

Independent Auditor's Report**To the readers of
Whangarei Local Fibre Company Limited's
financial statements
for the year ended 30 June 2012**

The Auditor-General is the auditor of Whangarei Local Fibre Company Limited (the company). The Auditor-General has appointed me, John Scott, using the staff and resources of Audit New Zealand, 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 16, that comprise the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date and the 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 16:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of the company's:
 - financial position as at 30 June 2012; 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 21 August 2012. 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 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 would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

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.

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. 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 that:

- 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 it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors' responsibilities arise from the Public Finance Act 1989 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 the Public Finance Act 1989 and section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

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



John Scott
Audit New Zealand
On behalf of the Auditor-General
Auckland, New Zealand

Whangarei Local Fibre Company Limited
Financial Statements
For the year ended 30 June 2012

**Whangarei Local Fibre Company Limited
Contents**

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**Whangarei Local Fibre Company Limited
Directors' Report**

| | 30 June 2012 | 30 June 2011 |
|--|---------------------|---------------------|
| | (12 Months) | (6 Months) |
| | \$ | \$ |
| Operating surplus (deficit) for the period | (481,941) | (79,747) |
| Opening retained earnings | (79,747) | - |
| Leaving retained earnings at end of period | <u>(561,688)</u> | <u>(79,747)</u> |

It is not proposed to make any transfer to reserves.
The directors recommend that no dividend be declared.
The business of the company is to provide ultra – fast broadband.

As required by the Companies Act 1993, we disclosed the following information:

Directors Interest

No directors held interests in the company during the period ended 30 June 2012.

The following entries were made in the interest register during the year:

JA Brosnahan

Chair of Leadership NZ, Abilities Foundation and Landcare Research Limited

Director of carboNZero Limited

Director of Personal Footprint Limited

Member, Advisory Board of Centre for Brain Research, Auckland University

Trustee of Harkness Trust

Principal of Jo Brosnahan Leadership and Governance

NP Davies-Colley

Director of; Northpower Limited, Northpower Western Australia Pty Limited, Westcoast

Energy Pty Limited, Farmlands Trading Society Limited and Landcorp Limited

Director and shareholder of; The Tree People Limited and MP Logging Limited

Trustee of Ngarakau Family Trust. This trust holds shares in Chorus.

MR Gatland

Director of AMAG Limited and BMAG Limited

Chief Executive Officer of Northpower Limited

GR Mitchell

Director of UltraFast Fibre Limited and Enable Networks Limited

Chief Executive Officer of Crown Fibre Holdings Limited

Member of Chorus Steering Committee

MS Wynne

Director of UltraFast Fibre Limited, Twenty4media Pty Limited and Enable Networks Limited

Director and shareholder of Twenty4media Limited

Officer of Crown Fibre Holdings Limited

Member of Chorus Steering Committee

Indemnities and Insurance

| Name of director | Particulars of indemnity or insurance |
|---|--|
| All directors of Whangarei Local Fibre company Limited and any other 'Indemnified Persons' (as defined by the term "Indemnified Person" in clause 1 of the Deed of Indemnification dated 13 December 2010). | Indemnities for costs in proceedings and for liabilities incurred pursuant to clauses 2 and 3 of the Deed of Indemnification dated 13 December 2010. |
| All directors of Whangarei Local Fibre Company Limited | D & O Insurance Policy pursuant to clause 28 of Whangarei Local Fibre Company Limited's constitution and section 162(5) of the Companies Act 1993. |

Indemnity

The company holds a current Professional Indemnity Insurance Policy.

Use of Company Information

The Board received no notices during the year from directors requesting to use company information received in their capacity as directors which would have not been otherwise available.

Share Dealing

No director acquired or disposed of any interest in shares in the company during the period ended 30 June 2012.

Auditor

Audit New Zealand is appointed as Auditor in accordance with section 15 of the Public Audit Act 2001.

Statement of Responsibility

1. The Board of Whangarei Local Fibre Company Limited accept responsibility for the preparation of the annual financial statements and the judgements used in them.
2. The Board of Whangarei Local Fibre Company Limited accepts responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting; and
3. In the opinion of the Board of, Whangarei Local Fibre Company Limited the annual financial statements for the period ended 30 June 2012, fairly reflect the financial position and operations of Whangarei Local Fibre Company Limited.

Signed on behalf of the board



Director 21 August 2012 Date



Director 21 August 2012 Date

Whangarei Local Fibre Company Limited
Company Details

In respect of the period ended 30 June 2012, the directors of Whangarei Local Fibre Company Limited submit the following report:

| | |
|---------------------------|--|
| Nature of Business | Provide ultra - fast broadband |
| Registered Office | C/- Bell Gully, Level 22, Vero Centre 48 Shortland Street, Auckland |
| Directors | |
| Jo Brosnahan | 11 April 2011 |
| Nikki Davies-Colley | 13 December 2010 |
| Mark Gatland | 13 December 2010 |
| Graham Mitchell | 13 December 2010 |
| Sean Wynne | 13 December 2010 |
| Accountants | Elevate CA Ltd Level 4, 35 Robert Street Whangarei |
| Bankers | Westpac 36-40 Rathbone Street Whangarei |
| Business Location | 28 Mt Pleasant Road Raumanga Whangarei |
| Shareholders | Crown Fibre Holdings Limited 8,332,779 A shares Northpower Limited 150,192 A shares 3,410,412 B shares Hon. Bill English, Minister of Finance 1 Government share |



Whangarei Local Fibre Company Limited
Statement of Comprehensive Income
For the year ended 30 June 2012

| | Notes | 12 Months 2012 \$ | 6 Months 2011 \$ |
|---|-------|-------------------------|------------------------|
| Income | | | |
| Fibre connection services revenue | | 151,571 | - |
| Reimbursement revenue | | 19,932 | - |
| Interest income | | 3,473 | 404 |
| Total income | | <u>174,976</u> | <u>404</u> |
| Expenses | | | |
| Depreciation and amortisation expense | 7&8 | 151,788 | 131 |
| Management fee | | 41,917 | 30,000 |
| Salaries and wages | | 137,597 | - |
| Other expenses | 3 | 511,678 | 81,033 |
| Total expenses | | <u>842,980</u> | <u>111,164</u> |
| Profit (loss) before tax | | (668,004) | (110,760) |
| Income tax benefit | 4 | 186,063 | 31,013 |
| Net profit (loss) for the period | | <u>(481,941)</u> | <u>(79,747)</u> |
| Other comprehensive income | | - | - |
| Total comprehensive income (loss) for the period | | <u>(481,941)</u> | <u>(79,747)</u> |
| Profit (loss) attributable to: | | | |
| Equity holders of the company | | <u>(481,941)</u> | <u>(79,747)</u> |
| Total comprehensive income (loss) attributable to: | | | |
| Equity holders of the company | | <u>(481,941)</u> | <u>(79,747)</u> |

The comparative figures are for a 6 month period as the company was incorporated on 13 December 2010.

The accompanying notes form part of these financial statements.



Whangarei Local Fibre Company Limited
Statement of Changes in Equity
For the year ended 30 June 2012

| Attributable to equity holders of the company | | | |
|---|-------------------|----------------------|-------------------|
| 2012 (12 months) | | | |
| \$ | | | |
| | Share Capital | Retained Earnings | Total Equity |
| Balance as at 30 June 2011 | 130,751 | (79,747) | 51,004 |
| Net profit (loss) for the period | - | (481,941) | (481,941) |
| Other comprehensive income | - | - | - |
| Total comprehensive income (loss) for the period, net of tax | - | (481,941) | (481,941) |
| Transactions with owners | | | |
| issue of share capital | 11,762,631 | - | 11,762,631 |
| Equity as at 30 June 2012 | 11,893,382 | (561,688) | 11,331,694 |
| 2011 (6 months) | | | |
| \$ | | | |
| | Share Capital | Retained Earnings | Total Equity |
| Balance as at 13 December 2010 | - | - | - |
| Net profit (loss) for the period | - | (79,747) | (79,747) |
| Other comprehensive income | - | - | - |
| Total comprehensive income (loss) for the period, net of tax | - | (79,747) | (79,747) |
| Transactions with owners | | | |
| issue of share capital | 130,751 | - | 130,751 |
| Equity as at 30 June 2011 | 130,751 | (79,747) | 51,004 |

The comparative figures are for a 6 month period as the company was incorporated on 13 December 2010.

The accompanying notes form part of these financial statements.



Whangarei Local Fibre Company Limited
Statement of Financial Position
For the year ended 30 June 2012

| | Notes | 12 months 2012 \$ | 6 months 2011 \$ |
|----------------------------------|-------|-------------------------|------------------------|
| Current assets | | | |
| Cash and cash equivalents | 5 | 33,446 | 52,983 |
| Trade and other receivables | 6 | 291,309 | 9,078 |
| Prepayments | | 774,560 | |
| Tax refund due | 4 | 1,122 | 133 |
| Total current assets | | <u>1,100,437</u> | <u>62,194</u> |
| Non-current assets | | | |
| Assets under construction | | - | 30,751 |
| Plant and equipment | 7 | 10,442,202 | - |
| Intangible assets | 8 | 4,575 | 6,144 |
| Deferred tax asset | 4 | 217,076 | 31,013 |
| Total non-current assets | | <u>10,663,853</u> | <u>67,908</u> |
| Total assets | | <u>11,764,290</u> | <u>130,102</u> |
| Current liabilities | | | |
| Trade and other payables | 9 | 432,596 | 79,098 |
| Total current liabilities | | <u>432,596</u> | <u>79,098</u> |
| Total liabilities | | <u>432,596</u> | <u>79,098</u> |
| Net assets | | <u>11,331,694</u> | <u>51,004</u> |
| Equity | | | |
| Share capital | 10 | 11,893,382 | 130,751 |
| Retained earnings | | (561,688) | (79,747) |
| Total equity | | <u>11,331,694</u> | <u>51,004</u> |

Jo Goanole *M Davis Lolley*

 Director

 Director

Date: 21 August 2012 _____

The comparative figures are for a 6 month period as the company was incorporated on 13 December 2010.

The accompanying notes form part of these financial statements.

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Whangarei Local Fibre Company Limited
Cash Flow Statement
For the year ended 30 June 2012

| | Note | 12 months 2012 \$ | 6 months 2011 \$ |
|--|------|-------------------------|------------------------|
| Cash flows from operating activities - | | | |
| Cash was provided from: | | | |
| Receipts from customers | | 199,641 | |
| Interest received | | 3,473 | 404 |
| Tax refund | | 133 | |
| Cash was distributed to: | | | |
| Payments to suppliers | | (311,742) | (41,013) |
| Payments to Employees | | (121,945) | - |
| GST Paid | | (237,976) | - |
| Income tax paid | | (1,122) | (133) |
| Net cash inflow from operating activities | 11a | <u>(469,538)</u> | <u>(40,742)</u> |
| Cash flows from investing activities - | | | |
| Cash was applied to: | | | |
| Purchase of property, plant and equipment | 11b | (7,701,259) | (6,275) |
| Prepayment of property, plant and equipment | | (750,960) | - |
| Net cash outflow from investing activities | | <u>(8,452,219)</u> | <u>(6,275)</u> |
| Cash flows from financing activities - | | | |
| Cash was provided from: | | | |
| Share capital | | 8,902,220 | 100,000 |
| Net cash inflow from financing activities | | <u>8,902,220</u> | <u>100,000</u> |
| Net increase (decrease) in cash and cash equivalents | | (19,537) | 52,983 |
| Add cash and cash equivalents at the beginning of the year | | 52,983 | - |
| Cash and cash equivalents at the end of the year | | <u>33,446</u> | <u>52,983</u> |

The comparative figures are for a 6 month period as the company was incorporated on 13 December 2010.

The accompanying notes form part of these financial statements.

Whangarei Local Fibre Company Limited
Notes to the Financial Statements
For the year ended 30 June 2012

1. STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

These are the financial statements of Whangarei Local Fibre Company Limited ("the company"). Whangarei Local Fibre Company Limited is a company incorporated in New Zealand on 13 December 2010 and registered under the Companies Act 1993. The company is domiciled in New Zealand. The address of the registered office is Bell Gully, Vero Centre, 48 Shortland Street, Auckland 1140.

The primary objective of the company is to construct and operate an ultra-fast broadband (UFB) network in the Whangarei area, as part of the Government's objective to roll out UFB to 75% of the New Zealand population in a ten-year period. Accordingly the company has been designated as a profit-orientated entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements of Whangarei Local Fibre Company Limited have been prepared in accordance with the reporting requirements of section 11 of the Financial Reporting Act 1993.

These financial statements were approved for issue by the Board of Directors on 10 August 2012. The Board does not have the power to amend these financial statements after issue.

Statement of Compliance

The financial statements of Whangarei Local Fibre Company Limited have been prepared in accordance with the Companies Act 1993 and generally accepted accounting practice in New Zealand. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities that qualify for differential reporting concessions.

Differential Reporting

Whangarei Local Fibre Company Limited is a qualifying entity in that it qualifies for differential reporting as it is not publicly accountable and is not large as defined under the framework for differential reporting.

The company has taken advantage of all differential reporting exemptions available to it except for NZIAS 12 Income Taxes, with which it has fully complied and NZ IAS 7 with regard to the preparation of the Statement of Cash Flows.

Basis of Preparation

The financial statements of Whangarei Local Fibre Company Limited have been prepared on an historical cost basis.

The financial statements are presented in New Zealand dollars unless otherwise stated. The functional currency of the company is New Zealand dollars (NZ\$).

The specific accounting policies adopted for the preparation of the financial statements are specified below. These policies have been applied consistently to all periods presented, unless otherwise stated.

Whangarei Local Fibre Company Limited
Notes to the Financial Statements
For the year ended 30 June 2012

Changes in Accounting Policies

There have been no changes in accounting policies during the financial year.

Comparative Financial Statements

The comparative financial statements cover only a six-month period as the company was incorporated on 13 December 2010. Comparisons with the current year financial statements will need to consider this difference in the length of the reporting period.

Specific Accounting Policies

In the preparation of these financial statements, the specific accounting policies are as follows:

Revenue

Revenue is recognised to the extent that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific revenue criteria must also be met before revenue is recognised:

- Revenue from fibre connection services
Revenue is recognised as the end-customer has been provided with a working fibre connection to the UFB network and other related connection services have been rendered.
- Interest income
Interest revenue is recognised as the interest accrues using the effective interest method.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term, highly liquid investments with original maturities of three months or less and which are subject to an insignificant risk of changes in value.

Trade and Other Receivables

These amounts are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

The collectability of receivables is reviewed on an on-going basis. Receivables that are known to be uncollectible are written off. An allowance for impairment 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 the receivables. The amount of the allowance is the excess of the asset's carrying amount over the present value of estimated future cash flows, discounted at the effective interest rate. The arising impairment loss is recognised in the statement of comprehensive income.

Property, Plant and Equipment

Items in property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.



Whangarei Local Fibre Company Limited
Notes to the Financial Statements
For the year ended 30 June 2012

Initial Cost

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the sites on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent Cost

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

Additions

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

In most instances, an item of property, plant, and equipment is initially recognised at its cost.

Disposals

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

Depreciation

Depreciation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment.

The estimated useful lives of the three classes of property, plant and equipment for the current period are as follows:

- Fibre Optic Network Assets 5 – 40 years
- Fibre Optic Cable – 30 years
 - Layer 1 Supporting Infrastructure – 20 years
 - Network Hardware (Layer 2 – Active Electronics) – 5 years
 - Duct Infrastructure – 40 years

Building Infrastructure

- Leasehold Improvements – 20 years

Whangarei Local Fibre Company Limited
Notes to the Financial Statements
For the year ended 30 June 2012

- Plant and Equipment 4 – 10 years
- Computer Equipment – 4 years
 - Office Equipment / Furniture and Fittings – 10 years
 - Tools and Equipment – 10 years

Impairment of Property, Plant and Equipment and Intangible Assets

Property, plant and equipment and intangible assets are reviewed for indicators of impairment as at each balance date. When there is an indicator of impairment, the asset's recoverable amount is estimated. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Value in use is the present value of the future cash flows expected to be derived from an asset or cash generating unit.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written-down to the recoverable amount. The impairment loss is recognised in surplus or deficit.

Assets Under Construction

The cost of assets under construction is determined using the same principles as for acquired assets. Assets under construction are recognised at cost less impairment and are not depreciated. Advance payments made for the construction are recognised as an asset in the "Payments in Advance" account. The assets under construction are reclassified to property, plant and equipment when their construction is completed and they become capable of operating in the manner intended by management.

Intangible Assets

Website Development

Website development costs are capitalised when it is probable that the expected economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. Furthermore, the website must be shown to be capable of generating revenues, including direct revenues from enabling orders to be placed.

Amortisation

Website costs are amortised on a straight-line basis over the asset's useful life of four years. Amortisation begins when the asset is available for use and ceases at the date when the asset is disposed of.

The amortisation charge for each year is recognised in the Statement of Comprehensive Income.

Trade and Other Payables

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year that 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.

Whangarei Local Fibre Company Limited
Notes to the Financial Statements
For the year ended 30 June 2012

Goods and Services Tax

These financial statements have been prepared on a GST-exclusive basis with the exception of accounts receivable and accounts payable, which are shown inclusive of GST.

Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position. The net GST paid to, or received from the IRD, including GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flow. Commitments and contingencies are disclosed exclusive of GST.

Taxation

Income tax is the aggregate of current period movements in relation to both current tax and deferred tax.

Current tax is the amount of income tax payable on the taxable profit for the current year. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is measured at tax rates that are expected to apply when an asset is realised or a liability is settled, based on tax rates that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amounts of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit.

Current and deferred tax is recognised against profit or loss for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive income or directly in equity.

Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Whangarei Local Fibre Company Limited
Notes to the Financial Statements
For the year ended 30 June 2012

Provisions are measured at the present value of the expenditure expected to be required to settle an obligation using a pre-tax discount 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 the passage of time is recognised in finance costs.

Employee Entitlements

Employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to but not yet taken at balance date.

A liability for sick pay is not recognised.

Annual leave is classified as a current liability.

Whangarei Local Fibre Company Limited
Notes to the Financial Statements
For the year ended 30 June 2012

| | 12 months | 6 months |
|--|------------------|-----------------|
| | 2012 | 2011 |
| | \$ | \$ |
| 2 Equity | | |
| Issued shares consist of "A" shares, "B" shares and "Government" shares and are classified as equity. | | |
| On 13 December 2010, three unpaid shares were issued at \$1 per share. These consisted of one "A" share issued to Crown Fibre Holdings Limited, one "B" share issued to Northpower Limited and one "Government" share issued to The Minister of Finance. | | |
| The rights, preferences and restrictions attaching to each class of shares are disclosed in Note 10. | | |
| 3 Other Expenses | | |
| Auditor's remuneration | | |
| - Auditing financial statements | 15,000 | 7,000 |
| Directors' fees | 90,000 | 27,500 |
| Other expenses | 406,678 | 46,533 |
| | <u>511,678</u> | <u>81,033</u> |
| 4 Taxation | | |
| Components of income tax expense | | |
| Current tax | - | - |
| Deferred tax | 186,063 | 31,013 |
| Income tax expense | <u>186,063</u> | <u>31,013</u> |
| Relationship between tax expense and comprehensive income (loss) | | |
| Profit (loss) before taxation per statement of comprehensive income | (668,004) | (110,760) |
| Tax at 28% (2011: 30%) | 187,041 | 33,228 |
| Impact of change in future tax rate to 28% | - | (2,215) |
| | <u>187,041</u> | <u>31,013</u> |
| Add (less) tax effect of: | | |
| Non-deductible expenditure | (978) | - |
| Tax expense | <u>186,063</u> | <u>31,013</u> |

The income tax benefit has been carried forward as a deferred tax asset and will be recovered in a future period at the prevailing tax rate.

Whangarei Local Fibre Company Limited
Notes to the Financial Statements
For the year ended 30 June 2012

4 Taxation Continued
Deferred tax asset (liability)

| | Employee Entitlements | Provisions | Tax Losses | Total |
|---------------------------------------|------------------------------|-------------------|-------------------|----------------|
| Opening balance 1 July 2011 | - | 1,960 | 29,053 | 31,013 |
| Charged to profit or loss | 3,325 | 2,240 | 180,498 | 186,063 |
| Charged to other comprehensive income | - | - | - | - |
| Closing balance 30 June 2012 | <u>3,325</u> | <u>4,200</u> | <u>209,551</u> | <u>217,076</u> |
| Opening balance 13 December 2010 | - | - | - | - |
| Charged to profit or loss | - | 1,960 | 29,053 | 31,013 |
| Charged to other comprehensive income | - | - | - | - |
| Closing balance 30 June 2011 | <u>-</u> | <u>1,960</u> | <u>29,053</u> | <u>31,013</u> |

The recognition of deferred tax assets from the carry forward of unused tax losses is based on management's assessment that sufficient future taxable profit will be available against which the tax losses can be utilised. This assessment is supported by a financial forecast which was approved by the Board of Directors.

| | 12 months 2012 \$ | 6 months 2011 \$ |
|--|----------------------------------|---------------------------------|
| Imputation credit account: | | |
| Opening balance | - | - |
| Resident withholding tax | <u>1,122</u> | <u>133</u> |
| | <u>1,122</u> | <u>133</u> |
| Imputation credits available for use in subsequent periods | <u>-</u> | <u>-</u> |
| 5 Current Asset - Cash and Cash Equivalents | | |
| Bank | <u>33,446</u> | <u>52,983</u> |
| | <u>33,446</u> | <u>52,983</u> |
| 6 Current Assets - Trade and Other Receivables | | |
| Trade receivables | 50,894 | - |
| GST receivable | <u>240,415</u> | <u>9,078</u> |
| | <u>291,309</u> | <u>9,078</u> |

Whangarei Local Fibre Company Limited
Notes to the Financial Statements
For the year ended 30 June 2012

| | 12 months 2012 \$ | 6 months 2011 \$ |
|-----------------------------------|--------------------------|------------------------|
| 7 Plant and Equipment | | |
| Fibre Optic Network Assets | | |
| Cost or fair value | | |
| Opening balance | - | - |
| Addition | <u>10,592,421</u> | <u>-</u> |
| | <u>10,592,421</u> | <u>-</u> |
| Accumulated amortisation | | |
| Opening balance | - | - |
| Depreciation expense for the year | <u>150,219</u> | <u>-</u> |
| | <u>150,219</u> | <u>-</u> |
| Net carrying value | <u><u>10,442,202</u></u> | <u><u>-</u></u> |

There are no restrictions over the title of the plant and equipment, nor are any of the assets pledged as security for liabilities.

| | | |
|-----------------------------------|---------------------|---------------------|
| 8 Intangible Assets | | |
| Website | | |
| Cost or fair value | | |
| Opening balance | 6,275 | - |
| Addition | <u>-</u> | <u>6,275</u> |
| | <u>6,275</u> | <u>6,275</u> |
| Accumulated amortisation | | |
| Opening balance | 131 | - |
| Amortisation expense for the year | <u>1,569</u> | <u>131</u> |
| | <u>1,700</u> | <u>131</u> |
| Net carrying value | <u><u>4,575</u></u> | <u><u>6,144</u></u> |

There are no restrictions over the title of the intangible assets, nor are any intangible assets pledged as security for liabilities.

9 Trade and Other Payables

| | | |
|----------------------------------|-----------------------|----------------------|
| Trade payables (GST inclusive) | 349,030 | 63,948 |
| Directors' fees due | - | 8,150 |
| Accrued payables (GST exclusive) | 38,955 | 7,000 |
| Employee entitlements | | |
| Holiday pay accrual | 11,876 | |
| Salary accrual | 3,776 | - |
| Income in advance | <u>28,959</u> | <u>-</u> |
| | <u><u>432,596</u></u> | <u><u>79,098</u></u> |



Whangarei Local Fibre Company Limited
Notes to the Financial Statements
For the year ended 30 June 2012

| | 12 months 2012 \$ | 6 months 2011 \$ |
|--|-------------------------|------------------------|
| 10 Share Capital | | |
| (a) A shares | | |
| Crown Fibre Holdings Limited | | |
| Opening balance | 30,752 | - |
| Add shares issued during the year | <u>8,452,219</u> | <u>30,752</u> |
| | 8,482,971 | 30,752 |
| Less unpaid shares | <u>-</u> | <u>1</u> |
| | 8,482,971 | 30,751 |
| Less 149,743 shares sold to Northpower Limited on 29 June 2013 | <u>150,192</u> | <u>-</u> |
| Total paid-up A shares held by Crown Fibre Holdings Limited | <u>8,332,779</u> | <u>30,751</u> |
| Northpower Limited | | |
| On 29 June 2012 Northpower Limited purchased 149,743 A shares | <u>150,192</u> | <u>-</u> |
| Total paid-up A shares held by Northpower Limited | <u>150,192</u> | <u>-</u> |
| | <u>8,482,971</u> | <u>30,751</u> |
| Total paid-up A shares | | |
| The A shares have voting rights but no ordinary rights to dividends. | | |
| (b) B shares | | |
| Opening balance | 100,001 | - |
| Add shares issued during the year | <u>3,310,411</u> | <u>100,001</u> |
| | 3,410,412 | 100,001 |
| Less unpaid shares | <u>1</u> | <u>1</u> |
| Total paid-up B shares | <u>3,410,411</u> | <u>100,000</u> |
| The B shares are held by Northpower Limited, have no voting rights but carry ordinary rights to dividends. | | |
| (c) Government share | | |
| Opening balance | 1 | - |
| Shares issued: | | |
| On 13 December 2010, one share issued but unpaid | - | 1 |
| Less unpaid shares | <u>1</u> | <u>1</u> |
| Total paid-up Government shares | <u>-</u> | <u>-</u> |
| The Government share carries regulatory rights. | | |
| | | |
| Total shares issued during the year | 11,762,630 | 130,751 |
| Total issued capital | 11,893,384 | 130,754 |
| Total paid-up capital | 11,893,382 | 130,751 |
| | | |
| 11 a) Reconciliation with Cash Inflow from Operating Activities | | |
| Reported net profit (loss) after taxation | (481,941) | (79,747) |
| Add (less) non-cash items: | | |
| Depreciation and amortisation | 151,788 | 131 |
| Movements in tax benefit of losses | (186,063) | (31,013) |
| Movements in working capital: | | |
| Increase (decrease) in trade and other payables | 353,498 | 79,098 |
| (Increase) decrease in taxation refund | (989) | (133) |
| (Increase) decrease in trade and other receivables | <u>(305,831)</u> | <u>(9,078)</u> |
| Net cash inflow from operating activities | <u>(469,538)</u> | <u>(40,742)</u> |

Whangarei Local Fibre Company Limited
Notes to the Financial Statements
For the year ended 30 June 2012

| | 12 months | 6 months |
|--|--------------------------|-----------------|
| | 2012 | 2011 |
| | \$ | \$ |
| 11 b) Reconciliation to Statement of Financial Position | | |
| Purchase of property, plant and equipment per statement of Cash Flow. | 7,701,259 | - |
| Capital contribution made from Northpower to the company through the asset transfer. | 2,860,411 | - |
| Assets disclosed as under construction in 2011 and transferred to property, plant and equipment during the year. | <u>30,751</u> | <u>-</u> |
| Total additions per note 7 | 10,592,421 | - |
| Less depreciation expense | <u>150,219</u> | <u>-</u> |
| Property, plant and equipment per Statement of Financial Position | <u><u>10,442,202</u></u> | <u><u>-</u></u> |

12 Contingent Liabilities

The company has no contingent liabilities at balance date (2011: nil).

13 Lease Commitments

The company has no lease commitments at balance date (2011: nil).

14 Capital Commitments

The company has entered into a contract to construct a fibre optic network in Whangarei. The funding for the construction is provided by Crown Fibre Holdings Limited and Northpower Limited. The remaining funding required to complete construction of the fibre network is estimated at \$17 million over the next two years.

For 2011 the company had a commitment to purchase fibre assets from Northpower Limited for \$2.8 million subject to commercial negotiation and due diligence.

15 Related Parties

(a) Transactions with related parties during the year

Total reimbursement made by Northpower Limited to the company for the year of \$19,932.

Total company revenue that Northpower collected as agent of the company of \$39,014.

Total management services provided by Northpower to the company of \$41,917.

Total reimbursement billed by Northpower to the company for payments paid on behalf of the company of \$343,024.

Total of construction services provided by Northpower to the company of \$8,902,220.

Amount owing to the company by Northpower at 30 June 2012, \$5,482.

Amount owed by the company to Northpower at 30 June 2012, \$340,214.

Capital contribution made from Northpower to the company of \$3,310,411.

Capital contribution made from Northpower to the company through the asset transfer of \$2,860,411.

Capital account balance for Northpower at 30 June 2012 of \$150,192 A shares and \$3,410,411 of B shares.

Capital contribution made from Crown Fibre Holdings Limited to the company of \$8,452,219.

Capital account balance for Crown Fibre Holdings at 30 June 2012 of \$8,332,779.



**Whangarei Local Fibre Company Limited
Notes to the Financial Statements
For the year ended 30 June 2012**

15 Related Parties Continued

(b) Directors

The Board comprises two directors from each of the shareholding companies, Crown Fibre Holdings Limited and Northpower Limited. Their names are GR Mitchell, MS Wynne, MR Gatland and NP Davies-Colley.

The independent director and chair is JA Brosnahan.

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

The company pays director fees to two directors amounting to \$90,000 as follows:

| | |
|------------------|---------------|
| JA Brosnahan | 60,000 |
| NP Davies-Colley | <u>30,000</u> |
| | <u>90,000</u> |

Salaries and wages of \$137,597 represents the payment to the Chief Executive Officer.

(d) Contractual arrangements with shareholders

During 2011 Crown Fibre Holdings Limited entered into agreements with Northpower Limited to fulfil the UFB objective as noted in the statement of accounting policies under the heading Reporting Entity.

The agreements set out the key commercial terms of the relationship between Crown Fibre Holdings Limited and this company. This includes Crown Fibre Holdings Limited and Northpower Limited having shareholdings in the company that will reflect the level of investment in the deployment of the UFB network in the Whangarei area.