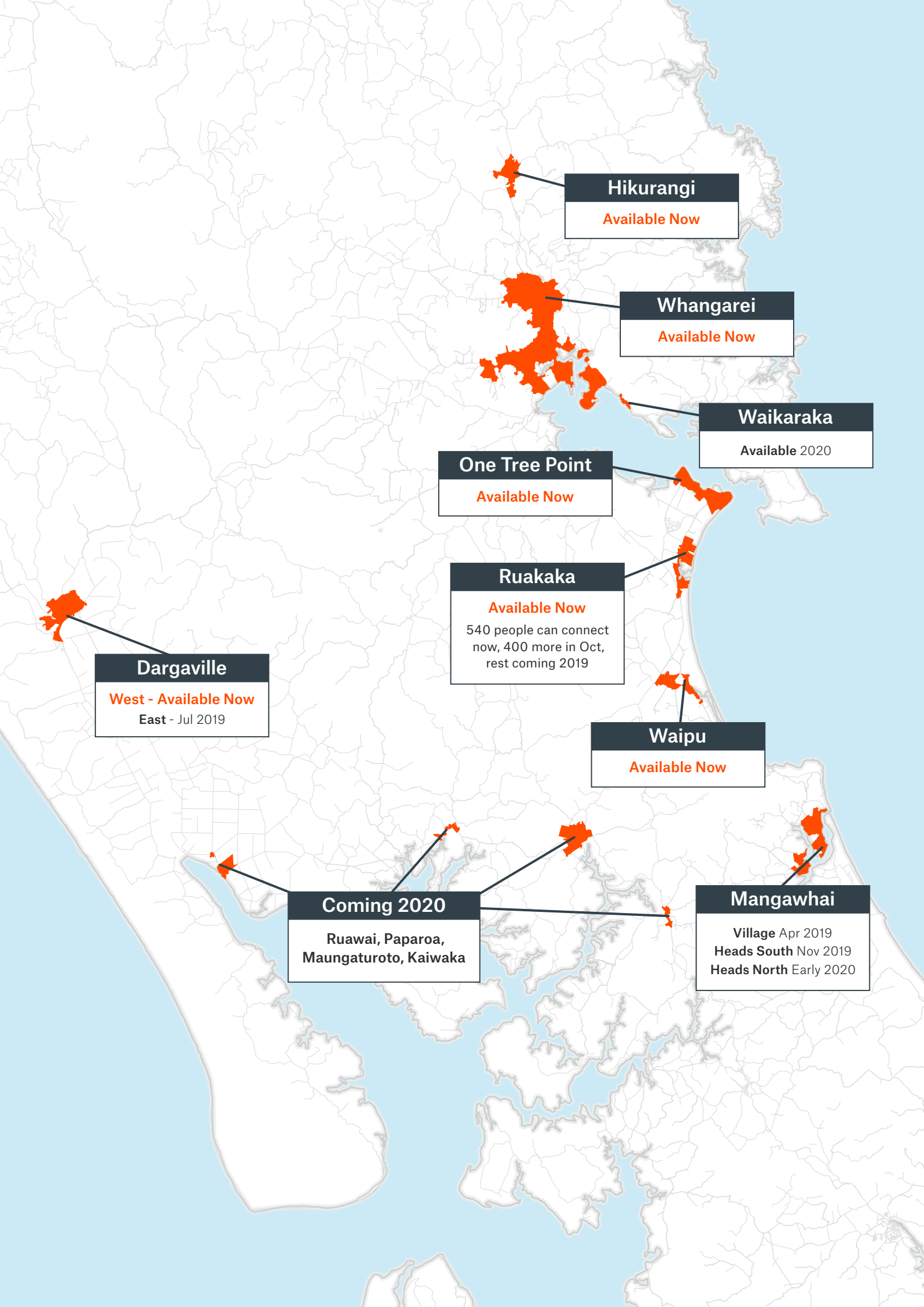


# Annual Report 2018





**Hikurangi**  
Available Now

**Whangarei**  
Available Now

**Waikaraka**  
Available 2020

**One Tree Point**  
Available Now

**Ruakaka**  
Available Now  
540 people can connect now, 400 more in Oct, rest coming 2019

**Waipu**  
Available Now

**Dargaville**  
West - Available Now  
East - Jul 2019

**Coming 2020**  
Ruawai, Papanui, Maungaturoto, Kaiwaka

**Mangawhai**  
Village Apr 2019  
Heads South Nov 2019  
Heads North Early 2020

Northpower Fibre Limited  
**Annual Report 2018**

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# Chair and CEO Report

So much has happened in our business this past year it is almost surreal to contemplate the amount of progress and the milestones surpassed.

We not only achieved the magical 50% uptake figure with more than 11,500 customers connected to the Whangarei UFB roll-out – just four years after we completed the network build – our customer satisfaction results remained the best of any Local Fibre Company in the country. Meantime, our skilled team continued to roll out the UFB expansion network comfortably ahead of schedule.

That means many rural pockets of the Northland population are now in reach of the Northpower Fibre network and so many others will gain access as we continue with our UFB expansion in Kaipara and Whangarei District in the coming financial year.

In late 2017, Northpower Fibre received the Innovation in Next Generation Services at the Calix Innovation Awards in the United States – our second international innovation award in four years. That is testament to the drive of our team to always be ahead of the game and never rest on their laurels. Calix has been our innovation partner for many years now and we will be working on more technology advances with them which will further strengthen our fibre network.

Just prior to receiving the prestigious Calix award, the Hikurangi UFB expansion network went live and within 12 months, uptake levels were closing in on 42%. The Waipu UFB expansion network was opened for connections in January 2018, with uptake surpassing 47% a mere nine months later – a clear indication that appetite for world-class fibre broadband is alive and well in rural New Zealand.

During the 2017-2018 financial year our teams connected an average of 247 new premises to Northpower UFB every month.

The financial performance of our business is strong and we continue to exceed our annual business plan targets.

Of course, none of this success can be achieved without the operational side of our business working seamlessly with good governance. Our relationship with our partner Crown Infrastructure Partners is critical to our success and it is so reassuring to have such a strong Board of Directors.

It is clear that there is pent up demand for UFB expansion which is fantastic and being able to roll that out off the backbone of the Whangarei network reinforces just what a strong business case we had modelled when we set out on the UFB expansion journey.

One of the more interesting observations we have made this past year is that some residents who had seen Northpower Fibre vehicles laying fibre in their street, automatically thought they were connected to Northpower Fibre. So with this realisation, we began working even harder to make people understand the connection process so they don't miss out.

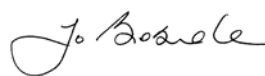
And we continue to encourage our community to connect to the Northpower Fibre network as soon as they can. With the 2019 Rugby World Cup being streamed mid-next year, we are also urging people to connect early to ensure they have the best viewing experience possible, thanks to the uninterrupted viewing time that fibre provides.

As we look forward to the 2018/2019 financial year, we are eager to continue sponsoring and supporting the Taitokerau Education Trust, which is having a truly transformational impact on our tamariki.

Taitokerau Education Trust is raising achievement levels by making personal use devices accessible to students from lower income households to study at school and home. As a result, hundreds of low decile students in and around Whangarei have achieved greatly improved educational outcomes – outperforming many higher decile counterparts across the country through digital learning.

We look forward to continuing to work in partnership with our Northland community and key stakeholders in the coming year – thank you all for your ongoing support as we continue to grow Northpower Fibre, in our endeavour to keep it as a world leading UFB fibre network company.

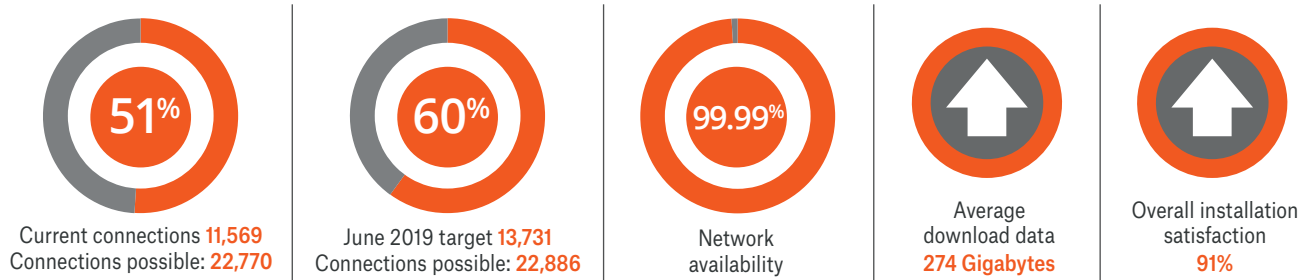
Jo Brosnahan  
**Chair**



Darren Mason  
**Chief Executive**



# Fibre in Action



## Education success through digital immersion

A cluster of low decile Whangarei schools continues to outperform many higher decile counterparts across the country – and it’s all thanks to digital learning.

Students in the Te Puawai cluster - which includes Manaia View School, Whau Valley Primary, Te Kura o Otangarei, Whangarei Intermediate, Tikipunga High School and Hikurangi Primary School - are making faster progress in learning than the average New Zealand school.

A report by the University of Auckland’s Woolf Fisher Research Centre tracked 394 students between Years 4 and 10 who participated in Taitokerau Education Trust’s Digital Immersion Programme throughout 2017.

Taitokerau Education Trust aims to raise achievement levels through the upskilling of teachers in digital pedagogy, and by making personal-use devices accessible to students from lower-income households.

Students on the programme have equal access to online learning from their qualified teachers while studying both at school and in their homes.

Dr Rebecca Jesson, who led the research, says some of the students made accelerated gains at more than three times the rate of the previous year.

Taitokerau Education Trust Executive Officer Liz Cassidy-Nelson says the impressive results are due to more than digital immersion alone.

“It’s a wonderful acknowledgement of the commitment our teachers, who have upskilled to a new way of teaching, and whānau, who are investing in the resources to make the change.”

The programme’s Digital Immersion Facilitator, Beth Lamb, says the programme is at the forefront of digital immersion best practice and is having a significant impact on student engagement in learning.

Northpower Fibre is proud to have sponsored the Taitokerau Education Trust from its inception.

### Te Puawai Cluster – Know, Act, Reflect

School	School Roll	Years that the programme is delivered
Te Kura o Otangarei	82	4 - 8
Manaia View School	201	4 - 8
Whau Valley School	243	5 - 6
Hikurangi	236	4 - 8
Whangarei Intermediate	640	7 - 8
Tikipunga Highschool	302	7 - 10

	2017	2018
Digital Immersion Students	583	707
Digital Immersion Classrooms	26	34
Digital Immersion Teachers	30	34
Google Educator Level 1 Teachers	11	11
Flipped Certified Level 1 & 2 Teachers	4	20

## UFB expands throughout Kaipara and Whangarei District

This 2017/18 financial year has been one of multiple milestones for Northpower Fibre.

And while that was pleasing, it was even more satisfying witnessing the number of new customers joining the Northpower Fibre network.

Of course adding to this was the expansion of our UFB network to other towns in Kaipara and Whangarei District.

As the year progressed we added fibre networks to Hikurangi, Dargaville, Waipu, One Tree Point and Ruakaka, completing every network ahead of schedule.

We look forward to our teams continuing this great work as we expand our UFB fibre to more towns in the region over the next year.

# Directors' Report

	<b>30 June 2018</b>	<b>30 June 2017</b>
	<b>\$000s</b>	<b>\$000s</b>
Opening retained earnings	(6,244)	(4,730)
Operating surplus for the period	946	312
Dividends Paid	(3,157)	(1,826)
Leaving retained earnings at end of period	<u>(8,455)</u>	<u>(6,244)</u>

It is not proposed to make any transfers to reserves.

After balance date, the directors recommended that a final dividend be declared for the year ended 30 June 2018 of \$911,477.

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 holding office during the year

- Jo Brosnahan
- Graham Mitchell
- Sean Wynne – Ceased 18 April 2018
- Kathryn Furness – Commenced 19 April 2018
- Josie Boyd
- Nicole Davies-Colley – Ceased 23 August 2017
- Andrew McLeod – Commenced 23 August 2017

## Directors Interest

No directors held interests in the company during the period ended 30 June 2018.

The following entries are in the interest register for directors holding office at 30 June 2018:

### JA Brosnahan

- Chair – Abilities Foundation
- Chair – Taitokerau Education Trust
- Chair – Rotorua Lakes District Council Audit & Risk Committee
- Chair – Northpower UFB2 Steering Committee
- 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

### AI McLeod

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

### JM Boyd

- Director – Northpower LFC2 Limited
- Director – Northpower Solutions Limited
- General Manager Network – Northpower Limited
- Executive Committee – Electricity Engineers Association

### 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

# 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 2018.

## Auditor

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

## Auditor's Remuneration

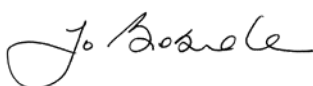
Total audit fees payable to Audit New Zealand for the audit of the 2018 financial statements totalled \$25,600 and the 2018 Commerce Commission Telecommunications Information Disclosures totalled \$8,625.

## 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 2018 fairly reflect the financial position and operations of Northpower Fibre Limited.

Signed on behalf of the Board

**Jo Brosnahan**  
Chair



18 October 2018

**Andrew McLeod**  
Director



18 October 2018

## Independent Auditor's Report

### To the shareholders of Northpower Fibre Limited's financial statements for the year ended 30 June 2018

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 21, that comprise the statement of financial position as at 30 June 2018, 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 7 to 21:

- present fairly, in all material respects:
  - > its financial position as at 30 June 2018; 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 18 October 2018. 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 4 on pages 16 and 17 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 are 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 are 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 are 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 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 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 are responsible for the other information presented within these financial statements.

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 are engaged to issue an audit certificate pursuant to the LFC Information Disclosure Determination 2012 for the 2018 disclosure year. This engagement is 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

**AUDIT NEW ZEALAND**  
Mana Arotake Aotearoa

## Statement of Comprehensive Income

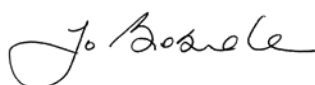
	Notes	2018 \$000s	2017 \$000s
<b>Income</b>			
Fibre connection services revenue		6,790	5,443
Other income		479	233
Interest income		20	26
Total income		7,289	5,702
<b>Expenses</b>			
Depreciation expense	7	2,467	2,220
Management fee		397	406
Salaries and wages		966	410
Other expenses	3	2,145	2,232
Total expenses		5,975	5,268
Profit before tax		1,314	434
Income tax expense	4	(368)	(122)
<b>Profit and total comprehensive income for the year</b>		<u>946</u>	<u>312</u>

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

## Statement of Financial Position

	Notes	2018 \$000s	2017 \$000s
<b>Current assets</b>			
Cash and cash equivalents	5	1,777	1,223
Trade and other receivables	6	896	690
Other current assets		74	8
<b>Total current assets</b>		<u>2,747</u>	<u>1,921</u>
<b>Non-current assets</b>			
Assets under construction		40	3
Plant and equipment	7	41,453	38,708
Deferred tax	4	1,106	1,474
<b>Total non-current assets</b>		<u>42,599</u>	<u>40,185</u>
<b>Total assets</b>		<u><u>45,346</u></u>	<u><u>42,106</u></u>
<b>Current liabilities</b>			
Trade and other payables	8	1,454	966
<b>Total current liabilities</b>		<u>1,454</u>	<u>966</u>
<b>Total liabilities</b>		<u><u>1,454</u></u>	<u><u>966</u></u>
<b>Net assets</b>		<u><u>43,892</u></u>	<u><u>41,140</u></u>
<b>Equity</b>			
Share capital	9	52,347	47,383
Retained earnings		(8,455)	(6,244)
<b>Total equity</b>		<u><u>43,892</u></u>	<u><u>41,139</u></u>

**Jo Brosnahan**  
Chair



18 October 2018

**Andrew McLeod**  
Director



18 October 2018

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

## Statement of Changes in Equity

		Attributable to equity holders of the company		
		2018		
		\$		
		Share Capital	Retained Earnings	Total Equity
	Notes			
<b>Balance as at 1 July 2017</b>		<u>47,384</u>	<u>(6,244)</u>	<u>41,140</u>
Net profit for the year		-	946	946
<b>Total comprehensive income for the year, net of tax</b>		<u>-</u>	<u>946</u>	<u>946</u>
<b>Transactions with owners</b>				
Issue of share capital	9	4,964	-	4,964
Dividends Paid/Proposed		-	(3,157)	(3,157)
<b>Equity as at 30 June 2018</b>		<u><u>52,348</u></u>	<u><u>(8,455)</u></u>	<u><u>43,893</u></u>
		2017		
		\$		
		Share Capital	Retained Earnings	Total Equity
<b>Balance as at 1 July 2016</b>		<u>43,429</u>	<u>(4,730)</u>	<u>38,699</u>
Net profit for the year		-	312	312
<b>Total comprehensive income 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>

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

## Cash Flow Statement

	Notes	2018 \$000s	2017 \$000s
<b>Cash flows from operating activities -</b>			
Cash was provided from:			
Receipts from customers		7,243	5,653
Interest received		20	26
GST refunds		(106)	175
Cash was distributed to:			
Payments to suppliers		(2,454)	(2,771)
Payments to employees		(827)	(418)
<b>Net cash inflow from operating activities</b>	10	<u>3,876</u>	<u>2,665</u>
<b>Cash flows from investing activities -</b>			
Cash was applied to:			
Purchase of property, plant and equipment	11	(165)	(786)
Prepayment of property, plant and equipment		-	-
<b>Net cash outflow from investing activities</b>		<u>(165)</u>	<u>(786)</u>
<b>Cash flows from financing activities -</b>			
Cash was provided from:			
Share capital		-	373
Cash was applied to:			
Dividends		(3,157)	(1,826)
<b>Net cash outflow from financing activities</b>		<u>(3,157)</u>	<u>(1,453)</u>
Net increase in cash and cash equivalents		554	426
Add cash and cash equivalents at the beginning of the year		1,223	797
<b>Cash and cash equivalents at the end of the year</b>		<u>1,777</u>	<u>1,223</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.

## 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.

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.

## Notes to the Financial Statements

### d) Trade and Other Receivables (continued)

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

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.

## Notes to the Financial Statements

### 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 cash flow statement. Commitments and contingencies are disclosed exclusive of GST.



## Notes to the Financial Statements

### **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.

### **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 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 9.

## Notes to the Financial Statements

### m) New Accounting Standards

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

#### NZ IFRS 9 Financial Instruments

In September 2014, the New Zealand Accounting Standards Board (NZASB) issued the final version of NZ IFRS 9 Financial Instruments that replaces NZ IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of NZ IFRS 9. NZ IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. NZ IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of NZ IFRS 9 is not expected to have a material impact on the company.

#### NZ IFRS 15 Revenue from Contracts with Customers

NZ IFRS 15 was issued in 2014, and amended in April 2016, and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under NZ IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under NZ IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2016, the Group performed a preliminary assessment of NZ IFRS 15, which was continued with a more detailed analysis completed in 2017.

The adoption of NZ IFRS 15 is not expected to have a material impact on the Company.

#### NZ IFRS 16 Leases

NZ IFRS 16 replaces NZ IAS 17 *Leases*, NZ IFRIC 4 *Determining whether an Arrangement contains a Lease*, NZ SIC-15 *Operating Leases-Incentives* and NZ SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

NZ IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under NZ IAS 17.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, or a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

The adoption of NZ IFRS 16 is not expected to have a material impact on the Company.

## Notes to the Financial Statements

	2018 \$000s	2017 \$000s
<b>3 Other Expenses</b>		
Bad debts	-	10
Loss on disposal of assets	10	-
Operations & Maintenance	1,025	1,359
Other expenses	1,110	863
	<u>2,145</u>	<u>2,232</u>
<b>4 Taxation</b>		
<b>Components of income tax expense</b>		
Current tax	-	-
Deferred tax	(368)	(122)
Losses not recognised	-	-
Income tax benefit/(expense)	<u>(368)</u>	<u>(122)</u>
<b>Relationship between tax benefit and comprehensive income (expense)</b>		
Profit before taxation per statement of comprehensive income	1,314	434
Tax at 28%	(368)	(122)
Add (less) tax effect of:		
Recognition of losses previously not recognised	-	-
Income tax benefit/(expense)	<u>(368)</u>	<u>(122)</u>

### Deferred tax asset (liability)

	Property, Plant & Equipment	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	<u>(1,614)</u>	<u>29</u>	<u>43</u>	<u>2,648</u>	<u>1,106</u>

This balance comprises:

Tax benefit of losses	2,648
Deferred tax (liability)	<u>(1,542)</u>
	<u>1,106</u>

## Notes to the Financial Statements

### 4 Taxation (continued)

	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	<u>(301)</u>	<u>4</u>	<u>1</u>	<u>175</u>	<u>(121)</u>
Closing balance 30 June 2017	<u><u>(1,275)</u></u>	<u><u>9</u></u>	<u><u>17</u></u>	<u><u>2,723</u></u>	<u><u>1,474</u></u>

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.

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. 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 utilised before and after the end of the concession period.

	2018 \$000s	2017 \$000s
Tax losses expected to be utilised before the end of the concession period	1,240	2,723
Tax losses expected to be utilised after the end of the concession period	<u>1,408</u>	<u>(1,249)</u>
Total tax losses	<u><u>2,648</u></u>	<u><u>1,474</u></u>

The company will assess the likelihood of whether tax losses 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.

### 5 Cash and Cash Equivalents

Cash at bank	<u>1,777</u>	<u>1,223</u>
	<u><u>1,777</u></u>	<u><u>1,223</u></u>

### 6 Trade and Other Receivables

Trade receivables	954	714
Less doubtful debts	<u>(125)</u>	<u>(24)</u>
	829	690
GST receivable	<u>67</u>	<u>-</u>
	<u><u>896</u></u>	<u><u>690</u></u>

## Notes to the Financial Statements

	2018 \$000s	2017 \$000s
<b>7 Property Plant and Equipment</b>		
<b>Fibre Optic Network Assets</b>		
<b>Cost</b>		
Opening balance	46,206	41,735
Disposals	(13)	
Additions	5,223	4,471
	<u>51,416</u>	<u>46,206</u>
<b>Accumulated Depreciation</b>		
Opening balance	7,498	5,278
Disposals	(2)	
Depreciation expense for the year	2,467	2,220
	<u>9,963</u>	<u>7,498</u>
<b>Net carrying value</b>	<u>41,453</u>	<u>38,708</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)	542	366
Accrued payables (GST exclusive)	218	51
GST Liability	-	39
Employee entitlements		
Holiday pay accrual	68	33
Salary & Bonus accrual	36	-
Income in advance	590	477
	<u>1,454</u>	<u>966</u>

## Notes to the Financial Statements

	2018 \$000s	2017 \$000s
<b>9 Share Capital</b>		
<b>(a) A shares</b>		
<b>Crown Infrastructure Partners Limited</b>		
Opening balance	20,258	21,257
Add shares issued during the year	-	373
	<u>20,258</u>	<u>21,630</u>
Less 1,400,004 shares sold to Northpower Limited (2017: 1,371,843 shares)	<u>(1,400)</u>	<u>(1,372)</u>
Total paid-up A shares held by Crown Infrastructure Partners Limited	<u>18,858</u>	<u>20,258</u>
<b>Northpower Limited</b>		
Opening balance	5,918	4,546
Add 1,400,004 shares purchased from Crown Infrastructure Partners Limited (2017: 1,371,843 shares)	<u>1,400</u>	<u>1,372</u>
Total paid-up A shares held by Northpower Limited	<u>7,318</u>	<u>5,918</u>
Total paid-up A shares	<u>26,176</u>	<u>26,176</u>
The A shares have voting rights but no ordinary rights to dividends.		
<b>(b) B shares</b>		
Opening balance	21,207	17,625
Add shares issued during the year	<u>4,964</u>	<u>3,582</u>
	26,171	21,207
Less unpaid shares	<u>-</u>	<u>-</u>
Total paid-up B shares	<u>26,171</u>	<u>21,207</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	<u>-</u>	<u>-</u>
Total paid-up Government shares	<u>-</u>	<u>-</u>
The Government share carries regulatory rights.		
Total shares issued during the year	4,964	3,955
Total issued capital	52,347	47,383
Total paid-up capital	52,347	47,383

The above shares have no par value

## Notes to the Financial Statements

	2018 \$000s	2017 \$000s
<b>10 Reconciliation with Cash Inflow from Operating Activities</b>		
Reported net profit after taxation	946	312
Add (less) non-cash items:		
Depreciation and amortisation	2,467	2,220
Movements in tax benefit of losses	368	122
Movements in working capital:		
Increase (decrease) in trade and other payables	367	(135)
(Increase) decrease in trade and other receivables	(272)	146
<b>Net cash inflow from operating activities</b>	<u>3,876</u>	<u>2,665</u>
<b>11 Reconciliation to Statement of Financial Position</b>		
Purchase of property, plant and equipment per statement of Cash Flow	165	786
Prepayments transferred to property, plant & equipment	94	102
Purchase of property, plant and equipment paid for in shares	4,964	3,583
Prepayments capitalised	-	-
Total additions per Note 7	<u>5,223</u>	<u>4,471</u>
Add opening balance	38,708	36,457
Less disposals	11	
Less depreciation expense	2,467	2,220
Property, plant and equipment per Statement of Financial Position	<u>41,453</u>	<u>38,708</u>

### 12 Contingent Liabilities

The Company has no contingent liabilities at balance date (2017: nil).

### 13 Lease Commitments

The Company has no lease commitments at balance date (2017: nil).

### 14 Capital Commitments

The Company entered into a contract to construct a fibre optic network in Whangarei. 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 \$5.128m. (FY17 \$9.631m).

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

### 15 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 9 for share transaction movements.

## Notes to the Financial Statements

### 15 Related Parties (continued)

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 2018 or 2017.

Income billed to Northpower as agent of the Company, \$61k (\$30k FY17)

Income billed on behalf of Northpower LFC2 Limited \$152k (\$0 FY17)

Amount owed to Northpower LFC2 Ltd at 30 June 2018, \$30k (\$0k FY17)

Construction costs charged by Northpower, \$5,843k (\$4,849k FY17)

Services other than construction charged by Northpower, \$2,986k (\$2,978k FY17)

Amount owed by Northpower at 30 June 2017, \$4k (\$6k FY17)

Amount owed to Northpower at 30 June 2017, \$507k (\$316k FY17)

Capital contributions received from Northpower, \$0 (\$0k FY17)

Capital account balance of Northpower at 30 June 2018 of \$7,318k A shares (\$5,918k FY17) and \$26,172k of B shares (\$21,207k FY17)

Capital contributions received from Crown Infrastructure Partners, \$0 (\$373k FY17)

Capital account balance of Crown Infrastructure Partners at 30 June 2017, \$18,858k (\$20,258k FY17)

All amounts specified above are GST inclusive where applicable.

#### (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.

KA Furness became a director of Northpower Fibre Limited on 19 April 2018 replacing MS Wynne and AI McLeod became a director on 23 August 2017 replacing NP Davies-Colley.

All of the other directors were also directors during the period ended 30 June 2017.

#### (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

The Chief Executive Officer received remuneration of \$258,422 (FY17 \$233,205)

The following bands indicate the remuneration of all other employees

Less than \$100,000	2
\$100,000 - \$109,999	4
\$120,000 - \$129,999	1

#### (d) Contractual arrangements with shareholders

During the 2011 financial year Crown Infrastructure Partners Limited entered into agreements with Northpower Limited to fulfil the 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 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 Whangarei area.

### 16 Events Post Balance Date

The Board resolved to pay a final dividend of \$911,477 for the year ended June 2018.





**Northpower Fibre Limited:**

**Chair**

Jo Brosnahan

**Directors:**

Graham Mitchell

Kathryn Furness

Josie Boyd

Andrew McLeod

**Executive officers:**

**Chief Executive**

Darren Mason

Bankers

Westpac Banking Corporation, Whangarei.

Head Office

28 Mount Pleasant Road, Raumanga, Whangarei.

Auditors

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

Registered Office

28 Mount Pleasant Road, Whangarei.