Annual Report 2019

Northpower FIBRE

why we exist

improve the prosperity & wellbeing of our communities & customers

what we do

be the leading fibre network in New Zealand

Annual Report 2019

Northpower FIBRE

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Chair and Chief Executive Report

The past year has been pleasing both in financial terms and in achieving our planned business and community outcomes. We are increasingly seeing the value that fibre brings to our local people and businesses, as more customers come on-stream and experience first-hand the difference that a reliable, fast broadband network can make.

We achieved an EBITDA of $4.9m. It is extremely satisfying that we have not only achieved our connection targets but are almost a year ahead of our rollout dates for the second stage of our fibre network expansion across 12 rural towns in our region. This is due to a combination of effective logistical planning by our teams, and careful workflow management in on-boarding customers to our network.

We are delighted with the uptake of fibre from customers, particularly in our rural towns (36%), who recognise the value of a Northpower Fibre connection. Our communities have embraced the opportunity for faster connectivity and the advantages of this to their businesses and everyday lives – generally for no additional cost.

We are also continuing to market the benefits of fibre and connect late-adopters in Whangārei from our ultra-fast broadband build (58%). We are proud to be building this vital intergenerational infrastructure for Northland.

Excellent progress was made this year on future-proofing our network. We are around halfway through replacing the network electronics of our Whangārei network. This will deliver unconstrained bandwidth, ensuring our customers continue to enjoy a network that is robust, reliable and future-ready for new products.

We are the first fibre network in New Zealand to undertake this work. It is extremely pleasing to report that we have migrated thousands of customers over to this new technology, with minimal outages and disruption. It is a testament to our team who have meticulously planned and executed this project to ensure our 'always on' network has remained so during this technical migration.

A focus on efficiency has seen us successfully automate some of our operational processes, resulting in lower costs and increased efficiency. We have completed the billing and order fulfilment automation workstreams, and are moving on to automate assure process functions such as faults and outages.

The strategic partnership with our technology vendor Calix has continued to grow in strength over the past year. There is tremendous value for Northpower Fibre in partnering with Calix, including access to world-class, leading-edge equipment in use internationally by telco giants such as Verizon in the USA and City Fibre in the UK. Our market remains a unique proposition for Calix, and it is fantastic that we can continue to grow our relationship providing innovative solutions for the people and businesses across our region.

Chair and Chief Executive Report

Our continuing sponsorship of Taitokerau Education Trust has enabled us to make a tangible difference for tamariki from lower-income homes in Whangārei. Over 1,000 students across eight schools are now participating in the Digital Immersion Programme. This provides them with equal access to online learning and we continue to relish this opportunity to help change lives.

Ultimately, it is the team behind our business that helps to drive our success. It is exciting to be attracting home-grown and international world-class talent to the Northpower Fibre family, and you will see examples of their 'above and beyond' attitudes and innovative talents showcased in this report.

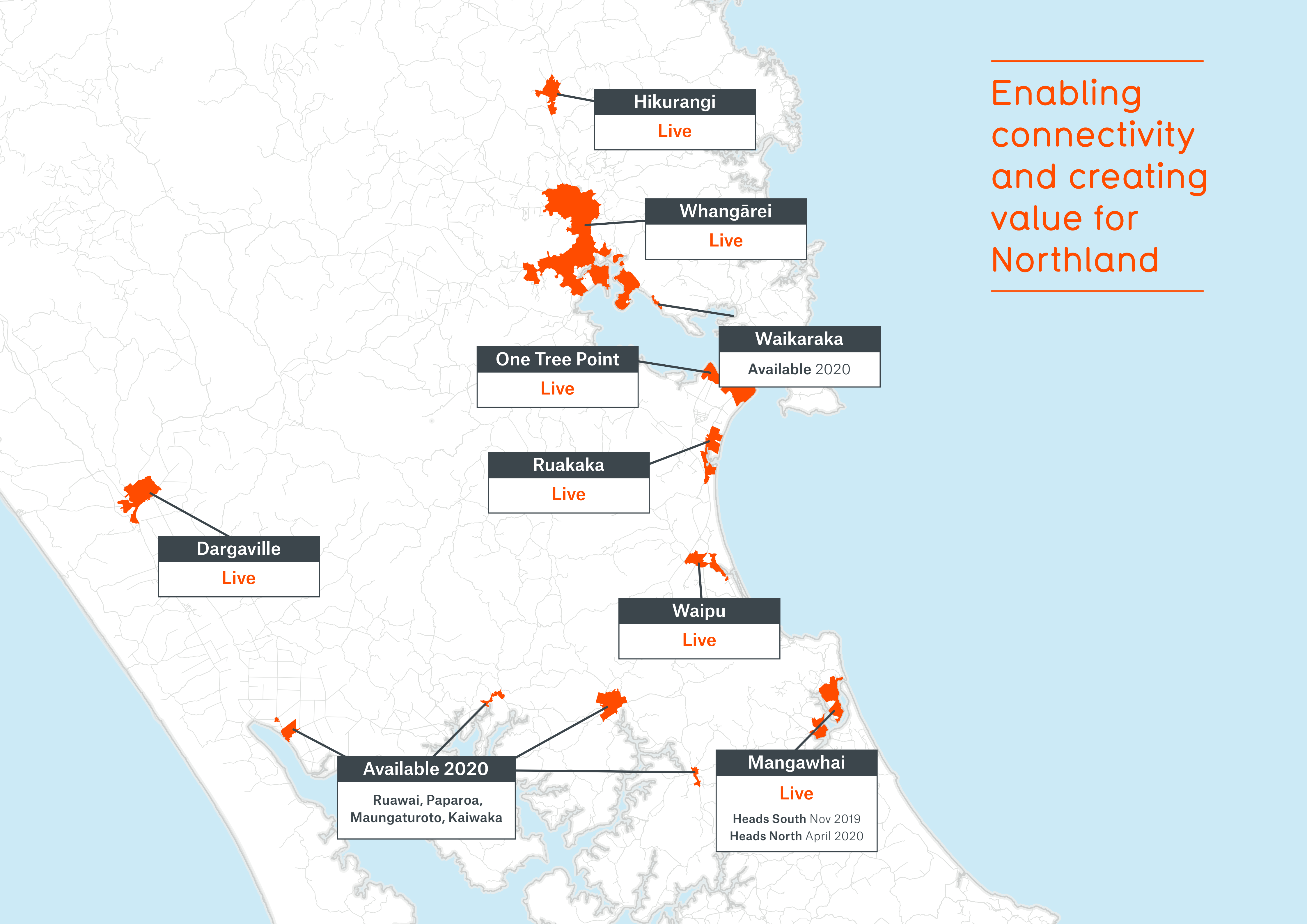
We also acknowledge the vital support of our shareholders both Northpower Limited and Crown Infrastructure Partners that continue to drive not only from a governance level but also from an operational excellence lens with expertise that is invaluable to the company.

Our customers are key to our results for this past year and we would like to thank you all for your ongoing support and enthusiasm in embracing the power of ultra-fast broadband. We will continue in our quest to be a globally leading fibre network company, and to provide world-class connections that assist our community to prosper and thrive.

Jo Brosnahan
Chair

Darren Mason
Chief Executive

Enabling connectivity and creating value for Northland



Financially sustainable business

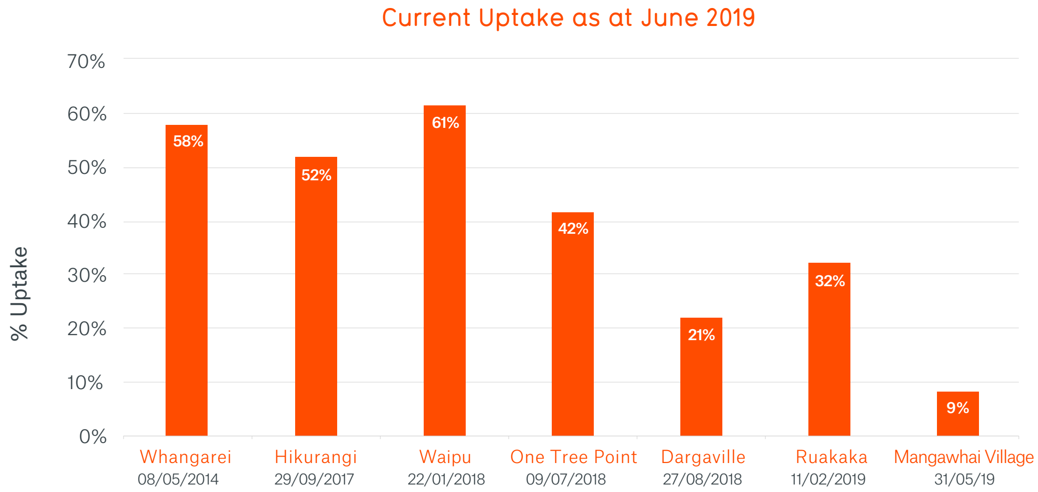
EBITDA for the year was $4.9m, driven by strong connection growth and efficient business processes.

The underlying NPAT for the year was $1.7m.

Our ultra-fast broadband (UFB) network is owned through a joint venture between Northpower and Crown Infrastructure Partners.

As at 30 June 2019, Northpower owned 67% of this business. It has continued to perform well and provide a dividend stream to Northpower, while delivering world-class connectivity to customers.

With the help of debt funding from the Crown, we are extending the ultra-fast broadband network to 12 rural towns within our region.



NPAT $1.7m

EBITDA $4.9m

1672
Net new connections UFB1

1443
Net new connections UFB2

99.99%
Network availability

Caring for and growing our people

Our fantastic team here at Northpower Fibre have continued their great work in growing our world-class network for the people and businesses of Whangārei and Kaipara.

We are proud to be attracting experienced homegrown Kiwi and international talent – from as far away as Sweden, Canada and the UK - to build and maintain our fibre network.

This past year we have further focussed on agile methodologies within our information systems, engineering and development teams. The innovative results we have seen from this approach have directly resulted in increased network resilience and up-time.

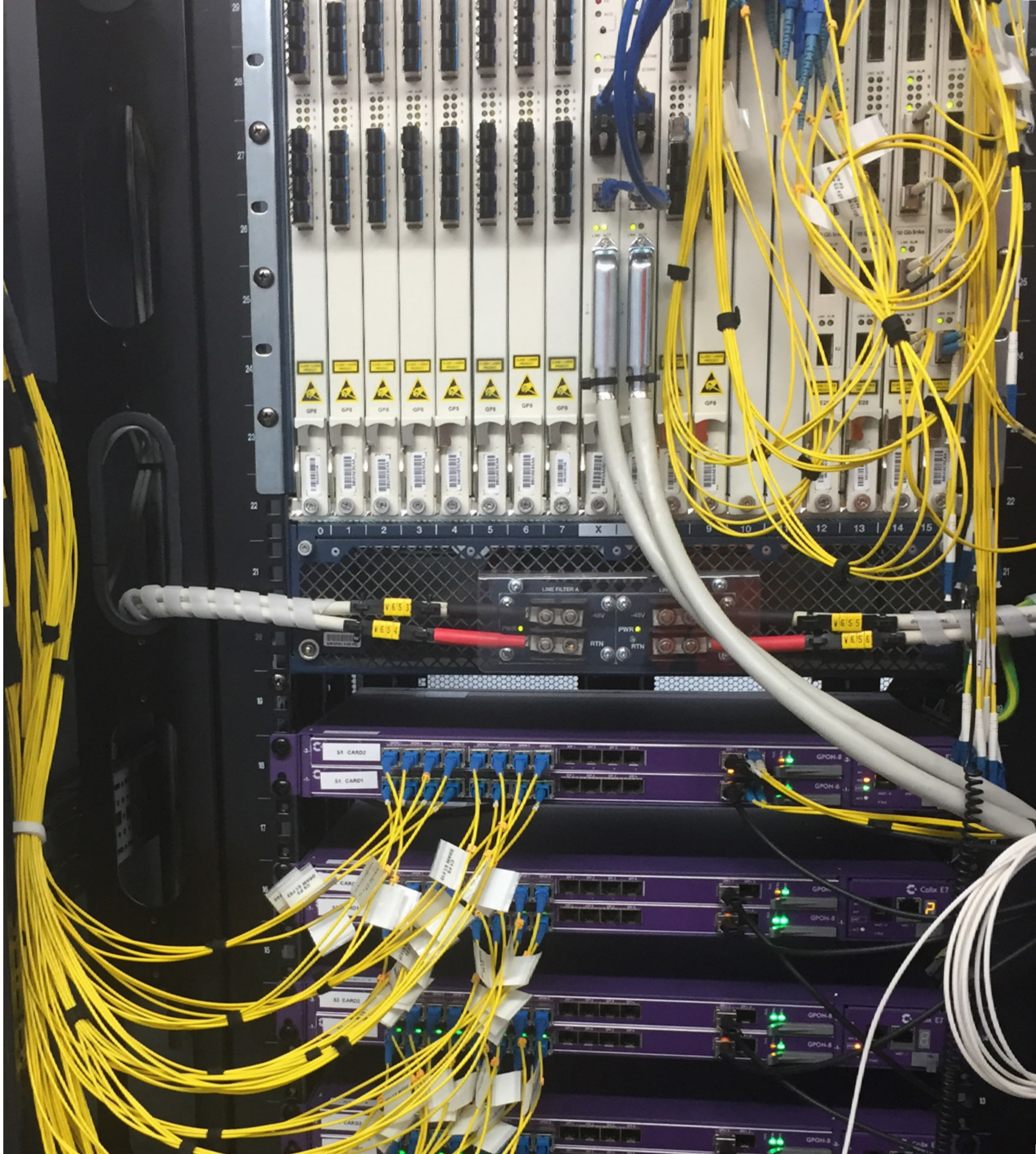
Enabling network

We are continuing to provide a world-class fibre network for the communities of Whangārei by replacing the hardware servicing our first ultra fast broadband build area.

A key project for us has been investing in new and high-specification access equipment to replace components that are nearing the end of predicted operating life. This leading-edge equipment enables our customers to continue to enjoy fast speed and reliability now and in the future.

Over half of our customer base has now been migrated onto the new technology, with the remainder happening this year. Our team have done a tremendous job in planning and executing the project, maintaining existing service levels with minimal outages while this challenging work has been undertaken.

We are proud to be the first fibre network in New Zealand to have undertaken a hardware upgrade of this magnitude. It is satisfying to be proactively preparing for future technology advancements and increased demand. We are ensuring we stay ahead of the game in the Northpower Fibre network continuing to be the “connection of choice for our customers”.



Innovate for customer outcomes

Another innovative New Zealand first saw us construct a mobile central office unit, allowing us to operate a mobile optical line termination (OLT) in the event of a major outage.

The unit was built in collaboration with Mangawhai engineering firm Engtech and means we can effectively 'take to the road' and operate our network remotely from our main fixed-line connection points in the event of a major outage.

It gives us 24/7 flexibility, as the unit can be deployed to a roadside cabinet, or driven to one of our central offices to replace an existing OLT if required.

The design utilises a 'business as usual' vehicle during normal operational hours, making this a low-cost solution for building resilience and robust business continuity contingency into our network.

The end result is an excellent example of the power of innovation to provide world-class service to our customers.

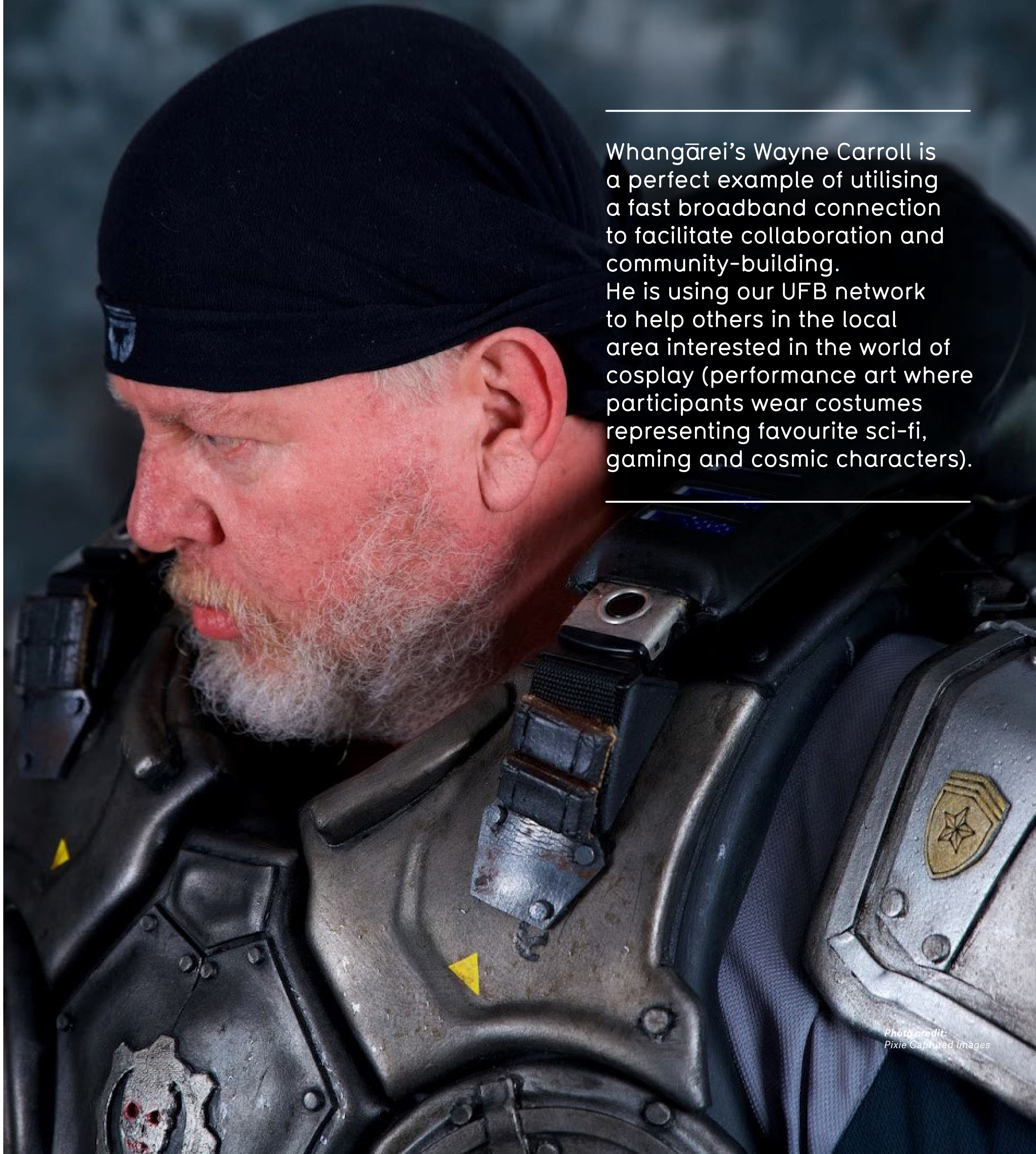
Thriving prosperous communities

The rollout of our ultra-fast broadband network to 12 rural towns across Whangārei and Kaipara has made excellent progress. We are delighted that the rollout is almost one year ahead of schedule, enabling more of our local businesses and communities to experience the benefits that a fast and reliable fibre connection bring.

Effective planning and a staged ‘go-live’ programme have enabled us to successfully bring customers’ to market earlier. We have carefully managed our workflows and customer expectations around the connection process to ensure a positive customer experience.

It is humbling to see the difference that fibre can make to people’s lives and local business outcomes. Geographic location is no longer a barrier to connecting globally, and our communities are increasingly recognising the value and opportunity available.

We are looking forward to continuing to successfully rollout this vital infrastructure that will continue to change the lives of this generation and those to come.



Whangārei’s Wayne Carroll is a perfect example of utilising a fast broadband connection to facilitate collaboration and community-building.
He is using our UFB network to help others in the local area interested in the world of cosplay (performance art where participants wear costumes representing favourite sci-fi, gaming and cosmic characters).

Photo credit: Pixie Captured Images

Thriving prosperous communities

Our long-standing partnership with Taitokerau Education Trust has continued over the past year. The Trust is continuing to provide life-changing, tangible positive outcomes for Whangārei tamariki.

Over 1,000 children from lower-income households across 8 of our schools are participating in a Digital Immersion Programme benefitting from equal access to online learning through making personal-use laptops accessible and changing the pedagogy. This year has also seen 40 teachers achieve Google certification and upskilling for digital learning environments.

Initiatives like this help grow thriving and prosperous communities. We look forward to continuing to play a role in providing opportunity and a helping hand to our young people – the future of Tai Tokerau.

Directors Report

	30 June 2019 $000s	30 June 2018 $000s
Opening retained earnings	(8,455)	(6,244)
Operating surplus for the period	1,698	946
Dividends paid	(2,911)	(3,157)
Leaving retained earnings at end of period	(9,668)	(8,455)

It is not proposed to make any transfers to reserves.

The primary objective of the company is to construct and operate an ultra-fast broadband network in the Whangārei area as part of the Government's commitment to roll out ultra-fast broadband in New Zealand.

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

Directors holding office during the year

- Jo Brosnahan
- Graham Mitchell
- Kathryn Furness
- Josie Boyd
- Andrew McLeod

Directors interest

No directors held interests in the company during the period ended 30 June 2019.

The following entries are in the interest register for directors holding office at 30 June 2019:

JA Brosnahan, QSO

- Chair – Abilities Foundation
- Chair – Taitokerau Education Trust
- Chair – Rotorua Lakes District Council Audit & Risk Committee
- Chair – Northpower UFB2 Steering Committee
- Chair – Maritime NZ
- Chair Elect - Harrison Grierson Limited
- Advisory Trustee – Leadership NZ
- Director – Personal Footprint Limited
- Trustee – Auckland Museum Trust
- Trustee – Harkness Trust
- Principal – Jo Brosnahan Leadership and Governance and Leaders for the Future
- Member, Advisory Board – Centre for Brain Research, Auckland University

AI McLeod

- *Director – Northpower Solutions Limited
- Director – Northpower LFC2 Limited
- Shareholder – Vector Limited
- Chief Executive – Northpower Limited
- Member – Northpower UFB2 Steering Committee

**Amalgamated with Northpower Limited on 31 August 2019.*

JM Boyd

- Director – Northpower LFC2 Limited
- *Director – Northpower Solutions Limited
- General Manager Network – Northpower Limited
- Executive Committee – Electricity Engineers Association
- Member – Northpower UFB2 Steering Committee

GR Mitchell

- Chief Executive Officer – Crown Infrastructure Partners Limited
- Member – Chorus Steering Committee
- Member – Rural Connectivity Group Steering Committee

KA Furness

- Chief Legal and Risk Officer – Crown Infrastructure Partners Limited
- Member – Rural Connectivity Group Steering Committee

**Amalgamated with Northpower Limited on 31 August 2019.*

Directors Report

Indemnities and insurance

Name of director	Particulars of indemnity or insurance
All directors of Northpower Fibre Limited and any other 'Indemnified Persons' (as defined by the term "Indemnified Person" in clause 1 of the Deed of Indemnification dated 14 February 2013).	Indemnities for costs in proceedings and for liabilities incurred pursuant to clauses 2 and 3 of the Deed of Indemnification dated 14 February 2013.
All directors of Northpower Fibre Limited.	D & O Insurance Policy pursuant to clause 28 of Northpower Fibre 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 2019.

Auditor

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

Auditor's remuneration

Total audit fees payable to Audit New Zealand for the audit of the 2019 financial statements totalled $31,328, the 2019 Commerce Commission Telecommunications Information Disclosures totalled $12,000 and the 2019 Telecommunications Development Levy (TDL) Information Disclosures totalled $10,000.

Statement of responsibility

1. The Board of Northpower Fibre Limited accept responsibility for the preparation of the annual financial statements and the judgements used in them.
2. The Board of Northpower Fibre 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 Northpower Fibre Limited the annual financial statements for the period ended 30 June 2019 fairly reflect the financial position and operations of Northpower Fibre Limited.

Signed on behalf of the Board

Jo Brosnahan
Chairman
20 November 2019

Andrew McLeod
Director
20 November 2019

Independent Auditor's Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To the shareholders of Northpower Fibre Limited's financial statements for the year ended 30 June 2019

The Auditor-General is the auditor of Northpower Fibre Limited (the company). The Auditor-General has appointed me, Clarence Susan, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the company on his behalf.

Opinion

We have audited the financial statements of the company on pages 14 to 33, that comprise the statement of financial position as at 30 June 2019, 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.

In our opinion the financial statements of the company on pages 14 to 33:

- 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 New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime.

Our audit was completed on 20 November 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw your attention to the uncertainties with the recognition of the deferred tax asset relating to tax losses. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

Uncertainties with the recognition of the deferred tax asset relating to tax losses

Without modifying our opinion, we draw your attention to the disclosures in Note 5 on pages 23 to 25 about tax losses. This note describes the recognition of the deferred tax asset in relation to tax losses, the uncertainties in the information on which the asset is based, and the Board of Director's judgement on the carry forward of tax losses after the Ultra-Fast Broadband concession period. We consider the disclosures to be adequate.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General'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 Auditor-General'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

The Board of Directors is responsible on behalf of the company for preparing financial statements 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 that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors are responsible on behalf of the company for assessing the company'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 the Board of Directors intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board's responsibilities arise from clause 20.1 of the Company's Shareholders' Agreement.

Responsibilities of the auditor for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, 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 Auditor-General'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/shareholders] taken on the basis of these financial statements.

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

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

Independent Auditor's Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

- We identify and assess the risks of material misstatement of the financial statements, 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 company'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 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 company'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 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 company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 11, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements 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, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements 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 company in accordance with the independence requirements of the Auditor-General'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.

In addition to the audit we completed an assurance engagement in accordance with the Specified Information and Assurance Report Instructions issued 27 June 2019 and we are engaged to issue an audit certificate pursuant to the LFC Information Disclosure Determination 2018 for the 2019 disclosure year. These engagements are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Company.

Clarence Susan
Audit New Zealand
On behalf of the Auditor-General
Tauranga, New Zealand

Statement of Comprehensive Income

	Notes	2019 $000s	2018 $000s
Revenue			
Revenue from contracts with customers	3	8,140	6,950
Other income		288	319
Interest income		33	20
Total income		8,461	7,289
Expenses			
Depreciation and amortisation	8 & 9	2,512	2,467
Management fee		455	397
Salaries and wages		1,193	966
Other expenses	4	1,942	2,145
Total expenses		6,102	5,975
Net profit before tax		2,359	1,314
Income tax expense	5	(661)	(368)
Net profit and total comprehensive income for the year		1,698	946

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

Statement of Financial Position

	Notes	2019 $000s	2018 $000s
Current assets			
Cash and cash equivalents	6	2,399	1,777
Trade and other receivables	7	1,615	896
Other current assets		132	74
Total current assets		4,146	2,747
Non-current assets			
Assets under construction		228	40
Intangible Assets	8	66	-
Property, plant and equipment	9	43,446	41,453
Deferred Tax	5	445	1,106
Total non-current assets		44,185	42,599
Total assets		48,331	45,346
Current liabilities			
Trade and other payables	10	2,450	1,454
Total current liabilities		2,450	1,454
Total liabilities		2,450	1,454
Net assets		45,881	43,892
Equity			
Share capital	11	55,549	52,347
Retained earnings		(9,668)	(8,455)
Total equity		45,881	43,892

Jo Brosnahan
Chairman
20 November 2019

Andrew McLeod
Director
20 November 2019

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

Statement of Changes in Equity

Attributable to equity holders of the company

2019 $000s

	Note	Share Capital	Retained Earnings	Total Equity
Balance as at 1 July 2018		52,347	(8,455)	43,892
Net profit for the year		-	1,698	1,698
Total comprehensive income for the year, net of tax		-	1,698	1,698
Transactions with owners				
Issue of share capital	11	3,202	-	3,202
Dividends paid / proposed	12		(2,911)	(2,911)
Balance as at 30 June 2019		55,549	(9,668)	45,881

2018 $000s

	Note	Share Capital	Retained Earnings	Total Equity
Balance as at 1 July 2017		47,383	(6,244)	41,139
Net profit for the year		-	946	946
Total comprehensive income for the year, net of tax		-	946	946
Transactions with owners				
Issue of share capital	11	4,964	-	4,964
Dividends paid / proposed	12		(3,157)	(3,157)
Balance as at 30 June 2018		52,347	(8,455)	43,892

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

Cash Flow Statement

	Note	2019 $000s	2018 $000s
Cash flows from operating activities -			
Cash was provided from:			
Receipts from customers		8,394	7,243
Interest received		33	20
GST paid		(172)	(106)
Cash was distributed to:			
Payments to suppliers		(2,714)	(2,454)
Payments to employees		(1,104)	(827)
Net cash inflow from operating activities	13	4,437	3,876
Cash flows from investing activities -			
Cash was applied to:			
Purchase of property, plant and equipment	14	(977)	(165)
Purchase of intangible assets		(68)	-
Net cash outflow from investing activities		(1,045)	(165)
Cash flows from financing activities -			
Cash was provided from:			
Share capital		141	-
Cash was applied to:			
Dividends		(2,911)	(3,157)
Net cash outflow from financing activities		(2,770)	(3,157)
Net increase (decrease) in cash and cash equivalents		622	554
Add cash and cash equivalents at the beginning of the year		1,777	1,223
Cash and cash equivalents at the end of the year		2,399	1,777

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

Accounting Policies

1. GENERAL INFORMATION

These are the financial statements of Northpower Fibre Limited ("the Company").

The financial statements comply with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR). The Company is eligible to report in accordance with NZ IFRS RDR on the basis that it does not have public accountability and is not a large for-profit public sector entity.

The financial statements have been prepared in accordance with the Companies Act 1993 and Generally Accepted Accounting Practice in New Zealand (NZ GAAP). For the purpose of complying with NZ GAAP, the Company has been designated as a profit-oriented entity.

The financial statements have been prepared on an historical cost basis.

The financial statements are presented in New Zealand dollars and all financial information has been rounded to the nearest thousand unless otherwise stated. The functional currency of the Company is New Zealand dollars (NZ$).

The significant 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) New accounting standards and interpretations

The accounting policies adopted are consistent with those of the prior year, apart from the adoption of NZ IFRS 9 Financial Instruments and NZ IFRS 15 Revenue from Contracts with Customers for the first time in the current year. The adoption of NZ IFRS 15 and NZ IFRS 9 has not had a significant effect on the recognition of both financial instruments and revenue respectively however these have resulted in changes to the Company's disclosures. The policy for Revenue from Contracts with Customers (NZ IFRS 15) in note 2b and for Financial Instruments (NZ IFRS 9) is disclosed in note 2c.

b) Revenue recognition

Contracts with customers

I. Fibre telecommunication services

The company provides wholesale telecommunications services through its Ultra-Fast Fibre Optic Broadband (UFB) network. Revenue associated with connections is recognised over time and revenue for ancillary services is recognised when the service is delivered (at a point in time). Payment is generally due within 20 to 45 days from provision of the service.

II. Line contributions

Line contributions revenue represents third party contributions towards the construction of the Ultra-Fast Fibre Optic Broadband (UFB) network assets. Revenue is recognised when the asset is complete (at a point in time).

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

III. Interest income

Interest income is recognised as the interest accrues using the effective interest method.

c) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the entity becomes a party to the contractual provisions of the instrument.

All financial instruments are initially recognised at the fair value of the consideration received/transferred less, in the case of financial assets and liabilities not recorded at fair value through profit or loss, directly attributable transaction costs. Subsequently the Company applies the following accounting policies for financial instruments:

I. Financial assets at amortised cost

Financial assets at amortised cost consist of trade and other receivables & cash and cash equivalents.

Trade and other receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less they are classified as current assets, if not they are presented as non-current assets.

These amounts are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured at the difference between the assets carrying amount and the present value of estimated future cash flows discounted using the effective interest rate. Financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days and without arrangement) are considered indicators that the receivable is impaired.

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.

Accounting Policies

II. Impairment of financial assets

The Company always recognises lifetime ECL for trade receivables, amounts due from customers under construction contracts and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12 months' ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

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.

III. Financial liabilities at amortised cost

Financial liabilities at amortised cost consist of 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 are subsequently measured using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

d) Property, plant and equipment (PPE)

Fibre Optic Network assets are constructed by Northpower Limited and are acquired by the Company once each stage is complete, has passed user acceptance testing (UAT) and a certificate of practical completion has been issued. Fibre Optic Network assets are initially recognised at cost which is the contract average cost per premise passed as per the Network Infrastructure Project Agreement (NIPA). Subsequently, all property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses.

I. 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.

II. 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 the statement of comprehensive income as incurred.

III. 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.

IV. 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 recognised in the statement of comprehensive income.

Accounting Policies

V. 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
Buildings	10 years
• Building infrastructure	10 years
• Leasehold improvements	10 years
Plant and equipment	5 – 20 years
• Computer equipment	5 years
• Office equipment / furniture and fittings	5 - 20 years
• Tools and equipment	10 years

The estimation of useful lives of assets has been based on industry experience as well as manufacturers' claims & warranties. The asset's residual value, method of depreciation and useful lives are reviewed, and adjusted if appropriate, at balance date.

VI. Impairment

Property, plant and equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Company conducts an annual internal review of asset values which is used as a source of information to assess for any indicators of impairment. External factors such as changes in expected future processes and technology and economic conditions are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

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. There were no indicators of impairment in the current or comparative period; hence no impairment assessment has been performed. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). The impairment loss is recognised in the statement of comprehensive income. Non-financial assets that had suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

e) 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 "work in progress" 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.

f) Intangible assets

Intangible assets include software assets which have a finite useful life. These assets are initially measured at cost and are amortised over a period of expected future benefit of 5 – 10 years on a straight line basis. These assets are tested for impairment whenever there is indication that the intangible asset may be impaired.

g) 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.

Accounting Policies

h) Taxation

Income tax expense recognised in profit or loss is the sum of current tax and deferred tax not recognised in other comprehensive income or directly in equity.

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 provided on temporary differences between the carrying amounts of assets and liabilities and their tax. 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 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.

i) 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.

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.

j) 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 but not yet taken at balance date.

k) Share capital (contributed equity)

Issued shares consist of A shares, B shares and a government share which are classified as equity. Incremental costs directly attributable to the issue of the new shares are shown in equity as a deduction, net of tax, from proceeds.

The company issues A shares to Crown Infrastructure Partners Limited (formerly Crown Fibre Holdings Limited) as capital funding of the fibre optic network assets once they have been constructed by Northpower Limited and certain conditions have been met.

When an end user connects to the fibre network, Northpower Limited is required to purchase an A share from Crown Infrastructure Partners Limited which is the A share recycling mechanism.

The cost of connecting a premise to the fibre network is incurred by Northpower Limited, who then sells the connection assets to Northpower Fibre Limited in return for B shares or cash in accordance with the contract.

The Company issues B shares to Northpower Limited as consideration for working capital and for expenditure on the communal fibre optic network electronic infrastructure (layer 2 assets).

The value of the consideration for the A shares and B shares is determined by the Shareholders' Agreement. The rights, preferences and restrictions attaching to each class of share are disclosed in Note 11.

Notes to the Financial Statements

		2019 $000s	2018 $000s
3	**Revenue from contracts with customers**		
	Revenue recognised at a point in time		
	Fibre telecommunication services	398	420
	Line contributions	122	160
	Revenue recognised over time		
	Fibre telecommunication services	7,620	6,370
		8,140	6,950
4	**Other expenses**		
	Audit Fees		
	Audit of financial statements	31	25
	Audit of regulatory disclosures	12	9
	Audit of Telecommunications Development Levy (TDL) information disclosure	10	-
	Loss on disposal of assets	-	10
	Operations & maintenance	1,087	1,025
	Other	802	1,076
		1,942	2,145

Notes to the Financial Statements

		2019 $000s	2018 $000s
5	**Taxation**		
	Components of income tax benefit		
	Current tax	-	-
	Deferred tax	(661)	(368)
	Losses not recognised	-	-
	Income tax benefit /(expense)	(661)	(368)
	Relationship between tax benefit and comprehensive income (expense)		
	Profit (loss) before taxation per statement of comprehensive income	2,359	1,314
	Tax at 28%	(661)	(368)
	Add (less) tax effect of:		
	Recognition of losses previously not recognised	-	-
	Income tax benefit/(expense)	(661)	(368)

5 Taxation continued

Deferred tax asset (liability)	PPE/Intangible assets	Employee entitlements	Provisions	Tax losses	Total
Opening balance 1 July 2018	(1,614)	29	43	2,648	1,106
Charged to profit or loss	(455)	19	(24)	(201)	(661)
Closing balance 30 June 2019	(2,069)	48	19	2,447	445

This balance comprises:	
Tax benefit of losses	2,447
Deferred tax asset (liability)	(2,002)
	445

Tax losses have been recognised as a deferred tax asset because the Company considers that it is probable that these losses will be utilised in future periods. This is based on the expectation that sufficient taxable profits will be generated in future and the IRD will accept the carry forward of the tax losses after the concession period ending December 2020.

The estimation of the company's ability to make future tax profits has been based on the company's business plan. The business plan relies on key assumptions made in the areas of end-user take-up and connection mix which are the drivers of revenue. Uptake of UFB fibre in Whangārei is modelled on the uptake rates of DSL in the 2000's which aligns with the IDC forecast published in Insight "When will fibre take off in New Zealand (2013)". To date, Northpower Fibre has performed better than planned.

The IRD have provided a non-binding indicative view in relation to shareholder decision making rights. Based on this view, the Company considers that it is probable that the IRD will accept the carry forward of the tax losses after the concession period.

The table below sets out tax losses expected to be utlilised before and after the end of the concession period.

	$000s
Tax losses expected to be utilised before the end of the concession period:	713
Tax losses expected to be utilised after the end of the concession period:	1,734
Total tax losses	2,447

The company will assess the likelihood of whether tax lossess will be utilised at the end of each financial year.
Tax losses will be de-recognised if it is no longer probable that they will be utilised.

Notes to the Financial Statements

5 Taxation continued

Deferred tax asset (liability)	PPE/Intangible assets	Employee entitlements	Provisions	Tax losses	Total
Opening balance 1 July 2017	(1,275)	9	17	2,723	1,474
Charged to profit or loss	(339)	20	26	(75)	(368)
Closing balance 30 June 2018	(1,614)	29	43	2,648	1,106

The tax losses are recognised only to the extent that utilisation of these losses is considered probable.

	2019 $000s	2018 $000s
6 Current Asset - Cash and cash equivalents		
Cash at bank	2,399	1,777
	2,399	1,777
7 Current Assets - Trade and other receivables		
Trade receivables	1,349	954
Less lifetime expected credit losses	(23)	(125)
	1,326	829
GST receivable	289	67
	1,615	896

Notes to the Financial Statements

		2019 $000s	2018 $000s
8	**Intangible assets**		
	Software		
	Cost		
	Opening balance	-	-
	Additions	68	-
		68	-
	Accumulated depreciation		
	Opening balance	-	-
	Amortisation	2	-
		2	-
	Net carrying value	66	-
9	**Property, plant and equipment**		
	Fibre optic network assets		
	Cost		
	Opening balance	51,416	46,206
	Transfers	(178)	-
	Disposals	-	(13)
	Additions	4,443	5,223
		55,681	51,416
	Accumulated depreciation		
	Opening balance	9,963	7,498
	Transfers	(10)	-
	Disposals	-	(2)
	Depreciation	2,474	2,467
		12,427	9,963
	Net carrying value	43,254	41,453

Notes to the Financial Statements

		2019 $000s	2018 $000s
9	**Property, plant and equipment continued**		
	Buildings		
	Cost		
	Opening balance	-	-
	Transfers	51	-
	Additions	9	-
		60	-
	Accumulated depreciation		
	Opening balance	-	-
	Transfers	8	-
	Depreciation	6	-
		14	-
	Net carrying value	46	-
	Plant and equipment		
	Cost		
	Opening balance	-	-
	Transfers	127	-
	Additions	51	-
		178	-
	Accumulated depreciation		
	Opening balance	-	-
	Transfers	2	-
	Depreciation	30	-
		32	-
	Net carrying value	146	-
	Total property, plant and equipment	43,446	41,453

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

Notes to the Financial Statements

		2019 $000s	2018 $000s
10	**Trade and other payables**		
	Trade payables (GST inclusive)	324	542
	Accrued payables (GST exclusive)	1,002	218
	Employee entitlements		
	Holiday pay accrual	72	68
	Salary and bonus accrual	101	36
	Income in advance	951	590
		2,450	1,454
11	**Share capital**		
	(a) A shares		
	Crown Infrastructure Partners Limited		
	Opening balance	18,858	20,258
	Add shares issued during the year	141	-
		18,999	20,258
	Less 843,492 shares sold to Northpower Limited (2018: 1,400,004 shares)	(843)	(1,400)
	Total paid-up A shares held by Crown Infrastructure Partners Limited	18,156	18,858
	Northpower Limited		
	Opening balance	7,318	5,918
	Add 843,492 shares purchased from from Crown Infrastructure Partners Limited (2018: 1,400,004 shares)	843	1,400
	Total paid-up A shares held by Northpower Limited	8,161	7,318
	Total paid-up A shares	26,317	26,176

The A shares have voting rights but no ordinary rights to dividends.

Notes to the Financial Statements

		2019 $000s	2018 $000s
11	**Share capital continued**		
	(b) B shares		
	Opening balance	26,171	21,207
	Add shares issued during the year	3,061	4,964
		29,232	26,171
	Less unpaid shares	-	-
	Total paid-up B shares	29,232	26,171

The B shares are held by Northpower Limited, have no voting rights but carry ordinary rights to dividends.

		2019 $000s	2018 $000s
	(c) Government share		
	Opening balance	-	-
	Less unpaid shares	-	-
	Total paid-up Government shares	-	-

The Government share carries regulatory rights.

	2019 $000s	2018 $000s
Total shares issued during the year	3,202	4,964
Total issued capital	55,549	52,347
Total paid-up capital	55,549	52,347

The above shares have no par value.

12 Dividends paid

Northpower Fibre Limited declared and paid dividends during the year of $911,477 in August 2018 and $2,000,000 in March 2019 (2018: $3,157,278).

Notes to the Financial Statements

		2019 $000s	2018 $000s
13	**Reconciliation with cash inflow from operating activities**		
	Reported net profit (loss) after taxation	1,698	946
	Add (less) non-cash items:		
	Depreciation and amortisation	2,512	2,467
	Movements in tax benefit of losses	661	368
	Movements in working capital:		
	Increase (decrease) in trade and other payables	294	367
	(Increase) decrease in trade and other receivables	(728)	(272)
	Net cash inflow from operating activities	4,437	3,876
14	**Reconciliation to statement of financial position**		
	Purchase of property, plant and equipment per statement of cash flow	977	165
	Prepayments transferred to property, plant & equipment	40	94
	Purchase of property, plant and equipment unpaid at year-end	425	-
	Purchase of property, plant and equipment paid for in shares	3,061	4,964
	Total additions per note 9	4,503	5,223
	Add opening balance	41,453	38,708
	Less disposals	-	11
	Less depreciation expense	2,510	2,467
	Property, plant and equipment per statement of financial position	43,446	41,453

15 **Contingent liabilities**

The Company has no contingent liabilities at balance date (2018: nil).

Notes to the Financial Statements

16 Lease commitments

The Company has no lease commitments at balance date (2018: nil).

17 Capital commitments

The Company entered into a contract to construct a fibre optic network in Whangārei.

The funding for the construction is provided by Crown Infrastructure Partners Limited and Northpower Limited.

The communal network was completed in May 2014. The remaining funding required within the contractual period for construction of end-user specific infrastructure is estimated at $2.969m. (2018 $5.128m).

The contract period (concession period) ends in the 2021 financial year.

18 Related parties

(a) Transactions with related parties during the year

Crown Infrastructure Partners Limited owns only A shares in the Company. Other than share transactions there are no other related party transactions with Crown Infrastructure Partners Limited. Refer note 11 for share transaction movements.

Northpower Limited holds A and B shares in the Company. The fibre optic network is being constructed by Northpower Limited and once each stage is complete, tested and accepted the assets are transferred to the Company. Northpower Limited also provides operations, management and maintenance services to the Company for the operation of the fibre optic network and charges management fees for management services provided to the Company.

No related party debts were written off during 2019 or 2018.

Notes to the Financial Statements

18 Related parties continued

Income billed to Northpower as agent of the Company $60k (2018: $61k).

Income billed on behalf of Northpower LFC2 Limited $1,052k (2018: $152k).

Amount owed by Northpower LFC2 Ltd at 30 June 2019 $122k (2018: $0k).

Amount owed to Northpower LFC2 Ltd at 30 June 2019 $109k (2018: $30k).

Construction costs charged by Northpower $4,027k (2018: $5,843k).

Services other than construction charged by Northpower $3,477k (2018: $2,986k).

Amount owed by Northpower at 30 June 2019 $3k (2018: $4k).

Amount owed to Northpower at 30 June 2019 $1,096k (2018: $507k).

Capital contributions received from Northpower $0 (2018: $0k).

Capital account balance of Northpower at 30 June 2019 of $8,161k A shares (2018: $7,318k) and $29,232k of B shares (2018: $26,171k).

Capital contributions received from Crown Infrastructure Partners $141k (2018: $0k).

Capital account balance of Crown Infrastructure Partners at 30 June 2019 $18,156k (2018: $18,858k).

All amounts specified above are GST inclusive where applicable.

Notes to the Financial Statements

18 Related parties continued

(b) Directors

The Board comprises two directors from each of the shareholding companies, Crown Infrastructure Partners Limited and Northpower Limited. Their names are GR Mitchell, AI McLeod, KA Furness and JM Boyd.

The independent director and chair is JA Brosnahan.
All of the directors were directors during the period ended 30 June 2018.

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

The company paid JA Brosnahan a director salary of $70,833 for the year (2018: $60,000).

The Chief Executive Officer received remuneration of $302,127 (2018: $258,422).

The following bands indicate the remuneration of all employees.

Less than $100,000	2
$100,000 - $109,999	2
$110,000 - $119,999	3
$120,000 - $129,999	1
$150,000 - $159,999	1
$300,000 - $309,999	1

(d) Contractual arrangements with shareholders

During the 2011 financial year Crown Infrastructure Partners Limited entered into agreements with Northpower Limited to fulfil the Ultra-Fast Broadband (UFB) objective.

The agreements set out the key commercial terms of the relationship between Crown Infrastructure Partners Limited and this company. This includes Crown Infrastructure Partners 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 Whangārei area.

19 Events post balance date

There were no significant events after balance date.

Northpower Fibre Limited

Chair

Jo Brosnahan

Directors

Graham Mitchell
Kathryn Furness
Josie Boyd
Andrew McLeod

Chief Executive

Darren Mason

Head Office
28 Mount Pleasant Road, Raumanga, Whangārei.

Auditors
Audit New Zealand, on behalf of the Auditor-General.

Registered Office
28 Mount Pleasant Road, Whangārei.

33,000 households
able to connect to fibre

1,000 students
in the Digital Immersion programme

67% businesses
connected to our network

56% residents
connected to our network

Over 120
Awesome staff and contractors

340 GB avg download/month
enabling people to do more digitally

74% customers
on products of 100M or more