

A young girl with dark hair, wearing a pink hoodie, is shown in profile, looking down at a tablet computer she is holding. The background is a colorful, blurred indoor setting with warm lighting. The text 'Annual Report 2017' is overlaid on the right side of the image.

Annual Report 2017



In respect of the period ended 30 June 2017, the Directors of Northpower Fibre Limited submit the following report:



Northpower Fibre Limited  
Annual Report 2017

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## Chair and CEO Report

In only a handful of years, Northpower Fibre has grown to be one of the strongest and most successful brands in Northland, recognised throughout the country as a leader in the provision of Ultrafast Broadband (UFB).

This is a brand created by Northlanders, for locals, which allows people to work globally while remaining in the North. It has been created in partnership with Crown Infrastructure Partners (formerly Crown Fibre Holdings until 1 September 2017), a government entity who has been with us since 2011 in building UFB in Whangarei.

It remains an immensely successful partnership, which together with the great team from Northpower, gives us confidence of on-going success.

Every day our business strengthens, thanks to the commitment and prowess of our technicians in the field and in the office, ensuring that we connect efficiently, service our customers well and maintain an extremely reliable UFB network.

We have had another strong year of connection growth, lifting from 7116 connections at the end of the 2016 financial year to 9480 at the conclusion of FY2017. With an uptake rate of 43%, we are the leading Local Fibre Company in the country, which puts us comfortably in reach of surpassing 10,000 connections in the latter part of the 2017 calendar year. Added to this is an exceptionally high customer satisfaction rate and our ongoing implementation of 10Gbps broadband development which means we benchmark highly in the international market.

NGPON2 is the next generation of passive optical network (the electronics that power the light in our fibre cables), which enables our fibre network to be unconstrained and ready for significant expansion in consumer bandwidth demands in future.

We continue to invest heavily in the Fibre network, particularly due to our success in securing a UFB expansion contract to extend our fibre network to 12 more towns in Kaipara and Whangarei. We have significant milestones to reach by the end of 2021 as we build UFB fibre networks in Kaiwaka, Mangawhai Village, Mangawhai Heads, Maungaturoto, Paparoa, Ruawai, Dargaville, Waipu, Ruakaka, One Tree Point, Waikaraka and Hikurangi.

We are committed to the four-year UFB Expansion project. The work began at Hikurangi in April and by the end of 2017, almost 600 locals will be able to connect to world-class broadband in the township.

Through the spread of UFB, there remains an immense opportunity for Northland businesses to capitalise on the expansion of Northpower Fibre's world-class fibre network.


But it is not just about business. Our focus has always been, and continues to be, on enabling our community and positively impacting on the future of Northland. We see this constantly in the sponsorship of the Tai Tokerau Education Trust.

We have six schools, including some of our most disadvantaged school communities, committed to the digital learning programme the Trust provides, with 27 teachers receiving professional learning development support. That has allowed the programme to expand to 24 classrooms and almost 600 students in three years, with more classrooms and students coming on board throughout 2017 and beyond. These children have been armed with Chrome books and are more engaged with school and learning.

Based on our experiences to date and through observing similar programmes, they are expected to be learning more rapidly than students not immersed in digital learning, while being prepared to work in the digital world of the future.

This is what our vision was from the outset of our ultra-fast broadband network - to provide an inter-generational change for our current and future communities. We will continue to break barriers and provide opportunities for all in our community. We look forward to taking UFB to thousands more Northlanders over the next year.

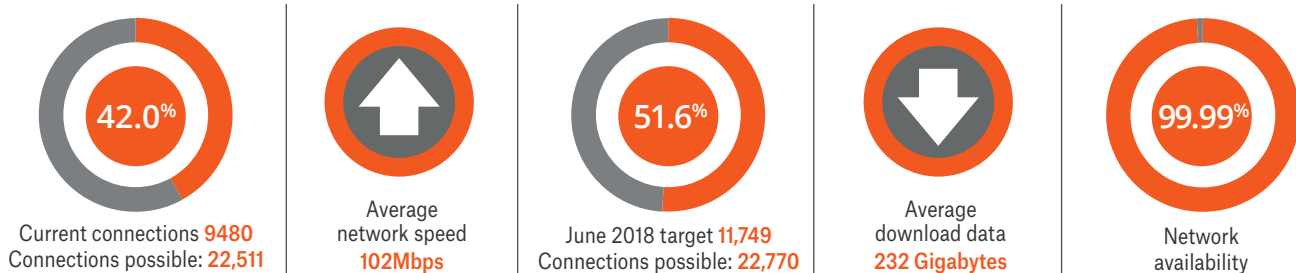
Jo Brosnahan  
**Chair**



Darren Mason  
**Chief Executive**



## Fibre in Action



### More broadband for more Northlanders

We are ahead of schedule and bringing world class broadband to pockets of Whangarei and Kaipara Districts thanks to the Government’s UFB2 initiative.

More than 200 Hikurangi residents have signed up to connect to their ultra-fast broadband network and our crews are busy with connections right now.

Waipu residents will be able to connect to their UFB network in January 2018, while it will be the turn of One Tree Point residents in July 2018 and the good folk of Dargaville West in September 2018.

Over the next few years we are also building UFB networks in Kaiwaka, Mangawhai Village, Mangawhai Heads, Maungaturoto, Paparoa, Ruawai, Dargaville, Ruakaka and Waikaraka. The four year project will cost around \$30m.

Expanding our UFB fibre network beyond Whangarei will take fibre to a further 9000 premises – adding to the 20,000 UFB premises in Whangarei. In addition to these looming milestones, we have just completed our 10,000th fibre connection on the Whangarei UFB network.

At 101.9Mbps, Northpower Fibre has the second fastest average network speed for households and small businesses of any fibre network in New Zealand. This year we completed a world first – achieving 10 Gigabyte speeds on our fibre network in a business and residential environment, thanks to our partnership with Calix (our international electronics vendor).

Our uptake rate is fast closing on 50%, making us the leading local fibre company in New Zealand – a local success story so many locals have contributed to in creating a world-class broadband network!

### Digital literacy for Tai Tokerau schools

We are proud to sponsor the Tai Tokerau Education Trust. And we are thrilled to have helped immerse 571 students from six Whangarei schools in a very successful digital emmersion programme.

These children are now much more engaged with the school learning environment.

Being able to help our community and positively boost the future of Northland by helping better educate children is something we are immensely proud of.

When we completed the Whangarei ultra-fast broadband network in 2014, we were determined to put the city at the forefront of broadband development in New Zealand and enable our community.

In partnership with The Tai Tokerau Education Trust, we look forward to taking digital immersion opportunities to hundreds more students and teachers over the next year.

Whangarei Intermediate	236
Hikurangi	65
Whau Valley	57
Manaia View	115
Otangarei	36
Tikipunga	62
<b>Total Number of Students</b>	<b>571</b>

Total Number of Students in the Digital Programme as at July 2017

## Directors' Report

	<b>30 June 2017</b>	<b>30 June 2016</b>
	<b>\$000s</b>	<b>\$000s</b>
Opening retained earnings	(4,730)	(4,678)
Operating surplus (deficit) for the period	312	573
Dividends Paid	(1,826)	(625)
Leaving retained earnings at end of period	<u>(6,244)</u>	<u>(4,730)</u>

It is not proposed to make any transfer to reserves.

The directors recommend that no further dividends be declared in the year ended 30 June 2017.

The primary objective of the company is to construct and operate an ultra-fast broadband network in the Whangarei 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' Interests

No directors held interests in the company during the period ended 30 June 2017.

The following entries are in the interest register:

#### JA Brosnahan

- Chair - Abilities Foundation
- Chair - Taitokerau Education Trust
- Advisory Trustee - Leadership NZ
- Director - Personal Footprint Limited
- Trustee - Harkness Trust
- Trustee - Auckland Museum Trust
- Principal - Jo Brosnahan Leadership and Governance and Leaders for the Future
- Member, Advisory Board - Centre for Brain Research, Auckland University

#### NP Davies-Colley

(Commenced 26 April 2017)

- Director - Northpower Fibre Limited  
(Commenced 26 April 2017)
- Director - West Coast Energy Pty Limited
- Director - Northpower Western Australia Pty Limited
- Director - Northpower LFC2 Limited
- Director - Farmlands Cooperative Society Limited
- Director - Landcorp Farming Limited
- Director - Worksafe

#### JM Boyd

(Commenced 26 April 2017)

- Director - Northpower LFC2 Limited

#### GR Mitchell

- Chief Executive Officer - Crown Fibre Holdings Limited
- Member - Chorus Steering Committee

#### MS Wynne

- Director - Twenty4media Pty Limited
- Director / Shareholder - Twenty4media Limited (formerly VC Image Limited)
- Officer - Crown Fibre Holdings Limited
- Member - Chorus Steering Committee

# 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 2017.

## Auditor

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

## Auditor's Remuneration

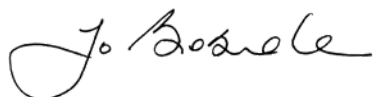
Total audit fees payable to Audit New Zealand for the audit of the 2017 financial statements totalled \$25,000 and the 2017 Commerce Commission Telecommunications Information Disclosures totalled \$8,200.

## 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 2017 fairly reflect the financial position and operations of Northpower Fibre Limited.

Signed on behalf of the Board

**Jo Brosnahan**  
Chair



1 September 2017

**Josie Boyd**  
Director



1 September 2017

## Independent Auditor's Report

### To the shareholders of Northpower Fibre Limited's financial statements for the year ended 30 June 2017

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 7 to 20, that comprise the statement of financial position as at 30 June 2017, 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 a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements of the company on pages 7 to 20:

- present fairly, in all material respects:
  - > its financial position as at 30 June 2017; 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.

Our audit was completed on 1 September 2017. 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 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 4 on pages 15 and 16 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 audit opinion.

#### **Responsibilities of the Board for the financial statements**

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

The Board 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 is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the company or to cease operations, or there is 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 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.



## Independent Auditor's Report

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:

- 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.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board 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 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 is responsible for the other information. The other information comprises of pages 1 to 4. It does not include our audit report on pages 5 and 6.

Our opinion on the information we audited 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 were engaged to issue an audit certificate pursuant to the LFC Information Disclosure Determination 2012 for the 2017 disclosure year. This engagement is compatible with those independence requirements.

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



**Clarence Susan**

Audit New Zealand

On behalf of the Auditor General

Tauranga, New Zealand

**AUDIT NEW ZEALAND**

Mana Arotake Aotearoa

## Statement of Comprehensive Income

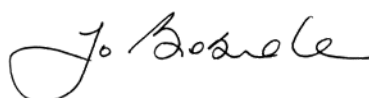
	Notes	2017 \$000s	2016 \$000s
<b>Income</b>			
Fibre connection services revenue		5,443	3,929
Other income		233	494
Interest income		26	11
Total income		5,702	4,434
<b>Expenses</b>			
Depreciation expense	7	2,220	1,873
Management fee		406	354
Salaries and wages		410	207
Other expenses	3	2,232	2,186
Total expenses		5,268	4,620
Profit (loss) before tax		434	(186)
Income tax expense	4	(122)	759
<b>Profit (loss) and total comprehensive income (expense) for the year</b>		<u>312</u>	<u>573</u>
<b>Allocation for the period of Profit (Loss) and total comprehensive income (expense)</b>			
Non Controlling Interest		178	292
Owner of the parent		134	281

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

**Statement of Financial Position**

	Notes	2017 \$000s	2016 \$000s
<b>Current assets</b>			
Cash and cash equivalents	5	1,223	797
Trade and other receivables	6	690	842
Other current assets		8	2
<b>Total current assets</b>		<u>1,921</u>	<u>1,641</u>
<b>Non-current assets</b>			
Assets under construction		3	105
Plant and equipment	7	38,708	36,457
Deferred Tax	4	1,474	1,595
<b>Total non-current assets</b>		<u>40,185</u>	<u>38,157</u>
<b>Total assets</b>		<u>42,106</u>	<u>39,798</u>
<b>Current liabilities</b>			
Trade and other payables	8	966	1,100
<b>Total current liabilities</b>		<u>966</u>	<u>1,100</u>
<b>Total liabilities</b>		<u>966</u>	<u>1,100</u>
<b>Net assets</b>		<u>41,140</u>	<u>38,698</u>
<b>Equity</b>			
Share capital	9	47,383	43,428
Retained earnings		(6,244)	(4,730)
<b>Total equity</b>		<u>41,139</u>	<u>38,698</u>

**Jo Brosnahan**  
Chair



1 September 2017

**Josie Boyd**  
Director



1 September 2017

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

## Statement of Changes in Equity

		Attributable to equity holders of the company		
		2017		
		\$		
		Share Capital	Retained Earnings	Total Equity
	Notes			
<b>Balance as at 1 July 2016</b>		<u>43,429</u>	<u>(4,730)</u>	<u>38,699</u>
Net profit (loss) for the year		-	312	312
<b>Total comprehensive income (expense) for the year, net of tax</b>		<u>-</u>	<u>312</u>	<u>312</u>
<b>Transactions with owners</b>				
Issue of share capital	9	3,955	-	3,955
Dividends Paid / Proposed			(1,826)	(1,826)
<b>Equity as at 30 June 2017</b>		<u><u>47,384</u></u>	<u><u>(6,244)</u></u>	<u><u>41,140</u></u>
		<b>2016</b>		
		\$		
		Share Capital	Retained Earnings	Total Equity
<b>Balance as at 1 July 2015</b>		<u>38,512</u>	<u>(4,678)</u>	<u>33,834</u>
Net profit (loss) for the year		-	573	573
<b>Total comprehensive income (expense) for the year, net of tax</b>		<u>-</u>	<u>573</u>	<u>573</u>
<b>Transactions with owners</b>				
Issue of share capital	9	4,917	-	4,917
Dividends Paid / Proposed			(625)	(625)
<b>Equity as at 30 June 2016</b>		<u><u>43,429</u></u>	<u><u>(4,730)</u></u>	<u><u>38,699</u></u>

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

## Cash Flow Statement

	Notes	2017 \$000s	2016 \$000s
<b>Cash flows from operating activities -</b>			
Cash was provided from:			
Receipts from customers		5,653	4,120
Interest received		26	11
GST refunds		175	318
Cash was distributed to:			
Payments to suppliers		(2,771)	(2,496)
Payments to Employees		(418)	(197)
<b>Net cash inflow from operating activities</b>	10	<u>2,665</u>	<u>1,756</u>
<b>Cash flows from investing activities -</b>			
Cash was applied to:			
Purchase of property, plant and equipment	11	(786)	(362)
Prepayment of property, plant and equipment		-	(105)
<b>Net cash outflow from investing activities</b>		<u>(786)</u>	<u>(467)</u>
<b>Cash flows from financing activities -</b>			
Cash was provided from:			
Share capital		373	-
Cash was applied to:			
Dividends		(1,826)	(625)
<b>Net cash inflow from financing activities</b>		<u>(1,453)</u>	<u>(625)</u>
Net increase (decrease) in cash and cash equivalents		426	664
Add cash and cash equivalents at the beginning of the year		<u>797</u>	<u>133</u>
<b>Cash and cash equivalents at the end of the year</b>		<u>1,223</u>	<u>797</u>

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

## Notes to the Financial Statements

### 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 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.

On 1 September 2017, Crown Fibre Holdings (CFH) changed its name to Crown Infrastructure Partners Limited (CIP). As part of the repurposing, and in addition to its current purpose, CIP will investigate and implement commercial models including those that will enable co-investment from the private or any other sector, to achieve the Government’s objectives for the deployment of water and roading infrastructure to support the timely increase of housing supply.

### 2. Summary of Significant Accounting Policies

#### a) New accounting standards and interpretations

The accounting policies adopted are consistent with those of the prior year. No new accounting standards or interpretations that became effective during the year had a material impact on the financial statements.

#### b) 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.
- Revenue for other services.
- Revenue for other services arises from additional services provided during the construction or re-arrangement of assets.
- Interest income.
- Interest revenue is recognised as the interest accrues using the effective interest method.
- Deferred revenue.
- Revenue is deferred in respect of the portion of the monthly charges that have been billed in advance.

#### c) 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.

#### d) Trade and Other Receivables

Trade 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 subsequently measured at amortised cost using the effective interest method, less any provision for impairment. The nature of the Company’s business model means that any overdue amounts will be short-term in nature (120 days or less) and as such the fair value of the receivable is the same as the face value.

## Notes to the Financial Statements

The collectability of receivables is reviewed on an on-going basis. Receivables that are known to be uncollectible are written off. Receivables that are assessed not to be impaired individually are also subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, and observable changes in national or local economic conditions that correlate with default on receivables.

The amount of any impairment is the difference between the receivable's carrying amount and the present value of estimated future cash flows, discounted at the receivable's original effective interest rate.

The arising impairment loss is recognised in the statement of comprehensive income.

### e) Property, Plant and Equipment

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.

#### 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:

<b>Fibre Optic Network Assets</b>	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
<b>Building Infrastructure</b>	
• Leasehold Improvements –	20 years
<b>Plant and Equipment</b>	4 – 10 years
• Computer Equipment –	4 years
• Office Equipment / Furniture and Fittings –	10 years
• Tools and Equipment –	10 years

## Notes to the Financial Statements

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

### f) 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.

### g) 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.

### h) 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.

### i) 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.



## Notes to the Financial Statements

### Future Estimates of tax profits

The estimation of 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 Whangarei has been modelled on actual uptake demand to date which has consistently tracked higher than expected..

To date Northpower Fibre has consistently performed better than plan. However, if future expectations prove to be incorrect then this will have an impact on the deferred tax balance recognised in the financial statements. If tax profitability is delayed then the deferred tax asset may not be realisable. If tax profits are higher than expected, then the deferred tax asset may be larger. This will be reassessed annually when determining the fair value of the deferred tax asset associated to the utilisation of tax losses.

### **j) 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.

### **k) 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.

### **l) 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 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 Fibre Holdings 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 9.

## Notes to the Financial Statements

	2017 \$000s	2016 \$000s
<b>3 Other Expenses</b>		
Bad debts	10	-
Operations & Maintenance	1,359	1,604
Other expenses	863	582
	<u>2,232</u>	<u>2,186</u>
<b>4 Taxation</b>		
<b>Components of income tax benefit</b>		
Current tax	-	-
Deferred tax	(122)	759
Losses not recognised	-	-
Income tax benefit/(expense)	<u>(122)</u>	<u>759</u>
<b>Relationship between tax benefit and comprehensive income (expense)</b>		
Profit (loss) before taxation per statement of comprehensive income	434	(186)
Tax at 28%	(122)	52
Add (less) tax effect of:		
Recognition of losses previously not recognised	-	707
Income tax benefit/(expense)	<u>(122)</u>	<u>759</u>

### Deferred tax asset (liability)

	Property, Plant & Equipment	Employee Entitlements	Provisions	Tax Losses	Total
Opening balance 1 July 2016	(974)	5	16	2,548	1,595
Charged to profit or loss	(301)	4	1	175	(121)
Closing balance 30 June 2017	<u>(1,275)</u>	<u>9</u>	<u>17</u>	<u>2,723</u>	<u>1,474</u>

This balance comprises:

Tax benefit of losses	2,723
Deferred tax asset (liability)	<u>(1,249)</u>
	<u>1,474</u>

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 Whangarei 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 plan.

The IRD have provided a non-binding indicative view in relation to shareholder decision making rights, which concludes that there are compelling arguments both for and against the carry forward of tax losses after the concession period. Based on this view, the company is planning to claim that tax losses can be carried forward after the concession period.

## Notes to the Financial Statements

### 4 Taxation (continued)

The tax loss benefit (deferred tax asset), includes tax losses expected to be utilised before and after the end of the concession period. It is recognised based on current forecast information and the IRD's indicative view regarding shareholder continuity.

	<b>\$000s</b>
Tax losses expected to be utilised before the end of the concession period	1,287
Tax losses expected to be utilised after the end of the concession period	1,436
Total tax losses	2,723

### Deferred tax asset (liability)

	Property, Plant & Equipment	Employee Entitlements	Provisions	Tax Losses	Total
Opening balance 1 July 2015	(673)	9	15	1,485	836
Charged to profit or loss	<u>(301)</u>	<u>(4)</u>	<u>1</u>	<u>1,063</u>	<u>759</u>
Closing balance 30 June 2016	<u><u>(974)</u></u>	<u><u>5</u></u>	<u><u>16</u></u>	<u><u>2,548</u></u>	<u><u>1,595</u></u>

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

### 5 Current Asset - Cash and Cash Equivalents

Cash at Bank	<u>1,223</u>	<u>797</u>
	<u><u>1,223</u></u>	<u><u>797</u></u>

### 6 Current Assets - Trade and Other Receivables

Trade receivables	714	691
Less doubtful debts	<u>(24)</u>	<u>(24)</u>
	690	667
GST receivable	<u>-</u>	<u>175</u>
	<u><u>690</u></u>	<u><u>842</u></u>

## Notes to the Financial Statements

	2017 \$000s	2016 \$000s
<b>7 Property Plant and Equipment</b>		
<b>Fibre Optic Network Assets</b>		
<b>Cost</b>		
Opening balance	41,735	36,456
Addition	4,471	5,279
	<u>46,206</u>	<u>41,735</u>
<b>Accumulated Depreciation</b>		
Opening balance	5,278	3,406
Depreciation expense for the year	2,220	1,872
	<u>7,498</u>	<u>5,278</u>
<b>Net carrying value</b>	<u>38,708</u>	<u>36,457</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 Trade and Other Payables

Trade payables (GST inclusive)	366	429
Accrued payables (GST exclusive)	51	273
GST Liability	39	
Employee entitlements		
Holiday pay accrual	33	18
Salary & Bonus accrual	-	23
Income in advance	477	357
	<u>966</u>	<u>1,100</u>

**Notes to the Financial Statements**

	<b>2017</b>	<b>2016</b>
	<b>\$000s</b>	<b>\$000s</b>
<b>9 Share Capital</b>		
<b>(a) A shares</b>		
<b>Crown Fibre Holdings Limited</b>		
Opening balance	21,257	22,562
Add shares issued during the year	373	-
	<u>21,630</u>	<u>22,562</u>
Less 1,371,843 shares sold to Northpower Limited (2016: 1,304,793 shares)	<u>(1,372)</u>	<u>(1,305)</u>
Total paid-up A shares held by Crown Fibre Holdings Limited	<u>20,258</u>	<u>21,257</u>
<b>Northpower Limited</b>		
Opening balance	4,546	3,241
Add 1,371,843 shares purchased from from Crown Fibre Holdings Limited (2016: 1,304,793 shares)	1,372	1,305
Total paid-up A shares held by Northpower Limited	<u>5,918</u>	<u>4,546</u>
Total paid-up A shares	<u>26,176</u>	<u>25,803</u>
The A shares have voting rights but no ordinary rights to dividends.		
<b>(b) B shares</b>		
Opening balance	17,625	12,708
Add shares issued during the year	3,582	4,917
	<u>21,207</u>	<u>17,625</u>
Less unpaid shares	-	-
Total paid-up B shares	<u>21,207</u>	<u>17,625</u>
The B shares are held by Northpower Limited, have no voting rights but carry ordinary rights to dividends.		
<b>(c) Government share</b>		
Opening balance	-	-
Less unpaid shares	-	-
Total paid-up Government shares	<u>-</u>	<u>-</u>
The Government share carries regulatory rights.		
Total shares issued during the year	3,955	4,917
Total issued capital	47,383	43,428
Total paid-up capital	47,383	43,428

## Notes to the Financial Statements

	2017 \$000s	2016 \$000s
<b>10 Reconciliation with Cash Inflow from Operating Activities</b>		
Reported net profit (loss) after taxation	312	573
Add (less) non-cash items:		
Depreciation and amortisation	2,220	1,873
Movements in tax benefit of losses	122	(759)
Movements in working capital:		
Increase (decrease) in trade and other payables	(135)	54
(Increase) decrease in taxation refund	146	15
<b>Net cash inflow from operating activities</b>	<u>2,665</u>	<u>1,756</u>
<b>11 Reconciliation to Statement of Financial Position</b>		
Purchase of property, plant and equipment per statement of Cash Flow	786	362
Prepayments transferred to property, plant & equipment	102	-
Purchase of property, plant and equipment paid for in shares	3,583	4,917
Prepayments capitalised	-	-
Total additions per Note 7	<u>4,471</u>	<u>5,279</u>
Add opening balance	36,457	33,050
Less depreciation expense	<u>2,220</u>	<u>1,872</u>
Property, plant and equipment per Statement of Financial Position	<u>38,708</u>	<u>36,457</u>

### 12 Contingent Liabilities

The Company has no contingent liabilities at balance date (2016: nil).

### 13 Lease Commitments

The Company has no lease commitments at balance date (2016: 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 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 \$9.631m. (FY16 \$10.660m)

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

## Notes to the Financial Statements

### 15 Related Parties

#### (a) Transactions with related parties during the year

Crown Fibre Holdings Limited owns only A shares in the Company. Other than share transactions there are no other related party transactions with Crown Fibre Holdings Limited. Refer note 9 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 2017 or 2016.

Income billed to Northpower as agent of the Company, \$30k (\$80k FY16)

Construction costs charged by Northpower, \$4,849k (\$6,136k FY16)

Services other than construction charged by Northpower, \$2,978k (\$2,711k FY16)

Amount owed by Northpower at 30 June 2017, \$6k (\$13k FY16)

Amount owed to Northpower at 30 June 2017, \$316k (\$385k FY16)

Capital contributions received from Northpower, \$0 (\$0k FY16)

Capital account balance of Northpower at 30 June 2017 of \$5,918k A shares (\$4,546k FY16) and \$21,207k of B shares (\$17,625k FY16)

Capital contributions received from Crown Fibre Holdings, \$373k (\$0k FY16)

Capital account balance of Crown Fibre Holdings at 30 June 2017, \$20,258k (\$21,257k FY16)

All amounts specified above are GST inclusive where applicable.

#### (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, NP Davies-Colley and JM Boyd.

The independent director and chair is JA Brosnahan.

NP Davies-Colley became a director of Northpower Fibre Limited on 20 January 2017 replacing MR Gatland on the same date and JM Boyd became a director on 26 April 2017 replacing RP Pearce.

All of the other directors were also directors during the period ended 30 June 2016.

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

The company paid JA Brosnahan a director salary of \$60,000 for the year

Salaries and wages of \$233,205 represents the payment to the Chief Executive Officer. FY16 \$206,773.

The CEO was the only employee who received over \$100,000

#### (d) Contractual arrangements with shareholders

During the 2011 financial year, 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.

### 16 Events Post Balance Date

The Board resolved to pay a final dividend of \$1,100,886 for the year ended June 2017.



**Northpower Fibre Limited:**

**Chair**

Jo Brosnahan

**Directors:**

Graham Mitchell

Sean Wynne

Nikki Davies-Colley (Commenced 20 January 2017)

Josie Boyd (Commenced 26 April 2017)

**Executive officers:**

**Chief Executive**

Darren Mason

Bankers	Westpac Banking Corporation, Whangarei.
Head Office	28 Mount Pleasant Road, Raumanga, Whangarei.
Auditors	Audit New Zealand, Whangarei, on behalf of the Auditor General.
Registered Office	28 Mount Pleasant Road, Whangarei.