**	**317,320**	**131,900**	**292,553**
Liabilities				
Creditors and other payables[3]	-	43,339	-	24,465
Employee entitlements	-	-	-	872
Deferred revenue	-	-	-	5,047
Liabilities classified as held for sale	**-**	**43,339**	**-**	**30,384**
Net assets classified as held for sale	**131,900**	**273,981**	**131,900**	**262,169**
Minority interests relating to assets classified as held for sale	-	(156,039)[4]	-	(130,269)
Parent's interest in assets disposed of (2016: classified as held for sale)	**131,900**	**117,942**	**131,900**	**131,900**
Cash flows during the year are represented as follows:				
Final settlement received	117,942	117,942	-	-
Proceeds from A share sales prior to disposal (recycling)	13,958	13,958	-	-
Total proceeds received	**131,900**	**131,900**	**-**	**-**
Less disposal of cash balances of subsidiary	-	(6,282)	-	-
Net cash inflow from disposal of subsidiary	**131,900**	**125,618**	**-**	**-**
Capital contributions from minority interest prior to disposal of subsidiary	-	11,993	-	-
	131,900	**137,611**	**-**	**-**

[1] Held for sale.

[2] The 2016 write-down to fair value less costs of sale of $10.6 million was allocated against property, plant and equipment.

[3] Creditors and other payables include $32.3 million in respect of infrastructure payments due to UFL's Partner (2016: $19.9 million).

[4] Minority interests increased during 2017 due to the additional Partner contributions of $13.9 million and $11.9 million as set out above, and in addition current-year losses to the date of disposal of $0.2 million.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

3. DISCONTINUED OPERATIONS (CONTINUED)

A summary of the UFL (2016: UFL and ENL) discontinued operations' surplus/(deficit) and cash flows are set out below:

	Parent 2017 $000	Group 2017 $000	Parent 2016 $000	Group 2016 $000
Net surplus/(deficit) from discontinued operations:				
UFB income	-	6,485	-	41,518
Fair value gains on FVTSD investment	-	-	23,896	-
Gain on disposal of subsidiary (ENL)	-	-	40,821	-
Other operating income	40	54	83	193
Total income	40	6,539	64,800	41,711
General operating expenses	-	7,254	-	57,234
UFB contribution – LFCs[1]	1,573	-	20,475	-
Transaction costs relating to subsidiary held for sale	59	59	289	289
Total expenses	1,632	7,313	20,764	57,523
Surplus/(deficit) before tax	(1,592)	(774)	44,036	(15,812)
Tax expense/(credit)	-	(573)	-	(4,432)
	(1,592)	(201)	44,036	(11,380)
Loss on disposal of subsidiary (ENL)	-	-	-	(21,218)
Loss on re-measurement of subsidiary held for sale to fair value less costs to sell (UFL)	-	-	-	(10,684)
Surplus/(deficit) from discontinued operations[2]	**(1,592)**	**(201)**	**44,036**	**(43,282)**
Income from discontinued operations				
Attributable to members of the Parent	40	40	64,800	83
Attributable to minority interests	-	6,499	-	41,628
	40	6,539	64,800	41,711
Income from continuing operations				
Attributable to members of the Parent	22,238	20,704	13,481	11,621
Attributable to minority interests	-	5,703	-	4,434
	22,238	**26,407**	**13,481**	**16,055**
Cash flows from discontinued operations				
Net cash flows from operating activities	(19)	1,873	(432)	7,451
Net cash flows from investing activities	130,327	110,356	(17,565)	(96,762)
Net cash flows from financing activities	-	11,993	-	75,438
Net cash flows from discontinued operations	**130,308**	**124,222**	**(17,997)**	**(13,873)**

[1] The amount paid in the 2017 year has been reflected as a UFB contribution.

[2] Discontinued operations split between attributable to members of the Parent and attributable to minority interests are set out on the face of the statement of comprehensive revenue and expense.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

3. DISCONTINUED OPERATIONS (CONTINUED)

The assets and liabilities disposed of, and the calculation of the surplus/deficit on disposal of ENL in 2016 are set out below.

	Parent 2016 $000	Group 2016 $000
Current assets		
Cash and cash equivalents	-	1,550
Trade and other receivables	-	2,280
GST receivables	-	735
Total current assets	-	4,565
Non-current assets		
Property, plant and equipment	-	173,247
Investments in LFCs	36,168	-
Deferred tax assets	-	7,293
Total non-current assets	36,168	180,540
Total assets	**36,168**	**185,105**
Current liabilities		
Creditors and other payables	-	7,994
Deferred revenue	-	1,617
Total current liabilities	-	9,611
Non-current liabilities		
Deferred revenue	-	351
Borrowings	-	56,348
Total non-current liabilities	-	56,699
Total liabilities	**-**	**66,310**
Net assets disposed of	**36,168**	**118,795**
Net gain/(loss) on disposal		
Consideration received – CCHL loan[1]	71,492	71,492
Less:		
Net assets disposed of	36,168	118,795
Transaction costs	226	226
Minority interests	-	(26,311)
	36,394	92,710
Fair value gains reclassified from the AFS reserve	5,723	-
Net gain/(loss) on disposal[2]	**40,821**	**(21,218)**

[1] As consideration for the shares, CFH will receive $83.9 million in May 2021 from CCHL (plus an amount in respect of any further funding). The fair value of this loan has been recognised as an asset (see note 4).

[2] The gain/(loss) on disposal is included in the surplus/(deficit) from discontinued operations.

Prior to disposal, in the Parent company financial statements, the Company's investments in unlisted shares of ENL were categorised as AFS and measured at fair value.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

4. INVESTMENTS

The structures of investments for the remaining LFC(s), Chorus and CCHL are described below.

INVESTMENT IN THE LFC(S)

Investments in the LFC(s) are carried at fair value and are set out below:

Parent	NFL $000	UFL $000	ENL $000	Total $000
Net investments at 30 June 2015	**15,703**	**122,562**	**21,765**	**160,030**
Amount paid during the year	-	25,562	28,089	53,651
Less UFB contribution	-	(4,034)	(16,441)	(20,475)
Initial investment recognised	-	21,528	11,648	33,176
Less disposal proceeds on recycling	(1,305)	(36,086)	-	(37,391)
Net fair value movements recognised in surplus or deficit	1,860	23,896	-	25,756
Net fair value movements recognised in other comprehensive revenue and expense	-	-	2,755	2,755
Disposal of subsidiary (note 3)	-	-	(36,168)	(36,168)
Reclassification to held for sale (note 3)	-	(131,900)	-	(131,900)
Net investments at 30 June 2016	**16,258**	**-**	**-**	**16,258**
Amount paid during the year	373	-	-	373
Less UFB contribution	(65)	-	-	(65)
Initial investment recognised	308	-	-	308
Less disposal proceeds on recycling	(1,372)	-	-	(1,372)
Net fair value movements recognised in surplus or deficit	1,534	-	-	1,534
Net investments at 30 June 2017	**16,728**	**-**	**-**	**16,728**

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

	NFL		UFL	
	2017 #000	2016 #000	2017 #000	2016 #000
A shares held by CFH	20,242	21,331	-	141,026
A shares held by Partner	5,917	4,546	-	56,205
Total A shares	26,159	25,877	-	197,231
B shares held by Partner	21,214	17,632	-	108,696
Total number of shares	**47,373**	**43,509**	**-**	**305,927**
CFH interest in total number of shares (%)	43%	49%	-	46%
CFH interest in total number of voting (A) shares (%)	77%	82%	-	72%

CFH's investment

CFH's level of investment in the LFC(s) has been driven by the deployment plans. As each stage of a plan is completed by the Partner, the LFC purchases the UFB network from the Partner by paying it an agreed cost per premises passed (CPPP)[1] for the number of premises that have successfully completed user acceptance testing (UAT) for the stage. In turn, that purchase is funded by CFH subscribing to A shares (these shares carry full voting rights, with no dividend rights until 10 years from establishment) in the LFC, the price for which is the agreed CPPP. In respect of ENL, from 29 June 2016, and following the restructure of ENL, the CFH funding changed to a loan to CCHL. Prior to the restructure the Partner (ESL) funded a portion of the purchase by also subscribing to A shares.

[1] CPPP: The cost per premises passed is the capital contribution by CFH towards the capital cost of passing a premises with UFB.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

4. INVESTMENTS (CONTINUED)

Any difference on initial recognition between the fair value of the investment (in an LFC, Chorus, or CCHL going forward) and the contribution by CFH represents CFH's and the Crown's contribution towards the deployment of UFB in New Zealand. As a result, the UFB transactions are considered, in substance, to be represented by two components, and the Company and Group have:

- recognised the UFB contribution as a form of government grant. A government grant is recognised when the other party (e.g. Chorus, CCHL or the LFCs) meets the criteria to receive the grant. This is reflected in the UFB contribution line (for NFL and Chorus) or the discontinued operations line (for UFL and ENL) in surplus or deficit; and
- attributed the remaining fair value to the continuing financial instrument (e.g. the Chorus Equity Securities, the Chorus Debt Securities, the LFC equity investments or the CCHL loan going forward).

The judgement used in componentising the transactions in this way affects when the UFB contribution by CFH is recognised.

Partner's investment

The Partner is required to fund the cost of connecting a premise and the end customer (essentially the fibre optic lead-in from the street), the electronics necessary to light the fibre and the LFC operational costs.

The Partner(s) also provides management and operational services to the LFC(s), which are included in the management fees to Partners line (NFL) or in the discontinued operations line (UFL and ENL) in surplus or deficit.

Recycling mechanisms

As NFL connects customers to the network, the Partner is required to purchase CFH's A shares based on the number of premises connected and the CPPP paid. At the end of the concession period the Partner has a call option if CFH's interest is 25% or less, and CFH has a put option at fair market value if CFH's interest is 10% or less. CFH expects to recover its remaining investment in NFL by exercising its put option in 2020.

UFL recycling operated in a similar manner to NFL, prior to its disposal.

Accounting policies

In the Parent company financial statements, the Company's investments in unlisted shares of NFL (2016: NFL and UFL), together with the recycling mechanisms, are designated as at Fair Value Through the Surplus or Deficit (FVTSD). The investments were initially recognised at fair value and are subsequently re-measured to fair value, with gains and losses arising from changes in fair value recognised in surplus or deficit.

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

The investment in NFL (2016: NFL and UFL) have been designated as FVTSD on the basis that the recycling mechanisms represent embedded derivatives that are unable to be separated from the investments as a whole. UFL was classified as held for sale at 30 June 2016 (see note 3).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

4. INVESTMENTS (CONTINUED)

Key assumptions

The fair value of financial assets is determined using a variety of valuation techniques. CFH uses a discounted cash flow method and makes assumptions that are based on market data and the key characteristics of the instruments. These include, but are not limited to, management's assessments of the cash flows, capital expenditure, profitability and market penetration during the estimated period of the investment.

The key assumptions are set out below, along with information on a reasonably possible change (estimated based on past experience) and the potential impacts of such a change on the remaining investment carrying value.

Key assumptions/inputs[1]	2017 Assumption	2016 Assumption	Possible change	2017 Impact $000	2016 Impact $000
NFL					
Cost of equity	10%	10%	+/-2%	-1,000/+1,640	-1,010/+1,660
Terminal growth	2%	2%	+/-1%	+540/-370	+510/-350
CFH shareholding at concession end[2]	15%	17%	+/-2%[2]	-1,440/+1,620	-2,820/+2,390

[1] The discount rate used is 5% to 10% (2016: 5% to 10%).

[2] Based on a possible change of 2% (2016: 5%).

Disclosure of sensitivities at 30 June 2016 is not applicable for ENL and UFL because they were sold and held for sale respectively.

INVESTMENTS IN CHORUS AND CCHL

The Group and Parent investments in Chorus Equity Securities are carried at fair value and are set out below:

	Chorus Equity Warrants $000	Chorus Equity Securities $000	Total $000
Net investments at 1 July 2015	50	47,267	47,317
Reverse amount payable at previous balance date	-	(11,780)	(11,780)
Amount paid during the year	-	71,380	71,380
Amount payable at balance date	-	-	-
Less UFB contribution	-	(43,745)	(43,745)
Initial investment recognised	-	15,855	15,855
Fair value gains recognised in surplus or deficit	206	-	206
Fair value gains recognised in other comprehensive revenue and expense	-	9,189	9,189
Interest	-	4,633	4,633
Net investments at 30 June 2016	**256**	**76,944**	**77,200**
Amount paid during the year	-	54,629	54,629
Amount payable at balance date	-	4,800	9,600
Less UFB contribution	-	(40,802)	(40,802)
Initial investment recognised	-	18,627	18,627
Fair value loss recognised in surplus or deficit	(202)	-	(202)
Fair value gains recognised in other comprehensive revenue and expense	-	2,162	2,162
Interest	-	6,446	6,446
Net investments at 30 June 2017	**54**	**104,179**	**104,233**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

4. INVESTMENTS (CONTINUED)

The Group and Parent investments in Chorus Debt Securities and the CCHL loan are carried at amortised cost and are set out below:

	Chorus Senior Notes $000	Chorus Subordinated Notes $000	Chorus total $000	CCHL loan $000	Total $000
Balance at 1 July 2015	**19,018**	**37,994**	**57,012**	**-**	**57,012**
Reverse amount payable at previous balance date	(3,656)	(8,124)	(11,780)	-	(11,780)
Amount paid during the year	23,423	47,957	71,380	-	71,380
Loan recognised on disposal of subsidiary	-	-	-	71,492	71,492
Less UFB contribution	(12,446)	(26,874)	(39,320)	-	(39,320)
Initial investment recognised	7,321	12,959	20,280	71,492	91,772
Interest revenue	1,372	3,389	4,761	6	4,767
Balance at 30 June 2016	**27,711**	**54,342**	**82,053**	**71,498**	**153,551**
Amount paid during the year	19,645	34,984	54,629	36,607	91,236
Amount payable at balance date	1,754	3,046	4,800	-	4,800
Less UFB contribution	(12,402)	(23,610)	(36,012)	(4,448)	(40,460)
Initial investment recognised	8,997	14,420	23,417	32,159	55,576
Interest revenue	1,928	4,614	6,542	2,788	9,330
Balance at 30 June 2017	**38,636**	**73,376**	**112,012**	**106,445**	**218,457**

Chorus overview

The investment structure with Chorus and CCHL differs from the model adopted for CFH's investment in the LFC(s).

Chorus self-funds the design and build work and carries the risk of any cost overruns in the network build. CFH invests up to $929 million in Chorus progressively as deployment stages are completed. Chorus is required to repay the Crown for its investment, between 2025 and 2036 or earlier, subject to conditions around fibre uptake that are described below. 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 securities are 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 the CFH Equity Securities). The warrants are not currently considered significant.

Chorus Equity Securities – key terms

The Chorus 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 Chorus Equity Securities from 2025 onwards, with the portion increasing with time until all of the Chorus Equity Securities attract dividends. These dividends are at the discretion of the Chorus Board; however, ordinary Chorus shareholders cannot be paid dividends if the Chorus Equity Securities' dividends are unpaid.

The dividend rate will equal the New Zealand 180-day bank bill rate plus a margin of 6%. End-user (customer) fibre uptake will be measured as at 30 June 2020, the measure being the total number of premises in Chorus's Candidate Areas (being those areas not covered by the LFCs) with fibre connections divided by the total number of premises with copper, fibre or Hybrid Fibre Co-Axial connections. Based on an expectation that uptake will be greater than 20% (being the end-user fibre uptake threshold), the portion of Chorus Equity Securities that attracts a dividend will be weighted towards the latter half of the period 2025 to 2036. It is expected that all Chorus Equity Securities will be attracting dividends by 2036. Chorus can redeem the Chorus Equity Securities in cash or by issuing Chorus ordinary shares (by reference to a formula) at any time.

At 30 June 2017 the Moody's Chorus Credit rating is Baa2 (30 June 2016: Baa2), and Standard & Poor's rating is BBB (2016: BBB). Both credit ratings are investment grade.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

4. INVESTMENTS (CONTINUED)

Chorus Debt Securities – key terms

The Chorus Debt Securities are unsecured and carry no interest, but in accordance with NZ PBE IPSAS 29: *Financial Instruments: Recognition and Measurement* they do have imputed interest calculated and shown on the face of the financial statements and, like the Chorus Equity Securities, have no voting rights. The principal amount of a Chorus Debt Security consists of a senior portion and a subordinated portion. The senior portion ranks equally with all other unsecured, unsubordinated creditors of Chorus, and has the benefit of any negative pledge covenant that may be contained in any of Chorus's debt arrangements. The subordinated portion ranks above ordinary shares of Chorus. The initial value of the senior portion will be the present value of the sum repayable on the CFH Debt Securities. The initial subordinated portion is the difference between the issue price of the CFH Debt Securities and the value of the senior portion.

The repayment profile is based on a similar regime to that for the CFH Equity Securities, including the 20% end-user fibre uptake threshold test (current uptake as at 30 June 2017 was 34.5%). With fibre uptake estimated at more than 20% in 2020, the Debt Securities' redemption profile is 18.5% in 2025 and 2030, 27.7% in 2033 and the remaining 35% in 2036. CFH and Chorus agreed a variation to the securities in September 2016 in respect to the cost of residential installations above a standard installations (non-standard installations). If the costs of non-standard installations are not included in the Chorus Regulated Asset Base (RAB) under the Telecommunications Regulatory Regime post 2020, then the maturity and dividend stopper dates of the securities covered could be extended by up to 24 months. The Telecommunications (New Regulatory Framework) Bill, introduced to parliament on 8 August 2017, provides for non-standard installations costs to be in the RAB.

CCHL loan

On 29 June 2016 the Group's investment in ENL was sold to the Partner (ESL), and as consideration CFH has a loan receivable from CCHL (see note 3). CFH will continue to fund the UFB build by ENL by continuing to loan funds to CCHL progressively as stages are completed by ENL and satisfy UAT. CCHL is required to repay the loan and any further funding provided by the Group in 2021.

The repayment of the CCHL loan is secured against ESL's shares and debt in ENL, and CFH also has security against the assets of ENL. The CCHL loan carries no interest, but like the Chorus Debt Securities has imputed interest calculated and shown on the face of the financial statements. The initial value of amounts advanced is the present value of the amount repayable in May 2021.

The loan becomes due for early repayment proportionately if ESL sells its interest in ENL, and is repayable in full if ESL's shareholding in ENL falls to 49% (or less) or if the build is not completed in 2019.

Accounting policies

In the Company and Group financial statements, the investment in unlisted Equity Securities of Chorus is categorised as Available for Sale (AFS) and is measured at fair value. The investments are initially recognised at fair value, with gains and losses arising from changes in fair value recognised in other comprehensive revenue and expense and accumulated as a separate component of equity in the AFS revaluation reserve. Indications that Chorus is in significant financial difficulty and late payments are considered to be objective evidence of impairment. Impairment losses and interest are calculated using the effective interest method, and are recognised directly in surplus or deficit.

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

The Group's investments in Chorus Debt Securities and the CCHL loan are categorised as loans and receivables and are measured initially at fair value and subsequently at amortised cost using the effective interest method, less any impairment. The accounting policy for impairment is set out in the general accounting policies section at the beginning of these financial statements. Impairment has been reviewed and it has been determined in accordance with the relevant standards that there is no impairment. Interest income is recognised by applying the effective interest method.

Any difference in initial recognition between the fair value of the investment and the contribution by CFH is reflected in the UFB contribution line in surplus or deficit.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

4. INVESTMENTS (CONTINUED)

Key assumptions

Fair value is determined in the manner set out above under the LFC(s). The estimates used are based on market-observable data of similar types of instrument; these include corporate bonds that have similar maturity dates, credit risks and industry characteristics.

The key assumptions are set out below, along with information on a reasonably possible change (estimated based on past experience) and the potential impacts of such a change on the investment carrying value for the Chorus Equity Securities carried at fair value. The assumptions and sensitivities are also included for the Chorus Debt Securities, which are carried at amortised cost (fair value disclosed in note 15).

				Equity Securities		Debt Securities	
Key assumptions/ inputs	**2017 Assumption**	**2016 Assumption**	**Possible change**	**2017 Impact $000**	**2016 Impact $000**	**2017 Impact $000**	**2016 Impact $000**
Senior credit spread (BBB)	190-279 bps	280-346 bps	+/-50 bps	NA	NA	-2,700/ +2,900	-2,100/ +2,300
Subordinated credit spread (BBB-/BB+ [2016: BBB-/BB])	278-367 bps	371-437 bps	+/-50 bps	-6,200/ +6,700	-4,900/ +5,300	-5,400/ +5,800	-4,400/ +4,800
Risk-free term structure	2.91%-3.63%	2.27%-2.94%	+/-100 bps	-12,000/ +13,900	-9,400/ +11,000	-15,600/ +18,100	-12,500/ +14,600

FUNDING COMMITMENTS

The Crown, through CFH, will invest over $1.3 billion in UFB1, and a further $310m in UFB2, $210m is an additional appropriation, and a $100m is from capital recycled by CFH with the LFC(s), Chorus, and CCHL in relation to the ENL build. The tables below summaries the number of premises that the entities are expected to have built in each financial year. CFH's investment is at an agreed amount per premises passed multiplied by the number of premises passed. The agreed amount per premises passed varies between each entity in UFB1. In UFB2 the agreed amount per premises passed varies between entities and varies between the towns being built.

Cumulative number of UFB1 premises passed #000	**Financial year 2018**	**Financial year 2019**
Chorus	685	830
LFC(s) (and CCHL)	323	344
Total premises passed #000[1]	**1,008**	**1,174**
Total investment $m[2]	**1,131**	**1,315**

[1] Both the premises numbers and the funding shown above are cumulative.
[2] The total investment is shown before the impact of the recycling mechanism.

Cumulative number of UFB2 premises passed #000	**Financial year 2018**	**Financial year 2019**	**Financial year 2020**	**Financial year 2021**	**Financial year 2022**
Chorus	4	26	57	87	168
LFC(s) (and CCHL)	3	9	19	28	32
Total premises passed #000[1]	**7**	**35**	**76**	**115**	**200**
Total investment $m[2]	**7**	**46**	**103**	**154**	**310**

[1] Both the premises numbers and the funding shown above are cumulative.
[2] The total investment is shown before the impact of the recycling mechanism.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

5. PROPERTY, PLANT AND EQUIPMENT

Parent	Information technology $000	Other equipment $000	Total $000
Cost			
Balance at 1 July 2015	404	121	525
Additions during the year	27	10	37
Disposals during the year	-	-	-
Balance at 30 June 2016	431	131	562
Accumulated depreciation			
Balance at 1 July 2015	251	76	327
Depreciation charge for the year	79	12	91
Disposals during the year	-	-	-
Balance at 30 June 2016	330	88	418
Net book value at 30 June 2016	**101**	**43**	**144**
Net book value at 30 June 2015	**153**	**45**	**198**
Cost			
Balance at 1 July 2016	431	131	562
Additions during the year	73	-	73
Disposals during the year	(4)	-	(4)
Balance at 30 June 2017	500	131	631
Accumulated depreciation			
Balance at 1 July 2016	330	88	418
Depreciation charge for the year	77	10	87
Disposals during the year	(4)	-	(4)
Balance at 30 June 2017	403	98	501
Net book value at 30 June 2017	**97**	**33**	**130**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Information technology $000	Other equipment $000	UFB network assets $000	Total $000
Cost				
Balance at 1 July 2015	1,571	888	409,811	412,270
Additions during the year	3,130	922	122,194	126,246
Disposals during the year	-	(219)	-	(219)
Disposal of subsidiary (note 3)	-	-	(188,808)	(188,808)
Reclassification of subsidiary to held for sale (note 3)	(4,270)	(1,315)	(301,501)	(307,086)
Balance at 30 June 2016	431	276	41,696	42,403
Accumulated depreciation				
Balance at 1 July 2015	272	262	27,462	27,996
Depreciation charge for the year[1]	911	200	21,602	22,713
Disposals during the year	-	(147)	-	(147)
Disposal of subsidiary (note 3)	-	-	(15,561)	(15,561)
Reclassification of subsidiary to held for sale (note 3)	(853)	(227)	(28,224)	(29,304)
Balance at 30 June 2016	330	88	5,279	5,697
Net book value at 30 June 2016	**101**	**188**	**36,417**	**36,706**
Net book value at 30 June 2015	**1,299**	**626**	**382,349**	**384,274**
Cost				
Balance at 1 July 2016	431	276	41,696	42,403
Additions/(net of transfers between classes) during the year	73	(90)	4,459	4,442
Disposals during the year	(4)	-	-	(4)
Balance at 30 June 2017	500	186	46,155	46,841
Accumulated depreciation				
Balance at 1 July 2016	330	88	5,279	5,697
Depreciation charge for the year[1]	77	12	2,217	2,306
Disposals during the year	(4)	-	-	(4)
Balance at 30 June 2017	403	100	7,496	7,999
Net book value at 30 June 2017	**97**	**86**	**38,659**	**38,842**

[1] Depreciation includes depreciation from discontinued operations of $Nil (2016: $20.8 million).

In the year ended 30 June 2017 NFL purchased new fibre assets from its Partner (Northpower) as part of the agreements, in exchange for B shares valued at $3.6 million.

In the year ended 30 June 2016 NFL and UFL purchased new fibre-related assets from their Partners (Northpower and WEL Networks) as part of the agreements, in exchange for B shares valued at $4.9 million and $42.2 million respectively.

ACCOUNTING POLICIES

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

Additions

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

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

Disposals

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 surplus or deficit as they are incurred.

Depreciation

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

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

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

Assessing the appropriateness of useful life and residual value estimates of property, plant and equipment requires the Group to consider a number of factors, such as the physical condition of each asset, the expected period of use of the asset by the Group, and the expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life or residual value will have an impact on the depreciation expense recognised in 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.

Impairment

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

Impairment has been considered, and it has been determined there is no impairment (2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

6. INTEREST

	Parent 2017 $000	Group 2017 $000	Parent 2016 $000	Group 2016 $000
Continuing operations:				
Interest income				
Loans and receivables				
Chorus Debt Securities	6,542	6,542	4,761	4,761
CCHL loan	2,788	2,788	6	6
Interest earned on cash balances with financial institutions	4,928	4,954	2,015	2,015
AFS financial assets				
Chorus Equity Securities	6,446	6,446	4,633	4,633
Total interest income	**20,704**	**20,730**	**11,415**	**11,415**

Interest rates are set out in note 15.

The interest income on the Chorus Debt Securities, CCHL loan and Chorus Equity Securities is the imputed interest calculated to approximate the effect of interest income to CFH on these instruments. The imputed interest is in effect the write-back of the discount on the investment for the year under review.

Interest income is recognised using the effective interest method. The effective interest rate is a rate that discounts estimated future cash receipts (including all fees and points paid or received between the parties, transaction costs and other premiums or discounts) through the expected life of a financial instrument, or where appropriate a shorter period, to the net carrying amount of the financial instrument at the time of initial recognition.

7. DIRECTORS' FEES

	Parent 2017 $000	Parent 2016 $000
Continuing operations – Board member fees during the year were:		
Simon Allen	87	78
Miriam Dean	41	39
Danelle Dinsdale	44	39
Jack Matthews	32	39
Murray Milner	41	39
Keith Tempest	41	39
Total Board member fees	**286**	**273**

Jack Matthews resigned in March 2017.

In the 2017 and 2016 financial years, all directors received additional fees associated with Board meetings further to those scheduled.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

7. DIRECTORS' FEES (CONTINUED)

LFC subsidiaries

	Subsidiaries 2017 $000	Subsidiaries 2016 $000
Continuing operations – Board member fees during the year were:		
Jo Brosnahan (NFL – Independent Chair)	60	60
Ken Hames (NFL)	-	8
	60	**68**
Continuing operations total Board member fees – Group	**368**	**341**

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

The Directors' fees for the subsidiaries are paid by the LFC(s) and are funded by working capital contributed by each Partner.

8. EMPLOYEE ENTITLEMENTS, PERSONNEL COSTS AND KEY MANAGEMENT PERSONNEL

	Parent 2017 $000	Group 2017 $000	Parent 2016 $000	Group 2016 $000
Continuing operations:				
Salaries and wages	4,365	4,763	4,384	4,586
Employer contributions to defined contribution plans	83	94	86	64
Other staff benefits	120	120	21	30
Total personnel costs	**4,568**	**4,977**	**4,491**	**4,680**

In respect of continuing operations, CFH has 16 full-time-equivalent employees and seven contractors as at 30 June 2017 (2016: 17 and six respectively). Also in respect of continuing operations, the Group has 20 full-time-equivalent employees and seven contractors as at 30 June 2017 (2016: 18 and six respectively).

Key management personnel compensation

	Parent 2017 $000	Group 2017 $000	Parent 2016 $000	Group 2016 $000
Continuing operations:				
Directors (five Directors (2016: six) equals one full-time equivalent (2016: one))	308	368	273	341
Chief Executive Officer and senior management	2,321	2,532	2,270	2,448
Total key management personnel compensation	**2,629**	**2,900**	**2,543**	**2,789**

In the Parent and Group no significant compensation or termination benefits have been paid during the year (2016: Nil).

Short-term employee entitlements

Employee entitlements that the Group expects to be settled within 12 months of balance date are measured at undiscounted nominal values based on accrued entitlements at current rates of pay. Employee entitlements that are not expected to be settled within 12 months of balance date are measured as the present value of the estimated future cash outflows, in respect of services provided by employees up to balance date.

These include salaries and wages accrued up to balance date, and annual leave earned but not yet taken at balance date. A liability for sick leave is recognised based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that it is expected to be used by staff to cover future absences.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

8. EMPLOYEE ENTITLEMENTS, PERSONNEL COSTS AND KEY MANAGEMENT PERSONNEL (CONTINUED)

Defined contribution superannuation schemes

Obligations for contributions to KiwiSaver are accounted for as defined contribution superannuation schemes and are recognised as an expense in surplus or deficit as incurred.

Total remuneration paid or payable for the year

	Parent 2017 # staff	Group 2017 # staff	Parent 2016 # staff	Group 2016 # staff
Continuing and discontinued operations:				
$100,000 – $109,999	-	-	-	6
$110,000 – $119,999	-	-	-	4
$120,000 – $129,999	-	-	-	2
$130,000 – $139,999	2	2	-	2
$140,000 – $149,999	-	-	1	5
$150,000 – $159,999	-	-	1	2
$160,000 – $169,999	1	1	1	1
$170,000 – $179,999	1	1	1	1
$180,000 – $189,999	1	1	2	2
$190,000 – $199,999	1	1	1	2
$200,000 – $209,999	1	1	1	1
$210,000 – $219,999	-	1	-	2
$220,000 – $229,999	1	1	-	-
$230,000 – $239,999	1	1	1	2
$250,000 – $259,999	-	-	1	1
$260,000 – $269,999	-	-	1	2
$270,000 – $279,999	2	2	-	-
$280,000 – $289,999	1	1	-	-
$310,000 – $319,999	-	-	-	1
$330,000 – $339,999	-	-	1	1
$360,000 – $369,999	1	1	1	1
$380,000 – $389,999	1	1	-	-
$390,000 – $399,999	-	-	1	1
$420,000 – $429,999	-	-	1	1
$430,000 – $439,999	1	1	-	-
$460,000 – $469,999	-	-	-	1
$500,000 – $509,999	-	-	1	1
$530,000 – $539,999	1	1	-	-
Total employees	**16**	**17**	**16**	**42**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

9. PROFESSIONAL ADVISORY FEES

	Parent 2017 $000	Group 2017 $000	Parent 2016 $000	Group 2016 $000
Continuing operations:				
Accounting	79	79	38	38
Legal	1,805	1,824	809	836
Other	143	193	186	325
Total professional advisory fees	**2,027**	**2,096**	**1,033**	**1,199**

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

10. OTHER EXPENSES

	Parent 2017 $000	Group 2017 $000	Parent 2016 $000	Group 2016 $000
Continuing operations:				
Financial statements audit fees – Audit New Zealand	102	127	120	144
Other services from Audit New Zealand – regulatory reporting	28	36	-	8
Contractors and project management	1,376	1,376	758	758
Staff travel and accommodation	230	230	236	236
Operating lease expenses	279	279	271	271
Information technology	188	408	193	193
Other	355	519	480	611
Total other expenses	**2,558**	**2,975**	**2,058**	**2,221**

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

In 2016 PwC was the auditor of UFL on behalf of the Office of the Auditor-General. Audit fees of UFL are included in discontinued operations.

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 surplus or deficit. Lease incentives received are recognised in surplus or deficit over the lease term as an integral part of the total lease expense.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

11. TAXATION

	Parent 2017 $000	Group 2017 $000	Parent 2016 $000	Group 2016 $000
Continuing operations:				
Income tax expense/(credit) recognised in surplus/(deficit)				
Deferred tax expense relating to tax losses and the origination and reversal of temporary differences	-	124	-	(769)
Total income tax expense/(credit)	**-**	**124**	**-**	**(769)**
Reconciliation				
Surplus/(deficit) for the period	(68,817)	(69,869)	(77,530)	(79,605)
Tax expense/(credit) calculated at 28% (2016: 28%)	(19,269)	(19,563)	(21,708)	(22,289)
Effect of other expenses that are not deductible	-	-	-	-
Prior period adjustment	-	-	-	-
Unrecognised tax losses	-	-	-	(720)
Effect of non-taxable status of the Parent company	19,269	19,687	21,708	22,240
Total income tax expense/(credit)	**-**	**124**	**-**	**(769)**

The tax on discontinued operations is shown in note 3.

CFH is a public authority and consequently is exempt from the payment of income tax, but is required to show the effective tax at 28% in the reconciliation above.

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

- the tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from surplus or deficit as reported in the statement of comprehensive revenue and expense because it excludes items of revenue 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. 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 differences arise from the initial recognition of other assets and liabilities in transactions that affect neither the taxable profit nor the accounting surplus or deficit;
- the carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered and shareholder continuity will be maintained;
- deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which the liabilities are settled or the assets realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences of the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities;
- deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis; and
- current and deferred taxes are recognised as expenses or income in surplus or deficit, except when they relate to items recognised in other comprehensive revenue and expense or directly in equity, in which case the taxes are also recognised in other comprehensive revenue and expense or directly in equity.

A deferred tax asset has been recognised for the unused tax losses of NFL, 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 projections and annual business plans. The Group has no unrecognised tax losses (2016: $Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

11. TAXATION (CONTINUED)

Goods and services tax

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

The net amount of GST recoverable from, or payable to, Inland Revenue is presented as its own line item 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.

12. INCOME AND EXPENSES BY CATEGORY

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

The revenue and expenses (excluding interest, which is set out in note 6) in each of the PBE IPSAS 29 categories are as follows:

	Parent 2017 $000	Group 2017 $000	Parent 2016 $000	Group 2016 $000
Continuing operations:				
Recognised in surplus/(deficit)				
Fair value gains/(losses) on financial assets designated as at FVTSD				
LFCs – UFB contribution	(65)	-	-	-
LFCs – fair value gains	1,534	-	1,860	-
Fair value losses on AFS financial assets				
Chorus Equity Securities – UFB contribution	(40,802)	(40,802)	(43,745)	(43,745)
Fair value gains/(losses) on held-for-trading financial assets				
Chorus Equity Warrants – fair value gains/(losses)	(202)	(202)	206	206
Fair value (losses) on loans and receivables				
Chorus Debt Securities – UFB contribution	(36,012)	(36,012)	(39,320)	(39,320)
CCHL loan – UFB contribution	(4,448)	(4,448)	-	-
Total recognised in surplus/(deficit)	**(79,995)**	**(81,464)**	**(80,999)**	**(82,859)**
Fair value gains on AFS financial assets				
Chorus Equity Securities – fair value gains[1]	2,162	2,162	9,189	9,189
Total recognised in other comprehensive revenue and expense	**2,162**	**2,162**	**9,189**	**9,189**

[1] Other comprehensive revenue and expense in the statement of comprehensive revenue and expense also includes gains and losses on discontinued operations.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

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

	Parent 2017 $000	Group 2017 $000	Parent 2016 $000	Group 2016 $000
Net deficit after tax	**(70,409)**	**(70,194)**	**(33,494)**	**(122,118)**
Add/(less) non-cash items				
Interest income	(15,776)	(15,776)	(9,400)	(9,400)
Fair value gain on FVTSD investments	(1,534)	-	(25,756)	-
Gain/(loss) on disposal of subsidiary	-	-	(41,047)	20,992
Loss on re-measurement of held-for-sale subsidiary	-	-	-	9,112
Fair value losses/(gains) on derivatives	202	202	(206)	(206)
Depreciation	87	5,149	91	22,713
UFB contribution	82,900	81,262	103,540	83,065
Deferred tax	-	(449)	-	(5,201)
Other non-cash items	-	-	-	72
Total non-cash items	65,879	70,388	27,222	121,147
Add/(less) movements in working capital items				
Trade and other receivables, GST and prepayments	(392)	(247)	(336)	6,158
Creditors and other payables	9,869	8,055	(23,328)	(62,739)
Employee entitlements	103	112	119	(395)
Deferred revenue	-	120	-	(3,553)
Net working capital reclassified to held for sale	-	-	-	26,184
Net working capital of disposed subsidiary	-	12,227	-	6,947
Net movements in working capital items	9,580	20,267	(23,545)	(27,398)
Add/(less) items reclassified as investing				
Movements in creditors and other payables related to property, plant and equipment[1]	(32)	(32)	53	8,245
Movements in working capital of disposed subsidiary related to investing and financing activities[1]	-	(12,424)	-	-
Movements in creditors and other payables related to other investing activities	-	1,573	-	-
Movements in creditors and other payables related to Chorus investments	(9,600)	(9,600)	23,560	23,560
Net cash from operating activities	**(4,582)**	**(22)**	**(6,204)**	**3,436**

[1] See notes 3, 5 and 14 for further information on non-cash property, plant and equipment transactions, and outstanding liabilities in respect of property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

14. CREDITORS AND OTHER PAYABLES

	Parent 2017 $000	Group 2017 $000	Parent 2016 $000	Group 2016 $000
Creditors	9,866	10,234	242	670
Accrued expenses	924	1,014	679	951
Other payables	-	-	-	1,572
Total creditors and other payables	**10,790**	**11,248**	**921**	**3,193**

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.

Asset purchases are set out in note 5.

15. FINANCIAL RISK

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

MARKET RISK

Fair value interest rate risk

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

The Group is also exposed to fair value interest rate risk in relation to its fixed-interest-rate financial instruments, including bank deposits, Chorus Debt Securities, the CCHL loan and borrowings. However, because these items are not accounted for at fair value, fluctuations in interest rates do not have an impact on the surplus/(deficit) or the carrying amount recognised in the statement of financial position.

The average interest rate on CFH's bank term deposits is 3.2% (2016: 2.8%).

The terms of the Chorus Equity Securities and Debt Securities and the CCHL loan are set out in note 4.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Investments and borrowings issued at variable interest rates expose CFH and the Group to cash flow interest rate risk.

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

Sensitivity analysis

In relation to bank deposits, as at 30 June 2017, 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 $0.4 million (2016: $0.5 million) higher/lower for CFH and the Group. This sensitivity is less than in the prior year as a lesser amount of cash and cash equivalents and investments in short-term bank deposits are held at balance date than in the prior year.

The sensitivities of the Chorus Securities are set out in the key assumptions section of note 4.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

15. FINANCIAL RISK (CONTINUED)

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; CCHL through its investment in the CCHL loan; and the remaining Partner in respect of the option and forward sale arrangement in respect of NFL shares.

CFH and the Group invest surplus cash with major registered trading banks. CFH's deposits are currently held with five (2016: four) major banks, which are registered New Zealand banks. CFH's Investment Policy limits the amount of credit exposure to any one institution (up to $50 million with any one bank and subject to each bank having a credit rating of A or better).

CFH's maximum credit exposure is represented by the carrying amounts and the Group's commitment to purchase Chorus Securities and provide further funding to CCHL. The CCHL loan is secured against ESL's shares and debt in ENL and the assets of ENL, as described in note 4. There is no other collateral held as security. There are no material overdue or impaired assets at 30 June 2017 (2016: Nil).

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 NFL funds its working capital requirements by equity contributions from the Partner. 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 the current year, CFH has used the proceeds of the sale of UFL and existing cash balances to meet its liquidity requirements. The Company and the Group hold cash at bank, either in an interest-bearing transactional account or in term deposits. Given the highly liquid nature of these accounts, those with an original maturity of fewer than 90 days are represented as cash in the statement of financial position, and those with an original maturity of greater than 90 days are represented as short term-deposits on the statement of financial position. All cash and short-term deposits are held in New Zealand.

Due to excess cash levels, $35 million is invested in short-term bank deposits at balance date, which mature within one year. In meeting its liquidity requirements CFH may also access funding through the uncalled capital mechanism, where CFH draws down funds from the Crown as required to fund the UFB investment.

Contractual maturity analysis of financial liabilities

At 30 June 2017 all CFH and Group financial liabilities are due for repayment within one year (2016: one year).

Additional information on CFH's commitment to purchase Chorus Securities and provide further funding to CCHL is set out in note 4.

FAIR VALUE MEASUREMENTS

The Chorus Debt Securities (carrying amount $112.0 million [2016: $82.1 million]) have a fair value of $130.4 million (2016: $98.4 million), predominantly due to mark-to-market interest rates falling compared with the amortised cost used in the initial recognition of the debt.

The carrying amounts of all other financial assets and liabilities approximate their fair values at 30 June 2017 and 30 June 2016.

CFH's and the Group's financial assets measured at fair value, and the movements therein, are set out in note 4. These financial assets are all considered to be at level three of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

15. FINANCIAL RISK (CONTINUED)

CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts of financial assets and liabilities in each of the PBE IPSAS 29 categories are as follows:

	Parent 2017 $000	Group 2017 $000	Parent 2016 $000	Group 2016 $000
Loans and receivables				
Cash and cash equivalents	48,285	49,508	102,447	103,244
Short-term bank deposits	35,000	35,000	-	-
Trade and other receivables	753	1,443	252	920
Investments in Chorus Debt Securities	112,012	112,012	82,053	82,053
CCHL loan	106,445	106,445	71,498	71,498
Financial assets included within assets held for sale (note 3)	-	-	-	10,022
Total loans and receivables	302,495	304,408	256,250	267,737
AFS financial assets				
Investments in Chorus Equity Securities	104,179	104,179	76,944	76,944
Total AFS financial assets	104,179	104,179	76,944	76,944
Financial assets designated as at FVTSD				
Financial assets included within assets held for sale (note 3)	-	-	131,900	-
Investments in LFCs (excluding held for sale)	16,728	-	16,258	-
Total financial assets designated as at FVTSD	16,728	-	148,158	-
Held-for-trading financial assets				
Investments in Chorus Equity Warrants	54	54	256	256
Total held-for-trading financial assets	54	54	256	256
Total financial assets	**423,456**	**408,641**	**481,608**	**344,937**
Financial liabilities measured at amortised cost				
Creditors and other payables	10,790	11,248	921	3,193
Financial liabilities included within liabilities related to assets held for sale (note 3)	-	-	-	24,465
Total financial liabilities measured at amortised cost	10,790	11,248	921	27,658
Total financial liabilities	**10,790**	**11,248**	**921**	**27,658**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

16. CAPITAL AND CAPITAL MANAGEMENT

	Parent 2017 $000 & #000	Group 2017 $000 & #000	Parent 2016 $000 & #000	Group 2016 $000 & #000
Opening balance	927,900	927,900	737,900	737,900
Capital contribution	-	-	190,000	190,000
Balance at 30 June	**927,900**	**927,900**	**927,900**	**927,900**

Contributed capital represents proceeds from the issue of ordinary shares to the Crown, net of related share issue costs (if any). Distributions paid to the Crown (if any) are deducted from contributed capital.

The Crown investment made in CFH is represented by 1,555,400,200 $1 ordinary shares issued (2016: 1,555,400,200), with 927,900,000 being fully paid (2016: 927,900,000) and 627,500,200 being unpaid (2016: 627,500,200). The Crown holds all the issued capital of CFH. All shares have equal voting and dividend rights and share equally in any distribution on wind-up.

Capital management

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

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

17. AFS REVALUATION RESERVE

	Parent 2017 $000	Group 2017 $000	Parent 2016 $000	Group 2016 $000
Opening balance	9,955	9,955	3,734	766
Chorus Equity Securities – fair value gains/(losses)	2,162	2,162	9,189	9,189
LFCs – fair value gains	-	-	2,755	-
Reclassification of LFCs' fair value gains to surplus/(deficit) on disposal of subsidiary	-	-	(5,723)	-
Balance at 30 June	**12,117**	**12,117**	**9,955**	**9,955**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

18. EVENTS AFTER BALANCE DATE

CFH has invested a further $12.4 million for UFB1 network and $1.7 million for UFB2 network completed in July and August 2017.

It was announced on 23 July 2017 that CFH will have a wider scope of work than the current purpose to implement the government's objectives in relation to the availability of, and access to, UFB by co-investing with private sector participants to deploy telecommunications network infrastructure, that is, UFB, RBI and MBS. On 1 September 2017 CFH will change its name to Crown Infrastructure Partners Limited (CIP), as part of the repurposing, and in addition to its current purpose, to investigate and implement commercial models including those that will enable coinvestment from the private or any other sector, to achieve the government's objectives for the deployment of water and roading infrastructure to support the timely increase of housing supply.

It was announced on 30 August 2017 that CFH will enter into the following agreements to extend rural broadband and mobile black spot coverage as part of the RBI and MBS initiatives:

- Rural Connectivity Group (a joint venture between Spark NZ, Vodafone, and 2Degrees) to provide mobile and fixed wireless broadband for a value up to $250 million;
- Agreements with 9 regional wireless network providers to provide fixed wireless broadband for a combined value of $7 million; and
- Extension to existing UFB2 contracts with Chorus, UFL, ESL, and Northpower to increase UFB coverage to a further 60,000 premises for $120 million.

There have been no other significant events since balance.

19. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET

The 2017 Group budgeted deficit of $138.6 million was approved in the 2016/17 Statement of Performance Expectations. The Parent does not publish budget figures. There is a lack of comparability between the budget and actual results due to the presentation of discontinued operations in the actual results.

Statement of comprehensive revenue and expense

The Group full-year deficit is $71.1 million less than budgeted. The budgeted statement of comprehensive revenue and expense is not comparable with the Group actual results on a line-by-line basis due to the separate presentation of continuing and discontinued operations, which was not anticipated at the time the budget was prepared. Comments on the key drivers of the net variance are set out below.

Statement of financial position

The Group net assets are $411.4 million lower than budgeted. The budgeted position is also not directly comparable with the Group actual position on a line-by-line basis due to the deconsolidation of ENL and UFL, which was not anticipated at the time the budget was prepared (ENL net assets on deconsolidation: $118.8 million; UFL net assets on deconsolidation: $274.0 million).

From a net perspective, the key drivers of the variances can be determined by the discussions on the statement of comprehensive revenue and expense and the statement of cash flows, as set out below.

Statement of cash flows

The Group net decrease in cash flows of $49.8 million is $100.1 million less than budget, primarily because the budgeted Crown contribution of $192 million was not called, less the impact of the disposal of UFL and ENL. The budgeted cash flows are also not comparable with the Group actual cash flows on a line-by-line basis as the budget included the projected cash flows of ENL and UFL. The key variances are set out below.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

19. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET (CONTINUED)

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

	Group Actual 2017 $000	Group Budget 2017 $000
Continuing operations:		
Income		
Interest income	20,730	15,006
UFB income	5,677	52,279
Grant income	-	15,000
Other income	-	1,020
Total income	26,407	83,305
Expenses		
Board fees	368	637
Audit fees	150	288
Depreciation expense	2,306	22,961
Occupancy costs	279	1,569
Other Company overheads	11,911	38,843
UFB contribution – Chorus Equity Securities	40,802	47,801
UFB contribution – Chorus Debt Securities	36,012	44,300
UFB contribution – CCHL loan	4,448	16,860
UFB contribution – UFB2	-	33,600
Grant expense	-	15,000
Total expenses	96,276	221,859
Surplus/(deficit) before tax	**(69,869)**	**(138,554)**
Tax expense/(credit)	124	37
Net surplus/(deficit) from continuing operations	**(69,993)**	**(138,591)**
Net surplus/(deficit) from discontinued operations	**(201)**	**-**
Net surplus/(deficit)	**(70,194)**	**(138,591)**
Other comprehensive revenue and expense	2,162	(552)
Total comprehensive revenue and expense	**(68,032)**	**(139,143)**
Attributed to members of the Parent	(68,144)	(139,239)
Attributed to minority interests	112	96
Total comprehensive revenue and expense	**(68,032)**	**(139,143)**

EXPLANATION OF SIGNIFICANT VARIANCES:

Excluding the impacts of discontinued operations, the key variances are:

- the disposal of ENL and UFL were not included in the budget, and this has meant that UFB income and operating expenses are under budget.
- interest revenue is $5.7 million higher than budget, mainly due to higher cash balances held throughout the year from the proceeds of the sale of UFLs shares;
- the grant income and related expense was not incurred in the year;
- UFB contributions (excluding UFB2) are $27.7 million less than expected. This reflects the timing of payments during the year to Partners where the build was on track but the claims for payment were slower than expected. The other key driver was the interest rate markets remaining subdued, against an expectation of interest rates increasing;
- there were savings of $33.6 million in respect of UFB2 as the build payments have not yet commenced, although the build has begun; and
- other comprehensive revenue and expense is $2.7 million favourable to budget due to fair value gains recognised during the year on the Chorus Equity Securities, due to reasons similar to those above.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

19. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET (CONTINUED)

STATEMENT OF FINANCIAL POSITION

	Group Actual 2017 $000	Group Budget 2017 $000
Assets		
Current assets		
Cash and cash equivalents	49,508	150,131
Short-term bank deposits	35,000	-
Other current assets	1,568	8,122
Assets classified as held for sale	-	-
Total current assets	**86,076**	**158,253**
Non-current assets		
Property, plant and equipment	38,842	418,788
Investments in Chorus Equity Securities	104,233	94,821
Investments in Chorus Debt Securities	112,012	101,331
CCHL loan	106,445	85,630
Investments in UFB2	-	8,400
Deferred tax assets	1,468	15,298
Total non-current assets	**363,000**	**724,268**
Total assets	**449,076**	**882,521**
Liabilities		
Total current liabilities (including held for sale)	12,490	34,534
Total liabilities	**12,490**	**34,534**
Net assets	**436,586**	**847,987**
Contributed capital	927,900	1,119,900
AFS reserve	12,117	9,524
Retained earnings	(524,302)	(591,505)
Equity attributable to the Parent	415,715	537,919
Total minority interests	20,871	310,068
Total equity	**436,586**	**847,987**

The key variances are:

- capital contributions were not drawn down from the Crown due to there being sufficient cash on hand throughout the year;
- Chorus investments were generally in line with budget, as Chorus handed over all budgeted premises during the year, although $9.6 million was accrued and unpaid at balance date, which resulted in lower-than-budgeted cash outflows;
- CCHL loan investments are greater than budget as the build in Christchurch and surrounding areas progressed more quickly than anticipated; and
- the disposal of ENL and UFL were not included in the budget. ENL net assets of $118.8 million were deconsolidated, and UFL net assets on deconsolidation were $274.0 million.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

19. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET (CONTINUED)

STATEMENT OF CHANGES IN EQUITY

	Group Actual 2017 $000	Group Budget 2017 $000
Opening equity	631,580	622,395
Total comprehensive revenue and expense	(68,032)	(139,143)
Share transactions with minority interests	15,330	52,807
Disposal of subsidiary	(156,039)	-
Capital contribution – Crown	-	192,000
Capital contribution – minority interests	15,574	119,928
Dividend to minority interests	(1,827)	-
Total equity	**436,586**	**847,987**

The key drivers of these variances are set out in the statement of comprehensive revenue and expense and statement of financial position.

- Share transactions with minority interests of $15.3m, which is the last share recycling from UFL of $13.9m, and ongoing recycling from NFL of $1.4m;
- The disposal of the subsidiary of $156.0m, is primarily the sale of UFF, including the amounts consolidated up until 6 September 2016 when the sale was completed, part of this was recognised earlier as held for sale of $131.9m;
- Capital contributions of $15.6m is the investment by Partners in the LFCs, and the variance is due to the discontinued operation is not being reflected in the budget; and
- Dividends to minority interest, NFL has paid a divided to Northpower, CFH is not entitled to participate in dividends until the end of the concession period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

19. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET (CONTINUED)

STATEMENT OF CASH FLOWS

	Group Actual 2017 $000	Group Budget 2017 $000
Cash flows from operating activities		
Receipts from customers	13,096	38,233
Interest received	4,467	1,078
Grants received	-	15,000
Other receipts	40	-
Payments to suppliers and employees	(19,015)	(60,570)
Grant payments	-	(15,000)
GST (net)	1,390	15,234
Net cash outflow from operating activities	**(22)**	**(6,025)**
Cash flows from investing activities		
Purchase of property, plant and equipment	(16,091)	(107,317)
Investment in short-term bank deposits	(35,000)	-
Acquisition of investments in Chorus Equity Securities	(54,629)	(61,490)
Acquisition of investments in Chorus Debt Securities	(54,629)	(61,490)
Acquisition of investment in CCHL loan	(36,607)	(31,650)
Acquisition of investments in UFB2	-	(42,000)
Proceeds from sale to minority interests prior to disposal	15,330	52,807
Disposal of subsidiary	111,660	-
Net cash outflow from investing activities	**(69,966)**	**(251,140)**
Cash flows from financing activities		
Capital contribution – Crown	-	192,000
Capital contribution – minority interests	11,993	(1,562)
Debt drawdown	-	116,999
Dividend to minority interests	(1,827)	-
Net cash inflow from financing activities	**10,166**	**307,437**
Net (decrease)/increase in cash and cash equivalents	**(59,822)**	**50,272**
Cash and cash equivalents at the beginning of the year	109,330	99,859
Cash and cash equivalents at the end of the year	**49,508**	**150,131**

EXPLANATION OF SIGNIFICANT VARIANCES:

Excluding the impact of the operating activities of discontinued operations, the key variances are set out below:

- interest receipts are higher than budgeted, mainly due to higher cash balances held throughout the year;
- the grant income and related expense was not incurred in the year;
- property, plant and equipment flows were lower than budgeted because ENL was deconsolidated and UFL was owned for only two months of the year;
- Chorus investments were generally in line with budget, as Chorus handed over all budgeted premises during the year, although $9.6 million was accrued and unpaid at balance date, which resulted in lower-than-budgeted cash outflows;
- CCHL loan investments are greater than budget as the build in that Candidate Area progressed more quickly than anticipated;
- capital contributions were not drawn down from the Crown, due to there being sufficient cash on hand throughout the year due to the disposal of UFL; and
- there was no debt drawdown as ENL (the borrower) was deconsolidated.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

20. REPORTING AGAINST APPROPRIATION

WHAT IS INTENDED TO BE ACHIEVED WITH THIS APPROPRIATION

CFH has multi-year appropriations for capital expenditure for the provision of ongoing investment funding for the Crown's broadband investment commitment; the current UFB1 appropriation started on 1 July 2016 and expires on 30 June 2021. The original UFB1 appropriation started on 22 August 2011 and expired on 30 June 2016. The UFB2 appropriation commenced on the 1 July 2016, and expires on 30 June 2021.

Appropriation: Broadband Investment

This appropriation is limited to the provision of ongoing investment funding for CFH to implement the Government's broadband investment commitment.

Appropriation for UFB1 30 June	Actual 2017 $000	Appropriation 2017 $000	Actual 2016 $000	Appropriation 2016 $000
Original appropriation UFB1	417,500	417,500	408,000	408,000
Cumulative adjustments	-	-	357,000	357,000
Total adjusted appropriation	**417,500**	**417,500**	**765,000**	**765,000**
Cumulative actual expenditure 1 July	**-**	**-**	**575,000**	**575,000**
Current-year actual expenditure	**-**	**-**	**190,000**	**190,000**
Cumulative actual expenditure	**-**	**-**	**765,000**	**765,000**
Appropriation remaining for UFB1 30 June	**417,500**	**417,500**	**-**	**-**
Appropriation for UFB2 30 June			-	-
Original appropriation UFB2	210,000	**210,000**	**-**	**-**
Cumulative adjustments	-	-	-	-
Total adjusted appropriation	210,000	**210,000**	**-**	**-**
Cumulative actual expenditure 1 July	-	-	-	-
Current-year actual expenditure	-	-	-	-
Cumulative actual expenditure	-	-	-	-
Appropriation remaining for UFB2 30 June	**210,000**	**210,000**	**-**	**-**

The Government's 2017 Budget approved a multi-year appropriation for the balance of UFB1 of $417 million, and an additional appropriation of $210 million for UFB2.

Assessment of performance	Actual standard of performance 2016/17	Budgeted standard of performance 2016/17
75% of New Zealanders have access to ultra-fast broadband (capable of peak speed of 100 megabits per second) by the end of 2019	Rollout targets are met. The priority targets have been completed, and the 75% access target is on track to be met in 2019	Rollout targets are met

Assessment of performance	Actual standard of performance 2016/17	Budgeted standard of performance 2016/17
A further 5% of New Zealanders (additional to the 75% covered by the first phase of the programme) have access to ultra-fast broadband (capable of peak speed of 100 megabits per second) by the end of 2022	New measure. UFB2 has been started and the first payment for UFB2 build was in July 2017.	Rollout targets are met

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The Minister for State Owned Enterprises

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Bell Gully

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Bank of New Zealand Limited
ASB Bank Limited
Westpac New Zealand Limited
Kiwibank Limited

Senior Management
Graham Mitchell, Chief Executive
Dougal Evison, Finance Director
John Greenhough, Chief Technology Officer
Kathryn Mitchell, General Counsel
Nick Manning, General Manager Government and Industry Relations
Sean Wynne, Chief Commercial Officer

Board of Directors
Simon Allen (Chairman)
Miriam Dean CNZM QC
Danelle Dinsdale
Dr Murray Milner
Keith Tempest

Crown Fibre Holdings Limited was renamed Crown Infrastructure Partners Limited on 1 September 2017.

Crown Fibre Holdings

Ultra-fast broadband for New Zealanders