



Crown
Infrastructure
Partners

BUILDING TOGETHER

Hanga Ngātahi


ANNUAL REPORT 2019
FOR YEAR END 30 JUNE 2019




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“CROWN INFRASTRUCTURE PARTNERS IS PROUD OF THE CONTRIBUTION IT IS MAKING TO NEW ZEALAND’S INFRASTRUCTURE THROUGH ITS FUNDING AND FINANCING INITIATIVES”


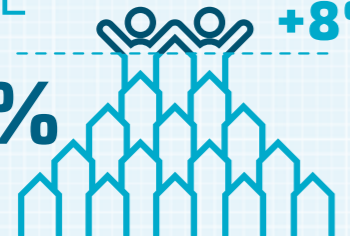


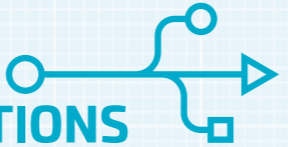

UFB UPTAKE **52%**  **18%**

UFB CONNECTIONS  **214,920**
 **820,761**



UFB CITIES/TOWNS COMPLETE  **110**  **+60**



UFB AVAILABILITY  **1.6** **202,722** million
HOUSEHOLDS + BUSINESSES

UFB POPULATION COVERAGE  **78%**  **+8%**

GIGABIT CONNECTIONS  **74,613**  **+153%**

The nationwide product launch of gigabit wholesale services has made NZ one of the leading countries in the OECD for gigabit services.

DATA DOWNLOADED PER UFB CONNECTION  **341Gb**  **+15%** PER CONNECTION PER MONTH

INFRASTRUCTURE FINANCING  **4,000** HOUSE SECTIONS
\$91m  WORTH OF BHI

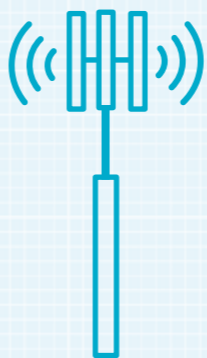
PAID OFF OVER  **35** YEARS

RURAL BROADBAND COVERAGE TO DATE

38,662

HOMES & BUSINESSES COVERED

46% OF TARGET 

MOBILE TOWERS RURAL AND BLACKSPOTS  **25** TOWERS COMPLETE
5% COMPLETE

STATE HIGHWAY KMs COVERED

238km
17% COMPLETE



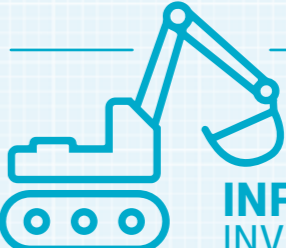
TOURISM SPOTS COVERED

 **26**
16% COMPLETE


NET EARNINGS



 **(\$54.1)m**
BETTER THAN BUDGET BY
\$102.1m

This is the total comprehensive income for the company. CIP losses were better than budgeted.

 INFRASTRUCTURE INVESTMENT TO DATE
\$1.46BN
+\$270m

EMPLOYEE ENGAGEMENT

4.53/5
 ENGAGEMENT % RANK
90%
AGAINST NZ NORM GROUP

 HEALTH & SAFETY DOWN FROM
2.8  **3.3**
TRIFR TOTAL RECORDABLE INJURY FREQUENCY RATE
NZ INDUSTRY RATE IS 3.13

REPORT OF THE CHAIR AND CHIEF EXECUTIVE



CROWN INFRASTRUCTURE PARTNERS HAS HAD A SUCCESSFUL YEAR, HIGHLIGHTED BY CLOSING ITS FIRST BULK HOUSING INFRASTRUCTURE FINANCING TRANSACTION, FURTHER EXPANSION OF THE RURAL BROADBAND INITIATIVE PHASE TWO AND MOBILE BLACK SPOTS PROGRAMME, AND INCLUSION OF THE PROVINCIAL GROWTH FUND DIGITAL CONNECTIVITY PROGRAMMES.

INFRASTRUCTURE FINANCING

Crown Infrastructure Partners (**CIP**) completed an industry-first transaction to finance long-term bulk housing infrastructure at the Milldale development in Wainui, north of Auckland, in October 2018. The transaction involved CIP developing a New Zealand-first financing model to enable the cost of the infrastructure to be paid by the beneficiaries over the lifetime of the infrastructure, and to bring forward the availability of land for housing.

The Milldale transaction will finance significant infrastructure to support an initial 4,000 housing sections in the Milldale development, and can support a further 5,000, which amounts to a total of 9,000 housing sections in the wider Wainui area. CIP partnered as the financier with Fulton Hogan Land Development, Auckland Council, Auckland Transport, Watercare and the Accident Compensation Corporation. Sections are already selling, and houses are being built in the development, with the construction of the infrastructure well underway.

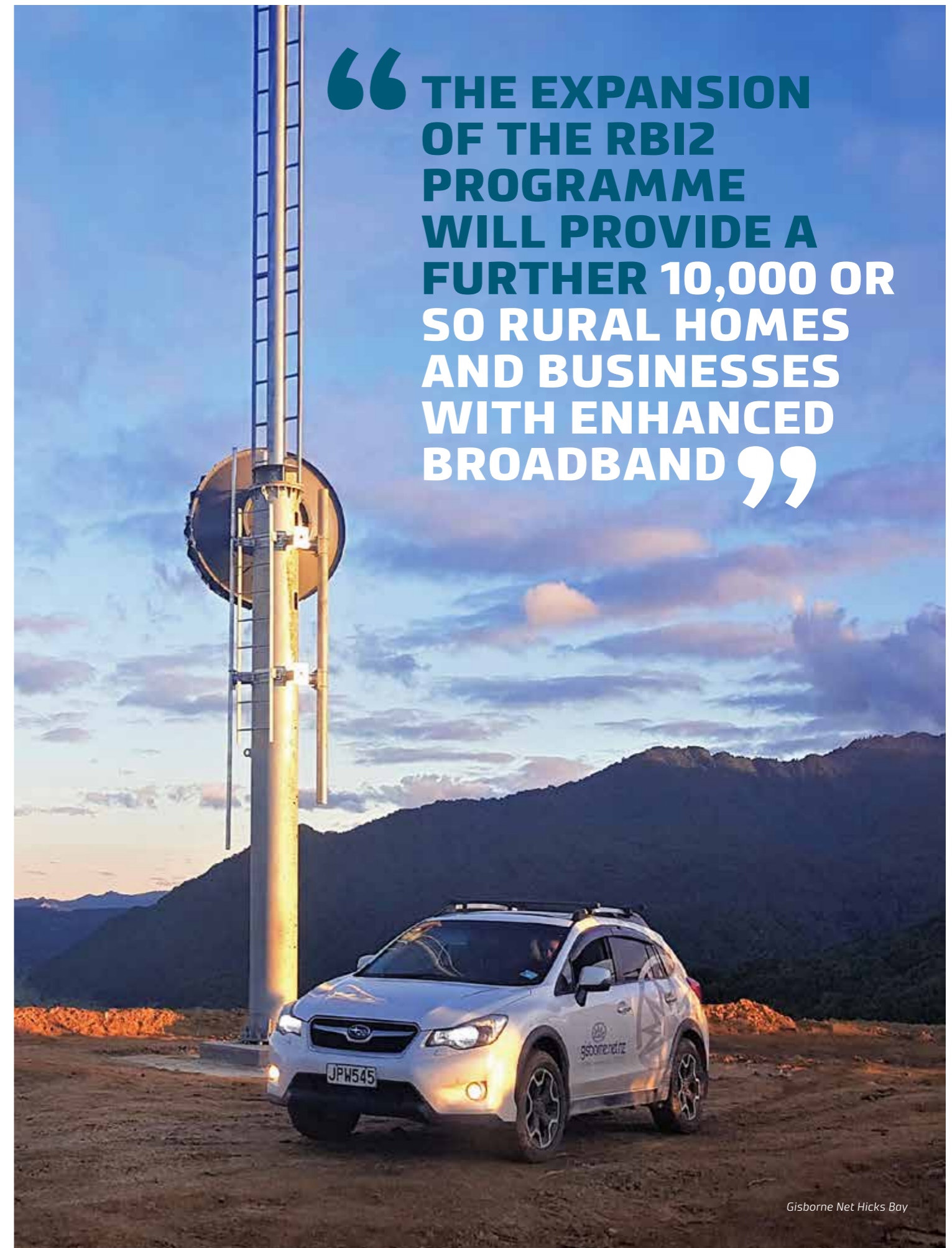
The success of this model, which included the issue of the longest fixed rate debt term (35 years), saw CIP and its advisers, Macquarie Capital (NZ) and KPMG, win the EY *Debt Deal of the Year* at the annual Institute of Finance Professionals NZ Awards.

RURAL BROADBAND INITIATIVE PHASE TWO AND MOBILE BLACK SPOTS PROGRAMME

In December 2018 CIP contracted the expansion of the Rural Broadband Initiative Phase Two and Mobile Black Spots Fund programme (**RB12/MBSF**), which will provide enhanced broadband to a further 10,000 or so rural households and businesses, and mobile coverage to a further approximately 365 kilometres of State Highway and 59 Tourism areas. This will involve deploying around 115 more mobile towers and numerous smaller towers by Wireless Internet Service Providers (**WISPs**).

With this expansion (once completed), broadband coverage across New Zealand will lift to 99.8% of the population.

“THE EXPANSION OF THE RB12 PROGRAMME WILL PROVIDE A FURTHER 10,000 OR SO RURAL HOMES AND BUSINESSES WITH ENHANCED BROADBAND”



Gisborne Net Hicks Bay

CIP now has a total of 18 partners delivering this programme - 17 WISPs and the Rural Connectivity Group (RCG), a joint venture subsidiary of the three mobile operators, Spark, Vodafone and 2degrees. RCG mobile towers have Multi-Operator Core Network functionality, enabling customers of all three mobile operators to receive services from the towers from a single set of antennae (an industry-first sharing arrangement).

At year end the programme is making good progress, with 38,662 rural households and businesses now having enhanced broadband available, and 238 kilometres of State Highway and 26 Tourism areas with mobile coverage. There are now 25 mobile towers live and providing services from all three mobile operators, of which 20 are Multi-Operator Core Network towers. CIP thanks its WISP partners for excellent commitment in deploying to more than 3,522 rural households and businesses during the year and the RCG for the completion of the mobile towers.

PROGRESS WITH THE UFB PROGRAMME

The UFB programme now provides access to fibre-to-the-premise broadband for 78% of the population, passing the original programme target of 75% in March 2019, and is on track to achieve the target of 87% (including private fibre) population coverage by 2022. The original UFB programme is on track for completion in the last quarter of 2019 as coverage in Auckland, Wellington, Palmerston North and Kāpiti is completed.

A total of \$197 million was invested in UFB in FY19 and the UFB build is complete in 110 towns and cities. The project is on budget and ahead of schedule to reach overall completion by 2022.

The UFB programme has been, and continues to be, a significant success story. Uptake on the UFB network is exceeding expectations: overall uptake is now at 52% far ahead of the original forecast, with 820,761 households and businesses now connected.

PROVINCIAL GROWTH FUND DIGITAL CONNECTIVITY PROGRAMMES

In late 2018 and early 2019 CIP was tasked with implementing the Government's Provincial Growth Fund (PGF) Digital Connectivity programmes, funded at \$90 million.

There are three programmes - firstly, a West Coast/Southland connectivity package including: expanding and accelerating UFB towns on the West Coast, additional tourism mobile towers on the West Coast and fibre links from Hawea to Fox Glacier Township, and from Te Anau to Milford; secondly, further expansion of the RBI2/MBSF programme in 'surge regions' (bringing total funding for the RBI2/MBSF programme to approximately \$309 million); and finally, a Marae Digital

Connectivity programme, involving the provision of broadband, associated hardware and support for up to 812 marae.

CIP is working closely with West Coast councils, Te Puni Kōkiri (TPK) and other key stakeholders on the implementation of these programmes.

FINANCIAL RESULTS

During the year CIP exceeded its UFB financial targets. CIP's net loss before fair value movements on UFB investments was \$7.6 million, compared with a planned net loss of \$17.4 million. CIP's net loss for the financial year was \$54.1 million, compared with a planned net loss of \$156.2 million for the year. The significantly positive variance is largely due to falling interest rates, resulting in favourable fair value movements of CIP's UFB investments.

In the year CIP funding was primarily from the Government, with \$245 million of capital called for UFB, and \$17 million of capital called for infrastructure financing. CIP receives grant income from the Government for RBI2/MBSF and the PGF Digital Connectivity programmes, \$16 million from the Telecommunications Development Levy (TDL), and \$1.8 million from the PGF. These funding sources were invested into new UFB build programmes of \$197 million. The Milldale transaction has a total investment to date of \$12 million, including third party debt. CIP invested \$270 million with partners for UFB, RBI2/MBSF, Regional Digital Connectivity and Bulk Housing Infrastructure.

WORKPLACE HEALTH AND SAFETY

The Total Recordable Injury Frequency Rate (TRIFR)¹ for the year to June 2019 is at 2.8, which is the lowest rate recorded across the UFB and RBI2/MBSF programmes to date. No reportable partner injuries were notified to the regulator during the year, with 33 recordable injuries in total versus 42 last year. This year saw a further increase to 11.4 million hours worked compared with 10.9 million in 2017/18.

Maintaining a low injury frequency rate is a reflection of the continued focus CIP and the build partners place on workplace safety. Overall, injury rates for CIP and its partners compare favourably with the New Zealand industry-wide rate.

OUTLOOK FOR 2020

In the next fiscal year, CIP's focus and principal goals will include:

- **Infrastructure to support housing growth** - in conjunction with high-growth councils, identifying bulk housing infrastructure that requires financing in order to accelerate housing supply;



EY Debt Deal of the Year at the annual Institute of Finance Professionals NZ Awards in May 2019.
From left to right: Jesse Phillips - KPMG, Sean Wynne - CIP, Jessica Pritchard - EY, Duncan Olde - Macquarie Capital (New Zealand Limited)

- **Infrastructure Funding and Financing (IFF) programme** - supporting Government in the development and implementation of the IFF programme;
- **RBI2/MBSF programme** - continuing to deploy improved broadband to reach approximately 54,000 rural households and businesses, and mobile coverage to approximately 600 kilometres of State Highway and 52 Tourism areas;
- **UFB programme** - continuing deployment of UFB to approximately 1.7 million households and businesses, lifting the percentage of the population able to access UFB to approximately 80%;
- **PGF Digital Connectivity programmes** - connecting eligible marae to broadband, extending and accelerating West Coast UFB coverage and mobile coverage of Tourism areas, and awarding contracts for the Haast and Milford fibre links with deployment planned for completion by the end of 2020/21; and
- **Health and safety** - Continuing to maintain a strong focus on health and safety across all programmes.

CIP is proud of the long-term contribution it is making to enhance New Zealand's infrastructure through its funding

and financing initiatives. We extend our appreciation to the individuals and organisations who have contributed to the ongoing success of all our programmes.

We look forward to continuing to assist the Government with its infrastructure programmes in communications and urban housing, to improve the connectivity and lifestyles of communities throughout the country.


Simon Allen
Chair
5 September 2019


Graham Mitchell
Chief Executive
5 September 2019

¹ Total recordable injuries include all injuries requiring medical treatment, restricted work time or lost time per one million hours worked.

CIP AREAS OF FOCUS:

HOUSING INFRASTRUCTURE

CIP's first bulk housing infrastructure financing transaction for the Milldale development in Wainui, north of Auckland, was executed in October 2018 in partnership with Auckland Council Group, Fulton Hogan Land Development (FHLD) and the Accident Compensation Corporation (ACC).

The Milldale transaction pushed the New Zealand debt market to provide long-term financing, and the 35-year fixed rate debt raised by CIP is the longest fixed rate debt term achieved in New Zealand.

Due to the success of the Milldale transaction, CIP and its advisers Macquarie Capital (NZ) and KPMG won the EY *Debt Deal of the Year* at the annual Institute of Finance Professionals NZ Awards in May 2019.

The Milldale development will support approximately 4,000 dwellings, including housing and apartments as well as neighbourhood shops, parks and other civic amenities, educational facilities, and a town centre.

CIP established a special purpose vehicle (**SPV**) which raised the capital required to finance five bulk housing infrastructure projects to service the Milldale development and support housing in the area surrounding Milldale, with some funding also provided by Auckland Council and FHLD. The infrastructure financed can support approximately 9,000 housing sections in the wider Wainui area (including the approximately 4,000 located in the Milldale development). The total cost of the infrastructure is expected to be approximately \$91 million.



Top and Middle: Minister Twyford and officials at the October Milldale announcement

Below and right: Construction of the Millwater to Wainui Road wastewater tunnel



Initial subdivision stages of Milldale development

The CIP SPV will fund \$48.9 million of the infrastructure through advances to FHLD, who will be responsible for building the five infrastructure projects. This is repaid through an 'infrastructure levy' charged on Auckland Council rates invoices to each beneficiary, (that is, a residential or commercial property owner), over 35 years. Auckland Council will fund \$33.5 million towards infrastructure for future development on surrounding land. FHLD will fund the remainder of the project. The infrastructure will be constructed over the next three to four years, with housing development and sales expected to occur over the next 10 to 12 years. A number of sales have already occurred and construction of housing is underway.

DEVELOPMENT PIPELINE

CIP has engaged with a number of high-growth councils, including Tauranga City Council, Hamilton City Council, Auckland Council, Waipa District Council, Waikato Regional Council and Queenstown Lakes District Council, to identify a pipeline of potential bulk housing infrastructure projects that may benefit from CIP financing and is currently working on progressing several of those projects.



CIP AREAS OF FOCUS:

ULTRA FAST
BROADBAND

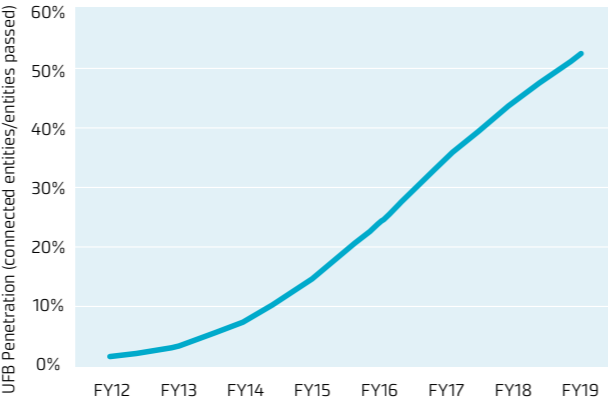


During the year the UFB project saw 60 new cities and towns completed. This brings the total number of towns completed to 110, with 1.6 million households and businesses, or 78% of New Zealanders, now having access to UFB.



Uptake is now at 52% across the programme, with a number of towns over 60%. Connections total 820,761, which is an increase of 214,920 during the year.

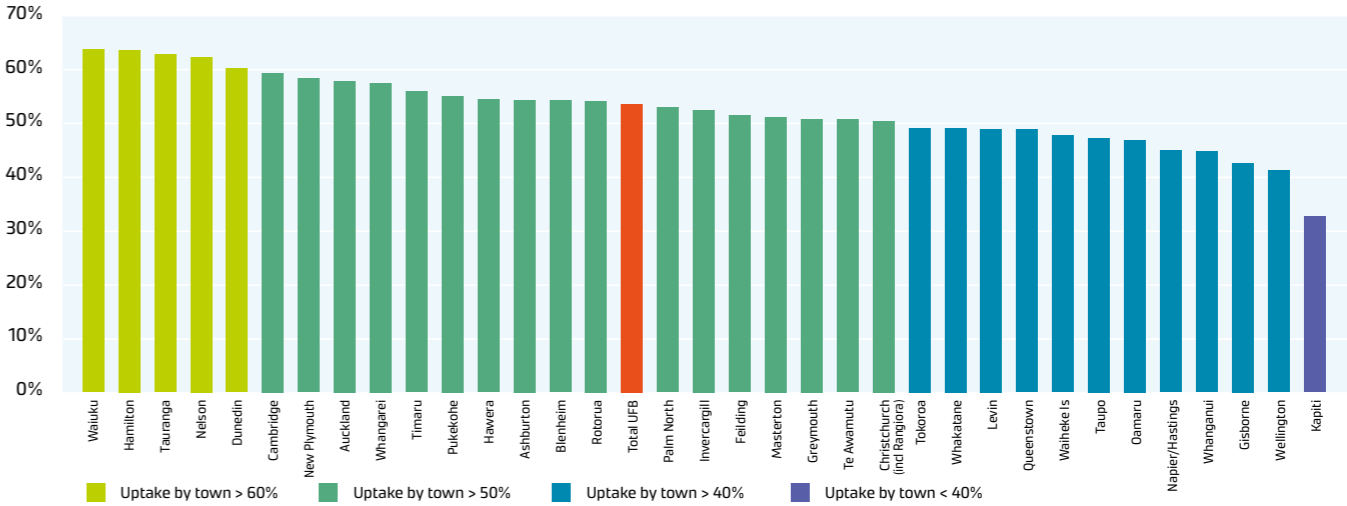
UFB UPTAKE FOR TOTAL PROGRAMME



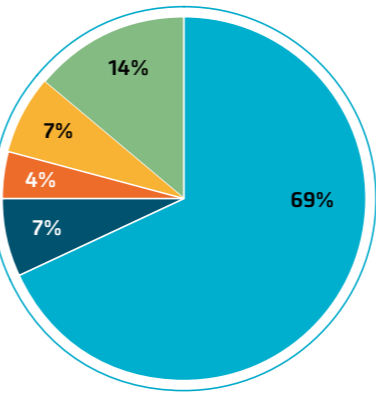
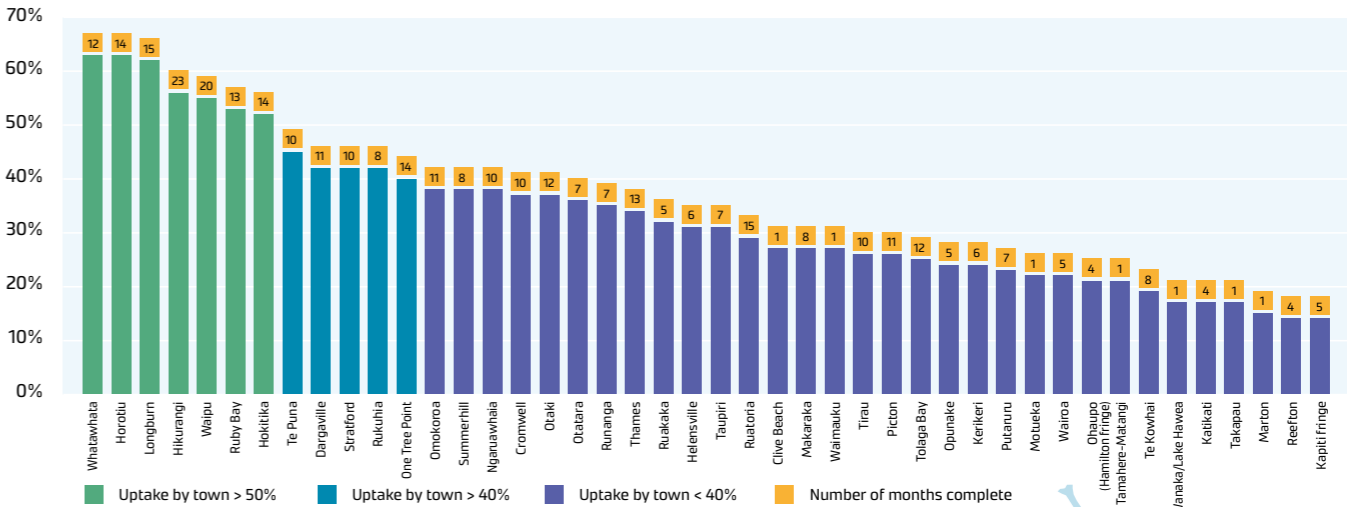
Top to bottom: Some of the towns completed in this financial year – Waihi Beach, Wanaka, Palmerston North, Kerikeri, Mangawhai



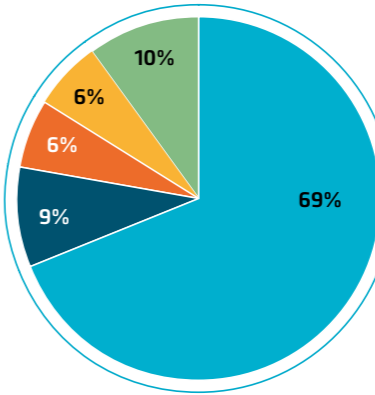
UFB1 UPTAKE BY TOWN/CITY : AS AT 30 JUNE 2019



UFB2 UPTAKE BY TOWN/CITY : AS AT 30 JUNE 2019



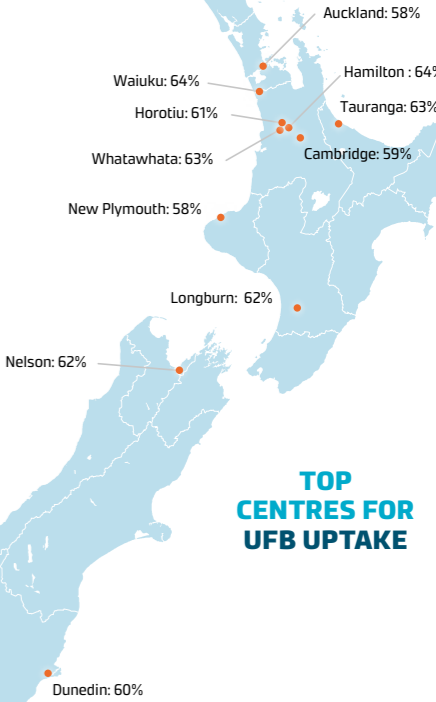
UFB PRODUCT MIX AS AT 30 JUNE 2018



UFB PRODUCT MIX AS AT 30 JUNE 2019

30 Mbps 50 Mbps 100 Mbps 200 Mbps 1000 Mbps

The average speed on the UFB network is now 179 Mbps, up 28 Mbps from June 2018. Consumers are continuing to migrate to higher-speed UFB plans, including the gigabit plan. This desire for higher-speed plans has resulted in 84% of connections now being at or over 100 Mbps.



TOP CENTRES FOR UFB UPTAKE

CIP AREAS OF FOCUS:

RURAL
BROADBAND
AND MOBILE
COVERAGE

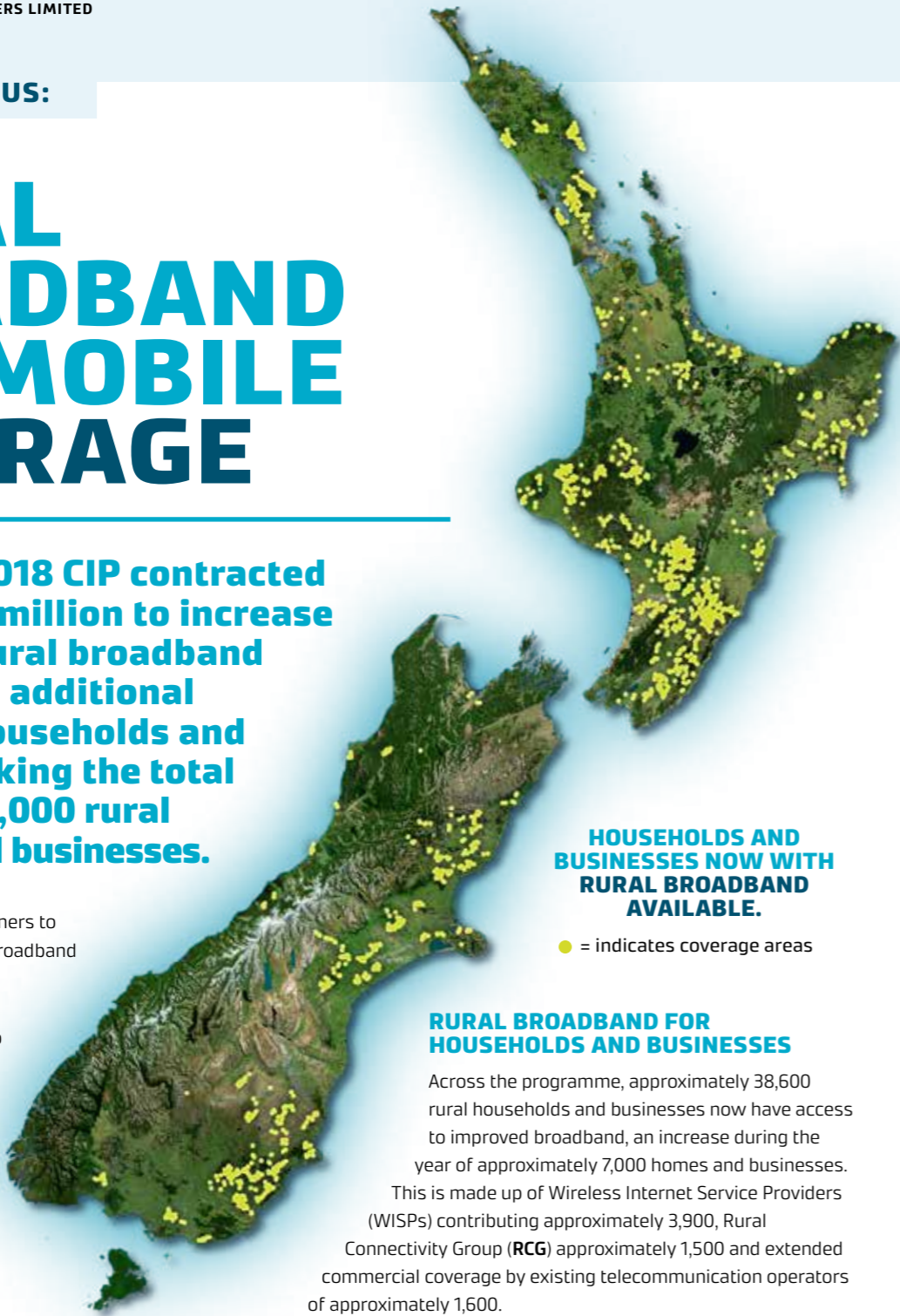
In December 2018 CIP contracted a further \$132 million to increase and improve rural broadband coverage to an additional 10,000 rural households and businesses, taking the total coverage to 84,000 rural households and businesses.

CIP is now working with 18 partners to increase coverage to improve broadband to rural homes and businesses. This additional funding will also provide new mobile coverage to approximately 365 kilometres of State Highway (total coverage for the programme is now 1,400 km) and 59 new Tourism areas (with total coverage of 163 Tourism sites through this programme).

AoNet: Retaruke East



RCG: Morton Mains, Southland



HOUSEHOLDS AND
BUSINESSES NOW WITH
RURAL BROADBAND
AVAILABLE.

● = indicates coverage areas

RURAL BROADBAND FOR
HOUSEHOLDS AND BUSINESSES

Across the programme, approximately 38,600 rural households and businesses now have access to improved broadband, an increase during the year of approximately 7,000 homes and businesses. This is made up of Wireless Internet Service Providers (WISPs) contributing approximately 3,900, Rural Connectivity Group (RCG) approximately 1,500 and extended commercial coverage by existing telecommunication operators of approximately 1,600.



Ultimate Broadband: Ben Hope, Waihi



Speedtest from Ultimate Broadband, using CIP-funded RBIZ infrastructure



RCG: Te Arai, Northland

MOBILE COVERAGE ON STATE HIGHWAY AND
TOURISM SITES

There are now 26 Tourism sites (an increase of 13 sites from last year) and 238 kilometres of State Highway (an increase of 138 kilometres from last year) which now have mobile coverage.

TOP FIVE STATE HIGHWAYS BY
KILOMETRE WITH NEW MOBILE COVERAGE

STATE HIGHWAY	KILOMETRES COMPLETE	% OF CONTRACT COMPLETE
6	44.4 KM	15.6%
12	27.1 KM	40.0%
4	19.8 KM	27.8%
2	19.2 KM	17.5%
87	15.7 KM	98.6%

TOURISM SITES:
NEW TOURISM SPOTS
COVERED



CIP AREAS OF FOCUS:



DIGITAL
CONNECTIVITY
PROGRAMMES

West Coast/Southland Digital Connectivity Package



The West Coast/Southland Digital Connectivity Package has several components:

FIBRE LINKS BETWEEN FOX GLACIER AND
HAWEA TOWNSHIPS, AND TE ANAU TO
MILFORD SOUND

CIP is in the process of procuring partners for the deployment of the two new PGF-funded fibre links in the West Coast and Southland. The fibre links will allow more reliable and faster broadband access to locations along the paths of the links, and will provide:

- fibre backhaul for the planned mobile towers that provide mobile coverage on State Highways 6 and 94, and the various Tourism areas near to the fibre links;



TE ANAU - MILFORD SOUND FIBRE LINK



FOX GLACIER - HAAST - LAKE HAWEA FIBRE LINK

- support for rural broadband and UFB on the West Coast by providing faster links back to the core network;
- improved network resilience for the whole of the West Coast and lower South Island; and
- backhaul for telecommunications operators.

The West Coast fibre link will start in Hawea and will traverse State Highway 6 westward to Haast, then north up the State Highway to Fox Glacier Township. The Southland fibre link will start in Te Anau and will traverse north and west along State Highway 94 and into Milford Sound.

ADDITIONAL AND ACCELERATED UFB AND
MOBILE COVERAGE

A second funding package will further improve mobile coverage

of Tourism areas on the West Coast as well as extend and accelerate UFB coverage to West Coast towns.

CIP is in the process of procuring these components of the package and expects to have the infrastructure completed by the end of calendar year 2021.

At the time of print it was announced that four new towns on the West Coast, including Haast and Gladstone, will now be receiving UFB. In addition, a number of towns will be accelerated in the UFB build schedule from their original completion dates of 2022 to between 2020 and 2021.

Pike River Memorial Trail, the entrance to Paparoa Track and Coghlan's Lookout at Punakaiki are among the five Tourism spots on the West Coast that will receive new towers providing mobile coverage to customers from all three mobile operators.



Provincial Growth Fund
Marae Digital
Connectivity Programme

CIP is responsible for implementing the telecommunications connectivity component of the Government's Provincial Growth Fund Marae Digital Connectivity programme, which was announced in February 2019.

The programme involves providing marae with broadband connections, hardware and technical support to utilise the connections. There is \$10 million of PGF funding available for this programme. The programme will support whānau and hapū to undertake economic activity and enhance their digital capability, and to revitalise marae as local digital hubs. Te Puni Kōkiri is managing the application process, engagement with marae communities and hapū, and general communication.

A tender process to select service providers to provide the connections and support closed in August 2019 with contracting expected in September. Full implementation of the programme is due to commence in the December 2019 quarter.

In the meantime, CIP has been receiving applications and managing initial connection on a bespoke basis with its existing infrastructure and service providers, and so far 117 applications have been received. At the date of release of this Annual Report the number of connections has increased to 23, including the first gigabit-connected marae.



Te Kooraha Marae, Taharua, Waikato Tainui

CASE STUDY 2019

NEW BROADBAND CONNECTION AT TANGITERŌRIA MARAE

Attracting the younger generation to return to their marae and involving whānau from afar has been difficult for the whānau of Tangiterōria marae, and they are not alone.

Many marae across New Zealand want to encourage connections with whānau who live some distance away. Improving connectivity to regional marae is of top importance to the success of the Marae Digital Connectivity programme funded by the Provincial Growth Fund (PGF). One of the first marae to be connected is Tangiterōria marae in Northland.

LACK OF CONNECTION

Tangiterōria marae has a large number of its whānau living overseas or some distance away in other parts of New Zealand. Many find it difficult financially to return to their marae on a regular basis to attend hui, but they still want to be involved and contribute to the kōrero. And like many marae, Tangiterōria is struggling to attract its younger generation to return to their marae and get involved.

The marae is currently going through a process of redevelopment. They have created a website (www.tangiteroriamarae.com) and a Facebook page in an effort to connect with and include whānau. This has been welcomed, but they were still being asked for the ability to attend hui via online video calling.

So in their attempt to revitalise the marae and have more whānau involved, the Trustees of Tangiterōria marae jumped at the opportunity to have broadband internet.

GETTING CONNECTED

They submitted an application to Te Puni Kōkiri (TPK) to have their marae connected, and the application was received by CIP. Then the search began for providers in the local area who could deliver a broadband service to Tangiterōria marae. The end result - an uncapped VDSL broadband connection - was delivered by Orcon and Chorus, funded for five years by the PGF.

"The process has been fantastic, easy and hassle-free," says Tania Moriarty, Manager of Te Uri O Hau Tangata Development Ltd, which has been working with CIP on this connectivity project for the marae. "Whenever I've had questions, and I've had a few, CIP has responded immediately."

"The Chorus installer has been fantastic as well, always ringing to keep me updated, and was understanding and sensitive to our kaupapa that were happening on the marae, which caused a delay in the ability to repair and replace the original damaged cables. He communicated respectfully with our kuia and she has fed back to me that 'he is a lovely young man'."

A WORLD OF OPPORTUNITIES

While Tangiterōria marae has only recently been connected, they are excited about the possibilities. "Along with a lack of broadband coverage, we also have limited cellphone coverage so the ability to contact whānau through FaceTime and Messenger will be amazing," says Tania.

"Having this connectivity will enhance connections and involvement with our whānau. It most certainly will save whānau time and money by being connected via video calling, rather than travelling to be here in person. I have told other marae to get an application in and get connected as well!"

The marae has been provided with a Netcomm Wi-Fi router and is receiving download speeds of between 34 Mbps and 44 Mbps. This allows whānau to connect to the internet and access digital services.

WHAT'S NEXT?

Broadband connection is only the first step. To really take advantage of the connectivity provided to date, the marae needs essential hardware.

There is a CIP procurement process currently underway which is expected to be completed in the second half of 2019. This will fund the essential hardware, including three Wi-Fi boosters, up to three internet security cameras, an optional internet meeting camera solution and an optional internet smoke alarm and sensor solution.

Tania says, "We are very grateful for this amazing opportunity. Already our whānau are asking if they can be part of our upcoming AGM via video calling!"


"HAVING THIS CONNECTIVITY WILL ENHANCE CONNECTIONS AND INVOLVEMENT WITH OUR WHĀNAU"



The Tangiterōria marae website homepage


PARTNER PROFILES

CIP’S PARTNERS FOR THE UFB PROGRAMME ARE:




Chorus is New Zealand's major telecommunications infrastructure company. It is the largest of CIP's co-investment partners and is deploying UFB in over 350 cities and towns throughout New Zealand, covering over one million End Users (EU). Chorus sells wholesale fibre services to Retail Service Providers (RSPs). Chorus is listed on the NZX and ASX.

End Users* covered to date	1,124,558
% of total coverage complete	80%
Uptake across all areas	52%




Ultrafast Fibre Limited (UFF), now 100% owned by Waikato Networks Limited, is the LFC that has deployed UFB in the urban areas of Hamilton, Tauranga, Whanganui, New Plymouth, Tokoroa, Hawera, Cambridge and Te Awamutu. UFF is also deploying UFB to 13 towns throughout the central North Island as part of the UFB expansion programme, which CIP is partly funding through an interest-free loan.

End Users* covered to date	222,755
% of total coverage complete	99%
Uptake across all areas	56%



Northpower is an electricity distribution network operator in Northland and one of the largest multi-utility contractors in New Zealand. Northpower and CIP are joint shareholders in Local Fibre Company (LFC) Northpower Fibre Limited (NFL), which has completed the UFB network deployment in Whāngārei. NFL sells wholesale fibre services to RSPs. Northpower LFC2 Limited, which is a wholly owned subsidiary of Northpower Limited, is responsible for deploying UFB in towns throughout Kaipara and Whāngārei districts under the UFB expansion programme, which CIP is partly funding through an interest-free loan.


End Users* covered to date	28,666
% of total coverage complete	86%
Uptake across all areas	54%



Enable Services Limited (ESL), a subsidiary of Christchurch City Holdings Limited (CCHL), has completed its contracted obligations with CIP to deploy the UFB network in Christchurch, Rangiora and surrounding areas. ESL owns Enable Networks Limited (ENL), the LFC that owns and operates the UFB network and sells wholesale fibre services to RSPs. CIP funded a portion of this build through an interest-free loan to CCHL, which is repayable in May 2021 and is secured over the assets of ENL and the shares and debt held by ESL in ENL.

End Users* covered to date	205,611
% of total coverage complete	100%
Uptake across all areas	51%

CIP’S PARTNERS FOR THE RB12/MBSF PROGRAMMES ARE:




The Rural Connectivity Group (RCG) is a joint venture established to build the mobile infrastructure shared by New Zealand's three mobile network operators (Spark, Vodafone and 2degrees) and to operate and maintain the new open access mobile network in partnership with CIP. RCG operates as a wholesale-only company, with the three mobile operators providing retail mobile and broadband services from all RCG towers. RCG is deploying both rural broadband and mobile black spot coverage.

End Users* contracted	38,000
EUs completed	1,554
% complete	4.1%


Kms contracted	1,253 ¹
Kms completed	74
% complete	5.9%

Tourism sites contracted	147 ¹
Tourism sites completed	13
% complete	8.8%




Amuri.net is a Wireless Internet Service Provider (WISP) contracted to provide improved rural broadband service in the North Canterbury region.

EUs completed	388
EUs contracted	538
% complete	72.1%




Evolution Networks is a WISP contracted to provide improved rural broadband service in the Ōpōtiki and Whakatāne Districts.

End Users* contracted	319
EUs completed	32
% complete	10%



AoNet is a WISP contracted to provide improved rural broadband service in the King Country, Manawātū and Whanganui regions.

End Users* contracted	1,158
EUs completed	105
% complete	9.1%



Gisborne Net is a WISP contracted to provide improved rural broadband service in the Gisborne and Northern Hawke's Bay regions. It provides a commercial service to Rocket Lab, not funded by CIP.

End Users* contracted	1,886
EUs contracted	468
% complete	24.8%

* An End User (EU) is a household, business, school, hospital or marae.

¹ Additional State Highway and Tourism site coverage is provided commercially by some of the Mobile Network Operators.
* An End User (EU) is a household, business, school, hospital or marae.

CIP’S PARTNERS FOR THE RBI2/MBSF PROGRAMMES ARE: *Continued*



Inspire Net is a WISP contracted to provide improved rural broadband service in the Manawatū and Whanganui regions.

End Users* contracted	2,626
EUs completed	979
% complete	37.3%



PrimoWireless is a WISP contracted to provide improved rural broadband service in the greater Auckland and Te Tai Tokerau regions.

End Users* contracted	584
EUs completed	259
% complete	44.4%



the pacific.net is a WISP contracted to provide improved rural broadband service in the Nelson, Tasman and Marlborough regions.

End Users* contracted	773
Yet to commence deployment.	



VelocityNet is a WISP contracted to provide improved rural broadband service in the Southland region.

End Users* contracted	592
Yet to commence deployment.	

CIP’S PARTNERS FOR THE INFRASTRUCTURE FINANCING PROGRAMME ARE:



Auckland Council Group
Auckland Council Group, which includes Council-Controlled Organisations (CCOs), has worked closely with CIP to establish and implement an alternative financing model in Milldale. Auckland Council Group contributed towards the bulk housing infrastructure costs which will be met by future developer contributions charged on the future urban zoned land that surrounds Milldale. Once the construction of these assets in Milldale is complete, they will vest to the Council. The Council also acts as the Milldale infrastructure payment collection agent (through its Council rates invoicing process).



Fulton Hogan Land Development Ltd
Fulton Hogan Land Development Ltd (FHL) is a developer experienced in completing residential sections in New Zealand, as well as sites for pre-schools, schools, neighbourhood centres, and other amenities typically found in large-scale greenfield developments. FHL is developing the Milldale area and will be constructing the bulk housing infrastructure financed through CIP’s Special Purpose Vehicle.



Accident Compensation Corporation
The Accident Compensation Corporation’s (ACC’s) investment portfolio exists to support the administration of the country’s universal no-fault accidental injury scheme. ACC was the successful bidder in a competitive debt process run by CIP. ACC contributed to the fixed rate, long-term debt towards the infrastructure required to unlock the Milldale development (and financed by CIP’s Special Purpose Vehicle).



KiwiWiFi is a WISP contracted to provide improved rural broadband service in the Tasman District.

End Users* contracted	545
EUs completed	22
% complete	4%



StrataNet is a WISP contracted to provide improved rural broadband service in the greater Auckland and Te Tai Tokerau regions.

End Users* contracted	1,549
EUs completed	38
% complete	2.5%



Ultimate Broadband is a WISP contracted to provide improved rural broadband service in the central and South Canterbury region.

End Users* contracted	1,143
EUs completed	521
% complete	45.6%



WiFi Connect is a WISP contracted to provide improved rural broadband service in the Whakatāne, Westland and Grey Districts.

End Users* contracted	697
Yet to commence deployment.	



WIZwireless is a WISP contracted to provide improved rural broadband service in the Wairarapa and Wellington region.

End Users* contracted	733
EUs completed	289
% complete	39.4%



Lightwire is a WISP contracted to provide improved rural broadband service in the Waikato and Bay of Plenty regions.

End Users* contracted	398
EUs completed	150
% complete	37.7%



NZTechnology Group is a WISP contracted to provide improved rural broadband service in the central Hawke’s Bay.

End Users* contracted	275
EUs completed	57
% complete	20.7%



Unifone is a WISP contracted to provide improved rural broadband service in the Otago region.

End Users* contracted	1,168
EUs completed	592
% complete	50.7%

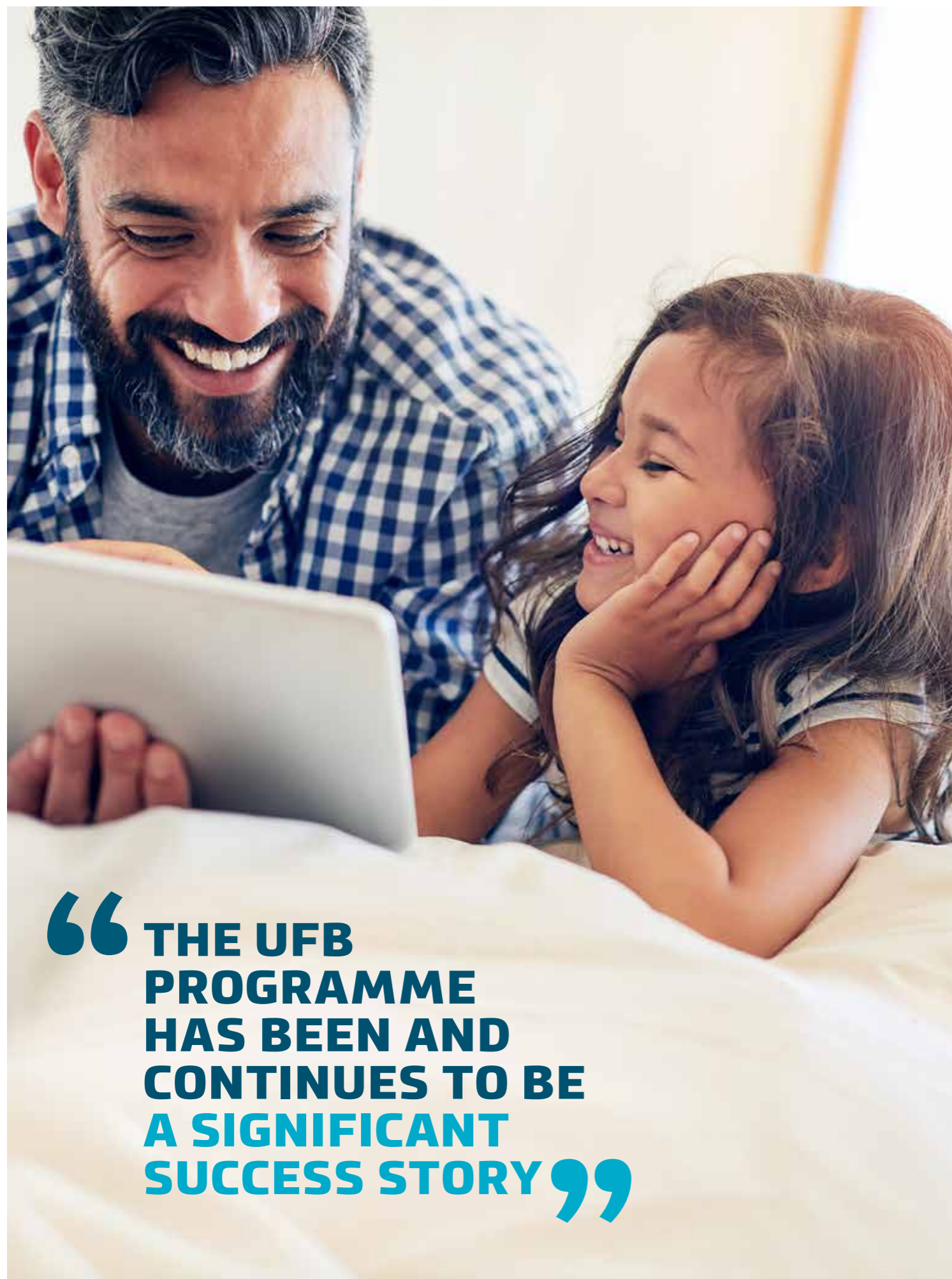


Zelan is a WISP contracted to provide improved rural broadband service in the Buller and Grey Districts.

End Users* contracted	386
Yet to commence deployment.	

* An End User (EU) is a household, business, school, hospital or marae.

* An End User (EU) is a household, business, school, hospital or marae.



“THE UFB
PROGRAMME
HAS BEEN AND
CONTINUES TO BE
A SIGNIFICANT
SUCCESS STORY”

GOVERNANCE

ORGANISATIONAL FORM

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

CIP is subject to certain provisions of the Crown Entities Act 2004 and is also subject to the Official Information Act 1982 and the Ombudsmen Act 1975. The shareholders in CIP are the Minister of Finance and the Minister for State Owned Enterprises in their capacity as Ministers, and each holds 50% of the issued share capital.

CIP is monitored by the Ministry of Business, Innovation and Employment's (MBIE's) ICT Policy and Programmes Group, the Commercial Operations group of the Treasury for policy, the Treasury ownership monitoring team, and shareholding Ministers. CIP's aim is to implement Government policy, rather than make a financial return by implementing the Government's objectives in relation to:

- Ultra-Fast Broadband (UFB) policy (the **UFB Objective**);
- Phase two of the Rural Broadband Initiative and Mobile Black Spots Fund programme (the **RBIZ/MBSF Objective**);
- the Provincial Growth Fund (PGF) Digital Connectivity Objectives; and
- infrastructure financing for bulk housing and other classes of infrastructure (the **Infrastructure Financing Objective**).

Accordingly, CIP has designated itself as a public benefit entity.

MANAGEMENT OF THE COMPANY

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

The Company's purposes as set out in the Constitution are to:

- implement the Government's objectives in relation to improving the performance and availability of, and access to, ultra-fast broadband, rural broadband and mobile voice and data coverage, by co-investing with, or making grants to, private sector participants in order to deploy telecommunications network infrastructure; and
- investigate and implement commercial models, including those that will enable co-investment from the private or other sector, to achieve the Government's objectives for the deployment of water and roading infrastructure to support the timely increase of housing supply.

BOARD OF DIRECTORS

The Board has established strategic policy, and guides and monitors the business and affairs of CIP. The Board is committed to a high standard of corporate governance. Responsibility for the operation and administration of CIP is delegated to the Chief Executive, who is accountable to the Board. The Board places emphasis on strategic planning, the implementation of sound administrative systems and procedures, and regulatory compliance.

BOARD MEMBERSHIP

The Board is made up of five non-executive Directors. One Director retired on 31 October 2018. Directors' profiles can be read on page 24 of this Annual Report. Directors are appointed by shareholding Ministers following Cabinet approval.

BOARD COMMITTEES

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

Audit and Risk Committee

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

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

Remuneration Committee

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

BOARD OF DIRECTORS

DIRECTORS' PROFILES AND INTERESTS HELD

The following profiles include general disclosures of interest given by Board members pursuant to section 140(2) of the Companies Act 1993 and entered into CIP's interests register.

Mr Simon Allen (Chair) has over 30 years' commercial experience in the New Zealand and Australian Capital Markets and was Chief Executive of investment bank BZW and ABN AMRO in New Zealand for 21 years. Mr Allen is currently Chair of NZ Refining Company, a Director of IAG New Zealand and Xylem Investments Limited and a Trustee of the Antarctic Heritage Trust. Mr Allen has been Chair of the New Zealand Stock Exchange (NZX), the Financial Markets Authority (FMA), Auckland Council Investments and St Cuthbert's College. He has also been a director of a number of other private companies. Mr Allen holds a BCom and BSc and is a chartered fellow of the NZ Institute of Directors.

Ms Miriam Dean CNZM QC has extensive governance and dispute resolution experience. A former partner at Russell McVeagh, Ms Dean was made a Queen's Counsel in 2004 and specialises in competition and consumer laws and mediation/facilitation of commercial disputes. She is Chair of the Banking Ombudsman Scheme and a Director of Otakaro Limited and REINZ (Real Estate Institute of New Zealand). She was previously Chair of New Zealand On Air and a Director of Auckland Council Investments, the Auckland Transition Authority and the Royal New Zealand Ballet. She has also conducted a number of Government inquiries and reviews and was recently Chair of the Government's Electricity Price Review.

Ms Danelle Dinsdale has 14 years' experience in the UK with global law firm DLA Piper, where she was a senior partner working as Head of IT and Telecoms. Ms Dinsdale brings considerable experience in change management, infrastructure and technology projects to the CIP Board. She has advised on public-private partnerships in the education, health and transport sectors; and worked with innovation leaders including Cable and Wireless, Verizon, British Telecom, Accenture and ITV. Ms Dinsdale also serves on the Board of Medical Assurance Society New Zealand Limited and its subsidiaries.

Dr Murray Milner resigned from the Crown Infrastructure Partners Board in October 2018.

Mr Keith Tempest retired in December 2009 as Chief Executive of Trustpower, a Bay of Plenty-based electricity generator, after 23 years with the firm. As Chief Executive he was recognised as having overseen strong commercial performance and has a strong track record of managing large capital projects. Mr Tempest is also a Director of Bay Venues Limited and Ngawha Generation Limited and Director and shareholder of GAP Business Solutions Limited.

Mr Mark Binns has been involved in many of New Zealand's largest infrastructure projects, including the Wiri Prison public-private partnership, Waterview Connection, Eden Park, SKYCITY, Museum of New Zealand Te Papa Tongarewa and the Manapōuri tunnel. For 22 years Mr Binns worked at Fletcher Building and its predecessor, Fletcher Challenge Limited. He was Chief Executive of Meridian from 2012 to 2017 and is also a former Chief Executive of the Infrastructure Division of Fletcher Building Limited. He is a qualified lawyer. Mr Binns is currently a Director of Auckland International Airport, Metlifecare Limited and Te Pūia Tāpapa, and a trustee of Auckland War Memorial Museum.

REMUNERATION COMMITTEE

Ms Miriam Dean (Chair), Mr Simon Allen.

AUDIT AND RISK COMMITTEE

Mr Keith Tempest (Chair), Mr Simon Allen, Ms Danelle Dinsdale.

	2018/2019		2017/2018	
	No. of regular meetings attended	No. of special meetings attended	No. of regular meetings attended	No. of special meetings attended
DIRECTORS				
Simon Allen	11	1	11	4
Miriam Dean	11	1	10	2
Danelle Dinsdale	11	1	11	2
Murray Milner	4	1	10	2
Keith Tempest	11	1	11	2
Mark Binns	9	1	1	-

CIP AS A GOOD EMPLOYER

Crown Infrastructure Partners' (CIP) purpose is to deliver infrastructure that improves digital connectivity and supports housing supply for New Zealanders today and in the future. CIP places high importance on attracting and retaining an engaged, high-performing workforce to deliver on the Government's infrastructure programmes that CIP is funding. To support these objectives, CIP has put in place policies and practices that comply with the Government's expectations on employment relations and the principles of being a good employer. These policies support CIP's focus on creating and supporting a positive working environment that values diversity and provides equal employment opportunities.

CULTURE, PURPOSE AND WORKING ENVIRONMENT

CIP has a highly engaged and purpose-driven team. CIP completed its annual employee engagement survey in June, with 100% participation. Mean engagement increased on last year's score of 4.34 to 4.53 (out of 5), placing CIP at the 90th percentile against New Zealand organisations, and at the 81st percentile of organisations globally.

CIP has updated its organisational values (see below), which reflect the importance of CIP's purpose and commitment to its

stakeholders and to maintaining a positive working environment and culture. Organisational values have been integrated into CIP's people processes and policies.

CIP has 46% female employees and a degree of ethnic diversity. CIP prides itself on providing an inclusive, positive working environment that values diversity and supports flexible working arrangements. This is supported by CIP's Inclusion, Diversity and EEO policy, and Health and Wellbeing policy.

CIP encourages employee development at an individual level and has a focus on cross-organisational collaboration.

SAFE AND HEALTHY ENVIRONMENT

CIP has a health and safety policy that is designed to increase employees' awareness of health and safety in their work. CIP continues to review its safety management system and in consultation with staff is introducing a new health monitoring process and procedures. The CEO and senior managers continue to work with infrastructure partners to ensure workers remain safe while working on the various programmes funded by CIP. The Total Recordable Injury Frequency Rate¹ (TRIFR) is currently at 2.8, which is the lowest rate recorded across the UFB and RBI2/MBSF programmes to date.



¹ Total recordable injuries include all injuries requiring medical treatment, restricted work time or lost time per one million hours worked.

STATEMENT OF PERFORMANCE

CIP's performance targets for fiscal year 2019 relate to UFB deployment, progress of RBi2 and MBSF initiatives, UFB installation, bulk housing infrastructure contracting, and financial and operational efficiency. For reporting against revenue and expense targets, see note 20.

CIP'S PERFORMANCE TARGETS FOR FINANCIAL AND OPERATIONAL EFFICIENCY

CIP has made good overall progress towards achieving its performance targets for financial and operational efficiency. In turn, the partners have satisfactorily met their contractual obligations for deployment and operations. CIP expects to continue to see steady improvements in its operational efficiency.

FINANCIAL YEAR		2018/2019		
		Actual	Plan	% to plan
1	CIP FUNDING PER UFB PREMISE HANDED OVER	\$1,109	\$1,422	78%
2	PERCENTAGE OF UFB OBJECTIVE COMPLETED	85%	84%	101%
3	PERCENTAGE OF UFB FISCAL ENVELOPE INVESTED	88%	85%	103%
4	NET OPERATIONAL COST AS PERCENTAGE OF ANNUAL INVESTMENT/GRANTS	4%	5%	78%

CIP'S PERFORMANCE TARGETS FOR UFB DEPLOYMENT

Under the UFB contracts, CIP pays partners on the basis of premise¹ passed. This measures the partners' overall performance in meeting their contractual deployment targets. CIP also measures the number of End Users (households and businesses) capable of connection.

CIP'S PERFORMANCE TARGETS FOR UFB		2018/2019			2022/2023
		Actual #000	Plan #000	% to plan	To December 2022 #000
1	UFB PREMISE HANDED OVER BY PARTNERS	1,222	1,205	101%	1,434
2	NUMBER OF BROADBAND END USERS ABLE TO CONNECT TO UFB	1,576	1,559	101%	1,818

¹ CIP has a geospatial premise database with more than one million unique premise identifiers. It was built in 2011 and is based on Land Information New Zealand (LINZ) land parcels. This is the sole basis for determining the total number of premise in each stage, and for tracking milestone progress, testing and payment.

SUCCESSFUL AND TIMELY INSTALLATION OF UFB

Three measures are used with partners to measure end customer satisfaction with the UFB installation process, in addition to the service level performance outlined on page 28. These measures are: average days to connect to UFB for a residential single dwelling unit (essentially, a typical New Zealand household); overall average days, including all classes of installation; and End User satisfaction with UFB installation. The improvement in average days to connect by five days is particularly pleasing, given the increased demand for UFB connections during the year. Installation satisfaction is steady.

CIP'S PERFORMANCE TARGETS FOR UFB INSTALLATION		2018/2019		
		Actual	Plan	% to plan
1	AVERAGE DAYS TO CONNECT TO UFB FOR A RESIDENTIAL SINGLE DWELLING UNIT (ESSENTIALLY A TYPICAL NZ HOUSEHOLD)	Weighted average of 15 days	Equal to or better than a weighted average of 25 calendar days	167%
2	OVERALL AVERAGE DAYS, INCLUDING ALL CLASSES OF INSTALLATION	Weighted average of 24 days	Equal to or better than a weighted average of 40 calendar days	167%
3	END USER SATISFACTION WITH UFB INSTALLATION	Weighted average of 77% satisfied with installation	Equal to or better than a weighted average of 75% satisfied with installation	103%

CIP'S PERFORMANCE TARGETS FOR RBi2 AND MBSF CONTRACTS

Although the planned number of End Users and State Highway kilometres was not reached this financial year, the programme will be substantially complete by 2022.

CIP'S PERFORMANCE TARGETS FOR RBi2 AND MBSF CONTRACTS		2018/2019			2022/2023
		Actual	Plan	% to plan	To December 2022
1	NUMBER OF RURAL END USERS ABLE TO CONNECT TO RBi2/MBSF*	5,562	7,238	77%	43,101
2	MOBILE BLACK SPOTS: TOURIST SITES COVERED*	13	9	144%	95
3	MOBILE BLACK SPOTS: HIGHWAY KILOMETRES COVERED*	74	190	39%	892
4	PERCENTAGE OF BUDGET SPENT	14%	10%	140%	100%

* Mobile Network Operators covered a further 31,423 End Users, 13 Tourism sites, and 164 km of State Highway

CIP'S PERFORMANCE TARGETS FOR BULK HOUSING AND INFRASTRUCTURE CONTRACTS

The Milldale transaction was the first Bulk Housing Infrastructure (BHI) transaction executed by CIP in October 2018. The measures for housing infrastructure reflect the early stage in the programme life cycle. The measures work to focus on enhancing CIP for developing more housing infrastructure, given the long lead times of the construction projects.

CIP'S BULKING HOUSE INFRASTRUCTURE PERFORMANCE TARGETS		2018/2019		
		Actual	Plan	% to plan
1	ONE CONTRACT COMPLETED FOR BHI	Milldale transaction completed	By end of calendar year 2018	100%
2	KEY PROJECTS IDENTIFIED WITH GROWTH COUNCILS FOR TARGETED FUNDING*	Key projects identified with growth councils and pipeline developed	By end of fiscal year 2019	100%

* The growth councils are Auckland, Hamilton, Tauranga City Councils and the town of Queenstown in the Queenstown Lakes District

UFB PARTNERS' PERFORMANCE TARGETS

CIP monitors the performance of the Local Fibre Companies (**LFCs**) and Chorus in connecting new End Users to the UFB network, fixing customer faults, maintaining network availability and ensuring network performance. Performance is measured against set Service Level Agreements (**SLAs**).

Provisioning, faults and product performance SLAs are between the LFCs and Chorus and their Retail Service Provider (**RSP**) customers. SLAs for Layer 1 and 2 network performance across candidate areas are between CIP, and the LFCs and Chorus. CIP reviews performance against all SLAs under contract.

Following a period of industry consultation, the Layer 2 traffic monitoring and reporting regime was determined in fiscal year 2019 and implementation has now commenced. Initial reports indicate that the networks continue to be uncongested, with no Layer 2 traffic issues arising.

Provisioning¹ performance per End User as reported by LFCs and Chorus

UFB PARTNER	BUSINESS (CONNECTIONS % MET TARGET)	RESIDENTIAL (CONNECTIONS % MET TARGET)
	Target: Within 6 business days or date as agreed with the End User	Target: Within 4 business days or date as agreed with the End User
CHORUS	94%	95%
ENL	93%	97%
NFL	98%	97%
UFF	91%	90%
TOTAL	94%	95%

This measure represents the ratio of orders that met the target provisioning date based on the monthly order forecast and averaged over the period. It is common practice that a date is agreed with the RSP or the End User for provisioning. Both residential and business SLAs were stable compared with 2017/18, despite significant uplift in volumes.

Maximum downtime performance per End User as reported by LFCs and Chorus

MEASURE	RESTORATION	TARGET	FAULTS REPAIRED WITHIN TARGET
LAYER 2 ² PERFORMANCE	Residential and business	<12 hours	99.96%
LAYER 1 ³ PERFORMANCE	Residential and business	<48 hours	99.76%

Layer 2 performance per End User: Measures the number of Layer 2 faults repaired in compliance with the SLA. LFCs and Chorus reported that 99.96% of Layer 2 connection faults for all End Users, whether business or residential, saw service restored within 12 hours.

Layer 1 performance per End User: Measure represents the number of Layer 1 network faults repaired in compliance with the SLA. LFCs and Chorus reported that 99.76% of Layer 1 connection faults met the default restoration service levels.

¹ Provisioning means the installation and activation of a UFB service for an End User.

² Layer 2 of the Open Systems Interconnection (OSI) Model, associated with active fibre optic network infrastructure.

³ Layer 1 of the OSI Model, associated with passive fibre optic network infrastructure.

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

UFB PARTNER	LAYER 2 AVERAGE NETWORK PERFORMANCE ACROSS ELIGIBLE CANDIDATE AREAS ⁴		LAYER 1 AVERAGE NETWORK PERFORMANCE ACROSS ELIGIBLE CANDIDATE AREAS	
	Target <30 minutes (99.994%)		Target <120 minutes (99.980%)	
CHORUS	00:55 min	99.999%	00:49:12 min	99.990%
ENL	50:10 min	99.990%	00:41:03 min	99.992%
NFL	11:34 min	99.997%	00:02:10 min	99.999%
UFF	06:44 min	99.998%	01:26:12 min	99.983%

Layer 2 network performance across eligible Candidate Areas: Measures the average downtime per End User across eligible Candidate Areas, against a target of no more than 30 minutes' average downtime each year. Enable's higher than usual downtime was primarily due to a planned network upgrade and a backhaul outage in FY2018 that continues to affect the FY2020 average.

Layer 1 network performance across eligible Candidate Areas: Measures the average downtime per End User across eligible Candidate Areas, with a target of no more than 120 minutes' average downtime per year. UFF's higher than usual downtime was primarily due to backhaul failures that isolated Hawera and Tokoroa, and fibre cuts to major feeder fibres in Tauranga.

RBIZ/MBSF PARTNERS' PERFORMANCE TARGETS

CIP monitors the performance of the Rural Connectivity Group and the Wireless Internet Service Providers partnered with the Company, in minimum service and speeds provided as well as operational availability. Performance is measured against set SLAs.

Performance targets for RBIZ/MBSF service performance

MEASURE	TARGET	PERFORMANCE
MINIMUM SERVICE	90% or more of all Eligible End Users must receive Rural Broadband Retail Services at the minimum speeds or greater measured across a rolling 12-month period	Not yet in force
OPERATIONAL AVAILABILITY	Rural Broadband Retail Services must have an average availability to all Eligible End Users who receive such services on a grant-funded network of 99.9% of the time, measured across a rolling 12-month period	Not yet in force

The period of data collection is not yet long enough to provide a meaningful measure. CIP will report more fully in future periods.

⁴ An eligible Candidate Area is either a large metro area, city or town (or group thereof), where either 3,000 End Users or 20% of premise are connected to the network.

STATEMENT OF RESPONSIBILITY

FOR THE YEAR ENDED 30 JUNE 2019

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

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

In the Board's opinion, these financial statements and statement of performance fairly reflect the financial position and performance of Crown Infrastructure Partners Limited for the year ended 30 June 2019.

Signed on behalf of the Board.



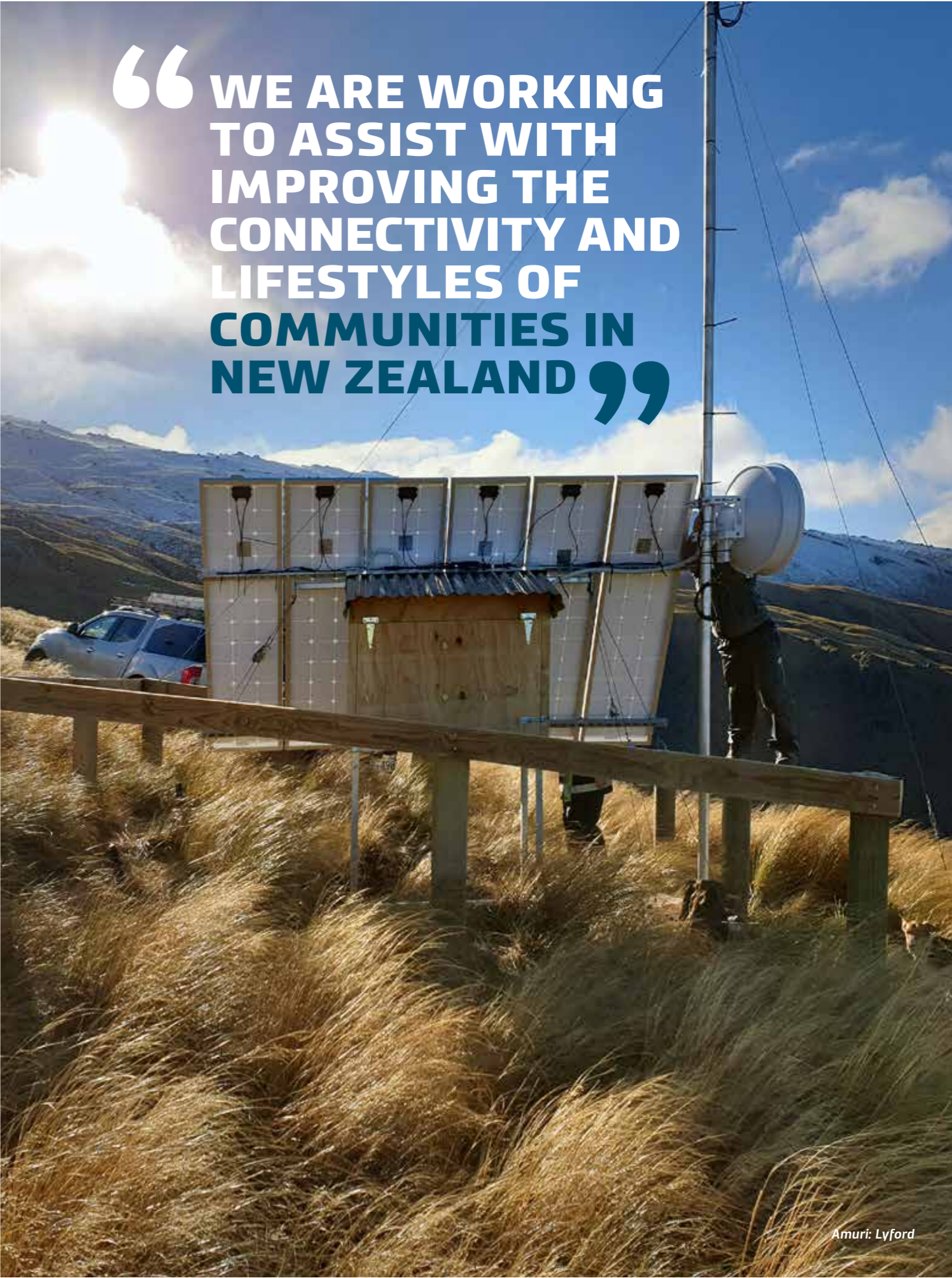
Simon Allen
Chair

5 September 2019



Keith Tempest
Director

5 September 2019



AUDIT NEW ZEALAND
Mana Arotake Aotearoa

INDEPENDENT AUDITOR'S REPORT

**TO THE READERS OF CROWN
INFRASTRUCTURE PARTNERS LIMITED
GROUP'S FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION FOR THE YEAR
ENDED 30 JUNE 2019**

The AuditorGeneral is the auditor of Crown Infrastructure Partners Limited and its controlled entities (collectively referred to as "the Group"). The AuditorGeneral has appointed me, Leon Pieterse, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information, including the performance information for appropriations, of the Group on his behalf.

OPINION

We have audited:

- the financial statements of the Group on pages 36 to 68 that comprise the statement of financial position as at 30 June 2019, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on pages 26 to 27.

In our opinion:

- the financial statements of the Group on pages 36 to 68:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2019; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards; and
- the performance information on pages 26 to 27:
 - presents fairly, in all material respects, the Group's performance for the year ended 30 June 2019, including:
 - for each class of reportable outputs:
 - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
 - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
 - what has been achieved with the appropriations; and

- the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
- complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 5 September 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

BASIS FOR OUR OPINION

We carried out our audit in accordance with the AuditorGeneral's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the AuditorGeneral's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**RESPONSIBILITIES OF THE BOARD OF
DIRECTORS FOR THE FINANCIAL STATEMENTS
AND THE PERFORMANCE INFORMATION**

The Board of Directors is responsible on behalf of the Group for preparing financial statements and performance information that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

**RESPONSIBILITIES OF THE AUDITOR FOR THE
AUDIT OF THE FINANCIAL STATEMENTS AND
THE PERFORMANCE INFORMATION**

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the AuditorGeneral's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Group's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the AuditorGeneral's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

However, future events or conditions may cause the Group to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 25, 28 to 35 and 69 but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENCE

We are independent of the Group in accordance with the independence requirements of the AuditorGeneral's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1(Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

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

Leon Pieterse
Audit New Zealand
On behalf of the AuditorGeneral
Auckland, New Zealand



FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 ¹ \$000	2018 \$000
Income			
Interest income	6	28,632	22,816
Miscellaneous income	6	1,227	-
RBI2/MBSF ² Grant Income	2	17,737	9,877
Fair value gains on FVTSD ³ investments	4,12	37,286	-
Net fair value gains on derivatives	4,12	-	248
Gain on sale of investments in LFC(s) ⁴	4	143	238
<i>Total income</i>		85,025	33,179
Expenses			
Finance costs	3	206	-
Directors' fees	7	201	236
Personnel costs	8	4,868	4,469
Depreciation expense	5	57	77
Professional advisory fees	9	3,586	2,276
Other expenses	10	2,679	2,809
RBI2/MBSF contribution	4	648	-
UFB contribution - Chorus Equity Securities	4,12	78,380	47,809
UFB contribution - Chorus Debt Securities	4,12	24,880	34,615
UFB contribution - LFC loans	4,12	7,154	5,839
RBI2/MBSF Grant Expense	4	16,237	9,870
Net fair value losses on derivatives	4,12	257	-
Loss on LFC deconsolidation	4	-	3,534
<i>Total expenses</i>		139,153	111,534
Surplus/(deficit) before tax		(54,128)	(78,355)
Tax expense/(credit)	11	-	-
Net surplus/(deficit)		(54,128)	(78,355)
Other comprehensive revenue and expense			
Net fair value gains/(losses) on AFS ⁵ investments	4,12	-	9,193
<i>Total other comprehensive revenue and expense</i>		-	9,193
Total comprehensive revenue and expense		(54,128)	(69,162)

¹ Budget figures and explanations of major variances against the budget are detailed in note 19.² Rural Broadband Expansion (RBI2) and Mobile Black Spot Fund (MBSF) initiatives.³ Fair value through surplus or deficit.⁴ Local Fibre Company.⁵ Available for sale.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Notes	2019 ¹ \$000	2018 \$000
Assets			
Current assets			
Cash and cash equivalents		137,364	34,077
Trade and other receivables		25,064	45,089
GST receivables		532	412
Prepayments		58	22
<i>Total current assets</i>		163,018	79,600
Non-current assets			
Property, plant and equipment	5	130	119
Investments in Bulk Housing Projects	4	9,331	-
Investments in LFC(s) Equity	4	15,007	15,707
Investments in Chorus Equity Securities	4	226,061	148,171
Investments in Chorus Debt Securities	4	242,170	149,846
Loans to LFCs	4	154,224	141,293
<i>Total non-current assets</i>		646,923	455,136
Total assets		809,941	534,736
Liabilities			
Current liabilities			
Creditors and other payables	14	71,217	42,366
Employee entitlements		747	817
<i>Total current liabilities</i>		71,964	43,183
Non-current liabilities			
Borrowings	3	5,880	-
<i>Total non-current liabilities</i>		5,880	-
Total liabilities		77,844	43,183
Net assets		732,097	491,553
Contributed capital	16	1,334,900	1,072,900
AFS reserve	17	-	21,310
Retained earnings		(602,803)	(602,657)
Total equity		732,097	491,553

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

	Capital \$000	AFS reserve \$000	Retained earnings \$000	Attributable to equity holders of Parent \$000	Minority interests \$000	Total \$000
Opening balance 1 July 2017	927,900	12,117	(524,302)	415,715	20,871	436,586
Comprehensive income						
Net surplus/(deficit)	-	-	(78,355)	(78,355)	-	(78,355)
Other comprehensive revenue and expense	-	9,193	-	9,193	-	9,193
<i>Total comprehensive revenue and expense</i>	-	9,193	(78,355)	(69,162)	-	(69,162)
Owners' transactions						
Disposal of subsidiary (note 3)	-	-	-	-	(20,871)	(20,871)
Capital contribution - Crown (note 16)	145,000	-	-	145,000	-	145,000
Closing balance 30 June 2018	1,072,900	21,310	(602,657)	491,553	-	491,553
Opening balance 1 July 2018	1,072,900	21,310	(602,657)	491,553	-	491,553
Change in accounting policy (adoption of PBE IFRS 9)	-	(21,310)	53,982	32,672	-	32,672
Restated opening balance 1 July 2018	1,072,900	-	(548,675)	524,225	-	524,225
Comprehensive income						
Net surplus/(deficit) ¹	-	-	(54,128)	(54,128)	-	(54,128)
<i>Total comprehensive revenue and expense</i>	-	-	(54,128)	(54,128)	-	(54,128)
Owners' transactions						
Capital contribution - Crown (note 16)	262,000	-	-	262,000	-	262,000
Closing balance 30 June 2019	1,334,900	-	(602,803)	732,097	-	732,097

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 ¹ \$000	2018 \$000
Cash flows from operating activities			
Interest received		1,620	2,386
Other receipts		17,737	11,628
Payments to suppliers		(9,206)	(5,427)
Payments to employees		(4,795)	(4,286)
Grant payments		(15,143)	(9,870)
RBI expansion payments		(648)	-
Goods and services tax (net)		(120)	(334)
Net cash outflow from operating activities	13	(10,555)	(5,903)
Cash flows from investing activities			
Purchase of property, plant and equipment		(12)	(56)
Investment in short-term bank deposits		-	35,000
Acquisition of investments in Chorus Equity Securities		(109,970)	(55,657)
Acquisition of investments in Chorus Debt Securities		(50,074)	(55,657)
Acquisition of investment in CCHL loan		(4,206)	(29,493)
Acquisition of investment in NFL2 loan		(4,767)	(3,842)
Net cash movement on disposal of subsidiary		-	(1,223)
Proceeds from sale of investments in LFC		843	1,162
Gain on sale of equity investments in LFC		-	238
Acquisition of investments in bulk housing projects		(7,993)	-
Net cash outflow from investing activities		(176,179)	(109,528)
Cash flows from financing activities			
Capital contribution - Crown	16	282,000	100,000
Proceeds from borrowings		8,132	-
Interest paid		(111)	-
Net cash inflow from financing activities		290,021	100,000
Net increase/(decrease) in cash and cash equivalents		103,287	(15,431)
Cash and cash equivalents at the beginning of the year		34,077	49,508
Cash and cash equivalents at the end of the year		137,364	34,077

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

1. STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

The reporting entity is Crown Infrastructure Partners Limited ('CIP', 'the Parent' and 'the Company') and its controlled subsidiaries ('the Group'). There were no controlled entities at 30 June 2018. At 30 June 2019 the controlled entities were Milldale Holdco GP Limited, Milldale Infrastructure GP Limited, Milldale Holdco LP, Milldale Infrastructure LP, and CIP Services Limited, which are 100% controlled. These controlled entities were established in September 2018 to facilitate accelerated development of bulk housing infrastructure for the Milldale development located at Wainui, Auckland.

The key purpose and objectives of CIP are to implement the Government's Ultrafast Broadband (UFB) programme, phase two of the Rural Broadband Initiative (RBI2) and Mobile Black Spot Fund programme (MBSF), the Provincial Growth Fund (PGF) Digital Connectivity Objectives, and infrastructure financing for bulk housing and other classes of infrastructure.

The CIP Group accounts include the direct investments in Chorus, Christchurch City Holdings Limited (CCHL), Ultrafast Fibre (UFF) and Northpower Fibre Limited 2 (NFL2), and the investment in joint venture Northpower Fibre Limited (NFL), and consolidate the results of the operations of CIP and each controlled entity (from the date of acquisition or establishment up until the date of deconsolidation).

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

CIP's aim is to provide services to the public and implement Government policy, and, as such, CIP is a Public Benefit Entity (PBE) for the purposes of financial reporting under Public Sector PBE Standards (PBE Standards).

The consolidated financial statements of CIP are for the year ended 30 June 2019, and were approved by the Board of Directors on 5 September 2019.

STATEMENT OF COMPLIANCE

The financial statements of the Group have been prepared in accordance with the relevant requirements of the Public Finance Act 1989 and the Crown Entities Act 2004, which include the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).

These financial statements are presented and prepared in accordance with Tier 1 PBE Standards and comply with PBE Standards.

BASIS OF PREPARATION

The financial statements have been prepared on a going-concern basis, and the accounting policies have been applied consistently for all periods presented except for the adoption of new and amended standards and interpretations. The impact of adopting PBE IFRS 9 Financial Instruments (PBE IFRS 9) is described below under the heading 'General Accounting Policies'.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

GENERAL ACCOUNTING POLICIES

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

Adoption of new and amended financial reporting standards

The Group has adopted all mandatory new and amended standards and interpretations, which have not had any material impact on the financial statements of the Group. Additionally, the Group has early adopted PBE IFRS 9. New or amended PBE Standards that are not yet effective and have not been early adopted are not expected to have a material impact when they are adopted in the periods they become mandatory.

CIP adopted PBE IFRS 9 on 1 July 2018 and has applied the transitional provisions of that standard. The Group applied the modified retrospective approach; therefore the prior period is not restated. Remeasurements and reclassifications resulting from the adoption of PBE IFRS 9 have been recorded at 1 July 2018.

The main changes introduced by PBE IFRS 9 are to financial assets and include:

- new classification and measurement requirements which classify financial assets based on the business model for managing them and their cash flow characteristics;
- a new expected loss impairment model which considers either the 12-month expected losses, or lifetime expected losses if a significant increase in credit risk has been identified; and
- broader scope for the application of hedge accounting with effectiveness testing replaced with a broader principle of the economic relationship between the hedging items and instruments.

The following table shows the previous measurement categories under PBE IPSAS 29 and the new measurement categories under PBE IFRS 9:

Class of financial instrument	Category under PBE IPSAS 29	New category under PBE IFRS 9
Cash and cash equivalents	Loans and receivables	Amortised cost
Trade and other receivables	Loans and receivables	Amortised cost
CCHL and NFL loans	Loans and receivables	Amortised cost
Investment in Chorus Debt Securities	Loans and receivables	Mandatorily measured at FVTSD
Investment in Chorus Equity Securities	Available for sale	Mandatorily measured at FVTSD
Investment in Chorus Equity Warrants	Held-for-trading	Mandatorily measured at FVTSD
Creditors and other payables	Amortised cost	Amortised cost

The key classification and measurement changes were:

- The Chorus debt securities have been reclassified from loans and receivables measured at amortised cost to Fair Value Through Surplus or Deficit (FVTSD). They do not meet the criteria in PBE IFRS 9 to be classified as at amortised cost because the cash flows do not represent solely payments of principal and interest. At the date of transition (1 July 2018) the Chorus debt securities have been measured at their fair value. The difference between the fair value and the previous carrying amount of \$32.7 million has been recognised as an adjustment to opening retained earnings at that date.
- The Chorus equity securities were reclassified from Available for Sale (AFS) to FVTSD. At the date of transition (1 July 2018) \$21.3 million was reclassified from the AFS revaluation reserve to retained earnings.

There was no significant increase to impairment provisions due to the adoption of PBE IFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

The balances impacted at 1 July 2018 due to the adoption of PBE IFRS 9 are:

	Balance at 30 June 2018 \$000	Transition adjustment \$000	Balance at July 2018 \$000
Chorus Debt Securities	149,846	32,672	182,518
Total non-current assets	455,136	32,672	487,808
Total Assets	534,736	32,672	567,408
AFS reserve	21,310	(21,310)	-
Retained earnings	(602,657)	53,982	(548,675)
Total equity	491,553	32,672	524,225

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

Classification of financial assets and liabilities

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at Fair Value Through Other Comprehensive Income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are measured subsequently at Fair Value Through Profit or Loss (FVTPL).

All of the Group's financial liabilities are measured at amortised cost.

Impairment of financial assets carried at amortised cost

The Group recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instruments.

The Group recognises lifetime Expected Credit Losses (ECL) for trade receivables. In assessing impairment for a portfolio of receivables, the Group considers past experience of collecting payments, as well as any increase in the number of delayed payments in the portfolio past the average credit period of 30 days, and observable changes in national or local economic conditions that correlate with defaults on receivables.

For investments in debt instruments (CCHL, UFF and NFL2 loans) the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

The amount of the impairment is the difference between the instrument's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the instrument is reduced by the impairment loss directly for all instruments with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. A receivable is considered to be uncollectible when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Changes in the carrying amount of the allowance account are recognised in surplus or deficit.

2. COMPOSITION OF THE GROUP

CONSOLIDATION OF SUBSIDIARIES IN THE GROUP

Determining the nature of the interest in the subsidiaries

The Group holds 100% of the shares in Milldale Holdco GP Limited, Milldale Infrastructure GP Limited, and CIP Services Limited and therefore has control over these companies. These companies are treated as subsidiaries in the consolidated financial statements of the Group.

Milldale Holdco GP Limited is the general partner of Milldale Holdco LP. Milldale Infrastructure GP Limited is the general partner of Milldale Infrastructure LP. CIP owns 100% of the limited partnership interest in Milldale Holdco LP, which in turn owns 100% of the limited partnership interest in Milldale Infrastructure LP. CIP has power over the limited partnerships through its ownership of the general partners, and exposure to variable returns through its limited partnership interests. Therefore the Group has control over Milldale Holdco LP and Milldale Infrastructure LP. These limited partnerships are treated as subsidiaries in the consolidated financial statements of the Group.

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

The financial statements of a subsidiary are prepared for the same reporting period as those of the Parent and are consistent with the Parent's accounting policies. Adjustments are made to bring into line any dissimilar accounting policy that may exist.

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

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

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

Amounts previously recognised in other comprehensive revenue and expense in relation to the subsidiary are reclassified to surplus or deficit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

2. COMPOSITION OF THE GROUP (CONTINUED)

OTHER INVESTMENTS

Determining the nature of the interest in NFL

CIP is considered to have joint control over the investment in NFL because decision making around operation requires approval by both CIP and the Partner. As such, CIP's interest in NFL has been accounted for as a joint venture using the equity method. Under the equity method, an investment in a joint venture is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group disposes of a portion of its interest in NFL (e.g. recycling),¹ it recognises a gain or loss in surplus or deficit for the difference between the fair value of the consideration received and the previous carrying amount of that interest.

The Minister of Finance, acting on behalf of the Crown, also owns one share in NFL (2018: one). This does not give rise to control.

Determining the nature of the interests in Chorus

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

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

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

Determining the nature of the interest in CCHL, NFL2 and UFF

CIP is also supporting the deployment of UFB in the ENL, NFL2 and UFF Candidate Areas by advancing funds to CCHL, NFL2 and UFF (note 4). The terms of these arrangements are also considered to represent less-than-significant influence.

RELATED PARTY TRANSACTIONS

Significant transactions with government-related entities

During 2019 CIP has been provided with \$262 million in funding from the Crown, of which \$237 million was received in cash and \$25 million was receivable at 30 June 2019 (2018: \$145 million, of which \$100 million was received in cash and \$45 million was receivable at 30 June 2018) for specific purposes, as set out in its founding legislation and the scope of the relevant Government appropriations.

During 2019 CIP was also provided with \$17.7 million in grant income from the Crown for Rural Broadband Initiative Phase Two (RBI2) and the Mobile Black Spot Fund (MBSF) (2018: \$9.9 million).

Other transactions with government-related entities

In conducting its activities, the Group is required to pay various taxes and levies (such as GST, PAYE and ACC levies and rates) to the Crown and entities related to the Crown. The payment of these taxes and levies is based on the standard terms and conditions that apply to all tax and levy payers. CIP and its subsidiaries are exempt from paying income tax.

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

Key management personnel

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

¹ Recycling: The Partner (now only Northpower) is required to purchase CIP's A shares based on the number of premise connected and the cost per premise passed (CPPP) paid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

3. BORROWINGS

Milldale Infrastructure LP, a subsidiary of CIP, has entered into an agreement with ACC to borrow up to \$60 million for a 35-year period at a fixed interest rate of 5.37%. The funds obtained from the borrowings are provided to the developer of the Milldale Bulk Housing Project (see note 4 for information about the BHI investment asset). The borrowings are secured over the Bulk Housing Infrastructure (BHI) cash inflows, with recourse to the development lot owners through an encumbrance on the land. There is no recourse or guarantee provided by either CIP or the Crown for the borrowings.

During the construction phase of the development, the interest on the borrowings is funded through further drawdowns on the facility. Repayments of principal begin in the financial year ending 30 June 2027.

Borrowings

	2019 \$000	2018 \$000
Principal	8,132	-
Unamortised transaction costs	(2,252)	-
Net carrying amount borrowings	5,880	-

Finance costs

	2019 \$000	2018 \$000
Effective interest on borrowings	111	-
Other bank charges	95	-
Net carrying amount of borrowings	206	-

Accounting policies

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs and included in the effective interest rate. Periodic commitment fees on the undrawn portion of the facility are also included in the effective interest rate of the loan if the loan is expected to be drawn down.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

4. INVESTMENTS

The structures of investments for the remaining LFC (NFL), Chorus, CCHL, NFL2 and UFF investment are described below.

INVESTMENT IN NFL

NFL is the only remaining investment in the LFC(s). Prior to 1 July 2017 CIP was considered to have control of NFL and the investment was carried at fair value. From 1 July 2017 CIP has joint control of NFL and has accounted for the investment under the equity method. The investment is currently carried at \$15,007,000.

Summarised financial information representing the Group's portion of the joint venture at 30 June 2018 is set out below:

	2019 \$000	2018 \$000
Current assets	1,345	1,008
Non-current assets	15,038	15,876
Current liabilities	709	512
Non-current liabilities	523	560

CIP is not entitled to a share in the profit or loss of NFL; the Partner is responsible for funding all losses and is entitled to all profits.

The remaining ownership of NFL at balance date is summarised below:

	2019 #000	2018 #000
A shares held by CIP	18,140	18,842
A shares held by Partner	8,161	7,317
Total A shares	26,301	26,159
B shares held by Partner	29,239	26,178
Total number of shares	55,540	52,337
CIP interest in total number of shares (%)	33%	36%
CIP interest in total number of voting (A) shares (%)	69%	72%

CIP's investment

CIP's level of investment in the LFC(s) has been driven by the deployment plans. As each stage of a plan is completed by the Partner, the LFC purchases the UFB network from the Partner by paying it an agreed Cost Per Premise Passed (CPPP)² for the number of premise that have successfully completed User Acceptance Testing (UAT) for the stage. For UFB expansion, UFB2, the funding of UFB network from the Partner is funded by way of loans from CIP, rather than A Shares, determined by the applicable CPPP.

Any difference on initial recognition between the fair value of the investment (in an LFC, Chorus, CCHL, UFF or NFL2) and the contribution by CIP represents CIP's and the Crown's contribution towards the deployment of UFB in New Zealand.

As a result, the UFB transactions are considered, in substance, to be represented by two components, and the Group has:

- recognised the UFB contribution as a form of government grant. A government grant is recognised when the other party (e.g. Chorus, CCHL, UFF, NFL2 or the LFCs) meets the criteria to receive the grant. This is reflected in the UFB contribution line in surplus or deficit; and
- attributed the remaining fair value to the continuing financial instrument (e.g. the Chorus Equity Securities, the Chorus Debt Securities, the LFC equity investments or the CCHL, UFF or NFL2 loans).

The judgement used in componentising the transactions in this way affects the amount of UFB contribution recognised.

Partner's investment

The Partner is required to fund the cost of connecting a premise and the end customer (essentially the fibre optic lead-in from the street), the electronics necessary to light the fibre and the LFC operational costs.

² CPPP: The cost per premise passed is the capital contribution by CIP towards the capital cost of passing a premise with UFB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

4. INVESTMENTS (CONTINUED)

Recycling mechanisms

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

Accounting policies

From 1 July 2017 the investment in unlisted shares of NFL is recognised using the equity method of accounting, as it shares the decision making power about the relevant activities of that entity from that date. Prior to 1 July 2017 NFL was accounted for as a subsidiary in the consolidated financial statements of the Group. At 1 July 2017 the difference between the fair value of CIP's share on initial recognition of the equity accounted investment and the previous carrying value of the assets, liabilities and non-controlling interest derecognised has been recognised as a loss in the statement of comprehensive revenue and expense.

The investment in NFL was initially recognised at cost, being the fair value of the share retained when control was lost and thereafter is adjusted to reflect the Group's share of the profit or loss of NFL. The Partner is entitled to all profits and is responsible for funding losses and therefore adjustments are only made to the extent that dividends are received.

As a result of the recycling mechanism, the ownership interest reduced during the year but joint control was retained. A gain or loss is calculated as the difference between the carrying value and the fair value of the amount derecognised at each date the ownership interest changed. The gain or loss is recognised in the statement of comprehensive revenue and expense.

INVESTMENTS IN CHORUS, CCHL, UFF AND NFL2

The Group's investments in Chorus Equity and Debt Securities are carried at fair value (2018: the Chorus Equity Securities were carried at fair value and the Chorus Debt Securities were carried at amortised cost). The investments in Chorus Equity and Debt Securities are set out below:

	Chorus Equity Warrants \$000	Chorus Equity Securities \$000	Chorus Senior Notes	Chorus Subordinated Notes	Total \$000
Net investments at 1 July 2017	54	104,179	38,636	73,376	216,245
Amount paid during the year	-	50,857	19,770	31,087	101,713
Amount payable at balance date	-	22,830	5,150	7,839	35,819
Less UFB contribution	-	(47,809)	(12,806)	(21,809)	(82,424)
<i>Initial investment recognised</i>	-	25,878	12,114	17,117	55,108
Fair value gains recognised in surplus or deficit	248	-	-	-	248
Fair value gains recognised in other comprehensive revenue and expense	-	9,193	-	-	9,193
Interest	-	8,619	2,619	5,984	17,223
Net investments at 30 June 2018	302	147,869	53,369	96,477	298,017
Change in accounting policy (adoption of PBE IFRS 9)¹	-	-	7,902	24,770	32,672
Adjusted balance at 1 July 2018	302	147,869	61,271	121,247	330,689
Amount paid during the year	-	109,970	15,746	21,339	147,055
Amount payable at balance date	-	17,786	7,131	9,449	34,366
Less UFB contribution	-	(78,380)	(10,021)	(14,859)	(103,260)
<i>Initial investment recognised</i>	-	49,376	12,856	15,929	78,161
Fair value loss recognised in surplus or deficit	(257)	17,143	7,129	13,014	37,029
Interest	-	11,628	3,349	7,375	22,352
Net investments at 30 June 2019	45	226,016	84,605	157,565	468,231

¹ The Chorus debt securities were restated to fair value at 1 July 2018 on adoption of PBE IFRS 9. Information about the adoption of PBE IFRS 9 is provided in note 1.

All gains/losses attributable to financial assets at FVTSD relate to assets that continue to be held at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

4. INVESTMENTS (CONTINUED)

The Group's investments in the CCHL loan, UFF loan and NFL2 loan are carried at amortised cost and are set out below:

	CCHL loan \$000	NFL2 loan \$000	UFF loan \$000	Total \$000
Balance at 30 June 2017	106,445	-	-	106,445
Amount paid during the year	29,493	3,842	-	33,335
Amount payable at balance date	1,999	1,482	-	3,481
Less UFB contribution	(2,880)	(2,959)	-	(5,839)
Initial investment recognised	28,612	2,365	-	30,977
Interest revenue	3,810	61	-	3,871
Balance at 30 June 2018	138,867	2,426	-	141,293
Amount paid during the year	2,207	3,143	-	5,350
Amount payable at balance date	-	2,680	7,481	10,161
Less UFB contribution	(126)	(2,937)	(4,091)	(7,154)
Initial investment recognised	2,081	2,886	3,390	8,357
Interest revenue	4,394	179	1	4,574
Balance at 30 June 2019	145,342	5,491	3,391	154,224

Chorus overview

The investment structure with Chorus, CCHL, UFF and NFL2 differs from the model adopted for CIP's investment in NFL.

Chorus self-funds the design and build work and carries the risk of any cost overruns in the network build. CIP invests up to \$929 million in Chorus progressively as deployment stages are completed. Chorus is required to repay the Crown for its investment, between 2025 and 2036 or earlier, subject to conditions around fibre uptake that are described below. CIP's investment in Chorus is by way of an equal share of Debt and Equity Securities (i.e. 50% CIP Debt Securities and 50% CIP Equity Securities). This regime has been extended to the UFB expansion, and a total of \$407 million of additional securities will be issued to CIP, with the ratio of CIP Debt Securities to CIP Equity Securities being determined by Chorus, to a maximum of \$302 million CIP Equity Securities. These securities are issued progressively by Chorus, and subscribed to by CIP on a per-premise-passed basis as stages are completed and satisfy UAT.

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

Chorus Equity Securities - key terms

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

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

At 30 June 2019 the Moody's Chorus Credit rating is Baa2 (30 June 2018: Baa2), and Standard & Poor's rating is BBB (2018: BBB). Both credit ratings are investment grade.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

4. INVESTMENTS (CONTINUED)

Chorus Debt Securities - key terms

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

The repayment profile is based on a similar regime to that for the Chorus Equity Securities. The redemption profile is 18.5% in 2025 and 2030, and 27.7% in 2033 and the remaining 35% in 2036.

CCHL loan

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

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

The loan becomes due for early repayment proportionately if ESL sells its interest in ENL, and is repayable in full if ESL's shareholding in ENL falls to 49% (or less) or if the build is not completed in 2019.

Accounting policies

The investment in unlisted Equity Securities of Chorus is classified as Fair Value Through Surplus or Deficit (FVTSD) and is measured at fair value. The investments are recognised at fair value on initial recognition and subsequently, with all gains and losses recognised in surplus or deficit. In the prior period, impairment losses and interest were recognised in surplus or deficit and the other changes in fair value were recorded in other comprehensive revenue and expense and accumulated as a separate component of equity in the AFS revaluation reserve. On adoption of PBE IFRS 9 (at 1 July 2018), the balance of the AFS revaluation reserve was transferred to retained earnings. Information about the adoption of PBE IFRS 9 is provided in note 1.

The fair value movements relating to the Chorus Equity Securities are presented in the following line items in the Statement of Comprehensive Revenue and Expense:

- Interest income - imputed interest is calculated using the effective interest method to approximate the effect of interest income to CIP on these instruments;
- Dividends are recognised in surplus or deficit when the Company's right to receive the dividends is established; and
- Fair value gains/losses on FVTSD investments - all other fair value movements, including impairment are included in the fair value gains/losses on FVTSD investments line item. Indications that Chorus is in significant financial difficulty and late payments are considered to be objective evidence of impairment.

The Group's investments in Chorus Debt Securities are recognised at fair value on initial recognition and subsequently, with all gains and losses recognised in surplus or deficit. In the prior period, the Chorus Debt Securities were measured at amortised cost. On adoption of PBE IFRS 9 (at 1 July 2018), the Chorus Debt Securities were remeasured to fair value, which resulted in an increase to the carrying value of the debt securities of \$32.7 million at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

4. INVESTMENTS (CONTINUED)

The fair value movements relating to the Chorus Debt Securities are presented in the following line items in the Statement of Comprehensive Revenue and Expense:

- Interest income - imputed interest is calculated using the effective interest method; and
- Fair value gains/losses on FVTSD investments - all other fair value movements, including impairment are included in the fair value gains/losses on FVTSD investments line item.

The Group's investments in the CCHL, UFF and NFL2 loans are categorised as amortised cost financial assets (2018: loans and receivables) and are measured initially at fair value and subsequently at amortised cost using the effective interest method, less any impairment. The accounting policy for impairment is set out in the general accounting policies section at the beginning of these financial statements. An impairment review has been performed and it has been determined in accordance with the relevant standards that there is no significant impairment. Interest income is recognised by applying the effective interest method.

Any difference in initial recognition between the fair value of the investment and the contribution by CIP is reflected in the UFB contribution line in surplus or deficit.

Key assumptions

Fair value is determined in the manner set out under the Fair Value Measurements section of note 15. The estimates used are based on market-observable data of similar types of instrument; these include corporate bonds that have similar maturity dates, credit risks and industry characteristics.

The key assumptions are set out below, along with information on a reasonably possible change (estimated based on past experience) and the potential impacts of such a change on the investment carrying value for the Chorus Equity Securities and Chorus Debt Securities carried at fair value (2018: Chorus Debt Securities were carried at amortised cost).

Key assumptions/inputs	Equity Securities			Debt Securities			
	2019 Assumption	2018 Assumption	Possible change	2019 Impact \$000	2018 Impact \$000	2019 Impact \$000	2018 Impact \$000
Senior credit spread (BBB (2017: BBB))	184–298 bps	167–252 bps	+/-50 bps	NA	NA	-4,700/ +5,000	-3,600/ +3,900
Subordinated credit spread (BBB-/BB+ (2017: BBB-/BB+))	255–369 bps	249–334 bps	+/-50 bps	-12,310/ +13,200	-8,200/ +8,700	-8,700/ +9,300	-6,900/ +7,400
Risk-free term structure	1.30% - 1.97%	2.52%–3.27%	+/-100 bps	-23,800/ +27,300	15,800/ +18,100	-25,900/ +29,700	-20,200/ +23,300

INVESTMENTS IN BULK HOUSING INFRASTRUCTURE ASSETS

BHI financial assets - key terms

The Group, through its subsidiary Milldale Infrastructure LP, provides funding to the developer to fund construction of bulk housing infrastructure. The developer places a first ranking encumbrance on the land and the Group is entitled to receive infrastructure payments from the developer and subsequent landowners over a 35-year period. The infrastructure payments on a portion of the encumbrances begin in July 2019, with the percentage making payments increasing over time to reflect the pattern on which lots are expected to be developed and released to third party landowners. There are some provisions for either the developer or a subsequent landowner to prepay the remaining balance under the encumbrance.

Accounting policies

The investments in BHI financial assets are classified as Fair Value Through Surplus or Deficit (FVTSD). These financial assets do not qualify to be measured at amortised cost because the cash flows do not represent solely payment of principal and interest. The investments are recognised at fair value on initial recognition and subsequently, with all gains and losses recognised in surplus or deficit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

4. INVESTMENTS (CONTINUED)

The fair value movements relating to the investments in BHI financial assets are presented in the following line items in the Statement of Comprehensive Revenue and Expense:

- Interest income - imputed interest is calculated using the effective interest method; and
- Fair value gains/losses on FVTSD investments - all other fair value movements, including impairment are included in the fair value gains/losses on FVTSD investments line item.

Key assumptions

Fair value is determined using a discounted cash flow methodology based on the expected cash inflows from the infrastructure payments. The key assumption is the discount rate set out below, along with information on a reasonably possible change and the potential impacts of such a change on the investment carrying value for the BHI financial assets (2018: Nil).

Key assumptions/inputs	2019 Assumption	Possible change	2019 Impact \$000
Discount rate	6.0%	+/-50 bps	-552/+552

FUNDING COMMITMENTS AND PAYMENTS

UFB programme

The Crown, through CIP, will invest over \$1.3 billion in the original UFB programme to provide UFB access to 75% of the population, and a further \$407 million in UFB expansion, to provide UFB access to a further 11% of the population; \$210 million is an additional appropriation and \$197 million is from capital recycled by CIP with the LFC(s), Chorus, and CCHL in relation to the ENL build. The table below summarises the number of premise that the entities are expected to have built in each financial year. CIP's investment is at an agreed amount per premise passed multiplied by the number of premise passed. The agreed amount to be funded by CIP per UFB premise passed varies between each Partner.

Cumulative number of UFB premise passed #000	Financial year 2020	Financial year 2021	Financial year 2022	Financial year 2023
Total premise passed #000 ¹	1,292	1,361	1,406	1,434
Total investment \$m ²	1,527	1,659	1,714	1,748

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

RBI2/MBSF programme

The RBI2 programme is targeted at underserved (<20 Mbps) rural broadband households and businesses, and MBSF is targeted at providing mobile coverage to State Highway and Tourism sites that currently have no mobile coverage. CIP has contracted with the Rural Connectivity Group (RCG)³ and 17 local Wireless Internet Service Providers (WISPs). The payments vary between the tower locations and Eligible End Users (EEUs) covered, and the basis of payment is per tower for RCG, and EEUs for the WISPs. The Telecommunications Development Levy (TDL) funds up to \$180 million for the RBI2/MBSF programme and the Provincial Growth Fund (PGF) provides for up to a further \$40 million of grant funding. CIP receives the TDL and PGF funding as a Grant from the Ministry of Business, Innovation and Employment (MBIE), and itself grants the funds to RCG and the WISPs. CIP will also fund up to a further \$105 million of the RBI2/MBSF programmes. The table below summarises the objectives to be achieved by the TDL.

CIP's performance targets for RBI2/MBSF		Financial year Fiscal 2020	Total programme ⁴ Fiscal 2023
1	Rural End Users to receive improved Broadband	54,075 ⁵	84,327 ⁵
2	Mobile Black Spot Tourist sites covered	52	168
3	Mobile Black Spot Highway kilometres covered	608	892

³ A joint venture between Vodafone, Spark and 2degrees.
⁴ Includes the RBI2/MBSF expansion contracts agreed during the year.
⁵ Total programme rural End Users includes commercial mobile broadband and commercial wireless internet service provider coverage.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

4. INVESTMENTS (CONTINUED)

Grant payments

In the current period the Group paid \$16.2 million in RBI2/MBSF grant payments that were funded by the Crown (2018: \$9.9 million). Additionally, in the current period, CIP provided an additional \$0.6 million of RBI2/MBSF grant payments. CIP received \$1.8 million in PGF funding, and has paid \$0.5 million in PGF grant payments.

Bulk Housing Infrastructure

In the May 2019 Government Budget, CIP has been allocated \$300 million over five years for bulk housing infrastructure. The purpose of the funding is to investigate and implement commercial models, including those that will enable co-investment from the private sector or any other sector, to achieve the Government's objectives for the deployment of water and roading infrastructure to support a timely increase in land for housing supply.

5. PROPERTY, PLANT AND EQUIPMENT

	Information technology \$000	Other equipment \$000	UFB network assets \$000	Total \$000
Cost				
Assets derecognised	-	(55)	(46,155)	(46,210)
Balance at 1 July 2017	500	131	-	631
Additions during the year	53	13	-	66
Disposals during the year	(194)	-	-	(194)
Balance at 30 June 2018	359	144	-	503
Accumulated depreciation				
Assets derecognised	-	(2)	(7,496)	(7,498)
Balance at 1 July 2017	403	98	-	501
Depreciation charge for the year	67	10	-	77
Disposals during the year	(194)	-	-	(194)
Balance at 30 June 2018	276	108	-	384
Net book value at 30 June 2018	83	36	-	119
Net book value at 30 June 2017	97	86	38,659	38,842
Cost				
Balance at 1 July 2018	359	144	-	503
Additions during the year	66	2	-	68
Disposals during the year	-	-	-	-
Balance at 30 June 2019	425	146	-	571
Accumulated depreciation				
Balance at 1 July 2018	276	108	-	384
Depreciation charge for the year	47	10	-	57
Disposals during the year	-	-	-	-
Balance at 30 June 2019	323	118	-	441
Net book value at 30 June 2019	102	28	-	130

Following deconsolidation of UFL on 1 July 2017 the Group balances no longer include NFL fibre-related assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

ACCOUNTING POLICIES

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

Additions

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

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

Disposals

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

Subsequent costs

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

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

Depreciation

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

Information technology	2.5 years (40%)
Other equipment	4-17 years (6%-25%)

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

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

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

Impairment

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

Impairment has been considered, and it has been determined there is no impairment (2018: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

6. INTEREST AND MISCELLANEOUS INCOME

	2019 \$000	2018 \$000
Interest income		
Amortised cost		
CCHL loan	4,394	3,810
NFL2 loan	179	61
UFF loan	1	-
Investments in BHI financial assets	111	-
Interest earned on cash balances with financial institutions	1,595	1,722
FVTSD financial assets		
Chorus Equity Securities	11,628	8,620
Chorus Debt Securities	10,724	8,603
Total interest income	28,632	22,816

Interest rates are set out in note 15.

The interest income on the CCHL loan, NFL2 loan, UFF loan, investment in BHI financial asset and Chorus Debt and Equity Securities is the imputed interest calculated to approximate the effect of interest income to CIP on these instruments. The imputed interest is in effect the write-back of the discount on the investment for the year under review.

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

Miscellaneous income of \$1.2 million was a reimbursement by the Milldale project for cost incurred during the set-up of the subsidiary companies.

7. DIRECTORS' FEES

	2019 \$000	2018 \$000
Board member fees during the year were:		
Simon Allen	63	80
Mark Binns	32	-
Miriam Dean	32	39
Danelle Dinsdale	32	39
Murray Milner	10	39
Keith Tempest	32	39
Total Board member fees	201	236

Murray Milner resigned in October 2018. Mark Binns was appointed in June 2018.

In the 2018 financial year all Directors received some additional fees associated with Board meetings further to those scheduled; no such fees were received in 2019.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

8. EMPLOYEE ENTITLEMENTS, PERSONNEL COSTS AND KEY MANAGEMENT PERSONNEL

	2019 \$000	2018 \$000
Salaries and wages	4,684	4,357
Employer contributions to defined contribution plans	78	50
Other staff benefits	106	62
Total personnel costs	4,868	4,469

CIP has 21 full-time-equivalent employees and seven contractors as at 30 June 2019 (2018: 20 and seven respectively).

Key management personnel compensation

	2019 \$000	2018 \$000
Directors - five individuals (2018: 5)	201	236
Chief Executive Officer and senior management (6 individuals) (2018: 5 individuals)	2,319	2,113
Total key management personnel compensation	2,520	2,349

No significant compensation or termination benefits have been paid during the year (2018: Nil).

CEO remuneration for 2018 and 2019 was:

		Salary	Short-Term Incentive ¹	Total Remuneration
Graham Mitchell	2019	\$505,115	\$71,979	\$577,094
Graham Mitchell	2018	\$494,000	\$71,497	\$565,497

¹ Short term incentive for 2019 performance period (paid 2020), STI for 2018 performance period (paid 2019).

CEO remuneration consists of fixed remuneration, and a short-term incentive. The short-term incentive is based 50% on company performance, as outlined in the Statement of Expectations, and 50% based on individual key performance indicators determined by the Board. These measures are reviewed annually by the Board on advice from the Remuneration Committee of the Board. The CEO's Individual Employment Agreement has a three-month notice period and redundancy entitlement of three-months' remuneration.

Short-term employee entitlements

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

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

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

Defined contribution superannuation schemes

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

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

Total remuneration paid or payable for the year

	2019 # staff	2018 # staff
\$100,000 - \$109,999	1	-
\$130,000 - \$139,999	1	-
\$140,000 - \$149,999	-	1
\$150,000 - \$159,999	1	-
\$160,000 - \$169,999	1	-
\$170,000 - \$179,999	1	2
\$180,000 - \$189,999	1	1
\$190,000 - \$199,999	-	2
\$200,000 - \$209,999	2	1
\$210,000 - \$219,999	1	-
\$240,000 - \$249,999	-	1
\$260,000 - \$269,999	2	-
\$270,000 - \$279,999	-	1
\$280,000 - \$289,999	1	1
\$290,000 - \$299,999	1	1
\$300,000 - \$309,999	1	-
\$400,000 - \$409,999	1	1
\$460,000 - \$469,999	-	1
\$470,000 - \$479,999	1	-
\$560,000 - \$569,999	-	1
\$570,000 - \$579,999	1	-
Total employees	17	14

9. PROFESSIONAL ADVISORY FEES

	2019 \$000	2018 \$000
Accounting	938	1,078
Legal	1,839	775
Other	809	423
Total professional advisory fees	3,586	2,276

Accounting fees relate to non-audit accounting services provided; legal fees relate to the provision of legal services.

10. OTHER EXPENSES

	2019 \$000	2018 \$000
Financial statements audit fees - Audit New Zealand	162	120
Contractors and project management	1,339	1,623
Staff travel and accommodation	280	309
Operating lease expenses	308	296
Information technology	219	194
Other	371	267
Total other expenses	2,679	2,809

Audit New Zealand, on behalf of the Office of the Auditor-General, is the auditor of CIP and its subsidiaries.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

11. TAXATION

	2019 \$000	2018 \$000
Current income tax expense/(credit) recognised in surplus/(deficit)	-	-
Deferred tax expense relating to tax losses and the origination and reversal of temporary differences	-	-
Total income tax expense/(credit)	-	-
Reconciliation		
Surplus/(deficit) for the period	(54,128)	(78,355)
Tax expense/(credit) calculated at 28% (2018: 28%)	(15,156)	(21,939)
Effect of non-taxable status of the entities in the Group	15,156	21,939
Total income tax expense/(credit)	-	-

CIP is a public authority and consequently is exempt from the payment of income tax, but is required to show the effective tax at 28% in the reconciliation above. CIP's subsidiaries are also exempt from the payment of income tax.

Goods and services tax

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

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

Commitments and contingencies are disclosed exclusive of GST.

12. INCOME AND EXPENSES BY CATEGORY

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

The revenue and expenses (excluding interest, which is set out in note 6) in each of the PBE IFRS 9 (2018: PBE IPSAS 29) categories are as follows:

	2019 \$000	2018 \$000
Fair value gains/(losses) on remeasurement of financial assets at FVTSD		
Chorus Equity Securities - fair value gains ¹	17,143	-
Chorus Equity Warrants - fair value gains/(losses)	(257)	248
Chorus Debt Securities - fair value gains/(losses)	20,143	-
BHI financial assets - fair value gains/(losses)	-	-
Fair value losses on initial recognition of financial assets at FVTSD		
Chorus Equity Securities - UFB contribution	(78,380)	(47,809)
Chorus Debt Securities - UFB contribution	(24,880)	(34,615)
Fair value losses on initial recognition of financial assets measured at amortised cost		
CCHL loan - UFB contribution	(126)	(2,880)
NFL2 loan - UFB contribution	(2,937)	(2,959)
UFF loan - UFB contribution	(4,091)	-
Total recognised in surplus/(deficit)	(73,385)	(88,015)
Fair value gains on AFS financial assets		
Chorus Equity Securities - fair value gains ¹	-	9,193
Total recognised in other comprehensive revenue and expense	-	9,193

¹ From 1 July 2018 (the date of adoption of PBE IFRS 9) all fair value gains/losses on the Chorus Equity Securities are recognised in surplus or deficit. In the prior period, the fair value gains/losses were recorded in other comprehensive revenue and expense. Information about the adoption of PBE IFRS 9 is provided in note 1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

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

	2019 \$000	2018 \$000
Net deficit after tax	(54,128)	(78,355)
Add/(less) non-cash items		
Interest income	(27,037)	(21,094)
Fair value gain on FVTSD investments	(37,286)	-
Loss on deconsolidation of subsidiary	-	3,534
Fair value losses/(gains) on derivatives	257	(248)
Gain on sale of investments in LFC equity	(143)	(238)
Depreciation	57	77
UFB contribution	110,414	88,264
Miscellaneous income ¹	(1,227)	-
Total non-cash items	45,035	70,295
Add/(less) movements in working capital items		
Receivables, GST and prepayments	19,869	(44,653)
Creditors and other payables	28,851	31,576
Employee entitlements	(70)	85
Net movements in working capital items	48,650	(12,992)
Add/(less) items reclassified as investing		
Movements in trade and other receivables related to financing activities	(20,000)	45,000
Movements in creditors and other payables related to property, plant and equipment	56	(10)
Movements in creditors and other payables related to other investing activities	-	(141)
Movements in creditors and other payables related to Chorus investments and loans to LFCs	(27,916)	(29,700)
Transaction costs recorded as part of the initial carrying amount of borrowings	(2,252)	-
Net cash from operating activities	(10,555)	(5,903)

¹ The payment for the investment in BHI financial asset was net of the amount owed from the developer for the miscellaneous income.

14. CREDITORS AND OTHER PAYABLES

	2019 \$000	2018 \$000
Creditors	67,727	40,064
Accrued expenses	3,490	2,302
Total creditors and other payables	71,217	42,366

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.

Asset purchases are set out in note 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

15. FINANCIAL RISK

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

MARKET RISK

Fair value interest rate risk

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

The Group is also exposed to fair value interest rate risk in relation to its fixed-interest-rate financial instruments, including bank deposits, the CCHL loan, the NFL2 loan, the UFF loan and borrowings. However, because these items are not accounted for at fair value, fluctuations in interest rates do not have an impact on the surplus/(deficit) or the carrying amount recognised in the statement of financial position.

The average interest rate on CIP's bank term deposits is 2.4% (2018: 3.1%).

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

The terms of the Group's borrowings are set out in note 3.

Cash flow interest rate risk

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

The Group currently has no variable-rate financial instruments; however, term deposits are re-priced every quarter.

Sensitivity analysis

In relation to bank deposits, as at 30 June 2019, if the deposit rate had been 50 basis points higher or lower, with all other variables held constant, the surplus/(deficit) for the period would have been approximately \$0.5 million (2018: \$0.2 million) higher/lower. This sensitivity is greater than in the prior year as more bank deposits were held at balance date than in the prior year.

The sensitivities of the Chorus Securities and the BHI investments are set out in the relevant key assumptions sections of note 4.

CREDIT RISK

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

Credit risk arises from exposure to counterparties where the Group deposits its surplus cash and through its exposure to trade debtors; Chorus through its investment in the Chorus Debt Securities; CCHL through its investment in the CCHL loan; NFL2 through its investment in the NFL2 loan; Ultrafast Fibre Limited (UFL) through its investment in the UFL loan; UFF through its investment in the UFF loan; and the remaining Partner in respect of the option and forward sale arrangement in respect of NFL shares. The UFL loan is undrawn at the balance date but represents a future commitment to provide funding for UFB2; the amount of the loan commitment is \$9 million.

The Investments in BHI financial assets are secured by first ranking encumbrances on the land. At 30 June 2019 the credit risk is concentrated to one developer; however, as the developer sells parcels to new landowners the Group's exposure will be to multiple counterparties. The credit risk relating to the BHI investments is deemed to be low due to the first ranking encumbrances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

15. FINANCIAL RISK (CONTINUED)

The Group invests surplus cash with major registered trading banks. The Group's deposits are currently held with three (2018: three) major banks, which are registered New Zealand banks. CIP's Investment Policy limits the amount of credit exposure to any one institution (up to \$50 million with any one bank and subject to each bank having a credit rating of A or better).

The Group obtains guarantees and/or collateral for loans made to other parties as appropriate. The CCHL loan is secured against ESL's shares and debt in ENL and the assets of ENL, as described in note 4. The NFL2 loan is guaranteed by Northpower Limited (Northpower) and is secured against Northpower's shares and debt in NFL2 and the assets of NFL2. The UFL loan is guaranteed by WEL Networks Limited. There is no collateral held as security. There are no material overdue assets at 30 June 2019 (2018: Nil) and there is no material impairment (2018: no material impairment). The credit risk for each of the CCHL, NFL2, UFF and UFL loans and loan commitments has been determined to be low. The Group considers whether the credit risk has increased by evaluating the activities of the entities to which it has lent funds to determine whether the entities are on target to complete construction projects and whether there are any other events or circumstances indicating that the credit risk of those entities has changed. At 30 June 2019, \$25 million of the trade receivable balance is due from the Crown (2018: \$45 million).

CIP's maximum credit exposure is represented by the carrying amounts of the Group's financial assets and the Group's commitment to purchase Chorus Securities and to provide further funding to each of CCHL, NFL2, UFF and NFL.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty raising liquid funds to meet commitments as they fall due. CIP's primary mechanism for managing liquidity risk is capital funding from the Crown, and NFL funds its working capital requirements by equity contributions from the Partner. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group also manages its liquidity risk relating to its borrowings by matching the expected payments with expected cash receipts relating to the BHI investments.

The Group holds cash at bank, either in an interest-bearing transactional account or in term deposits. Given the highly liquid nature of these accounts, those with an original maturity of less than 90 days are represented as cash in the statement of financial position, and those with an original maturity of greater than 90 days are represented as short-term deposits in the statement of financial position. All cash and short-term deposits are held in New Zealand.

Contractual maturity analysis of financial liabilities

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

2019 Financial liability	Less than 12 months	Between 1 and 5 years	Between 5 and 10 years	Greater than 10 years
Creditors and other payables	71,217	-	-	-
Borrowings	437	1,747	2,273	14,986
Total cash flows	71,654	1,747	2,273	14,986

2018 Financial liability	Less than 12 months	Between 1 and 5 years	Between 5 and 10 years	Greater than 10 years
Creditors and other payables	42,366	-	-	-
Total cash flows	42,366	-	-	-

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

15. FINANCIAL RISK (CONTINUED)

FAIR VALUE MEASUREMENTS

For the purposes of disclosing information about the fair value of financial instruments, the Group has classified its financial instruments into three categories based on the degree to which the inputs to the fair value measurements are observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's financial assets measured at fair value, and the movements therein, are set out in note 4. These financial assets are all considered to be at level three of the fair value hierarchy. There were no transfers between levels in the current period.

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

The Group's borrowings (drawdowns of \$8.1 million (2018: Nil)) have a fair value of \$8.2 million (2018: Nil). The carrying amount of the borrowings at 30 June 2019 of \$5.9 million represents drawdowns of \$8.1 million net of transaction costs of \$2.2 million.

The investment in NFL2 loan (carrying amount \$5.5 million) has a fair value of \$5.9 million (2018: the carrying amount approximated its fair value).

The investment in CCHL loan (carrying amount \$145.3 million) has a fair value of \$148.5 million (2018: the carrying amount approximated its fair value).

The fair value of the loans and borrowings differ from their carrying amounts predominantly due to mark-to-market interest rates moving compared with the amortised cost used in the initial recognition of the instruments.

The carrying amounts of all other financial assets and liabilities approximate their fair values at 30 June 2019 and 30 June 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

15. FINANCIAL RISK (CONTINUED)

CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts of financial assets and liabilities in each of the new PBE IFRS 9 categories are as follows:

2019	\$000
Amortised cost	
Cash and cash equivalents	137,364
Trade and other receivables	25,064
UFF loan	3,391
CCHL loan	145,342
NFL2 loan	5,491
<i>Total financial assets carried at amortised cost</i>	316,652
Financial assets mandatorily measured at FVTSD	
Investments in Chorus Equity Securities	226,016
Investments in Chorus Debt Securities	242,170
Investments in Chorus Equity Warrants	45
Investments in BHI financial assets	9,331
<i>Total financial assets mandatorily measured at FVTSD</i>	477,562
Total financial assets	794,214
Financial liabilities measured at amortised cost	
Creditors and other payables	71,217
Borrowings	5,880
<i>Total financial liabilities measured at amortised cost</i>	77,097
Total financial liabilities	77,097

The carrying amounts of financial assets and liabilities in each of the PBE IPSAS 29 categories at 30 June 2018 (prior to adoption of PBE IFRS 9) were as follows:

2018	\$000
Loans and receivables	
Cash and cash equivalents	34,077
Trade and other receivables	45,089
Investments in Chorus Debt Securities	149,846
CCHL loan	138,867
NFL2 loan	2,426
<i>Total loans and receivables</i>	370,305
AFS financial assets	
Investments in Chorus Equity Securities	147,869
<i>Total AFS financial assets</i>	147,869
Held-for-trading financial assets	
Investments in Chorus Equity Warrants	302
<i>Total held-for-trading financial assets</i>	302
Total financial assets	518,476
Financial liabilities measured at amortised cost	
Creditors and other payables	42,366
<i>Total financial liabilities measured at amortised cost</i>	42,366
Total financial liabilities	42,366

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

16. CAPITAL AND CAPITAL MANAGEMENT

	2019 \$000 & #000	2018 \$000 & #000
Opening balance	1,072,900	927,900
Capital contribution	262,000	145,000
Balance at 30 June	1,334,900	1,072,900

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

The Crown investment made in CIP is represented by 1,855,400,200 \$1 ordinary shares issued (2018: 1,555,400,200), with 1,334,900,200 being fully paid (2018: 1,072,900,200) and 520,500,000 being unpaid (2018: 482,500,000). The Crown holds all the issued capital of CIP. All shares have equal voting and dividend rights and share equally in any distribution on wind-up.

Capital management

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

CIP and the Group manage their equity as a by-product of prudently managing revenue, expenses, assets, liabilities, investments and general financial dealings to ensure that CIP and the Group achieve their objectives and purposes effectively, while remaining going concerns.

17. AFS REVALUATION RESERVE

	2019 \$000	2018 \$000
Opening balance	21,310	12,117
Change in accounting policy (adoption of PBE IFRS 9) ¹	(21,310)	-
Chorus Equity Securities - fair value gains/(losses)	-	9,193
Balance at 30 June	-	21,310

¹ The balance in the AFS revaluation reserve was reclassified to retained earnings at 1 July 2018 on adoption of PBE IFRS 9. Information about the adoption of PBE IFRS 9 is included in note 1.

18. EVENTS AFTER BALANCE DATE

Following 30 June 2019 CIP has received and invested further funds of:

- \$25 million of Capital funds were received on 18 July 2019;
- \$30.8 million of the 30 June 2019 UFB Payable (\$67.4 million) has been paid during July and August 2019; and
- \$4.6 million of the 30 June 2019 RBI2/MBSF payable (\$2.9 million) has been paid during July and August 2019.

There have been no other significant events since balance date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

19. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET

The 2019 budgeted deficit of \$156.2 million was approved in the 2018/19 Statement of Performance Expectations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

	Actual 2019 \$000	Budget 2019 \$000
Income		
Interest income	28,632	29,541
Grant Income	17,737	60,000
Net fair value gains on financial assets at FVTSD	37,286	-
Other income	1,370	-
<i>Total income</i>	<i>85,025</i>	<i>89,541</i>
Expenses		
Finance costs	206	-
Directors' fees	201	347
Wages and salaries	4,868	5,498
Depreciation expense	57	112
Professional and advisory fees	3,586	6,144
Other expenses	2,679	3,286
RBI/MBSF - CIP Funding	648	14,670
UFB contribution - Chorus Equity Securities	78,380	40,087
UFB contribution - Chorus Debt Securities	24,880	35,640
UFB contribution - CCHL loan	126	-
UFB contribution - UFB2	7,028	47,014
Bulk housing project contributions	-	21,000
Grant Expense	16,237	60,000
Net fair value loss on financial assets	-	11,925
Net fair value loss on derivatives	257	12
<i>Total expenses</i>	<i>139,153</i>	<i>245,735</i>
Surplus/(deficit) before tax	(54,128)	(156,194)
Tax expense/(credit)	-	-
Net surplus/(deficit)	(54,128)	(156,194)

EXPLANATION OF SIGNIFICANT VARIANCES

The key variances are:

- The Grant income and expenses are less than budgeted, as the RBI2/MBSF is a new initiative for CIP, and, while build is progressing well, the milestone claims have been slower than expected. This has no impact on expected completion, being substantially by the end of calendar 2021, for what is currently contracted;
- UFB contribution - Chorus Equity Securities is less than budget; while the UFB annual minimum build stages were all handed over, the actual discount rates are lower than budgeted;
- UFB contribution - Chorus Debt Securities is less than budget; while the UFB annual minimum build stages were all handed over, actual discount rates are lower than budgeted;
- UFB contribution - CCHL loan is less than budget, as ENL has completed its brownfield premise build, which was below the contracted premise cap, and actual discount rates are lower than budgeted;
- UFB contribution - UFB2 is less than budget. The UFB2 volume was greater than forecast as partners continue to accelerate deployment, offset by the actual discount rates being lower than budgeted; and
- Bulk housing project contributions is less than budget, as the Milldale development was completed at market interest rates, and as a consequence no contribution was required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

19. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET

(CONTINUED)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Actual 2019 \$000	Budget 2019 \$000
Assets		
Current assets		
Cash and cash equivalents	137,364	77,072
Trade and other receivables	25,064	253
GST receivable	532	-
Prepayments	58	39
Total current assets	163,018	77,364
Non-current assets		
Property, plant and equipment	130	56
Investment in NFL joint venture	15,007	14,255
Investments in Chorus Equity Securities	226,061	174,534
Investments in Chorus Debt Securities	242,170	189,019
Investments in LFC loans	154,224	153,469
Investments in bulk housing projects	9,331	83,880
Total non-current assets	646,923	615,213
Total assets	809,941	692,577
Liabilities		
Creditors and other payables	71,217	1,951
Employee entitlements	747	620
Total current liabilities	71,964	2,571
Term liabilities		
Third party loans	5,880	79,880
Total term liabilities	5,880	79,880
Total liabilities	77,844	82,451
Net assets	732,097	610,126
Contributed capital	1,334,900	1,362,900
Retained earnings	(602,803)	(752,774)
Total equity	732,097	610,126

The key variances are:

- Cash and cash equivalents is greater as Chorus delivered all UFB premise, and a significant portion of the premises were handed over in late June. CIP is holding funds for these payments and for payments for UFB which is due for completion in October, with final payment for UFB1 by 31 December 2019;
- Investments in Chorus Equity Securities - while the UFB annual minimum build stages were all handed over, the timing of handover and actual discount rates are lower than budgeted;
- Investments in Chorus Debt Securities - while the UFB annual minimum build stages were all handed over, the timing of handover and actual discount rates are lower than budgeted;
- Investments in bulk housing projects and third party loans are less than budget; as the budget was set, the anticipation was a full drawdown of the loan was required at the outset. On financial close the investment and third party loan is drawn on a completion of underlying asset basis and drawn as required;
- Creditors and other payables includes the UFB stages (being premise passed but not yet paid) that were handed over at the end of June 2019 and have been accrued; the budget is based upon all stages being handed over and paid within the period; and
- Contributed capital is less than budget - as the full appropriation was not fully paid at 30 June 2018, the appropriation was less in the period with the difference allocated to future periods, and \$25 million was called in June, and paid in July 2019.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

19. EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET
(CONTINUED)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Actual 2019 \$000	Budget 2019 \$000
Opening equity ¹	524,225	496,320
Total comprehensive revenue and expense	(54,128)	(156,194)
Capital contribution - Crown	262,000	270,000
Total equity	732,097	610,126

¹ The actual opening equity figure has been increased by \$32,672,000 as a result of the adoption of PBE IFRS 9. An explanation of the impact of the adoption of PBE IFRS 9 is included in note 1.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Actual 2019 \$000	Budget 2019 \$000
Cash flows from operating activities		
Interest received	1,620	1,000
Grants received	17,737	60,000
Payments to suppliers and employees	(14,001)	(18,604)
RBI/MBSF - CIP funded	(648)	(14,670)
Grant payments	(15,143)	(60,000)
GST (net)	(120)	-
Net cash outflow from operating activities	(10,555)	(32,274)
Cash flows from investing activities		
Purchase of property, plant and equipment	(12)	(75)
Acquisition of investments in Chorus Equity Securities	(109,970)	(115,058)
Acquisition of investments in Chorus Debt Securities	(50,074)	(59,953)
Acquisition of investments in LFC loans	(8,973)	(9,829)
Investment in bulk housing projects	(7,993)	(100,000)
Proceeds from sale of investments in LFC equity	843	1,422
Net cash outflow from investing activities	(176,179)	(283,493)
Cash flows from financing activities		
Capital contribution - Crown	282,000	270,000
Debt drawdown	8,132	75,000
Interest paid	(111)	-
Net cash inflow from financing activities	290,021	345,000
Net (decrease)/increase in cash and cash equivalents	103,287	29,233
Cash and cash equivalents at the beginning of the year	34,077	47,839
Cash and cash equivalents at the end of the year	137,364	77,072

EXPLANATION OF SIGNIFICANT VARIANCES

The key variances are set out below:

- The Grant income and expenses are less than budgeted, as the RBI2/MBSF is a new initiative for CIP, and, while build is progressing well, the milestone claims have been slower than expected; and
- Capital contribution - Crown is higher than budget, as the prior period accrual was fully paid in the 2019 period, and the majority of the 2019 budgeted capital was drawn and paid within the period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

20. REPORTING AGAINST APPROPRIATION

WHAT IS INTENDED TO BE ACHIEVED WITH THIS APPROPRIATION

Appropriation: Broadband Investment

This appropriation is limited to the provision of ongoing investment funding for CIP to implement the Government's broadband investment commitment.

	Actual 2019 \$000	Appropriation 2019 \$000	Actual 2018 \$000	Appropriation 2018 \$000
Appropriation for UFB 30 June				
Original appropriation UFB	482,500	482,500	417,500	417,500
Cumulative adjustments	-	-	-	-
Total adjusted appropriation	482,500	482,500	417,500	471,500
Cumulative actual expenditure 1 July	-	-	-	-
Current-year actual expenditure	245,000	245,000	145,000	145,000
Cumulative actual expenditure	245,000	245,000	145,000	145,000
Appropriation remaining for UFB 30 June 2019	237,500	237,500	482,500	482,500

The UFB appropriations have been combined for UFB 1 and UFB 2 in the 2018 and 2019 figures as disclosed above.

	Actual 2019 \$000	Appropriation 2019 \$000
Appropriation for Bulk Housing Infrastructure 30 June		
Original appropriation BHI	600,000	600,000
Cumulative adjustments	(300,000)	(300,000)
Total adjusted appropriation	300,000	300,000
Cumulative actual expenditure 1 July	-	-
Current-year actual expenditure	17,000	17,000
Cumulative actual expenditure	283,000	283,000
Appropriation remaining to 30 June 2019	283,000	283,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Assessment of performance	Actual standard of performance 2018/19	Budgeted standard of performance 2018/19
75% of New Zealanders have access to ultra-fast broadband (capable of peak speed of 100 megabits per second) by the end of 2019	Rollout targets are met. The priority targets have been completed, and the 75% access target is on track to be met in 2019	Rollout targets are met
Assessment of performance	Actual standard of performance 2018/19	Budgeted standard of performance 2018/19
A further 5% of New Zealanders (additional to the 75% covered by the first phase of the programme) have access to ultra-fast broadband (capable of peak speed of 100 megabits per second) by the end of 2022	Rollout targets are met. The additional 5% access target is on track to be met in 2022.	Rollout targets are met
Assessment of performance	Actual standard of performance 2018/19	Budgeted standard of performance 2018/19
A further 74,508 End Users will be provided with broadband coverage of greater than 20 Mbps, and an additional 1,046 State Highway kilometres and 108 tourism sites provided with mobile coverage by December 2022	Although the planned number of End Users and State Highway kilometres was not reached this financial year the programme will be substantially complete by December 2022	Rollout targets are met
Assessment of performance	Actual standard of performance 2018/19	Budgeted standard of performance 2018/19
One contract completed for BHI by end of calendar year 2018		Milldale contract in place by 25 October 2018
Key projects identified with growth councils for targeted funding by end of fiscal 2019	By end of calendar year 2018	Key projects have been identified and targeted for funding, and a pipeline has been developed

DIRECTORY

Shareholders

The Minister of Finance
The Minister for State Owned Enterprises

Registered office

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Auditor

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

Solicitor

Bell Gully

Bankers

ANZ Bank New Zealand Limited
Bank of New Zealand Limited
ASB Bank Limited
Westpac New Zealand Limited
Kiwibank Limited

Senior Management

Graham Mitchell, Chief Executive

Dougal Evison, Finance Director

John Greenhough,
Chief Technology Officer

Nick Manning, General Manager
Government and Industry Relations

Kathryn Mitchell,
Chief Legal and Risk Officer

Sean Wynne, Deputy CEO - Bulk
Housing Infrastructure

Board of Directors

Simon Allen (Chair)

Mark Binns

Miriam Dean CNZM QC

Danelle Dinsdale

Dr Murray Milner
(Resigned 31 October 2018)

Keith Tempest

