



CROWN FIBRE HOLDINGS LIMITED

Statement of Intent

2012 – 2015

June 2012

Presented to the House of Representatives
pursuant to the Crown Entities Act 2004

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1. Introduction

This *Statement of Intent (SOI)* is submitted by the Board of Directors of Crown Fibre Holdings Limited (CFH), pursuant to the Crown Entities Act 2004. It sets out the objectives and intentions of CFH for the period 1 July 2012 to 30 June 2015.

Statement of responsibility

CFH is responsible for the prospective financial statements contained in this document, including the appropriateness of the assumptions underlying them. For the purposes of the SOI, parent accounts have been compiled but consolidated group accounts have not been prepared because business plans are still being finalised with Local Fibre Company (LFC) partners¹. Consolidated group accounts will be prepared, consolidating the results of the LFCs as subsidiaries of CFH, for the year end accounts.

CFH is also responsible for internal control systems that provide reasonable assurance as to the integrity and reliability of financial reporting.



Simon Allen
Chair
27 June 2012



Keith Tempest
Director
27 June 2012

¹ Appendix 1 has a glossary of the key terms used in this SOI.

2. CFH Scope, Objectives & Outcomes

2.1 *Scope of CFH's role*

CFH will:

- Deliver on the Government's Ultra-Fast Broadband (**UFB Objective**), which is to accelerate the roll-out of ultra-fast broadband to 75% of New Zealanders over 10 years (by 31 December 2019), concentrating in the first six years (to 31 December 2015) on priority broadband users such as businesses², schools and health services, plus greenfield developments and certain tranches of residential areas;
- Operate in a financially sustainable manner;
- Begin investing without providing a commercial return to the Crown; and
- Eventually provide a commercial return on the Crown's investment and operate as a successful business, when directed by the Shareholding Ministers and the Minister for Communications and Information Technology.

CFH's role in delivering on the Government's UFB Objective involves two key tasks:

1. Operating the selection process for private sector partners; and
2. Monitoring and managing the Crown's co-investment and contracts with the partners in deploying and operating the UFB network.

The first task was completed on 24 May 2011 with the announcement of the final **Co-Investment Partners** for the UFB Initiative: Northpower Limited, Waikato Networks Limited, Christchurch City Holdings Limited (through its subsidiary Enable Services Limited) and Chorus Limited³. CFH is now focusing on the second task.

2.2 *Overall CFH objective*

Clause 6 of CFH's constitution defines its purpose as:

"to implement the government's objectives in relation to the availability of, and access to, ultra-fast broadband by co-investing with private sector participants to deploy telecommunications network infrastructure."

CFH's specific goal is to achieve the Government's UFB Objective by 2019, in conjunction with other arms of government including the Ministries of Economic Development (**MED**), Education and Health. MED's role will be assumed by the new Ministry for Business, Innovation and Employment (**MBIE**) with effect from 1 July 2012.

In achieving the UFB Objective, CFH will seek to optimise the value of the capital that the Government has allocated to the UFB Initiative and that is available for CFH to invest. It will continue to work with the UFB partners and the telecommunications industry to ensure that the UFB contracts are effectively implemented (in terms of time, Crown spending, service levels etc.), and that any issues that arise are appropriately addressed.

² The policy for business priority users is to cover at least 90% by 31 December 2015.

³ Appendix 2 illustrates the Co-Investment Partners' coverage areas.

CFH is expected to operate in a financially sustainable manner within its allocated operational budget. As set out in its constitution, it is not expected to return any profit, distribution or dividend to the Government until the UFB Objective has been achieved.

Each year the CFH Board, in conjunction with its Shareholding Ministers and the Minister for Communications and Information Technology, assesses the resources it requires to monitor the Crown's investment in the UFB Co-Investment Partners, manage the contracts relating to the UFB network's deployment and operation, oversee the achievement of the UFB Objective and support the Government where required. This resourcing depends on:

- The overall progress made towards achieving the UFB Objective;
- The Co-Investment Partners' performance in satisfactorily meeting their obligations under their deployment and operations contracts; and
- The degree, by which the Crown investment is actively monitored, based on the current level of risk and the level of support required by the Government.

The intended trajectory of CFH's resourcing is described in the forecast financial statements in section 9 of this SOI.

2.3 *CFH outcomes & activities*

CFH's overarching outcome is to deliver the UFB Objective. The activities which CFH will undertake to this end are as follows:

- CFH will continue to manage and monitor the Government's investment in UFB;
- CFH will continue in its role of managing the UFB contracts with the Co-Investment Partners to deploy UFB consistent with the UFB Objective, particularly in regard to priority users;
- Through the LFCs and Chorus, CFH will ensure that the UFB network's deployment and operation and connections to end customers satisfy contractual requirements;
- Going forward, CFH will cease its role of approving changes to the UFB Wholesale Service Agreements (WSA), but will ensure that any changes to UFB wholesale arrangements with RSPs do not reduce the original specifications contracted to by the UFB Co-Investment Partners;
- Going forward, CFH will cease its role of developing any new UFB products (completing work on the RF Overlay video product), but will ensure that any new wholesale products developed by the LFCs and Chorus in consultation with the telecommunications industry are not inconsistent with the Government's UFB policy (for example, Fibre to the Premises (**FTTP**) and minimum speed);
- CFH will ensure that any changes to contracted specified products are no worse for broadband users than what was agreed with the Co-Investment Partners (in terms of price, Service Levels and Specifications);
- CFH will continue to support MED (and subsequently MBIE) as requested on activities that promote uptake of the UFB network as well as assisting in implementing the Government's "Action Plan for the Benefits of Broadband" which includes a range of initiatives to build demand for UFB services.⁽⁴⁾ This is not expected to include leading initiatives;
- CFH will manage communications as required with the industry and end customers relating to the UFB Initiative on behalf of the Government and in conjunction with the four Co-Investment Partners, including:
 - Engaging with Territorial Local Authorities (**TLAs**) to take account of local views on deployment priorities centred on demand;
 - Encouraging TLAs, LFCs, RSPs and equipment vendors to establish local demonstrations of services and applications using fibre technology in 2012 onwards, as the deployment of fibre increases (this is on the basis that CFH and the Crown will not be major investors in these initiatives); and

⁴ See <http://www.med.govt.nz/sectors-industries/technology-communication/fast-broadband/government-action-plan-for-broadband>

- CFH will continue to facilitate the establishment & operation of Digital Leadership Forums with the support of TLAs and local organisations to leverage the benefits of UFB.

In late 2011 the Government began a review of the role of CFH, and roles more generally, in relation to the UFB Initiative. The review was necessary because a clear statement of CFH's role (including its trajectory and funding to the end of the UFB build period) is important to provide certainty to the telecommunications industry now that the UFB contracts have been signed.

MED has now provided the industry with a clear description of CFH's future role. The key elements are as stated above. To implement these changes, the contracts between CFH and its four Co-Investment Partners will need to be amended. The details of these proposed changes are being developed, and will require the Partners' agreement.

3. Background Information

This SOI

This SOI focuses on CFH's role of monitoring and managing the Crown's investment, through CFH and its Co-Investment Partners, to achieve the UFB Objective.

The Co-Investment Partners are:

- Northpower Limited (**Northpower**), which will provide 1.6% of the UFB total coverage (Whangarei);
- Waikato Networks Limited (**WNL**), which is owned 85% by WEL Networks Limited (**WEL Networks**) and 15% by Waipa Networks Limited. It will provide 13.7% of the UFB total coverage, comprising Hamilton (including Cambridge and Te Awamutu), Tauranga, Tokoroa, New Plymouth, Hawera and Wanganui;
- Christchurch City Holdings Limited (**CCHL**) (through its subsidiary Enable Services Limited (**ESL**)). It will provide 15.3% of the UFB total coverage, comprising Christchurch, Rolleston, Rangiora and other smaller satellite towns; and
- Chorus Limited (**Chorus**), which will provide 69.4% of the UFB total coverage, comprising 24 Candidate Areas (all areas except those covered by Northpower, WNL and ESL): Auckland, Waiheke Island, Pukekohe, Waiuku, Rotorua, Taupo, Whakatane, Gisborne, Napier-Hastings, Palmerston North, Feilding, Masterton, Kapiti, Levin, Wellington, Nelson, Blenheim, Greymouth, Ashburton, Timaru, Oamaru, Dunedin, Queenstown and Invercargill.

The commercial nature and key terms of CFH's relationship with these Co-Investment Partners are described below.

4. Nature of the UFB Investments

Local Fibre Companies (LFCs)

During the 2011 financial year CFH entered into agreements with three Co-Investment Partners to establish LFCs. The LFCs will help to fulfil the UFB Objective by constructing, deploying and operating the UFB network in their coverage areas.

Agreements were entered into with:

- Northpower for the Whangarei Candidate Area, on 13 December 2010. This resulted in the establishment of an LFC named Whangarei Local Fibre Company Limited (**WLFC**);
- WEL Networks, through its 85% owned subsidiary WNL, for the Hamilton (including Te Awamutu and Cambridge), Tauranga, New Plymouth, Wanganui, Hawera and Tokoroa Candidate Areas, on 15 December 2010. This resulted in the establishment of an LFC named Ultrafast Fibre Limited (**UFL**); and

- CCHL and its subsidiary ESL, for the Christchurch (including the Kaiapoi and Rolleston areas) and Rangiora Candidate Areas on 31 May 2011. This resulted in the establishment of an LFC named Enable Networks Limited (ENL).

The agreements set out the key commercial terms of the relationships between CFH, the LFCs and the Co-Investment Partners. CFH has shareholdings in each of the LFCs that reflect the level of its investment, in conjunction with its Co-Investment Partner, in the deployment of the UFB network in the LFCs' Candidate Areas.

CFH and its Co-Investment Partners have board representation on the LFCs, each of which has an independent chair. CFH appointed Directors and the LFC's independent chair are set out below:

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

Overall, Network Deployment plans approved by CFH are expected to result in 70,000 premises being passed by the Co-Investment Partners by June 2012, with CFH investing up to \$80 million in Co-Investment Partners once the network build stages have been completed.

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

The Co-Investment Partner is required to fund the cost to connect a premises and end customer (essentially a fibre optic lead-in from the street), the electronics necessary to "light" the fibre and the LFC's operational costs. The Partner generally receives B shares for funding these obligations (B shares carry full dividend rights, but no voting rights until 10 years after the LFC's establishment), although a prudent level of debt is permitted in the LFC.

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

Agreement with Chorus

In May 2011, CFH entered into agreements with Telecom (which were novated to Chorus as part of the separation from Telecom) to partner with CFH in deploying UFB. These agreements required that Telecom complete a structural separation (through a demerger) into Chorus (for the fibre and copper fixed-line access network infrastructure) and Telecom (for the balance of Telecom's existing business). This demerger took effect on 30 November 2011.

Under these agreements, Chorus is to deploy FTTP in 24 Candidate Areas throughout New Zealand, with the fibre network to pass approximately 830,900 premises.

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

deployment as premises are passed and network build stages are completed, including UAT. CFH's investment in Chorus equates to a CPPP of \$1,118.

CFH's investment in Chorus (described in Appendix 3) is essentially a 50:50 mix of an interest-free debt instrument and equity notes that carry no dividend.

Chorus has an obligation to fund the costs to connect end customers as described in its (WSA) and associated Product Descriptions, the necessary **Layer 2** equipment (electronics to "light" fibre and the equipment at customers' premises), the necessary IT support platforms and operational costs.

CFH will invest directly into Chorus, which is now a separate legal entity following the demerger. This investment structure differs from the LFC model adopted for CFH's investment in WLFC, UFL and ENL.

5. Organisational Health & Capability

5.1 *Capability development*

During the period covered by this SOI, CFH will continue to develop its capability as it moves towards managing the UFB network's deployment and operation.

CFH will:

- Maintain and increase the capability of its people and the quality of its systems;
- Manage the risks that could prevent it delivering its work programme;
- Ensure that the services it delivers are as cost effective as possible;
- Ensure that its capital spending supports essential capability development;
- Aim to achieve high levels of staff engagement;
- Aim to achieve reliable and cost-effective technology management and operating systems;
- Maintain sound financial and governance systems; and
- Maintain a register of risks to the delivery of its goals, and manage these through a risk management process.

5.2 *Ensuring CFH is a good employer*

The successful achievement of the UFB Objective depends on adequate capability in a number of areas, including those relating to technical, commercial, financial and investment expertise. It is important that CFH has the ability to attract and retain skilled staff, be a good employer and offer an attractive place to work.

CFH has developed good employer policies that are consistent with the *State Services Commission Guidance on Expectations for Pay and Employment Conditions in the State Sector*. These policies are also designed to ensure that CFH is an equal opportunity employer.

5.3 *Measuring CFH's progress towards these matters*

CFH will measure its progress in developing its capability by:

- Aiming to achieve "good" ratings from audits of its management control environment and its financial information, systems and controls; and
- Regularly reviewing its progress and priorities with Ministers, and allocating resources flexibly to address changing requirements.

6. Governance

Organisation form

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

CFH is subject to certain provisions of the Crown Entities Act 2004, and to the Official Information Act 1982 and the Ombudsmen Act 1975. Its shareholders are the Minister of Finance and the Minister for State Owned Enterprises in their capacities as Ministers, with each holding 50% of the issued share capital.

CFH's aim is to provide services to the public, rather than make a financial return. Accordingly, it has designated itself as a public benefit entity.

Crown Entities Act requirements

Some Crown Entities Act provisions apply automatically by virtue of CFH being listed in Schedule 4 of The Public Finance Act. These sections are:

- Section 133, which requires the Board to supply to its responsible Ministers any information relating to its operations or performance that the Ministers request;
- Section 134, which details good reasons for refusing to supply requested information;
- Sections 154 – 156, which relate to the preparation of the annual financial statements; and
- Section 158, which relates to bank accounts.

Sections 139 and 150 of the Crown Entities Act, relating to preparing an SOI and Annual Report respectively, were applied to CFH by Order in Council.

CFH's constitution also requires it to comply with sections 162 and 163 of the Crown Entities Act as if those sections formed part of its constitution. These sections prohibit borrowing and restrict the provision of guarantees and indemnities.

CFH has been granted an exemption by the Minister of Finance from the following sections of the Crown Entities Act due to the early stage of its life cycle:

- Section 141(h), which requires that each SOI contain any process to be followed for the purpose of section 100;
- Section 142(1)(b), which requires that each SOI contain a statement of forecast service performance for the first financial year of the period to which it relates;
- Section 142(2), which requires a statement of forecast service performance to describe the classes of output the entity proposes to supply; and
- Section 151(b), which requires that an Annual Report contain a statement of service performance in accordance with section 153 in respect of the financial year to which it relates.

Other statutory requirements

Under the Public Audit Act 2001, the Controller and Auditor-General is to be the auditor of CFH.

Management of the Company

The Board of Directors is responsible for the overall direction of CFH's business and other activities on behalf of Shareholding Ministers in the manner set out in CFH's constitution and CFH's SOI. CFH's purpose is to ensure that the UFB Objective (refer 2.2) is achieved.

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

Board membership

The Board is made up of seven non-executive Directors. Directors are appointed by Shareholding Ministers following Cabinet approval. The current CFH Directors are listed in the Directory on page 27.

Board committees

To help Directors to carry out their duties, the Board has two standing committees: the Audit and Risk Committee and the Remuneration Committee. Other ad hoc and standing committees may be formed from time to time.

Audit and Risk Committee

The Audit and Risk Committee helps the Board to fulfil its responsibilities by providing recommendations, counsel and information on accounting, reporting and responsibilities under legislation. Its Terms of Reference also cover the role of internal audit.

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

Remuneration Committee

The Remuneration Committee helps the Board to fulfil its responsibilities by providing advice and recommendations on the appropriate remuneration and human resources policies for the company.

7. Reporting

CFH's reporting includes an SOI and Annual Report, ad hoc reports to Ministers of the Crown on issues as they request, and reports to Parliament. CFH reports on its progress in each Annual Report.

CFH provides any other information within its control as requested by its Shareholding Ministers or other Ministers of the Crown, subject to confidentiality requirements.

Role of Ministers

CFH's Shareholding Ministers:

- Monitor the performance of CFH (via MED and the Treasury/Crown Ownership Monitoring Unit);
- Appoint and remove CFH Directors and the CFH Chairperson; and
- Approve transactions defined by the Companies Act as "major transactions".

As noted previously and as set out in the CFH constitution, Shareholding Ministers and the Minister for Communications and Information Technology have the ability to change, by special resolution, CFH's objective from implementing the UFB Objective to operating as a successful, profit-driven business. No such special resolution has been passed by Shareholding Ministers as at the date of this SOI.

8. Performance Targets

CFH will measure progress in achieving the UFB Objective using three key performance measures:

- **Coverage** – measures the total number of Premises passed by fibre optic cable (including conduit capable of having fibre optic cable deployed in it on demand) in the Candidate Areas in a given year. The targets are based on the sum of the forecast Premises in approved Network Deployment Plans (**NDPs**) with the LFCs and Chorus for each particular year. Where NDP's have not been approved, CFH has made forecasts based on Business Plans and estimates. As these deployment targets are based on forecasts and estimates where, final NDPs have not yet been approved for the full SOI period, some variances will result, but these are not expected to be material;
- **Service Performance** – measures the performance of the LFCs and Chorus in connecting new end customers to the UFB network, fixing customer faults, network availability, and network performance. The performance is measured against set Service Level Agreements (**SLAs**) for priority and non-priority customers; and
- **End Customer Connections** – measures the number of connections made by end customers to the UFB network and is a key indicator of customer uptake of UFB. Connection forecasts are being agreed with the LFCs and Chorus as part of the business planning process, the focus to date having been on the NDPs for the LFCs and Chorus. The SOI for 2013 to 2016 will include this measure.

The following tables show the actual measures for Coverage and Service Performance.

Table 1 Coverage

Year	Jun-12		Jun-13		Jun-14		Jun-15		Jun-16		Dec-19
Premises (in thousands)	Target	% Project Completed	Target	% Project Completed	Target	% Project Completed	Target	% Project Completed	Target	% Project Completed	Estimated Total Premises Target
Business	9.3	7%	47.0	37%	78.7	62%	110.7	87%	118.2	93%	127.7
Education	0.2	14%	0.7	50%	0.9	64%	1.3	93%	1.4	100%	1.4
Health	0.3	11%	0.9	32%	1.9	68%	2.6	93%	2.8	100%	2.8
Total Priority Premises	9.8	7%	48.6	37%	81.5	62%	114.6	87%	122.4	93%	131.9
Greenfields	0.3	1%	3.3	8%	6.5	15%	9.4	22%	16.5	38%	43.4
Residential	59.9	6%	177.5	18%	314.8	32%	446.9	45%	595.6	60%	993.1
Total Premises	70.0	6%	229.4	20%	402.8	34%	570.9	49%	734.5	63%	1,168.4
<i>Weighted Average CFH Funding per Premise</i>	\$ 1,474		\$ 1,115		\$ 1,110		\$ 1,103		\$ 1,103		\$ 1,110

Coverage

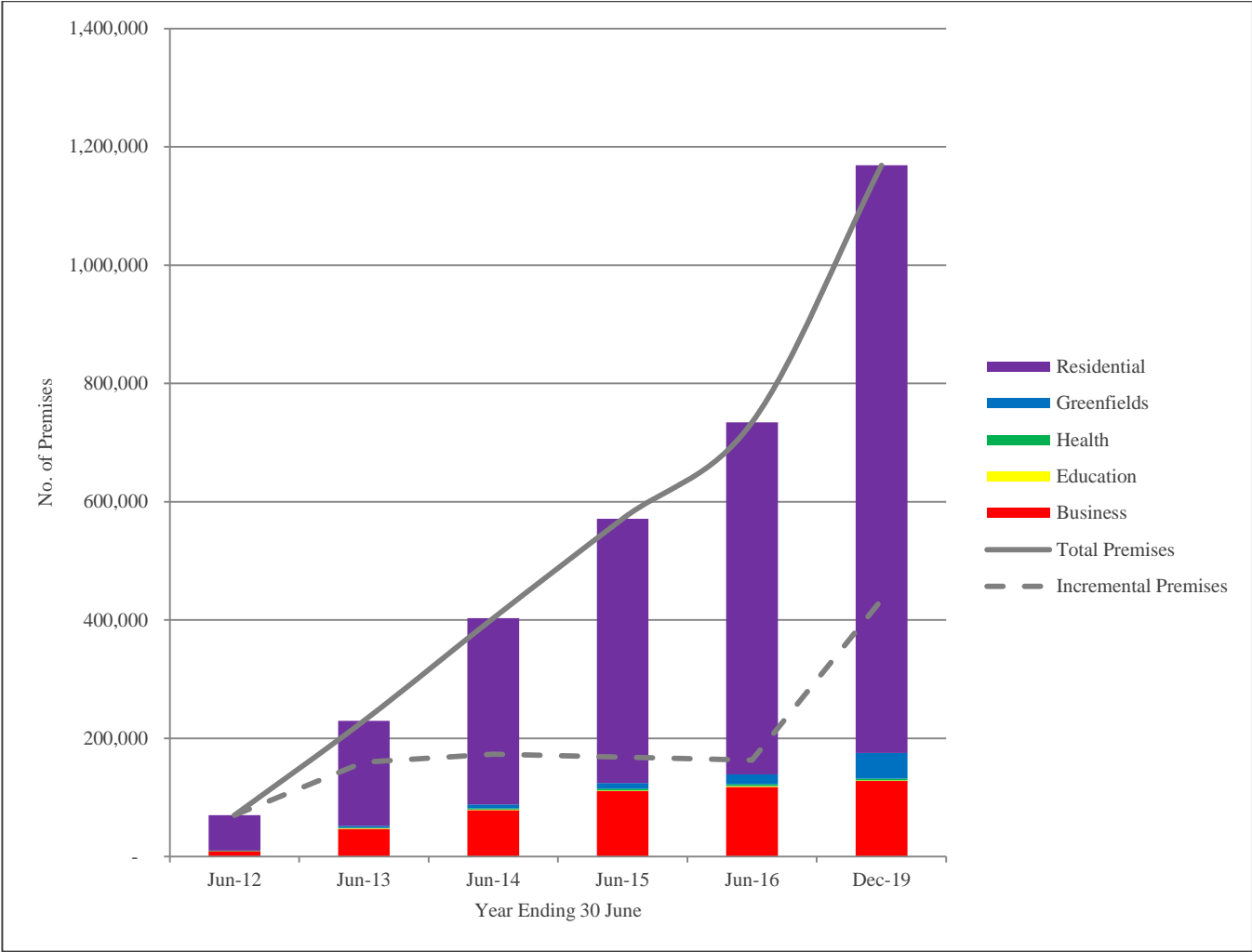
The actual passings of Premises will be reported on by the categories set out in Table 1. The premises totals shown above are cumulative, reflecting the progress of network build – i.e. by the end of 30 June 2015, it is expected that 571,000 premises will have been passed by fibre optic cable and 49% of the network build completed.

The number of premises is an estimate based on Statistics New Zealand’s population forecasts and does not yet include additional greenfields premises to be built as a consequence of the Christchurch earthquakes. Greenfields premises are prioritised as they become available.

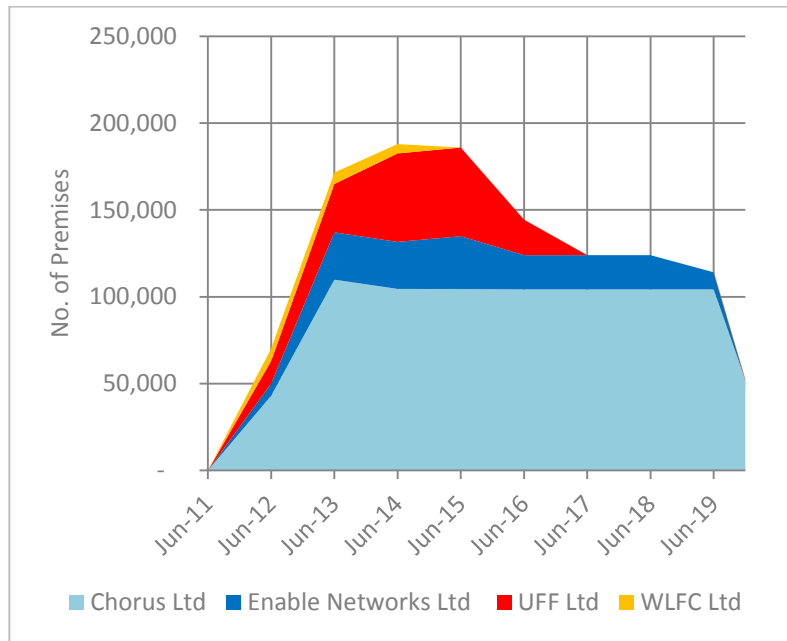
The table above includes the premises passed by the existing fibre optic networks of Northpower and ESL that have been transferred into the respective LFCs. In terms of total premises, these are not considered material.

The “priority premises” targets do not incorporate existing priority premises passed by Chorus, Enable and Northpower with existing non-UFB networks. The transfers of existing networks from Northpower and ESL were completed on 31 December 2011 and 10 February 2012 respectively. These premises will be incorporated into the Coverage measures as plans are put in place to bring these passings up to UFB specifications. Table 1 shows that, based on deployment forecasts, the Government objective of Priority Users being past by 31 December 2015 is met.

Graph 1 Coverage by premises type



Graph 2 - Coverage by Partner



Graph 3 Priority and non-priority premises

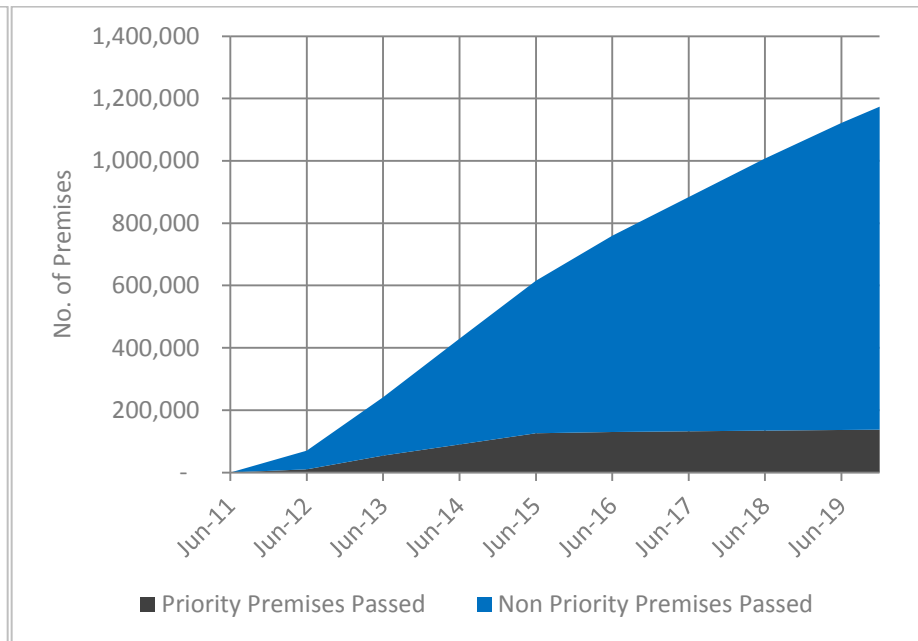


Table 2 Service Performance measures

Service	Target
SLA Provisioning per End User <ul style="list-style-type: none"> • Residential • Business/Priority 	≤ 4 days (business days) ≤ 6 days
Layer 2 Performance per End User <ul style="list-style-type: none"> • Residential Restoration • Business/Priority Restoration 	≤ 12 hours ≤ 12 hours
Layer 2 Network Performance per Candidate Area <ul style="list-style-type: none"> • Frame Loss (99% of Frames) • Frame Delay (99% of Frames) • Frame Delay Variation (99% of Frames) • Availability Time/Network 	≤ 0.1% ≤ 5mS <1mS < 30 minutes/> 99.99%
Layer 1 Performance per End User <ul style="list-style-type: none"> • Default Restoration • Level 1 SLA Restoration (Priority) • Level 2 SLA Restoration (Priority) • Level 3 SLA Restoration (Priority) 	≤ 48 hours ≤ 24 hours ≤ 12 hours ≤ 8 hours
Layer 1 Performance by Candidate Area <ul style="list-style-type: none"> • Average downtime • Minimum availability 	≤ 2 hours 99.98%

Service Performance

The minimum Service Performance measures detailed in Table 2 have been contractually agreed by Chorus and the LFCs as part of the agreements entered into with CFH, and each LFC and Chorus also offers enhanced SLAs with improved performance guarantees.

The SLAs are between the LFCs and Chorus and each RSP and are committed to in the WSAs in respect to SLAs relating to end connections and with CFH in respect to network SLAs by Candidate Area. As the UFB network is still at an early stage of build, and network segments are being released for sale by RSPs, there are no actual performance metrics to measure at this point. Definitions and explanations of these terms are set out below and in Appendix 1.

The SLA for Provisioning is the measure of the agreed time for the installation of a connection to the UFB network. Typically this will be a connection from the communal infrastructure (UFB fibre optic cable) that passes the customer's premises to the actual customer's premises and terminates on an Optical Network Terminal (**ONT**) for residential and small to medium business users, or an Optical Network Unit (**ONU**) for Point to Point services. This equipment is owned by the LFC or Chorus and located inside the customer's premises. An ONT or ONU can be considered similar in use to a modem, which converts the optical signals into traffic that can be used within the home or business e.g. phone calls, data and video.

The SLA for Restoration and Availability is the measure of the agreed time for the restoration of full service following a fault. The service provider must ensure that the fault is fixed within this time and the service made available for the customer's use. The targets for availability are cumulative in a 12-month period, applying to individual faults and where a customer has multiple faults in a 12-month period.

Network Performance is the measure of the time it takes for information to travel between a Network Point of Interconnect and an end customer. The actual mechanism to measure this is to be agreed between CFH, Chorus and the LFCs.

Customers are able to enter specific priority service level agreements with their RSPs that will allow for enhanced levels of service, such as shorter fault-restoration times which the LFCs and Chorus can provide. Examples of priority customers include schools, businesses and medical centres.

End Customer Connections

The UFB network is being progressively activated and launched to market. A number of activities need to occur before a particular network segment or locality is activated and ready for RSPs to provide UFB services to end customers. These include:

- The RSPs entering into WSAs with the LFCs or Chorus. WSAs are agreements for the supply of wholesale services between the LFCs, Chorus and the RSPs;
- The RSPs completing “on-boarding”, which is the process of interoperability testing of RSP equipment on the UFB network and integrating the equipment, processes and procedures with LFCs and Chorus;
- Operational Support Systems and Business Support Systems and processes being in place with Chorus, the LFCs and the RSPs to electronically enable the placement of connection orders, manage progress and raise trouble tickets in the case of faults;
- Layer 2 equipment, the core electronics that “light up” the fibre, being installed and commissioned by the LFCs and Chorus; and
- Sufficient fibre network deployment having completed UAT for RSPs to offer UFB commercial services to end customers.

As RSPs’ on-boarding and network activations are still only beginning, forecast uptake and customer connection targets are not available. CFH will report on actual uptake and connections as part of its 2013 Annual Report.

It is anticipated that all UFB Co-Investment Partners will have launched UFB networks to market by mid-2012.

9. Forecast Financial Statements

For the periods where deployment plans have yet to be finalised, and within the period covered by this SOI, UFB investment flows have been estimated based on annual build commitments for Chorus and indicative network build programmes for Northpower, WNL and ESL. Northpower has a build programme that will see the network in its Candidate Area completed in three years, while WNL and ESL are programmed to complete their Candidate Areas in five and nine years respectively and Chorus by 2019.

Note that this SOI has been compiled on a parent accounts basis. Business plan information with the final UFB investment flows from the LFCs was not finalised in time to allow a group SOI to be prepared. CFH will be preparing consolidated group accounts at year end. The targets below reflect progress towards the UFB Objective, and relate to specific features of the UFB Objective. For the SOI period, CFH’s financial measures will be as follows⁽⁵⁾:

⁵ These targets will be reassessed at the end of each SOI period.

Prospective Statement of Comprehensive Income for the Period 2012 – 2015

	Note	2011/12 Forecast \$000	2012/13 Forecast \$000	2013/14 Forecast \$000	2014/15 Forecast \$000
Income	1	1,830	1,129	1,122	1,115
Expenses					
Board operations		273	307	307	307
Audit fees		120	100	100	100
Depreciation and amortisation		118	93	74	84
Occupancy costs		241	241	265	265
Other company overheads		7,356	5,938	5,614	4,383
Total expenses	2	8,076	6,678	6,360	5,139
Net surplus/(deficit) before write-down of initial recognition on investments		(6,246)	(5,549)	(5,238)	(4,024)
Write-down on initial recognition of investments:					
Write-down on initial recognition on investments – LFCs	3	16,882	36,196	40,012	30,606
Write-down on initial recognition on investments – equity securities		7,701	50,740	61,231	49,616
Write-down on initial recognition on investments – debt securities		7,574	49,904	60,223	48,799
Total write-down on initial recognition on investments		32,158	136,840	161,467	129,021
Total comprehensive income		(38,404)	(142,389)	(166,705)	(133,045)

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

Prospective Statement of Movements in Equity for the Period 2012 – 2015

	2011/12 Forecast \$000	2012/13 Forecast \$000	2013/14 Forecast \$000	2014/15 Forecast \$000
Balance as at 1 July	12,390	101,486	159,097	174,892
Net surplus/(deficit)	(6,246)	(5,549)	(5,238)	(4,024)
Write-down on initial recognition on investments	(32,158)	(136,840)	(161,467)	(129,021)
New Crown investment in the period	127,500	200,000	182,500	190,000
Closing equity	101,486	159,097	174,892	231,847
Made up of:				
Retained earnings	(23,010)	(61,415)	(203,803)	(370,507)
Net surplus/(deficit)	(6,246)	(5,549)	(5,238)	(4,024)
Write-down on initial recognition on investments	(32,158)	(136,840)	(161,467)	(129,021)
Cumulative Crown investment for the period	162,900	362,900	545,400	705,400
Closing equity	101,486	159,097	174,892	231,847

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

Prospective Statement of Financial Position for the Period 2012 – 2015

Note	2011/12 Forecast \$000	2012/13 Forecast \$000	2013/14 Forecast \$000	2014/15 Forecast \$000
Current assets				
Cash and short-term deposits	81,837	87,633	48,387	63,407
Other current assets	355	287	144	238
Total current assets				
	82,129	87,920	48,532	63,645
Non-current assets				
Property, plant and equipment	4 230	213	189	156
Investments in LFCs and Chorus	5 20,214	71,427	126,917	168,403
Total non-current assets				
	20,444	71,640	127,106	168,559
Total assets				
	102,636	159,561	175,638	232,204
Represented by:				
Current liabilities				
	1,150	464	745	356
Shareholders' equity				
Closing equity	6 101,486	159,097	174,893	231,848
Total shareholders' equity				
	101,486	159,097	174,893	231,848
Total liabilities and shareholders' equity				
	102,636	159,561	175,638	232,204

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

Prospective Statement of Cash Flows for the Period 2012 – 2015

	2011/12 Forecast \$000	2012/13 Forecast \$000	2013/14 Forecast \$000	2014/15 Forecast \$000
Cash flows from operating activities				
Receipts from income	1,571	947	1,265	753
Payments to suppliers	(6,239)	(3,176)	(2,412)	(2,525)
Payments to employees	(4,677)	(4,308)	(4,075)	(3,133)
Goods and services tax (net)	643	461	482	482
Net cash flows from operating activities	(8,702)	(6,076)	(4,739)	(4,423)
Cash flows from operating activities				
Purchase of property, plant and equipment	(75)	(75)	(50)	(50)
Net investment in LFCs* during the year:				
Investment in WLFC	(7,131)	(9,299)	(5,235)	2,650
Investment in UFL	(22,771)	(38,266)	(36,089)	(24,873)
Investment in ENL	(4,319)	(21,100)	(31,540)	(31,540)
Investment in Chorus during the year:				
Equity securities	(9,060)	(59,694)	(72,037)	(58,372)
Debt securities	(9,060)	(59,694)	(72,037)	(58,372)
Net cash flows from investing activities	(52,416)	(188,128)	(217,006)	(170,557)
Cash flows from financing activities				
Capital introduced	127,500	200,000	182,500	190,000
Net increase/(decrease) in cash	66,382	5,796	(39,245)	15,020
Opening balance	15,455	81,837	81,633	48,387
Closing balance	81,837	87,633	48,387	63,407

* The net investment during the year is net of the recycling transactions.

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

Reporting entity

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

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

Accordingly, CFH has designated itself as a public benefit entity (PBE) for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). CFH is a public authority and consequently is exempt from the payment of income tax. Accordingly, no provision has been made for income tax.

The Crown does not guarantee the liabilities of CFH in any way and CFH is prevented from borrowing funds unless authorised by Shareholding Ministers as per S162 and S160 of the Crown Entities Act 2004.

Basis of preparation

Statement of compliance

The prospective financial statements are for the years ended 30 June 2012, 30 June 2013, 30 June 2014 and 30 June 2015.

The prospective financial statements have been prepared in accordance with the Crown Entities Act 2004, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

The prospective financial statements comply with FRS-42 Prospective Financial Statements and NZ GAAP as it relates to prospective financial statements.

It is intended that the annual historical financial statements for the above periods will be prepared in accordance with NZ GAAP, NZ IFRS and other applicable financial reporting standards as appropriate for PBEs using the policies outlined below.

The prospective financial statements were authorised for issue by the Board of Directors on 27th June 2012. The Board of Directors is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures.

Actual financial results achieved for each forecast period are likely to vary from information presented and the variations may be material.

Measurement base

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

Functional and presentation currency

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

Early adopted amendments to standards

The following amendments to standards have been early adopted and incorporated in CFH's accounting policies:

- NZ IAS 24 Related Party Disclosures (Revised 2009) – The effect of early adopting the revised NZ IAS24 is:
 - more information is required to be disclosed about transactions between CFH and entities controlled, jointly controlled or significantly influenced by the Crown;
 - commitments with related parties require disclosure; and
 - Information is required to be disclosed about any related party transactions with Ministers of the Crown.

Standards, amendments and interpretations issued that are not yet effective and have not been adopted early

Standards, amendments and interpretations issued but not yet effective that have not been adopted early, and that are relevant to CFH, are:

- NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus/deficit. The new standard is required to be adopted for the year ended 30 June 2014. CFH has not yet assessed the effect of the new standard.

Significant accounting policies

Revenue

Interest

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

Recycling mechanism

As WLFC and UFL connect customers to the network, the Co-Investment Partner either is required or has the option to purchase from CFH its A shares based on the number of premises connected, the CPPP paid and an indexation mechanism (by Producer Price Index). This arrangement has been classified within the investment in each LFC as it is a core part of the overall investment agreement.

Investments in subsidiaries (LFCs)

CFH's investments in unlisted shares of LFCs are categorised as available-for-sale financial assets, and are measured at fair value. Gains and losses arising from changes in fair value are recognised in other

comprehensive income and accumulated as a separate component of equity in the available-for-sale revaluation reserve, with the exception of impairment losses and losses upon initial investment, which are recognised directly in surplus or deficit in the statement of comprehensive income. Any difference on initial recognition between the fair value of the investment and the contribution by CFH represents CFH's and the Crown's contribution to the deployment of UFB in New Zealand, and is reflected in the line "Write-down on initial recognition of investments" in surplus or deficit in the statement of comprehensive income.

Other investments – Chorus

CFH's investment in Chorus debt securities is categorised as a "loans and receivables" financial asset and is measured initially at fair value and subsequently at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest method. Any difference on initial recognition between the fair value of the investment and the contribution by CFH represents CFH's and the Crown's contribution to the deployment of UFB in New Zealand, and is reflected in the line "Write-down on initial recognition of investments" in surplus or deficit in the statement of comprehensive income.

In CFH's financial statements, the investment in unlisted equity securities of Chorus is categorised as an available-for-sale financial asset, is measured at fair value, and is accounted for in the same manner as the available-for-sale LFC equity instruments above.

CFH's investment in Chorus's equity warrants is treated as a derivative, which is categorised as a "fair value through profit or loss" financial instrument, is measured at fair value and is accounted for in the same manner as the "fair value through profit or loss" financial instruments above.

Creditors and other payables

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

Goods and services tax

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

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

Commitments and contingencies are disclosed exclusive of GST.

Income tax

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

Statement of cash flows

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

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily converted to known amounts of cash and are subject to an insignificant risk of changes in value.

Operating activities are the principal revenue-producing activities of the Company and other activities that are not investing or financing activities.

Investing activities are those activities relating to the acquisition and disposal of current and non-current investments, property, plant and equipment, intangible assets and other non-current assets.

Financing activities are those activities that result in changes in the size and composition of the contributed equity of the Company.

Critical accounting estimates and assumptions

In preparing these financial statements CFH has made estimates and assumptions concerning the future. These estimates and assumptions may differ from subsequent actual results.

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In particular management has exercised its judgement in respect of arriving at the fair values of the investments in the LFCs and Chorus. This includes key assumptions in respect of the financial performance of the LFCs (including fibre uptake by customers within their Candidate Areas) and the fibre uptake by Chorus customers by June 2020. Further detail as to the fair value is set out in the sections titled “Investments in subsidiaries (LFCs)” and “Other investments – Chorus” and in notes 3 and 5 below.

Notes to the accounts

Note 1: Income is interest received from cash at bank and on short-term deposit.

Note 2: Total expenses – costs included are staff and contractor costs, administrative overheads, advisory fees and professional services costs.

Note 3: Write-down on initial recognition of investments – this item is the difference between the cash investment into the LFCs or Chorus, in return for shares in the LFCs, and debt and equity securities in Chorus, and the fair value of the investment on initial recognition. The write-down by CFH represents CFH’s and the Crown’s contribution to the deployment of UFB in New Zealand.

Note 4: Property, plant and equipment – fixed asset purchases for CFH operations principally relate to IT equipment and office fixtures.

Note 5: Investment in LFCs and Chorus – the following table sets out the opening balance, forecast investments in each of the LFCs and Chorus during the financial year, the write-down of these investments as described in note 3 above and the closing balance.

	2011/12 Forecast \$000	2012/13 Forecast \$000	2013/14 Forecast \$000	2014/15 Forecast \$000
Investment in LFCs and Chorus				
<i>Whangarei Local Fibre Company Limited</i>				
Balance as at 1 July	31	3,008	6,913	9,120
Net investment during the year*	7,131	9,299	5,235	(2,650)
Write-down on initial recognition on investments	(4,154)	(5,393)	(3,047)	1,537
Balance as at 30 June	3,008	6,913	9,120	8,007
<i>Ultrafast Fibre Limited</i>				
Balance as at 1 July	-	12,980	34,791	55,362
Net investment during the year*	22,771	38,266	36,089	24,873
Write-down on initial recognition on investments	(9,792)	(16,454)	(15,518)	(10,695)
Balance as at 30 June	12,980	34,791	55,362	69,539
<i>Enable Networks Limited</i>				
Balance as at 1 July	-	1,382	8,134	18,277
Net investment during the year*	4,319	21,100	31,540	31,540
Write-down on initial recognition on investments	(2,937)	(14,348)	(21,447)	(21,447)
Balance as at 30 June	1,382	8,134	18,227	28,320
<i>Chorus Limited</i>				
<u>Equity securities</u>				
Balance as at 1 July	-	1,359	10,313	21,119
Net investment during the year	9,060	59,694	72,037	58,372
Write-down on initial recognition on investments	(7,701)	(50,740)	(61,231)	(49,616)
Balance as at 30 June	1,359	10,313	21,119	29,874
<u>Debt securities</u>				
Balance as at 1 July	-	1,486	11,276	23,090
Investment during the year	9,060	59,694	72,037	58,372
Write-down on initial recognition on investments	(7,574)	(49,904)	(60,223)	(48,799)
Balance as at 30 June	1,486	11,276	23,090	32,663
Net closing balance investment in LFCs and Chorus	20,214	71,427	126,917	168,403

* The net investment during the year is net of the recycling transactions.

Note 6: Closing equity is the Crown's investment made in CFH represented by 1,345,400,200 ordinary shares issued, with 127,500,200 fully paid at an issue price of \$1 each and 1,217,900,000 being unpaid as at 30 June 2012. Forecast calls of amounts reflected in the statement of cash flows for each of 2013, 2014 and 2015 are to fund operational costs and investments in the LFCs and Chorus.

10. Consultation with Ministers

CFH will, in relation to any single or connected series of transactions, consult its Shareholding Ministers and the Minister for Communications and Information Technology on substantial matters not contemplated in this SOI or business plan, including:

1. Any substantial capital (or equity) investment above the agreed threshold for activities within CFH's scope of its core business in New Zealand;
2. Any substantial capital (or equity) investment outside New Zealand above the agreed threshold;
3. Any substantial expansion of activities outside the scope of its core business above the agreed threshold;
4. The sale of any shares or the sale of all or substantially all of CFH's network assets;
5. The sale or disposal of the whole or any substantial part of the business or undertaking of CFH; and
6. Where CFH holds more than 20% or more of the shares in any company or body corporate (not being a subsidiary of CFH), the sale or disposal of any shares in that company.

Shareholder consent will be obtained for the sale of any of the shares of CFH or the sale of all, or substantially all, of CFH's assets. Shareholding Ministers will continue to be advised of any other significant transactions, even if they do not meet the thresholds.

11. Directory

Shareholders

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

Registered office

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

Contact address

PO Box 105321
Auckland 1143
New Zealand

Email: info@crowdfibre.govt.nz

Web: www.crowdfibre.govt.nz

Phone: +64 9 912 1970

Fax: +64 9 368 9201

Auditor

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

Solicitor

Bell Gully

Bankers

Westpac Banking Corporation Limited
ANZ National Bank Limited
Bank of New Zealand Limited
ASB Bank Limited

Senior Management

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

Board of Directors

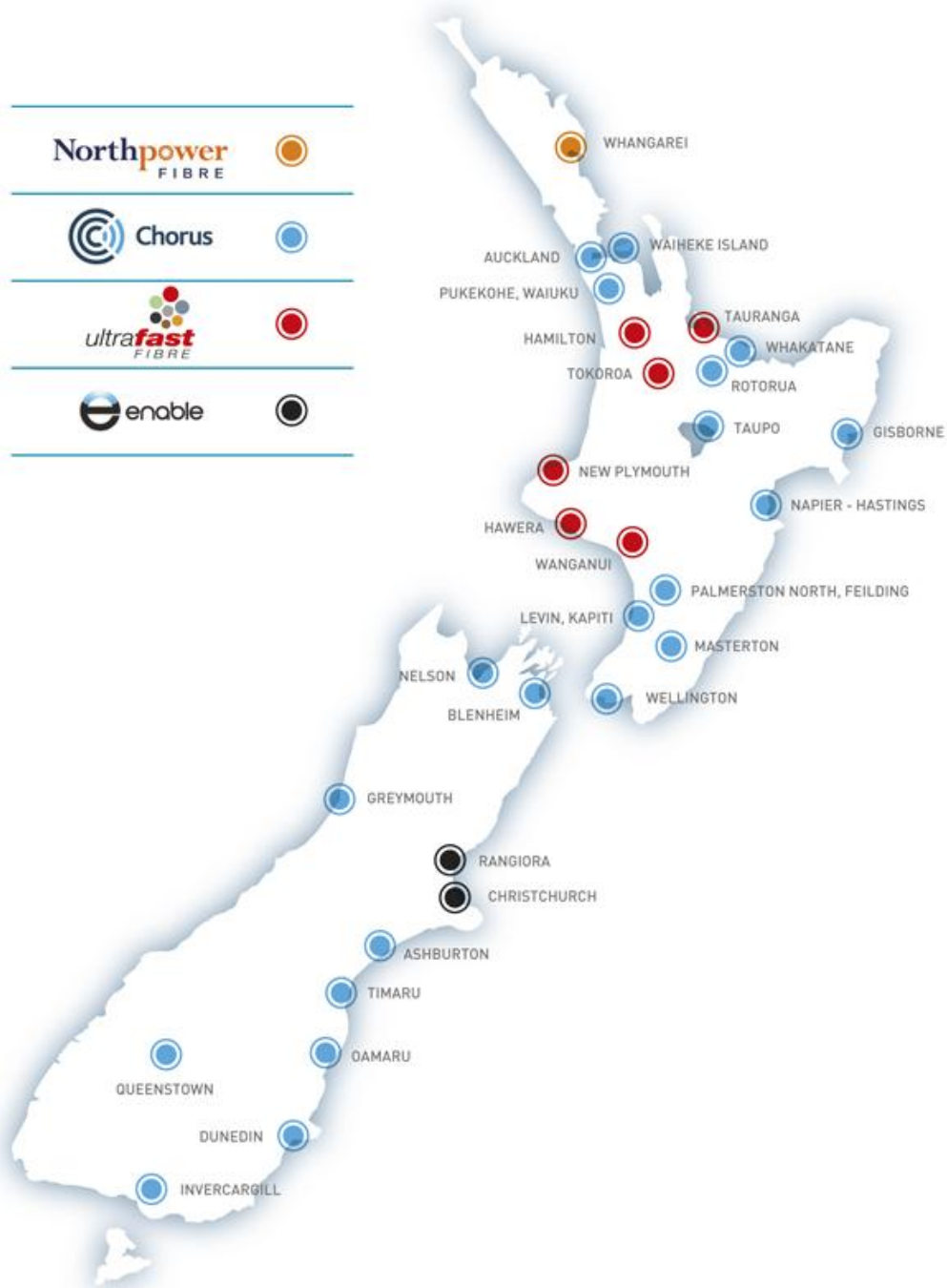
Simon Allen (Chairman)
Andrew Body
Miriam Dean CNZM QC
Danelle Dinsdale
Jack Matthews
Dr Murray Milner
Keith Tempest

Appendix 1: Supporting Definitions

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

Layer 1	Layer 1 of the OSI Model, which is normally associated with passive fibre optic network infrastructure.
Layer 2	Layer 2 of the OSI Model, which is normally associated with active fibre optic network infrastructure.
Local Fibre Company (LFC)	An entity in which CFH, the Government and a Co-Investment Partner hold shares, and through which the investment of CFH and the Partner in relation to the UFB Objective is effected.
Network Deployment Plan (NDP)	An operational document that sets out the agreed timings and design and build requirement for the deployment of the UFB network by each Co-Investment Partner.
Network Performance	The time it takes for information to travel between two specific points of measure, such as between a Network Point of Interconnect and an end customer. This will be measured on a sample basis, with the actual mechanism to achieve this to be agreed between CFH, Chorus and the LFCs.
Optical Network Terminal (ONT)	The active equipment at the customer premises and is the point that the End User connects to GPON Services.
Optical Network Unit (ONU)	The active equipment at the customer premises that terminates high-speed Point-to-Point Ethernet Services.
OSI Model	Open Systems Interconnect Model for communications architecture
Operational Support Systems	The collection of computer systems that enable telecommunications companies to manage, monitor and control telecommunication networks.
Passings	Where premises have been passed with fibre optic cable, or conduit capable of having fibre optic cable inserted, and the premises are able to be connected to the nearest point of the premises' boundary
Premises	A single building or structure located on a defined geographical site (such as may be evidenced by a certificate of title), which has a unique physical address recognised by New Zealand Post and is occupied by or could readily be occupied by a potential end customer and, for the avoidance of doubt, a premises does not include a Non Business Access Point (NBAP), and a multi-tenanted building or structure constitutes a single premises.
Priority Users	Businesses (of any size, including private sector health providers), schools (including state, state integrated and independent schools) and health service providers (hospitals and significant health care provider sites, for example emergency and medical centres, and radiologists).
Retail Service Provider (RSP)	Any company who provides a Retail Telecommunications Service to an end customer.
SLA Provisioning	A Service Level Agreement between an LFC or Chorus and an RSP for the provision of service to an end customer at a certain standard.
Telecom	Telecom Corporation of New Zealand Limited
Territorial Local Authority (TLA)	e.g. a local council.
UFB	A minimum uncontested 100 megabytes per second (Mbps) downlink and 50 Mbps uplink and capable of being upgradeable to ten times the stated Mbps speed.
User Acceptance Testing (UAT)	The acceptance testing of the UFB network in accordance with the processes and procedures agreed between CFH and a Co-Investment Partner
Wholesale Services Agreement (WSA)	An agreement between an LFC (or Chorus) and an RSP for the provision of wholesale UFB telecommunication services

Appendix 2: UFB Coverage Areas and Co-Investment Partners



Appendix 3: Key Terms of CFH's Investment in Chorus

CFH's investment in Chorus will be by way of an equal proportion of debt securities and equity securities i.e. 50% CFH Debt Securities and 50% CFH Equity Securities. These will be issued progressively by Chorus, and subscribed to by CFH, on a per-premises basis as stages are completed and satisfy UAT.

Chorus will also issue to CFH equity warrants to allow CFH to participate in the upside of the financial performance of Chorus (one warrant for each \$1 of CFH Equity Securities). These warrants are exercisable by CFH at its election but it is unlikely that they will be exercised by CFH unless Chorus's Total Shareholder Return exceeds a return hurdle of 16% per annum in the relevant period.

The respective terms of the CFH Equity Securities and CFH Debt Securities are set out below, with the key conditions precedent to any CFH investment being effective structural separation (which occurred on 30 November 2011), that Chorus has not breached any banking covenants and that Chorus has obtained an investment-grade credit rating (a "BBB" long-term issuer credit rating by Standard & Poor's Ratings Services was announced on 1 December 2011).

The CFH Equity Securities carry no rights to vote at meetings of ordinary Chorus shareholders but rank ahead of ordinary shareholders in the event of liquidation. Dividends will become payable on a portion of the CFH Equity Securities from 2025 onwards, with the portion increasing with time until all of the CFH Equity Securities attract a dividend. The annual dividend rate will equal the New Zealand 180-day bank bill rate plus a margin of 6%.

End customer fibre uptake will be measured as at 30 June 2020, the measure being the total number of premises in Chorus's Candidate Areas with fibre connections divided by the total number of premises with copper, fibre or hybrid fibre co-axial connections. If the uptake is greater than 20% (being the end customer fibre uptake threshold), the portion of CFH Equity Securities that attracts a dividend will be weighted towards the latter half of the period 2025 to 2036. Conversely, if end customer fibre uptake is equal to or less than 20%, 66.7% of the CFH Equity Securities will attract a dividend by 30 June 2030. Table 1 on the next page provides the details of the timing and portion of CFH Equity Securities that attract dividends depending on whether the end customer fibre uptake threshold is met or not. By 2035 or 2036 (depending on whether the end customer fibre uptake threshold is met), all CFH Equity Securities will attract dividends. Chorus can redeem the CFH Equity Securities in cash or by issuing Chorus ordinary shares at any time.

If at any time Chorus's credit rating is three notches or more below its initial rating of "BBB", no dividends will be scheduled or payable on the CFH Equity Securities. The terms of the CFH Equity Securities do not prohibit payment of dividends on Chorus ordinary shares. However, provisions elsewhere in the agreements prohibit Chorus, without CFH's approval, paying any distributions on its ordinary shares during any period in which Chorus's credit rating is below investment grade.

Table 1: CFH Equity Securities dividend Table (\$m)

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

The CFH Debt Securities are unsecured, carry no interest rate and, like the CFH Equity Securities, have no voting rights. The principal amount of a CFH Debt Security will consist of senior and subordinated portions. The senior portion will rank equally with all other unsecured, unsubordinated creditors of Chorus, and shall have the benefit of any negative pledge covenant that may be contained in any of Chorus's debt arrangements. The value of the senior portion will be the present value (using a discount rate of 8.5%) of the sum repayable on the CFH Debt Securities. Until 30 June 2020, the timing of repayments will be based on the end customer fibre uptake threshold not being met.

The repayment profile is based on a similar regime to that for the CFH Equity Securities, including the 20% end customer fibre uptake threshold test. Table 2 below details the redemption profile of the CFH Debt Securities under both scenarios of end customer fibre uptake (being i) less than or equal to 20% at 30 June 2020 and ii) greater than 20% at 30 June 2020). The subordinated portion will be the difference between the issue price of the CFH Debt Security and the value of the senior portion.

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

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

