



Crown Fibre Holdings
Ultra-fast broadband for New Zealanders

CROWN FIBRE HOLDINGS LIMITED

ANNUAL REPORT

For the period ended 30 June 2010

Contents

Chairman's Report	2
Chief Executive's Report	3
Board of Directors	5
Governance	7
Statement of Responsibility	8
Audit Report	9
Statement of Comprehensive Income	12
Statement of Financial Position	13
Statement of Changes in Equity	14
Statement of Cash Flows	15
Notes to the Financial Statements	16
Directory	31

Crown Fibre Holdings Limited

Chairman's Report

Crown Fibre Holdings Limited (CFH) has been established to implement the Government's Ultra Fast Broadband (UFB) objective in relation to the availability of, and access to, UFB by investing with private sector participants to deploy a fibre to the premises/home telecommunications network.

The Government's UFB objective is to accelerate the roll out of UFB to 75% of New Zealanders over ten years (by 31 December 2019), concentrating in the first six years (by 31 December 2015) on priority broadband users such as businesses, schools and health services, plus green-fields developments and certain tranches of residential areas (the UFB Objective).

Government funding of up to \$1.5 billion has been announced to support this UFB initiative; of this, up to \$1.35 billion will be invested by CFH in one or more Local Fibre Companies (LFCs) along with private sector Partner(s) to deploy the network.

CFH's role and operations are divided into two broad phases under its Constitution:

- Firstly, to operate the Partner selection process to determine the Crown's investment Partner(s) in LFCs, and to manage that investment; and
- Secondly, to operate as a successful, profit-driven business after a special resolution of shareholders has been passed. This phase is anticipated to commence after year ten of the UFB network deployment, at which point all shares in the LFC(s) will convert to ordinary shares.

CFH is in its inaugural year and has focused its resources on:

- Establishing the Company with an experienced and skilled Board and executive team;
- Developing a strategy to deliver on the Government's UFB Objective; and
- Operating the Partner selection process as set out in the 'New Zealand Government Ultra-Fast Broadband Initiative Invitation to Participate' dated October 2009 (ITP).

The CFH set-up has been achieved and is functioning well under the leadership of Chief Executive Officer Graham Mitchell.

CFH's operating expenditure for the period ended 30 June 2010 was \$4.9 million, with additional capital expenditure of \$168,000. These figures compare favourably with an approved Government budget appropriation of \$5.4 million for the period to 30 June. CFH's funding was by way of a \$25.4 million capital injection. CFH held cash investments on hand of \$22 million as at 30 June 2010.

The Partner selection process is progressing well. CFH completed an initial assessment of responses to the ITP. This created valuable dialogue on how best to deliver the UFB Objective. The Government revised the regulatory settings for UFB in early July 2010, resulting in a Request for Refined Proposals (RRP) being issued by CFH. Responses to the RRP were received in August and CFH intends to commence commercial negotiations on the Crown's behalf with a view to recommending a Partner(s) to Shareholding Ministers in October 2010, and commencing the initiative by the end of 2010.



Simon Allen
Chairman

Crown Fibre Holdings Limited

Chief Executive's Report

CFH has only been in operation for a short time, but 2010 was a very active year. The Company was incorporated in October 2009 with the appointment of the inaugural Board in November. I commenced my role as Chief Executive Officer in late January 2010.

Key Achievements in 2010

- **Recruitment of executive team:** The Company has recruited a very experienced and capable executive team with nearly 100 years of telecommunications industry experience. The team includes a mix of commercial, financial, technical and strategic skills. As at 30 June 2010 CFH has seven full-time employees and is likely to reach a full complement of 20 full-time employees by 2011.
- **Stakeholder engagement:** CFH has involved a large range of stakeholders and potential participants in the UFB initiative in discussions aimed at building a shared vision and plan for UFB in New Zealand. This has included all ITP Respondents, Telecommunication Service Providers, industry associations, regulators, local councils, and Government Agencies involved in the health and education sectors.
- **Partner selection process:** All Respondents (bidders) have been visited in New Zealand and offshore to review their operations and local deployments. Regular meetings and updates with all Respondents have been held. The eligibility and preliminary short-listing stages were completed on time. In July 2010 CFH asked Respondents to submit refined proposals. This was required for two reasons. Firstly it helped CFH to secure more detailed information required for evaluation. Secondly it allowed Respondents to revise pricing and to incorporate the impact of the Government's changes to UFB regulatory settings announced in early July.
- **Product development:** CFH has also undertaken an analysis of the key demand drivers influencing UFB uptake. International case studies, feedback from local Telecommunications Service Providers and economic analysis helped in developing the draft UFB product specification and pricing. CFH has held initial workshops with a number of potential UFB wholesale Telecommunications Service Provider customers and plans to release an indicative product catalogue and prices following the completion of commercial negotiation and Partner selection. The overall goal is to provide a product set that is simple but flexible, and to provide greater innovation and choice for retail customers.
- **Standardisation of Network Architecture:** CFH has been working closely with the Telecommunications Carriers' Forum in developing a common set of network standards for UFB. This work is well progressed, having recently gone to public consultation, and is an important element in the success of the UFB initiative.

Probity

CFH has in place a robust probity system that incorporates the following elements to ensure all Respondents are treated fairly on their merits:

- Strict protocols governing **the receipt, opening, storage and security** of and access to proposals and related information;
- Requiring adherence to confidentiality requirements by Respondents and CFH Directors, personnel and advisers;
- Careful management of engagement with Respondents, including maintaining a communications register;
- Conducting the Partner selection process in accordance with the ITP and associated guidelines;
- Full transparency in disclosure of potential interests, and management of such interests in accordance with an interests policy framework;
- Obtaining probity and legal advice and oversight of the conduct of the Partner selection process;
- High level review by Audit New Zealand of probity practices; and
- Governance and review by the Board of Directors of CFH.

Outlook for 2011

CFH will be pursuing complex and confidential, commercially sensitive Respondent negotiations in the next few months. Assuming the successful conclusion of some/all of these negotiations, the focus for CFH in 2011 will shift to the deployment phase of UFB. The deployment phase of the UFB initiative will involve:

- Business plan refinement;
- Product specification and testing;
- Finalisation of Network Architecture then design;
- Network construction;
- Retail Service Provider UFB interconnection; and
- Retail customer launch.

By the end of 2010 the Government will be commencing the delivery of its UFB Objective, but more importantly, New Zealanders will have access to UFB services for the first time. Over time these services will enable major increases in New Zealand's productivity and innovation and improvements in service delivery in critical areas such as health and education. The deployment of UFB in New Zealand will be ahead of that in many other OECD countries, and will support the country's path towards being a digital economy.

I am very confident that the small, focused team at CFH will be able to deliver on the UFB Objective and I look forward to advising on progress in 12 months' time.



Graham Mitchell
Chief Executive Officer

Crown Fibre Holdings Limited

Board of Directors

Directors' Profiles and Interests Held

Mr Simon Allen (Chairman) – Simon Allen is a highly regarded investment banker with more than 20 years' experience advising New Zealand's major industries. He formed ABN AMRO New Zealand as a green-fields operation in 1988, leading it to become one of the country's foremost investment banks. He resigned as Chief Executive in September 2009. Mr Allen chaired New Zealand Exchange Limited (NZX) from 2001 until 2008 and has also served on the boards of McConnell Properties, ABN Amro Craigs and Auckland Healthcare. He is currently a trustee of St Cuthbert's College in Auckland, and Snowvision, a charitable trust that promotes high-performance snow sports. He has also recently been appointed Chairman of Auckland City Investments Limited.

The following are general disclosures of interest given by Mr Allen pursuant to s140 (2) of the Companies Act 1993 and entered into CFH's interests register:

Director of :- Xylem Investments Limited, Environment Investments Limited, S3 Limited, Simon Allen Consulting Limited, Superannuation Investments Limited, MFL Mutual Fund Limited and Breakwater Investments Limited.

Mr Andrew Body – Andrew Body has more than 20 years of experience as a successful investment banker, focusing on strategic and transactional advice to owners and managers of businesses. Mr Body has experience in a wide range of sectors in the New Zealand economy, including various network industries.

The following are general disclosures of interest given by Mr Body pursuant to s140 (2) of the Companies Act 1993 and entered into CFH's interests register:

Director of :- Andrew Body Limited, Chartwell Trustee Company Limited (and Shareholder), Upton Trust Company Limited (and Shareholder), Paterson Mews Limited, Avon Picture Mouldings Limited and Shareholder of McLaren Limited.

Ms Miriam Dean QC – Miriam Dean has extensive governance and commercial litigation experience. A former partner at Russell McVeagh, Ms Dean is currently a barrister sole whose practice focuses on commercial and competition law, arbitration and mediation. She was made Queen's Counsel in 2004. Ms Dean is a member of the Auckland Transition Authority and participated in the Government's recent electricity review.

The following are general disclosures of interest given by Ms Dean pursuant to s140 (2) of the Companies Act 1993 and entered into CFH's interests register:

Director of the Auckland Transition Agency, Council Member of IANZ (International Accreditation New Zealand) and Member of the Electricity Market Authority Establishment Board.

Dr Murray Milner – Murray Milner is a world-class telecommunications technology expert with a doctorate in electrical engineering and 34 years' experience in the New Zealand ICT industry. He has held a variety of senior positions within Telecom New Zealand including, until September 2005, Chief Technology Officer. Since leaving Telecom in 2005 he has worked as a consultant and has also held a range of governance positions including Chair of Harmonic, a software development firm specialising in applications for the telecommunications and agriculture sectors.

The following are general disclosures of interest given by Dr Milner pursuant to s140 (2) of the Companies Act 1993 and entered into CFH's interests register:

Director and shareholder of Milner Consulting Limited, Chair of Harmonic Aotearoa Limited, Trustee and Beneficiary of Milner Family Trust, Chairman of National Health IT Board and Shareholder of Telecom New Zealand Limited (a small, not material shareholding).

Mr Keith Tempest – In December 2009 Keith Tempest retired as Chief Executive of TrustPower, a Bay of Plenty-based electricity generator, after 23 years with the company. As Chief Executive, he was recognised as having overseen strong commercial performance and he has a strong track record of managing large capital projects.

The following are general disclosures of interest given by Mr Tempest pursuant to s140 (2) of the Companies Act 1993 and entered into CFH's interests register:

Director of :- New Zealand Bus Limited, New Zealand Bus Finance Company Limited and GAP Business Solutions Limited.

Mr Jack Matthews – Jack Matthews is Chief Executive of Sydney-based Fairfax Digital, which manages all online media, including Trade Me, for the group. Prior to this he was involved in a number of online ventures in Japan and the United States. Born in the United States of America, with New Zealand citizenship, Mr Matthews was also the driving force behind the rollout of Saturn's (now TelstraClear's) hybrid fibre-coax cable network in Wellington and Christchurch, which offers triple play services including telephony, pay TV and broadband. Mr Matthews brings an end-user focus and a strategic understanding of digital media to the Board of CFH.

Mr Matthews has made no general disclosures of interest pursuant to s140 (2) of the Companies Act 1993.

Crown Fibre Holdings Limited

Governance

Organisation Form

CFH was incorporated on 29 October 2009 under the Companies Act 1993. CFH is a Crown-owned Company, listed under Schedule 4 of the Public Finance Act 1989. CFH is subject to certain provisions of the Crown Entities Act 2004, and it is also subject to the Official Information Act 1982 and the Ombudsmen Act 1975. The shareholders in CFH are the Minister of Finance and Minister for State Owned Enterprises in their capacity as Ministers, and each holds 50% of the issued share capital.

Management of the Company

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

Board of Directors

The Board has established strategic policy, guides and monitors the business and affairs of CFH and is committed to a high standard of corporate governance. Responsibility for the operation and administration of CFH is delegated to the Chief Executive Officer, 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 pages five and six 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; and
- 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.

Crown Fibre Holdings Limited
Statement of Responsibility
For the period ended 30 June 2010

In terms of the Public Finance Act 1989, the Board is responsible for the preparation of Crown Fibre Holdings Limited's financial statements and for the judgements made in them.

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

In the Board's opinion, these financial statements fairly reflect the financial position and operation of Crown Fibre Holdings Limited for the period ended 30 June 2010.

Signed on behalf of the Board.



Simon Allen
Chairman

2 September 2010



Keith Tempest
Director

2 September 2010

Audit Report

To the readers of Crown Fibre Holdings Limited's Financial Statements for the period ended 30 June 2010

The Auditor General is the auditor of Crown Fibre Holdings Limited (the Company). The Auditor General has appointed me, Clare Helm, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Company, on her behalf, for the period ended 30 June 2010.

Unqualified opinion

In our opinion:

The financial statements of the Company on pages 12 to 30:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of:
 - the Company's financial position as at 30 June 2010; and
 - the results of its operations and cash flows for the period ended on that date.

Based on our examination the Company kept proper accounting records.

The audit was completed on 2nd September 2010, and is the date at which our opinion is expressed. The basis of the opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

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

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming period-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the Company as at 30 June 2010 and the results of its operations and cash flows for the period ended on that date. The Board of Directors' responsibilities arise from the Public Finance Act 1989, Companies Act 1993, Financial Reporting Act 1993 and the Crown Entities Act 2004.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of 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 New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the Company.



Clare Helm
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of Crown Fibre Holdings Limited for the year ended 30 June 2010 included on the Crown Fibre Holdings Limited's website. Crown Fibre Holdings Limited's Board is responsible for the maintenance and integrity of Crown Fibre Holdings Limited's website. We have not been engaged to report on the integrity of the Crown Fibre Holdings Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements as well as the related audit report dated 2 September 2010 to confirm the information included in the audited financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Crown Fibre Holdings Limited
Statement of Comprehensive Income
For the period ended 30 June 2010

	Note	Actual 2010 \$	Budget 2010 \$
Income			
Interest income		352,090	336,865
<hr/>			
<i>Total income</i>		352,090	336,865
Expenditure			
Directors' fees	2	265,010	302,785
Personnel costs	3	496,110	591,137
Depreciation and amortisation expense	8	20,361	17,430
Professional advisory fees	4	3,160,380	3,628,394
Other expenses	5	921,705	997,119
<hr/>			
<i>Total expenditure</i>		4,863,566	5,536,865
<hr/>			
Net deficit for the period		(4,511,476)	(5,200,000)
<hr/>			
Total comprehensive income for the period		(4,511,476)	(5,200,000)⁽¹⁾

Explanations of major variances against budget are detailed in note 23.

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

⁽¹⁾ \$5.4 million was the appropriation (budget) voted for CFH in 2010. The budgeted expenditure reported in the financial statements differs from that in the Statement of Intent owing to a revision to allocate \$200,000 of the 2009/10 budgeted appropriation as capital expenditure, rather than operating expenditure. The budget was signed off by the CFH Board on 10 May 2010.

Crown Fibre Holdings Limited
Statement of Financial Position

As at 30 June 2010

	Note	Actual 2010 \$	Budget 2010 \$
Assets			
Current assets			
Cash and cash equivalents	6	22,019,645	21,283,978
Other receivables	7	129,895	157,895
Prepayments		60,000	28,655
<i>Total current assets</i>		22,209,540	21,470,528
Non-current assets			
Property, plant and equipment	8	147,778	190,570
<i>Total non-current assets</i>		147,778	190,570
Total assets		22,357,318	21,661,098
Liabilities			
Current liabilities			
Creditors and other payables	9	1,379,893	1,359,741
Employee entitlements	10	88,701	101,157
<i>Total current liabilities</i>		1,468,594	1,460,898
Total liabilities		1,468,594	1,460,898
Net assets		20,888,724	20,200,200
Equity			
General funds	12	20,888,724	20,200,200
Total equity		20,888,724	20,200,200

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

Crown Fibre Holdings Limited
Statement of Changes in Equity
For the period ended 30 June 2010

	Actual 2010 \$	Budget 2010 \$
Balance at 29 October 2009	-	-
Amounts recognised directly in equity:		
Capital injections	25,400,200	25,400,200
Total comprehensive income	(4,511,476)	(5,200,000)
<hr/>		
Balance at 30 June 2010	20,888,724	20,200,200

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

Crown Fibre Holdings Limited
Statement of Cash Flows
For the period ended 30 June 2010

	Note	Actual 2010 \$	Budget 2010 \$
Cash flows from operating activities			
Interest received		297,994	336,865
Payments to suppliers		(3,471,115)	(4,171,916)
Payments to employees		(407,409)	(489,980)
Goods and Services Tax (net)		368,114	417,809
Net cash outflow from operating activities	11	(3,212,416)	(3,907,222)
Cash flows from investing activities			
Purchase of property, plant and equipment		(168,139)	(209,000)
Net cash outflow from investing activities		(168,139)	(209,000)
Cash flows from financing activities			
Equity introduced		25,400,200	25,400,200
Net cash inflow from financing activities		25,400,200	25,400,200
Net increase in cash and cash equivalents		22,019,645	21,283,978
Cash and cash equivalents at beginning of period		-	-
Cash and cash equivalents at end of period	6	22,019,645	21,283,978

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

Crown Fibre Holdings Limited
Notes to the Financial Statements
For the period ended 30 June 2010

1. Statement of accounting policies

Reporting entity

CFH was incorporated on 29 October 2009 as a Crown-owned Company under the Companies Act 1993. It is listed in Schedule 4 of the Public Finance Act 1989. CFH is wholly owned by the Crown and all issued shares in CFH are held by Ministers of the Crown on behalf of the Crown.

CFH's purpose is to accelerate the rollout of UFB to 75% of New Zealanders over ten years (by 31 December 2019), concentrating in the first six years (up to 31 December 2015) on priority broadband users such as businesses, schools and health services, plus green-fields developments and certain tranches of residential areas.

At the current stage of CFH's life-cycle, CFH's primary objective is to provide services for the community and social benefit, rather than make a financial return.

Accordingly, CFH has designated itself as a public benefit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). The Crown does not guarantee the liabilities of CFH or CFH in any way.

The financial statements of CFH are for the period ended 30 June 2010, and were approved by the Board of Directors on 2 September 2010.

Basis of preparation

Statement of compliance

The financial statements of CFH have been prepared in accordance with the relevant requirements of the Public Finance Act 1989 and the Crown Entities Act 2004, which include the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP). The financial statements are for the period from the date of incorporation to 30 June 2010.

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

CFH has been granted an exemption by the Minister of Finance from s151(b) of the Crown Entities Act 2004, which requires that an annual report contain a statement of service performance in accordance with s153 of the Crown Entities Act 2004.

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 dollar (\$). The functional currency of CFH is New Zealand dollars.

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 early adopted, and which are relevant to CFH are:

- NZ IAS 24 *Related Party Disclosures (Revised 2009)* replaces NZ IAS 24 *Related Party Disclosures (Issued 2004)* and is effective for reporting periods commencing on or after 1 January 2011. The revised standard:
 - i) Removes the previous disclosure concessions applied by CFH for arm's-length transactions between CFH and entities controlled or significantly influenced by the Crown. The effect of the revised standard is that more information is required to be disclosed about transactions between CFH and entities controlled or significantly influenced by the Crown;
 - ii) Provides clarity on the disclosure of related party transactions with Ministers of the Crown. Further, with the exception of the shareholding Ministers, CFH will be provided with an exemption from certain disclosure requirements relating to transactions with other Ministers of the Crown. The clarification could result in additional disclosures should there be any related party transactions with Ministers of the Crown; and
 - iii) Clarifies that related party transactions include commitments with related parties.

CFH expects it will adopt the revised standard for the year ended 30 June 2011.

- 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 on the classification and measurement of financial assets 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 instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in NZ IAS 39. 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 and expects it will not be early adopted.

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.

Leases

Operating leases

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less, and bank overdrafts. All investments are held in New Zealand.

Debtors and other receivables

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

Property, plant and equipment

Property, plant and equipment asset classes consist of office equipment and computer hardware.

Property, plant and equipment are shown at cost or valuation, 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 CFH 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 asset. Gains and losses on disposals are included in the statement of comprehensive income.

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 CFH and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant and equipment are recognised in the statement of comprehensive income 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 cost (or valuation) 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:

Office equipment	4-6 years (17%-21%)
Computer hardware	2.5 years (40%)

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial period end.

Intangible assets

Software acquisition and development

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

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

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

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

Impairment of non-financial assets

Property, plant and equipment and intangible assets that have finite useful lives are reviewed for impairment 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 the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

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

Creditors and other payables

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

Employee entitlements

Short-term employee entitlements

Employee entitlements that CFH 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.

These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, and retiring and long-service leave entitlements expected to be settled within 12 months. A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that it will be used by staff to cover those future absences.

Superannuation schemes

Defined contribution schemes

Obligations for contributions to KiwiSaver are accounted for as defined contribution superannuation schemes and are recognised as an expense in the statement of comprehensive income as incurred.

Goods and Services Tax (GST)

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 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 charge for income tax has been provided for.

Budget figures

The 2010 budget figure is the amount of \$5.4⁽²⁾ million voted by the Government for the establishment and operation of CFH. An appropriation agreed at \$5.4 million was signed off by the Board on 10 May 2010 and included in the 2010 Statement of Intent. The total budgeted expenditure reported in the financial statements differs to the Statement of Intent due to a revision to allocate \$200k of the 2009/10 budgeted appropriation as capital expenditure, rather than operating expenditure. The revisions included: (i) operating expenditure reduction of \$200k [Professional advisory fees]; (ii) net loss reduced by \$200k; (iii) retained earnings increased by \$200k; (iv) creditors decreased by \$200k. The budget figures have been prepared in accordance with NZ IFRS vs NZ GAAP, using accounting policies that are consistent with those adopted by CFH for the preparation of the financial statements.

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. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Property, plant and equipment useful lives and residual values

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

An incorrect estimate of the useful life or residual value will impact on the depreciation expense recognised in the statement of comprehensive income, and the carrying amount of the asset in the statement of financial position. CFH minimises the risk of this estimation uncertainty by:

- Physical inspection of assets; and
- Asset replacement programmes.

The carrying amounts of property, plant and equipment are disclosed in note 8.

⁽²⁾ Per Supplementary Estimates accompanying 2009/2010 Appropriation Bill: Vote Communications.

Critical judgements in applying CFH's accounting policies

Management has exercised the following critical judgements in applying CFH's accounting policies for the period ended 30 June 2010:

Lease classification

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

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

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

Reporting period

These financial statements cover the eight-month period from incorporation of CFH on 29 October 2009. As a result of this there are no comparative figures available for the prior year.

2. Directors' fees

	Actual 2010 \$
Board member fees during the period ended 30 June 2010 were:	
S Allen	76,510
A Body	50,548
M Dean	34,855
J Matthews	19,080
M Milner	56,653
K Tempest	27,364

Total Board member fees	265,010
--------------------------------	----------------

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

3. Personnel costs

	Actual 2010 \$
Salaries and wages	463,588
Employer contributions to defined contribution plans	2,967
Increase in employee entitlements (note 10)	88,701

Total personnel costs	496,110
------------------------------	----------------

4. Professional advisory fees	Actual 2010 \$
Accounting	282,752
Economic modelling	1,020,819
Engineering	253,645
Investment advisory	431,000
Legal	961,296
Regulatory	87,192
Other	123,676
Total professional advisory fees	3,160,380

5. Other expenses	Actual 2010 \$
Audit fees for the financial statements' audit	21,800
Contractors and project management	422,297
Staff travel and accommodation	103,494
Operating lease expense	70,121
Information technology	41,774
Other	262,219
Total other expenses	921,705

6. Cash and cash equivalents	Actual 2010 \$
Cash on hand and at bank	2,019,645
Cash equivalents – term deposits	20,000,000
Total cash and cash equivalents	22,019,645

All cash on hand is held with one or more of New Zealand's major trading banks.

The carrying values of short-term deposits with maturity dates of three months or less approximate their fair values.

The weighted average effective interest rate for monies on deposit is 4.4%.

7. Other receivables	Actual 2010 \$
GST receivables	75,999
Interest receivables	54,096
Other receivables	200
Less provision for impairment	-
Total other receivables	129,895

The carrying value of receivables approximates their fair value.

As at 30 June 2010 the status of all overdue receivables has been assessed at:

	2010 \$
Not past due	129,895
Total	129,895

8. Property, plant and equipment

Movements for each class of property, plant and equipment as at 30 June 2010 are:

	Computer Hardware	Office Equipment	Total
	\$	\$	\$
Cost			
Balance at 29 Oct 2009	-	-	-
Additions during the period	148,609	19,530	168,139
<hr/>			
Balance at 30 June	148,609	19,530	168,139
Accumulated depreciation			
Balance at 29 Oct 2009	-	-	-
Charge for the period	18,826	1,535	20,361
<hr/>			
Balance at 30 June	18,826	1,535	20,361
<hr/>			
Net book value at 30 June	129,783	17,995	147,778

9. Creditors and other payables

	Actual 2010 \$
Creditors	684,982
Accrued expenses	694,911
<hr/>	
Total creditors and other payables	1,379,893

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.

10. Employee entitlements**Actual
2010 \$**

Current employee entitlements are represented by:

Annual leave and short-term entitlements 88,701

Total current portion 88,701

Total employee entitlements 88,701

11. Reconciliation of net deficit to net cash from operating activities**Actual
2010 \$****Net deficit after tax** (4,511,476)**Add/(less) non-cash items:**

Depreciation and amortisation expense 20,361

Total non-cash items 20,361**Add/(less) movements in working capital items**

Debtors and other receivables (189,895)

Creditors and other payables 1,379,893

Employee entitlements 88,701

Net movements in working capital items 1,278,699

Net cash from operating activities (3,212,416)

12. Equity	Actual 2010 \$
General funds	
Balance at 29 October 2009	-
Capital introduced	25,400,200
Deficit for the period	(4,511,476)
Total equity at 30 June	20,888,724

The Crown investment made in CFH is represented by 205,400,200 \$1.00 ordinary shares issued, with 25,400,200 being fully paid and 180,000,000 being unpaid. Half of the issued capital is held by each Shareholding Minister.

13. Operating leases

Operating leases as lessee

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

	Actual 2010 \$
Not later than one year	27,752
Later than one year and not later than five years	12,920
Later than five years	-
Total non-cancellable operating leases	40,672

CFH occupies premises in Auckland at Level 10, PricewaterhouseCoopers Tower, 188 Quay Street under a short-term licence to occupy.

14. Contingencies

Contingent liabilities

A maximum fee of \$3.72 million is payable to CFH's Investment Advisors contingent upon the successful conclusion of the ITP process. This fee represents approximately 0.3% of the total funds CFH will be investing. Given the commercial complexity of the possible multiple investment transactions that will result from the UFB initiative, CFH has determined that it is appropriate to have independent professional investment advice to assist CFH in completing these transactions.

Contingent assets

CFH has no contingent assets as at 30 June 2010.

15. Commitments

CFH has no capital commitments as at 30 June 2010.

16. Related party transactions and key management personnel

Related party transactions

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

CFH enters into transactions with government departments, Crown entities and state-owned enterprises. Those transactions occur within a normal supplier or client relationship on terms and conditions no more or less favourable than those that it is reasonable to expect CFH would have adopted if dealing with that entity at arm's length in the same circumstances have not been disclosed as related party transactions. Other than funding, there are no material financial transactions with other Government entities.

Key management personnel compensation

	Actual 2010 \$
Salaries and short-term employee benefits	672,419
Total key management personnel compensation	672,419

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

17. Employee remuneration

Total remuneration paid or payable	Actual 2010
\$180,000–\$189,999	1
Total employees	1

During the period ended 30 June 2010, no employees received compensation and other benefits in relation to cessation.

18. Events after the balance sheet date

There were no significant events after balance date.

19. Categories of financial assets and liabilities

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

	Actual 2010 \$
<i>Loans and receivables:</i>	
Cash and cash equivalents	22,019,645
Other receivables	129,895
Total loans and receivables	22,149,540
<hr/>	
<i>Financial liabilities measured at amortised cost:</i>	
Creditors and other payables	1,379,893
Total Financial liabilities measured at amortised cost	1,379,893

20. Financial instrument risks

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

Market risk

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. CFH's exposure to fair value interest rate risk is limited to its bank deposits, which are held at fixed rates of interest. However, because these bank deposits are not accounted for at fair value, fluctuations in interest rates do not have an impact on the surplus/deficit of CFH or the carrying amount of the financial instruments recognised in the statement of financial position.

The average interest rate on CFH's term deposits is 4.4%.

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 to cash flow interest rate risk. CFH currently has no variable rate financial instruments.

Sensitivity analysis

As at 30 June 2010, 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 \$110,128 higher/lower. This movement is attributable to increased or decreased interest income on the cash deposits.

Credit risk

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

Owing to the timing of its cash inflows and outflows, CFH invests surplus cash with registered banks. CFH's Investment Policy limits the amount of credit exposure to any one institution.

CFH's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents (note 6) and other receivables (note 7). There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

CFH has no significant concentrations of credit risk, as it only invests funds with registered New Zealand banks holding a Standard & Poor's credit rating of AA or better.

Liquidity risk

Liquidity risk is the risk that CFH will encounter difficulty raising liquid funds to meet commitments as they fall due. 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. CFH aims to maintain flexibility in funding by keeping committed credit lines available.

In meeting its liquidity requirements, CFH maintains a target level of investments that must mature within specified timeframes.

Contractual maturity analysis of financial liabilities

The table below analyses CFH's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Less than 6 Months	Between 6 Months and 1 Period	Between 1 and 5 Periods
2010	\$	\$	\$
Creditors and other payables (note 9)	1,379,893	-	-

21. Capital management

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

CFH is subject to certain financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions in relation to borrowings and issuing guarantees and indemnities.

CFH manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments and general financial dealings to ensure CFH effectively achieves its objectives and purpose, whilst remaining a going concern.

22. Equal employment opportunities

CFH places high importance on attracting skilled staff in order to deliver on the Government's UFB Objective. As a result CFH is putting in place policies that ensure CFH is a 'good employer' that provides equal opportunities (EEO). There are six areas on which CFH is focusing in order to ensure it is a 'good employer' (based on guidance from the EEO Commissioner). Some of these are less relevant at this stage of CFH's development given CFH is a relatively young company with fewer than 10 full-time employees:

- 1. Leadership, accountability and culture:** All job descriptions include EEO elements and there is no gender or ethnicity bias with a genuine EEO culture.
- 2. 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.
- 3. Employee development, promotion and exit:** CFH encourages employee development and promotion. However, in the next 18 months it is expected that CFH will operate a relatively flat executive structure.
- 4. 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).
- 5. 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.
- 6. Safe and healthy environment:** CFH is in the process of developing 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.

23. Explanation of significant variances against budget

Statement of Comprehensive Income

There have been a number of changes to the regulatory settings of the UFB initiative, which were approved by Cabinet in June 2010 and necessitated the ITP being amended. CFH issued an RRP to take account of the new regulatory settings. As a consequence, CFH deployed fewer resources than budgeted owing to the timing of the RRP extending into August 2010.

Statement of Financial Position

There are no significant variances to budget.

Statement of Changes in Equity

The lower-than-budgeted deficit flowed directly into the Statement of Changes in Equity. At 30 June 2010 CFH has lower expenditure than budget, resulting in higher equity.

Statement of Cash Flows

More cash is on hand owing to lower-than-budgeted expenditure.

Directory

Shareholders

The Minister of Finance (Hon Bill English)
and Minister for State Owned Enterprises (Hon Simon Power)

Registered Office

c/- Bell Gully
Level 22, Vero Centre
48 Shortland Street
Auckland
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. Clare Helm of Audit New Zealand was appointed to perform the audit on behalf of the Auditor-General.

Solicitor

Bell Gully

Banker

Westpac Banking Corporation

Senior Management

Graham Mitchell, Chief Executive Officer

Philip Campbell, Planning Director

John Greenhough, Chief Technical Officer

Rohan McMahan, Strategy Director

Tony Pigou, Project Manager

Sean Wynne, Chief Commercial Officer