



Crown Fibre Holdings

Ultra-fast broadband for New Zealanders

Crown Fibre Holdings Limited

Statement of Intent

2011 - 2014

June 2011

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 2011 to 30 June 2014.

Statement of responsibility

CFH is responsible for the prospective financial statements contained in this document, including the appropriateness of the assumptions underlying them.

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



Simon Allen
Chair



Keith Tempest
Director

22 June 2011

22 June 2011

2. Background information

2.1 *This SOI*

This SOI focuses on CFH's role of operating a partner selection process for, and managing investments in, the New Zealand Government's Ultra-Fast Broadband Initiative (**UFB Initiative**).

On 24 May 2011, CFH announced that it had completed the UFB partner selection process achieving 75% population coverage after announcing it has signed contracts with Telecom Corporation of New Zealand and Christchurch City Holdings. These contracts were in addition to the contracts with WEL Networks and Northpower which were signed in December 2010. A list of CFH's UFB co-investment partners and coverage areas is shown below:

- Northpower Limited (**Northpower**): 1.6% of UFB total coverage comprising Whangarei;
- UltraFast Fibre Ltd, owned by WEL Networks Limited (**WEL Networks**): 13.7% of 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 Christchurch City Networks Limited (**CCNL**)): 15.3% of UFB total coverage comprising Christchurch (including Rolleston) and Rangiora; and
- Telecom Corporation of New Zealand Limited (**Telecom**): 69.4% of UFB total coverage comprising 24 Candidate Areas¹ (all areas except those covered by CCNL, WEL Networks and Northpower): 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.

As this is a short-form SOI, the substantive background information on CFH is contained in the following sections:

- Nature and scope of functions and operations;
- Intended impacts, outcomes and objectives; and
- Organisational health and capability.

The section 'Financial and non-financial measures' outlines the expected outcomes for CFH, and the expectations against which CFH's progress will be measured for this SOI.

As this is a short-form SOI, the way in which CFH intends to perform its functions to achieve its objectives is detailed throughout this SOI.

2.2 *The UFB Initiative*

The Government's UFB objective is to accelerate the roll-out of UFB to 75% of New Zealanders over ten years from the date of the policy announcement (by 31 December 2019), concentrating in the first six years (by 31 December 2015) on priority broadband users such as businesses, schools and

¹ Subject to shareholder and bondholder approval, court approval of the scheme arrangement and changes to Telecommunications legislation.

health services, plus green-fields developments and certain tranches of residential areas. This objective is referred to in this SOI as the **UFB Objective**.

2.3 *Accountability*

CFH is accountable to its shareholding Ministers (the **Shareholding Ministers**), currently the Minister of Finance and the Minister for State Owned Enterprises. The Ministry of Economic Development (**MED**) and the Treasury (through the Crown Ownership Monitoring Unit (**COMU**)) will assist the Shareholding Ministers in monitoring CFH's performance in terms of delivery against the financial and non-financial measures set out in clause 6 of this SOI.

2.4 *Governance*

The Shareholding Ministers have appointed the CFH Board to govern CFH. The Board of Directors is responsible for the overall direction of CFH's business and other activities on behalf of the Shareholding Ministers in the manner set out in CFH's constitution and SOI.

3. **Nature and scope of functions and operations**

3.1 *CFH's statutory framework*

CFH's operational mandate is provided by the statutory framework that applies to it, including (but not limited to) the Public Finance Act 1989, the Crown Entities Act 2004 and the Companies Act 1993 (the **Act**).

CFH was formed as a Crown-owned Company under the Companies Act 1993. It is listed in Schedule 4 of the Public Finance Act 1989.

Its shareholding is 100% vested in the Crown with the Shareholding Ministers.

In addition to certain Crown Entities Act sections applying, the nature and scope of CFH's day-to-day operations are primarily governed by the Companies Act regime.

3.2 *The Companies Act regime*

Under the Act, the Board, each Director and each Shareholding Minister has the rights, powers, duties and obligations set out in the Act, except to the extent that they are negated or modified, in accordance with the Act, by CFH's constitution.

Under CFH's constitution, its role and operations are divided into two broad phases:

1. To operate the partner selection process to determine the Crown's investment partner(s) with whom the Crown will ultimately co-invest and deploy UFB; and
2. To operate as a successful, profit-driven business after a special resolution of shareholders has been passed under clause 7.3 of the CFH constitution. This phase is anticipated to commence after year ten of the UFB network deployment when all shares in Local Fibre Companies (**LFCS**) convert to ordinary shares as contemplated in the *New Zealand Government Ultra-Fast Broadband Initiative Invitation to Participate in the Partner Selection Process*, dated October 2009 (**ITP**).

3.3 *Funding*

The Government has announced its intention to spend up to \$1.5 billion for the achievement of the UFB Objective.

\$150 million of the \$1.5 billion has been allocated to making schools broadband-ready. The Shareholding Ministers and the Minister of Education will resolve the details of how the \$150 million for broadband for schools will be spent. CFH will have no role with respect to the allocation and spending of this funding.

CFH's responsibility for funding will be limited to the remaining \$1.345 billion (net of funds expended by MED on UFB policy advice) for the UFB Initiative which includes funding for CFH's day-to-day operations.

3.4 *Scope of CFH's role*

CFH will:

- Deliver on the Government's UFB Objective;
- 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.

The first task for CFH in delivering on the Government's UFB Objective is to operate the partner selection process which was completed with the announcement on 24 May 2011 of co-investment partners for the remainder of the UFB Initiative. Second, CFH will manage and monitor the Crown's co-investment with the partners in the deployment and operation of UFB.

3.5 *Partner selection process*

The partner selection process is described in the ITP and the subsequent Participant Notices dated 9 December 2009, 14 January 2010, 4 February 2010 and 5 July 2010.

During the partner selection process, CFH was responsible for the following functions (subject to its reserved rights and discretions under the ITP):

- Assess and evaluate responses to the ITP;
- Select the partner(s) with whom CFH proposes to enter into contractual arrangements;
- Make recommendations to the Shareholding Ministers and the Minister for Communications and Information Technology on the partner(s) with whom CFH proposes to enter into contractual arrangements;
- Following ministerial approval, invest up to \$1.345 billion alongside investment from the selected partner(s) so as to achieve the UFB Objective;
- Appoint CFH's representatives to the Board of Directors of LFCs; and
- Approve technical and operational standards in consultation with the Telecommunications Carriers' Forum (TCF) to achieve national consistency across networks.

The partner selection process is now largely complete. This assumes approval of the proposed demerger of Telecom via a court-approved scheme of arrangement and changes to Telecommunications legislation. The demerger will also require approval by Telecom's shareholders and bondholders and meetings to obtain such approvals are expected to be held in late 2011. A chronological history of the partner selection process is summarised below:

- 29 January 2010: Deadline for ITP proposals;
- 31 March 2010: Assessment of eligibility of proposals submitted by 18 respondents to the ITP;
- 2 July 2010: Invitations to 18 respondents to submit Refined Proposals;
- 3 August 2010: Deadline for Refined Proposals;
- September 2010: Evaluation of 15 Refined Proposals was completed². As a result, 14 bids were short listed and negotiations were prioritised with Alpine Energy, Northpower and WEL Networks;
- December 2010: UFB contracts were signed with Northpower and Ultrafast Fibre Limited (**WEL Networks**);
- December 2010: CFH elected to negotiate with Telecom Corporation of New Zealand (covering 25 candidate areas), Enable Networks (Christchurch and Rangiora) and Flute (Dunedin);
- February 2011: CFH elected to negotiate with Vector Limited (Auckland);
- March 2011: CFH elected to negotiate with Central Fibre Limited (Napier-Hastings, Palmerston North, Rotorua, Taupo, Pukekohe, Waiuku, Whakatane, Gisborne, Feilding and Masterton); and
- May 2011: CFH announced that it had selected and signed UFB contracts with Telecom and CCHL through its subsidiary CCNL³ to complete the roll-out of ultra fast broadband to 75% of New Zealanders. As part of the agreement with Telecom, Telecom has agreed to structurally separate its infrastructure business unit, Chorus, from the rest of Telecom, via a court-approved scheme of arrangement by late 2011. Chorus will be a nationwide fixed line access network infrastructure owner and operator. Chorus will cover 24 candidate areas including Auckland and Wellington. CCNL is 100% owned by Christchurch City Council through CCHL and will cover the UFB Initiative areas of Christchurch, Rangiora and surrounding areas.

3.6 *Stakeholder engagement*

- CFH is actively engaging with national and local retail service providers (**RSPs**). To date 19 RSPs have signed letters of intent to enter into wholesale services agreements to sell UFB services. CFH is actively discussing the form of a UFB wholesale services agreement with RSPs;
- CFH is engaging with Territorial Local Authorities (**TLAs**) in the initial candidate areas (including Northpower and WEL) and other candidate areas targeted for deployment to enable cost-effective deployment;

² The reduction in the number of respondents who submitted Refined Proposals was due to a small number of respondents forming consortia.

³ Through Enable LFC.

- CFH is facilitating the establishment of Digital Leadership Forums with support of TLAs and local organisations to leverage the benefits of UFB. CFH is also facilitating initiatives which will be led by TLAs and community groups such as Community Awareness workshops. CFH is encouraging TLAs, LFCs, RSPs and equipment vendors to establish local demonstrations of services and applications using fibre technology for 2012 onwards, as deployment of fibre increases (this is on the basis of CFH and the Crown not being a major investor in these initiatives); and
- CFH is also assisting MED, where appropriate and when requested, to implement the Government’s recently announced “Action Plan for the Benefits of Broadband”. The action plan covers five key areas:
 - e-Education: UFB and Rural Broadband Initiative (**RBI**) will provide 97% of schools and 99.7% of students with access to UFB within five years. CFH is working with the Ministry of Education, MED and RSPs to drive uptake of ultra fast broadband ;
 - e-Health: UFB will transform the health sector both in terms of diagnosis and patient records. For example, real time two way video connections will mean that specialists can treat patients from afar, saving time and patient inconvenience. CFH is working with the Ministry of Health and National Health IT Board, MED and RSPs to drive uptake of ultra fast broadband;
 - e-Government: UFB will help deliver significant improvements in productivity in the public service. Examples include improving the ease of access to tax records, vehicle licensing and student loans (very similar to on-line banking today). The Department of Internal Affairs is working with MED to promote the development of new services to encourage uptake of ultra fast broadband;
 - e-Business: CFH is coordinating industry players such as New Zealand Information and Communication Technologies Group Inc. (**NZICT**), Telecommunications Users Association of New Zealand (**TUANZ**), business leaders, RSPs and equipment vendors to take initiatives to encourage uptake; and
 - e-Development (including Maori development): The National Maori Broadband Working Group (Nga Pu Waea) will advise on Maori interests and development opportunities in broadband. This Working Group will cover both UFB and RBI and CFH will participate in this Working Group with the aim of maximising economic development opportunities for Maori through UFB.

3.7 *Managing and monitoring investments*

CFH will manage and monitor the Crown’s co-investment with UFB partners in order to achieve the Government’s UFB Objective.

3.8 *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 the 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 CFH's 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.

3.9 *Other statutory requirements*

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

CFH is subject to the Official Information Act 1982 and the Ombudsmen Act 1975.

3.10 *Operations*

CFH is required to operate within the functions, powers and constraints outlined above. Within this framework, CFH has considerable discretion in how it goes about its day-to-day operations.

Comprehensive operational policies and procedures have been put in place concerning the manner in which CFH conducts the partner selection process.

4. **Intended impacts, outcomes and objectives**

4.1 *Overall objective*

CFH's constitution at clause 6 defines its purpose as:

The purpose of the Company is 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.

Subject to clause 4.3, CFH's specific goal is to achieve the UFB Objective by 2019, in conjunction with other arms of government including the MED, the Ministry of Education and the Ministry of Health. In general terms, the division of responsibility will be as follows:

- (a) CFH is expected to operate as the commercial agent of the Government in achieving the UFB Objective, subject to the overriding policy and regulatory constraints;

- (b) CFH will be responsible for achieving the UFB Objective, with the following exceptions:
- (i) The MED will be responsible (and CFH will not be responsible) for all regulatory and Government policy matters relating to the UFB Objective;
 - (ii) The Ministry of Education in consultation with the MED will be responsible (and CFH will not be responsible) for all matters relating to education sector readiness to use UFB; and
 - (iii) The Ministry of Health in consultation with the MED will be responsible (and CFH will not be responsible) for all matters relating to health sector readiness to use UFB.
 - (iv) The Department of Internal Affairs and the MED will be responsible (and CFH will not be responsible) for all matters relating to central government readiness to use UFB.

There may be some exceptions to this division of responsibility, which will be agreed between CFH and relevant government agencies in consultation with the MED and Treasury on a case-by-case basis.

CFH also supports the Commerce Commission in performing its regulatory monitoring of the UFB initiative pursuant to the Telecommunications Act 2001 and the Commerce Act 1986.

CFH will achieve the UFB Objective consistently with the following principles:

- Making a significant contribution to economic growth;
- Neither discouraging, nor substituting for, private sector investment;
- Avoiding 'lining the pockets' of existing broadband network providers;
- Avoiding excessive infrastructure duplication;
- Focusing on building new infrastructure, and not unduly preserving the 'legacy assets' of the past; and
- Ensuring affordable broadband services.

There is an inherent tension between some of these principles, which means that CFH will need to exercise a degree of discretion and judgement in order to achieve an appropriate balance, in the context of achieving the overall UFB Objective. CFH will consult with the Shareholding Ministers and the Minister for Communications and Information Technology where there is a material trade-off that is proposed by CFH.

In achieving the UFB Objective, CFH will be seeking to optimise the value of the capital that the Government has allocated to the UFB Initiative and that is available for CFH to invest.

4.2 *CFH outcomes*

The overall CFH outcome is to achieve 75% population coverage in urban areas with UFB services by December 2019. The intermediate outcomes consist of:

- Contract with private sector co-investment partners to deploy UFB consistent with the UFB Objective;

- Establish contractual capped UFB prices and wholesale services agreement terms that will be attractive to RSPs to interconnect and connect end customers to the UFB network;
- Through selected partners, commence the deployment and operation of the UFB network and connect end customers;
- Overview standard-setting and specification for the UFB network after taking account of Industry views through the TCF; and
- Facilitate demand-side initiatives with MED, local communities, industry sector groups, education, health and RSPs as appropriate.

4.3 *Shareholding Ministers' discretion*

The achievement by CFH of the objective and goal in clause 4.1 is subject to Shareholding Ministers and the Minister for Communications and Information Technology accepting the recommendation(s) made by CFH following its operation of the partner selection process as set out in the ITP⁴.

Where Shareholding Ministers and the Minister for Communications and Information Technology exercise their discretion to not accept one or more recommendations made by CFH pursuant to that process, the specific objective and goal of CFH as set out in this SOI will be revised accordingly.

4.4 *Commercial objectives*

CFH is expected to operate in a financially sustainable manner within its allocated operational budget. CFH is not expected to return any profit, distribution or dividend to the Government until after the achievement of the UFB Objective (as described in the CFH constitution).

5. **Organisational health and capability**

5.1 *Capability development*

During the period covered by this SOI, CFH will continue to work on developing its capability as the organisation grows in size and scope.

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 the services it delivers are as cost effective as possible;
- Ensure its capital spending supports essential CFH capability development;
- Aim to achieve high and increased levels of staff engagement;
- Aim to achieve reliable and cost-effective technology management and operating systems;
- Maintain sound financial and governance systems; and

⁴ The Telecom agreement is conditional on stakeholder approval and legislative change.

- 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 is dependent on adequate capability in a number of areas, including technical, commercial and investment expertise. Accordingly, CFH's ability to attract and retain skilled staff, be a good employer and enhance the attractiveness of CFH as a place to work is important.

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 *Structure*

CFH has a Board of six Directors, appointed by its Shareholding Ministers following agreement by Cabinet. The Board members include: Simon Allen (Chairman), Andrew Body, Miriam Dean CNZM QC, Jack Matthews, Dr Murray Milner, and Keith Tempest.

The Board appointed Graham Mitchell as Chief Executive Officer in January 2010. CFH currently has 14 permanent employees and six contractors. Further staff will be employed as CFH grows and its resourcing needs increase. The number of employees is expected to grow to approximately 20 full-time equivalents in the period to which this SOI applies (**SOI Period**).

5.4 *Measuring CFH's progress towards these matters*

CFH will measure its progress towards the matters in clause 5 as follows:

- CFH will aim to achieve 'good' ratings from audits of its management control environment and its financial information, systems and controls; and
- CFH will regularly review its progress and priorities with Ministers, and will allocate resources flexibly to address changing requirements as required.

6. Financial and non-financial measures

6.1 *Achievement of the UFB Objective*

The targets below reflect progress towards the UFB Objective, and relate to specific features of the Objective. For the SOI Period, CFH's financial and non-financial measures of success will be as follows⁵:

(a) *Financial target:*

- (i) CFH's financial projections in this SOI include CFH operating-cost projections but exclude any UFB co-investment flows. There are two reasons for excluding UFB co-investment flows from this SOI. First, deployment plans with selected partners are still being finalised. Secondly, CFH is currently obtaining advice on the appropriate accounting treatment for UFB co-investments;
- (ii) CFH plans to re-table its 2011 SOI before December 2011, including UFB co-investment flows once deployment plans have been agreed (which is permitted under sections 148(1) and 148(2) of the Crown Entities Act);
- (iii) During the SOI Period, CFH will operate within its agreed operating budget, which is a financial target. The financial year (**FY**) 2012 forecast net loss of \$8.3 million is 12% higher than CFH's projections published in CFH's 2010 SOI. The small variance is due to additional advisory and transaction costs based on final partner selection. The small variance is expected to be partially recouped in FY13 owing to lower advisory fees;

Forecast Operating Budget for the Period 2011 - 2014

	2010/11 FORECAST \$000	2011/12 FORECAST \$000	2012/13 FORECAST \$000	2013/14 FORECAST \$000
Budget profit/(loss)	(19,419)	(8,342)	(7,041)	(7,244)

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

- (iv) The table below also splits CFH's operating expenditure budget between ongoing activities (the role of CFH in monitoring partner and LFC performance) and bid evaluation and transactional activities (the role of CFH in evaluating bids then transacting with the partner(s));

Forecast Expenditure Budget for the Period 2011 - 2014

	2010/11 FORECAST \$000	2011/12 FORECAST \$000	2012/13 FORECAST \$000	2013/14 FORECAST \$000
Ongoing operating costs	6,579	7,583	7,471	7,647
Bid and transactional costs	13,598	1,300	-	-
Total expenditure	20,177	8,883	7,471	7,647

- (v) CFH has paid up capital of \$35.4 million for operational costs and initial partner co-investment funding of UFB deployment. This amount fully funds operational expenditure up to 30 June FY2012 based on the projected financial forecasts contained in this SOI. In the next three years, total cumulative capital calls of up to \$500m are projected (between \$100m and \$200m per annum). These capital calls are required to fund CFH operating expenditure in FY2012, FY2013 and FY2014 and future UFB co-investments (based on current draft deployment plans, which are still being finalised); and
- (vi) By the end of the SOI Period, any funding that CFH has committed to UFB co-investments must be consistent with CFH achieving the UFB Objective. As one of its financial targets, CFH will also be measured on the level of UFB co-investment compared with the projected UFB co-investment in the 10-year period.

(b) *Non-financial targets:*

- (i) Achievement of the UFB Objective:
- By the end of December 2011 or such later date as may be agreed by the Shareholding Ministers and the Minister for Communications and Information Technology, CFH will develop a trajectory for achieving the UFB Objective. This trajectory will be documented and will contain specific metrics in order to enable subsequent reporting of progress. CFH will consult Shareholding Ministers and the Minister for Communications and Information Technology in the development of this trajectory. The trajectory will include the following metrics:
 - Percentage of education and health priority user premises passed;
 - Percentage of other government and business priority user premises passed; and
 - Percentage of residential premises passed.

It has also been confirmed by Ministers that it is important that the UFB achieve reasonable uptake levels (end customer connections). The trajectory will take account of the deployment plans with the UFB partners;

(ii) Development of the commercial value of the Crown's investment:

- CFH is required to make investments with the partner(s) in a manner that will allow it to meet commercial objectives when directed to do so. CFH will act in accordance with this requirement. Future SOIs will specify this requirement in greater detail; and

(iii) Management of operational and administrative costs (with a view to minimising these costs to the extent possible in order to achieve the UFB Objective):

- CFH is required to manage its operating and administrative costs consistently with achieving the UFB Objective. CFH will act in accordance with this requirement.

7. Reporting

7.1 *Reporting*

CFH's reporting will include an Annual Report and SOI, ad hoc reports to Ministers of the Crown on issues as requested by Ministers of the Crown, and reports to Parliament. CFH will report on its progress against the trajectory referred to in clause 6.1(b) above, once developed, in each Annual Report.

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

7.2 *Role of Ministers*

CFH's Shareholding Ministers will:

- Monitor the performance of CFH (via the MED and Treasury/COMU);
- Appoint and remove CFH Board members and the CFH Chairperson; and
- Approve transactions defined by the Companies Act as 'major transactions'.

CFH will seek approval from the Shareholding Ministers and the Minister for Communications and Information Technology prior to making any contractual commitments to co-invest with partners in UFB, via the process of recommendation set out in the ITP.

As noted above, Shareholding Ministers and the Minister for Communications and Information Technology have the ability to change, by special resolution, the objective of CFH from implementing the UFB Objective to operating as a successful, profit-driven business, as set out in the CFH constitution.

8. Forecast financial statements

Prospective Statement of Comprehensive Income for the Period 2011 - 2014

	Note	2010/11 FORECAST \$000	2011/12 FORECAST \$000	2012/13 FORECAST \$000	2013/14 FORECAST \$000
Income	1	758	541	430	403
Expenses					
Board operations		338	273	273	273
Audit fees		59	100	100	102
Depreciation and amortisation		95	147	127	179
Occupancy costs		198	192	198	202
Other Company overheads		19,487	8,171	6,773	6,891
<i>Total expenses</i>	2	20,177	8,883	7,471	7,647
Net surplus/(loss)		(19,419)	(8,342)	(7,041)	(7,244)
Total comprehensive income		(19,419)	(8,342)	(7,041)	(7,244)

Prospective Statement of Movements in Equity for the Period 2011 - 2014

	2010/11 FORECAST \$000	2011/12 FORECAST \$000	2012/13 FORECAST \$000	2013/14 FORECAST \$000
Opening equity	20,889	11,470	8,128	6,087
Total comprehensive income	(19,419)	(8,342)	(7,041)	(7,244)
New Crown investment in period	10,000	5,000	5,000	5,000
Closing equity	11,470	8,128	6,087	3,843

Made up of:				
Retained earnings	(23,930)	(32,272)	(39,313)	(46,557)
Share capital	35,400	40,400	45,400	50,400
Closing equity	11,470	8,128	6,087	3,843

These financial statements are GST exclusive.

CFH's financial projections for FY2011, FY2012, FY2013 and FY2014 include CFH operating expenditure but exclude future UFB co-investment flows (given deployment plans with selected partners are still being finalised at the date of preparing this SOI). They should be read in conjunction with the statement of significant assumptions in section 9.

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

Note 2: Overheads: Costs included are staff and contractors, advisory and professional costs and occupancy costs.

Prospective Statement of Financial Position for the Period 2011 - 2014

	Note	2010/11 FORECAST \$000	2011/12 FORECAST \$000	2012/13 FORECAST \$000	2013/14 FORECAST \$000
Current assets					
Cash and short-term deposits		13,902	8,849	6,886	4,690
Other current assets		195	104	121	104
<i>Total current assets</i>		14,097	8,953	7,007	4,794
Non-current assets					
Property, plant and equipment	3	265	218	191	212
<i>Total non-current assets</i>		265	218	191	212
Total assets		14,362	9,171	7,198	5,006
Represented by:					
Current liabilities					
		2,892	1,043	1,111	1,163
Shareholder's equity					
Retained earnings		(23,930)	(32,272)	(39,313)	(46,557)
Share capital	4	35,400	40,400	45,400	50,400
<i>Total shareholder's equity</i>		11,470	8,128	6,087	3,843
Total liabilities and shareholder's equity		14,362	9,171	7,198	5,006

Note 3: Property, plant and equipment: Fixed asset purchases for CFH operations principally relate to IT equipment and office fixtures. Also included is \$30,751, which was an initial co-investment in UFB.

Note 4: Capital: Crown investment made in CFH represented by 205,400,200 \$1 ordinary shares issued, with 25,400,200 fully paid and 180,000,000 being unpaid at 30 June 2010, with additional forecast calls of \$10,000,000 being made in 2011, and \$5,000,000 in each of 2012, 2013 and 2014 to fund operational costs.

Prospective Statement of Cash Flows for the Period 2011 - 2014

	2010/11 FORECAST \$000	2011/12 FORECAST \$000	2012/13 FORECAST \$000	2013/14 FORECAST \$000
Cash flows from operating activities				
Receipts from income	777	576	430	403
Payments to suppliers	(16,359)	(6,972)	(3,820)	(3,872)
Payments to employees	(3,750)	(4,235)	(3,979)	(4,054)
Goods and Services Tax (net)	1,364	678	506	527
<i>Net cash flows from operating activities</i>	(17,968)	(9,953)	(6,863)	(6,996)
Cash flows from investing activities				
Purchase of property, plant and equipment	(150)	(100)	(100)	(200)
<i>Net cash flows from investing activities</i>	(150)	(100)	(100)	(200)
Cash flows from financing activities				
Capital introduced	10,000	5,000	5,000	5,000
<i>Net cash flows from financing activities</i>	10,000	5,000	5,000	5,000
Net increase/(decrease) in cash and cash equivalents	(8,118)	(5,053)	(1,963)	(2,196)
Opening balance	22,020	13,902	8,849	6,886
Closing balance	13,902	8,849	6,886	4,690

(1) Reporting entity

Crown Fibre Holdings Limited is a limited liability company incorporated in New Zealand under the Companies Act 1993 and is wholly owned by the Crown.

The Company was formed as a Crown-owned Company under the Companies Act 1993 on 29 October 2009. It is listed in Schedule 4 of the Public Finance Act 1989.

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

Accordingly, the Company has designated itself as a Public Benefit Entity (**PBE**) for the purposes of New Zealand equivalents to International Financial Reporting Standards (**NZ IFRS**).

CFH, as a PBE, is exempt from taxation.

The Crown currently does not guarantee the liabilities of the Company in any way and CFH is prevented from borrowing any funds unless authorised by Shareholding Ministers as per sections 162 and 160 of the Crown Entities Act 2004.

(2) Basis of preparation

Statement of compliance

The prospective financial statements are for the years ended 30 June 2011, 30 June 2012, 30 June 2013 and 30 June 2014.

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. Additional policies may be required once the actual structures for the UFB investments have been finalised and the Company's operations have fully commenced.

The prospective financial statements were authorised for issue by the Board of Directors on 31 March 2011. 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.

Standards and interpretations not yet adopted

The Company has elected not to early adopt the following applicable standard or apply the following interpretation(s) that have been issued but are not yet effective for the periods covered by these prospective financial statements:

- *NZ IFRS 9 Financial Instruments*. The revised standard, which will be effective for annual periods beginning on or after 1 January 2013, is part of the International Accounting Standards Board's project on financial instruments and replaces the classification and measurement requirements for financial assets under *NZ IAS 39 Financial Instruments: Recognition and Measurement*. This standard will apply to CFH's financial statements for year ended 30 June 2014. However, it is unlikely to have a material impact on the financial statements contained in this SOI.

Measurement basis

The prospective financial statements have been prepared on the basis of historical cost unless otherwise noted within the specific accounting policies below.

Going concern

Notwithstanding the net losses forecast by CFH in the next three years, the financial reports have been prepared on a going-concern basis. This basis has been applied as the Crown is supporting CFH in addition to being the primary source of funding in the near term.

Transactions with Government as owner

Amounts that are designated as equity injections for each financial forecast period will be recognised directly in contributed equity in that financial period.

Functional and presentation currency

The prospective financial statements are presented in New Zealand dollars, which is the Company's functional currency. All financial information has been rounded to the nearest thousand (\$000).

Estimates and judgements

The preparation of prospective financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the periods in which the estimates are revised and in any future periods affected.

It is not possible to provide accurate UFB co-investment flows for the roll-out of the UFB until deployment plans with selected partners have been finalised. As a result no future UFB co-investment flows are included in these prospective financial statements.

The accounting policies set out below have been consistently applied to all periods presented in these prospective financial statements.

(3) 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 surplus/loss in the statement of comprehensive income. Lease incentives received are recognised in surplus/loss in the statement of comprehensive income 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, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired.

Property, plant and equipment

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

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

Additions

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that the future economic benefits or service potential associated with the item will flow to 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 initially 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 amounts of the assets. Gains and losses on disposals are included in surplus/loss 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 surplus/loss 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 costs of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of asset have been estimated as follows:

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

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

Intangible assets

Software acquisition and development

Assets under development 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 amount 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 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 value of creditors and other payables approximates their fair value.

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 surplus/loss in the statement of comprehensive income as incurred.

Goods and Services Tax (GST)

All items in the prospective 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 (**IRD**) is included as part of receivables or payables in the statement of financial position. The net GST paid to, or received from IRD, including the GST relating to investing and financing activities, is classified as operating cash flow in the statement of cash flows.

Income tax

CFH is a Public Authority under section CW38(2) of the New Zealand Tax Act 2007 and consequently is exempt from the payment of income tax. Accordingly, no charge for income tax has been provided for in the SOI forecasts.

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.

9. Statement of significant assumptions

The Company has now largely completed the partner selection process. This assumes approval of the proposed demerger of Telecom via a court-approved scheme of arrangement and changes to Telecommunications legislation. The demerger will require approval by Telecom's shareholders and bondholders with meetings to obtain such approvals expected to be held in late 2011.

This SOI does not include UFB co-investment flows because deployment plans with selected partners are still being finalised (as at the date of this SOI) and CFH is obtaining advice on the appropriate accounting treatment for its UFB co-investments. The 2011 SOI is expected to be re-tabled before December 2011 to reflect UFB co-investment flows and timing.

10. Consultation

CFH will, in relation to any single or connected series of transactions, consult its Shareholding Ministers 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. Committees

Board committees

The Board currently has two standing committees: (i) Audit and Risk, and (ii) Remuneration.

Audit and Risk Committee

The Audit and Risk Committee assists the Board in fulfilling its responsibilities by providing recommendations, counsel and information concerning it's:

- Accounting, reporting and other responsibilities under legislation. Its Terms of Reference also cover the role of Internal Audit; and
- Oversight of all matters relating to the financial accounting, insurance, planning and reporting of CFH (including UFB co-investment flows). 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 SOI 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.

12. 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@crownfibre.govt.nz

Web: www.crownfibre.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
Philip Campbell, Planning Director
Rhys Clark, Finance Director
John Greenhough, Chief Technical Officer
Rohan MacMahon, Strategy Director
Kathryn Mitchell, General Counsel
Tony Pigou, Project Manager
Sean Wynne, Chief Commercial Officer

Board of Directors

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