



# **CROWN FIBRE HOLDINGS LIMITED**

## **Statement of Performance Expectations**

**July 2017 – June 2018**

**June 2017**

Presented to the House of Representatives

pursuant to the Crown Entities Act 2004



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## 1. Introduction

This Statement of Performance Expectations is submitted by the Board of Directors of Crown Fibre Holdings Limited (CFH), pursuant to the Crown Entities Act 2004. It sets out the performance expected of CFH for the period 1 July 2017 to 30 June 2018.

### Statement of responsibility

CFH is responsible for the statements contained in this document, including the appropriateness of the business assumptions underlying them. CFH is also responsible for internal control systems that provide reasonable assurance as to the integrity of its financial reporting.



**Simon Allen**  
**Chair**  
**30 June 2017**

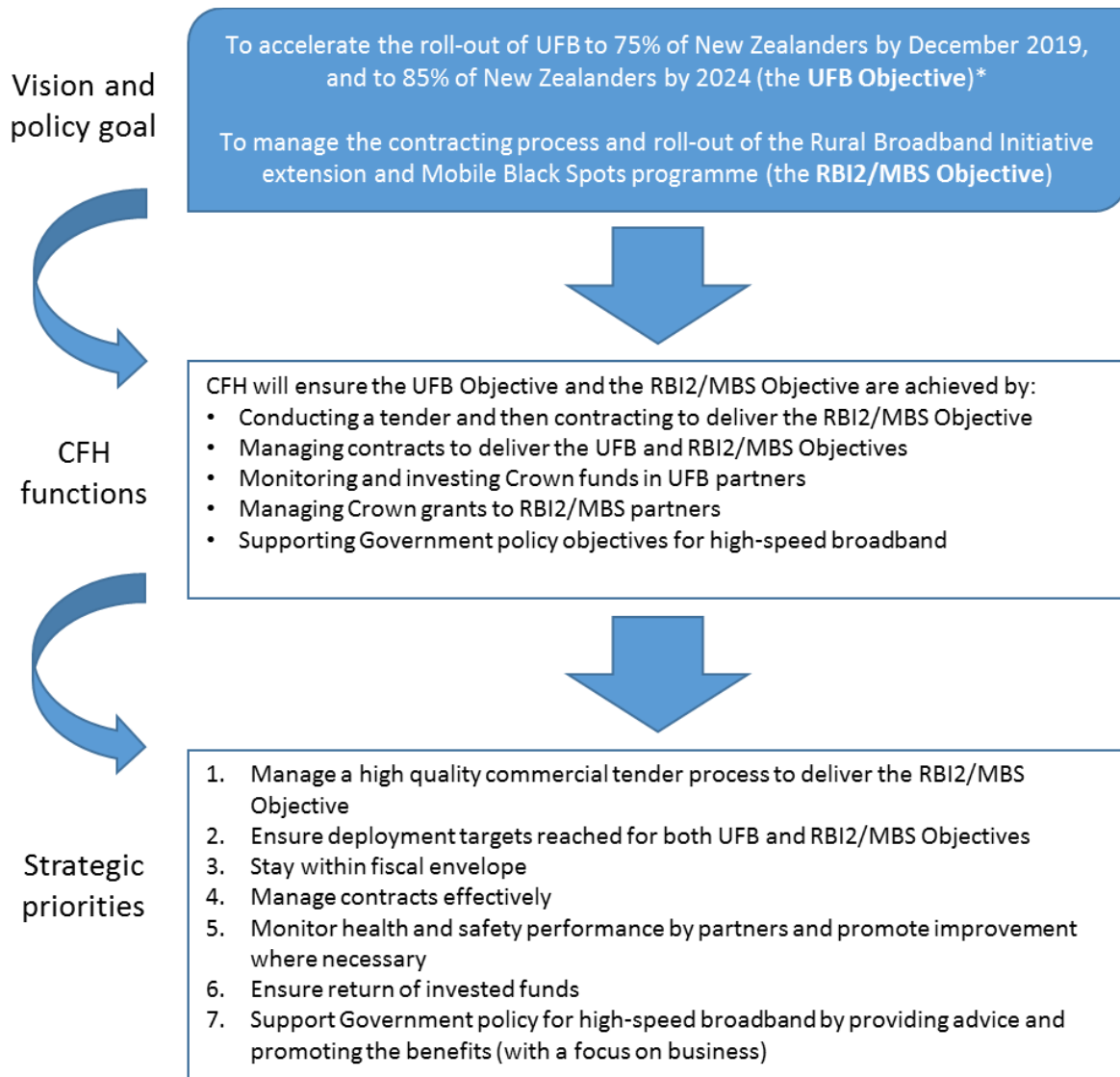


**Keith Tempest**  
**Director**  
**30 June 2017**

## 2. CFH's purpose, objectives, scope and outputs for fiscal year 2018

### 2.1 CFH's purpose and objectives

The key purpose and objective of CFH is to implement the Government's Ultra-Fast Broadband (UFB)<sup>1</sup> policy (the **UFB Objective**), the Rural Broadband Initiative extension (RBI2) and Mobile Black Spot Initiative (MBS) (the **RBI / MBS Objective**) as follows:



\* NB: CFH is responsible for the roll-out of UFB to 84% of the population by 2024, with the remaining 1% being private fibre that CFH is not responsible for

CFH's Statement of Intent for July 2017 to June 2021 outlines CFH's vision, strategic priorities and functions to achieve the UFB Objective, and this will be updated during 2017/18 to reflect the RBI2/MBS Objectives once contracts and deployment plans are in place.

<sup>1</sup> For the purposes of the UFB initiative, UFB means a broadband service making available a minimum uncontested 100 megabits per second (Mbps) downstream (from the internet to the user) and 50 Mbps upstream (from the user to the internet), capable of being upgraded to 10 times these speeds.

## 2.2 CFH's outputs for fiscal year 2018

Section 3 describes CFH's outputs for the period from 1 July 2017 to 30 June 2018, which are reportable under section 149E(1)(a) of the Crown Entities Act. These outputs relate to the level of UFB deployment, progress on RBI2 and MBS, and key operational and financial metrics.

In addition, CFH monitors the operational and service performance of the Co-Investment Partners<sup>2</sup> (**Partners**), as described in Section 4. These matters are the responsibility of each Partner; CFH's role is to monitor performance to ensure that contractually agreed service levels are met. Accordingly, these matters are regarded by CFH as non-reportable outputs for fiscal year 2018 under section 149E(1)(c) of the Crown Entities Act.

## 3. CFH's reportable outputs

CFH's performance targets for fiscal year 2018 relate to UFB deployment, progress of RBI2 and MBS initiatives, UFB installation, and financial and operational efficiency. Performance on these measures will be reported in CFH's Annual Report.

### 3.1 UFB deployment

| CFH's performance targets for UFB deployment |   |               |             |                          |             |             |             |                        |
|--|---|---------------|-------------|--------------------------|-------------|-------------|-------------|------------------------|
|  | Fiscal Year   | Fiscal 2016   |             | Fiscal 2017              |             | Fiscal 2018 |             | Fiscal 2020            |
|  |   | To Jun 2016   |             | To Jun 2017              |             | To Jun 2018 |             | To Dec 2019            |
|  |   | Actual (#000) | % Completed | Plan <sup>3</sup> (#000) | % Completed | Plan (#000) | % Completed | Estimated Total Target |
| 1.   | Number of UFB1 premises <sup>4</sup> handed over by Partners to CFH or the applicable Local Fibre Company ( <b>LFC</b> ) under UFB1 | 756           | 65%         | 847                      | 72%         | 973         | 83%         | 1,170                  |
| 2.   | The number of broadband end users (such as households and businesses) able to connect to UFB under UFB1                             | 1,007         | 66%         | 1,101                    | 72%         | 1,265       | 83%         | 1,526                  |
| 3.   | The number of premises handed over by Partners to CFH or the applicable LFC under UFB2  | n/a           | n/a         | 0                        | 0%          | 7.0         | 4%          | 200                    |
| 4.   | The number of broadband end users (such as households and businesses) able to connect to UFB under UFB2                             | n/a           | n/a         | 0                        | 0%          | 7.6         | 4%          | 216                    |

This class of outputs tracks CFH's progress towards the achievement of the UFB Objectives. Measures relating to RBI and MBS will be added once contracts and deployment plans are in place.

<sup>2</sup> Co-Investment Partners and Local Fibre Companies (LFCs) and their relationships with CFH are described in CFH's Statement of Intent.

<sup>3</sup> As per CFH's Statement of Intent for Fiscal Year 2017.

<sup>4</sup> Each premise is a single building or structure located on a defined geographical site (as evidenced by a certificate of title), which has a unique physical address recognised by New Zealand Post and is occupied by, or could readily be occupied by, a

CFH's performance in terms of the number of premises handed over is based on the number of premises handed over by the Partners, a verifiable and audited measure. CFH's performance in terms of the number of end users (such as households and businesses) able to connect to UFB is measured by CFH and its UFB Partners using a geospatial dataset.

Towns/Cities where UFB deployment (excluding any incremental greenfields) has been completed include Ashburton, Blenheim, Cambridge, Greymouth, Hawera, Hamilton, Levin, Masterton, New Plymouth, Oamaru, Queenstown, Rotorua, Taupo, Tauranga, Te Awamutu, Timaru, Tokoroa, Waiuku, Whakatane, Whanganui, Waiheke Island, and Whangarei.

### 3.2 RBI2 and MBS contracts

|   | CFH's performance targets for, RBI2 and MBS tenders / contracts                                    | CFH Targets / Objectives     |
|---|--|------------------------------|
| 1 | RBI2 and MBS contracts, subject to the progress of commercial negotiations, expected to be agreed. | By end of calendar year 2017 |

### 3.3 Successful and Timely Installation of UFB

CFH works with its Partners to ensure that that UFB is being successfully delivered. As well as the contractual service levels measuring Partners' performance which follow in Section 4, there are two other measures that CFH will focus on improving with partners for fiscal 2018 are:

|   | CFH's performance targets for UFB installation  | CFH Targets / Objectives  |
|---|---|---|
| 1 | Average days to connect to UFB for a Residential Single Dwelling Unit (essentially, a typical NZ household) | Equal to or better than a weighted average of 35 calendar days                |
| 2 | End user satisfaction with UFB installation   | Equal to or better than a weighted average of 74% satisfied with installation |

Average days to connect is measured by each Partner, and is the average completion of orders measured from the date received and accepted by the Partner to the date the residential End Users wholesale service is installed and commissioned.

End User satisfaction with the UFB Installation is measured by each Partner through surveys of a sample of End Users who have recently had UFB installed.

### 3.4 Financial and operational efficiency

Each year the CFH Board, in conjunction with its Shareholding Ministers and the Minister for Communications, plans CFH's future level of resourcing, which depends on:

- The overall progress made towards achieving the UFB Objectives as well as, in due course, the RBI2/MBS Objectives;
- The Partners' performance in satisfactorily meeting their contractual obligations for deployment and operations;
- The degree to which the Crown investment is actively monitored, based on the current level of risk and the level of support required by the Government; and

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potential end user or users. For the avoidance of doubt, a multi-tenanted building, such as an apartment block or office building, constitutes a single premises for the purposes of CFH's funding of its Partners.



- CFH expects to see steady improvements in its operational efficiency. The ratio of operational costs to its annual investment in UFB infrastructure is expected to decline from 4% to 2% over in the 2017 Statement of Intent period, but remain at 4% in these current SPE forecast.

| CFH's performance targets for financial and operational efficiency |   |                    |                      |                      |   |
|--|---|--------------------|----------------------|----------------------|---|
|  | Financial Year  | Fiscal 2016 Actual | Fiscal 2017 Forecast | Fiscal 2018 Forecast | Comment   |
| 1.   | CFH funding per premises handed over UFB1                                   | \$1,096            | \$1,105              | \$1,104              | Measures level of CFH funding for each premises handed over (UFB1)  |
| 2.   | CFH funding per premises handed over UFB2                                   | n/a                | n/a                  | \$1,553              | Measures level of CFH funding for each premises handed over (UFB2)  |
| 3.   | Percentage of UFB1 Objective completed                                      | 68%                | 72%                  | 83%                  | Measures progress towards target of 75% population coverage for UFB and percentage of fiscal envelope utilised                |
| 4.   | Percentage of fiscal envelope invested (UFB1)                               | 62%                | 75%                  | 85%                  |   |
| 5.   | Percentage of UFB2 Objective completed                                      | n/a                | 0                    | 3%                   | Measures progress towards target of an additional 8.5% population coverage for UFB and percentage of fiscal envelope utilised |
| 6.   | Percentage of fiscal envelope invested (UFB2)                               | n/a                | 0                    | 9%                   |   |
| 7.   | CFH operational cost as percentage of annual investment/grants <sup>5</sup> | 4%                 | 4%                   | 4%                   | Measures CFH's efficiency over time against annual investment   |

The percentage of the UFB Objective completed is tracked in terms of end users able to connect, which is closely aligned to the level of New Zealand's actual population with access to UFB. Once contracts are in place for the implementation of RBI and MBS, similar measures are expected to be in place and will be reported on during fiscal year 2018.

Financial statements outlining CFH's planned operational expenditure for fiscal year 2018 can be found in Section 7.

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<sup>5</sup> Includes projected operational costs for, RBI2 and MBS. Owing to the costs associated with additional tasks that CFH has been asked to perform in relation to, RBI2 and MBS, the net CFH operational cost as a percentage of annual investment is not expected to decline until 2018 as CFH absorbs the additional responsibilities.

## **4. Partners' operational and service performance**

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CFH monitors the operational and service performance of the Partners as described in this section. This is the Partners' responsibility; CFH's role is to monitor performance to ensure that contractually agreed service levels are being met.

### **4.1 UFB service performance**

The minimum service performance measures detailed below have been contractually agreed with the Partners in their agreements with CFH. Enhanced service levels are also available. For clarity, CFH is responsible for monitoring service performance as per its contracts, with the Partners being responsible for meeting these targets.

| CFH's Partners' performance targets for UFB service performance |   |  |
|---|---|--|
|   | Service   | Target   |
| 1.  | A) <i>UFB1 Provisioning<sup>6</sup> per end user</i> <ul style="list-style-type: none"> <li>Residential</li> <li>Business/Priority</li> </ul> B) <i>UFB2 Provisioning per end user</i> <ul style="list-style-type: none"> <li>All end users</li> </ul>  | <ul style="list-style-type: none"> <li>Within 4 business days</li> <li>Within 6 business days</li> </ul> <i>(or date and time as agreed with the end user)</i><br><ul style="list-style-type: none"> <li>All connections are to be completed on the date agreed between Chorus / LFC and the RSP/End User (Agreed Date).</li> <li>90% of the Agreed Dates must be within 60 days of a properly completed order.</li> </ul> |
| 2.  | <i>Layer 2<sup>7</sup> performance per end user</i> <ul style="list-style-type: none"> <li>Residential Restoration</li> <li>Business/Priority Restoration</li> </ul>  | <ul style="list-style-type: none"> <li>Within 12 hours</li> <li>Within 12 hours</li> </ul>   |
| 3.  | <i>Layer 2 Network Performance per Candidate Area<sup>8</sup> / POI Area<sup>9</sup></i> <ul style="list-style-type: none"> <li>Frame Loss<sup>10</sup> (99% of Frames)</li> <li>Frame Delay (99% of Frames)</li> <li>Frame Delay Variation (99% of Frames)</li> <li>Availability Time/Network</li> </ul> | <ul style="list-style-type: none"> <li>No more than 0.1%</li> <li>No more than 5ms (milliseconds) in UFB1 and 7ms in UFB2<sup>11</sup></li> <li>No more than 3ms<sup>12</sup> Less than 30 minutes or 99.99%</li> </ul>  |
| 4.  | <i>Layer 1<sup>13</sup> performance per end user</i> <ul style="list-style-type: none"> <li>Default Restoration</li> <li>Level 1 Restoration (Priority)</li> <li>Level 2 Restoration (Priority)</li> <li>Level 3 Restoration (Priority)</li> </ul>  | <ul style="list-style-type: none"> <li>Within 48 hours</li> <li>Within 24 hours</li> <li>Within 12 hours</li> <li>Within 8 hours</li> </ul>  |
| 5.  | <i>Layer 1 Performance by Candidate Area / POI Area</i> <ul style="list-style-type: none"> <li>Average Downtime</li> <li>Minimum Availability</li> </ul>  | <ul style="list-style-type: none"> <li>No more than 2 hours</li> <li>At least 99.98%, measured over a 12-month period</li> </ul>   |

CFH reports on the UFB Partners' progress against these measures in its Annual Report, as well as UFB uptake by Candidate Area and UFB product mix.

Once contracts are in place for the implementation of and RBI2/MBS, similar measures are expected to be in place and will be reported on from fiscal year 2018.

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<sup>6</sup> Provisioning means the installation and activation of a UFB service for an end user such as a household or business. UFB1 (75.4% population) and UFB2 (8.5% population extension) have different SLA's and there is some minor variation between the various Partner's provisioning SLA's.

<sup>7</sup> Layer 2 of the Open Systems Interconnection (OSI), associated with active fibre optic network infrastructure.

<sup>8</sup> A Candidate Area is a town or city eligible for UFB.

<sup>9</sup> A POI area is a specified group of UFB2 Candidate Areas.

<sup>10</sup> A measure of data loss between two specified points.

<sup>11</sup> There is some minor variation between service levels due to backhaul constraints as UFB2 towns can be a considerable distance from the Point of Intersection (POI).

<sup>12</sup> As per the CFH Telecommunications Forum measurement regime.

<sup>13</sup> Layer 1 of the OSI Model, associated with passive fibre optic network infrastructure.

## 4.2 Workplace Health and Safety

CFH will ensure that it complies with its obligations under the Health and Safety at Work Act 2015. CFH is committed to the health and safety of its employees, contractors and the community. CFH will continue to encourage its Partners to achieve zero serious harm injuries. CFH will also continually seek to improve health and safety processes, awareness and compliance, across its own organisation and through its involvement in the LFCs, and will encourage its contractors to do the same. CFH benchmarks the performance of Partners against key health and safety metrics such as the Total Recordable Injury Frequency Rate (**TRIFR**). The performance on TRIFR across Partners as at 31 March 2017 (on the basis of a rolling 12-month average) is shown below:

| CFH's Partners' performance against workplace health and safety benchmark for UFB1 |               |     |                 |                       |
|--|---------------|-----|-----------------|-----------------------|
|  | Safety Metric | UFB | Benchmarks      |                       |
|  |               |     | NZ Construction | NZ Mining & Utilities |
| 1.   | TRIFR         | 4   | 12.2            | 11.4                  |

By way of explanation, a TRIFR of 10 means there were 10 total recordable injuries (including lost time injuries and medical treatment injuries) per one million hours worked. It is expected that TRIFR across UFB for FY18 should be less than 7<sup>14</sup>.

Once contracts are in place for the implementation of RBI2/MBS, similar measures are expected to be in place and will be reported on from fiscal year 2018.

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<sup>14</sup> This target reflects the risk profile of the build programme as it reaches out from larger cities into smaller towns and rural areas.



Broadband is at the centre of being able to offer a better luge photography service for customers. Five cameras dotted around the luge course take photos of riders as they shoot down the hill and then feed them back to staff in the kiosk. In the past, slow connection speeds could be frustrating. Since installing fibre we have seen a huge improvement in customer service as the team and the guests are able to interact much faster, and that's had a great impact on photo sales



Derek Golding creates panoramas that can be a merger of up to 3500 photos, and end up being 25 metres long and 5m high. Before getting Ultra-Fast Broadband, uploading photos via his copper line was a major headache. Uploading all those photos could take days - meaning he couldn't use the internet for anything else for days at a time. Now, the same process might take an hour or so. Fibre has paid for itself hundreds of times over because of the increase in his workflow and the speed at which he can access information.

## 5. Key business assumptions

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### 5.1 Reporting entity

The reporting entity is CFH (**the Company**). The Group includes CFH and the controlled entity, which is the LFC Northpower Fibre Limited. CFH is a limited liability company incorporated under the Companies Act 1993, and is a Crown entity as defined by the Crown Entities Act. It is listed in Schedule 4A of the Public Finance Act 1989.

The purpose of the Company is to implement the Government's objectives in relation to the availability of, and access to, UFB by co-investing with private sector participants to deploy 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 CFH's financial statements. However, the LFC is a profit-oriented entity and as such are not exempt from the payment of income tax. Accordingly, the Group financial statements reflect the tax of subsidiaries according to the policy set out in Section 6.

### 5.2 Basis of preparation

#### *Statement of compliance:*

The prospective financial statements:

- Are for the years ended 30 June 2017 and 30 June 2018;
- Have been prepared in accordance with the Crown Entities Act, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practice (**NZ GAAP**);
- Comply with PBE FRS-42 Prospective Financial Statements and NZ GAAP as it relates to prospective financial statements; and
- Were authorised for issue by the Board of Directors on 30 June 2017.

Annual historical financial statements for these periods will be prepared in accordance with NZ GAAP, NZ IFRS and other applicable financial reporting standards as appropriate for PBEs, using the policies outlined in Section 6. The Board of Directors is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures.

#### *Measurement base:*

The financial statements have been prepared on a historical cost basis.

#### *Functional and presentation currency:*

The financial statements are presented in New Zealand dollars, and all values are rounded to the nearest thousand (\$000). The functional currency of CFH is New Zealand dollars.

## *New Zealand International Public Sector Accounting Standards:*

In fiscal year 2015, CFH adopted Tier 1 New Zealand International Public Sector Accounting Standards (**NZ IPSAS**) for PBEs. There have been no material changes to the financial statements, or changes to the presentation of the financial statements on the adoption of NZ IPSAS. The prospective financial information in the Statement of Performance Expectations has been prepared with a consideration of NZ IPSAS and NZ GAAP.

## *Standards and interpretations that are not yet effective and have not been adopted:*

There are a number of standards, amendments and interpretations issued but not yet effective that have not been adopted early. The Group may be subject to further significant changes in future in relation to expected revisions of the Accounting Standards Framework.

### **5.3 Notes to the accounts**

- i. *Interest income*: interest earned on cash balances with financial institutions.
- ii. *UFB income*: connection and access revenue earned by the LFC.
- iii. *Fair value changes on investments*: gains and losses arising from changes in the fair value of CFH's investments.
- iv. *Depreciation and amortisation*: depreciation charges on property, plant and equipment, including network assets at a Group level.
- v. *Other company overheads*: administrative costs for CFH and the LFCs.
- vi. *UFB contribution – Chorus Securities and CCHL Debt Securities*: the 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 deployment by one of its Partners, Chorus, that is funded through the issue of debt and equity securities.
- vii. *Cash and cash equivalents*: cash on hand with New Zealand's major trading banks.
- viii. *Capital*: the Crown investment made in CFH is represented by 1,555,400,200 \$1.00 ordinary shares issued, with 927.9 million shares expected to be fully paid in 2017 and 1,102.9 million shares in 2018. 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.

## **6. Significant accounting policies**

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### **6.1 Forecast financial information**

The financial information contained below is prospective, and by its nature, contains assumptions which may lead to material differences between the prospective financial information and the actual financial results prepared in future reporting periods. CFH has undertaken a review of its financial models, and believes they remain fit for purpose in assisting CFH in preparing prospective financial information. The significant assumptions in the preparation of prospective financial information are for the investments in Chorus and CCHL.



## **6.2 Revenue**

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

## **6.3 Investment in Chorus and CCHL**

CFH's investment in Chorus Debt Securities and CCHL loan is categorised as "loans and receivables" financial asset 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. In CFH's financial statements, the investment in unlisted Equity Securities of Chorus is categorised as an available-for-sale financial asset, and is measured at fair value.

CFH advances funds interest free to CCHL who provides funding to ESL (UFB build partner) who in turn advances funds to Enable Networks Limited to fund the build of the UFB network. The advance is repayable in May 2022 and is secured over the assets of Enable Networks Limited.

CFH restructured its equity holding in ENL into a secured loan with CCHL in June 2016.

Any difference on initial recognition between the fair value of the investment in the Debt and Equity Securities and the contribution by CFH represents CFH's and the Crown's contribution to the deployment of UFB in New Zealand, and is reflected in the line "UFB contributions – Chorus Securities" in surplus or deficit in the statement of comprehensive income. CFH's investment in Chorus's warrants is treated as a derivative, which is categorised as a "fair value through profit or loss" financial instrument, is measured at fair value and is accounted for in the same manner as the "fair value through profit or loss" financial instruments above.

## **6.4 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.

## **6.5 Goods and services tax**

All items in the financial statements are presented exclusive of goods and services tax (**GST**), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense. The net amount of GST recoverable from, or payable to, Inland Revenue is included as part of receivables or 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 excluding GST.



## 6.6 Income tax

The Company is a public authority and consequently is exempt from the payment of income tax. Accordingly, no provision has been made for income tax by CFH in the Company's financial statements. However, the LFCs 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 plus any adjustments to income tax payable in respect of prior years. 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 deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of other assets and liabilities in transactions that affect neither the taxable profit nor the accounting 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;
- 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 tax and deferred tax are recognised as an expense or income in surplus or deficit, except when they relate to items recognised in other comprehensive income or directly in equity, in which case the taxes are also recognised in other comprehensive income or directly in equity.

## 6.7 Statement of cash flows

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

- *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;
- *Operating activities* are the principal revenue-producing activities of the Company and other activities that are not investing or financing activities;
- *Investing activities* are those activities relating to the acquisition and disposal of current and 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 Company.

## 6.8 Critical accounting estimates and assumptions

In preparing these financial statements CFH has made estimates and assumptions concerning the future, which 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. In particular management has exercised its judgement in respect of arriving at the fair values of its investments in Chorus, including assumptions in respect of fibre uptake by Chorus customers by June 2020. Further detail as to the fair value is set out in Section 6.2 above.

CFH and WNL agreed an early exit from UFF by CFH in September 2016. The early exit was in negotiation at 30 June 2016, and UFF was held for sale in the annual report, with the transaction now completed UFF has been deconsolidated from the Group.

Commercial negotiations for the contracts for UFB2 have been completed. Subject to the successful completion of commercial negotiations, contracts for RBI2 and MBS are expected to be awarded by the end of calendar year 2017. Financial assumptions for capital and grant flows associated with these initiatives are consistent with appropriations.

## 7. Financial statements

### Statement of Forecast Comprehensive Income for the Period 2017-2018:

|  | 2016/17         | 2017/18          |
|--|-----------------|------------------|
|  | \$000           | \$000            |
| <b>Income</b>  |                 |                  |
| Interest income  | 20,564          | 24,191           |
| UFB income   | 5,329           | -                |
| RBI / MBS Grant Income                                     | -               | 30,000           |
| Other income   | 40              | -                |
| Net Fair value gain on derivatives                         | (210)           | (2)              |
| Gain / (loss) on sale of subsidiaries                      | (4,179)         | -                |
| <b>Total income</b>  | <b>21,544</b>   | <b>54,189</b>    |
| <b>Expenses</b>  |                 |                  |
| Directors fees   | 397             | 418              |
| Wages and salaries   | 4,669           | 4,429            |
| Depreciation expense                                       | 2,054           | 112              |
| Professional & advisory fees                               | 2,885           | 2,165            |
| Other expenses   | 5,218           | 2,817            |
| UFB contributions - Chorus Equity Securities               | 42,578          | 51,731           |
| UFB contributions - Chorus Debt Securities                 | 37,714          | 49,125           |
| UFB contributions - CCHL Debt Securities                   | 4,902           | 6,736            |
| UFB contributions - UFB2                                   | 457             | 12,987           |
| RBI / MBS Grants Expenses                                  | -               | 30,000           |
| <b>Total expenses</b>                                      | <b>100,874</b>  | <b>160,520</b>   |
| <b>Net surplus/(deficit) before tax</b>                    | <b>(79,330)</b> | <b>(106,331)</b> |
| Tax expense/(credit)                                       | -               | -                |
| <b>Net surplus/(deficit) for the year</b>                  | <b>(79,330)</b> | <b>(106,331)</b> |
| <b>Other comprehensive income and expense</b>              |                 |                  |
| Net fair value changes on available for sale investments   | (20,417)        | (5,184)          |
| <b>Total other comprehensive income and expense</b>        | <b>(99,747)</b> | <b>(111,515)</b> |
| <b>Total comprehensive income and expense for the year</b> |                 |                  |
| Attributed to members of the parent                        | (100,200)       | (111,515)        |
| Attributed to non-controlling interests                    | 453             | -                |
|  | <b>(99,747)</b> | <b>(111,515)</b> |

## Statement of Forecast Changes in Equity for the Period 2017-2018:

|   | Capital<br>\$000 | AFS<br>Reserve<br>\$000 | Retained<br>Earnings<br>\$000 | Attributable<br>to Equity<br>Holders of<br>Parent<br>\$000 | Minority<br>Interests<br>\$000 | Total<br>\$000   |
|---|------------------|-------------------------|-------------------------------|--|--------------------------------|------------------|
| <b>Opening balance 1 July 2016</b>            | 927,900          | 9,955                   | (453,996)                     | 483,859  | 147,721                        | <b>631,580</b>   |
| <b>Comprehensive income</b>                   |                  |                         |                               |  |                                |                  |
| Net deficit                                   | -                | -                       | (90,245)                      | (90,245)   | 453                            | <b>(89,792)</b>  |
| Other comprehensive income and expense        | -                | (9,955)                 | -                             | (9,955)  | -                              | <b>(9,955)</b>   |
| <b>Total comprehensive income and expense</b> | -                | <b>(9,955)</b>          | <b>(90,245)</b>               | <b>(100,200)</b>   | <b>453</b>                     | <b>(99,747)</b>  |
| <b>Owners' transactions</b>                   |                  |                         |                               |  |                                |                  |
| Share transactions with minority interests    | -                | -                       | -                             | -  | 133,272                        | <b>133,272</b>   |
| Capital contributions - Crown                 | -                | -                       | -                             | -  | -                              | -                |
| Disposal of subsidiary                        | -                | -                       | -                             | -  | (281,446)                      | <b>(281,446)</b> |
| <b>Closing balance 30 June 2017</b>           | <b>927,900</b>   | -                       | <b>(544,241)</b>              | <b>383,659</b>   | -                              | <b>383,659</b>   |
| <b>Opening balance 1 July 2018</b>            | 927,900          | -                       | (544,241)                     | 383,659  | -                              | <b>383,659</b>   |
| <b>Comprehensive income</b>                   |                  |                         |                               |  |                                |                  |
| Net deficit                                   | -                | -                       | (111,515)                     | (111,515)  | -                              | <b>(111,515)</b> |
| Other comprehensive income and expense        | -                | -                       | -                             | -  | -                              | -                |
| <b>Total comprehensive income and expense</b> | -                | -                       | <b>(111,515)</b>              | <b>(111,515)</b>   | -                              | <b>(111,515)</b> |
| <b>Owners' transactions</b>                   |                  |                         |                               |  |                                |                  |
| Share transactions with minority interests    | -                | -                       | -                             | -  | -                              | -                |
| Capital contributions - Crown                 | 175,000          | -                       | -                             | 175,000  | -                              | <b>175,000</b>   |
| <b>Closing balance 30 June 2018</b>           | <b>1,102,900</b> | -                       | <b>(655,756)</b>              | <b>447,144</b>   | -                              | <b>447,144</b>   |

## Statement of Forecast Financial Position for 2017-2018:

|   | 2016/17        | 2017/18        |
|---|----------------|----------------|
|   | \$000          | \$000          |
| <b>Current assets</b>                   |                |                |
| Cash and cash equivalents               | 65,727         | 54,081         |
| Trade and other receivables             | 786            | 200            |
| GST receivable                          | 190            | 166            |
| Prepayments                             | 38             | 99             |
| <b>Total current assets</b>             | <b>66,741</b>  | <b>54,546</b>  |
| <b>Non-current assets</b>               |                |                |
| Property, plant and equipment           | 130            | 93             |
| Investments in UFB1 - Debt Securities   | 235,668        | 287,507        |
| Investments in UFB2 - Debt Securities   | 307            | 1,202          |
| Investments in UFB1 - Equity Securities | 81,879         | 102,944        |
| Investments in UFB2 - Equity Securities | -              | 1,787          |
| <b>Total non-current assets</b>         | <b>317,984</b> | <b>393,533</b> |
| <b>Total assets</b>                     | <b>384,725</b> | <b>448,079</b> |
| <b>Current liabilities</b>              |                |                |
| Creditors and other payables            | 280            | 416            |
| Employee entitlements                   | 786            | 519            |
| <b>Total current liabilities</b>        | <b>1,066</b>   | <b>935</b>     |
| <b>Term liabilities</b>                 |                |                |
| Term liabilities                        | -              | -              |
| <b>Total term liabilities</b>           | <b>-</b>       | <b>-</b>       |
| <b>Total liabilities</b>                | <b>1,066</b>   | <b>935</b>     |
| <b>Net Assets</b>                       | <b>383,659</b> | <b>447,144</b> |
| Contributed capital                     | 927,900        | 1,102,900      |
| Available-for-sale reserve              | -              | -              |
| Retained earnings                       | (544,241)      | (655,756)      |
| <b>Total equity</b>                     | <b>383,659</b> | <b>447,144</b> |

## Statement of Forecast Cash Flows for 2017-2018:

|   | 2016/17         | 2017/18          |
|---|-----------------|------------------|
|   | \$000           | \$000            |
| <b>Cash flows from operating activities</b>                 |                 |                  |
| Receipts from customers                                     | 5,329           | -                |
| Interest received   | 4,510           | 2,312            |
| Grants received   | -               | 30,000           |
| Other income  | 40              | -                |
| Payments to suppliers & employees                           | (13,849)        | (12,238)         |
| Interest payments   | -               | -                |
| Grants payments   | -               | (30,000)         |
| Goods and services tax (net)                                | 4               | 16               |
| <i>Net cash inflow/(outflow) from operating activities</i>  | <i>(3,966)</i>  | <i>(9,910)</i>   |
| <b>Cash flows from investing activities</b>                 |                 |                  |
| Purchase of property, plant and equipment                   | (75)            | (75)             |
| Acquisition of investments in UFB1 - Debt Securities        | (101,297)       | (96,938)         |
| Acquisition of investments in UFB2 - Debt Securities        | (745)           | (3,372)          |
| Acquisition of investments in UFB1 - Equity Securities      | (61,490)        | (64,285)         |
| Acquisition of investments in UFB2 - Equity Securities      | -               | (12,066)         |
| Proceeds from sale to minority interests                    | 133,272         | -                |
| Proceeds from sale of property, plant and equipment         | -               | -                |
| Net cashflow on disposal of subsidiary                      | (3,216)         | -                |
| <i>Net cash outflow from investing activities</i>           | <i>(33,551)</i> | <i>(176,736)</i> |
| <b>Cash flows from financing activities</b>                 |                 |                  |
| Dividends payments  | -               | -                |
| Capital contributions – UFB1                                | -               | 175,000          |
| Capital contributions – UFB2                                | -               | -                |
| <i>Net cash inflow from financing activities</i>            | <i>-</i>        | <i>175,000</i>   |
| <b>Net increase/(decrease) in cash and cash equivalents</b> | <b>(37,517)</b> | <b>(11,646)</b>  |
| Cash and cash equivalents at the beginning of the year      | 103,244         | 65,727           |
| <b>Cash and cash equivalents at the end of the year</b>     | <b>65,727</b>   | <b>54,081</b>    |

## Appendix: Directory

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### Shareholders

The Minister of Finance; and  
The Minister for State Owned Enterprises.

### Registered office

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

### Contact address

PO Box 105321  
Auckland 1143, New Zealand

Email: [info@crowdfibre.govt.nz](mailto:info@crowdfibre.govt.nz)

Phone: +64 9 912 1970

Web: [www.crowdfibre.govt.nz](http://www.crowdfibre.govt.nz)

Fax: +64 9 368 9201

### Auditor

The Auditor-General, pursuant to section 15 of the Public Audit Act 2001

### Solicitor

Bell Gully

### Bankers

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

### Senior Management

Graham Mitchell, Chief Executive  
Philip Campbell, Chief Financial Officer  
John Greenhough, Chief Technology Officer  
Kathryn Mitchell, General Counsel  
Nick Manning, General Manager Government and Industry Relations  
Sean Wynne, Chief Commercial Officer

### Board of Directors

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

