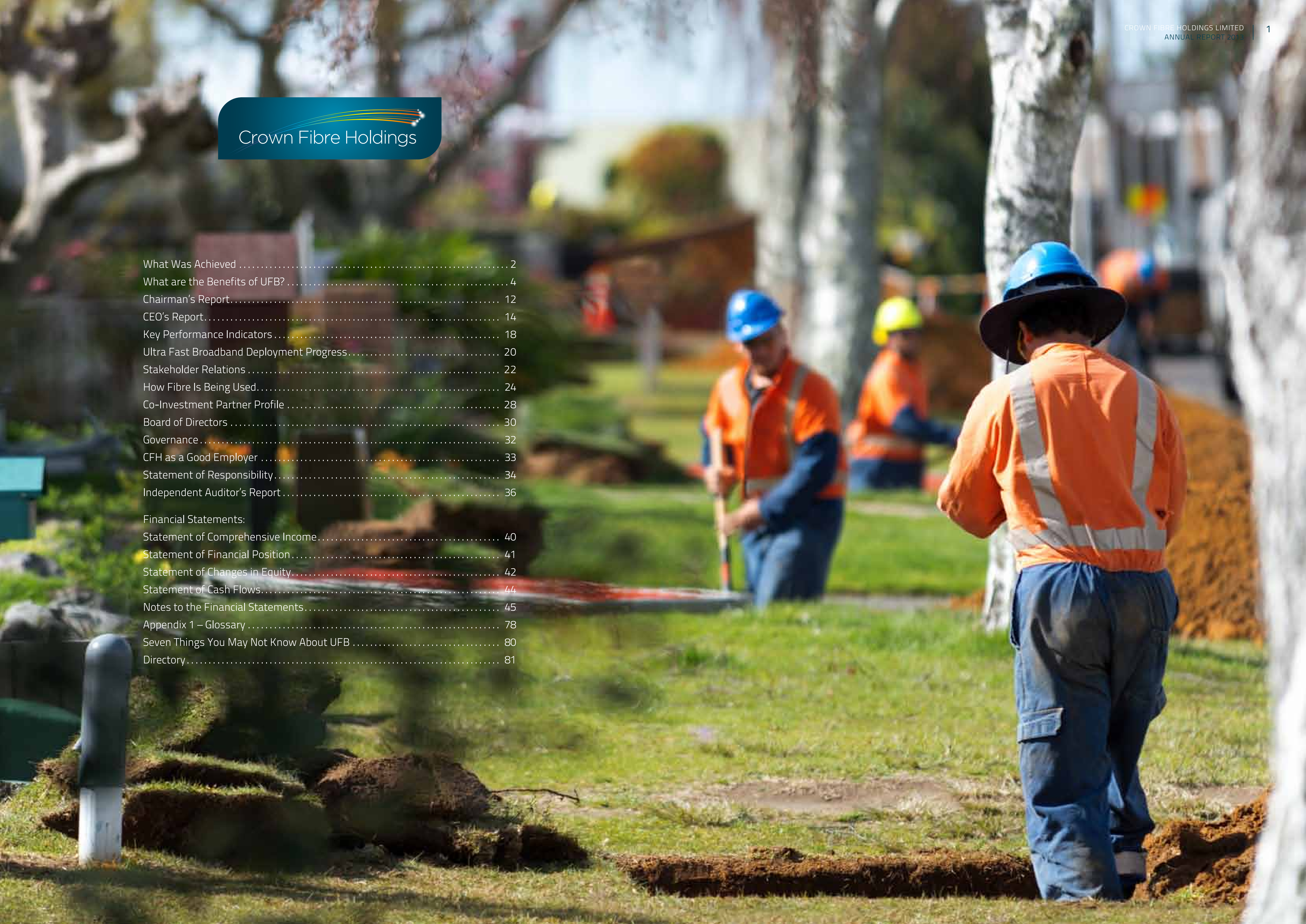
CROWN FIBRE HOLDINGS LIMITED

ANNUAL REPORT

FOR YEAR ENDED 30 JUNE 2013

Crown Fibre Holdings

Ultra-fast broadband for New Zealanders



Crown Fibre Holdings

WHAT WAS ACHIEVED

300,000 CUSTOMERS ABLE TO CONNECT

~10,000 CUSTOMERS CONNECTED

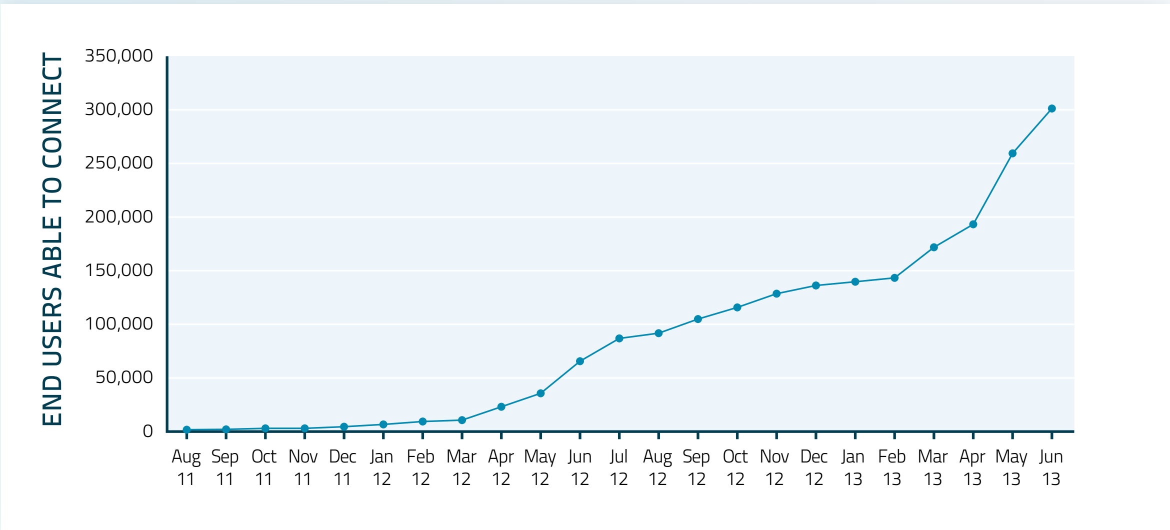
50% OF BUSINESSES ABLE TO CONNECT

68% OF SCHOOLS ABLE TO CONNECT[1]

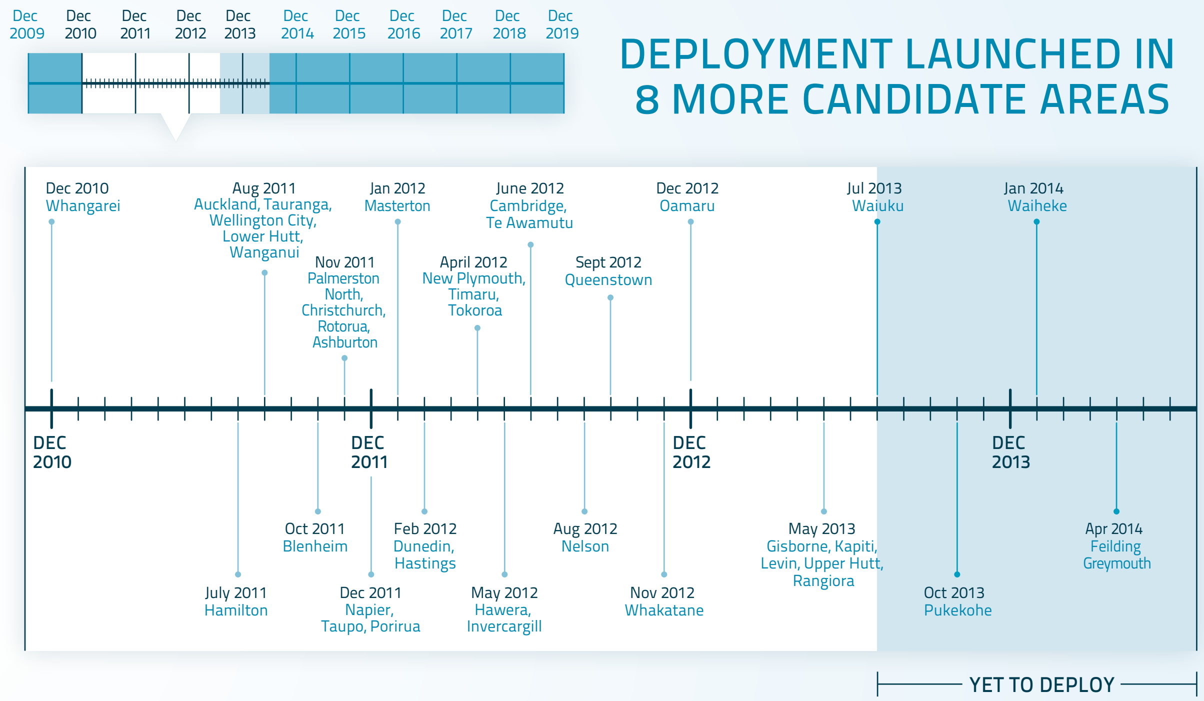
28/33 CANDIDATE AREAS WHERE FULL SCALE DEPLOYMENT HAS BEGUN

50+ RSPs SELLING UFB

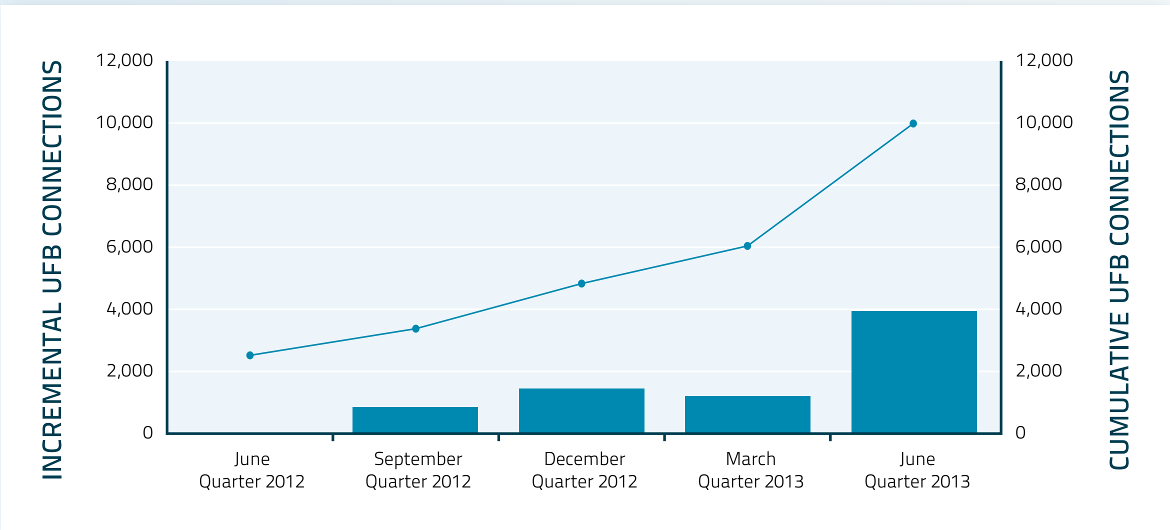
MORE BUSINESSES, HOSPITALS, SCHOOLS AND HOMES CAN TAKE UP UFB



DEPLOYMENT LAUNCHED IN 8 MORE CANDIDATE AREAS



CONNECTIONS IN THE LAST QUARTER EXCEEDED TOTAL CONNECTIONS OVER THE PREVIOUS THREE QUARTERS



PRIORITY USERS A FOCUS IN DEPLOYMENT

18% OF HOMES ABLE TO CONNECT

50% OF BUSINESSES ABLE TO CONNECT

68% OF SCHOOLS ABLE TO CONNECT

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

ANNUAL REPORT 2013

WHAT ARE THE BENEFITS OF UFB?

THE FULL EXTENT OF THE OPPORTUNITIES CREATED BY FASTER BROADBAND AREN'T YET KNOWN TO US, THEY'RE BENEFITS THAT WILL EMERGE THROUGH EXPERIENCE AND BY ACCIDENT AS WELL AS DESIGN. FOR NOW, HERE'S HOW THE EARLY ADOPTERS OF UFB ARE PUTTING IT TO GOOD USE:

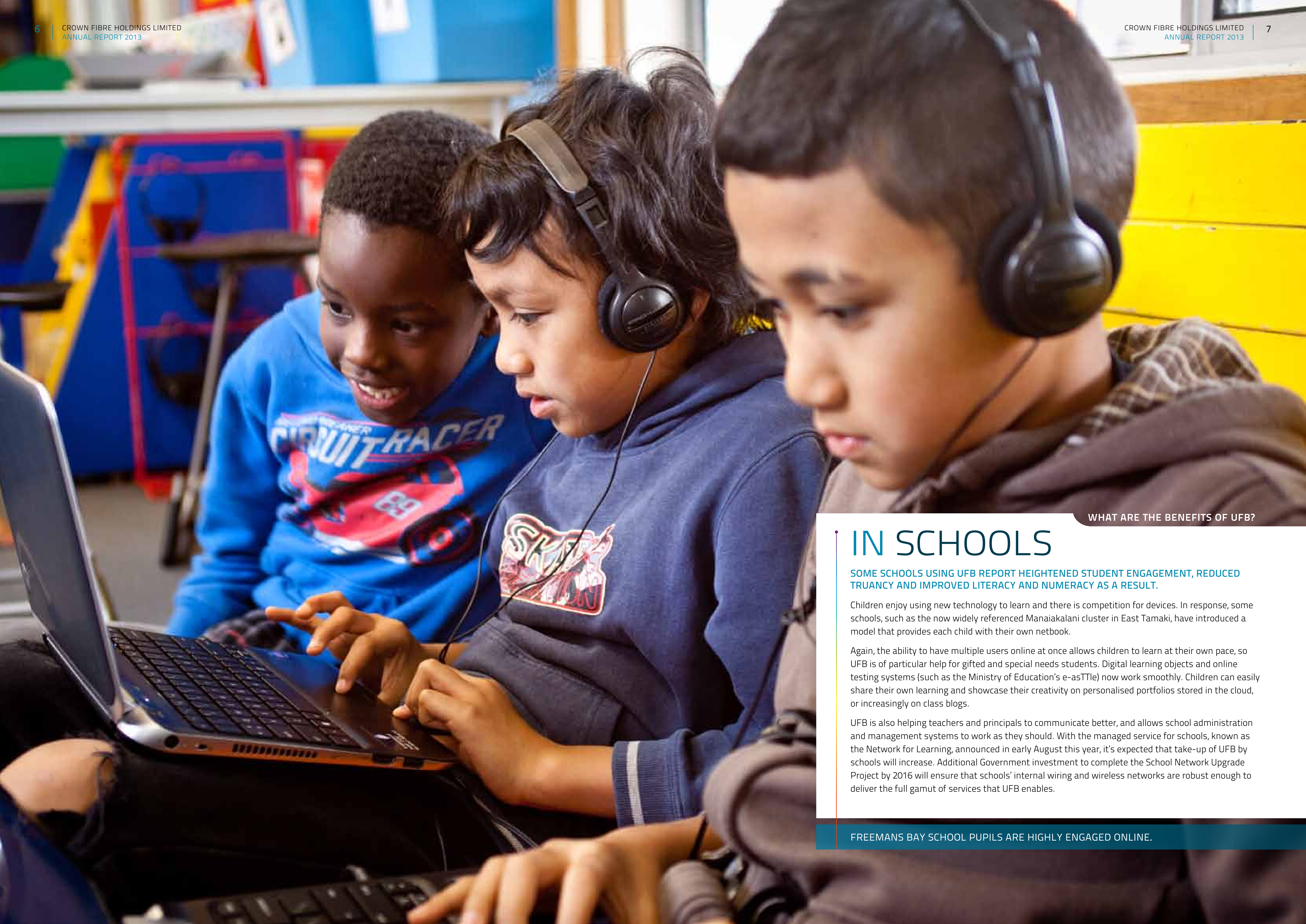
IN THE HOME

MANY NEW ZEALAND HOMES ARE NOW HOST TO A MULTITUDE OF INTERNET-ENABLED DEVICES, FROM DESKTOP COMPUTERS, LAPTOPS AND TABLETS THROUGH TO SMART PHONES, SMART TVS, MUSIC PLAYERS AND GAME CONSOLES.

Unsurprisingly, households want to be able to use these devices as and when it suits them. So if Mum's working remotely, the kids want to be able to do their homework online and Dad wants to video-call his friends overseas. The enormous amount of additional bandwidth, combined with the very rapid speed of UFB, means the whole family can be using their devices at once without any reduction in speed or quality.

The connection into the home is also reliable, so employees really can work from home just as effectively as if they were in the office. There's no problem with internet speeds dropping down at 3pm when children typically go online after school. That's because the additional bandwidth means there's virtually no competition for space on the line. UFB allows access to new forms of entertainment delivered over the internet and to high-speed gaming. It allows home users to videoconference in high definition and to upload precious family assets like photos and video to the cloud for safe remote storage.

ALL FAMILY MEMBERS CAN BE ONLINE AT ONCE.



WHAT ARE THE BENEFITS OF UFB?

IN SCHOOLS

SOME SCHOOLS USING UFB REPORT HEIGHTENED STUDENT ENGAGEMENT, REDUCED TRUANCY AND IMPROVED LITERACY AND NUMERACY AS A RESULT.

Children enjoy using new technology to learn and there is competition for devices. In response, some schools, such as the now widely referenced Manaiakalani cluster in East Tamaki, have introduced a model that provides each child with their own netbook.

Again, the ability to have multiple users online at once allows children to learn at their own pace, so UFB is of particular help for gifted and special needs students. Digital learning objects and online testing systems (such as the Ministry of Education's e-asTTle) now work smoothly. Children can easily share their own learning and showcase their creativity on personalised portfolios stored in the cloud, or increasingly on class blogs.

UFB is also helping teachers and principals to communicate better, and allows school administration and management systems to work as they should. With the managed service for schools, known as the Network for Learning, announced in early August this year, it's expected that take-up of UFB by schools will increase. Additional Government investment to complete the School Network Upgrade Project by 2016 will ensure that schools' internal wiring and wireless networks are robust enough to deliver the full gamut of services that UFB enables.

FREEMANS BAY SCHOOL PUPILS ARE HIGHLY ENGAGED ONLINE.

WHAT ARE THE BENEFITS OF UFB?

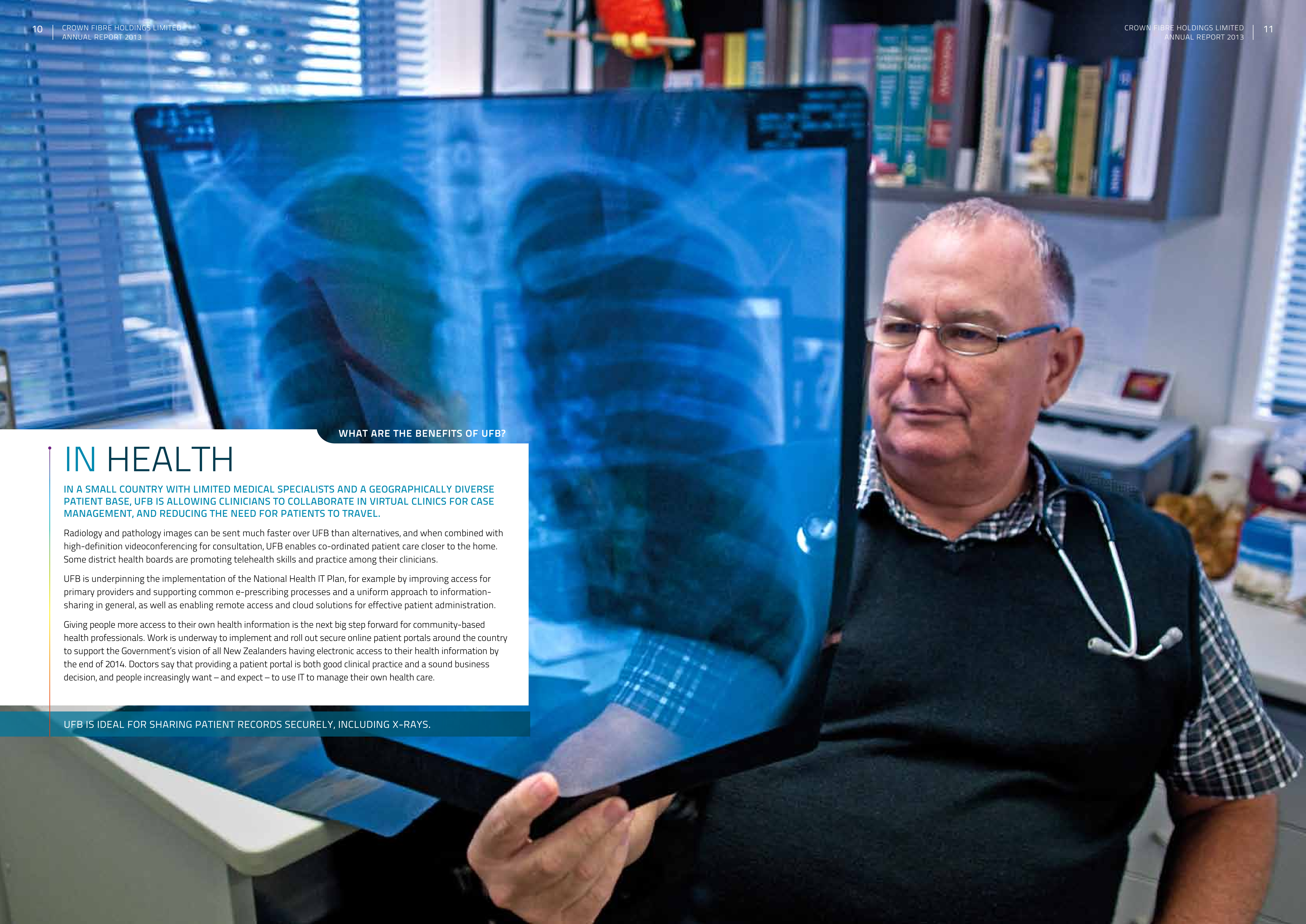
IN BUSINESS

THE BENEFITS OF UFB FOR BUSINESSES ARE MANY AND VARIED. SOME, LIKE REDUCED COSTS (WITH THE ADVENT OF VOICE-OVER-IP) ARE IMMEDIATE.

Others, such as improved productivity, will emerge and when accompanied by associated changes to business processes, can drive transformational change. Greater reliability means improved productivity, with fewer calls and online queries dropping out or being interrupted. Businesses with UFB say that this in turn is boosting business reputation, customer service, staff morale and engagement.

Time and time again, businesses tell us that getting UFB is a "no-brainer". It also improves head-office-to-branch-office communications and enables seamless remote working, high-quality videoconferencing and access to a wide array of cloud applications, as well as rapid mission-critical backups. Swift, clear and reliable connectivity greatly enhances collaboration and makes product development simple and easy. In short, UFB has a positive impact on business productivity, not least due to improved reliability and speed of connection. How and the extent to which each business chooses to capitalise on that will be a marker of its IT maturity and adaptability.

COLUMBUS COFFEE'S DANNY WRIGLEY IS DOING MORE BUSINESS WITH UFB.



WHAT ARE THE BENEFITS OF UFB?

IN HEALTH

IN A SMALL COUNTRY WITH LIMITED MEDICAL SPECIALISTS AND A GEOGRAPHICALLY DIVERSE PATIENT BASE, UFB IS ALLOWING CLINICIANS TO COLLABORATE IN VIRTUAL CLINICS FOR CASE MANAGEMENT, AND REDUCING THE NEED FOR PATIENTS TO TRAVEL.

Radiology and pathology images can be sent much faster over UFB than alternatives, and when combined with high-definition videoconferencing for consultation, UFB enables co-ordinated patient care closer to the home. Some district health boards are promoting telehealth skills and practice among their clinicians.

UFB is underpinning the implementation of the National Health IT Plan, for example by improving access for primary providers and supporting common e-prescribing processes and a uniform approach to information-sharing in general, as well as enabling remote access and cloud solutions for effective patient administration.

Giving people more access to their own health information is the next big step forward for community-based health professionals. Work is underway to implement and roll out secure online patient portals around the country to support the Government's vision of all New Zealanders having electronic access to their health information by the end of 2014. Doctors say that providing a patient portal is both good clinical practice and a sound business decision, and people increasingly want – and expect – to use IT to manage their own health care.

UFB IS IDEAL FOR SHARING PATIENT RECORDS SECURELY, INCLUDING X-RAYS.

CHAIRMAN'S REPORT

THE ULTRA FAST BROADBAND (UFB) INITIATIVE IS NOW APPROACHING SCALE WITH 20% OF THE TOTAL OBJECTIVE ACHIEVED, INCLUDING 50% OF BUSINESSES PASSED AND 68% OF SCHOOLS. MAJOR RETAIL SERVICE PROVIDERS (RSPS) ARE NOW GEARING THEMSELVES UP TO OFFER UFB SERVICES AT SCALE AND CO-INVESTMENT PARTNERS ARE INCREASING THEIR CAPABILITY AND CAPACITY TO CONNECT CUSTOMERS.

Crown Fibre Holdings (CFH) has made considerable progress this financial year towards the Government's goal of enabling 75% of New Zealanders to access UFB by the end of 2019.

The pace of deployment ramped up during the year, and for the most part the build teams are now operating at a run rate consistent with what is required to complete the initiative on time. Deployment exceeded the Government's target as outlined in CFH's 2012 Statement of Intent. The Co-Investment Partners (Northpower, Waikato Networks Limited and Chorus) all met or exceeded their targets, while Christchurch City Holdings through its subsidiary Enable Services Limited operated in the highly competitive market for resources being experienced post the 2011 earthquakes. Across the Co-Investment Partners we expect to see the current pace of deployment continue for the next few years, with the initiative one-third completed by this time next year, and nearly 50% completed by August 2015.

Importantly, deployment has continued to focus on priority users (businesses, schools and hospitals). The roll-out is on track to achieve the Government's policy objective of ensuring that all urban schools and hospitals, and at least 90% of businesses, can access UFB by the end of 2015. As at 30 June 2013, some 68% of schools in UFB areas had been passed with fibre[2] and could access the network. UFB infrastructure is a vital precursor to the Government's Network for Learning, known as the N4L, a managed telecommunications service for schools. The first schools are expected to join the N4L by December 2013, which should see even more students engaged and advancing their learning.

The UFB build is progressing well, with 28 of the 33 UFB Candidate Areas (towns and cities covered by the UFB initiative) now at full-scale deployment, and deployment to priority users underway in all Candidate Areas. CFH anticipates that the first UFB Candidate Area will be completed in early 2014, being Whangarei, with CFH's Co-Investment Partner Northpower. Whangarei has the opportunity to become New Zealand's first digital city with complete Fibre To The Premises coverage. I look forward to witnessing the "network effect" that comes with this; of connected businesses, schools, homes and health premises communicating seamlessly and effectively.

The uptake of UFB services is gaining momentum as the number of UFB retail offerings grows. Penetration is driven by the RSPs that deliver services to end customers such as households and businesses. All major RSPs either have launched or are actively trialling on UFB networks throughout the country. Penetration remains at an early stage at just over 3%; however, connection momentum is starting to build, with new connections in the last quarter of the year totalling more than that of the previous three quarters combined.

This year our Annual Report showcases four new customer case studies of UFB in action. As UFB coverage continues to grow across New Zealand's towns and cities, we look forward to hearing of, and sharing, more such stories. Take-up of UFB is occurring in a wide range of business sectors, from cafes and panelbeaters to surveyors and disability services' providers, demonstrating just how comprehensively its cost saving and productivity benefits can be enjoyed.

Building a new fibre telecommunications network is no easy task, as any review of similar initiatives abroad confirms. The challenges include those of scale and scope; economy, typography and geology; and mammoth project management across the four partners, a multitude of contractors and suppliers and dozens of RSPs, as well as local and central government departments and other organisations. CFH is not doing this work alone. We're grateful to our partners for their continued efforts and we congratulate the many planners, field staff and operational teams that have contributed to this year's success.

I look forward to providing an update in 12 months' time on major progress, by when I expect that around one-third of the initiative will have been completed. Repeated anecdotal evidence suggests that getting UFB, and the reliable speed it provides, is an obvious choice for many New Zealanders. I am confident that as more and more people transition to fibre, enjoy what it offers and find new ways of using it, they will wonder how they ever managed without it.

Simon Allen
Chair
5 September 2013

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

ULTRAFAST FIBRE'S CONTRACTOR TRANSFIELD CONTINUES TO MAKE GOOD PROGRESS IN TAURANGA.

CHIEF EXECUTIVE OFFICER'S REPORT

AT THE END OF THE SECOND FULL YEAR OF DEPLOYMENT, WORK TO BUILD THE UFB NETWORK IS UNDERWAY IN 28 OUT OF 33 CANDIDATE AREAS AND AN ESTIMATED 300,000 END-USERS (CUSTOMERS) ARE NOW ABLE TO CONNECT. IN ADDITION TO FURTHERING THE INITIATIVE THROUGH SOUND OVERSIGHT OF THE UFB CONTRACTS WITH CO-INVESTMENT PARTNERS, CFH HAS DEMONSTRATED PRUDENT FISCAL MANAGEMENT AND WIDE-RANGING STAKEHOLDER ENGAGEMENT.

KEY ACHIEVEMENTS DURING THE YEAR:

Progress has been made in each of the following areas of focus for CFH.

UFB deployment:

- UFB deployment achieved its 30 June 2013 target as set out in the Statement of Intent, with 229,633 premises (20% of the initiative) now completed and able to connect.
- The full-scale roll-out of UFB began in Nelson, Queenstown, Whakatane, Gisborne, Kapiti, Levin, Rangiora and Oamaru, in addition to the 20 Candidate Areas where work had already begun.
- UFB deployment in schools commenced in the remaining UFB Candidate Areas, being Feilding, Greymouth, Pukekohe, Waiuku and Waiheke Island.
- Build work also accelerated in the towns and cities where it was already underway. The map on pages 20 and 21 provides some details on the percentage of UFB deployment completed in each Candidate Area. It is pleasing to note that in Whangarei, Ashburton, Blenheim, Taupo and Timaru, UFB has now been rolled out to more than 50% of premises.
- Some 4,730 kilometres of fibre optic cable have now been laid underground or strung overhead by the Co-Investment Partners in locations around New Zealand; the equivalent of the distance from Auckland to Jakarta in Indonesia.
- The Co-Investment Partners continue to convert their pre-UFB fibre networks into the initiative. In addition to the business fibre networks in many central business districts (CBDs) that had already been offered at UFB wholesale prices, in early 2013 Chorus added some 70 subdivisions with pre-existing Fibre To The Premises.
- New subdivisions are constantly being deployed with UFB and these accounted for some 1,500 premises this year.

UFB customer connections:

- As at 30 June 2013 just under 10,000 UFB customer connections were in place, including customers in Chorus's pre-existing fibred subdivisions and some CBDs, which now form part of the UFB initiative. Penetration is in line with expectations, given that the addressable market is only now reaching sufficient scale to encourage major RSPs to launch.
- More than 50 RSPs are now actively selling UFB services to customers. These include Telecom, Orcon, CallPlus, Snap and TrustPower, as well as a large number of smaller providers. The remaining RSPs including Vodafone are actively trialling

services over the UFB networks of Chorus and the Local Fibre Companies (LFCs – the three joint ventures formed between CFH and Co-Investment Partners Northpower, Waikato Networks Limited and Enable Services Limited).

- Around a third of fibre plans being purchased by residential customers are at speeds of 100 Megabits per second (Mbps), demonstrating that customers see the benefits of speeds far superior to those of legacy networks.

Managing UFB contracts and monitoring the Crown's UFB investments:

- During the year to 30 June 2013, CFH met its fiscal operating targets as set out in the Statement of Intent. It achieved a reduction of 9.7% in operating expenditure compared with the previous year, $8.1 million to $7.3 million. As UFB deployment accelerated, CFH's investments in its Co-Investment Partners increased, with $176.5 million invested during the year. This funded UFB deployment for more than 174,000 premises, with each stage tested to UFB specifications.
- CFH's funding was by way of cash reserves of $89.3 million and a $165 million capital injection. CFH held cash investments on hand of $74.5 million at 30 June 2013.
- Additional interest income was derived from favourable rates and cash flow management, achieving an actual net loss 24% lower than budget (excluding fair value movements).
- CFH has continued to manage the UFB contracts with the Co-Investment Partners to ensure that UFB deployment is consistent with policy objectives, particularly in regard to deployment to priority users and technical requirements.
- During the year further deployment plans were developed by the Co-Investment Partners in consultation with CFH and external stakeholders. These forecast that 16 towns and cities will have complete UFB coverage by December 2016.
- Contracted service levels for UFB residential installations were achieved at 73.6% during the year by the Co-Investment Partners, as systems, logistics and RSP forecasting are maturing. CFH expects this to improve in the next year as Partners build operational capabilities and capacity, and RSP forecasting improves.
- Overall, UFB network availability was high, with only around 9 hours in the year when it was unavailable due to planned or unscheduled events. At 99.899% availability, this was consistent with best practice for a Layer 1 network.

Stakeholder engagement:

CFH continues to actively engage a large range of stakeholders about the UFB initiative, including the business sector, local councils, government agencies, and health and education providers. A notable success this year was the annual conference of the Fibre To The Home Council Asia Pacific, held in Auckland in late May. The Council is a non-profit organisation whose mission is to promote and accelerate Fibre To The Home, to support economic and quality-of-life enhancements across the Asia Pacific region. Attended by more than 450 people, the conference showcased fibre technology and uses from around the region, featuring leading operators of fibre networks from countries such as Singapore, Australia, Malaysia, Taiwan, China, Japan and Korea – and also highlighted New Zealand's own progress with UFB.

PROBITY AND RISK MANAGEMENT:

CFH continues to uphold the highest standards of integrity and probity across the UFB initiative, through a structured approach to its commercial engagement with the Co-Investment Partners and a comprehensive approach to risk management, governance and review by the CFH Board.

OUTLOOK FOR 2014:

As CFH plans its activities for the coming period, I expect the focus in the next financial year to be on:

- ensuring that the UFB build progresses, with the objective of reaching around 389,000 premises handed over (completed and tested by Co-Investment Partners) or having an estimated 482,000 end-users (households, businesses and schools) able to connect to UFB by 30 June 2014. This is a third of the overall UFB target;
- working with the LFCs and Chorus to encourage New Zealand uptake in line with that in more mature international markets such as the United States, Japan, Hong Kong, Korea, the Netherlands and Singapore. These countries demonstrate what is achievable once the addressable market and RSP offerings have achieved scale and innovation;
- planning with the Co-Investment Partners to complete UFB deployment past schools, hospitals and 90% of businesses by December 2015;
- working with Chorus, the LFCs and the industry to further develop operational capabilities and capacity to meet the expected increase in UFB demand; and
- simplifying the processes involved in the oversight of the UFB initiative to help further reduce CFH's future cost profile.

Looking across the various groups of potential customers for UFB, in the next year I expect to see that:

- about 75% of businesses have access to UFB by 30 June 2014, providing not only reduced telecommunication costs but vastly improved access to the Internet. Other key benefits for businesses, including improved networking, videoconferencing, access to cloud applications and rapid mission-critical backups, will all have a positive impact on business productivity;
- around 90% of urban schools have access to UFB by 30 June 2014[3]. Together with other Government initiatives such as the Rural Broadband Initiative, the N4L and the School Network Upgrade Programme (cabling and networking in classrooms), this will enable the start of a transformation shift in e-learning resources for our children;
- in health, many of the 15 primary care networks and 800 general practices that are members of General Practice New Zealand have connected to the "Smart Connectivity" hosted, managed telecommunication services being offered by RSP Snap to run over UFB. Together with the National Health IT Board's continued progress in areas such as e-prescriptions and shared care records, this should provide much-improved broadband connectivity for the sector; and
- an increasing number of households are connected to UFB to enjoy the benefits that such high bandwidth can bring to the home, such as:
  - using multiple internet-connected devices simultaneously;
  - accessing real-time entertainment services such as streaming video (currently more than two thirds of all North American internet traffic between the hours of 8pm and midnight);
  - an increasing ability to work from and at home;
  - accessing education, health and e-Government resources;
  - connecting with friends and family through home videoconferencing; and
  - remotely backing up precious family assets like photos and videos.

I am confident that my small, experienced and focused team at CFH will continue to support the Co-Investment Partners in making strong build progress to achieve targets and work with Chorus and the LFCs on growing penetration and the capabilities to meet it. I anticipate that as the UFB roll-out moves into its third full year, many more New Zealand households and businesses will experience the economic, productivity, social and environmental benefits that fast fibre is delivering to other countries, improving our global competitiveness. I look forward to the one certainty that comes with new technology: the hitherto unknown uses, the discoveries and the surprises that it brings.

Graham Mitchell
Chief Executive Officer
5 September 2013

[3] This excludes schools connected to fibre before the UFB initiative.

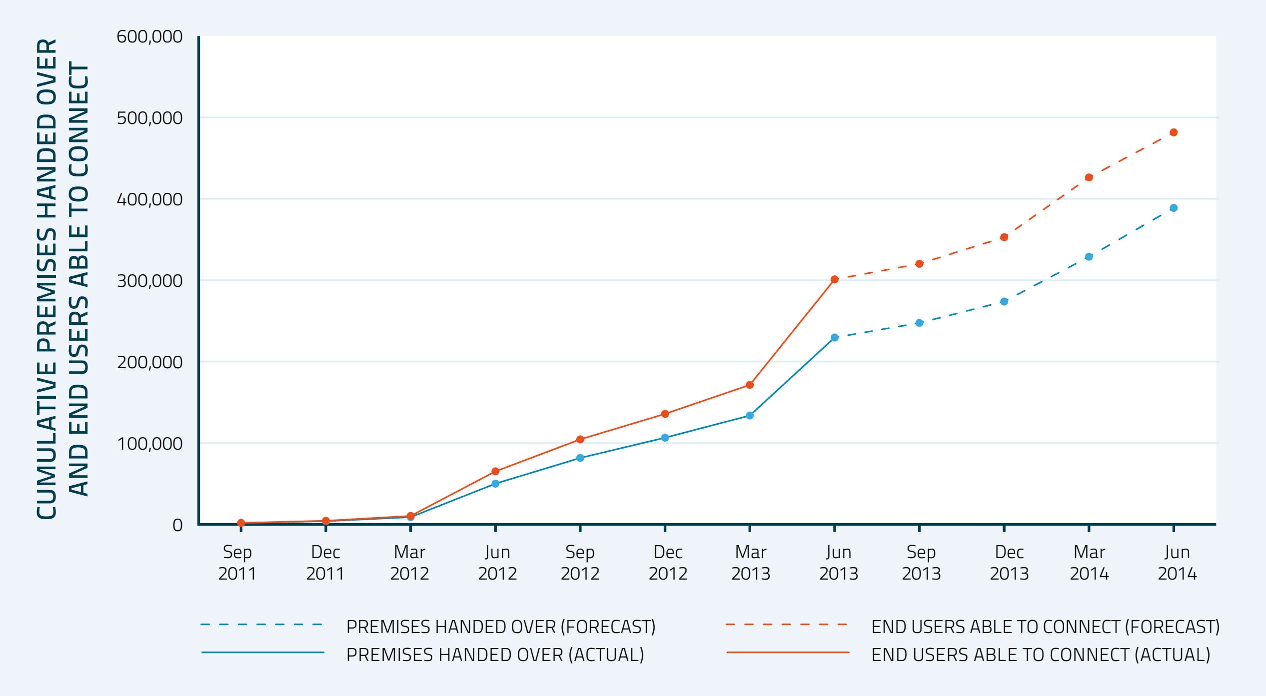
KEY PERFORMANCE INDICATORS

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

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

- **Deployment performance against UFB contractual targets**
  Under the UFB contracts, CFH pays partners on the basis of each premise passed (essentially a single building e.g. house, apartment block, high-rise commercial building). This measures the overall partners' performance in meeting their contractual deployment targets. CFH's target as set out in its Statement of Intent was 229,400 premises passed by 30 June 2013. This goal was achieved, with 229,633 premises passed, tested and available to the market.
- **Deployment performance against UFB policy coverage targets**
  CFH also measures end users capable of connection (being for example, each individual household in an apartment block, or each company in a high-rise commercial building) to record progress against the Government policy objectives.
  These objectives are: 75% of the population covered by 2019; and by 2015, all schools, all hospitals and 90% of businesses.
  Progress to 30 June 2013 was 18% of residential customers, 68% of schools and 50% of businesses now able to connect to UFB.

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



Service performance: This is the performance of the LFCs and Chorus in connecting new end customers to the UFB network, fixing customer faults, network availability and network performance. The performance is measured against set Service-Level Agreements (SLAs) for priority and non-priority customers. Not all service measures are currently contractually in force due to the fairly early stage of the UFB network build and uptake.

All the SLAs are between the LFCs and Chorus, and their RSPs. CFH reviews performance against all SLAs under contract.

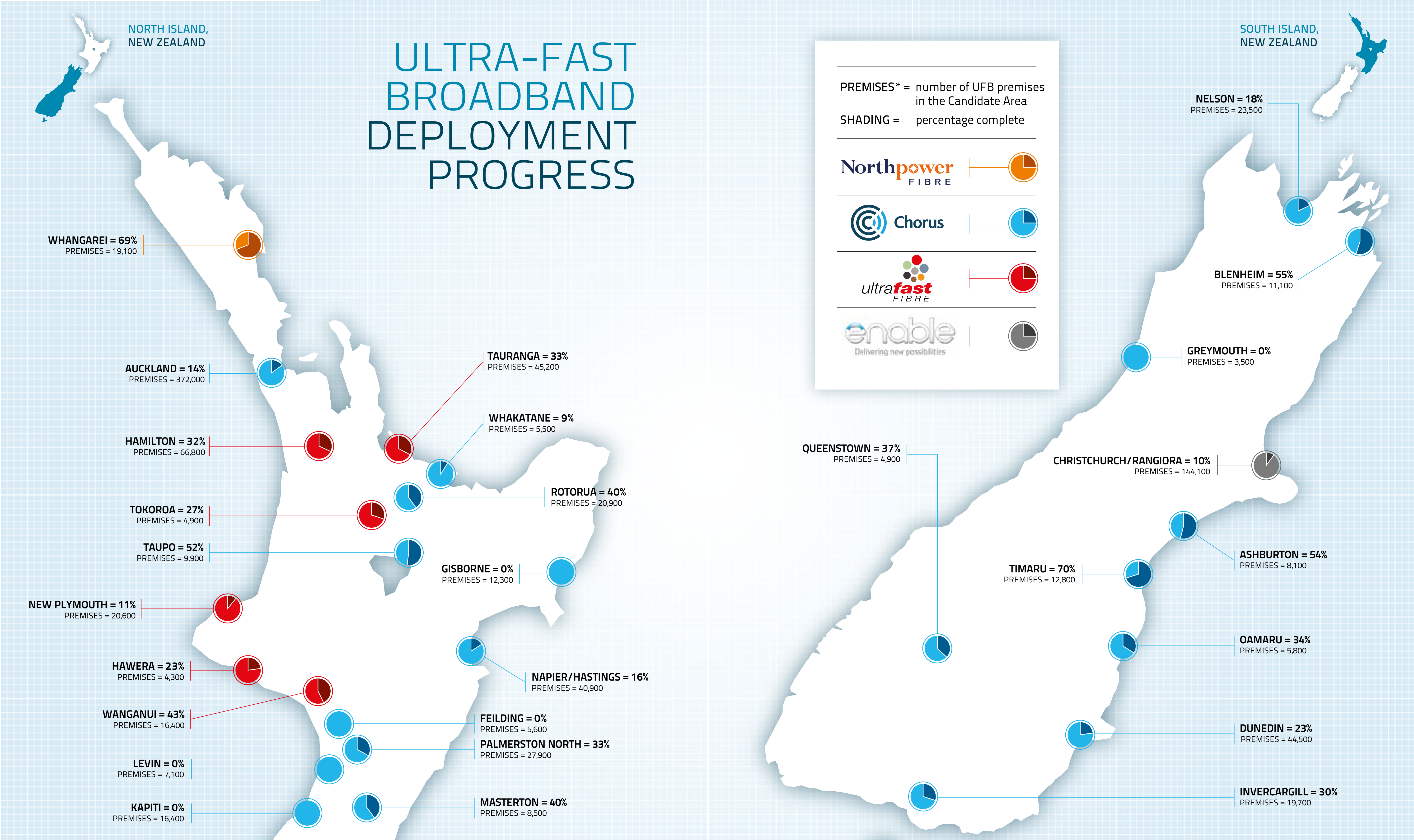
Table 1: Service performance measures:

	SERVICE	TARGET	ACTUAL
Performance per End Customer:	**Provisioning per end customer:** ▪ Residential ▪ Business/Priority	≤ 4 days (business days) ≤ 6 days	73.6% 53%
	Layer 1[4] performance per end customer: ▪ Default restoration ▪ Level 1 SLA restoration (priority) ▪ Level 2 SLA restoration (priority) ▪ Level 3 SLA restoration (priority)	≤ 48 hours ≤ 24 hours ≤ 12 hours ≤ 8 hours	99.9% n/a[5] n/a n/a
	Layer 2[6] performance per end customer: ▪ Residential restoration ▪ Business/Priority restoration	≤ 12 hours ≤ 12 hours	98.2% 98.2%
Performance per Candidate Area:	**Layer 1 performance by Candidate Area:** ▪ Minimum network availability per annum	≤ 2 hours/99.98%	Not yet in force
	Layer 2 network performance per Candidate Area: ● Minimum network availability per annum	< 30 minutes/>99.99%	Not yet in force

- **End customer measures**
  - **Provisioning per end customer** Business installations have been affected by the use of legacy operational and business support services and processes, which are being redeveloped. Performance has recently improved due to enhanced resourcing and new systems and processes. Residential installation SLAs were met almost 75% of the time and are steadily improving towards a target of at least 95%.
  - **Layer 1 performance per end customer** This measure represents the number of Layer 1 network faults repaired in compliance with the SLA. Annual performance shows that 99.9% of Layer 1 faults were fixed within the default time of 48 hours. There were insufficient outages to gain an accurate measure of Layer 1 performance for the enhanced SLAs.
  - **Layer 2 performance per end customer** This measure represents the number of Layer 2 network faults repaired in compliance with the SLA. 98.2% of Layer 2 faults were fixed within the default time of 12 hours. Owing to the low number of end users, it was heavily influenced by a small number of events.
- **Candidate Area measures**
  - **Layer 1 performance by Candidate Area** This measures the average downtime per end customer across a Candidate Area, against targets for minimum network availability each year. This measurement will not be in force until either there are 3,000 premises connected per Candidate Area or 20% uptake has been achieved. No single Candidate Area yet has enough customers to make this a meaningful measure.
  - **Layer 2 network performance per Candidate Area** This measures the average downtime per end customer across a Candidate Area, against targets for minimum network availability each year. This measurement will not be in force until either there are 3,000 premises connected per Candidate Area or 20% uptake has been achieved. The average outage time per end user is dependent on having a large enough number of end users, such that a single event does not skew the results.

[4] Layer 1 of the Open Systems Interconnection Model of network architecture, normally associated with passive fibre optic network infrastructure.
[5] None was purchased.
[6] Layer 2 of the Open Systems Interconnection Model of network architecture, normally associated with active fibre optic network infrastructure (the electronics that light fibre).

ULTRA-FAST BROADBAND DEPLOYMENT PROGRESS



Hamilton – includes Te Awamutu and Cambridge.

Auckland – includes Waiheke Island, Waiuku, Pukekohe.

Work had not begun in Feilding, Gisborne, Waiheke, Pukekohe and Waiuku by 30 June 2013 and had only recently got underway in Kapiti and Levin.

* Premises figures are rounded and exclude new growth (greenfields) sites and Christchurch Red Zone.

STAKEHOLDER RELATIONS

As we enter the third build year of the UFB initiative, at least six New Zealand councils and economic development agencies are employing staff formally responsible for making the most of UFB. There are many more that have set aside sums of money in support of the Government's investment in infrastructure. This is a significant change from 2009. By June 2013, more and more local stakeholders, some in the form of "Digital Leadership Forums" had refreshed civic digital strategies and risen to the challenge to leverage the benefits of UFB.

Towns and cities formally engaged in digital leadership include:

- Whangarei, where the District Council has employed a Digital Strategist;
- Auckland, where there's a Digital Leadership Forum and a team of three people are involved in implementing a digital policy;
- Wanganui, where a Digital Facilitator leads a vibrant and active Digital Leadership Forum;
- Greater Wellington Regional Council, where two staff work on all things digital;
- Christchurch, where the Canterbury Development Corporation is creating a Digital Leadership Forum for the region; and
- Dunedin and Otago , which are ably supported by the Digital Office.

Other centres such as Invercargill, Nelson, Kapiti, Gisborne, Tauranga, Whakatane and Hamilton have highly supportive economic development agencies, ICT clusters and chambers of commerce backing the roll-out. Nga Pu Waea, the Māori broadband working party, has endorsed the concept of local digital leadership and encouraged iwi engagement.

The year to 30 June 2013 saw a number of stakeholder relations activities take place. In November 2012, CFH supported Cisco, Datacom, InternetNZ, Vodafone and Kensington Swan to run New Zealand's first Telework Week. More than 1,100 people pledged to telework from a total of 32 organisations. In May 2013, CFH assisted the Asia Pacific chapter of the Fibre to the Home Council in running its annual conference in Auckland, showcasing the work of CFH's partners in the UFB deployment, and local innovators in the gaming, business services and agricultural industries.

CFH produced five new case study videos in partnership with Auckland Council and one together with Telecom and Chorus as part of a continuing programme of work to relay stories of businesses, health providers, schools and Māori UFB customers all using UFB to great advantage. Towards the end of the year, CFH facilitated the delivery of Digital Enablement training to small and medium businesses through New Zealand Trade and Enterprise's Regional Business Partners programme.

CITIZENS OF ALL AGES SHOWED GREAT INTEREST IN THE DIGITAL DISPLAYS AT WANGANUI'S SECOND TECH EXPO. SOURCE: WANGANUI CHRONICLE

HOW FIBRE IS BEING USED

BRIAN HOLGATE: BEATING A PATH TO 21ST CENTURY CUSTOMER SERVICE

AUCKLAND, CHORUS, BUSINESS

UFB HAS IMPROVED PRODUCTIVITY BY 10-15% AND REDUCED STAFF STRESS.

AUCKLAND-BASED BRIAN HOLGATE PANELBEATERS GOT ULTRA-FAST BROADBAND IN MARCH 2012 AND HASN'T LOOKED BACK SINCE. THE COMPANY PAYS LESS THAN IT DID BEFORE FOR TELECOMMUNICATIONS, USING VOICE-OVER-IP INSTEAD OF MULTIPLE PHONE LINES, AND GETS FASTER SPEEDS WITH UNLIMITED DATA. UFB IS ENABLING REAL EFFICIENCIES IN BUSINESS OPERATIONS AND REVOLUTIONARY CUSTOMER SERVICE.

Managing Director Tim Holgate has two workshops, 25 staff and more than 50 cars going through the business each week. These days panelbeaters manage a significant amount of administrative internet traffic. The initial assessment of a crashed car sees the panelbeater sending lots of photos of the damage to the insurance company, and more during and after the repairs. It's not unusual for the workshop to be uploading or emailing up to 80 high-resolution photos to an insurer for approval or sign-off of a single job.

Trying to send these over ADSL (copper-based broadband) was frustrating and fraught with delays. Sometimes the internet could be down for two or three hours. That would mean a wait in getting the go-ahead for repairs and vehicles being out of action longer for the customers. It was costing everyone time and money.

With UFB, Tim estimates the panel-beating business has seen productivity improvements of 10-15% and staff stress levels have greatly reduced. UFB is also providing a better connection between the company's two workshops – head office in Albany and branch in Browns Bay – enabling the main accounts staff member to service both offices easily.

Tim is considering using the UFB connection in future for video footage of damaged vehicles, as well as photos. Not only would this give insurance companies a 3D look at the dents and scrapes, it would also let the panelbeaters add commentary on the repairs that need doing. UFB enables a richer communication experience.

HOW FIBRE IS BEING USED

MANAWANUI: PROVIDING GREATER INDEPENDENCE TO CLIENTS WITH DISABILITIES

AUCKLAND, CHORUS, HEALTH

STAFF CAN RELY ON UFB WHEN DEALING WITH CLIENTS AND THIS HAS BOOSTED THEIR ENGAGEMENT.

MANAWANUI IS NEW ZEALAND'S LEADING FACILITATOR OF INDIVIDUALISED FUNDING FOR PEOPLE WITH DISABILITIES. IT HELPS ALMOST 1,300 CLIENTS NATIONWIDE TO MANAGE THEIR OWN GOVERNMENT FUNDING - AND THE SUPPORT SERVICES IT BUYS. SINCE TAKING UP UFB IN OCTOBER 2012, THE FIRM HAS INCREASED PRODUCTIVITY.

Rob Creagh is one of 12 client service "coaches" working remotely from Manawanui's head office in the Auckland suburb of Albany. They each service clients in large geographical areas, so being able to work with them effectively using telecommunications is vital. Rob uses Skype to connect with his clients. During each "virtual visit", he can access Manawanui's central database, pulling up the client's funding records, payroll, financial reports and other information. Tech-savvy clients can even download a template then share his screen.

Rob says that trying to connect over ADSL used to involve a series of dropped connections, frozen screens and computer reboots. But that's all changed since Manawanui bought its 30 Mbps download/10 Mbps upload UFB plan. The company has been able to give coaches remote access to its hard drive via a terminal server that also hosts the database management system.

Connecting to UFB has had a significant impact on efficiency and performance throughout the organisation. Staff no longer have to wait 20-30 minutes for data to upload and coaches can answer client questions in a quarter of the time it used to take, without phoning into head office for help. In addition, UFB has increased both staff morale and client satisfaction, as coaches no longer fear being embarrassed by an unreliable system. The connection has also provided scalability to increase speeds when the business needs it.

"Would I advise other companies to get UFB? It's a no-brainer," says Rob. "The more quickly and reliably you can access information, the better your performance will be. We are delighted."

HOW FIBRE IS BEING USED

FIBRE TO THE FLAT: A "NO-BRAINER" WHEN IT COSTS THE SAME AS COPPER

CHRISTCHURCH, ENABLE, RESIDENTIAL

NOW THERE'S ENOUGH BROADBAND CAPACITY FOR EVERYONE IN THE FLAT.

MICHAEL WHITESIDE AND HIS FLATMATES IN BISHOPDALE, CHRISTCHURCH MADE THE MOVE TO UFB IN APRIL, AS SOON AS IT WAS AVAILABLE.

"We're big users of broadband in our flat – we have 10 devices that connect to the internet and there's always someone downloading something," says Michael. "In fact the number of connected devices surprised me – they really add up when you sit down and count them."

Everyone in the flat is into different things. Michael is into online video gaming, while another flatmate is a big fan of Japanese films and TV programmes that he watches by downloading from the web.

Michael adds, "For us it really was a no-brainer to switch – it cost us nothing to move and we're not paying any more per month for our fibre broadband and home telephone services. Plus, we're getting a much better service."

He says the available bandwidth on copper-based broadband could be really restrictive – especially once someone was already downloading movies or gaming.

"Before we had fibre it was really annoying if you wanted to do something online and someone was already tying up the connection," says Michael.

"Now there's plenty of bandwidth and I never notice any issues with doing what I want – even when all my flatmates are at home and on the net."

As an online gamer, Michael is particularly aware of the impacts that congestion over an internet connection can have. It can stop a game working completely or slow down his character's movements – making him less competitive.

"We now have enough broadband capacity to do everything we want online – and can't wait for the day when the content providers allow us to get all our entertainment through fibre."

HOW FIBRE IS BEING USED

SURVEYING SERVICES: OPERATING SEAMLESSLY BETWEEN BRANCHES

TAURANGA, ULTRAFAST FIBRE, BUSINESS

A MULTI-SITE BUSINESS, KEEPING ITS COMPETITIVE EDGE WITH UFB.

SURVEYING SERVICES SPECIALISES IN RESIDENTIAL, LIFESTYLE AND RURAL SUBDIVISIONS, PROVIDING PROJECT MANAGEMENT SERVICES TO HELP CLIENTS MAKE THE MOST OF THEIR LAND.

The firm covers the Bay of Plenty, Waikato and the Coromandel Peninsula and deals with around a dozen local councils, as well as running live applications on Land Information New Zealand's national land database, Landonline. Managing Director Brent Trail has a team of 10 people, spread between offices and home locations in Tauranga, Paeroa, Hamilton and Coromandel Peninsula.

The team's surveyors regularly send large computer-aided draughting (CAD) and PDF files in the form of site plans, and topographical data including aerial photographs to clients, engineers, architects and councils. With all of this data transfer going on, and the move of all land title and survey plans to Landonline, Brent was eager to shift to UFB. The business was experiencing regular outages and competition for space over the wireless network it was using.

The company has now moved its voice and data services to fixed fibre over UFB where available and it continues to enjoy the cost savings that VOIP has enabled with a reduction in physical phone lines. Brent notices much improved access and faster speeds between offices and he is able to telework from home effectively when he needs to. Brent expects that once the Hamilton office gets a UFB connection too, the whole business will work as one, with any task able to be performed from any location.

Surveying Services is currently in a growth phase. Now that he has fibre, Brent's looking at adopting cloud-based software for job and workflow management as well as accounting. He expects these to be a big improvement on the spreadsheets and numerous server-based databases with which the team works at the moment. The cloud solutions are ones he's heard recommended by other surveyors facing the same business challenges.

Asked what advice he would give to his peers when it comes to UFB, Brent says, "I'd tell them to stick with dial-up... I've got to keep my competitive edge!"

CO-INVESTMENT PARTNER PROFILE

NORTHPOWER LIMITED:

Established in 1920, Northpower has expanded from a Northland-owned and operated electricity distribution network to become one of the largest multi-utility contractors in New Zealand, with a reputation for excellence and innovation. The company has two distinct divisions: Northpower Network providing electricity and fibre infrastructure to Whangarei & Kaipara, and Northpower Contracting, operating throughout the North Island and in Australia.

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

- Co- Investment Partner website: www.northpower.co.nz
- LFC website: www.northpowerfibre.co.nz
- LFC chair: Ms Jo Brosnahan (pictured)
- LFC Directors: Ms Nicole Davies-Colley, Mr Mark Gatland (Northpower appointees); Mr Graham Mitchell, Mr Sean Wynne (CFH appointees).

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

WEL Networks provides electricity infrastructure, delivering energy to over 84,000 homes, businesses and organisations throughout the Waikato region. Its network incorporates more than 5,100 kilometres of lines and has an annual throughput of over 1,160 gigawatt hours. WEL employs 225 staff who are based at WEL's offices in Te Rapa Hamilton.

The Local Fibre Company Ultrafast Fibre Limited (UFF) was formed in 2010 by CFH in partnership with WNL, a subsidiary of WEL Networks and Waipa Networks (the electricity lines company serving Te Awamutu and Cambridge). UFF is responsible for building a 3,000km fibre network, passing about 162,000 premises in the urban areas of Hamilton, Tauranga, Wanganui, New Plymouth, Tokoroa, Hawera, Cambridge and Te Awamutu. This represents about 13% of the entire national ultra-fast broadband deployment.

- Co-Investment Partner website: www.wel.co.nz
- LFC website: www.ultrafastfibre.co.nz
- LFC chair: Mr Rodger Fisher (pictured)
- LFC Directors: Mr Mark Franklin, Mr Richard Prebble, Mrs Margaret Devlin (WNL appointees); Mr Graham Mitchell, Ms Danelle Dinsdale, , Mr Sean Wynne (CFH appointees).

CHRISTCHURCH CITY HOLDINGS LIMITED:

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

Enable Networks Limited (ENL) is a Local Fibre Company formed by Enable Services Limited (ESL, a subsidiary of CCHL) in partnership with CFH to build and operate the UFB network for Christchurch and surrounding centres. In November 2011, it began extending the UFB network in Christchurch, and will in coming years pass homes, schools and businesses in Christchurch, Rangiora, Kaiapoi, Woodend, Lincoln, Prebbleton and Rolleston.

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

- Co-Investment Partner website: www.cchl.co.nz
- LFC website: www.enable.net.nz
- LFC chair: Mr Tim Lusk (pictured)
- LFC Directors: Mr Mark Bowman, Mr Brett Gamble, Mr Owen Scott (ESL appointees); Dr Murray Milner, Mr Graham Mitchell, Mr Sean Wynne (CFH appointees).

CHORUS LIMITED:

Chorus is New Zealand's largest telecommunications infrastructure company. Chorus was formerly a division of Telecom Corporation of New Zealand Limited, and separated into an independent company listed on the NZ and Australian stock exchanges in late 2011. Chorus maintains around 1.8 million lines connected to homes and businesses throughout the country, including local telephone exchanges, cabinets and copper and fibre cables. Chorus is the largest partner of CFH's four Co-Investment Partners and is contracted to deliver UFB to over 830,000 premises by the end of the decade which is approximately 70% of the overall UFB initiative.

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

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

BOARD OF DIRECTORS

DIRECTORS' PROFILES AND INTERESTS HELD

Mr Simon Allen (Chair) - Simon Allen is a highly regarded company director with more than 25 years' experience directing or advising Australian and New Zealand companies. He formed ABN AMRO New Zealand as a greenfields operation in 1988 (then known as BZW), leading it to become one of the country's foremost investment banks. He resigned as Chief Executive in September 2009. Mr Allen chaired New Zealand Exchange Limited (NZX) from 2001 until 2008. He is currently Chairman of the Financial Markets Authority and Auckland Council Investments Limited, and is Deputy Chairman of St Cuthbert's College in Auckland, a director of Xylem Investments Limited and Simon Allen Consulting Limited, and a trustee of Snowvision, a charitable trust that promotes high-performance snow sports. Mr Allen made these general disclosures of interest pursuant to S140 (2) of the Companies Act 1993 and these were entered into CFH's interests register.

Ms Miriam Dean CNZM QC - Miriam Dean has extensive governance and commercial law experience. A former Partner at Russell McVeagh, Ms Dean is currently a barrister sole whose practice focuses on commercial and competition law, arbitration and mediation. She was made Queen's Counsel in 2004 and in 2010 was made a Companion of the New Zealand Order of Merit for services to law and business. The following are general disclosures of interest given by Ms Dean pursuant to S140 (2) of the Companies Act 1993 and entered into CFH's interests register: Director of Auckland Council Investments Limited; Chair of the Legal Aid Advisory Board to the Ministry of Justice; Chair of the Banking Ombudsman Scheme; Chair of NZ On Air; and Trustee of the Royal New Zealand Ballet.

Danelle Dinsdale - Danelle Dinsdale has been legal adviser and negotiator on high-profile telecommunications and technology contracts in the United Kingdom and globally. She has significant experience advising on contract management of major infrastructure projects and public-private partnership (PPP) projects in the UK. Since returning to New Zealand, Ms Dinsdale has undertaken various assignments utilising her expertise in ICT contracting and her experience in change management and risk management. The following are general disclosures of interest given by Ms Dinsdale pursuant to S140 (2) of the Companies Act 1993 and entered into CFH's interests register: Director of Ultrafast Fibre Limited; Director of Medical Assurance Society New Zealand; member of the Ruataniwha Water Storage Scheme; and adviser to the Board of Hawke's Bay Regional Investment Company Limited.

Dr Murray Milner - Murray Milner is a world-class telecommunications technology expert with a doctorate in electrical engineering and 35 years' experience in the New Zealand ICT industry. He held a variety of senior positions within Telecom including, until September 2005, Chief Technology Officer. Since leaving Telecom in 2005 he has worked as a consultant, both in New Zealand and overseas, and has also held a range of governance positions as indicated below. The following are general disclosures of interest given by Dr Milner pursuant to S140 (2) of the Companies Act 1993 and entered into CFH's interests register: Director of Enable Networks Limited; Managing Director of Milner Consulting Limited; Chair of Harmonic Analytics Limited; Chair of the Central Health Region, Regional Governance Group; Trustee and beneficiary of the Milner Family Trust; Chair of the National Health IT Board; shareholder of Telecom New Zealand Limited; shareholder of Chorus Limited; member of the Expert Advisory Group on Information Security; member of the National Health Board; Trustee of the NZ IPv6 Trust; and member of the Health Capital Investment Committee.

Mr Keith Tempest - In December 2009 Keith Tempest retired as Chief Executive of TrustPower, a Bay of Plenty-based electricity generator, after 23 years with the company. As Chief Executive, he was recognised as having overseen strong commercial performance and had a strong track record of managing large capital projects. The following are general disclosures of interest given by Mr Tempest pursuant to S140 (2) of the Companies Act 1993 and entered into CFH's interests register: Director of NZ Bus Limited; Director of New Zealand Bus Finance Company Limited; Director of Port of Tauranga Limited; Director of Transpower New Zealand Limited; Director of Tauranga City Aquatics Limited; Director of Tauranga City Venues Limited; and Director and shareholder of GAP Business Solutions Limited.

Mr Jack Matthews - Jack Matthews was previously Chief Executive Metropolitan Media at Fairfax Media Limited. Prior to this he was Chief Executive of Fairfax Digital in Sydney, which managed all online media, including TradeMe, for the group. He has previously been involved in a number of online ventures in Japan and the United States. Born in the United States with New Zealand citizenship, Mr Matthews was the driving force behind the rollout of Saturn's (now Vodafone's) hybrid fibre-coax cable network in Wellington and Christchurch. Mr Matthews brings an end-user focus and a strategic understanding of digital media to the Board of CFH. Mr Matthews made the following disclosures of interest pursuant to S140 (2) of the Companies Act 1993 and entered into CFH's interests register: Director of the Crown owned company, Network for Learning (N4L), appointed in August 2013.

BOARD ATTENDANCE

There were 11 regular meetings and one special meeting held in 2013.

	2013		2012	
DIRECTORS	No. of Regular Meetings Attended	No. of Special Meetings Attended	No. of Regular Meetings	No. of Regular Meetings Attended
Simon Allen	11	1	11	11
Andrew Body*	3	0	11	11
Miriam Dean	11	0	11	9
Danelle Dinsdale	11	1	2	2
Jack Matthews	9	1	11	10
Murray Milner	9	1	11	11
Keith Tempest	11	1	11	9

* Andrew Body left after the September Board meeting.

GOVERNANCE

ORGANISATION FORM

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

MANAGEMENT OF THE COMPANY

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

BOARD OF DIRECTORS

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

BOARD MEMBERSHIP

The Board is made up of seven non-executive Directors. Their profiles can be read on pages 30 to 31 of this Annual Report. Directors are appointed by shareholding Ministers following Cabinet approval.

BOARD COMMITTEES

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

Audit and Risk Committee

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

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

Remuneration Committee

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

CFH AS A GOOD EMPLOYER

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

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

STATEMENT OF RESPONSIBILITY

FOR THE YEAR ENDED 30 JUNE 2013

IN TERMS OF THE PUBLIC FINANCE ACT 1989, THE BOARD IS RESPONSIBLE FOR THE PREPARATION OF CROWN FIBRE HOLDINGS LIMITED'S FINANCIAL STATEMENTS AND FOR THE JUDGEMENTS MADE IN THEM.

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

In the Board's opinion, these financial statements fairly reflect the financial position and operation of Crown Fibre Holdings Limited for the year ended 30 June 2013.

Signed on behalf of the Board.

Simon Allen
Chairman

5 September 2013

Keith Tempest
Director

5 September 2013

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF CROWN FIBRE HOLDINGS LIMITED AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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

We have audited the financial statements of the company and group on pages 40 to 77, that comprise the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

OPINION

Financial statements

In our opinion:

- the financial statements of the company and group on pages 40 to 77:
    - comply with generally accepted accounting practice in New Zealand; and
    - give a true and fair view of the company and group's:
        - financial position as at 30 June 2013; and
        - financial performance and cash flows for the year ended on that date.

Other legal requirements

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

Our audit was completed on 5 September 2013. This is the date at which our opinion is expressed.

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

BASIS OF OPINION

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

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

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

An audit also involves evaluating:

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

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also we did not evaluate the security and controls over the electronic publication of the financial statements.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

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

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

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

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

RESPONSIBILITIES OF THE AUDITOR

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

INDEPENDENCE

When carrying out the audit we followed the independence requirements of the AuditorGeneral, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, the audit of Enable Networks Limited and Whangarei Local Fibre Company Limited and the regulation audits relating to Enable Networks Limited and Whangarei Local Fibre Company Limited, we have no relationship with or interests in the company and group.

Clare Helm

Clare Helm
Audit New Zealand
On behalf of the AuditorGeneral
Wellington

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

	Notes	*Parent 2013 $000	Group 2013 $000	Parent 2012 $000	Group 2012 $000
Income					
Interest income	2	3,930	3,987	1,997	2,024
UFB income	3	-	6,626	-	1,356
Fair value gain on FVTPL investments[7]	9,14	1,249	-	-	-
Net fair value gains on derivatives	9,14	34	34	11	11
Total income		5,213	10,647	2,008	3,391
Expenses					
Network expenses		-	7,529	-	1,128
Directors' fees	5	211	669	215	654
Personnel costs	6	3,916	5,365	3,599	4,287
Depreciation expense	13	92	3,998	119	850
Professional advisory fees	7	583	933	1,059	1,621
Other expenses	8	2,478	5,067	3,070	4,196
Management fees to Partners	14	-	3,627	-	2,231
UFB contribution – LFCs	9,14	32,078	-	15,010	-
UFB contribution – Chorus Equity Securities	9,14	43,434	43,434	5,409	5,409
UFB contribution – Chorus Debt Securities	9,15	42,169	42,169	5,301	5,301
Fair value loss on AFS investments[8]	9,14	116	-	-	-
Total expenses		125,077	112,791	33,782	25,677
Surplus/(deficit) before tax		**(119,864)**	**(102,144)**	**(31,774)**	**(22,286)**
Tax expense/(credit)	10	-	(3,816)	-	(1,541)
Net surplus/(deficit) for the year		**(119,864)**	**(98,328)**	**(31,774)**	**(20,745)**
Other comprehensive income					
Net fair value changes on AFS investments	9,14	172	172	73	73
Total other comprehensive income		172	172	73	73
Total comprehensive income/(loss) for the year		**(119,692)**	**(98,156)**	**(31,701)**	**(20,672)**
Net surplus/(deficit)					
Attributable to members of the parent		(119,864)	(88,524)	(31,774)	(16,764)
Attributable to non-controlling interests		-	(9,804)	-	(3,981)
		(119,864)	**(98,328)**	**(31,774)**	**(20,745)**
Total comprehensive income/(loss)					
Attributable to members of the parent		(119,692)	(88,352)	(31,701)	(16,691)
Attributable to non-controlling interests		-	(9,804)	-	(3,981)
		(119,692)	**(98,156)**	**(31,701)**	**(20,672)**

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

[7] Fair Value through the Profit and Loss
[8] Available for Sale

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	Notes	*Parent 2013 $000	Group 2013 $000	Parent 2012 $000	Group 2012 $000
Assets					
Current assets					
Cash and cash equivalents	11	74,505	77,517	89,263	90,491
Trade and other receivables	12	257	2,740	369	3,110
Prepayments		72	538	59	852
Total current assets		74,834	80,795	89,691	94,453
Non-current assets					
Property, plant and equipment	13	214	142,849	234	64,813
Investments in LFCs	14	56,176	-	17,141	-
Investments in Chorus Equity Securities	14	10,954	10,954	1,056	1,056
Investments in Chorus Debt Securities	15	12,064	12,064	1,074	1,074
Other non-current assets		-	-	-	5
Deferred tax assets	16	-	5,357	-	1,541
Total non-current assets		79,408	171,224	19,505	68,489
Total assets		**154,242**	**252,019**	**109,196**	**162,942**
Liabilities					
Current liabilities					
Creditors and other payables	17	369	9,517	617	4,144
Employee entitlements		376	526	390	487
Deferred revenue		-	553	-	410
Total current liabilities		745	10,596	1,007	5,041
Non-current liabilities					
Deferred revenue		-	586	-	676
Total non-current liabilities		-	586	-	676
Total liabilities		**745**	**11,182**	**1,007**	**5,717**
Net assets		**153,497**	**240,837**	**108,189**	**157,225**
Capital	18	327,900	327,900	162,900	162,900
Available-for-sale reserve	19	245	245	73	73
Retained earnings		(174,648)	(128,313)	(54,784)	(39,774)
Non-controlling interests		-	41,005	-	34,026
Total equity		**153,497**	**240,837**	**108,189**	**157,225**
Equity attributable to parent		153,497	199,832	108,189	123,199
Non-controlling interests		-	41,005	-	34,026
Total equity		**153,497**	**240,837**	**108,189**	**157,225**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2013

Parent*

	Capital $000	Available-for-Sale Reserve $000	Retained Earnings $000	Non – controlling Interests $000	Total $000
Opening balance 1 July 2011	**35,400**	**-**	**(23,010)**	**-**	**12,390**
Comprehensive income					
Net surplus/(deficit)	–	–	(31,774)	–	(31,774)
Other comprehensive income	–	73	–	–	73
Total comprehensive income/(loss) attributable to parent	–	73	(31,774)	-	(31,701)
Owners' transactions					
Capital contribution – Crown (note 18)	127,500	-	–	–	127,500
Closing balance 30 June 2012	**162,900**	**73**	**(54,784)**	**-**	**108,189**
Opening balance 1 July 2012	**162,900**	**73**	**(54,784)**	**-**	**108,189**
Comprehensive income					
Net surplus/(deficit)	–	–	(119,864)	–	(119,864)
Other comprehensive income	–	172	–	–	172
Total comprehensive income/(loss) attributable to parent	–	172	(119,864)	–	(119,692)
Owners' transactions					
Capital contribution – Crown (note 18)	165,000	-	–	–	165,000
Closing balance 30 June 2013	**327,900**	**245**	**(174,648)**	**-**	**153,497**

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

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2013

Group

	Capital $000	Available-for-Sale Reserve $000	Retained Earnings $000	Attributable to Equity Holders of Parent $000	Non-controlling Interests $000	Total $000
Opening balance 1 July 2011	**35,400**	**-**	**(23,010)**	**12,390**	**-**	**12,390**
Comprehensive income						
Net surplus/(deficit)	–	–	(16,764)	(16,764)	(3,981)	(20,745)
Other comprehensive income	–	73	–	73	–	73
Total comprehensive income/(loss)	–	73	(16,764)	(16,691)	(3,981)	(20,672)
Owners' transactions						
Share transactions with non-controlling interests (note 4)	–	–	–	–	150	150
Capital contribution – Crown (note 18)	127,500	–	–	127,500	–	127,500
Capital contribution – non-controlling interests	–	–	–	–	37,857	37,857
Closing balance 30 June 2012	**162,900**	**73**	**(39,774)**	**123,199**	**34,026**	**157,225**
Opening balance 1 July 2012	**162,900**	**73**	**(39,774)**	**123,199**	**34,026**	**157,225**
Comprehensive income						
Net surplus/(deficit)	–	–	(88,524)	(88,524)	(9,804)	(98,328)
Other comprehensive income	–	172	–	172	–	172
Total comprehensive income/(loss)	–	172	(88,524)	(88,352)	(9,804)	(98,156)
Owners' transactions						
Share transactions with non-controlling interests (note 4)	–	–	(15)	(15)	1,092	1,077
Capital contribution – Crown (note 18)	165,000	–	–	165,000	–	165,000
Capital contribution – non-controlling interests	–	–	–	–	15,691	15,691
Closing balance 30 June 2013	**327,900**	**245**	**(128,313)**	**199,832**	**41,005**	**240,837**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013

	Notes	*Parent 2013 $000	Group 2013 $000	Parent 2012 $000	Group 2012 $000
Cash flows from operating activities					
Receipts from customers		-	5,906	-	1,960
Interest received		3,165	3,227	1,712	1,739
Payments to suppliers		(3,565)	(14,630)	(6,901)	(8,860)
Payments to employees		(3,930)	(5,326)	(3,505)	(4,096)
Goods and services tax (net)		42	1,041	(46)	(2,321)
Net cash outflow from operating activities	**20**	**(4,288)**	**(9,782)**	**(8,740)**	**(11,578)**
Cash flows from investing activities					
Purchase of property, plant and equipment		(72)	(71,352)	(100)	(33,354)
Acquisition of investments in LFCs		(71,057)	-	(32,270)	-
Acquisition of investments in Chorus Equity Securities		(52,709)	(52,709)	(6,366)	(6,366)
Acquisition of investments in Chorus Debt Securities		(52,709)	(52,709)	(6,366)	(6,366)
Proceeds from sale to non-controlling interests		1,077	1,077	150	150
Net cash outflow from investing activities		**(175,470)**	**(175,693)**	**(44,952)**	**(45,936)**
Cash flows from financing activities					
Capital contribution – Crown	**18**	165,000	165,000	127,500	127,500
Capital contribution – non-controlling interests		-	7,501	-	5,050
Net cash inflow from financing activities		**165,000**	**172,501**	**127,500**	**132,550**
Net increase/(decrease) in cash and cash equivalents		**(14,758)**	**(12,974)**	**73,808**	**75,036**
Cash and cash equivalents at the beginning of the year		89,263	90,491	15,455	15,455
Cash and cash equivalents at the end of the year	**11**	**74,505**	**77,517**	**89,263**	**90,491**

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

1. STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

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

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

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

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

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

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

The financial statements of CFH and the Group are for the period ended 30 June 2013, and were approved by the Board of Directors on 5 September 2013.

STATEMENT OF COMPLIANCE

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

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

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

BASIS OF PREPARATION

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

FUNCTIONAL AND PRESENTATION CURRENCY

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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

The External Reporting Board (XRB) is currently in the process of establishing a new Accounting Standards Framework based on a multi-sector reporting tiers approach. The new accounting standards framework will consist of two sets of accounting standards, one to be applied by entities with for-profit objectives and the other to be applied by PBEs. In the interim the financial reporting requirements for PBEs are frozen and new or amended NZ IFRS are not applicable to PBEs.

While legislation has not yet been issued to change the New Zealand financial reporting framework, the Minister of Commerce has approved the XRB's proposals for Accounting Standards that will apply to Public Sector PBEs, and the XRB has issued 41 Exposure Drafts of PBE Accounting Standards. The Group has not yet assessed the likely effects of the changes. The new Framework is effective for periods beginning on or after 1 July 2014.

SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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

Revenue

Interest

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

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

UFB income

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

Leases

Operating leases

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

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily converted to known amounts of cash and are subject to an insignificant risk of changes in value. These amounts are brought to account at face value. All investments are held in New Zealand.

Investments

Investments of the Company comprise the following financial instruments:

Investment in ENL (LFC subsidiary)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Investment in WLFC and UFL (LFC subsidiaries)

In the parent company financial statements, the Company's investments in unlisted shares of WLFC and UFL, together with the recycling mechanisms described in note 14, are designated as at FVTPL, and are initially recognised at fair value and subsequently re-measured to fair value, with gains and losses arising from changes in fair value recognised in surplus or deficit. Fair value is determined in the manner described in the critical accounting estimates and assumptions section below.

Other investments – Chorus

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

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

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

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

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

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

Other receivables

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

The carrying amount of the receivable is reduced by the impairment loss directly for all receivables with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in surplus or deficit.

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

Property, plant and equipment

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

Additions

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

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

Disposals

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

Subsequent costs

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

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

Depreciation

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

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

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

Intangible assets

Software acquisition and development

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

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

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

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

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

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

Debt

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

Creditors and other payables

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

Employee entitlements

Short-term employee entitlements

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

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

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

Superannuation schemes

Defined contribution schemes

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

Goods and services tax

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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

Commitments and contingencies are disclosed exclusive of GST.

Income tax

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

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

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

Statement of cash flows

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

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

BUDGET FIGURES

The 2013 parent company budgeted deficit of $142.4 million was approved in the 2013 Statement of Intent. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Group in preparing these financial statements. Elements of the budget have been reclassified to better reflect the Group's operations; however, there is no change to the aggregate budget figure.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Fair value of financial instruments

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

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

Key assumptions for Chorus Debt and Equity Securities

			Debt Securities		Equity Securities**	
Key Assumptions/Inputs	Assumption*	Possible Change	2013 Impact $000	2012 Impact $000	2013 Impact $000	2012 Impact $000
Fibre uptake at 2020	>20%	<20%	+ 2,600	+ 256	+ 3,000	+ 226
Senior credit spread (BBB)***	85-283 bps	+/ – 50 bps	–290/+ 310	–/+ 31	n/a	n/a
Subordinated credit spread (BB)***	488-560 bps	+/ – 50 bps	–530/+ 580	–/+ 66	–800/+ 900	–/+ 87
Risk-free term structure***	3.91%-5.05%	+/ – 100 bps	–1,600/+ 1,900	–/+ 194	–1,500/+1,800	+/ – 175

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

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

***The 2012 assumptions were:

- senior credit spread 315-372 basis points (bps);
- subordinated credit spread 561-578 bps; and
- risk-free term structure 3.74-4.53%.

Chorus Equity Warrants

For the valuation of the Chorus equity warrants CFH uses a Black and Scholes pricing model with inputs from market-observable data such as the Chorus share price and volume of trades. At 30 June 2013 (and 30 June 2012) the warrant carrying values and sensitivity to change are not considered significant.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Key assumptions for LFCs (A share investments)

Key Assumptions/Inputs*	Assumption	Possible Change	2013 Impact $000	2012 Impact $000
WLFC				
Cost of equity	12%	+/ – 2%	–850/+ 1,250	–/+ 600
Terminal growth	2%	+/ – 1%	+260/ – 190	+/ – 100
CFH shareholding at concession end**	43%	+/ – 5%	–1,380/+1,180	–/+ 500
UFL				
Cost of equity	12%	+/ – 2%	–5,500/+8,230	–/+ 1,700
Terminal growth	2%	+/ – 1%	+1,750/ – 1,300	+/ – 300
CFH shareholding at concession end**	37%	+/ – 5%	–6,610/+5,960	–/+ 1,100
ENL				
Cost of equity	12%	+/ – 2%	–1,130/+1,780	–/+ 300
Terminal growth	2%	+/ – 1%	+500/– 380	+/ – 100
CFH shareholding at concession end**	62%	+/ – 1%	–2,400/+1,300	–/+ 300

* CFH has used a range of discount rates within the valuation models for the LFCs, from 5% to 12% (2012: 5% to 12%).

** The 2012 assumptions in respect of the CFH shareholding at concession end were:

- 41% for WLFC;
- 38% for UFL; and
- 66% for ENL.

Measurement of non-controlling interests

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

Property, plant and equipment useful lives and residual values

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

An incorrect estimate of the useful life or residual value will have an impact on the depreciation expense recognised in the surplus or deficit, and the carrying amount of the asset in the statement of financial position. The Group minimises the risk of this estimation uncertainty by physical inspections of assets and asset replacement programmes.

The carrying amounts of property, plant and equipment are disclosed in note 13.

CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Management has exercised the following critical judgements in applying CFH's accounting policies for the period ended 30 June 2013:

Determining the nature of the interest in the LFCs

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Determining the nature of the interest in Chorus

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

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

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

Lease classification

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

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

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

Derivatives

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

2. INTEREST INCOME

	Parent 2013 $000	Group 2013 $000	Parent 2012 $000	Group 2012 $000
Chorus Debt Securities	450	450	9	9
Chorus Equity Securities	417	417	15	15
Interest earned on cash balances with financial institutions	3,063	3,120	1,973	2,000
Total interest income	**3,930**	**3,987**	**1,997**	**2,024**

The effective weighted average interest rate for monies on deposit is 3.6% (2012: 3.6%).

3. UFB INCOME

	Parent 2013 $000	Group 2013 $000	Parent 2012 $000	Group 2012 $000
Connection revenue	-	352	-	46
Access revenue	-	6,274	-	1,310
Total UFB income	**-**	**6,626**	**-**	**1,356**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

4. REALISED GAIN OR LOSS ON SALE OF INVESTMENTS

	Parent 2013 $000	Group 2013 $000	Parent 2012 $000	Group 2012 $000
Consideration received	1,077	1,077	150	-
Less carrying value	(642)	(1,092)	(150)	-
Net gain/(loss) on sale of investments	**435**	**(15)**	**-**	**-**

In the current year CFH sold 498,520 WLFC A shares and 611,449 UFL A shares to the respective Partners as a part of the recycling mechanism (2012: 149,743 WLFC A shares). The recycling mechanism is explained in note 14.

Net gains/losses on sale of investements are included as FV gain on FVTPL investments through the Parents financial statements and are accounted for as equity transactions in the Groups financial statements.

5. DIRECTORS' FEES

Parent

	Parent 2013 $000	Parent 2012 $000
Board member fees during the year were:		
Simon Allen	58	60
Andrew Body*	8	30
Miriam Dean	29	30
Danelle Dinsdale	29	5
Jack Matthews	29	30
Murray Milner	29	30
Keith Tempest	29	30
Total Board member fees – parent	**211**	**215**

*Term ended in September 2012.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

5. DIRECTORS' FEES (CONTINUED)

LFC subsidiaries

	Subsidiaries 2013 $000	Subsidiaries 2012 $000
Board member fees during the year were:		
Tim Lusk (ENL – Independent Chair)	70	70
Mark Bowman (ENL)	22	14
Brett Gamble (ENL)*	24	-
Bill Dwyer (ENL)*	-	11
Bill Luff (ENL)	14	19
Jo Brosnahan (WLFC – Independent Chair)	60	60
Nicole Davies-Colley (WLFC)	30	30
Rodger Fisher (UFL – Independent Chair)	80	80
Mark Franklin (UFL)	40	40
Richard Prebble (UFL)	40	40
Margaret Devlin (UFL)**	3	-
CFH Board members who are also on LFC Boards were:		
Danelle Dinsdale (UFL)***	17	-
Keith Tempest (UFL)***	23	40
Murray Milner (ENL)	35	35
Total Board member fees – subsidiaries	**458**	**439**
Total Board member fees – Group	**669**	**654**

*Bill Dwyer stepped down during the financial year, and Brett Gamble was appointed.

**Julian Elder stepped down during the financial year from his role as Director of UFL (Julian Elder is CEO of WEL), and Margaret Devlin was appointed.

***Keith Tempest stepped down during the financial year, and Danelle Dinsdale was appointed.

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

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

6. PERSONNEL COSTS

	Parent 2013 $000	Group 2013 $000	Parent 2012 $000	Group 2012 $000
Salaries and wages	3,795	5,161	3,510	4,146
Employer contributions to defined contribution plans	56	74	43	49
Other staff benefits	65	130	46	92
Total personnel costs	**3,916**	**5,365**	**3,599**	**4,287**

CFH had 19 full-time-equivalent employees and six contractors as at 30 June 2013 (2012: 17 and 10 respectively). The Group had 27 full-time-equivalent employees and seven contractors as at 30 June 2013 (2012: 22 and 10 respectively).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

7. PROFESSIONAL ADVISORY FEES

	Parent 2013 $000	Group 2013 $000	Parent 2012 $000	Group 2012 $000
Accounting	45	98	223	302
Engineering	-	-	-	14
Legal	475	698	821	1,193
Other	63	137	15	112
Total professional advisory fees	**583**	**933**	**1,059**	**1,621**

8. OTHER EXPENSES

	Parent 2013 $000	Group 2013 $000	Parent 2012 $000	Group 2012 $000
Audit fees – Audit New Zealand	120	176	123	160
Other services from Audit New Zealand – regulatory reporting	-	15	-	-
Audit fees – PricewaterhouseCoopers	-	40	-	27
Other services from PricewaterhouseCoopers – regulatory reporting	-	24	-	-
Contractors and project management	1,324	1,585	1,615	1,663
Staff travel and accommodation	273	411	365	426
Operating lease expense	253	1,638	254	269
Information technology	168	168	173	266
Other	340	1,010	540	1,385
Total other expenses	**2,478**	**5,067**	**3,070**	**4,196**

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

9. INCOME AND EXPENSES BY CATEGORY

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

	Parent 2013 $000	Group 2013 $000	Parent 2012 $000	Group 2012 $000
Recognised in surplus/(deficit)				
Fair value gains/(losses) on financial assets designated as at FVTPL				
LFCs – UFB contribution	(25,329)	-	(13,477)	-
LFCs – fair value gains	1,249	-	-	-
Fair value gains/(losses) on AFS financial assets				
LFC – UFB contribution	(6,749)	-	(1,533)	-
LFC –fair value losses	(116)	-	-	-
Chorus Equity Securities – UFB contribution	(43,434)	(43,434)	(5,409)	(5,409)
Fair value gains and losses on derivatives				
Chorus equity warrants – fair value gains	34	34	11	11
Fair value losses on loans and receivables				
Chorus Debt Securities – UFB contribution	(42,169)	(42,169)	(5,301)	(5,301)
Total recognised in surplus/(deficit)	**(116,514)**	**(85,569)**	**(25,709)**	**(10,699)**
Recognised in other comprehensive income				
Chorus Equity Securities – fair value gains	172	172	73	73
LFC – fair value losses	(116)	-	-	-
LFC – fair value losses reclassified to surplus/(deficit) above	116	-	-	-
Total recognised in other comprehensive income	**172**	**172**	**73**	**73**

10. INCOME TAX

	Parent 2013 $000	Group 2013 $000	Parent 2012 $000	Group 2012 $000
Income tax expense/(credit) recognised in surplus/(deficit)				
Deferred tax expense relating to tax losses and the origination and reversal of temporary differences	-	(3,816)	-	(1,541)
Total income tax expense/(credit)	**-**	**(3,816)**	**-**	**(1,541)**
Reconciliation				
Surplus/(deficit) for the period	(119,864)	(102,144)	(31,774)	(22,286)
Tax expense/(credit) calculated at 28% (2012: 28%)	(33,562)	(28,600)	(8,897)	(6,240)
Effect of other expenses that are not deductible	-	-	-	5
Effect of non-taxable status of parent company	33,562	24,784	8,897	4,694
Total income tax expense/(credit)	**-**	**(3,816)**	**-**	**(1,541)**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

11. CASH AND CASH EQUIVALENTS

	Parent 2013 $000	Group 2013 $000	Parent 2012 $000	Group 2012 $000
Cash on hand and at bank	4,505	7,517	8,463	9,691
Cash equivalents – term deposits	70,000	70,000	80,800	80,800
Total cash and cash equivalents	**74,505**	**77,517**	**89,263**	**90,491**

All cash on hand is held with New Zealand's major trading banks. The carrying value of short-term deposits with maturity dates of three months or less approximates their fair values. The weighted average effective interest rate for monies on deposit is 3.6% (2012: 3.6%).

12. TRADE AND OTHER RECEIVABLES

	Parent 2013 $000	Group 2013 $000	Parent 2012 $000	Group 2012 $000
Trade receivables	-	1,205	-	420
GST receivables	30	1,306	72	2,390
Other	227	229	297	300
Total trade and other receivables	**257**	**2,740**	**369**	**3,110**

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

13. PROPERTY, PLANT AND EQUIPMENT

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

Parent

	Computer Hardware $000	Other Equipment $000	Total $000
Cost			
Balance at 1 July 2011	246	118	364
Additions during the year	96	4	100
Balance at 30 June 2012	342	122	464
Accumulated depreciation			
Balance at 1 July 2011	100	11	111
Depreciation charge for the year	101	18	119
Balance at 30 June 2012	201	29	230
Net book value at 30 June 2011	**146**	**107**	**253**
Net book value at 30 June 2012	**141**	**93**	**234**
Cost			
Balance at 1 July 2012	342	122	464
Additions during the year	71	1	72
Balance at 30 June 2013	413	123	536
Accumulated depreciation			
Balance at 1 July 2012	201	29	230
Depreciation charge for the year	74	18	92
Balance at 30 June 2013	275	47	322
Net book value at 30 June 2013	**138**	**76**	**214**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group

	Computer Hardware $000	Other Equipment $000	UFB Network Assets $000	Total $000
Cost				
Balance at 1 July 2011	246	118	-	364
Additions during the year	99	115	65,196	65,410
Balance at 30 June 2012	345	233	65,196	65,774
Accumulated depreciation				
Balance at 1 July 2011	100	11	-	111
Depreciation charge for the year	102	30	718	850
Balance at 30 June 2012	202	41	718	961
Net book value at 30 June 2011	**146**	**107**	**-**	**253**
Net book value at 30 June 2012	**143**	**192**	**64,478**	**64,813**
Cost				
Balance at 1 July 2012	345	233	65,196	65,774
Additions during the year	80	135	81,835	82,050
Disposals during the year	-	(17)	-	(17)
Balance at 30 June 2013	425	351	147,031	147,807
Accumulated depreciation				
Balance at 1 July 2012	202	41	718	961
Depreciation charge for the year	77	62	3,859	3,998
Disposals during the year	-	(1)	-	(1)
Balance at 30 June 2013	279	102	4,577	4,958
Net book value at 30 June 2013	**146**	**249**	**142,454**	**142,849**

14. INVESTMENTS

ACCOUNTING TREATMENT OF THE INVESTMENTS

Under New Zealand's accounting standards, CFH is required to record the value of its investments as the amount it expects to receive. The amount in the balance sheet is to be recorded as the present-day value, not the nominal amount expected in the future. So the amounts expected from Chorus (from 2025) and the LFCs (in 2021/22) need to be recorded as what they are worth today.

The costs of CFH's investment reflect the interest or dividends foregone, or the 'time value of money", along with any shortfall in expected commercial returns. This is shown in this year's financial statements as the 'write-down" of the amount that CFH has actually invested, which is $71 million (2012: $32 million), to the actual amount recorded in CFH's accounts of $39 million (2012: $17 million). This cost is described as the 'UFB contribution" in the statement of comprehensive income and is $32 million (2012: $15 million).

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

By way of example, if CFH invests $1 today and this is not due to be repaid until the end of the concession period for the LFCs (2021 and 2022) and 2025 for Chorus, it is worth approximately 43 cents to CFH today. By 2018 (all other things being equal), the 43 cents will have increased to 74 cents in anticipation of receiving the $1 back from the LFCs and Chorus, and to $1 immediately prior to being repaid.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

14. INVESTMENTS (CONTINUED)

The level of investment that CFH has in the LFCs and Chorus, along with the initial UFB contributions, is set out in the tables below.

Parent

	WLFC $000	UFL $000	ENL $000	Total $000
Investments in LFCs				
Net investments at 1 July 2011	31	-	-	31
Amount paid during the year	8,452	21,591	2,227	32,270
Less UFB contribution	(4,366)	(9,111)	(1,533)	(15,010)
Initial investment recognised	4,117	12,480	694	17,291
Less disposals	(150)	-	-	(150)
Net investments at 30 June 2012	3,967	12,480	694	17,141
Net investments at 1 July 2012	3,967	12,480	694	17,141
Amount paid during the year	7,292	53,713	10,052	71,057
Less UFB contribution	(3,587)	(21,742)	(6,749)	(32,078)
Initial investment recognised	3,705	31,971	3,303	38,979
Less disposals proceeds	(498)	(579)	-	(1,077)
Net FV movements during the year*	879	370	(116)	1,133
Net investments at 30 June 2013	8,053	44,242	3,881	56,176

*the fair value movements include recognised gains disclosed in note 4.

	Chorus Equity Warrants $000	Chorus Equity Securities $000	Total $000
Investments in Chorus Equity Securities			
Net investments at 1 July 2011	-	-	-
Amount paid during the year	-	6,366	6,366
Less UFB contribution	-	(5,409)	(5,409)
Initial investment recognised	-	957	957
Fair value gains recognised in surplus or deficit	11	-	11
Fair value gains recognised in other comprehensive income	-	73	73
Interest	-	15	15
Net investments at 30 June 2012	11	1,045	1,056
Net investments at 1 July 2012	11	1,045	1,056
Amount paid during the year	-	52,709	52,709
Less UFB contribution	-	(43,434)	(43,434)
Initial investment recognised		9,275	9,275
Fair value gains recognised in surplus or deficit	34	-	34
Fair value gains recognised in other comprehensive income	-	172	172
Interest	-	417	417
Net investments at 30 June 2013	45	10,909	10,954
Parent investments at 30 June 2011			**31**
Parent investments at 30 June 2012			**18,197**
Parent investments at 30 June 2013			**67,130**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

14. INVESTMENTS (CONTINUED)

Group

The Group investments are represented by the Chorus Equity Securities on page 61.

THE LFCS

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

- Northpower Limited for the Whangarei Candidate Area on 13 December 2010, resulting in the establishment of WLFC;
- WEL Networks Limited, and its subsidiary Waikato Networks Limited (previously called Ultrafast Fibre Limited), for the Hamilton (including Te Awamutu and Cambridge), Tauranga, New Plymouth, Whanganui, Hawera and Tokoroa Candidate Areas on 15 December 2010, resulting in the establishment of an LFC, Ultrafast Broadband Limited (UBL). UBL has since changed its name to UFL; and
- Christchurch City Holdings Limited and its subsidiary Christchurch City Networks Limited (CCNL) (CCNL has since changed its name to Enable Services Limited [ESL]), for the Christchurch (which includes the Kaiapoi and Rolleston areas) and Rangiora Candidate Areas on 31 May 2011, resulting in the establishment of ENL.

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

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

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

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

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

The Partner is required to fund the cost to connect a premises and the end customer (essentially fibre optic lead-in from the street), the electronics necessary to light the fibre and the LFC operational costs. The Partner generally receives B shares for funding these obligations (B shares carry full dividend rights, but no voting rights until year 10), although some prudent level of debt is permitted in each LFC. All A and B shares in each LFC convert to ordinary voting dividend entitlement shares 10 years from establishment date (WLFC and UFL: December 2010, ENL: May 2011).

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

LFC RECYCLING MECHANISMS

In relation to WLFC and UFL:

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

14. INVESTMENTS (CONTINUED)

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

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

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

These arrangements also represent derivatives and are categorised as FVTPL financial instruments separately from the underlying investment, which is treated as an AFS instrument. These arrangements are considered to have no value at 30 June 2013 (30 June 2012: Nil).

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

	WLFC		UFL		ENL	
	2013 #000	**2012 #000**	**2013 #000**	**2012 #000**	**2013 #000**	**2012 #000**
A shares held by CFH	15,200	8,317	76,798	21,591	12,279	2,227
A shares held by Partner	648	150	611	-	6,250	1,134
Total A shares	15,848	8,467	77,409	21,591	18,529	3,361
B shares held by Partner	4,682	3,395	9,736	2,200	32,813	31,113
Total number of shares	20,530	11,862	87,145	23,791	51,342	34,474
CFH interest in total number of shares (%)	**74%**	**70%**	**88%**	**91%**	**24%**	**6%**
CFH interest in total number of voting (A) shares (%)	**96%**	**98%**	**99%**	**100%**	**66%**	**66%**

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

In the year ended 30 June 2012 WLFC and ENL acquired existing fibre assets from their Partners as part of the agreements, in exchange for B shares valued at $2.8 million for WLFC and $29.6 million for ENL.

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

INVESTMENT IN CHORUS

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

CFH's investment in Chorus is by way of an equal share of Debt and Equity Securities i.e. 50% CFH Debt Securities and 50% CFH Equity Securities. These will be issued progressively by Chorus, and subscribed to by CFH on a per-premises-passed basis as stages are completed and satisfy UAT. Chorus will also issue to CFH equity warrants to allow CFH to participate in the upside of the financial performance of Chorus (one warrant for each $1 of the CFH Equity Securities). These warrants are exercisable by CFH at its election. It is unlikely that they will be exercised by CFH unless Chorus's Total Shareholder Return exceeds a return hurdle of 16% per annum in the relevant period. The terms of the CFH Equity Securities are set out below, with the key conditions precedent that Chorus has not breached any banking covenants and that Chorus has maintained an investment-grade credit rating. At the time of this report, these conditions have been met. The terms of the CFH Debt Securities are set out in note 15.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

14. INVESTMENTS (CONTINUED)

The CFH Equity Securities carry no rights to vote at meetings of ordinary Chorus shareholders, but rank ahead of ordinary shareholders in the event of liquidation. Dividends will become payable on a portion of the CFH Equity Securities from 2025 onwards, with the portion increasing with time until all of the CFH Equity Securities attract a dividend. These dividends are at the discretion of the Chorus Board, however ordinary Chorus shareholders cannot be paid a dividend if the CFH Equity Securities' dividends are unpaid.

The dividend rate will equal the New Zealand 180-day bank bill rate plus a margin of 6%. End-user (customer) fibre uptake will be measured as at 30 June 2020, the measure being the total number of premises in Chorus's Candidate Areas (being those areas not covered by the LFCs) with fibre connections divided by the total number of premises with copper, fibre or Hybrid Fibre Co-Axial connections. If the uptake is greater than 20% (being the end-user fibre uptake threshold), the portion of CFH Equity Securities that attracts a dividend will be weighted towards the latter half of the period 2025 to 2036. Conversely, if the end-user fibre uptake is equal to or less than 20%, 66.7% of the CFH Equity Securities will attract a dividend by 30 June 2030.

Table 1 below provides the details of the timing and portion of CFH Equity Securities that attract dividends depending on whether the 20% threshold is met or not, and also represents the expected redemptions by Chorus. By 2035 or 2036 (depending on whether the threshold is met), all CFH Equity Securities will attract dividends. Chorus can redeem the CFH Equity Securities in cash or by issuing Chorus ordinary shares (by reference to a formula) at any time.

If at any time Chorus's credit rating is three notches or more below its initial rating, no dividends will be scheduled or payable on the CFH Equity Securities. Standard & Poor's initially assigned Chorus a preliminary investment grade credit rating of BBB/Stable and Moody's assigned a preliminary credit rating of Baa2/Stable. At 30 June 2013 the Standard & Poor's rating is BBB/Stable and the Moody's rating is Baa2/negative outlook.

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

Table 1: CFH Equity Securities redemption and dividend table ($m)

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

15. CHORUS DEBT SECURITIES

Parent and Group

	Senior $000	Subordinated $000	Total $000
Balance at 1 July 2011	-	-	-
Amount paid during the year	1,526	4,840	6,366
Less UFB contribution	(1,189)	(4,112)	(5,301)
Initial investment recognised	337	728	1,065
Interest revenue	2	7	9
Balance at 30 June 2012	**339**	**735**	**1,074**
Balance at 1 July 2012	339	735	1,074
Amount paid during the year	13,480	39,229	52,709
Less UFB contribution	(9,838)	(32,331)	(42,169)
Initial investment recognised	3,642	6,898	10,540
Interest revenue	105	345	450
Balance at 30 June 2013	**4,086**	**7,978**	**12,064**

The carrying amount approximates its fair value.

The CFH Debt Securities are unsecured, carry no interest and, like the CFH Equity Securities, have no voting rights. The principal amount of a CFH Debt Security will consist of a senior portion and a subordinated portion. The senior portion will rank equally with all other unsecured, unsubordinated creditors of Chorus, and shall have the benefit of any negative pledge covenant that may be contained in any of Chorus's debt arrangements. The subordinated portion ranks above ordinary shares of Chorus. The initial value of the senior portion will be the present value (using a discount rate of 8.5%) of the sum repayable on the CFH Debt Securities. The initial subordinated portion will be the difference between the issue price of the CFH Debt Security and the value of the senior portion.

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

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

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

16. DEFERRED TAX ASSETS

	Parent 2013 $000	Group 2013 $000	Parent 2012 $000	Group 2012 $000
Unused tax losses	-	5,357	-	1,541

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

17. CREDITORS AND OTHER PAYABLES

	Parent 2013 $000	Group 2013 $000	Parent 2012 $000	Group 2012 $000
Creditors	125	6,184	191	2,603
Accrued expenses	224	3,333	426	1,541
Total creditors and other payables	**369**	**9,517**	**617**	**4,144**

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms; therefore the carrying value of creditors and other payables approximates their fair value.

18. CAPITAL – AUTHORISED AND FULLY PAID

	Parent 2013 $000 & #000	Group 2013 $000 & #000	Parent 2012 $000 & #000	Group 2012 $000 & #000
Opening balance	162,900	162,900	35,400	35,400
Capital contribution	165,000	165,000	127,500	127,500
Balance at 30 June	**327,900**	**327,900**	**162,900**	**162,900**

The Crown investment made in CFH is represented by 1,345,400,200 $1.00 ordinary shares issued, with 327,900,000 being fully paid (2012: 162,900,000) and 1,017,500,200 being unpaid (2012: 1,182,500,200). The Crown holds all the issued capital of CFH. All shares have equal voting and dividend rights and share equally in any distribution on wind-up.

19. AVAILABLE-FOR-SALE REVALUATION RESERVE

	Parent 2013 $000	Group 2013 $000	Parent 2012 $000	Group 2012 $000
Opening balance	73	73	-	-
Chorus Equity Securities – fair value gains	172	172	73	73
LFC – fair value losses	(116)	-	-	-
LFC – fair value losses reclassified to surplus/(deficit)	116	-	-	-
Balance at 30 June	**245**	**245**	**73**	**73**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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

	Parent 2013 $000	Group 2013 $000	Parent 2012 $000	Group 2012 $000
Net deficit after tax	(119,864)	(98,328)	(31,774)	(20,745)
Add/(less) non-cash items				
Interest income	(867)	(867)	(24)	(24)
Fair value gain on FVTPL investments	(1,249)	-	-	-
Fair value gains on derivatives	(34)	(34)	(11)	(11)
Fair value loss on AFS investments	116	-	-	-
Depreciation	92	3,998	119	850
UFB contribution	117,681	85,603	25,720	10,710
Deferred tax	-	(3,816)	-	(1,541)
Other non-cash items	-	16	-	31
Total non-cash items	115,739	84,900	25,804	10,015
Add/(less) movements in working capital items				
Trade and other receivables and prepayments	99	689	(287)	(3,826)
Creditors and other payables	(248)	5,373	(2,577)	950
Employee entitlements	(14)	39	94	191
Deferred revenue	-	53	-	1,086
Net movements in working capital items	(163)	6,154	(2,770)	(1,599)
Add/(less) items reclassified as investing				
Movements in creditors and other payables related to property, plant and equipment	-	(2,185)	-	-
Prepayments related to property, plant and equipment	-	(323)	-	751
Net cash from operating activities	**(4,288)**	**(9,782)**	**(8,740)**	**(11,578)**

During the year the LFCs acquired property, plant and equipment of $8.2 million (being primarily UFB network assets) in exchange for issuing shares to the Partners (2012: $32.8 million).

21. COMMITMENTS

OPERATING LEASES AS LESSEE

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

	Parent 2013 $000	Group 2013 $000	Parent 2012 $000	Group 2012 $000
Not later than one year	197	746	198	249
Later than one year and not later than five years	514	1,261	711	762
Later than five years	-	1,083	-	110
Total non-cancellable operating leases	**711**	**3,090**	**909**	**1,121**

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

21. COMMITMENTS (CONTINUED)

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

COMMITMENTS – UFB INVESTMENTS

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

Number of premises passed #000	**Financial Year 2014**	**Financial Year 2015**	**Financial Year 2016**	**Financial Year 2017**	**Financial Year 2018**	**Financial Year 2019**
Chorus	255	361	467	573	679	785
LFCs	134	189	244	309	385	385
Total premises passed #000	**389**	**550**	**711**	**882**	**1,064**	**1,170**
Total investment $m	**477**	**628**	**811**	**998**	**1,197**	**1,315**

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

GROUP CAPITAL COMMITMENT

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

$000	**Less than 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**
At 30 June 2013	117,081	97,124	203,607	151,629
At 30 June 2012	62,816	78,356	193,597	21,100

22. CONTINGENCIES

The Group has $0.39 million of contingent liabilities as at 30 June 2013 (2012: $0.43 million); these relate to commercial arrangements entered into by ENL for the provision of network access.

ENL's Partner, ESL, is in dispute with its build contractor, Transfield New Zealand Limited. ENL has a fixed-price, output-based contract with ESL, and therefore ENL and the Group have no exposure to, and are protected from, any dispute between ESL and Transfield.

The Group and Parent has no other contingencies as at 30 June 2013 (2012: Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

23. CAPITAL RECYCLING MECHANISM

The Partners for WLFC and UFL are obligated to purchase the A shares from CFH when certain conditions are met as described in note 14. The forecast amount of A shares to be purchased from CFH in the 2014 financial year is set out below:

	Forecast 2014 $000	**Actual 2013 $000**	**Actual 2012 $000**
A shares CFH expected to be sold	6,972	1,077	150

24. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL

RELATED PARTY TRANSACTIONS

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

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

SIGNIFICANT TRANSACTIONS WITH GOVERNMENT-RELATED ENTITIES

CFH has been provided with funding from the Crown of $165 million (2012: $127.5 million) for specific purposes as set out in its founding legislation and the scope of the relevant Government appropriations.

OTHER TRANSACTIONS WITH GOVERNMENT-RELATED ENTITIES

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

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

KEY MANAGEMENT PERSONNEL COMPENSATION

	Group 2013 $000	**Group 2012 $000**
Salaries, short-term employee benefits and Directors' fees	2,489	2,559
Defined contribution plans[9]	58	26
Total key management personnel compensation	**2,547**	**2,585**

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

No compensation or termination benefits were paid during the year (2012: Nil).

[9] KiwiSaver

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

25. EMPLOYEE REMUNERATION

Total remuneration paid or payable for the year

	Parent 2013 # Staff	Group 2013 # Staff	Parent 2012 # Staff	Group 2012 # Staff
$100,000 – $109,999	1	1	1	1
$110,000 – $119,999	-	1	-	-
$120,000 – $129,999	1	1	-	1
$130,000 – $139,999	-	1	1	2
$140,000 – $149,999	1	2	2	2
$150,000 – $159,999	-	-	2	2
$160,000 – $169,999	2	4	-	-
$170,000 – $179,999	1	1	1	2
$190,000 – $199,999	1	1	1	1
$210,000 – $219,999	-	1	-	-
$230,000 – $239,999	1	1	-	-
$250,000 – $259,999	-	-	1	1
$270,000 – $279,999	1	1	-	-
$290,000 – $299,999	1	1	1	1
$300,000 – $309,999	1	1	1	1
$310,000 – $319,999	1	1	1	1
$330,000 – $339,999	-	1	-	-
$340,000 – $349,999	-	-	1	1
$350,000 – $359,999	1	1	-	-
$470,000 – $479,999	1	1	1	1
Total employees	**14**	**21**	**14**	**17**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

26. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

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

	Parent 2013 $000	Group 2013 $000	Parent 2012 $000	Group 2012 $000
Loans and receivables				
Cash and cash equivalents	74,505	77,517	89,263	90,491
Trade and other receivables	257	2,740	369	3,110
Investments in Chorus Debt Securities	12,064	12,064	1,074	1,074
Total loans and receivables	86,826	92,321	90,706	94,675
AFS financial assets				
Investments in LFCs	3,881	-	694	-
Investments in Chorus Equity Securities	10,909	10,909	1,045	1,045
Total AFS financial assets	14,790	10,909	1,739	1,045
Financial assets designated as at FVTPL				
Investments in LFCs	52,295	-	16,447	-
Total financial assets designated as at FVTPL	52,295	-	16,447	-
Held-for-trading financial assets				
Investments in Chorus warrants	45	45	11	11
Total held-for-trading financial assets	45	45	11	11
Total financial assets	**153,956**	**103,275**	**108,903**	**95,731**
Financial liabilities measured at amortised cost				
Creditors and other payables	369	9,517	617	4,144
Total financial liabilities measured at amortised cost	369	9,517	617	4,144
Total financial liabilities	**369**	**9,517**	**617**	**4,144**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

27. FINANCIAL INSTRUMENT RISKS

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

MARKET RISK

Fair value interest rate risk

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

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

The average interest rate on CFH's bank term deposits is 3.7% (2012: 3.7%).

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

Cash flow interest rate risk

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

Sensitivity analysis

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

In relation to bank deposits, as at 30 June 2013, 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 $390,000 (2012: $450,000) higher/lower for CFH and the Group. This sensitivity is less than in the prior year as less cash and cash equivalents are held at balance date when compared with the prior year.

CREDIT RISK

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

Credit risk arises in CFH and the Group from exposure to counterparties where CFH deposits its surplus cash and through its exposure to trade debtors, Chorus through its investment in the Chorus Debt Securities, and the Partners in respect of the options and forward sale arrangements in respect of LFC shares. The process for managing credit risk in relation to CFH's surplus cash is described below and for managing the credit risk with Chorus in note 14.

CFH and the Group invest surplus cash with major registered trading banks. CFH's term deposits are currently held with two (2012: 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 AA or better).

CFH's maximum credit exposure is represented by the carrying amounts. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired. There are no overdue or impaired assets at 30 June 2013 (2012: 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 the LFCs fund their working capital requirements by debt or equity contributions from the Partners. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

27. FINANCIAL INSTRUMENT RISKS (CONTINUED)

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

Contractual maturity analysis of financial liabilities

All of the CFH and Group creditors and other payables are due and payable within six months and are of a 'business as usual" nature. The contractual undiscounted amounts are equal to the carrying amounts.

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

FAIR VALUE MEASUREMENTS

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

28. CAPITAL MANAGEMENT

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

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

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

29. EVENTS AFTER THE BALANCE SHEET DATE

On 3 July 2013 Chorus issued and CFH subscribed to a further $25 million in Chorus Debt and Equity Securities. Chorus also issued a further $6m in Debt and Equity Securities on the 29th of August which CFH subscribed to. CFH has also invested a further $9m in the three LFC's for UFB network completed in July and August 2013. On the 1st of August CFH issued a capital call to the Crown for $60m and the funds were received on the 28th of August. There were no other significant events after balance date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

30. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET

The CFH full-year deficit is $23 million less than budget. Explanations for key variances are set out below. In the summaries below, where the variance is favourable or unfavourable by greater than 100%, it is marked as >100%/>(100)% for simplicity.

Statement of comprehensive income

	Ref	Parent Actual 2013 $000	Parent Budget 2013 $000	Parent Variance Fav/(Unfav) 2013 $000	Parent Variance Fav/(Unfav) 2013 %
Income	**A**	**5,213**	**1,129**	**4,084**	**>100%**
Expenses					
Board fees		211	221	10	5%
Audit fees		120	100	(20)	(20)%
Depreciation and amortisation		92	93	1	1%
Occupancy costs		253	241	(12)	(5)%
Other Company overheads	B	6,720	6,023	(697)	(12)%
UFB contribution	C	117,681	136,840	19,159	14%
Total expenses		125,077	143,518	18,441	13%
Surplus/(deficit) before tax		**(119,864)**	**(142,389)**	**22,525**	**16%**
Tax expense/(credit)		-	-	-	-
Net surplus/(deficit) for the year		**(119,864)**	**(142,389)**	**22,525**	**16%**
Other comprehensive income		172	-	172	n/a
Total comprehensive income/(loss) for the year		**(119,692)**	**(142,389)**	**22,697**	**16%**

Explanation of significant variances:

A – income

Income exceeds budget for a number of reasons. Interest on cash balances exceeds budget as the budget assumed an average cash balance of $35 million; however, the actual average cash held throughout the year was significantly higher (approximately $90 million). CFH receives capital funding in advance of expected UFB network investment, and there has been a greater-than-forecast timing difference between UFB deployment and investment flows. In addition, due to the nature of the investments, fair value gains on the LFC investments of $1.2 million and interest of $0.8 million on the Chorus investments were unbudgeted.

B – other Company overheads

Overheads are higher than budget, primarily due to costs associated with supporting the Partners as they begin their fibre deployment roll-out.

C – UFB contribution

The UFB contribution is less than budget because of the lower-than-budgeted level of investment with Chorus at balance date. Chorus completed its annual build programme within the timeframes agreed with CFH; however, the nature of the funding agreement meant that the actual issue of securities by Chorus to CFH to fund the build did not occur until after balance date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

30. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET (CONTINUED)

Statement of financial position

	Ref	Parent Actual 2013 $000	Parent Budget 2013 $000	Parent Variance Fav/(Unfav) 2013 $000	Parent Variance Fav/(Unfav) 2013 %
Assets					
Current assets					
Cash and cash equivalents	A	74,505	87,633	(13,128)	(15)%
Other current assets		329	288	41	14%
Total current assets		74,834	87,921	(13,087)	(15)%
Non-current assets					
Property, plant and equipment		214	213	1	-
Investments in LFCs and Chorus	B	79,194	71,427	7,767	11%
Total non-current assets		79,408	71,640	7,768	11%
Total assets		**154,242**	**159,561**	**(5,319)**	**(3)%**
Liabilities					
Current liabilities		745	464	(281)	(61)%
Total liabilities		**745**	**464**	**(281)**	**(61)%**
Net assets		**153,497**	**159,097**	**(5,600)**	**(4)%**
Capital	C	327,900	362,900	(35,000)	(10)%
Available-for-sale reserve		245	-	245	n/a
Retained earnings	D	(174,648)	(203,803)	29,155	14%
Total equity		**153,497**	**159,097**	**(5,600)**	**(4)%**

Explanation of significant variances:

A – cash and cash equivalents

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

B – investments in LFCs and Chorus

Investments are a net $8 million higher than budget. This reflects the LFCs being ahead in the majority of their deployment, bringing forward the amount invested by CFH. The timing of the Chorus payments as highlighted in the statement of comprehensive income analysis offsets this gain.

C – capital

CFH did not call all of the budgeted Crown capital contribution during the year, due to the timing of investments as noted above and the adequate levels of existing cash reserves.

D – retained earnings

The key drivers of the retained earnings variance are set out in the statement of comprehensive income analysis above.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

30. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET (CONTINUED)

Statement of changes in equity

	Ref	Parent Actual 2013 $000	Parent Budget 2013 $000	Parent Variance Fav/(Unfav) 2013 $000	Parent Variance Fav/(Unfav) 2013 %
Opening equity		108,189	101,486	6,703	7%
Total comprehensive income/(loss)	A	(119,692)	(142,389)	22,697	16%
Capital contribution	A	165,000	200,000	(35,000)	(18)%
Total equity		**153,497**	**159,097**	**(5,600)**	**(4)%**

Explanation of significant variances:

A – equity

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

Statement of cash flows

	Ref	Parent Actual 2013 $000	Parent Budget 2013 $000	Parent Variance Fav/(Unfav) 2013 $000	Parent Variance Fav/(Unfav) 2013 %
Cash flows from operating activities					
Receipts from customers – interest	A	3,165	947	2,218	>100%
Payments to suppliers		(3,565)	(3,176)	(389)	(12)%
Payments to employees	B	(3,930)	(4,308)	378	9%
Goods and services tax (net)		42	461	(419)	(91)%
Net cash outflow from operating activities		(4,288)	(6,076)	1,788	29%
Cash flows from investing activities					
Purchase of property, plant and equipment		(72)	(75)	3	4%
Investments in LFCs	C	(71,057)	(73,762)	2,705	4%
Investments in Chorus	D	(105,418)	(119,388)	13,970	12%
Sale to non-controlling interests		1,077	5,097	(4,020)	(79)%
Net cash outflow from investing activities		(175,470)	(188,128)	12,658	7%
Cash flows from financing activities					
Capital contribution	E	165,000	200,000	(35,000)	(18)%
Net cash inflow from financing activities		165,000	200,000	(35,000)	(18)%
Net (decrease)/increase in cash and cash equivalents		**(14,758)**	**5,796**	**(20,554)**	**>(100)%**
Cash and cash equivalents at the beginning of the year		89,263	81,837	7,426	9%
Cash and cash equivalents at the end of the year		**74,505**	**87,633**	**(13,128)**	**(15)%**

Explanation of significant variances:

A – receipts from customers – interest

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

B – payments to employees

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

30. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET (CONTINUED)

C – investments in LFCs

The cash investment in the LFCs is $3 million greater than budget, represented by WLFC being $3 million ahead of budget, UFL being $10 million ahead of budget, and ENL being $10 million behind budget. The level of investment is dependent on the achievement of the Partners' respective UFB deployment plans.

D – investments in Chorus

Investments in Chorus Equity Securities and Chorus Debt Securities were lower than budget for the reasons outlined in the statement of financial position analysis above.

E – Capital contribution

The capital contribution is less than budget for the reasons outlined in the Statement of Comprehensive Income in respect to the timing of investment cashflows.

APPENDIX 1: GLOSSARY

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

APPENDIX 1: GLOSSARY (CONTINUED)

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

SEVEN THINGS YOU MAY NOT KNOW ABOUT UFB

- ABOUT 4,730 KILOMETRES OF FIBRE HAVE BEEN DEPLOYED IN THE UFB INITIATIVE. THAT'S ENOUGH TO TRAVEL FROM AUCKLAND TO JAKARTA IN INDONESIA.
- AT 70% COMPLETE, TIMARU HAS THE GREATEST UFB COVERAGE OF ANY NEW ZEALAND TOWN OR CITY, FOLLOWED BY WHANGAREI AT 69%.
- IN THE PAST YEAR AROUND 700 BUILDINGS HAVE BEEN PASSED EACH WORKING DAY, WHICH MEANS THAT EVERY THREE MINUTES, ANOTHER TWO END-USERS HAVE BEEN ABLE TO CONNECT TO THE NETWORK.
- IN 2013, AT LEAST SIX NEW ZEALAND TOWNS AND CITIES EMPLOYED STAFF WHOSE RESPONSIBILITY WAS TO MAKE SURE THAT THE LOCAL POPULATIONS MADE THE MOST OF UFB.
- AROUND 475,000 SCHOOL STUDENTS ATTEND SCHOOLS THAT ARE NOW ABLE TO CONNECT TO UFB.
- ACCORDING TO A STUDY BY TECHNOLOGY RESEARCH COMPANY GARTNER, A PREDICTED 25% OF BUSINESSES WILL HAVE CHIEF DIGITAL OFFICERS BY 2015.
- BY DECEMBER 2012 THERE WERE MORE THAN 96 MILLION FIBRE CUSTOMERS AROUND THE WORLD, A 25% INCREASE ON THE PREVIOUS YEAR.

DIRECTORY

Shareholders

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

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Auditor

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

Solicitor

Bell Gully

Bankers

ASB, BNZ and ANZ

Senior Management

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

Crown Fibre Holdings

Ultra-fast broadband for New Zealanders