

**Crown Fibre Holdings
Limited**

Statement of Intent

2009 - 2013

May 2010

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

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1. Introduction

This Statement of Intent 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 29 October 2009 to 30 June 2013.

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, which provide reasonable assurance as to the integrity and reliability of financial reporting.

Simon Allen
Chair

Andrew Body
Director

May 2010

May 2010

2. Background information

2.1 *This Statement of Intent*

This Statement of Intent 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**).

As this is a short-form Statement of Intent (**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" sets the expected outcomes from CFH, and measures against which CFH's progress will be measured for the period for which this SOI applies.

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 Ultra-Fast Broadband Initiative*

The goal of the UFB Initiative is to accelerate the roll-out of ultra-fast broadband to 75 percent of New Zealanders over ten years, concentrating in the first six years on priority broadband users such as businesses, schools and health services, plus greenfield 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 for Communications and Information Technology and the Minister of Finance. The Ministry of Economic Development and the Treasury 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 CFH's inaugural Board, which will govern CFH. All decisions about CFH's operations are made under the authority of the Board. The Board is responsible for agreeing outputs with the Shareholding Ministers and ensuring the expectations of CFH are met.

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.

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 this Act, the Board, each director and each shareholding Minister have 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:

- first, to operate the partner selection process to determine the Crown's investment partner(s) in Local Fibre Companies (**LFC(s)**), and to manage the Crown's investment in LFC(s); and
- second, to operate as a successful, profit driven business after a special resolution of shareholders is passed under clause 7.3 of the CFH constitution. This phase is anticipated to commence after year ten of UFB network deployment when all shares in LFCs convert to ordinary shares as contemplated in the Invitation to Participate (**ITP**).

3.3 *Funding*

The Government has announced its intention to spend a total of 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 in respect of the allocation and spending of this funding.

CFH's responsibility for funding will be limited to the remaining \$1.35 billion for the UFB Initiative.

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 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. Second, CFH will manage and monitor the Crown's investment in LFCs.

3.5 *Partner selection process*

The partner selection process is described in the *New Zealand Government Ultra-Fast Broadband Initiative Invitation to Participate in the Partner Selection Process* dated October 2009, and the subsequent Participant Notices.

In operating the partner selection process, CFH will perform the following functions (subject to its reserved rights and discretions under the ITP):

- assess and evaluate responses to the ITP;
- select 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 \$1.35 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 to achieve national consistency across networks.

3.6 *Managing and monitoring investments*

CFH will manage and monitor the Crown's investments in LFC businesses in order to achieve the Government's UFB Objective over a ten year period.

3.7 *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:

- section 141(h), which requires that each statement of intent must contain any process to be followed for the purpose of section 100;

- section 142(1)(b), which requires that each statement of intent must 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 outputs 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.

3.8 *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.

3.9 *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 4.2, CFH's specific goal is to achieve the UFB Objective by 2019, in conjunction with other arms of government including the Ministry of Economic Development, 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 a 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 Ministry of Economic Development 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 Economic Development and the Ministry of Education will be responsible (and CFH will not be responsible) for all matters relating to education sector readiness to use ultra-fast broadband; and

- (iii) the Ministry of Economic Development and the Ministry of Health will be responsible (and CFH will not be responsible) for all matters relating to health sector readiness to use ultra-fast broadband.

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

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;
- focussing 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 which the Government has allocated to the UFB initiative and which is available for CFH to invest.

4.2 *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 ITP.

Where Shareholding Ministers and the Minister for Communications and Information Technology exercise their discretion not to 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.

4.3 *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 quality of its systems;
- manage the risks that could prevent it from delivering its work programme;
- ensure the services it delivers are as cost-effective as possible;
- ensure its capital spending supports essential CFH capability;
- 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
- maintain a register of risks to delivery of its goals, and will 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 will develop good employer policies that are consistent with the *SSC Guidance on Expectations for Pay and Employment Conditions in the State Sector*.

5.3 *Structure*

CFH has a Board of six Directors, appointed by its Shareholding Ministers following agreement by Cabinet.

The Board has appointed a Chief Executive Officer, who is responsible for the day-to-day operations of CFH. Further staff will be employed as CFH grows and its resourcing needs increase. The number of employees is expected to grow to approximately 20 FTEs over the 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 auditing of its management control environment, its financial information, systems and controls and its service performance information, systems and controls; and
- CFH will regularly review its progress and priorities with Ministers, and will flexibly allocate resources to address changing requirements as required.

6. Financial and non-financial measures

6.1 Achievement of the UFB Objective

The below targets reflect progress towards the UFB Objective, and relate to specific features of the objective. At this stage only operational costs are outlined. Once the partner selection process has been completed and plans agreed with partner(s), additional targets (both financial and non-financial) will be added in subsequent SOIs.

For the period for which this SOI applies (the **SOI Period**), CFH's financial and non-financial measures of success will be as follows¹:

(a) *Financial target:*

- (i) During the SOI Period, CFH will operate within its agreed operating budget which is a financial target. CFH's financial projections are shown below (which are distinct from CFH's budget). The FYE2010 forecast of \$5.4m is in line with the original 2009 Government Budget allocation of \$8m for CFH establishment and operations less costs of \$2.6m incurred by MED for policy and ITP advice.

Operating Budget	FYE 2010	PROJ 2011	PROJ 2012	PROJ 2013
[\$millions]				
Budget - net loss	\$5.4	\$19.5	\$7.4	\$7.2

- (ii) Expenditure budget split between ongoing activities (role of CFH in monitoring partner and LFC performance) and bid evaluation and transactional activities (role of CFH in evaluating bids then transacting with partner(s)).
- (iii) CFH has been capitalised to \$25.4m for operational costs. This amount fully funds operational expenditure for FYE2010 and PROJ2011 based on the projected financial statements contained in this SOI.

Expenditure Budget	FYE 2010	PROJ 2011	PROJ 2012	PROJ 2013
[\$millions]				
Ongoing operating costs	\$2.4	\$7.3	\$7.7	\$7.7
Bid and Transactional costs	\$3.4	\$12.6	\$0.0	\$0.0
Total expenditure	\$5.8	\$19.9	\$7.7	\$7.7

- (iv) by the end of the SOI Period, any funding that CFH has committed to LFC

¹ These targets will be assessed at the end of the SOI Period.

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 LFC investment compared to the projected LFC investment over the 10 year period.

- (v) until the ITP process and negotiations with potential partner(s) are concluded, it is not possible to provide an accurate investment budget for the roll-out of the UFB and to attempt to do so would be potentially compromising to such negotiations. CFH will therefore keep Shareholding Ministers, the Minister for Communications and Information Technology and officials informed on a monthly basis as to the progress of the negotiations in order to effectively manage any fiscal risk. Once the UFB roll-out plans are known, CFH will update future SOIs to reflect the investment timing required for the roll-out of the UFB.
- (b) *Non-financial targets:*
 - (i) achievement of the UFB Objective:
 - (A) by the end of December 2010 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 with 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.
 - (ii) development of the commercial value of the Crown's investment:
 - (A) CFH is required to make investments with partner(s) in a manner which 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):
 - (A) 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, quarterly performance reports to the Ministry of Economic Development and Treasury, 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) 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 Ministry of Economic Development and the Treasury);
- appoint and remove CFH Board Members; 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 invest in LFCs, 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

Crown Fibre Holdings Limited		FYE 2010	PROJ 2011	PROJ 2011	PROJ 2013
<i>30 June year end</i>		\$(000)s	\$(000)s	\$(000)s	\$(000)s
Prospective Statement of Comprehensive Income					
Income	1	336	431	258	492
Expenses					
Board Operations	2	335	403	269	269
Audit fees	2	21	60	75	75
Depreciation & amortisation	2	17	132	168	125
Occupancy costs	2	66	337	292	335
Other company overheads	2	5,297	18,971	6,889	6,929
Expense Total		5,736	19,903	7,693	7,733
Net Surplus/(Loss)		(5,400)	(19,472)	(7,435)	(7,241)
Prospective Statement of Movements in Equity					
<i>30 June year end</i>					
Opening Equity		0	20,000	528	1,093
Retained Earnings for the year		(5,400)	(19,472)	(7,435)	(7,241)
Crown Investment		25,400	0	8,000	8,000
Closing Equity		20,000	528	1,093	1,852

These Financial Statements are GST exclusive.

These Prospective Financial Statements are based on the current set of circumstances. and should be read in conjunction with the Statement of Significant Assumptions in section 9. Until the Partner negotiations are concluded there is a high degree of variability around CFH's financial projections.

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

note 2 : Overheads : FYE 2010 is from date of incorporation with the bulk of CFH's overheads being incurred in the later part of FYE 2010. Costs included are Company Staff and Contractors, Advisory and Professional costs.

Crown Fibre Holdings Limited	FYE 2010	PROJ 2011	PROJ 2011	PROJ 2013
<i>30 June year end</i>	\$(000)s	\$(000)s	\$(000)s	\$(000)s
Prospective Statement of Financial Position				
Current Assets				
Cash & Short term deposits	21,283	3,353	2,367	3,502
Other Current	29	40	42	45
Total Current	21,312	3,393	2,409	3,547
Non - Current Assets				
Plant, Property and Equipment	3	192	150	123
Total Non - Current Assets	192	215	150	123
Total Assets	21,504	3,608	2,559	3,670
Represented by :				
Current Liabilities	1,504	3,080	1,466	1,818
Shareholders Equity				
Retained Earnings	(5,400)	(24,872)	(32,307)	(39,548)
Capital	4	25,400	33,400	41,400
Total Shareholders Equity	20,000	528	1,093	1,852
Total Liabilities & Shareholders Equity	21,504	3,608	2,559	3,670

note 3 : PP&E : Fixed assets purchases for CFH operations principally relate to IT equipment.

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 with additional calls of \$8,000,000 in each of 2012 and 2013 to fund operational costs.

Crown Fibre Holdings Limited	FYE 2010	PROJ 2011	PROJ 2012	PROJ 2013
Prospective Statement of Cashflows	\$(000)s	\$(000)s	\$(000)s	\$(000)s
<u>Cash flows from operating activities</u>				
<i>30 June year end</i>				
Income received	336	431	258	492
Payments to suppliers	(3,303)	(14,602)	(5,794)	(4,061)
Payments to employees	(941)	(3,604)	(3,350)	(3,196)
Net cash from operating activities	(3,908)	(17,775)	(8,886)	(6,765)
<u>Cash flows from investing activities</u>				
Purchase of PP&E	(209)	(155)	(100)	(100)
Net cash from investing activities	(209)	(155)	(100)	(100)
<u>Cash flows from financing activities</u>				
Capital introduced	25,400	0	8,000	8,000
Net cash from financing activities	25,400	0	8,000	8,000
Net Increase/(decrease) in cash, bank and cash equivalent	21,283	(17,930)	(986)	1,135
Opening Balance - cash, bank and cash equivalents	0	21,283	3,353	2,367
Closing Balance - cash, bank and cash equivalents	21,283	3,353	2,367	3,502

(1) Reporting Entity

Crown Fibre Holdings Limited (the 'Company') 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, ultra-fast broadband by co-investing with private sector participants to deploy telecommunications network infrastructure. As such, Crown Fibre Holdings 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 for the purposes of New Zealand Equivalents to International Financial reporting Standards.

Crown Fibre Holdings Limited, as a public benefit entity, is exempt from taxation.

The Crown does not guarantee the liabilities of the Company or the Company in any way.

(2) Basis of Preparation

Statement of Compliance

The prospective financial statements are for the period from the date of incorporation to 30 June 2010 and the years ended 30 June 2011, 30 June 2012 and 30 June 2013.

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 New Zealand generally accepted accounting practice ("NZ GAAP"), the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate for public benefit entities using the policies outlined below. Additional policies may be required when the structure of the investments is finalised and the Company's operations are fully commenced.

The prospective financial statements were authorised for issue by the Board of Directors on 7 May 2010. 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. The Directors do not intend to update the prospective financial information.

Standards and Interpretations early adopted

The Company has elected to early adopt the following standards and interpretations:

- Improvements to New Zealand equivalents to International Financial Reporting Standards 2009
- Amendments to *NZ IAS 24 Related Party Disclosures*

Standards and Interpretations not yet adopted

The Company has elected not to early adopt the following standards or apply the following interpretation(s) which 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 IASB's project on financial instruments and replaces the classification and measurement requirements for financial assets under *NZ IAS 39 Financial Instruments: Recognition and Measurement*.
- Amendments to *NZ IFRIC 14 Prepayments of a Minimum Funding Requirement*

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 over 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 the 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 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 period in which the estimate is revised and in any future periods affected.

Until the ITP process and negotiations with potential partner(s) are concluded, it is not possible to provide an accurate investment budget for the roll out of the UFB and to attempt to do so could be potentially compromising to such negotiations. No investment flows are included in these 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

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are included in the Statement of Financial Performance on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments under a finance lease are apportioned between the finance charge and the reduction of the outstanding liability. The interest expense component of finance lease payments is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

Taxation

Crown Fibre Holdings Limited is a public authority and is exempt from taxation under section CW38 of the Income Tax Act 2007.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Cost includes the cost to acquire the asset and other directly attributable costs incurred to bring the asset to the location and condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be reliably measured. The costs of day-to-day servicing of property, plant and equipment are recognised in the Statement of Financial Performance as incurred.

Depreciation is provided for on a straight-line basis on all tangible items of property, plant and equipment other than freehold land and work in progress, over their estimated useful lives as follows:

Leasehold improvements 2 - 10 years
Furniture and fittings 5 - 10 years
Office equipment 4 - 10 years
Information systems 2.1 - 5 years

The depreciation method, estimated useful lives and residual values of Property, Plant and Equipment are reviewed annually to assess appropriateness.

Leased assets are initially measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is

accounted for in accordance with the accounting policy applicable to that asset. Leased assets are depreciated on the basis of estimated useful life or the remaining lease term, whichever is shorter.

Intangible Assets

Software is a finite life intangible asset and is recorded at cost less accumulated amortisation. Other intangible assets are measured at cost less accumulated amortisation and impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the asset to which it relates. All other expenditure is recognised in profit or loss in the statement of comprehensive income as incurred.

Amortisation is recognised in profit or loss in the statement of comprehensive income on a straight line basis over the estimated useful lives of the intangible assets, from the date they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Software 2-3 years.

Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Employee Benefits

A liability for annual leave, long service leave and retirement leave accruing to employees is recognised in the Statement of Financial Position. The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to the reporting date.

Foreign Currency Transactions

Transactions in foreign currencies are converted to the functional currency of the relevant operating unit at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities in foreign currencies at balance date are re-translated to the functional currency at the exchange rates ruling at balance date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Exchange differences arising on the translation of monetary assets and liabilities in foreign currencies are recognised in profit or loss in the statement of comprehensive income.

Financial instruments

Financial instruments are recognised in the financial statements when the Company has become party to the contract. They include cash balances, receivables, payables and investments. These financial instruments include interest rate swaps, options and forward foreign exchange contracts. The Company does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

Cash and cash equivalents

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 which are subject to an insignificant risk of changes in value. Interest income on cash and cash equivalent balances is recognised as interest accrues using the effective interest method.

Receivables and payables

Receivables and payables are initially recorded at fair value and subsequently carried at amortised cost using the effective interest method, less (in the case of trade receivables) any provision for impairment (doubtful debts). A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Financial difficulties of the debtor, default payments or overdue debts are considered objective evidence of impairment.

Investments in Financial Assets

The Company classifies its investments in the following categories: financial assets held at fair value through profit or loss, held to maturity investments, loans and receivables and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the initial classification of its investments upon acquisition. Realised and unrealised gains and losses on investments classified as financial assets at fair value through profit or loss are included in profit or loss in the statement of comprehensive income in the period in which they arise. Investments classified as available for sale are held at fair value and any related unrealised gains and losses are recognised in equity. Held to maturity investments and loans and receivables are carried at amortised cost.

Goods and Services Tax (GST)

The statement of comprehensive income and statement of cash flows have been prepared so that all components are stated net of GST. All items in the statement of financial position are stated net of GST with the exception of receivables and payables which include GST invoiced.

Commitments and contingencies are stated net of GST.

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 which are subject to an insignificant risk of changes in value.

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 and of the Company.

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

9. Statement of Significant Assumptions

The Company is currently in the process of evaluating proposals from private sector participants. During the period of the prospective financial statements, the Company will select the most appropriate bids, invest in Local Fibre Companies which will be co-owned with the successful Respondent(s), and commence building the UFB. Until the Partner negotiations are concluded there is a high degree of variability around CFH's financial projections.

Until the ITP process and negotiations with potential partner(s) are concluded, it is not possible to provide an accurate investment budget for the roll-out of the UFB and to attempt to do so could be potentially compromising to such negotiations. CFH will therefore keep Shareholding Ministers, the Minister for Communications and Information Technology and Officials informed on a monthly basis as to the progress of the negotiations in order to effectively manage any fiscal risk. Once the UFB roll-out plans are known, CFH will update future SOIs to reflect the investment timing required for the roll-out of the UFB together with assumptions.

10. Consultation

Crown Fibre Holdings Limited will, in relation to any single or connected series of transactions, consult with its Shareholding Ministers on substantial matters not contemplated in the business plan, including:

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

Shareholder consent will be obtained for the sale of any of the shares of Crown Fibre Holdings Limited or the sale of all, or substantially all, of Crown Fibre Holdings Limited'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: Audit & Risk and Remuneration.

Audit & Risk Committee

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

- Accounting, reporting and responsibilities under the Companies Act 1993 and related legislation. Its Terms of Reference also cover the role of Internal Audit.
- Management of all material risks including investment flows across all Crown Fibre Holdings Limited operations. Its Terms of Reference also include an annual review of Crown Fibre Holdings Limited's insurance coverage. The Audit Committee is also responsible for identifying areas of financial risk to which Crown Fibre Holdings Limited may be exposed.

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.