ultrafast FIBRE

ANNUAL REPORT >2013

The **ultimate broadband** experience

Annual Report for the Year Ended 30 June 2013

Contents

ANNUAL REPORT >2013

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Letter to Shareholders

Results and Highlights

for the year ended 30 June 2013

Two years in

It has been two years since Ultrafast Fibre started network construction and we are pleased to report that the build continues to be on schedule and tracking to plan.

ON TARGET: 3,000km network completed in 2016

During the past 12 months all of our eight centres were made available to retail service providers, meaning that customers in all our centres are able to connect to our ultra-fast broadband network.

As at 30 June 2013 we have:

- 1,322 customer connections (including Velocity Networks' customers);
- laid over 1,200 kilometres of duct and fibre;
- passed 48,000 premises including schools, businesses, hospitals and households (completed contractor testing);
- completed 30% of the network build.

The launch of ultra-fast broadband services by tier two retail service providers Orcon, TrustPower Kinect and CallPlus during the past year helped to boost public awareness of the ultra-fast broadband initiative and lift Ultrafast Fibre's connection numbers significantly.

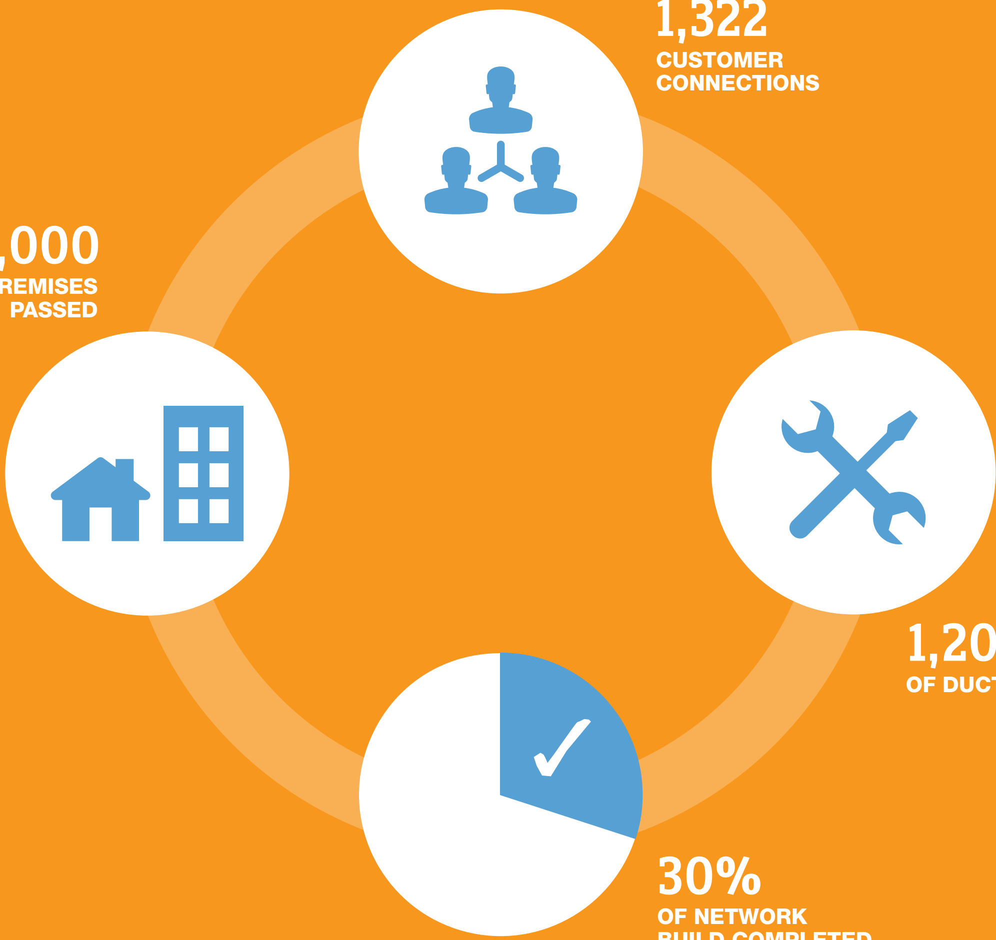
The network build continues to provide good news for the communities in which we operate: for many it has provided an employment boost. Over 200 contractors have been inducted to work on the construction project and our civil and provisioning partner Transfield Services Limited continues to recruit new personnel. Plus, between Ultrafast Fibre and Waikato Networks Limited we now employ 50 people that work from our Hamilton headquarters.

Construction of our 3,000 kilometre Ultrafast Fibre network will be completed in December 2016. The five-year construction timeframe makes Ultrafast Fibre's local fibre network build one of the fastest in New Zealand.

Maxine Elliott
CEO

Rodger Fisher
CHAIRMAN

As of 30 June 2013 we have:



1,322
CUSTOMER CONNECTIONS

48,000
PREMISES PASSED

1,200km
OF DUCT AND FIBRE

30%
OF NETWORK BUILD COMPLETED

FURTHER HIGHLIGHTS

Further highlights from the past year include:

- Our Retail Service Provider Service Desk was brought in-house (previously provided by Huawei Technologies);
- 34 retailer service providers signed up and 24 are selling services on the network;
- 102 schools have been passed. 21 are connected to the network.

PLUS

We are looking forward to the following significant happenings in 2014:

- Full system automation is expected to be complete;
- Tier 1 retail service providers launching services on our network.

Our Core Values

ultrafast FIBRE

> ONE TEAM
> GETS THE JOB DONE
> STRAIGHT TALKING
> AGILE

Statement of Comprehensive Income

for the year ended 30 June 2013

	Note	2013 ($000)	2012 ($000)
Revenue	4	**2,084**	38
Operating expenses	5	**(10,114)**	(1,976)
Net operating loss		**(8,030)**	(1,938)
Net loss before income tax		**(8,030)**	(1,938)
Income tax benefit	6	**2,245**	542
Net loss for the year		**(5,785)**	(1,396)
Other comprehensive income			
Other comprehensive income		**-**	-
Total comprehensive loss for the year		**(5,785)**	(1,396)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes

Balance Sheet
as at 30 June 2013

	Note	2013 ($000)	2012 ($000)
ASSETS			
Non-current assets			
Property, plant and equipment	7	**74,428**	21,521
Deferred income tax assets	10	**2,889**	644
Intangible assets		**4**	-
		77,321	22,165
Current assets			
Cash and cash equivalents		**1,167**	424
Trade and other receivables	8	**1,426**	1,786
Prepayments		**17**	12
Current income tax receivable		**4**	3
		2,614	2,225
TOTAL ASSETS		**79,935**	24,390
EQUITY			
Capital and reserves			
Contributed equity	9	**85,204**	23,791
Accumulated losses		**(7,443)**	(1,658)
TOTAL EQUITY		**77,761**	22,134
LIABILITIES			
Current liabilities			
Trade and other payables	12	**2,087**	2,247
Deferred income	11	**87**	9
		2,174	2,256
TOTAL LIABILITIES		**2,174**	2,256
TOTAL EQUITY AND LIABILITIES		**79,935**	24,390

The above Balance Sheet should be read in conjunction with the accompanying notes.

Rodger Fisher, Director

15 August 2013

Danelle Dinsdale, Director

15 August 2013

Statement of Changes in Equity

For the year ended 30 June 2013

	Note	Contributed equity ($000)	Accumulated losses ($000)	Total equity ($000)
		Attributable to equity holders of the Company		
Balance at 1 July 2011		500	(262)	238
Comprehensive income				
Net loss for the year		-	(1,396)	(1,396)
Other comprehensive income				
Total comprehensive income for the year		500	(1,658)	(1,158)
Transactions with owners				
Issued share capital	9	23,291	-	23,291
Total Transactions with owners		23,291	-	23,291
Balance at 30 June 2012		23,791	(1,658)	22,133
Balance at 1 July 2012		23,791	(1,658)	22,133
Comprehensive income				
Net loss for the year		-	(5,785)	(5,785)
Total comprehensive income for the year		-	(5,785)	(5,785)
Transactions with owners				
Issued share capital	9	61,413	-	61,413
Dividends paid		-	-	-
Total Transactions with owners		61,413	-	61,413
Balance at 30 June 2013		**85,204**	**(7,443)**	**77,761**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 30 June 2013

	Year ended 30 June 2013 ($000)	Year ended 30 June 2012 ($000)
Cash flows from operating activities		
Receipts from customers	1,770	10
Payments to employees and suppliers	(7,639)	(1,352)
Interest received	18	10
Net cash used in operating activities	(5,851)	(1,332)
Cash flows from investing activities		
Purchase of Layer 1 Network Assets	(53,712)	(21,591)
Payments for Layer 2 Communal Assets	(475)	-
Payments for End User Connection Assets	(505)	-
Purchases of property, plant and equipment	(126)	(112)
Net cash used in investing activities	(54,818)	(21,703)
Cash flows from financing activities		
Proceeds from issue of A Shares	53,712	21,591
Proceeds from issue of B Shares	7,700	1,700
Net cash applied to financing activities	61,412	23,291
Net increase in cash and cash equivalents	743	256
Cash and cash equivalents at the beginning of the year	424	168
Cash and cash equivalents at the end of the year	1,167	424
Comprises of the following:		
Cash and deposits	1,167	424
Reconciliation of net profit after tax to net cash flows – operating activities		
Net loss after tax	(5,785)	(1,396)
Adjustments for items not involving cash flows:		
Depreciation	1,904	183
Amortisation	6	-
Gain on sale of property, plant and equipment	(1)	-
Deferred tax asset	(2,245)	(542)
Changes in working capital:		
Trade and other receivables	354	(1,764)
Trade and other payables	(84)	2,187
Net cash inflow from operating activities	(5,851)	(1,332)

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the year ended 30 June 2013

1. General information

Ultrafast Fibre Limited is a Local Fibre Company set up to design, implement and provide high speed internet to retail (internet) service providers. It is part of the New Zealand Government's commitment to roll out ultra fast broadband in New Zealand. The Company was incorporated on the 15th December 2010.

Ultrafast Fibre Limited is a profit-oriented company incorporated in New Zealand under the Companies Act 1993.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Bell Gully, Vero Centre, 48 Shortland Street, Auckland 1140.

These financial statements have been approved for issue by the Board of Directors on 15 August 2013. Once issued the entity's owners do not have the power to amend these financial statements.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

(a) Basis of preparation

The financial statements of Ultrafast Fibre Limited have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities that qualify and apply differential reporting concessions.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets as identified in specific accounting policies below.

The Company qualifies for Differential Reporting exemptions as it has no public accountability, and all shareholders are directors of the Company. All available reporting exemptions allowed under the Framework for Differential Reporting have been adopted except for:

(i) the exemption allowed under NZ IAS 7 Statement of Cash Flows, a Statement of Cash Flows has been prepared.

(ii) the exemption under NZ IAS 12 Income Taxes, deferred tax has been recognised.

(iii) the exemption under NZ IAS 18 Revenue, Goods and Services Tax (GST) has been accounted for.

(b) Estimates and judgement

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and assumptions have formed the basis for making judgements about the carrying values of assets and liabilities where these are not readily apparent from other sources. Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the period if the change affects only that period, or into future periods if it also affects future periods.

(c) Statutory base

Ultrafast Fibre Limited is a company registered under the Companies Act 1993. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

(d) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in New Zealand dollars, rounded to the nearest $1,000, which is the Company's functional and presentation currency.

(e) Going concern

The financial statements have been prepared on a going concern basis. Ultrafast Fibre Limited have sustained recurring losses from operations, however management expect that the Company will become profitable with the increase in network access connections.

Notes to the Financial Statements

For the year ended 30 June 2013 (continued...)

2.2 Ultrafast broadband contract with Crown Fibre Holdings Limited and Waikato Networks Limited

In 15 December 2010 Ultrafast Fibre Limited entered into an agreement with Crown Fibre Holdings Limited (CFH) and Waikato Networks Limited (WNL) relating to construction, deployment and operation of the Ultrafast Broadband network for the Hamilton, Cambridge, Te Awamutu, Tokoroa, Tauranga, Hawera and New Plymouth candidate areas. This is part of the wider project by the Crown to provide open access fibre optic network to 75% of the population in urban New Zealand.

The agreement sets out the key commercial terms of the relationship between CFH (the Crown entity that negotiated and administers the agreement), WNL (the partner responsible for the build and operation of the network) and the Company (Ultrafast Fibre Limited). This includes CFH and WNL having shareholdings in the Company that will reflect the level of each entity's investment in the deployment of the UFB network in each candidate area.

CFH and WNL have equal board representation on the Company's Board of Directors (up to three directors each) with an independent chairman appointed.

The deployment plans drive CFH's level of investment in the Company. As each stage of the deployment plan is completed by WNL, the Company purchases the UFB network from WNL based on an agreed cost per premises passed (CPPP) for the number of premises passed by fibre optic cable upon successful user acceptance testing (UAT). CFH will in turn fund the purchase of each stage by way of subscribing to A shares in the Company, the price for which is the agreed CPPP. At the beginning of each financial year the CPPP rate is adjusted to reflect the movement in the Producers Price Index (PPI) over the four most recent quarters. The PPI adjustment is reflected in the CPPP rate for the purchase of network assets and the subscription price of A and B shares.

At the end of each quarter the partner is required to purchase A shares from CFH for the number of premises connected to the network at the PPI adjusted subscription price for A shares.

WNL is required to fund the cost to connect a premise and end customer (essentially fibre optic lead in from the street), the electronics necessary to light the optical fibre and operational costs. The cost of connections and layer 2 expenditure is based on an agreed cost per premises connected for end user specific infrastructure (CPPC), cost per premises passed for communal layer 2 infrastructure (CPPP L2) and cost per premises passed for end user specific Layer 2 infrastructure (CPPC L2). WNL generally receives B shares for funding these obligations with the exception of funding for connections. WNL can receive B shares for at least 50% of the connection assets and the balance in cash up to a maximum of 50%.

The percentage of shares and level of voting control held by WNL and CFH will change throughout the lifecycle of the project. All A and B class shares in the Company convert to ordinary shares 10 years from the establishment date.

2.3 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Fibre network assets are constructed by Waikato Networks Limited and are acquired by Ultrafast Fibre Limited once each stage is complete and a certificate of practical completion has been issued. Fibre network assets are recognised at cost which is the contract average cost per premise passed as per the Network Infrastructure Project Agreement (NIPA).

Depreciation is provided on property, plant and equipment.

Depreciation is calculated using the straight line basis for all assets. Depreciation is calculated to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	2013	2012	Basis
Computer equipment	40%	40%	SL
Furniture, plant and equipment	12.6%	12.6%	SL
Vehicles	21%	21%	SL
UFB network assets			
Layer 1 (provision of unlit optical fibre)	2.5 - 5%	3 - 10.5%	SL
Layer 2 (ethernet communication equipment)	8 - 20%	n/a	SL

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.5).

Notes to the Financial Statements

For the year ended 30 June 2013 (continued...)

2.4 Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful life of two years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (two to five years).

2.5 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.6 Financial assets

The Company classifies its financial assets as assets at fair value through profit or loss, or loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' and cash and cash equivalents' in the balance sheet (Note 2.8 and 2.10 respectively).

2.7 Financial liabilities

The Company classifies its financial liabilities as other financial liabilities at amortised cost or liabilities at fair value through profit or loss. The classification depends on the purpose for which the financial liability arose. Management determines the classification of its financial liabilities at initial recognition and re-evaluates this designation at every reporting date.

(a) Other financial liabilities at amortised cost

Other financial liabilities at amortised cost are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. They are included in current liabilities, except for maturities greater than 12 months after the reporting date which are classified as non-current liabilities. Other financial liabilities are classified as 'trade and other payables' in the balance sheet.

2.8 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impaired receivables.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of Comprehensive Income.

Notes to the Financial Statements

For the year ended 30 June 2013 (continued...)

2.9 Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.10 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks.

2.11 Contributed equity

Issued shares consist of “A” Shares, “B” Shares and “Government” Shares and are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.12 Income tax

The income tax expense or revenue for the period is the total of the current period’s taxable income based on the national income tax rate, plus/minus movements in the deferred tax balance except where the movement in deferred tax is attributable to a movement in reserves.

Movements in deferred tax are attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements and any unused tax losses or credits. Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or loss or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The income tax expense or revenue attributable to amounts recognised directly in equity is also recognised directly in equity. The associated current or deferred tax balances are recognised in these accounts as usual.

2.13 Goods and Services Tax (GST)

The Statement of Comprehensive Income has been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

2.14 Employee benefits

(a) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non monetary benefits, annual leave and accumulated sick leave expected to be settled within 12 months of the reporting date are recognised in ‘other payables’ in respect of employees’ services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(b) Bonus plans

The Company recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company’s shareholders after certain adjustments. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.15 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Notes to the Financial Statements

For the year ended 30 June 2013 (continued...)

2.16 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Company's activities. Revenue is shown, net of GST, estimated rebates and discounts. Revenue is recognised as follows:

(a) Sales of network access services

Ultrafast Fibre Limited recognises revenue as it provides services to retail service providers. Billings for network access services are made on a monthly basis. Unbilled revenue from the date of connection to the billing cycle date is recognised in the month of service. Revenue is deferred in respect of the portion of the fixed monthly charges that have been billed in advance. Revenue from installations and connections are recognised upon completion of the installation or connection.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

3. Financial risk management

3.1 Financial Instruments by category

	Loans and Receivables ($000)	Assets at fair value through profit or loss ($000)	Total ($000)
At 30 June 2013			
Assets			
Cash and cash equivalents	1,167	-	**1,167**
Trade and other receivables	1,426	-	**1,426**
			2,593
At 30 June 2012			
Assets			
Cash and cash equivalents	424	-	424
Trade and other receivables	1,786	-	1,786
			2,210

Notes to the Financial Statements

For the year ended 30 June 2013 (continued...)

3.1 Financial Instruments by category (Cont...)

	Other Financial Liabilities at amortised cost ($000)	Liabilities at fair value through profit or loss ($000)	Total ($000)
At 30 June 2013			
Liabilities			
Trade and other payables	2,087	-	**2,087**
			2,087
At 30 June 2012			
Liabilities			
Trade and other payables	2,247	-	2,247
			2,247

4. Revenue

	Note	Year ended 30 June 2013 ($000)	Year ended 30 June 2012 ($000)
Sales of network access services		**2,065**	27
Interest received		**19**	11
Total revenue		**2,084**	38

Notes to the Financial Statements

For the year ended 30 June 2013 (continued...)

5. Operating expenses

	Year ended 30 June 2013 ($000)	Year ended 30 June 2012 ($000)
Wages and salaries	1,002	368
Depreciation of property, plant and equipment		
Depreciation on fibre network assets	1,862	171
Depreciation on plant and equipment	3	-
Depreciation on computer hardware	4	1
Depreciation on motor vehicles	35	11
Amortisation	6	-
Total Depreciation & Amortisation	1,910	183
Directors' fees	203	210
Rental and operating lease payments	1,386	15
Network support costs	3,829	320
Other expenses	1,724	853
Remuneration of Auditors		
Auditing the financial statements	40	27
Disclosure review	20	-
Total audit and review services	60	27
Total operating expenses	10,114	1,976

PricewaterhouseCoopers were the only auditors employed during the year.

6. Income tax expense

	Year ended 30 June 2013 ($000)	Year ended 30 June 2012 ($000)
Deferred tax	2,245	542
	2,245	542

Notes to the Financial Statements

For the year ended 30 June 2013 (continued...)

6. Income tax expense (Cont...)

Income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

Net profit before tax	**(8,030)**	(1,938)
Tax calculated at 28% (2012: 28%)	**(2,248)**	(543)
Income not subject to tax	**-**	-
Expenses not deductible for tax purposes	**3**	1
Tax charge	**(2,245)**	(542)

The income tax benefit has been carried forward as a deferred tax asset and will be recoverable in a future period at a rate of 28%.

7. Property, plant and equipment

	Fibre network ($000)	Computer Equipment ($000)	Plant and equipment ($000)	Motor vehicles ($000)	Total ($000)
At 30 June 2012					
Cost or valuation	21,591	3	2	108	21,704
Accumulated depreciation	(171)	(1)	(0)	(11)	(183)
Net book amount	21,420	2	2	97	21,521
At 30 June 2013					
Cost or valuation	76,284	13	19	199	76,515
Accumulated depreciation	(2,033)	(5)	(3)	(46)	(2,087)
Net book amount	**74,251**	**8**	**16**	**153**	**74,428**

8. Trade and other receivables

	2013 ($000)	2012 ($000)
Trade receivables	**211**	46
Trade receivables - related parties	**262**	32
Other receivables	**953**	1,708
	1,426	1,786
Current	**1,426**	1,786

Notes to the Financial Statements

For the year ended 30 June 2013 (continued...)

9. Contributed equity

	A Shares 2013 (#000)	B Shares WNL 2013 (#000)	Total 2013 (#000)
Authorised issued and fully paid ordinary shares.			
Opening balance	**21,591**	**2,200**	23,791
Shares issued during the year	**55,819**	**8,015**	63,834
Closing balance	**77,410**	**10,215**	87,624

	A Shares 2013 ($000)	B Shares WNL 2013 ($000)	Total 2013 ($000)
Opening balance	**21,591**	**2,200**	23,791
Shares issued during the year	**53,713**	**7,700**	61,413
Closing balance	**75,304**	**9,900**	85,204

Each share class carries different rights. The 'A' Shares have the right to vote, acquire new shares and to participate in the distribution of surplus assets of the Company. 'A' Shares are not entitled to receive dividends unless deemed special dividends. The B' Shares do not have voting rights but are entitled to receive dividends. Both 'A' and 'B' shares automatically convert to Ordinary Shares on the 10th anniversary of the Company's incorporation.

The Government shares have the right to acquire new shares and to participate in the distribution of the surplus assets of the Company. The Government shares do not have the right to vote or receive dividends.

No share class has the same rights as those attached to the Government share or ranks equally where consent is required by the Government shareholder. Shares do not have a par value.

10. Deferred income tax

	Tax losses ($000)	Total ($000)
Deferred tax assets		
At 30 June 2011	102	102
Credited to the income statement	542	542
At 30 June 2012	644	644
Credited to the income statement	2,245	2,245
At 30 June 2013	**2,889**	**2,889**

Accumulated tax losses at 30 November 2011 of $225,760 have been recognised subject to a continuity concession as provided within the Shareholder Agreement.

Notes to the Financial Statements

For the year ended 30 June 2013 (continued...)

11. Deferred income

	2013 ($000)	2012 ($000)
Receipts in advance	**87**	9
	87	9

12. Trade and other payables

	2013 ($000)	2012 ($000)
Trade creditors and accruals	**255**	147
Trade creditors and accruals - related parties	**1,720**	2,042
Other creditors	**112**	58
Balance at the end of the year	**2,087**	2,247

13. Contingencies

There are no contingent liabilities as at 30 June 2013 (2012: Nil).

14. Commitments

Capital expenditure

Capital expenditure contracted for at balance sheet date but not yet incurred is $138.7 million (2012: $193.6 million).

Operating lease commitments

The Company leases power poles as part of the fibre network build. Operating leases held over properties give the Company the right to renew the lease subject to a predetermination of the lease rental by the lessor.

The Company leases office space in Auckland. The term of the lease is for one year with a right to renew for a further one year.

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

	2013 ($000)	2012 ($000)
No later than one year	**451**	51
Later than one year and no later than two years	**651**	51
Later than two, not later than five years	**960**	110
Later than five years	**-**	-
	2,062	212

Notes to the Financial Statements

For the year ended 30 June 2013 (continued...)

15. Related-party transactions

(a) Directors

The names of persons who were directors of the company in 2013 are as follows: R H Fisher, Hon R W Prebble, M X Franklin, D R Dinsdale, G R Mitchell, M S Wynne, M P Devlin and J M Elder. Directors of the Company for the year ended 30 June 2012 were R H Fisher, Hon R W Prebble, M X Franklin, K N Tempest, G R Mitchell, M S Wynne and J M Elder.

(b) Other transactions with directors and key management personnel or entities related to them

Other than the payment of directors fees (refer note 5) the Company has not entered into any transactions with Directors.

(c) Transactions with related parties

Crown Fibre Holdings Limited holds 'A' Shares in Ultrafast Fibre Limited. There are no related party transactions with Crown Fibre Holdings Limited.

Waikato Networks Limited holds shares in Ultrafast Fibre Limited. The fibre network is being constructed by Waikato Networks Limited and once each stage is complete it is transferred to Ultrafast Fibre Limited. In addition Waikato Networks Limited provides operations and maintenance services to Ultrafast Fibre Limited for the operation of the fibre network and charges management fees for finance, services and office premise arrangements.

No related party debts were forgiven or written off during 2013 or 2012.

Related party transactions with Waikato Networks Limited	**Year ended 30 June 2013 ($000)**	Year ended 30 June 2012 ($000)
Management fees	**865**	75
Network operations and maintenance	**5,184**	322
Payments to related parties	**6,049**	397
Revenue from provision of network access services	**1,610**	19
Sales to related parties	**1,610**	19
The balance due to Waikato Networks Limited at balance date is	**1,720**	2,042
The balance due from Waikato Networks Limited at balance date is	**262**	32
Related party transactions with WEL Networks Limited		
Management fees	**-**	225
Payments to related parties	**-**	225
The balance due to WEL Networks Limited at balance date is	**10**	-

16. Dividends on ordinary shares

No dividends were paid during 2013 or 2012.

17. Events subsequent to balance date

Subsequent to the balance date two further network stages have been accepted and transferred to Ultrafast Fibre Limited for an amount of $624,192 excluding GST. 659,367 'A' Shares were issued after balance date to Crown Fibre Holdings Limited. 538,793 B Shares for the amount of $499,999.90 were issued to Waikato Networks Limited for working capital.

Independent Auditor's Report

to the shareholders of Ultrafast Fibre Limited for the year ended 30 June 2013

The Auditor-General is the auditor of Ultrafast Fibre Limited (the company). The Auditor-General has appointed me, Paul Clark, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements of the company on her behalf.

We have audited:

- the financial statements of the company on pages 1 to 15, that comprise the balance sheet as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information.

Opinion

Financial statements

In our opinion:

- the financial statements of the company on pages 1 to 15:
    - comply with generally accepted accounting practice in New Zealand;
    - give a true and fair view of the company's:
        - financial position as at 30 June 2013; and
        - financial performance and cash flows for the year ended on that date.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 15 August 2013. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements that give a true and fair view of the matters to which they relate. We consider internal control 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 company's internal control.

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Independent Auditor's Report

Ultrafast Fibre Limited for the year ended 30 June 2013

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also we did not evaluate the security and controls over the electronic publication of the financial statements.

In accordance with the Financial Reporting Act 1993 we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company's financial position, financial performance and cash flows.

The Board of Directors is also responsible for such internal control as is determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the Crown Entities Act 2004 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit and other assurance services, we have no relationship with or interests in the company.

Paul Clark

Paul Clark
PricewaterhouseCoopers — Auckland

On behalf of the Auditor-General
16 August 2013

Directors' Report / Statutory Information

1. Directors' Remuneration

Directors' fees and other remuneration paid during the year were:

	Year ended 30 June 2013 $	Year ended 30 June 2012 $
R H Fisher	**80,000**	80,000
K N Tempest (resigned on 15/02/2013)	**23,333**	40,000
Hon R W Prebble	**40,000**	40,000
M X Franklin	**40,000**	40,000
G R Mitchell	**-**	-
M S Wynne	**-**	-
J M Elder (resigned on 01/06/2013)	**-**	-
D R Dinsdale (appointed on 20/02/2013)	**16,667**	-
M P Devlin (appointed on 01/06/2013)	**3,333**	-
	203,333	200,000

2. Donations

There were no donations made by the Company during the year.

3. Directors' Indemnities and Insurance

The Deeds of Indemnity given by the Company in favour of those Directors who held office at the beginning of the financial year to which this report relates, and to Directors appointed since the beginning of the financial year and who still hold office as Directors of the Company, remain in full force and effect on the same terms and conditions under which they were given.

As permitted by, and to the extent permitted by, the Company's Constitution, the Company has effected insurance for Directors and officers which, together with the Deeds of Indemnity, generally ensures that the Directors will not incur any monetary loss as a result of actions undertaken by them as Directors. The Directors and officers insurance comprises cover of $10 million and a Statutory Liability Insurance cover of $1 million has also been effected.

4. Directors' Transactions

All transactions in entities in which Directors disclosed an interest have been conducted on an 'arm's length' basis in the normal course of business.

Directors' Report / Statutory Information

5. Employees Remuneration

The number of employees (excluding Directors) whose income was within specified bands is as follows:	**Year ended 30 June 2013**	Year ended 30 June 2012
Continuing Employees	**Number of employees**	Number of employees
$110000 - $119999	**1**	
$130000 - $139999	**1**	
$140000 - $149999	**1**	
$160000 - $169999	**1**	
$170000 - $179999		1
$330000 - $339999	**1**	
Total	**5**	1

6. Board Meetings

	Year ended 30 June 2013	Year ended 30 June 2012
Number of Board meetings attended by each Director	**Number attended**	Number attended
R H Fisher	**11**	11
M X Franklin	**10**	9
Hon R W Prebble	**9**	10
K N Tempest	**6**	10
D R Dinsdale	**5**	-
M P Devlin	**1**	-
G R Mitchell	**10**	10
M S Wynne	**10**	11
J M Elder	**10**	11

7. Shareholders

	Year ended 30 June 2013 $	Year ended 30 June 2012 $
Crown Fibre Holdings Limited / A Share	**74,724,562**	21,591,164
Waikato Networks Limited / A & B Shares	**10,479,319**	2,200,001
Her Majesty the Queen in Right of New Zealand / Government Share	**1**	1
Total	**85,203,882**	23,791,166

Refer to note 9 of the Financial Statements for detailed information on share capital.

Notes

The **ultimate broadband** experience

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