



CROWN FIBRE HOLDINGS LIMITED
ANNUAL REPORT
FOR YEAR ENDED 30 JUNE 2016

Crown Fibre Holdings

Ultra-fast broadband for New Zealanders



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HIGHLIGHTS

2.4 MILLION
NEW ZEALANDERS
ABLE TO CONNECT

24% UPTAKE

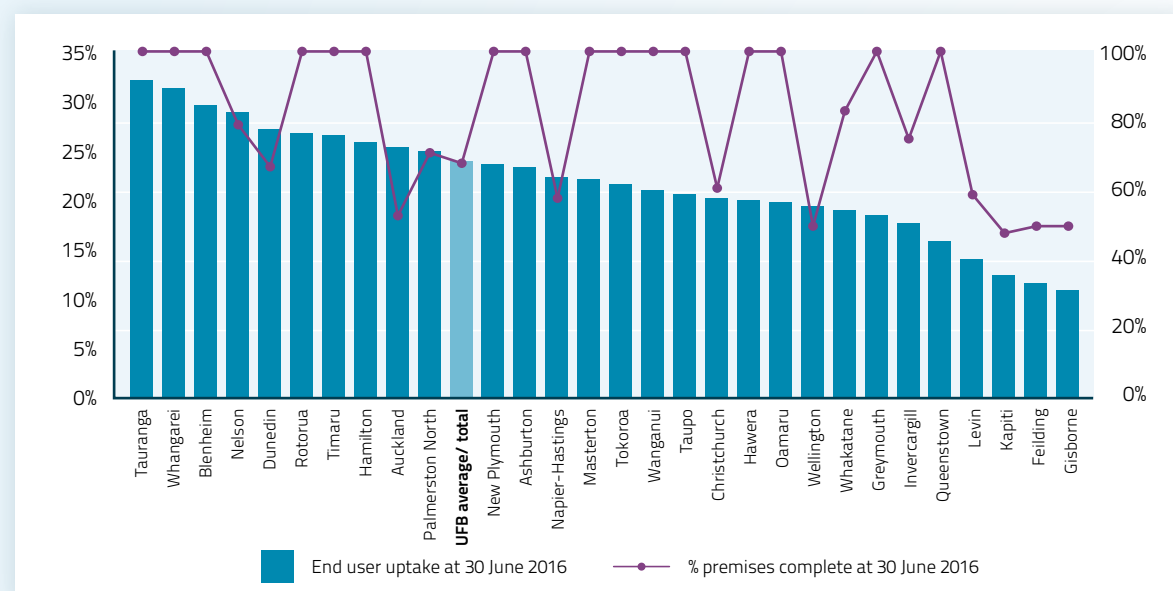
240,000
CUSTOMERS CONNECTED

97% OF BUSINESSES
ABLE TO CONNECT

100% OF SCHOOLS
ABLE TO CONNECT

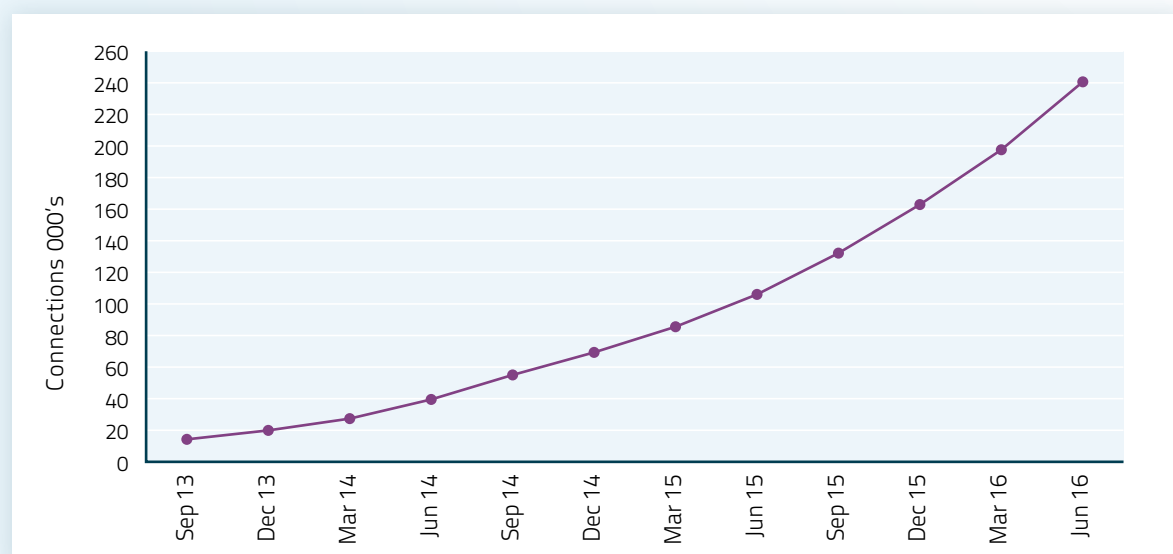
19 TOWNS AND
CITIES
COMPLETED

STRONG UPTAKE ACROSS ALL CENTRES

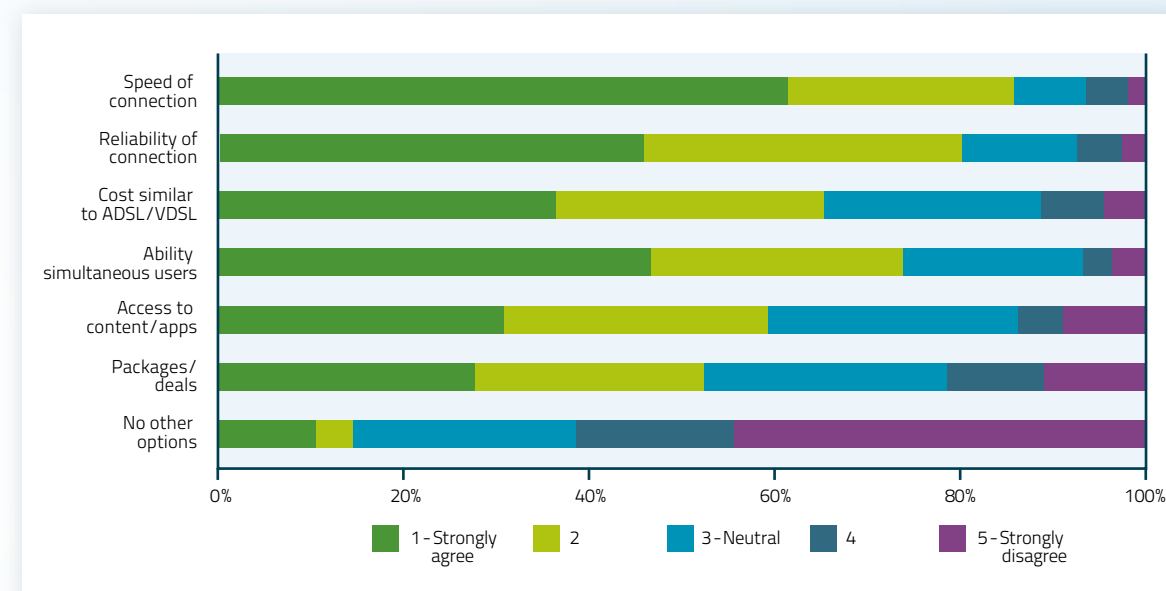


The Auckland region includes four Candidate Areas: Auckland, Waiheke Island, Pukekohe and Waiuku. The Hamilton Candidate Area includes Te Awamutu and Cambridge. Christchurch and Rangiora are two separate Candidate Areas. Figures for these two areas exclude new growth.

UFB UPTAKE ACCELERATING

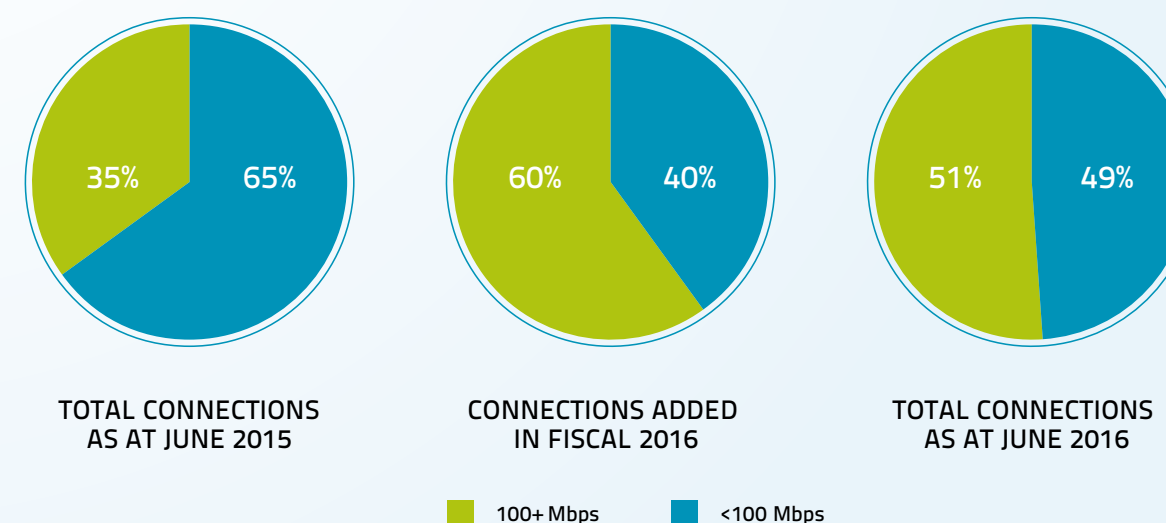


SPEED AND RELIABILITY DRIVING UPTAKE



Extent of agreement with reasons for connecting to UFB.

A MAJORITY OF UFB CONNECTIONS ARE NOW 100 Mbps¹ OR ABOVE



¹ Megabits per second



SKYLINE ENTERPRISES' PHOTO SALES HAVE INCREASED WITH FIBRE.

REPORT OF THE CHAIR AND CHIEF EXECUTIVE

THE DEPLOYMENT OF ULTRA-FAST BROADBAND (UFB) HAS CONTINUED AHEAD OF TARGET IN 2016. FIFTY-TWO PERCENT OF NEW ZEALANDERS ARE ABLE TO CONNECT, WITH IMPRESSIVE GROWTH IN CONNECTIONS, WHICH HAVE MORE THAN DOUBLED TO OVER 240,000.



DEPLOYMENT

By 30 June 2016 just over one million businesses, schools, health centres and homes were passed by UFB¹, enabling more than half of all New Zealanders to connect to the UFB network. In fact the UFB project is now 68% complete versus a target of 61%. The deployment of UFB has now finished in 19 towns and cities, including large North Island centres such as Hamilton, Tauranga, New Plymouth and Rotorua. Smaller towns completed in the fiscal year included Waiuku, Masterton, Greymouth and Queenstown.²

The large cities of Auckland, Wellington and Christchurch are each more than halfway to completion. In Auckland alone, each year, the number of households that can connect to UFB for the first time equals the entire population of Tauranga.

Ultrafast Fibre Limited (UFL) completed its UFB deployment in fiscal 2016, finishing work ahead of schedule early in 2016. Enable Services Limited (ESL) and Chorus are continuing their UFB deployments, and it is pleasing to note that both completed the fiscal year ahead of plan.

December 2015 saw the Government's priority premises policy targets being met, with the passing of more than 90% of businesses and all schools and hospitals in UFB areas. Some

1,400 schools in urban areas can now connect to UFB, and the Network for Learning reports that over 97% of all New Zealand schools are now connected and using its managed service.

By 30 June 2017 it's estimated that a further 180,000 end users or 7% of the New Zealand population will be able to connect to UFB, and Crown Fibre Holdings (CFH) expects deployment in Waiheke Island, Whakatane and Levin to have been completed.

NEW INITIATIVES

During the year CFH has been managing a tender process to extend the rollout of UFB to at least an additional 5% of the New Zealand population (UFB2). It has also been preparing a commercial tender to deliver improved broadband to rural areas (Rural Broadband Initiative 2 or RBI2) and to extend mobile coverage into black spots of main highways and key tourism areas (Mobile Black Spot Fund or MBSF) funded by the Telecommunications Development Levy.

At the time of writing commercial negotiations are underway for UFB2 and are expected to be completed by the end of calendar 2016. During fiscal 2017 a commercial tender for RBI2 and MBSF will be conducted.

¹ The Ultra-Fast Broadband network is a Fibre-To-The-Premise network capable of broadband services at a minimum speed of 100 Mbps downstream (from the Internet to the user) and a minimum of 50 Mbps upstream (from user to the Internet) for the mass market upgradable to 1 Gbps, and up to 10Gbps upstream and downstream for the business market.

² Although celebrated in July 2016, the build in Queenstown finished before 30 June 2016.

UPTAKE

Demand for UFB is reaching new levels, highlighting New Zealand as a global leader in successful fibre-to-the-premise deployments. New monthly connections are more than double those at the same time last year. At the time of writing CFH’s partners are connecting more than 17,000 households and businesses every month, or more than 800 each working day. At this pace it’s no surprise that UFB penetration has reached 24%, compared with more than 14% a year ago. Uptake is now 30% or greater in Whangarei (where the first city-wide UFB deployment was completed in 2014) as well as Tauranga.

While connections are growing very strongly, deployment has also continued at a rapid rate, which has a dampening effect on uptake as a percentage. One way to show demand for premises as they are released to market, without being influenced by the rollout, is to look at the annual run-rate (monthly orders, divided by monthly end users able to connect, multiplied by 12 months). The annual run-rate for connections in 2016 is more than 40%. That is to say, if build work ceased today, current demand would see uptake exceed 40% within 12 months.

Such high demand is pushing up speeds and internet traffic. Akamai³ reports that New Zealand’s peak connection speeds to Akamai servers in the most recent quarter averaged 50 megabits per second (Mbps). This compares with 37 Mbps at the same time last year, a 36% increase in 12 months. The average New Zealand connection speed to Akamai servers was 10.5 Mbps in the most recent quarter, more than triple the levels of late 2009 before the UFB rollout began. In the last quarter of the financial year, 87% of new residential connections were for 100 Mbps or more, while 11% were for 200 Mbps or more.

The more widespread adoption of UFB is coinciding with rising growth in internet traffic too. CFH’s largest partner Chorus says average monthly data usage on its mass-market fibre network has now reached 187 Gigabytes per connection, and is growing at 50% per annum.

MANAGING CONTRACTS AND MONITORING INVESTMENTS

During the year the CFH Group, being CFH and the Local Fibre Companies (LFCs), met its fiscal operating targets as set out in the Statement of Performance Expectations. CFH’s net loss before fair value movements on UFB investments was \$6.3 million compared with a planned net loss of \$9.8 million. CFH’s cumulative net loss

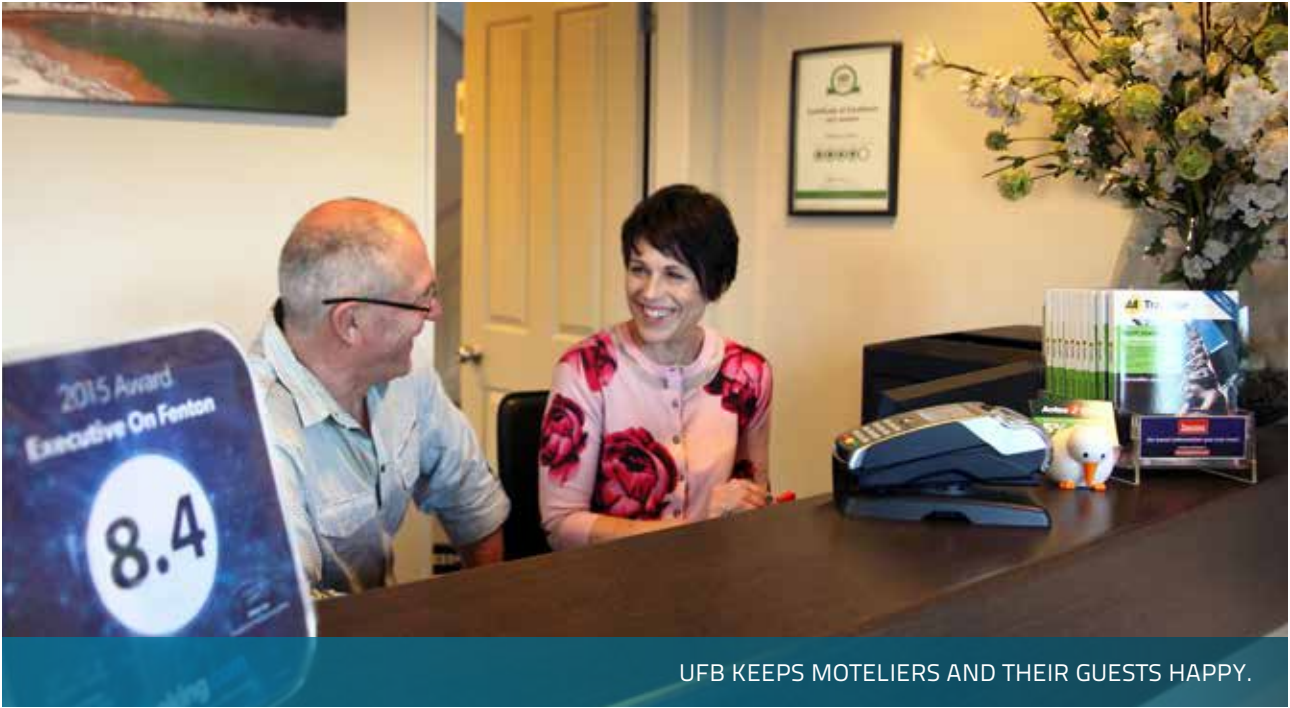
as at 30 June 2016, including fair value and UFB contributions, was \$27.3 million compared with a planned net loss of \$95.1 million for the year. The significantly positive variance reflects the financial restructuring of Enable Networks Limited (ENL), and the “early exit” transaction with Waikato Networks Limited (WNL).

CFH Group funding has been by way of cash reserves of \$103 million and a \$190 million capital injection from the Crown in line with the budget for the fiscal year. CFH held cash investments on hand of \$102 million at 30 June 2016 to meet deployment funding claims. CFH’s new investment in Chorus and LFCs in fiscal 2016 was \$170 million, slightly lower than in fiscal 2015 as UFL completed its build in fiscal 2016.

In June 2016 CFH restructured its investment in ENL. Under the agreement the Crown investment changed from equity to debt, funding an interest-free loan to Christchurch City Holdings Limited (CCHL), with ESL becoming the sole shareholder in local fibre company ENL as of 29 June 2016. It was pleasing that the UFB rollout and uptake in Christchurch and Rangiora had reached the point of maturity where it was timely to streamline the funding arrangements. For ongoing funding CFH will advance funds through the CCHL debt facility. CFH retains its existing contractual rights and oversight with respect to UFB deployment, service levels and products.

During 2016 WNL and CFH entered discussions about a transaction that would see CFH exit the UFL business early. This was completed in early September. CFH’s contract with WNL has it making recycling⁴ payments each quarter based on connections up to 2020, when the remaining CFH investment is put to WNL. As at 30 June 2016 WNL has made \$56 million of recycling payments. The early-exit transaction has WNL making a present-value payment to CFH in lieu of its remaining recycling and other financial obligations and, in doing so, taking full ownership of UFL. On settlement CFH will have received \$188.1 million or 95% of its \$198.8 million investment three and a half years early.

CFH was pleased to note a report by the Office of the Auditor-General that affirmed that CFH is effectively delivering the UFB1 Objective⁵. The Government and taxpayers can be assured that, as the Auditor-General has said, CFH is making sure that its commercial partners are building the network to quality standards, on time and within budget. Notably, the report found that CFH had kept commercial partners to contractual expectations and had been firm in overseeing their performance. The report provided many examples of sound performance management.



UFB KEEPS MOTELIERS AND THEIR GUESTS HAPPY.

WORKPLACE HEALTH AND SAFETY

CFH works with its partners so that policies are in place and procedures are carried out to ensure the health and safety of workers. It is focused on continual improvement in health and safety outcomes. CFH benchmarks the performance of the partners against key health and safety metrics such as the Total Recordable Injury Frequency Rate (TRIFR). Performance on the TRIFR across the partners was 6.8 total recordable injuries per one million hours spent building the network in the 2016 financial year, which compares favourably with the New Zealand construction industry rate of 14.5 in the same period.

OUTLOOK FOR 2017

For the next fiscal year, CFH’s focus and principal goals will include:

- further progressing the current UFB deployment, which is expected to be 82% completed by June 2017, with UFB delivered past more than 1.175 million end users;
- monitoring CFH’s investments with the UFB partners;
- monitoring partners’ service performance as per their contracts with CFH and Retail Service Providers (RSPs), to ensure that connections to households and businesses meet agreed service levels and customer satisfaction improves;

- executing contracts for UFB2, which is expected by the end of calendar 2016 subject to the successful completion of commercial negotiations; and
- progressing a commercial tender and contracting for RBI2 and MBSF; and
- maintaining focus on health and safety.

CFH wishes to thank the many people and organisations who have supported the UFB initiative this year. CFH’s partners play a vital role, and CFH greatly appreciates their commitment and skill in delivering such strong results in both deployment and connections. RSPs, contractors, local councils and many others have been an intrinsic part of the UFB initiative’s continued success in 2016.


Simon Allen
Chair
1 September 2016


Graham Mitchell
Chief Executive
1 September 2016

³ <https://www.akamai.com/uk/en/about/news/press/2016-press/akamai-first-quarter-2016-state-of-the-internet-connectivity-report.jsp>
⁴ Recycling is the mechanism where each quarter WNL purchases CFH’s A shares at face value in proportion to the connections made in that quarter.
⁵ The UFB1 Objective is to make UFB available to 75% of the New Zealand population by December 2019.



ULTRAFAST FIBRE MARKS COMPLETION OF ITS UFB BUILD

BEYOND BROADBAND EXPOS EXCITED COMMUNITIES IN
NEW PLYMOUTH, TAURANGA AND HAMILTON IN EARLY 2016.



STATEMENT OF PERFORMANCE

The outputs listed in this Statement of Performance track CFH's progress towards achieving the UFB Objective, being to accelerate the roll-out of UFB to 75% of New Zealanders by December 2019, concentrating until December 2015 on priority users¹, plus greenfields and tranches of residential areas. For reporting against revenue and expense targets, see note 20.

Under the UFB contracts CFH funds Partners on the basis of premises² passed. This measures the Partners' overall performance in meeting their contractual deployment targets. CFH also measures the number of end users³ capable of connecting.

CFH's performance targets for UFB deployment:

FINANCIAL YEAR	2014/2015	2015/2016			2019/2020
	Actual #000	Plan ⁴ #000	Actual #000	Actual % variance	To December 2019
NUMBER OF PREMISES HANDED OVER BY PARTNERS	600	711	756	6%	1,170
NUMBER OF PRIORITY USER PREMISES HANDED OVER BY PARTNERS.	93	97	99	2%	100
NUMBER OF BROADBAND END USERS ABLE TO CONNECT TO UFB	724	812	1,007	24%	1,466

CFH's performance targets for financial and operational efficiency:

FINANCIAL YEAR	2014/2015	2015/2016		
	Actual	Plan	Actual	Comment
CFH FUNDING PER PREMISE HANDED OVER	\$1,113	\$1,093	\$1,096	Measures level of CFH funding for each premises handed over
PERCENTAGE OF UFB OBJECTIVE COMPLETED	54%	61%	68%	Measures progress towards target of 75% population coverage for UFB and percentage of fiscal envelope utilised
PERCENTAGE OF FISCAL ENVELOPE INVESTED	49%	60%	62%	
NET CFH OPERATIONAL COST AS PERCENTAGE OF ANNUAL INVESTMENT	4%	4%	4%	Measures CFH's efficiency over time against annual investment

¹ Priority users are businesses (of any size, including private-sector health providers), schools (state, state-integrated and independent) and health facilities. The target was to make UFB available to 100% of schools and urban public hospitals, and at least 90% of businesses (including health facilities), by December 2015.

² CFH has a geospatial premises database with more than one million unique premise identifiers. It was built in 2011 and is based on Land Information New Zealand (LINZ) land parcels. This is the sole basis for determining the total number of premises in each stage, and for tracking milestone progress, User Acceptance Testing and payment. The database is consistent with the premises' definitions in the transaction documents and is regularly refreshed to take account of greenfields and infill.

³ Estimating End Users able to connect is complicated by a constantly changing addressable market with increased urbanisation in some of NZ's larger cities. During the year CFH changed the way it measures End Users able to connect, from an estimate based on End User/premise ratios, to a geospatial measure. The geospatial measure is based on a Units of Use database, and is regarded as the most accurate measure of addressable market. Independent property experts estimate that there is a standard error of +/- 4.5% on any End User measures.

⁴ Per CFH Statement of Performance Expectations 2015/16.



UFB IS VITAL FOR OAMARU PHOTOGRAPHER AND ARTIST, DEREK GOLDING.

PARTNERS' PERFORMANCE TARGETS

CFH monitors the performance of the LFCs and Chorus in connecting new end users to the UFB network, fixing customer faults, network availability and network performance. Performance is measured against set service level agreements (SLAs). Provisioning, faults and product performance SLAs are between the LFCs and Chorus, and their RSPs. SLAs for Layer 1 and 2 network performance across Candidate Areas are between CFH, and the LFCs and Chorus. CFH reviews performance against all SLAs under contract. CFH is working with the Telecommunications Carriers Forum and LFCs on a Layer 2 traffic monitoring and reporting regime. The networks remain relatively uncongested, with no Layer 2 traffic issues arising.

Provisioning¹ performance per end user as reported by LFCs and Chorus

	BUSINESS (CONNECTIONS % MET TARGET)	RESIDENTIAL (CONNECTIONS % MET TARGET)
	Target: Within 6 business days or date agreed with the end user	Target: Within 4 business days or date agreed with the end user
CHORUS	79%	91%
ENL	86%	91%
NFL	94%	95%
UFL	99%	98%
TOTAL	89%	94%

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

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

	RESTORATION	TARGET	FAULTS REPAIRED WITHIN TARGET
LAYER 2 ² PERFORMANCE	Residential & business	<12 hours	99.84%
LAYER 1 ³ PERFORMANCE	Default	<48 hours	99.39%

- **Layer 2 Performance per end user:** Measures the number of Layer 2 faults repaired in compliance with the SLA. LFCs and Chorus reported that 99.85% of Layer 2 connection faults for all end users, whether business or residential, saw service restored within 12 hours.
- **Layer 1 Performance per end user:** Measures represents the number of Layer 1 network faults repaired in compliance with the SLA. LFCs and Chorus reported that 99.60% of Layer 1 connection faults met the default restoration service levels.

¹ Provisioning means the installation and activation of a UFB service for an end user.
² Layer 2 of the Open Systems Interconnection (OSI) Model, associated with active fibre optic network infrastructure.
³ Layer 1 of the OSI Model, associated with passive fibre optic network infrastructure.

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

	LAYER 2 AVERAGE NETWORK PERFORMANCE ACROSS ELIGIBLE CANDIDATE AREAS ⁴		LAYER 1 AVERAGE NETWORK PERFORMANCE ACROSS ELIGIBLE CANDIDATE AREAS	
	Target <30min (99.990%)		Target <120min (99.980%)	
CHORUS	00:08	99.998%	01:40	99.981%
ENL	00:00	99.999%	01:06	99.987%
NFL	00:01	99.999%	00:03	99.999%
UFL	00:04	99.999%	01:54	99.978%

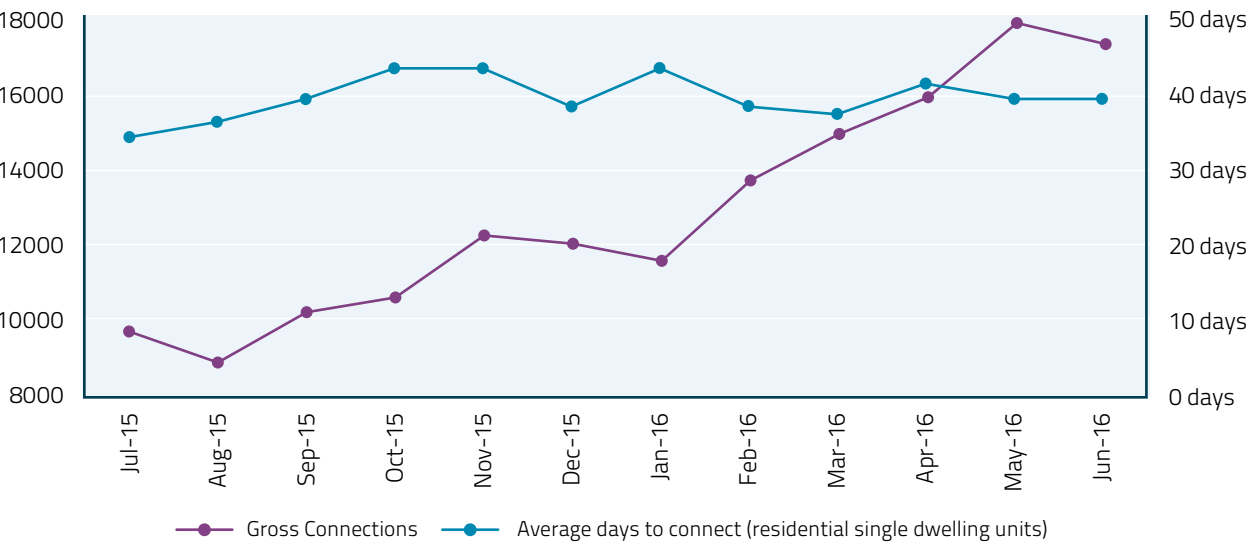
- **Layer 2 Network Performance across eligible Candidate Areas:** Measures the average downtime per end user across eligible Candidate Areas, against a target of no more than 30 minutes average downtime each year.
- **Layer 1 Network Performance across eligible Candidate Areas:** Measures the average downtime per end user across eligible Candidate Areas, with a target of no more than 120 minutes of average downtime per year.

OTHER PERFORMANCE MEASURES

CFH works with its partners to ensure that the UFB initiative is being successfully delivered. As well as the contractual service levels with its partners above, there are two further measures CFH is reporting on this year. They provide additional insights into the user experience for customers taking up a UFB connection. It should be noted that they are not attributes contained in LFC or Chorus contracts.

- **End User satisfaction with installation:** The weighted average percentage of customers satisfied with their installation experience was 71% in June 2016.
- **Average days to connect:** This measure represents the average days to connect a single dwelling unit when calculated across all partners.

Average days to connect increased minimally despite strong demand.



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

ULTRA-FAST BROADBAND DEPLOYMENT PROGRESS

ULTRA-FAST
BROADBAND
DEPLOYMENT
PROGRESS

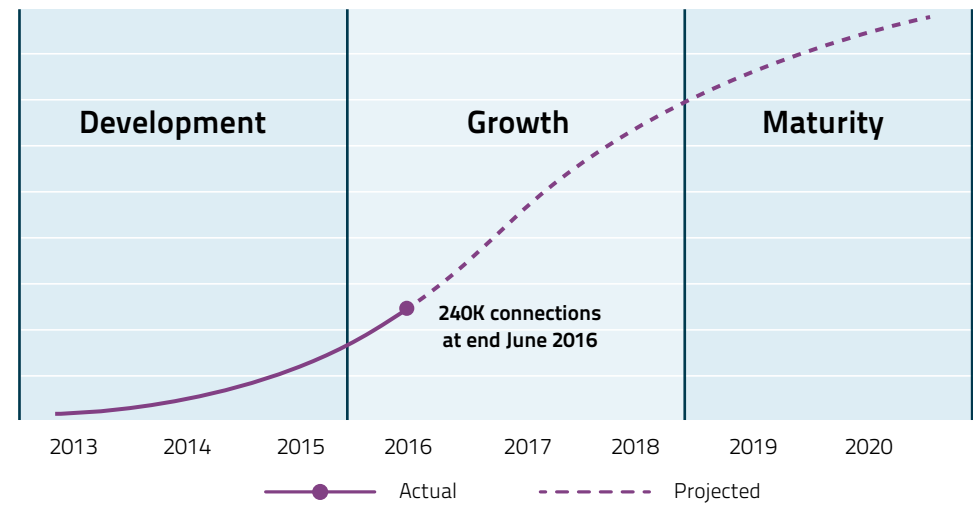


The Auckland region includes four Candidate areas: Auckland, Waiheke Island, Pukekohe and Waiuku.
The Hamilton Candidate Area includes Te Awamutu and Cambridge.
Christchurch and Rangiora are two separate Candidate Areas.
* Premises figures are rounded and exclude new growth (greenfields sites) and the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

UFB GROWTH: RACING UP THE "S-CURVE"

UFB uptake is mirroring the pace of the technology itself, rapidly ascending the "S-curve" – the classic depiction of the technology lifecycle and spread of innovation. The curve traditionally sees an initial stage of modest growth, followed by a period of exponential development with greater and greater uptake every time period. Then, as the technology reaches maturity, the growth rate declines as the top of the curve is reached.

Illustrative UFB S-curve



UFB is now clearly in the phase of high growth. Total UFB connections have doubled in each of the past four years, and increased from 106,000 in June 2015 to over 240,000 by June 2016. This rapid growth in the rate of new connections means each working day more than 800 households and businesses are being connected: more than one every minute of every working day.

As connections increase, we are seeing that many technology early adopters have already connected. The early majority is now adopting fibre, influenced by changing internet uses such as video streaming and cloud computing. Uptake has increased from more than 14% in June 2015 to 24% a year later.

The growth of UFB uptake in New Zealand has already outstripped that of any new mass-market technology introduced in the past 20 years. A comparison of uptake rates is striking. It took more than 10 years for mobile phones to reach 20% adoption, seven and a half years for pay television, and four and a half years for copper broadband (DSL). This is particularly notable given that UFB must be installed as a new utility in most premises. By comparison, mobile phones were a simple purchase, pay TV required an aerial or dish and a set-top box, and the move to DSL involved receipt by courier of a "plug 'n' play" modem. There was no physical build involved.

The rate of UFB uptake and the accompanying increase in data consumption, the availability of unlimited plans and the trend to higher-speed plans all point to an insatiable appetite for speed in an increasingly digitised economy. One wonders now how long it will be until UFB is the most common way that New Zealanders connect and what the impacts will be. It's expected that the almost unlimited bandwidth will be used by businesses, students and others to improve productivity, economic, educational and health outcomes. As Microsoft co-founder Bill Gates said¹, "We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten."

¹ The Road Ahead. Bill Gates. 1996



COMMUNICATIONS MINISTER,
AMY ADAMS AT ULTRAFAST FIBRE'S
BEYOND BROADBAND EXPO IN HAMILTON.

HOW UFB IS BEING USED

BELL BLOCK PHARMACY: IMPROVED SPEED, SAFETY AND COST



ASK NAI YEAT TO SUM UP THE BENEFITS THAT UFB HAS BROUGHT TO HIS PHARMACY BUSINESS, AND HIS ANSWER IS EASY: SPEED, SAFETY AND COST.

Fast fibre means transactions are faster and easier, he says. Now Nai subscribes to a service that turns faxed scripts into high-quality PDF images. Bringing up patient records is faster too, making transactions significantly quicker. "If you have to search for a patient's National Health Index number, or history, or their special authorities, it's a lot quicker with UFB. Every bit of time counts."

The pharmacy holds large quantities of drugs on site. Since getting UFB, Nai has installed high-definition security cameras in his Bell Block store. If there was a break-in, Nai would have good-quality footage to give to the police. With the pictures streamed directly to the cloud, they're safe and accessible from any device. Nai says UFB also enables pharmacies to be linked by video, so staff can contact each other face to face.

Every time you reduce the number of times a prescription is handled, you reduce the potential for error – and therefore the risk for patients, Nai says. E-prescribing – when doctors send prescriptions directly from their computers to pharmacists' computers – will prevent the sort of errors that can creep in when pharmacists are entering information from paper prescriptions to their computer systems.

Also exciting, Nai says, are the opportunities that UFB and cloud-based health systems provide for patient files to be updated in real time. Old information is useless information in health care, and medications can change on a daily basis for patients with high needs. Having UFB means getting real-time information and that keeps patients safer.

"Exciting things are happening in the health IT system. It's important to have a powerful broadband connection that allows me to take advantage of all the changes that are happening."

Managing two pharmacies, one with UFB and one without, Nai can see first-hand the huge savings that UFB has brought to his phone bill.

"Voice Over IP is a much more cost-effective method of calling. My Primo Wireless package gives me three phone lines for \$50 a month. As a small business owner I didn't realise how significant the benefits and the cost savings would be."

HOW FIBRE IS BEING USED

CANOPY TOURS: DELIVERING A WORLD-CLASS TOURISM EXPERIENCE



ROTORUA ECO-ADVENTURE TOURISM COMPANY CANOPY TOURS OFFICE MOVE WAS ALL GOING WELL WHEN THEY SUDDENLY REALISED THAT UFB MIGHT NOT BE AVAILABLE AT THE NEW SITE.

"I had a bit of a panic, thinking OMG what if it isn't! Losing UFB would have been a bit like going back to the Dark Ages," says owner James Fitzgerald.

It was a reminder of just how much fast fibre had become an integral part of Canopy Tours' business.

"We use it for bookings, for check-in, for all the company's back-office operations, and most importantly for our customers, for getting photos of their trips to them so they've got the memories of their day to share with their friends and families. All that would be unthinkable without UFB."

Canopy Tours operates a three-hour guided tour through (and often above) the ancient Mamaku native forest 10 kilometres outside Rotorua, using a network of ziplines, swing bridges and treetop platforms. It's a high-end experience that includes customers receiving photos via the Canopy Tours website the following day.

When the company started in 2012, slow speeds would seriously hamper operations. It would take hours to upload a day's photos, and while that was happening nothing else would work.

"We couldn't take reservations and staff couldn't connect to the Internet. Worst of all, we weren't sure we could deliver the photos. And that wasn't a good look for the business."

Now the uploading job takes about 10 minutes. Which is lucky, since on a busy day in summer Canopy Tours staff might be taking up to 1,500 photos a day. James says the 100 Mbps/100 Mbps connection with unlimited data from Spark is essential, and Canopy Tours pays no more than it did before getting UFB – about \$150 a month.

Two years later, almost everything in the business runs in the cloud, from accounting software to online bookings. Customers check in online using iPads, which gives Canopy Tours the opportunity to capture essential health and emergency contact information, and pass it on to guides.

James says having fast fibre has had a big impact on efficiency. "We are checking in 160-200 people a day, and we couldn't do that on paper. Customers love checking in on the iPads. There are awesome photos and it gets them in the mood."

HOW FIBRE IS BEING USED

WORLD: RETAILING IN THE CLOUD



THE ICONIC WORLD FASHION BRAND WANTED UFB TO INCREASE EFFICIENCY AND CUT TECHNOLOGY COSTS. BUT FAST FIBRE GAVE THE STORE OWNERS FAR MORE – A WHOLE NEW WAY OF DELIVERING A TRUE OMNI-CHANNEL RETAIL EXPERIENCE FOR THEIR CLIENTS ONLINE AND IN-STORE.

Denise L'Estrange-Corbet, Francis Hooper and Benny Castles are fashion designers and founder-directors of the WORLD fashion label. They are also successful retailers, with an online presence and eight bricks-and-mortar stores in Auckland, Wellington and Christchurch, plus a new store planned to open in Queenstown in September.

As the company entered a growth phase in 2013, the owners found it increasingly difficult to keep tabs on operations. With 30-plus employees and significant stock on premises, the business required a more efficient system.

They approached cloud and business application service provider The Instillery for advice on what to do. Thus began a conversation that has taken WORLD from a company largely reliant on labour-intensive processes: phones, emails, Excel spreadsheets, a manual daily stock reconciliation and lots of legwork; to one where virtually everything is integrated into a real-time, online system available at the push of a button, anywhere in the world.

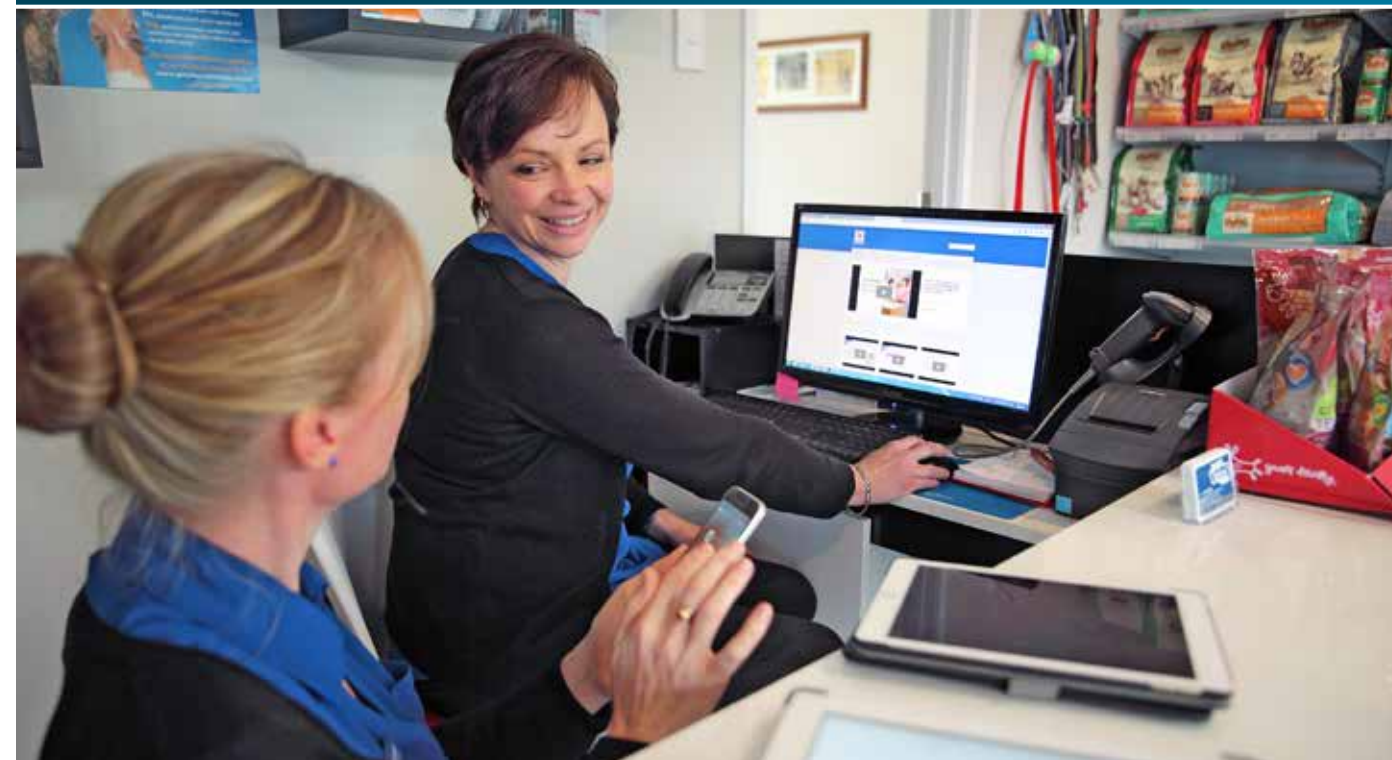
The first step was to install UFB in the Auckland head office and all the WORLD stores, which now have broadband speeds of 100 Mbps/100 Mbps. WORLD has been able to move to an integrated system with the implementation of cloud-based applications powered by robust and fast UFB connectivity. The business now uses Vend's point-of-sale software system, the Nest Cam cloud-based security system and Xero accounting.

"The owners can see in real time what's happening in any store. They can check how sales are going and ensure that in-store displays are on point and staff are safe," says The Instillery founder and CEO Mike Jenkins.

Having greater bandwidth means WORLD is now able to use shopper analytics. On average, around 50% of customers hook into the store WiFi while shopping. The WiFi offers customers an added experience while allowing WORLD to gather valuable business data. This includes how many shoppers have visited the store, how long they've spent there, and where they've been. WORLD can now collate this and tailor stores (as well as clothes) to suit.

HOW FIBRE IS BEING USED

FAMILY VETS ROTORUA: A RELAXED FAMILY ENVIRONMENT WITH UFB



ROTORUA VET CHRIS MCKENZIE AND HIS WIFE CAROL STARTED FAMILY VETS ROTORUA IN AUGUST 2015 WITH DREAMS OF A RELAXED, TECH-SAVVY ENVIRONMENT WITH UFB.

As well as a full sterile surgery, treatment room and dog and cat wards, they use a digital X-ray machine, have lab results to send and receive, operate cloud-based practice management and accounting systems, and maintain an active Facebook presence. All of that needs fast broadband, but they had to begin with an ADSL copper connection and Carol says it became a juggling act.

"Chris would take notes on paper when he did a consultation, then jump into the receptionist's chair to invoice and print out prescription labels. Then he had to type up the notes when the reception area was free, or wait and type up everything at home in the evening."

This was far from the casual setting the McKenzies had envisioned, where clients could chat to the vet on a couch in the waiting room, using iPads to sign up for services like pet insurance and weight-management programmes. The practice wanted to be able to send and receive X-rays easily and access all the details about an animal's treatment, from consultation to drugs administered, billing, even house calls, from any device in the practice – or anywhere else.

In April this year they got a 100 Mbps/100 Mbps UFB connection, and the dream started to come to life. Internet provider NOW provided 200 GB of data and two phone lines. The data rolls over month on month, so they get to keep what they don't use, and the business pays less than \$150 per month, plus calls.

"Now we can run multiple devices all linked together, all at the same time" Carol says.

Family Vets Rotorua's cloud-based practice management system ezyVet offers professional development sessions in which the team has been able to take part. Chris also likes to post case studies on the practice Facebook page, along with X-rays, notes about treatment and general advice.

The next plan is to add Internet-linked monitoring cameras to the dog and cat wards, so that staff at home can keep an eye on animals overnighting at the surgery. "Getting fibre has already revolutionised the way we do things. Having the clinic run the way we envisioned at the start is exciting, and we can't wait for what the future of the business holds."

CO-INVESTMENT PARTNER PROFILE



NORTHPOWER LIMITED:

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

Northpower and CFH are Co-Investment Partners in LFC Northpower Fibre Limited, which is responsible for the network in Whangarei, almost 2% of the nationwide UFB total.

- LFC Chair: Ms Jo Brosnahan
- LFC Directors: Mr Richard Pearce, Mr Mark Gatland (Northpower appointees); Mr Graham Mitchell, Mr Sean Wynne (CFH appointees).



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

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

In turn, WNL established the LFC Ultrafast Fibre Limited (UFL) in partnership with CFH. UFL is responsible for operating the UFB networks in the urban areas of Hamilton, Tauranga, Whanganui, New Plymouth, Tokoroa, Hawera, Cambridge and Te Awamutu. Build was completed in early 2016. This represents around 14% of the entire UFB deployment.

- LFC Chair: Mr Rodger Fisher
- LFC Directors: Mr Mark Franklin, Mr Garth Dibley, Mr Tony Steele (WNL appointees); Mr Graham Mitchell, Ms Danelle Dinsdale, Mr Sean Wynne (CFH appointees).

In September 2016 CFH accepted the early repayment of WNL’s funding obligations and thus exited the partnership in UFL.



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).

ENL was an LFC formed by ESL (a subsidiary of CCHL) to build and operate the UFB network in Christchurch, Rangiora and surrounding areas, making up some 13% of the national build, in partnership with CFH.

In June 2016 it was agreed that ESL would purchase CFH’s A Shares in ENL taking full ownership of the company. Under the agreement, the Crown investment changed from equity to debt, funding an interest free loan to CCHL, with ESL becoming the sole shareholder in local fibre company Enable Networks Limited (Enable) as of 29 June 2016. For ongoing funding, CFH will advance funds through the CCHL debt facility, which CCHL will in turn advance to ESL to fund ENL’s acquisition of UFB infrastructure. CFH retains full contractual oversight of deployment and related UFB performance by ESL.



CHORUS LIMITED:

Chorus is New Zealand’s largest telecommunications infrastructure company. It is the largest partner of CFH’s four Co-Investment Partners and is contracted to deliver UFB to more than 830,000 premises by the end of the decade. That is around 71% of the overall UFB initiative.

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

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

BOARD OF DIRECTORS

DIRECTORS’ PROFILES AND INTERESTS HELD

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

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

Ms Miriam Dean CNZM QC has extensive governance and commercial litigation experience. A former partner at Russell McVeagh, Ms Dean is a barrister sole whose practice focuses on commercial and competition law, arbitration and mediation. She was made Queen’s Counsel in 2004. She currently chairs the Banking Ombudsman Scheme, NZ On Air and the Legal Aid Advisory Board to the Ministry of Justice. Ms Dean is a director of Ōtākaro Limited, the Crown company established to help oversee the delivery of Christchurch’s major rebuild projects, and a trustee of the Royal New Zealand Ballet Board.

Ms Danelle Dinsdale has enjoyed a career as a technology lawyer specialising in major infrastructure and public-private partnership projects in the United Kingdom. She now has a portfolio of non-executive directorships. Ms Dinsdale was a Director of Ultrafast Fibre Limited throughout fiscal 2016 as well as the Medical Assurance Society New Zealand Limited (and its subsidiaries the Medical Insurance Society Limited, the Medical Life Assurance Society Limited and Medical Funds Management Limited) and the Hawke’s Bay Regional Investment Company Limited, which at the time of writing was considering an investment in the Ruataniwha Water Storage Scheme. She is also a trustee of the Cranford Hospice Foundation Trust.

Mr Jack Matthews has held Chief Executive roles in Australia with Fairfax Media Limited and Fairfax Digital. He was the driving force behind Saturn’s deployment of a Hybrid Fibre Co-Axial cable network in Wellington and Christchurch. He is

currently Chair of Rewardle Holdings Limited in Australia, Chair of New Zealand’s MediaWorks (NZ) Limited, and a director of Network for Learning Limited and Trilogy International Limited, and APN Outdoor Group Limited in Sydney.

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

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

	2016		2015	
	No. of Regular Meetings Attended	No. of Special Meetings Attended	No. of Regular Meetings Attended	No. of Special Meetings Attended
DIRECTORS				
Simon Allen	9	3	8	3
Miriam Dean	9	3	9	2
Danelle Dinsdale	9	3	9	2
Jack Matthews	8	3	8	1
Murray Milner	9	3	8	0
Keith Tempest	8	3	9	2

GOVERNANCE

ORGANISATION FORM

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

MANAGEMENT OF THE COMPANY

The Board of Directors is responsible for the overall direction of CFH's business and other activities on behalf of shareholding Ministers in the manner set out in CFH's Constitution, Statement of Intent and Statement of Performance Expectations.

CFH's key 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.

In addition, Ministers have agreed that CFH should manage the expansion of UFB to at least 80% of the population. This initiative is known as UFB2.

Further, CFH has been given responsibility to manage the delivery of improved broadband to rural areas (RBI2) and to invest to extend mobile coverage into black spots of main highways and key tourist areas (MBSF).

BOARD OF DIRECTORS

The Board has established strategic policy, guides and monitors the business and affairs of CFH and is committed to a high standard of corporate governance. Responsibility for

the operation and administration of CFH is delegated to the Chief Executive, who is accountable to the Board. The Board places emphasis on strategic planning, the implementation of sound administrative systems and procedures, and regulatory compliance.

BOARD MEMBERSHIP

The Board is made up of six non-executive Directors. Their profiles can be read on page 21 of this Annual Report. Directors are appointed by shareholding Ministers following Cabinet approval.

BOARD COMMITTEES

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

Audit and Risk Committee

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

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

Remuneration Committee

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

CFH AS A GOOD EMPLOYER

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

- **Leadership, accountability and culture:**
All job descriptions are consistent with EEO principles and there is no gender or ethnicity bias with a genuine EEO culture.
- **Recruitment, selection and induction:**
CFH has recruited a number of executives through a variety of means including industry networks, recommendations and recruitment companies. All staff have been treated under an EEO framework that includes logic, reasoning and psychometric testing.
- **Employee development, promotion and exit:**
CFH encourages employee development and promotion. With the initiative now in a phase of steady-state deployment, the structure of CFH has changed to meet evolving requirements, creating opportunities for development.

- **Remuneration, recognition and conditions:**
CFH has a gender-neutral remuneration policy. Remuneration is market based and includes a small incentive scheme that is designed to reward employee contributions (regardless of race or gender). Flexible working is supported.
- **Harassment and bullying prevention:**
CFH has a zero tolerance approach to all forms of harassment and bullying. CFH has policies in place to deal with harassment complaints should they arise.
- **Safe and healthy environment:**
CFH has developed policies that are designed to encourage staff participation in health and safety. All staff are treated with respect regardless of sexuality. Staff are encouraged to take regular holidays and there are policies in place to help staff deal with stress-related complaints if necessary.

STATEMENT OF RESPONSIBILITY

FOR THE YEAR ENDED 30 JUNE 2016

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

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

In the Board's opinion these financial statements and statement of performance fairly reflect the financial position and performance of Crown Fibre Holdings Limited for the year ended 30 June 2016.

Signed on behalf of the Board.



Simon Allen
Chair

1 September 2016



Keith Tempest
Director

1 September 2016



SCHOOL CHILDREN ARE HIGHLY
ENGAGED WITH UFB.

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF CROWN FIBRE HOLDINGS LIMITED AND GROUP'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2016

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

OPINION ON THE FINANCIAL STATEMENTS AND THE PERFORMANCE INFORMATION

We have audited:

- the financial statements of the company and Group on pages 32 to 71, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on pages 10 and 71.

In our opinion:

- the financial statements of the company and Group:
 - present fairly, in all material respects, the company and Group's:
 - financial position as at 30 June 2016; and
 - financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards; and

- the performance information:
 - presents fairly, in all material respects, the Group's performance for the year ended 30 June 2016, including:
 - for each class of reportable outputs:
 - its standards of performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
 - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year;
 - what has been achieved with the appropriation; and
 - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
 - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 1 September 2016. 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 explain our independence.

BASIS OF OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the performance information 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 and the performance information. 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 and the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, 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 and performance information 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 appropriateness of the reported performance information within the Group's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and the performance information; and
- the overall presentation of the financial statements and the performance information.

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

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 and performance information that:

- comply with generally accepted accounting practice in New Zealand;
- present fairly the company and Group's financial position, financial performance and cash flows; and
- present fairly the Group's performance.

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

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information 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 and the performance information, whether in printed or electronic form.

RESPONSIBILITIES OF THE AUDITOR

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

INDEPENDENCE

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

In addition to the audit, we have carried out assurance assignments for Enable Networks Limited and Northpower Fibre Limited for their Disclosure Information requirements and, since year-end, we have agreed to carry out a quality assurance assignment for a procurement; these assignments are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the company or its subsidiaries.



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



FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	Parent 2016 \$000	Group ¹ 2016 \$000	Parent 2015 \$000	Group ¹ 2015 \$000
Continuing operations:				(Restated ²)	(Restated)
Income					
Interest income	6	11,415	11,415	8,490	8,495
UFB income		-	4,434	-	2,225
Other income		-	-	288	288
Fair value gains on FVTSD ³ investments	4, 12	1,860	-	3,501	-
Net fair value gains on derivatives	4, 12	206	206	-	-
<i>Total income</i>		13,481	16,055	12,279	11,008
Expenses					
Network expenses		-	1,836	-	1,539
Directors' fees	7	273	341	210	300
Personnel costs	8	4,491	4,680	4,232	4,408
Depreciation expense	5	91	1,964	76	1,655
Professional advisory fees	9	1,033	1,199	1,116	1,178
Other expenses	10	2,058	2,221	1,753	1,890
Management fees to Partners	4	-	354	-	350
UFB contribution – LFCs	4, 12	-	-	83	-
UFB contribution – Chorus Equity Securities	4, 12	43,745	43,745	45,512	45,512
UFB contribution – Debt Securities	4, 12	39,320	39,320	41,448	41,448
Net fair value losses on derivatives	4, 12	-	-	106	106
<i>Total expenses</i>		91,011	95,660	94,536	98,386
Surplus/(deficit) before tax		(77,530)	(79,605)	(82,257)	(87,378)
Tax expense/(credit)	11	-	(769)	-	(469)
Net surplus/(deficit) from continuing operations		(77,530)	(78,836)	(82,257)	(86,909)
Net surplus/(deficit) from discontinued operations	3	44,036	(43,282)	(1,159)	(13,938)
Net surplus/(deficit)		(33,494)	(122,118)	(83,416)	(100,847)
Other comprehensive revenue and expense					
Net fair value gains/(losses) on AFS ⁴ investments	4, 12	11,944	9,189	2,587	(80)
Reclassification to surplus/deficit on disposal	4	(5,723)	-	-	-
<i>Total other comprehensive revenue and expense</i>		6,221	9,189	2,587	(80)
Total comprehensive revenue and expense		(27,273)	(112,929)	(80,829)	(100,927)
Net surplus/(deficit)					
<i>Attributable to members of the Parent</i>					
Net surplus/(deficit) from continuing operations		(77,530)	(79,390)	(82,257)	(85,675)
Net surplus/(deficit) from discontinued operations		44,036	(28,369)	(1,159)	2,972
		(33,494)	(107,759)	(83,416)	(82,703)
<i>Attributable to minority interests</i>					
Net surplus/(deficit) from continuing operations		-	554	-	(1,234)
Net surplus/(deficit) from discontinued operations		-	(14,913)	-	(16,910)
		-	(14,359)	-	(18,144)
		-	(122,118)	(83,416)	(100,847)
Total comprehensive revenue and expense					
<i>Attributable to members of the Parent:</i>		(27,273)	(98,570)	(80,829)	(82,783)
<i>Attributable to minority interests:</i>		-	(14,359)	-	(18,144)
		(27,273)	(112,929)	(80,829)	(100,927)

¹ Budget figures and explanations of major variances against the budget are detailed in note 19.² The 2015 comparatives have been restated to reflect the discontinued operations, as set out in note 3³ Fair value through surplus or deficit.⁴ Available for sale.

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Notes	Parent 2016 \$000	Group ¹ 2016 \$000	Parent 2015 \$000	Group ¹ 2015 \$000
Assets					
Current assets					
Cash and cash equivalents		102,447	103,244	77,761	79,856
Trade and other receivables		252	920	55	3,753
GST receivables		66	240	46	3,590
Prepayments		160	161	90	136
		102,925	104,565	77,952	87,335
Assets classified as held for sale	3	131,900	292,553	-	-
<i>Total current assets</i>		234,825	397,118	77,952	87,335
Non-current assets					
Property, plant and equipment	5	144	36,706	198	384,274
Investments in LFC(s)	4	16,258	-	160,030	-
Investments in Chorus Equity Securities	4	77,200	77,200	47,317	47,317
Investments in Chorus Debt Securities	4	82,053	82,053	57,012	57,012
CCHL loan	4	71,498	71,498	-	-
Deferred tax assets	11	-	1,592	-	17,281
<i>Total non-current assets</i>		247,153	269,049	264,557	505,884
Total assets		481,978	666,167	342,509	593,219
Liabilities					
Current liabilities					
Creditors and other payables	14	921	3,193	24,298	64,360
Employee entitlements		629	653	510	1,048
Deferred revenue		-	357	-	3,463
		1,550	4,203	24,808	68,871
Liabilities directly associated with assets classified as held for sale	3	-	30,384	-	-
<i>Total current liabilities</i>		1,550	34,587	24,808	68,871
Non-current liabilities					
Deferred revenue		-	-	-	447
Borrowings	15	-	-	-	28,077
Other non-current liabilities		-	-	-	3,854
<i>Total non-current liabilities</i>		-	-	-	32,378
Total liabilities		1,550	34,587	24,808	101,249
Net assets		480,428	631,580	317,701	491,970
Contributed capital	16	927,900	927,900	737,900	737,900
AFS reserve	17	9,955	9,955	3,734	766
Retained earnings		(457,427)	(453,996)	(423,933)	(346,237)
Equity attributable to the Parent		480,428	483,859	317,701	392,429
Minority interests relating to assets classified as held for sale	3	-	130,269	-	-
Other minority interests		-	17,452	-	99,541
<i>Total minority interests</i>		-	147,721	-	99,541
Total equity		480,428	631,580	317,701	491,970

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

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

	Capital \$000	AFS reserve \$000	Retained earnings \$000	Minority interests \$000	Total \$000
Parent					
Opening balance 1 July 2014	527,900	1,147	(340,517)	-	188,530
Comprehensive income					
Net surplus/(deficit)	-	-	(83,416)	-	(83,416)
Other comprehensive revenue and expense	-	2,587	-	-	2,587
<i>Total comprehensive revenue and expense attributable to the Parent</i>	<i>-</i>	<i>2,587</i>	<i>(83,416)</i>	<i>-</i>	<i>(80,829)</i>
Owners' transactions					
Capital contribution – Crown (note 16)	210,000	-	-	-	210,000
Closing balance 30 June 2015	737,900	3,734	(423,933)	-	317,701
Opening balance 1 July 2015	737,900	3,734	(423,933)	-	317,701
Comprehensive income					
Net surplus/(deficit)	-	-	(33,494)	-	(33,494)
Other comprehensive revenue and expense	-	6,221	-	-	6,221
<i>Total comprehensive revenue and expense attributable to the Parent</i>	<i>-</i>	<i>6,221</i>	<i>(33,494)</i>	<i>-</i>	<i>(27,273)</i>
Owners' transactions					
Capital contribution – Crown (note 16)	190,000	-	-	-	190,000
Closing balance 30 June 2016	927,900	9,955	(457,427)	-	480,428

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2016

	Capital \$000	AFS reserve \$000	Retained earnings \$000	Attributable to equity holders of Parent \$000	Minority interests \$000	Total \$000
Group¹						
Opening balance 1 July 2014	527,900	846	(263,534)	265,212	58,918	324,130
Comprehensive income						
Net surplus/(deficit)	-	-	(82,703)	(82,703)	(18,144)	(100,847)
Other comprehensive revenue and expense	-	(80)	-	(80)	-	(80)
<i>Total comprehensive revenue and expense</i>	<i>-</i>	<i>(80)</i>	<i>(82,703)</i>	<i>(82,783)</i>	<i>(18,144)</i>	<i>(100,927)</i>
Owners' transactions						
Share transactions with minority interests	-	-	-	-	18,502	18,502
Capital contribution – Crown (note 16)	210,000	-	-	210,000	-	210,000
Capital contribution – minority interests	-	-	-	-	40,265	40,265
Closing balance 30 June 2015	737,900	766	(346,237)	392,429	99,541	491,970
Opening balance 1 July 2015	737,900	766	(346,237)	392,429	99,541	491,970
Comprehensive income						
Net surplus/(deficit)	-	-	(107,759)	(107,759)	(14,359)	(122,118)
Other comprehensive revenue and expense	-	9,189	-	9,189	-	9,189
<i>Total comprehensive revenue and expense</i>	<i>-</i>	<i>9,189</i>	<i>(107,759)</i>	<i>(98,570)</i>	<i>(14,359)</i>	<i>(112,929)</i>
Owners' transactions						
Share transactions with minority interests	-	-	-	-	37,391	37,391
Disposal of subsidiary (note 3)	-	-	-	-	(26,311)	(26,311)
Capital contribution – Crown (note 16)	190,000	-	-	190,000	-	190,000
Capital contribution – minority interests	-	-	-	-	52,084	52,084
Dividend to minority interests	-	-	-	-	(625)	(625)
Closing balance 30 June 2016	927,900	9,955	(453,996)	483,859	147,721	631,580

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	Parent 2016 \$000	Group ¹ 2016 \$000	Parent 2015 \$000	Group ¹ 2015 \$000
Cash flows from operating activities					
Receipts from customers		-	46,228	-	21,542
Interest received		1,818	1,928	2,307	2,426
Other receipts		83	83	402	402
Payments to suppliers		(3,771)	(33,816)	(3,133)	(28,587)
Payments to employees		(4,314)	(11,475)	(4,144)	(6,787)
Interest paid		-	(2,127)	-	(1,063)
Goods and services tax (net)		(20)	2,615	4	(1,635)
Net cash outflow from operating activities	13	(6,204)	3,436	(4,564)	(13,702)
Cash flows from investing activities					
Purchase of property, plant and equipment		(90)	(131,856)	(47)	(97,648)
Acquisition of investments in LFCs		(53,651)	-	(72,466)	-
Acquisition of investments in Chorus Equity Securities		(71,380)	(71,380)	(63,246)	(63,246)
Acquisition of investments in Chorus Debt Securities		(71,380)	(71,380)	(63,246)	(63,246)
Disposal of subsidiary	3	-	(1,550)	-	-
Proceeds from sale to minority interests		37,391	37,391	18,502	18,502
Proceeds from disposal of property, plant and equipment		-	-	-	38
Net cash outflow from investing activities		(159,110)	(238,775)	(180,503)	(205,600)
Cash flows from financing activities					
Capital contribution – Crown	16	190,000	190,000	210,000	210,000
Capital contribution – minority interests		-	47,167	-	32,152
Debt drawdown		-	28,271	-	2,005
Dividend to minority interests		-	(625)	-	-
Net cash inflow from financing activities		190,000	264,813	210,000	244,157
Net increase/(decrease) in cash and cash equivalents		24,686	29,474	24,933	24,855
Cash and cash equivalents at the beginning of the year		77,761	79,856	52,828	55,001
Cash and cash equivalents at the end of the year		102,447	109,330	77,761	79,856
Represented by cash and cash equivalents:					
In the statement of financial position		102,447	103,244	77,761	79,856
Included within assets classified as held for sale	3	-	6,086	-	-
		102,447	109,330	77,761	79,856

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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.

At 30 June 2015 the controlled entities were the Local Fibre Companies (LFCs), namely:

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

On 29 June 2016 CFH sold its interest in ENL, and is instead providing debt funding via a loan to Christchurch City Holdings Limited (CCHL). The remaining controlled entities are NFL and UFL. UFL is held for sale. As at 30 June 2016 CFH is in negotiations for Waikato Networks Limited (WNL) to provide a lump sum in settlement of the remaining recycling payments and put option. In so doing, WNL will take full ownership of UFL.

CFH’s Parent accounts reflect only CFH operations, the direct investments made in each controlled entity, Chorus Limited, and CCHL.

The CFH Group accounts have the direct investment in Chorus and CCHL, and consolidate the results of the operations of CFH and each controlled entity (up until the date of disposal), and hence include the Ultra-Fast Broadband (UFB) network built by NFL and UFL at 30 June 2016 (2015: NFL, UFL, and ENL).

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

The purpose of the Company is to implement the Government’s objectives in relation to the availability of, and access to, UFB by co-investing with private sector participants to deploy fibre optical telecommunications network infrastructure, and to provide grant funding to industry operators to extend rural broadband coverage and reduce mobile black spots. As such, CFH’s aim is to provide services to the public, rather than make a financial return.

CFH is a public benefit entity (PBE) for the purposes of financial reporting under Public Sector PBE Standards (PBE Standards).

The financial statements of CFH and the Group are for the year ended 30 June 2016, and were approved by the Board of Directors on 1 September 2016.

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 framework for the Company and Group (as a PBE) is based on International Public Sector Accounting Standards (IPSAS) and is effective for periods beginning on and after 1 July 2014. These financial statements are presented and prepared in accordance with Tier 1 PBE Standards and comply with PBE Standards.

BASIS OF PREPARATION

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

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

Changes in presentation

The 2015 comparatives in the statement of comprehensive revenue and expense have been restated to reflect the separate presentation of discontinued operations, as set out in note 3. Notes relating to statement of comprehensive revenue and expense items have also been restated to present information for continuing operations only, unless stated otherwise.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

In addition, the notes to the financial statements have been re-ordered and restructured to reflect the importance of related notes to the readers. The notes include information that is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Parent and the Group. Information is considered material and relevant if, for example:

- the amount in question is significant because of its size or nature;
- it is important for understanding the results; or
- it relates to an aspect of operations that is important to future performance.

Each note has been restructured to present all information relating to that transaction or balance together in the related note. This is to assist users in understanding the accounting policy, the nature of the transaction or balance and the key assumptions, judgements and sensitivities, together with the financial effect of the transaction or balance.

GENERAL ACCOUNTING POLICIES

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

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

UFB income

UFB income is predominantly recurring access revenue, which is recognised based on the proportion of the ongoing services provided measured on a time basis. There is a portion of one-off connection revenue, which is not material in the period under review.

Impairment of financial assets carried at amortised cost

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

2. COMPOSITION OF THE GROUP

CONSOLIDATION OF THE LFCs IN THE GROUP

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, 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 CFH holds the majority of the voting shares (A shares) and extensive rights over the design, build and operations phases of UFB deployment. Accordingly, the Group has consolidated the LFCs in which it has a remaining A share interest at balance date. The apportionment of earnings to minority interests has been determined based on the distribution rights under each agreement.

The Minister of Finance, acting on behalf of the Crown, also owns one share in each LFC. This does not give rise to control of the LFCs.

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent and, while predominantly NZ IFRS based, are consistent with the Parent's accounting policies. Adjustments are made to bring in to line any dissimilar accounting policy that may exist.

Subsidiaries are consolidated from the date on which control is obtained to the date on which control is lost. Changes in the Group's interest in a subsidiary that do not result in a loss of control (for example, recycling) are accounted for as equity transactions. Any difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

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

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

Amounts previously recognised in other comprehensive revenue and expense in relation to the subsidiary are reclassified to surplus or deficit. The ENL restructure, resulting in a disposal of shares in exchange for an advance, has been accounted for in this manner, and is set out in note 3.

Measurement of minority interests in each controlled entity

The amount ascribed to minority interests represents:

- 100% of the profit after tax of each LFC, before considering impairment, as it approximates the anticipated distributable earnings to each Partner; and
- capital contributions by the minority 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 minority interests under the recycling mechanisms, measured at the original issued capital amount; less
- distributions made to minority interests.

OTHER INVESTMENTS

Determining the nature of the interests in Chorus

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

2. COMPOSITION OF THE GROUP (CONTINUED)

Determining the nature of the interest in CCHL

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

RELATED PARTY TRANSACTIONS

Significant transactions with government-related entities

CFH has been provided with funding from the Crown of \$190 million (2015: \$210 million) for specific purposes as set out in its founding legislation and the scope of the relevant Government appropriations.

Other transactions with government-related entities

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

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

Key management personnel

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

3. DISCONTINUED OPERATIONS

At 30 June 2016 ENL has been deconsolidated and UFL has been presented as held for sale. The results of both ENL and UFL are presented as discontinued operations. CFH’s investment, that has funded UFB in the Christchurch region to date and going forward, is now through a loan to CCHL. ENL continues to operate as a local fibre company responsible for the deployment of the UFB network in the Christchurch region. CFH continues to have a contractual relationship with ESL and ENL for the deployments and operation of the UFB network until May 2021. UFL will continue to operate the UFB network in the Central North Island. CFH will continue to have oversight of key matters such as price caps network, Service level Agreements, and Product Specification, and network requirements through separate Deed of Undertakings with both WNL (and UFL) and ESL (and ENL) in favour of the Crown and CFH until 31 December 2019.

DISPOSAL OF ENL

On 29 June 2016 CFH sold its shares in ENL to Enable Services Limited (ESL) and control of ENL therefore passed to ESL. Consolidation of a subsidiary ceases when control is lost, and ENL was deconsolidated. The revenue and expenses of ENL were included in the statement of comprehensive revenue and expense until the date when control was lost. Details of the assets and liabilities disposed of, and the calculation of the surplus/deficit on disposal, are disclosed below.

	Parent 2016 \$000	Group 2016 \$000
Current assets		
Cash and cash equivalents	-	1,550
Trade and other receivables	-	2,280
GST receivables	-	735
<i>Total current assets</i>	-	4,565
Non-current assets		
Property, plant and equipment	-	173,247
Investments in LFCs	36,168	-
Deferred tax assets	-	7,293
<i>Total non-current assets</i>	36,168	180,540
Total assets	36,168	185,105
Current liabilities		
Creditors and other payables	-	7,994
Deferred revenue	-	1,617
<i>Total current liabilities</i>	-	9,611
Non-current liabilities		
Deferred revenue	-	351
Borrowings	-	56,348
<i>Total non-current liabilities</i>	-	56,699
Total liabilities	-	66,310
Net assets disposed of	36,168	118,795
Net gain/(loss) on disposal		
Consideration received – CCHL loan ¹	71,492	71,492
<i>Less:</i>		
Net assets disposed of	36,168	118,795
Transaction costs	226	226
Minority interests	-	(26,311)
	36,394	92,710
Fair value gains reclassified from the AFS reserve	5,723	-
Net gain/(loss) on disposal²	40,821	(21,218)

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

3. DISCONTINUED OPERATIONS (CONTINUED)

CLASSIFICATION OF UFL AS HELD FOR SALE

As a result of the settlements of the full recycling and put option, UFL will be disposed of in the 2017 financial year, and at 30 June 2016 UFL has been presented as held for sale. UFL will be deconsolidated when the agreement is effective. Details of the assets and liabilities that are now held for sale, and the calculation of the surplus/deficit on classification as held for sale, are disclosed below.

	Parent 2016 \$000	Group 2016 \$000
Assets		
Cash and cash equivalents	-	6,086
Trade and other receivables	-	3,936
Prepayments	-	264
Property, plant and equipment ¹	-	268,670
Investments in LFCs	131,900	-
Deferred tax assets	-	13,597
Assets classified as held for sale	131,900	292,553
Liabilities		
Creditors and other payables ²	-	24,465
Employee entitlements	-	872
Deferred revenue	-	5,047
Liabilities classified as held for sale	-	30,384
Net assets classified as held for sale	131,900	262,169
Minority interests relating to assets classified as held for sale	-	(130,269)
Parent's interest in assets classified as held for sale	131,900	131,900

¹ The write-down to fair value less costs of sale of \$9.1 million has been allocated against property, plant and equipment.

² Creditors and other payables includes \$19.9 million in respect of infrastructure payments due to UFL's Partner.

DISCONTINUED OPERATIONS – IMPACT OF ENL AND UFL ON SURPLUS/(DEFICIT)

ENL was established to facilitate the construction, deployment and operation of the UFB network in certain parts of the South Island, and UFL for certain parts of the central North Island. These represent major geographical areas of the Group, and as a result both ENL and UFL represent "discontinued operations" for presentation purposes in these financial statements as ENL is no longer consolidated, and UFL is held for sale. As required by NZ PBE IPSAS, the 2015 statement of comprehensive revenue and expense has been restated to present the surplus/deficit from continuing operations, and that from discontinued operations separately. Notes relating to statement of comprehensive revenue and expense items have also been restated to present information for continuing operations only, unless stated otherwise.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

3. DISCONTINUED OPERATIONS (CONTINUED)

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

	Parent 2016 \$000	Group 2016 \$000	Parent 2015 \$000	Group 2015 \$000
Net surplus/(deficit) from discontinued operations:			(Restated)	(Restated)
UFB income	-	41,518	-	18,506
Fair value gains on FVTSD investment	23,896	-	27,533	-
Gain on disposal of subsidiary	40,821	-	-	-
Other operating income	83	193	-	112
Total income	64,800	41,711	27,533	18,618
General operating expenses	-	57,234	-	40,201
UFB contribution – LFCs	20,475	-	28,692	-
Transaction costs relating to subsidiary held for sale	289	289	-	-
Total expenses	20,764	57,523	28,692	40,201
Surplus/(deficit) before tax	44,036	(15,812)	(1,159)	(21,583)
Tax expense/(credit)	-	(4,432)	-	(7,645)
	44,036	(11,380)	(1,159)	(13,938)
Loss on disposal of subsidiary	-	(21,218)	-	-
Loss on re-measurement of subsidiary held for sale to fair value less costs to sell	-	(10,684)	-	-
Surplus/(deficit) from discontinued operations¹	44,036	(43,283)	(1,159)	(13,938)
Income from discontinued operations				
<i>Attributable to members of the Parent</i>	64,800	83	27,533	-
<i>Attributable to minority interests</i>	-	41,628	-	18,618
	64,800	41,711	27,533	18,618
Income from continuing operations				
<i>Attributable to members of the Parent</i>	13,481	11,621	12,279	8,778
<i>Attributable to minority interests</i>	-	4,434	-	2,230
	13,481	16,055	12,279	11,008
Cash flows from discontinued operations				
Net cash flows from operating activities	(432)	7,451	-	(9,018)
Net cash flows from investing activities	(17,565)	(96,762)	(55,196)	(80,160)
Net cash flows from financing activities	-	75,438	-	33,857
Net cash flows from discontinued operations	(17,997)	(13,873)	(55,196)	(55,321)

¹ Discontinued operations split between attributable to members of the Parent and attributable to minority interests are set out on the face of the statement of comprehensive revenue and expense.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

4. INVESTMENTS

The structures of investments for the LFCs, Chorus and CCHL are described below.

INVESTMENT IN THE LFCs

Investments in the LFCs are carried at fair value and are set out below:

Parent	NFL \$000	UFL \$000	ENL \$000	Total \$000
Net investments at 30 June 2014	13,517	75,659	11,964	101,140
Amount paid during the year	267	52,569	19,630	72,466
Less UFB contribution	(83)	(16,196)	(12,496)	(28,775)
<i>Initial investment recognised</i>	184	36,373	7,134	43,691
Less disposal proceeds on recycling	(1,499)	(17,003)	-	(18,502)
Net fair value movements recognised in surplus or deficit	3,501	27,533	-	31,034
Net fair value movements recognised in other comprehensive revenue and expense	-	-	2,667	2,667
Net investments at 30 June 2015	15,703	122,562	21,765	160,030
Amount paid during the year	-	25,562	28,089	53,651
Less UFB contribution	-	(4,034)	(16,441)	(20,475)
<i>Initial investment recognised</i>	-	21,528	11,648	33,176
Less disposal proceeds on recycling	(1,305)	(36,086)	-	(37,391)
Net fair value movements recognised in surplus or deficit	1,860	23,896	-	25,756
Net fair value movements recognised in other comprehensive revenue and expense	-	-	2,755	2,755
Disposal of subsidiary (note 3)	-	-	(36,168)	(36,168)
Reclassification to held for sale (note 3)	-	(131,900)	-	(131,900)
Net investments at 30 June 2016	16,258	-	-	16,258

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

	NFL		UFL ¹		ENL ²
	2016 #000	2015 #000	2016 #000	2015 #000	2015 #000
A shares held by CFH	21,331	22,635	141,026	151,551	55,806
A shares held by Partner	4,546	3,241	56,205	20,119	43,498
Total A shares	25,877	25,876	197,231	171,670	99,304
B shares held by Partner	17,632	12,715	108,696	61,529	10,078
Total number of shares	43,509	38,591	305,927	233,199	109,382
CFH interest in total number of shares (%)	49%	59%	46%	65%	51%
CFH interest in total number of voting (A) shares (%)	82%	87%	72%	88%	56%

¹ UFL is classified as held for sale at 30 June 2016 (see note 3).

² ENL was sold, effective 29 June 2016 (see note 3).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

4. INVESTMENTS (CONTINUED)

NATURE OF THE ARRANGEMENT(S)

Overview

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

- Northpower Limited for the Whangarei Candidate Area on 13 December 2010, resulting in the establishment of NFL (previously known as the Whangarei Local Fibre Company);
- WEL Networks Limited, and its subsidiary WNL, 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 UFL (previously known as Ultrafast Broadband Limited); and
- CCHL and its subsidiary Christchurch City Networks Limited (which has since changed its name to Enable Services Limited (ESL)), for the Christchurch (which includes the Kaiapoi and Rolleston areas) and Rangiora Candidate Areas on 31 May 2011, resulting in the establishment of ENL.

The Crown’s investment funds the communal infrastructure and the Partners’ investments fund the build to each premises. CFH invests in the LFCs and Chorus as premises are passed and stages are completed. NFL completed its UFB build in May 2014, and UFL completed its build in December 2015. The ENL and Chorus builds are currently in progress.

At 30 June 2016, CFH has sold its investment in ENL (see note 3), and instead has an arrangement with CCHL as set out below. CFH has classified its investment in UFL as held for sale (see note 3). The arrangements below reflect the funding for ENL prior to sale, and for UFL prior to classification as held for sale.

CFH’s investment

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

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

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

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

Partner’s investment

The Partner is required to fund the cost of connecting a premise and the end customer (essentially the fibre optic lead-in from the street), the electronics necessary to light the fibre and the LFC operational costs. The Partner 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. Any remaining A and B shares in each LFC convert to ordinary voting dividend entitlement shares 10 years from the establishment date (which is December 2010 for NFL).

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

4. INVESTMENTS (CONTINUED)

Recycling mechanisms

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

UFL recycling has been operating in a similar manner to NFL during the period; however, there has been no recycling in relation to ENL.

ACCOUNTING POLICIES

Investments in NFL and UFL

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

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

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

UFL has been classified as held for sale at 30 June 2016 (see note 3).

Investment in ENL

In the Parent company financial statements, the Company’s investments in unlisted shares of ENL were categorised as Available-for-Sale (AFS), and measured at fair value. The investments were initially recognised at fair value, with gains and losses arising from changes in fair value recognised in other comprehensive revenue and expense and accumulated as a separate component of equity in the AFS revaluation reserve. This was with the exception of impairment losses and losses upon initial investment, which were recognised directly in surplus or deficit. The accounting treatment of the disposal of ENL is set out in note 3.

KEY ASSUMPTIONS

Determining fair value

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

4. INVESTMENTS (CONTINUED)

Assumptions and sensitivities

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

Key assumptions/inputs ¹	2016 Assumption	2015 Assumption	Possible change	2016 Impact \$000	2015 Impact \$000
NFL					
Cost of equity	10%	9%	+/-2%	-1,010/+1,660	-1,010/+1,630
Terminal growth	2%	2%	+/-1%	+510/-350	+440/-310
CFH shareholding at concession end ²	17%	23%	+/-5%	-2,820/+2,390	-2,160/+1,820
UFL					
Cost of equity	NA	10%	+/-2%	NA	-20,000/+32,530
Terminal growth	NA	2%	+/-1%	NA	+7,990/-5,650
CFH shareholding at concession end	NA	40%	NA2/-5%	NA	NA/-940
ENL²					
Cost of equity	NA	12%	+/-2%	NA	-6,130/+9,810
Terminal growth	NA	2%	+/-1%	NA	+3,490/-2,510

¹ The discount rate used is 5% to 10% (2015: 5% to 12%).

² The ENL shareholding at concession end did not have key assumptions/inputs as it was not sensitive to changes in the same way as NFL and UFL due to there being no recycling, and the funding by both ESL and CFH was fixed pursuant to the shareholders’ agreement. UFL sensitivity only considered a reduction in CFH’s shareholding given the minimum agreed recycling.

Disclosure of sensitivities at 30 June 2016 is not applicable for ENL and UFL because they are sold and held for sale respectively. The UFL carrying value at 30 June 2016 is based on sale negotiations to date, and Directors do not expect a significant change in the anticipated sale price.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

4. INVESTMENTS (CONTINUED)

INVESTMENTS IN CHORUS AND CCHL

The Group and Parent investments in the Chorus Equity Securities, the Chorus Debt Securities and the CCHL loan are set out below.

CHORUS EQUITY SECURITIES

The Chorus Equity Securities are carried at fair value and are set out below:

	Chorus Equity Warrants \$000	Chorus Equity Securities \$000	Total \$000
Net investments at 1 July 2014	156	30,344	30,500
Reverse amount payable at previous balance date	-	(15,633)	(15,633)
Amount paid during the year	-	63,246	63,246
Amount payable at balance date	-	11,780	11,780
Less UFB contribution	-	(45,512)	(45,512)
<i>Initial investment recognised</i>	-	13,881	13,881
Fair value losses recognised in surplus or deficit	(106)	-	(106)
Fair value losses recognised in other comprehensive revenue and expense	-	(80)	(80)
Interest	-	3,122	3,122
Net investments at 30 June 2015	50	47,267	47,317
Net investments at 1 July 2015	50	47,267	47,317
Reverse amount payable at previous balance date	-	(11,780)	(11,780)
Amount paid during the year	-	71,380	71,380
Amount payable at balance date	-	-	-
Less UFB contribution	-	(43,745)	(43,745)
<i>Initial investment recognised</i>	-	15,855	15,855
Fair value gains recognised in surplus or deficit	206	-	206
Fair value gains recognised in other comprehensive revenue and expense	-	9,189	9,189
Interest	-	4,633	4,633
Net investments at 30 June 2016	256	76,944	77,200

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

4. INVESTMENTS (CONTINUED)

CHORUS DEBT SECURITIES AND CCHL LOAN

The Chorus Debt Securities and CCHL loan are carried at amortised cost and are set out below:

	Chorus Senior Notes \$000	Chorus Subordinated Notes \$000	Chorus total \$000	CCHL loan \$000	Total \$000
Balance at 1 July 2014	12,094	23,731	35,825	-	35,825
Reverse amount payable at previous balance date	(4,471)	(11,161)	(15,632)	-	(15,632)
Amount paid during the year	18,903	44,344	63,247	-	63,247
Amount payable at balance date	3,656	8,124	11,780	-	11,780
Less UFB contribution	(12,076)	(29,372)	(41,448)	-	(41,448)
<i>Initial investment recognised</i>	6,012	11,935	17,947	-	17,947
Interest revenue	912	2,328	3,240	-	3,240
Balance at 30 June 2015	19,018	37,994	57,012	-	57,012
Balance at 1 July 2015	19,018	37,994	57,012	-	57,012
Reverse amount payable at previous balance date	(3,656)	(8,124)	(11,780)	-	(11,780)
Amount paid during the year	23,423	47,957	71,380	-	71,380
Loan recognised on disposal of subsidiary	-	-	-	71,492	71,492
Amount payable at balance date	-	-	-	-	-
Less UFB contribution	(12,446)	(26,874)	(39,320)	-	(39,320)
<i>Initial investment recognised</i>	7,321	12,959	20,280	71,492	91,772
Interest revenue	1,372	3,389	4,761	6	4,767
Balance at 30 June 2016	27,711	54,342	82,053	71,498	153,551

NATURE OF THE ARRANGEMENT(S)

Chorus overview

The investment structure with Chorus, and now CCHL (following the sale of ENL), differs from the model adopted for CFH's investment in the 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 described below. CFH's investment in Chorus is by way of an equal share of Debt and Equity Securities i.e. 50% CFH Debt Securities and 50% CFH Equity Securities. These securities are issued progressively by Chorus, and subscribed to by CFH on a per-premises-passed basis as stages are completed and satisfy UAT.

Chorus will also issue to CFH Equity Warrants to allow CFH to participate in the upside of the financial performance of Chorus (one warrant for each \$1 of the CFH Equity Securities). The warrants are not currently considered significant.

Chorus Equity Securities – key terms

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

4. INVESTMENTS (CONTINUED)

At 30 June 2016 the Moody’s rating is Baa2 (30 June 2015: Baa3), which equates to a Standard & Poor’s rating of BBB (2015: BBB negative outlook). Both credit ratings are investment grade.

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

Chorus Debt Securities – key terms

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

The repayment profile is based on a similar regime to that for the CFH Equity Securities, including the 20% end-user fibre uptake threshold test. With fibre uptake estimated at more than 20% in 2020, the Debt Securities’ redemption profile is 18.5% in 2025 and 2030, 27.7% in 2033 and the remaining 35% in 2036.

CCHL loan

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

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

The loan becomes due for repayment proportionately if ESL sells its interest in ENL, and is repayable in full if ESL’s shareholding in ENL falls to 49% (or less) or if the build is not completed in 2019. The loan is secured by charges over the assets of ENL and ESL’s interests in shares and debt in ENL.

ACCOUNTING POLICIES

Investments in Chorus Equity Securities

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.

The investments are initially recognised at fair value, with gains and losses arising from changes in fair value recognised in other comprehensive revenue and expense and accumulated as a separate component of equity in the AFS revaluation reserve. Indications that Chorus is in significant financial difficulty and late payments are considered to be objective evidence of impairment. Impairment losses and interest are calculated using the effective interest method, and are recognised directly in surplus or deficit. Any difference in initial recognition between the fair value of the investment and the contribution by CFH is reflected in the UFB contribution line in surplus or deficit.

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

Investments in Chorus Debt Securities, and the CCHL loan

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. The accounting policy for impairment is set out in the general accounting policies section at the beginning of these financial statements. Impairment has been reviewed and it has been determined in accordance with the relevant standards that there is no impairment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

4. INVESTMENTS (CONTINUED)

Interest income is recognised by applying the effective interest method. Any difference in initial recognition between the fair value of the investment and the contribution by CFH is reflected in the UFB contribution line in surplus or deficit.

KEY ASSUMPTIONS

Determining fair value

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

Assumptions and sensitivities

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

Key assumptions/ inputs				Debt Securities		Equity Securities	
	2016 Assumption	2015 Assumption	Possible change	2016 Impact \$000	2015 Impact \$000	2016 Impact \$000	2015 Impact \$000
Fibre uptake at 2020	>20%	>20%	<20%	+3,500	+2,900	+19,000	+10,710
Senior credit spread (BBB)	280-346 bps	272-321 bps	+/-50 bps	-550/+600	-410/+450	NA	NA
Subordinated credit spread (BBB- /BB+ [2015: BBB- /BB])	371-437 bps	363-412 bps	+/-50 bps	-960/+1,000	-810/+880	-4,900/+5,300	-3,200/+3,400
Risk-free term structure	2.27%-2.94%	3.59%-4.21%	+/-100 bps	-2,900/+3,500	-2,300/+2,800	-9,400/+11,000	-6,100/+7,100

FUNDING COMMITMENTS

The Crown, through CFH, will invest over \$1.3 billion with the LFCs, Chorus (the Chorus portion being up to \$929 million) and CCHL in relation to the ENL build. The table below summarises the number of premises that the entities are expected to have built in each financial year. CFH’s investment is at an agreed amount per premises passed multiplied by the number of premises passed. The agreed amount per premises passed varies between each entity.

Cumulative number of premises passed #000	Financial year 2017	Financial year 2018	Financial year 2019
Chorus	580	685	830
LFCs (and CCHL)	299	323	340
Total premises passed #000¹	879	1,008	1,170
Total investment \$m²	988	1,131	1,315

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

5. PROPERTY, PLANT AND EQUIPMENT

	Information technology \$000	Other equipment \$000	Total \$000
Parent			
Cost			
Balance at 1 July 2014	354	121	475
Additions during the year	64	-	64
Disposals during the year	(14)	-	(14)
Balance at 30 June 2015	404	121	525
Accumulated depreciation			
Balance at 1 July 2014	201	63	264
Depreciation charge for the year	63	13	76
Disposals during the year	(13)	-	(13)
Balance at 30 June 2015	251	76	327
Net book value at 30 June 2014	153	58	211
Net book value at 30 June 2015	153	45	198
Cost			
Balance at 1 July 2015	404	121	525
Additions during the year	27	10	37
Disposals during the year	-	-	-
Balance at 30 June 2016	431	131	562
Accumulated depreciation			
Balance at 1 July 2015	251	76	327
Depreciation charge for the year	79	12	91
Disposals during the year	-	-	-
Balance at 30 June 2016	330	88	418
Net book value at 30 June 2016	101	43	144

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Information technology \$000	Other equipment \$000	UFB network assets \$000	Total \$000
Group				
Cost				
Balance at 1 July 2014	373	341	260,125	260,839
Additions during the year	1,212	638	149,686	151,536
Disposals during the year	(14)	(91)	-	(105)
Balance at 30 June 2015	1,571	888	409,811	412,270
Accumulated depreciation				
Balance at 1 July 2014	211	148	13,050	13,409
Depreciation charge for the year ¹	74	165	14,412	14,651
Disposals during the year	(13)	(51)	-	(64)
Balance at 30 June 2015	272	262	27,462	27,996
Net book value at 30 June 2014	162	193	247,075	247,430
Net book value at 30 June 2015	1,299	626	382,349	384,274
Cost				
Balance at 1 July 2015	1,571	888	409,811	412,270
Additions during the year	3,130	922	122,194	126,246
Disposals during the year	-	(219)	-	(219)
Disposal of subsidiary (note 3)	-	-	(188,808)	(188,808)
Reclassification of subsidiary to held for sale (note 3)	(4,270)	(1,315)	(301,501)	(307,086)
Balance at 30 June 2016	431	276	41,696	42,403
Accumulated depreciation				
Balance at 1 July 2015	272	262	27,462	27,996
Depreciation charge for the year ¹	911	200	21,602	22,713
Disposals during the year	-	(147)	-	(147)
Disposal of subsidiary (note 3)	-	-	(15,561)	(15,561)
Reclassification of subsidiary to held for sale (note 3)	(853)	(227)	(28,224)	(29,304)
Balance at 30 June 2016	330	88	5,279	5,697
Net book value at 30 June 2016	101	188	36,417	36,706

¹ Depreciation includes depreciation from discontinued operations of \$20.8 million (2015: \$13 million).

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

In the year ended 30 June 2015 NFL, 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 \$4.4 million, \$29.1 million and \$4.4 million respectively. ENL issued \$2.4 million of A shares and funded \$9.6 million of the network purchase through new borrowings.

ACCOUNTING POLICIES

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

Additions

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

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

Disposals

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Subsequent costs

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

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

Depreciation

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

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

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

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

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

Impairment

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

Impairment has been considered, and it has been determined there is no impairment (2015: Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

6. INTEREST

Interest rates are set out in note 15.

	Parent 2016 \$000	Group 2016 \$000	Parent 2015 \$000	Group 2015 \$000
			(Restated)	(Restated)
Continuing operations:				
Interest income				
Loans and receivables				
Chorus Debt Securities	4,761	4,761	3,240	3,240
CCHL loan	6	6	-	-
Interest earned on cash balances with financial institutions	2,015	2,015	2,128	2,133
AFS financial assets				
Chorus Equity Securities	4,633	4,633	3,122	3,122
Total interest income	11,415	11,415	8,490	8,495

Interest rates are set out in note 15.

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

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

7. DIRECTORS' FEES

	Parent 2016 \$000	Parent 2015 \$000
Continuing operations – Board member fees during the year were:		
Simon Allen	78	62
Miriam Dean	39	30
Danelle Dinsdale	39	29
Jack Matthews	39	30
Murray Milner	39	29
Keith Tempest	39	30
Total Board member fees	273	210

In the 2016 financial year, all directors received additional fees associated with Board meetings further to those scheduled. In the 2015 financial year Simon Allen, Miriam Dean, Danelle Dinsdale, Jack Matthews and Keith Tempest also received fees associated with activities outside the scheduled Board meetings.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

7. DIRECTORS’ FEES (CONTINUED)

LFC subsidiaries	Subsidiaries 2016 \$000	Subsidiaries 2015 \$000
Continuing operations – Board member fees during the year were:		(Restated)
Jo Brosnahan (NFL – Independent Chair)	60	60
Ken Hames (NFL) ¹	8	30
	68	90
Continuing operations total Board member fees – Group	341	300
Discontinued operations – Board member fees during the year were:		
Tim Lusk (ENL – Independent Chair)	70	70
Mark Bowman (ENL)	25	25
Brett Gamble (ENL)	25	25
Owen Scott (ENL)	25	25
Rodger Fisher (UFL – Independent Chair)	82	81
Mark Franklin (UFL)	40	40
Richard Prebble (UFL) ²	-	10
Margaret Devlin (UFL) ²	-	10
Anthony Steele (UFL) ²	40	30
CFH Board members also on LFC Boards were:		
Danelle Dinsdale (UFL)	40	40
Murray Milner (ENL) ³	35	35
Discontinued operations total Board member fees – Group	382	391
Total Board member fees – Group	723	691

¹ Ken Hames was appointed in the 2015 financial year.

² Richard Prebble and Margaret Devlin stepped down during the 2015 financial year, and Anthony Steele was appointed during the 2015 financial year. In addition, David Smith was appointed during the 2015 year but stepped down in May 2015. No fees were paid to David Smith during the year.

³ Chris Birkett, William Luff and Charlotte Walshe were appointed to the ENL Board on 30 June 2016, following the sale of CFH shares to the Partner. Murray Milner resigned on 29 June 2016.

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

8. EMPLOYEE ENTITLEMENTS, PERSONNEL COSTS AND KEY MANAGEMENT PERSONNEL

	Parent 2016 \$000	Group 2016 \$000	Parent 2015 \$000	Group 2015 \$000
Continuing operations:				(Restated)
Salaries and wages	4,384	4,586	4,104	4,282
Employer contributions to defined contribution plans	86	64	83	88
Other staff benefits	21	30	45	38
Total personnel costs	4,491	4,680	4,232	4,408

In respect of continuing operations, CFH has 17 full-time-equivalent employees and six contractors as at 30 June 2016 (2015: 17 and five respectively). Also in respect of continuing operations, the Group has 18 full-time-equivalent employees and six contractors as at 30 June 2016 (2015: 18 and five respectively).

	Parent 2016 \$000	Group 2016 \$000	Parent 2015 \$000	Group 2015 \$000
Continuing operations:				(Restated)
Directors (six Directors [2015: six] equals one full-time equivalent [2015: one])	273	341	210	300
Chief Executive Officer and senior management	2,270	2,448	2,348	2,524
Total key management personnel compensation	2,543	2,789	2,558	2,824

In the Parent there have been no compensation or termination benefits paid during the year (2015: Nil). In the Group no significant compensation or termination benefits have been paid during the year (2015: Nil).

Short-term employee entitlements

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

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

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

Defined contribution superannuation schemes

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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

Total remuneration paid or payable for the year

	Parent 2016 # staff	Group 2016 # staff	Parent 2015 # staff	Group 2015 # staff
Continuing and discontinued operations:				
\$100,000 – \$109,999	-	6	1	1
\$110,000 – \$119,999	-	4	1	1
\$120,000 – \$129,999	-	2	-	1
\$130,000 – \$139,999	-	2	-	-
\$140,000 – \$149,999	1	5	-	-
\$150,000 – \$159,999	1	2	2	5
\$160,000 – \$169,999	1	1	2	2
\$170,000 – \$179,999	1	1	1	2
\$180,000 – \$189,999	2	2	1	2
\$190,000 – \$199,999	1	2	1	1
\$200,000 – \$209,999	1	1	-	-
\$210,000 – \$219,999	-	2	1	1
\$230,000 – \$239,999	1	2	-	-
\$250,000 – \$259,999	1	1	1	1
\$260,000 – \$269,999	1	2	-	1
\$310,000 – \$319,999	-	1	-	-
\$320,000 – \$329,999	-	-	1	1
\$330,000 – \$339,999	1	1	-	-
\$340,000 – \$349,999	-	-	1	1
\$360,000 – \$369,999	1	1	-	-
\$370,000 – \$379,999	-	-	1	1
\$390,000 – \$399,999	1	1	-	-
\$410,000 – \$419,999	-	-	1	1
\$420,000 – \$429,999	1	1	-	-
\$440,000 – \$449,999	-	-	-	1
\$460,000 – \$469,999	-	1	-	-
\$490,000 – \$499,999	-	-	1	1
\$500,000 – \$509,999	1	1	-	-
Total employees	16	42	16	25

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

9. PROFESSIONAL ADVISORY FEES

	Parent 2016 \$000	Group 2016 \$000	Parent 2015 \$000	Group 2015 \$000
Continuing operations:				(Restated)
Accounting	38	38	212	212
Legal	809	836	644	663
Other	186	325	260	303
Total professional advisory fees	1,033	1,199	1,116	1,178

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

10. OTHER EXPENSES

	Parent 2016 \$000	Group 2016 \$000	Parent 2015 \$000	Group 2015 \$000
Continuing operations:				(Restated)
Financial statements audit fees – Audit New Zealand	120	144	120	143
Other services from Audit New Zealand – regulatory reporting	-	8	-	8
Contractors and project management	758	758	654	654
Staff travel and accommodation	236	236	221	221
Operating lease expenses	271	271	269	269
Information technology	193	193	148	148
Other	480	611	341	447
Total other expenses	2,058	2,221	1,753	1,890

Audit New Zealand, on behalf of the Office of the Auditor-General, is the auditor of CFH, NFL and ENL and PricewaterhouseCoopers is the auditor of UFL on behalf of the Office of the Auditor-General. Audit fees of UFL and ENL are included in discontinued operations.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

11. TAXATION

	Parent 2016 \$000	Group 2016 \$000	Parent 2015 \$000	Group 2015 \$000
Continuing operations:			(Restated)	(Restated)
Income tax expense/(credit) recognised in surplus/(deficit)				
Deferred tax expense relating to tax losses and the origination and reversal of temporary differences	-	(769)	-	(8,114)
Total income tax expense/(credit)	-	(769)	-	(8,114)
Reconciliation				
Surplus/(deficit) for the period	(77,481)	(79,556)	(82,257)	(108,961)
Tax expense/(credit) calculated at 28% (2014: 28%)	(21,695)	(22,276)	(23,032)	(30,509)
Effect of other expenses that are not deductible	-	-	-	831
Prior period adjustment	-	-	-	343
Unrecognised tax losses	-	(720)	-	-
Effect of non-taxable status of the Parent company	21,695	21,507	23,032	21,221
Total income tax expense/(credit)	-	(769)	-	(8,114)

The tax on discontinued operations is shown in note 3.

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

11. TAXATION (CONTINUED)

A deferred tax asset has been recognised for the unused tax losses of subsidiaries, as it is considered probable that there will be future taxable profits available against which to utilise the losses and that shareholder continuity will be maintained until these losses are utilised. This is evidenced by the LFC projections and their annual business plans. The Group has no unrecognised tax losses (2015: \$7.3 million).

Goods and services tax

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

The net amount of GST recoverable from, or payable to, Inland Revenue is presented as its own line item in the statement of financial position. The net GST paid to or received from Inland Revenue, including the GST relating to investing and financing activities, is classified as operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

12. INCOME AND EXPENSES BY CATEGORY

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

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

	Parent 2016 \$000	Group 2016 \$000	Parent 2015 \$000	Group 2015 \$000
Continuing operations:			(Restated)	(Restated)
Recognised in surplus/(deficit)				
Fair value gains/(losses) on financial assets designated as at FVTSD				
LFCs – UFB contribution	-	-	(83)	-
LFCs – fair value gains	1,860	-	3,501	-
Fair value gains/(losses) on AFS financial assets				
Chorus Equity Securities – UFB contribution	(43,745)	(43,745)	(45,512)	(45,512)
Fair value gains/(losses) on held-for-trading financial assets				
Chorus Equity Warrants – fair value (losses)/gains	206	206	(106)	(106)
Fair value losses on loans and receivables				
Chorus Debt Securities – UFB contribution	(39,320)	(39,320)	(41,448)	(41,448)
Total recognised in surplus/(deficit)	(80,999)	(82,859)	(83,648)	(87,066)
Fair value gains/(losses) on AFS financial assets				
Chorus Equity Securities – fair value (losses)/gains ¹	9,189	9,189	(80)	(80)
Total recognised in other comprehensive revenue and expense	9,189	9,189	(80)	(80)

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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

	Parent 2016 \$000	Group 2016 \$000	Parent 2015 \$000	Group 2015 \$000
Net deficit after tax	(33,494)	(122,118)	(83,416)	(100,847)
Add/(less) non-cash items				
Interest income	(9,400)	(9,400)	(6,362)	(6,362)
Fair value gain on FVTSD investments	(25,756)	-	(31,034)	-
Gain/(loss) on disposal of subsidiary	(41,047)	20,992	-	-
Loss on re-measurement of held for sale subsidiary	-	9,112	-	-
Fair value losses/(gains) on derivatives	(206)	(206)	106	106
Depreciation	91	22,713	76	14,651
UFB contribution	103,540	83,065	115,735	86,960
Deferred tax	-	(5,201)	-	(8,114)
Other non-cash items	-	72	1	42
<i>Total non-cash items</i>	<i>27,222</i>	<i>121,147</i>	<i>78,522</i>	<i>87,283</i>
Add/(less) movements in working capital items				
Trade and other receivables, GST and prepayments	(336)	6,158	214	(3,006)
Creditors and other payables	(23,328)	(62,739)	(7,614)	25,771
Employee entitlements	119	(395)	43	382
Deferred revenue	-	(3,553)	-	2,384
Net working capital reclassified to held for sale	-	26,184	-	-
Net working capital of disposed subsidiary	-	6,947	-	-
<i>Net movements in working capital items</i>	<i>(23,545)</i>	<i>(27,398)</i>	<i>(7,357)</i>	<i>25,531</i>
Add/(less) items reclassified as investing				
Movements in creditors and other payables related to property, plant and equipment ¹	53	8,245	(17)	(33,373)
Movements in creditors and other payables related to Chorus investments	23,560	23,560	7,704	7,704
Net cash from operating activities	(6,204)	3,436	(4,564)	(13,702)

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

The Company and the Group hold cash at bank, either in an interest-bearing transactional account or in a term deposit for fewer than 90 days. Given the highly liquid nature of these accounts, it is represented as cash on the face of the financial statements. All cash is held in New Zealand.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

14. CREDITORS AND OTHER PAYABLES

	Parent 2016 \$000	Group 2016 \$000	Parent 2015 \$000	Group 2015 \$000
Creditors	242	670	23,673	55,310
Accrued expenses	679	951	625	7,454
Other payables	-	1,572	-	1,596
Total creditors and other payables	921	3,193	24,298	64,360

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

At 30 June 2015 the Parent and Group creditors included \$23.6 million due to Chorus in respect of the completed UFB network build, which was settled in July 2015, and \$14.8 million in respect of infrastructure payments due to ENL's Partner, and \$15.6 million was included in liabilities related to assets held for sale in respect of infrastructure payments due to UFL's Partner.

Asset purchases are set out in note 5.

15. FINANCIAL RISK

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

MARKET RISK

Fair value interest rate risk

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

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

The average interest rate on CFH's bank term deposits is 2.8% (2015: 3.6%).

At 30 June 2015, from total borrowings of \$28.1 million, \$26 million was subject to a fixed interest rate to maturity and not sensitive to changes in interest rates. The average interest rate on these borrowings at 30 June 2015 was 6.1%. All Group borrowings were in ENL, which has now been deconsolidated.

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

Cash flow interest rate risk

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

At 30 June 2015, from total borrowings of \$28.1 million, \$2.1 million had an average interest rate of 5.3%, which was reset in August 2015 to long-term fixed interest rates of 5.4% until maturity at 2027. Accordingly, these borrowings were also not subject to significant interest rate sensitivity. As noted above, all Group borrowings were in ENL, which has now been deconsolidated.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

15. FINANCIAL RISK (CONTINUED)

Sensitivity analysis

In relation to bank deposits, as at 30 June 2016, 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 \$500,000 (2015: \$400,000) higher/lower for CFH and the Group. This sensitivity is greater than in the prior year as a greater amount of cash and cash equivalents is held at balance date than in the prior year.

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

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 CCHL; and the remaining Partners in respect of the options and forward sale arrangements in respect of NFL shares.

CFH and the Group invest surplus cash with major registered trading banks. CFH's deposits are currently held with four (2015: 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 and the Group's commitment to purchase Chorus Securities and provide further funding to CCHL. The CCHL loan is secured against the ENL shares and the assets of ENL, as described in note 4. There is no other collateral held as security. There are no material overdue or impaired assets at 30 June 2016 (2015: 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.

In meeting its liquidity requirements CFH accesses its funding through the uncalled capital mechanism, where CFH draws down funds from the Crown as required to fund the UFB investment.

Contractual maturity analysis of financial liabilities

At 30 June 2016 all CFH financial liabilities are due for repayment within one year (2015: one year).

At 30 June 2016 all Group financial liabilities are also due for repayment within one year. The Group 30 June 2015 contractual maturities are set out in the table below, showing the undiscounted contractual maturities of the Group's financial liabilities; the amounts include principal and interest payable for the tenor of the borrowings:

	Less than 1 year \$000	1-5 years \$000	More than 5 years \$000
Group 2015			
Creditors and other payables	54,350	3,909	-
Employee entitlements	1,071	-	-
Borrowings	1,708	6,831	32,314
Total	57,129	10,740	32,314

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.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

15. FINANCIAL RISK (CONTINUED)

FAIR VALUE MEASUREMENTS

The Chorus Debt Securities (carrying amount \$82 million [2015: \$57 million]) have a fair value of \$98.4 million (2015: \$61.3 million), predominantly due to mark-to-market interest rates falling compared with the amortised cost used in the initial recognition of the debt.

The borrowings of the Group at 30 June 2015 (carrying amount \$28.1 million) had a fair value of \$29.6 million.

The carrying amounts of all other financial assets and liabilities approximate their fair values at 30 June 2016 and 30 June 2015.

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

CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

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

	Parent 2016 \$000	Group 2016 \$000	Parent 2015 \$000	Group 2015 \$000
Loans and receivables				
Cash and cash equivalents	102,447	103,244	77,761	79,856
Trade and other receivables	252	920	55	3,753
Investments in Chorus Debt Securities	82,053	82,053	57,012	57,012
CCHL loan	71,498	71,498	-	-
Financial assets included within assets held for sale (note 3)	-	10,022	-	-
<i>Total loans and receivables</i>	<i>256,250</i>	<i>267,737</i>	<i>134,828</i>	<i>140,621</i>
AFS financial assets				
Investments in LFCs	-	-	21,765	-
Investments in Chorus Equity Securities	76,944	76,944	47,267	47,267
<i>Total AFS financial assets</i>	<i>76,944</i>	<i>76,944</i>	<i>69,032</i>	<i>47,267</i>
Financial assets designated as at FVTSD				
Financial assets included within assets held for sale (note 3)	131,900	-	-	-
Investments in LFCs (excluding held for sale)	16,258	-	138,265	-
<i>Total financial assets designated as at FVTSD</i>	<i>148,158</i>	<i>-</i>	<i>138,265</i>	<i>-</i>
Held-for-trading financial assets				
Investments in Chorus Equity Warrants	256	256	50	50
<i>Total held-for-trading financial assets</i>	<i>256</i>	<i>256</i>	<i>50</i>	<i>50</i>
Total financial assets	481,608	344,937	342,175	187,938
Financial liabilities measured at amortised cost				
Creditors and other payables	2,493	3,193	24,298	64,360
Borrowings	-	-	-	28,077
Financial liabilities included within liabilities related to assets held for sale (note 3)	-	24,465	-	-
<i>Total financial liabilities measured at amortised cost</i>	<i>2,493</i>	<i>27,658</i>	<i>24,298</i>	<i>92,437</i>
Total financial liabilities	2,493	27,658	24,298	92,437

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

16. CAPITAL AND CAPITAL MANAGEMENT

	Parent 2016 \$000 & #000	Group 2016 \$000 & #000	Parent 2015 \$000 & #000	Group 2015 \$000 & #000
Opening balance	737,900	737,900	527,900	527,900
Capital contribution	190,000	190,000	210,000	210,000
Balance at 30 June	927,900	927,900	737,900	737,900

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

The Crown investment made in CFH is represented by 1,555,400,200 \$1 ordinary shares issued (2015: 1,345,400,200), with 927,900,000 being fully paid (2015: 737,900,000) and 627,500,200 being unpaid (2015: 607,500,200). The Crown holds all the issued capital of CFH. All shares have equal voting and dividend rights and share equally in any distribution on wind-up.

Capital management

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

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.

17. AFS REVALUATION RESERVE

	Parent 2016 \$000	Group 2016 \$000	Parent 2015 \$000	Group 2015 \$000
Opening balance	3,734	766	1,147	846
Chorus Equity Securities – fair value gains/(losses)	9,189	9,189	(80)	(80)
LFCs – fair value gains	2,755	-	2,667	-
Reclassification of LFCs’ fair value gains to surplus/(deficit) on disposal of subsidiary	(5,723)	-	-	-
Balance at 30 June	9,955	9,955	3,734	766

18. EVENTS AFTER BALANCE DATE

CFH has invested a further \$8 million for UFB network completed in July and August 2016.

CFH received \$14 million in recycling from UFL in July 2016.

WNL will complete the early exit transaction on the 6 September 2016.

There have been no other significant events since balance.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

19. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET

The 2016 Group budgeted deficit of \$112.8 million was approved in the 2015/2016 Statement of Performance Expectations. The Parent does not publish budget figures. 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. However, there is a lack of comparability between the budget and actual results due to the presentation of discontinued operations in the actual results.

Statement of comprehensive revenue and expense

The Group full-year deficit is \$1.5 million less than budgeted. Operating expenses are generally in line with the budget; however, the budgeted statement of comprehensive revenue and expense is not comparable with the Group actual results on a line-by-line basis due to the separate presentation of continuing and discontinued operations, which was not anticipated at the time the budget was prepared. Comments on the key drivers of the net variance are set out below.

Statement of financial position

The Group net assets are \$44.2 million greater than budgeted. The budgeted position is also not directly comparable with the Group actual position on a line-by-line basis due to the deconsolidation of ENL and the separate presentation of UFL as held for sale, neither of which were anticipated at the time the budget was prepared. From a net perspective, the key drivers of the variances can be determined by the discussions on the statement of comprehensive revenue and expense and the statement of cash flows, as set out below.

Statement of cash flows

The Group net increase in cash flows of \$29.5 million is \$18.1 million favourable when compared with the budget. The budgeted cash flows are comparable with the Group actual cash flows on a line-by-line basis as both actual and budgeted amounts include the effect of continuing and discontinued operations. The key variances are set out below.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

19. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET
(CONTINUED)

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

	Group Actual 2016 \$000	Group Budget 2016 \$000
Continuing operations:		
Income		
Interest income	11,415	11,643
UFB income	4,434	37,196
Other income	206	2,716
<i>Total income</i>	16,055	51,555
Expenses		
Board fees	320	825
Audit fees	152	286
Depreciation and amortisation	1,964	23,959
Occupancy costs	271	362
Interest expense	-	7,366
Other Company overheads	9,888	44,605
UFB contribution	83,065	91,817
<i>Total expenses</i>	95,660	169,220
Surplus/(deficit) before tax	(79,605)	(117,665)
Tax expense/(credit)	(769)	(7,416)
Net surplus/(deficit) from continuing operations	(78,836)	(110,249)
Net surplus/(deficit) from discontinued operations	(43,282)	-
Net surplus/(deficit)	(122,118)	(110,249)
Other comprehensive revenue and expense	9,189	(2,541)
Total comprehensive revenue and expense	(112,929)	(112,790)
Attributed to members of the Parent	(98,570)	(93,720)
Attributed to minority interests	(14,359)	(19,070)
Total comprehensive revenue and expense	(112,929)	(112,790)

EXPLANATION OF SIGNIFICANT VARIANCES:

The key variances are:

- UFB income exceeds the budget by approximately \$9 million as the end-user connections have increased more quickly than anticipated, which in turn has driven connection revenue;
- the Chorus UFB contribution is less than budgeted by approximately \$9 million, and the Chorus Equity Securities' investment fair value uplift is greater than budgeted by approximately \$12 million. The resulting \$21 million favourable variance is mostly due to the impact of an improvement in the Chorus credit rating;
- on the deconsolidation of ENL, effective 29 June 2016, the Group recognised a \$21 million loss; and
- on the classification of UFL as held for sale, effective 30 June 2016, the Group recognised a \$9 million loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

19. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET
(CONTINUED)

STATEMENT OF FINANCIAL POSITION

	Group Actual 2016 \$000	Group Budget 2016 \$000
Assets		
Current assets		
Cash and cash equivalents	103,244	49,138
Other current assets	1,321	6,647
Assets classified as held for sale	292,553	-
<i>Total current assets</i>	397,118	55,785
Non-current assets		
Property, plant and equipment	36,706	495,415
Investments in Chorus	159,253	141,243
CCHL loan	71,498	-
Deferred tax assets	1,592	27,448
<i>Total non-current assets</i>	269,049	664,106
Total assets	666,167	719,891
Liabilities		
Total current liabilities (including held for sale)	34,587	11,061
Borrowings	-	118,883
Other non-current liabilities	-	973
Total liabilities	34,587	130,917
Net assets	631,580	588,974
Contributed capital	927,900	1,124,957
AFS reserve	9,955	1,690
Retained earnings	(453,996)	(646,211)
Equity attributable to the Parent	483,859	480,436
Total minority interests	147,721	108,538
Total equity	631,580	588,974

From a net perspective, the key drivers of the variances can be determined by the discussion on the statement of comprehensive revenue and expense and the statement of cash flows.

STATEMENT OF CHANGES IN EQUITY

	Group Actual 2016 \$000	Group Budget 2016 \$000
Opening equity	491,970	489,178
Total comprehensive revenue and expense	(112,929)	(112,790)
Capital contribution – Crown	190,000	190,000
Capital contribution and share transactions with minority interests	63,164	22,586
Dividend to minority interests	(625)	-
Total equity	631,580	588,974

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

19. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET
(CONTINUED)

STATEMENT OF CASH FLOWS

	Group Actual 2016 \$000	Group Budget 2016 \$000
Cash flows from operating activities		
Receipts from customers	46,228	39,293
Interest received	1,928	1,285
Other receipts	83	2,674
Payments to suppliers and employees	(45,291)	(50,962)
Interest paid	(2,127)	(7,366)
GST (net)	2,615	311
Net cash outflow from operating activities	3,436	(14,765)
Cash flows from investing activities		
Purchase of property, plant and equipment	(131,856)	(118,187)
Investments in Chorus	(142,760)	(122,980)
Proceeds from sale to minority interests	37,391	-
Disposal of subsidiary	(1,550)	-
Proceeds from disposal of property, plant and equipment	-	-
Net cash outflow from investing activities	(238,775)	(241,167)
Cash flows from financing activities		
Capital contribution – Crown	190,000	190,000
Capital contribution – minority interests	47,167	39,354
Debt drawdown	28,271	37,976
Dividend to minority interests	(625)	-
Net cash inflow from financing activities	264,813	267,330
Net (decrease)/increase in cash and cash equivalents	29,474	11,398
Cash and cash equivalents at the beginning of the year	79,856	37,740
Cash and cash equivalents at the end of the year	109,330	49,138

EXPLANATION OF SIGNIFICANT VARIANCES:

The key variances are set out below:

- receipts from customers are ahead of budget, as is UFB income, because end-user connections have increased more quickly than anticipated, which in turn has driven connection revenue;
- investments in Chorus Equity Securities and Chorus Debt Securities are mainly as budgeted; however, during the year CFH settled the 30 June 2015 accrual of \$23.6 million. The reversal of this accrual is responsible for most of the increased payments during the year;
- purchases of property, plant and equipment are greater than budgeted, reflecting the more-than-expected connections and subsequent Layer 2 assets;
- contributions by minority interests are required as the LFCs complete the UFB build. As can be seen above, the LFC property, plant and equipment investment is below budget, and therefore fewer cash contributions were required from Partners during the period, and likewise less debt funding was required; and
- recycling was significantly higher than budgeted, mostly due to UFL recycling, which is at the option of WNL and is driven by connections being more than anticipated.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

20. REPORTING AGAINST APPROPRIATION

WHAT IS INTENDED TO BE ACHIEVED WITH THIS APPROPRIATION

CFH has a multi-year appropriation for capital expenditure for the provision of ongoing investment funding of the Crown’s broadband investment commitment. This appropriation started on 22 August 2011 and expires on 30 June 2016.

Appropriation: Broadband Investment

This appropriation is limited to the provision of ongoing investment funding for Crown Fibre Holdings to implement the Government’s broadband investment commitment.

Appropriation

	Actual 2016 \$000	Appropriation 2016 \$000	Actual 2015 \$000	Appropriation 2015 \$000	Actual 2014 \$000
Original appropriation	408,000	408,000	408,000	408,000	408,000
Cumulative adjustments	357,000	357,000	357,000	357,000	774,500
Total adjusted appropriation	765,000	765,000	765,000	765,000	1,182,500
Cumulative actual expenditure 1 July	575,000	575,000	365,000	365,000	165,000
Current year actual expenditure	190,000	190,000	210,000	210,000	200,000
Cumulative actual expenditure	765,000	765,000	575,000	575,000	365,000
Appropriation remaining 30 June	-	-	190,000	190,000	817,500

A new multi-year appropriation for the balance of the UFB1 appropriation, of \$580 million, and an additional appropriation of \$210 million for UFB2, was made in the Government 2016 Budget.

Assessment of performance	Actual standard of performance 2015/16	Budgeted standard of performance 2015/16
Ultra-fast broadband (capable of peak speed of 100 megabits per second) is available to 90% of businesses, schools and health service providers in ultra-fast broadband candidates areas by the end of 2015 and 75% of New Zealanders by the end of 2019	Rollout targets are met	Rollout targets are met

DIRECTORY

Shareholders

Minister of Finance (Hon Bill English);
and Minister for State Owned Enterprises
(Hon Todd McClay)

Registered office

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

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PO Box 105321
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Auckland 1143
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Phone: +64 9 912 1970

Fax: +64 9 368 9201

Auditor

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

Leon Pieterse 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

Sean Wynne, Chief Commercial Officer

Philip Campbell, Chief Financial Officer

John Greenhough, Chief Technical Officer

Rohan MacMahon, Strategy Director

Kathryn Mitchell, General Counsel



A graphic consisting of several thin, curved lines in shades of blue, green, and orange, ending in small white dots, positioned above the company name.

Crown Fibre Holdings

Ultra-fast broadband for New Zealanders