

NORTHPOWER FIBRE DISCLOSURE YEAR 2022

FIBRE INFORMATION DISCLOSURE (FIBRE ID)

FOR RELATED PARTY TRANSACTIONS

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Summary of Northpower Fibre's Related Party Transactions

(Clause 2.5.4 of Fibre ID requirements)

Related Party	Nature of Relationship	Principal Activity of Related Party	DY22 Expenditure with Related Party
Northpower Limited	Northpower Fibre Limited is a wholly owned subsidiary of Northpower Limited	Northpower operates and maintains both the electricity distribution and fibre networks in the Whangarei and Kaipara region and provides specialist contracting services across the North Island of New Zealand.	Capital expenditure \$2,134k Operating expenditure \$887k

There have been no related party transactions with Busck Prestressed Concrete Limited or Electricity Engineers' Association who are identified as related parties under Northpower's statutory financial statements.

Summary of Northpower Fibre's Policy in respect of procurement of goods, services, or core fibre assets from any related party

(Clause 2.5.6(1)(a) of Fibre ID requirements)

Purpose

This is a summary of the policy that outlines Northpower Fibre's (NFL) approach to purchasing goods, services, or assets from its related parties, including how those assets are valued.

Introduction

This document outlines Northpower Fibre's approach to purchasing goods, services, or assets from its related parties, including how those assets are valued.

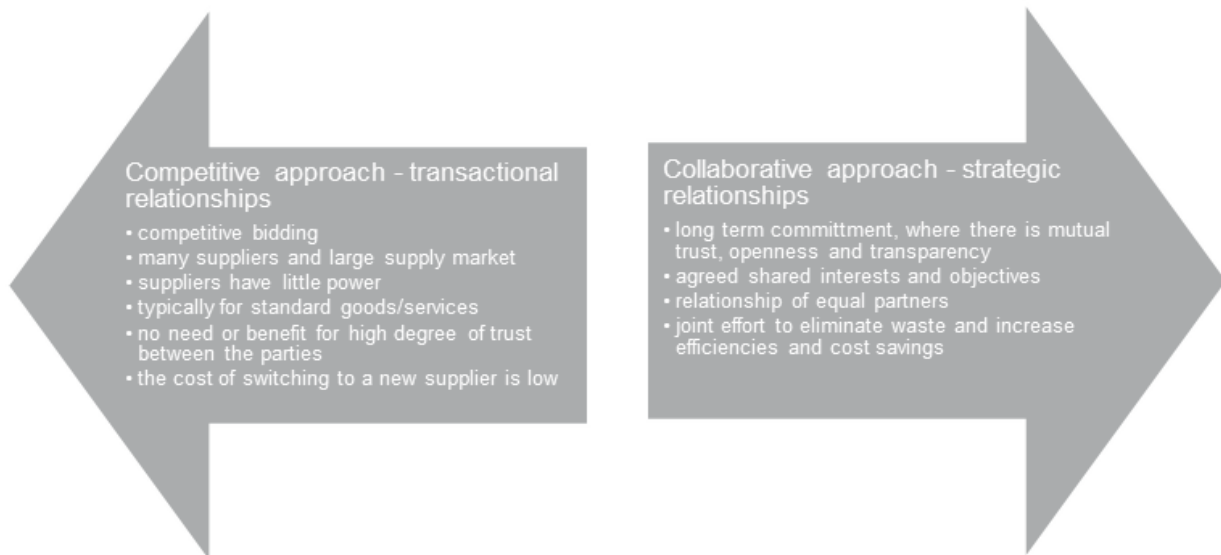
Procurement Objectives

The following objectives will inform NFL's decision around the procurement of goods and services:

1. Ensuring that the services delivered meet the requirements and expectations of NFL business plan and its network requirements.
2. A delivery model that is cost effective and delivers efficiencies for the long-term benefit of NFL shareholders.
3. Achieving a high performing HSQE culture across all areas of its business, including staff and contractors.
4. The delivery of works programmes in accordance with NFL's asset management strategies, including accessing resources to meet peak workloads.
5. Achieving innovation and continuous improvement in the areas identified above.

The choice around suppliers and procurement models, including transactions with related parties, will depend on the existing market for the specific goods or services, the strategic importance of the services, and the long-term needs of NFL and its consumers.

Goods or services with characteristics that support a transactional relationship are likely to be subject to market contestability. In contrast, strategic supplier relationships are more likely to be based on a collaborative approach, underpinned by long-term relationships.



Where goods or services are not acquired through market contestability, NFL will ensure that transactions are valued in accordance with the valuation principles in the Policy.

Valuation of Transactions

Transactions between NFL and its related parties will be conducted and valued as if it were an arm's-length transaction.

To meet these requirements, the following principles will be applied to all transactions with a related party who is providing goods or services to NFL:

1. The value of a good or service acquired by NFL must be given a value not greater than if that transaction had the terms of an arm's-length transaction;
2. A related party transaction will be treated as if it was an arm's-length transaction if the good or service procured from a related party is valued at cost incurred by the related party in providing that good or service, provided that cost is:
 - (a) fair and reasonable to NFL; and
 - (b) substantially the same as the cost that would be incurred by the related party in providing the same type of good or service to a third party;
3. NFL will use an objective and independent measure in determining the terms of an arm's-length transaction for the purpose of principles 1 above.

Objective & Independent Measures of Value

NFL will ensure that transactions with its related parties are valued on arm's-length terms or lower by utilising independent and objective measures to establish that a related party transaction value is no greater than the value that would have otherwise been charged by an un-related party commissioned to do the same work.

Methods used may include any or all of the following depending on the nature of the proposed transaction, the information reasonably available and what is practicable in the circumstances given the market for the relevant services.

- Commissioning a third party to undertake market benchmarking of the prices of substantially similar goods or services.
 - Conducting a tendering process for the goods or services.
 - Undertaking internal benchmarking of the related party transactions against substantially same goods or services provided (by the related party) to its other customers.
 - Engaging an expert to undertake an independent valuation to determine market value of the goods or service.
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Success Measures (Outcomes)

Successful implementation of this NFL Policy will achieve the following outcomes:

- The NFL Policy principles and objectives are met.
- Related party transactions are of a comparable value to relevant third party transactions.
- NFL procurement processes are followed.

Representative examples of how Northpower Fibre's Related Party Policy has been applied for the procurement of goods, services or core fibre assets and how arm's length terms were tested

(Clauses 2.5.6(1)(b) of Fibre ID requirements)

Management services and back-office services provided by Northpower Limited (NP)

NP provides management services and back-office services to NFL. A management services agreement was entered into between NFL and NP in May 2020 while Crown Infrastructure Partners Limited (CIP) still had shareholding in NFL and were on the NFL Board. The NFL Board at the time approved this agreement. By having CIP on the Board as an external entity, this has ensured the fairness and reasonableness of the charges.

The charges were established based on actual time, costs and resources of NP providing the services to NFL. Therefore, this meets principle 2 under the valuation of transactions of the Related Party Policy and it is considered as an arm's-length transaction defined in the Fibre ID determination.

Use of Northpower (NP) owned assets

There are three types of assets owned by NP that NFL utilises or partially utilises to provide FFLAS:

- Poles: NFL's aerial fibre network attaches fibre equipment on Northpower owned poles. An agreement was entered between NP and NFL for the siting of telecommunications network assets on electricity network poles.
- Land and buildings: NFL partially occupies a number of Northpower owned land and buildings. This includes, for example, NFL fibre cabinet on the front lawn of an electricity substation land and active fibre equipment inside an electricity substation building. A licence to occupy agreement was entered between NP and NFL to grant NFL a licence to occupy these land and buildings.
- Ducting: NFL occupies some ducting owned by NP for housing its fibre optic cables in Whangarei. A ducting licence agreement was entered between NP and NFL to provide NFL a licence to maintain the installed fibre optic cables.

The agreements were based on similar existing agreements that NP has with external parties and were then further negotiated between Northpower and NFL. They were signed in May 2023 and retrospectively cover the period starting from April 2021.

The arm's length assessment was conducted at the time the charges were established which are specified in the agreements. The charges were based on:

- the same rate as NP charges an external party for the same service, or
- independent third party/market valuation, information, and quotation.

The assessment concluded that they are considered as arm's-length transactions.

Construction and maintenance services of fibre network assets

NP provides construction and maintenance services of communal fibre network assets and end user-specific assets to NFL. These follow the terms and pricing set out in the Network Infrastructure Project Agreement that was negotiated with the Crown, via Crown Fibre Holdings Limited (currently known as the Crown Infrastructures Partners Limited).

For disclosure year 2022, an internal benchmarking, involved re-pricing and gross margin analysis, was undertaken against substantially the same services that NP provides to an external party. The results concluded that they are considered as arm's length transactions as defined under the Fibre ID determination.

A description of any Northpower Fibre's policies or procedures that require an access seeker to purchase goods, services or core fibre assets from a related party

(Clause 2.5.6(1)(c) of Fibre ID requirements)

There are no requirements for access seekers to contract with any related party of NFL.

Agreements are in place between access seekers and NFL where access seekers engage with NFL directly for the provision of regulated FFLAS. This includes, for example, connections and faults response.

In the case of network extensions, subdivision fibre reticulation and third-party network damage, NFL is notified who subsequently arranges resources to perform the works. Access seekers do not engage with Northpower Limited (a related party of NFL) directly.

Therefore, such instance does not occur where an access seeker is required to purchase goods, services, or core fibre assets from a related party.