

Annual Report 2013





Premises handed over
12,225



Users able to connect
14,279

Northpower Fibre Limited

Annual Report 2013

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Chair's Report



The investment in UFB began in 2007, when Northpower first ventured into fibre networks. When Northpower partnered with Crown Fibre in late 2010 to deliver the Whangarei ultra-fast broadband fibre network build, that was the catalyst for catapulting Whangarei into the digital future.

The rapid progress with the build represents a tremendous effort from Northpower's staff, its contractors and the key stakeholders we have been working with in Whangarei and beyond. The smoothness of the process from our network design to construction, to testing and connecting end users has shown the value of working closely with our partners. While there are challenges with constructing such infrastructure, our team has shown the level of innovation, technical fortitude and flexibility required to make it a success.

At a community seminar of business leaders organised by the company, it became evident that people want the best for Whangarei and recognise the impending value and opportunity of a world class communications platform – the Northpower Fibre network.

Strategically, Northpower Fibre's vision remains firm. Completing our network build by June 2014 – perhaps even earlier – and operating it to a world class standard, are imperative.

We will also continue to support the endeavours of the retail service providers (RSPs) working on the Northpower Fibre network, so they can provide a high quality service to end users. To that end, another of our strategic goals is to educate and support end users to assist them to maximise the opportunities from fibre.

Our fourth strategic goal is equally important, to play our part in developing an engaged community to realise the potential from fibre in business, education and health. We are progressing a number of initiatives, among them, facilitating the formation of a community education trust to help our children to have the best access to educational opportunities and professional development possible. This is the most rewarding

opportunity in UFB: to provide an opportunity for Whangarei schools to be amongst the leaders in New Zealand in the transformation to e-learning.

The education of our children is imperative for the future social health of a city such as Whangarei. Equipping our children and educators with the best e-learning platform possible is vital for boosting a talent pool that will add value to the Northland region in years to come. Our infrastructure and initiatives will complement the Government's Network For Learning (N4L) initiative – a managed network designed specifically for schools, which provides safe, predictable and fast internet with uncapped data; online content filtering and network security services.

Providing every socio-economic grouping within our community with equitable access to digital technologies will clearly enable new ways of learning and student success at all ages – from pre-school to tertiary institutions. Real-time remote learning is now a reality for Whangarei residents on our fibre network.

Northpower Fibre is clearly seen as an enabler – to the benefit of the Whangarei community – and it is pleasing to see the advantages being enjoyed by those who have embraced our fibre network. We are leading the way in UFB in New Zealand.

Furthermore, our partnership with Crown Fibre is proof of the Government's ultra-fast broadband model working for the good of communities. It is empowering to work with such an astute Board of Directors and I value their professionalism, vision and drive to succeed. However, our CEO, Darren Mason, and the team of Northpower executives whom he works with have been key to the company's achievements.

What we see now is just a taste of what is to come. In fact, much like technological developments since the advent of electricity in New Zealand last century, ultra-fast fibre broadband will deliver an entirely new landscape of opportunities; potential which we simply cannot foresee. It is exciting to be a part of that future.

Jo Brosnahan
Chairperson

Chief Executive's Report



It is pleasing as we look back on the 2012/2013 financial year to see the immense progress made on the Northpower Fibre ultra-fast broadband network. With a year remaining to complete the Northpower Fibre network in Whangarei, we surpassed 80% of the infrastructural build. By the middle of 2014, Whangarei will be New Zealand's first fully-fibred city – possibly two years ahead of any other.

As with any infrastructure build of this capacity, there are a myriad of challenges along the way. These require agility, innovation and an innate desire to keep pushing on and working to the end goal – without losing sight of the detail required to get things right.

Yet the effort and foresight of our build team are impressive as they continue to break new ground. They are bedding in new systems and processes and doing it well.

Their focus on health and safety is paramount and they have worked well with local authorities and landowners to ensure the reinstatement process is seamless. Even throughout the CBD build stage, they kept disruptions to a minimum; an impressive effort during such a complex process.

What that means for the city is that locals have access to one of the best broadband networks in the country and that gives people the ability to work, learn and play in a whole different way.

To June 30 2013, we had completed 80% of our fibre network, passing 15,652 premises in the process. Of those, 12,225 premises were able to connect to the Northpower Fibre network and hundreds had chosen to do just that. Northpower Fibre has led the way with the highest number of customer connections of any Local Fibre Company in New Zealand, averaging around 7% for the 2012/2013 financial year.

The retail service providers (RSPs) remain critical to the success of open access UFB networks such as ours. We hear consistently from end users about the vastly improved communications experience which the Northpower Fibre network is delivering – along with

far more favourable costs. Retail service providers are critical in that experience and are to be applauded. They have seen a great opportunity with our network and have played a strong role in driving uptake.

Speaking to many of the businesses and individuals on our network has been most revealing. Without fail, businesses have reported efficiency gains of more than 20%. Many have been able to start doing business in the South Island and abroad – purely because fibre provides such a superior speed of data transfer compared to legacy copper broadband.

While we still have a way to go to complete our build and network testing, the 2013/2014 financial year will be an exciting one as our focus moves to the customer experience and helping facilitate people to be able to take advantage of the opportunities which Whangarei's fibre world is creating.

We want a seamless transition for everyone involved in the Northpower Fibre experience to make their journey from the old copper world to the new fibre future. So fibre is opening up new opportunities and I do not believe we have even scratched the surface of where it will lead in years to come. That is exciting.

As we continue to break new ground, we can see that the early adopters on our fibre network are doing likewise and that is inspiring to see. Innovation is the key.

Darren Mason
Chief Executive

Directors' Report

	30 June 2013	30 June 2012
	\$	\$
Operating surplus (deficit) for the period	(849,648)	(481,941)
Opening retained earnings	<u>(561,688)</u>	<u>(79,747)</u>
Leaving retained earnings at end of period	<u><u>(1,411,336)</u></u>	<u><u>(561,688)</u></u>

It is not proposed to make any transfer to reserves.

The directors recommend that no dividend be declared.

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 2013.

The following entries are in the interest register:

Jo Brosnahan

- Chair of: Leadership NZ and Abilities Foundation
- Director of: Personal Footprint Limited and Hunter Downs Development Company Limited
- Member, Advisory Board of: Centre for Brain Research, Auckland University
- Trustee of: Harkness Trust and NZ Day Trust
- Principal of: Jo Brosnahan Leadership and Governance and Leaders for the Future



Graham Mitchell

- Director of: UltraFast Fibre Limited and Enable Networks Limited
- Chief Executive Officer of: Crown Fibre Holdings Limited
- Member of: Chorus Steering Committee



Sean Wynne

- Director of: UltraFast Fibre Limited, Twenty4media Pty Limited and Enable Networks Limited
- Director and shareholder of: Twenty4media Limited (formerly VC Image Limited)
- Officer of: Crown Fibre Holdings Limited
- Member of: Chorus Steering Committee



Nikki Davies-Colley

- Director of: Northpower Limited, Northpower Western Australia Pty Limited, Westcoast Energy Pty Limited, Farmlands Co-Operative Society Limited and Landcorp Limited



Mark Gatland

- Director of: AMAG Limited and BMAG Limited
- Chief Executive Officer of: Northpower Limited



Directors' Report

Indemnities and Insurance

Name of director	Particulars of indemnity or insurance
All directors of Whangarei Local Fibre Company Limited and any other 'Indemnified Persons' (as defined by the term "Indemnified Person" in clause 1 of the Deed of Indemnification dated 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 Whangarei Local Fibre Company Limited.	D & O Insurance Policy pursuant to clause 28 of Whangarei Local Fibre Company Limited's constitution and section 162(5) of the Companies Act 1993.

Indemnity

The company holds a current Professional Indemnity Insurance Policy.

Use of Company Information

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

Share Dealing

No director acquired or disposed of any interest in shares in the company during the period ended 30 June 2013.

Auditor

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

Statement of Responsibility

The Board of Whangarei Local Fibre Company Limited accepts responsibility for the preparation of the annual financial statements and the judgements used in them.

The Board of Whangarei Local Fibre Company Limited accepts responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting; and

In the opinion of the Board of Whangarei Local Fibre Company Limited the annual financial statements for the period ended 30 June 2013 fairly reflect the financial position and operations of Whangarei Local Fibre Company Limited.

Signed on behalf of the board



Director 2 September 2013



Director 2 September 2013

Our Network

Northpower Fibre spreading quickly

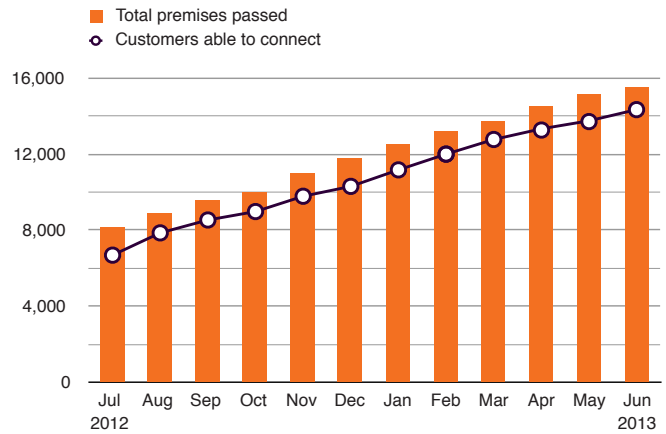
As the 2012/2013 financial year came to a close we were counting down to an earlier than expected completion time for the build of New Zealand’s first ultra-fast broadband fibre network.

By this time next year, Whangarei will be New Zealand’s first fully fibred city and home to a world-class broadband network.

Under our agreement with Northpower and Crown Fibre Holdings, we are obliged to complete the entire Northpower Fibre Network build by June 2014.

However, at June 31, 2013 we were 80% of the way through the entire network build with over 14,000 users able to connect to the Northpower Fibre network. While the uptake rate was hovering at around 7%, this was the highest in the country and expected to grow.

A team of more than 50 fibre specialists has worked tirelessly on the project, overcoming technical and infrastructural challenges along the way.



To have progressed the build so quickly is an outstanding effort. By Christmas, 2013, fibre will be at the doors of almost 19,000 premises, meaning the physical part of the build will be nearing completion months ahead of schedule.

The entire network will be electronically live and fully operational around April 2014.

Northpower connects with Australian fibre network leaders

Northpower’s growing stature in fibre networks culminated in September 2012 in a visit from the Australian Government Select Committee on the Australian National Broadband Network (NBN), during its New Zealand trip. Northpower was one of the first stops for the eight-member committee led by Robert Oakeshott MP.

The delegation was in New Zealand to learn more about this country’s UFB initiative, as Australia has started its own multi-billion dollar fibre network build and wanted to draw on New Zealand’s experience.

“Northpower, right from the outset and prior to the Government UFB project, built its fibre network to compete with copper. This innovation was significant and was required to reduce the build cost to enable faster construction. It was of particular interest to the committee,” Northpower Network General Manager Graham Dawson told the Committee.

“It is our hope that Whangarei residents will increasingly switch to fibre as their communications choice. The greater the uptake levels, the greater the success of a locally owned infrastructure asset.”



Senior Northpower Management with representatives from the Australian Government Select Committee on the National Broadband Network.

Our Network

Northpower Fibre – Enabling Whangarei Business Growth

Earlier last century Northpower was a tiny company in Dargaville with only a handful of staff.

Yet when Northpower set out in 2007 to build a fibre network, few would have picked a Northland electricity distribution lines company to be first across the line in the Government's ultra-fast broadband initiative.

Northpower was awarded the Whangarei UFB contract in late 2010, formalising a public-private partnership with Crown Fibre Holdings shortly after. The build began in earnest in April 2011. Deadline time for completion is June 2014, although with over 50 people on the job, progress is rapid.

This time next year, Whangarei will be home to New Zealand's first 'fully-fibred' UFB network.

Ironically, it was Northpower that proved to the Government some years back that attaching fibre overhead (on power poles) was economically viable. It is somewhat fitting that an electricity company is now building a fibre network so efficiently and effectively.

Thanks to Northpower Fibre's UFB network, hundreds of early adopters are already on board and more want to connect. Businesses already on the network have reported strong efficiency gains.

Whangarei creative suite 'Different Limited' has reported a productivity lift of 30% since switching to fibre. Director Matt Lewis says where transferring a large data file was once onerous and costly; it is a simple task on fibre.

It means he can provide creative solutions for clients faster and easier – often beating deadlines as the sign-off process is so much cleaner.

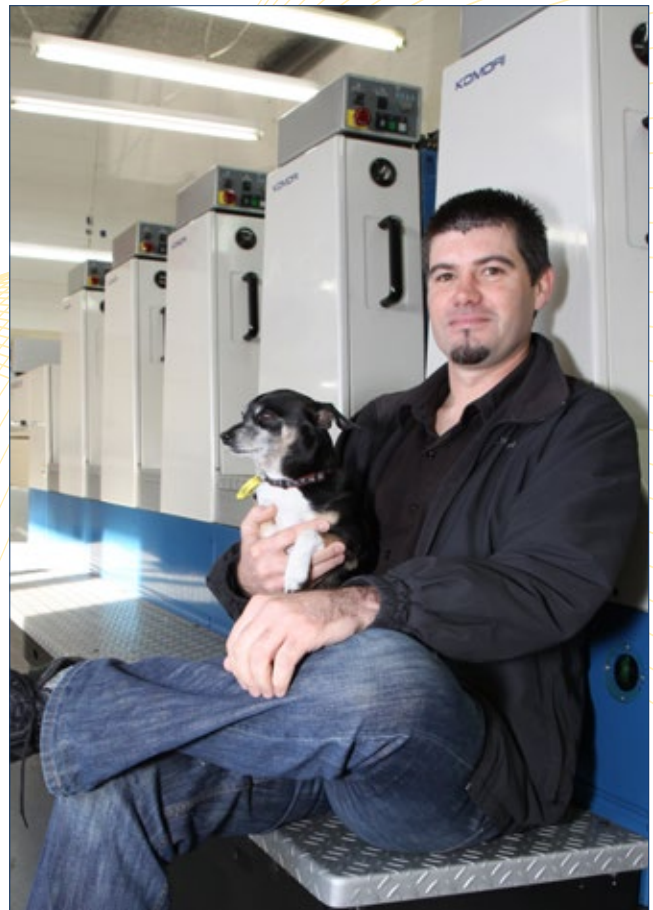
Jeff Oliver Print has a similar view. Director Dean Oliver has taken on clients in Christchurch and Australia since switching to fibre and rated the 2012/2013 financial year as one of the best. There is no longer a need to courier print proofs to clients as fibre allows virtually instant online viewing, he said in a media interview in late 2012.

The data speeds around Whangarei on the Northpower Fibre network are an asset to businesses.

While 100 megabits per second (mbps) is available, the pair agree download speeds of 30mbps and upload speeds of 10mbps (30/10mbps) are okay for now.

Mr Lewis says being able to back up files across the network to an off-site remote location – rather than using the cloud and being charged for data storage – is ideal.

"So for the price of a cheap external hard drive I negate expensive cloud services. For an SME, that's a huge saving. The reliability of the Northpower Fibre network has also been a bonus for me and I've been connected for close to two years now," he said.



Dean Oliver says Northpower Fibre broadband has added immense value to his printing business - contributing to a record year.

Independent Auditor's Report

To the readers of Whangarei Local Fibre Company Limited's financial statements for the year ended 30 June 2013

The Auditor General is the auditor of Whangarei Local Fibre Company Limited (the company). The Auditor General has appointed me, Leon Pieterse, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the company on her behalf.

We have audited the financial statements of the company on pages 9 to 24, that comprise the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, and the notes to the financial statements that include accounting policies and other explanatory information.

Opinion

Financial statements

In our opinion the financial statements of the company on pages 9 to 24:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company's:
 - ◊ financial position as at 30 June 2013; and
 - ◊ financial performance and cash flows for the year ended on that date.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 2 September 2013. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements; and
- the overall presentation of the financial statements.

Independent Auditor's Report

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also we did not evaluate the security and controls over the electronic publication of the financial statements.

In accordance with the Financial Reporting Act 1993 we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the company's financial position, financial performance and cash flows.

The Board of Directors is also responsible for such internal control as is determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the Public Finance Act 1989 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from the Public Finance Act 1989 and section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor General, which incorporate the independence requirements of the External Reporting Board.

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



Leon Pieterse
Audit New Zealand
On behalf of the Auditor General
Auckland, New Zealand

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Statement of Comprehensive Income

	Notes	2013 \$	2012 \$
Income			
Fibre connection services revenue		585,020	151,571
Reimbursement revenue		-	19,932
Interest income		3,158	3,473
Total income		<u>588,178</u>	<u>174,976</u>
Expenses			
Depreciation and amortisation expense	8&9	522,054	151,788
Management fee		296,518	41,917
Salaries and wages		169,314	137,597
Other expenses	3	780,255	511,678
Total expenses		<u>1,768,141</u>	<u>842,980</u>
Profit (loss) before tax		(1,179,963)	(668,004)
Income tax benefit	4	330,315	186,063
Net profit (loss) for the period		<u>(849,648)</u>	<u>(481,941)</u>
Other comprehensive income		-	-
Total comprehensive income (loss) for the period		<u>(849,648)</u>	<u>(481,941)</u>
Profit (loss) attributable to:			
Equity holders of the company		<u>(849,648)</u>	<u>(481,941)</u>
Total comprehensive income (loss) attributable to:			
Equity holders of the company		<u>(849,648)</u>	<u>(481,941)</u>

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

Statement of Financial Position

	Notes	2013 \$	2012 \$
Current assets			
Cash and cash equivalents	5	9,395	33,446
Trade and other receivables	6	212,820	291,309
Prepayments	7	451,119	774,560
Tax refund due	4	-	1,122
Total current assets		<u>673,334</u>	<u>1,100,437</u>
Non-current assets			
Plant and equipment	8	18,102,044	10,442,202
Intangible assets	9	-	4,575
Deferred tax asset	4	547,391	217,076
Total non-current assets		<u>18,649,435</u>	<u>10,663,853</u>
Total assets		<u>19,322,769</u>	<u>11,764,290</u>
Current liabilities			
Trade and other payables	10	282,974	432,596
Total current liabilities		<u>282,974</u>	<u>432,596</u>
Total liabilities		<u>282,974</u>	<u>432,596</u>
Net assets		<u>19,039,795</u>	<u>11,331,694</u>
Equity			
Share capital	11	20,451,131	11,893,382
Retained earnings		<u>(1,411,336)</u>	<u>(561,688)</u>
Total equity		<u>19,039,795</u>	<u>11,331,694</u>



Director 2 September 2013



Director 2 September 2013

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

Cash Flow Statement

	Note	2013 \$	2012 \$
Cash flows from operating activities -			
Cash was provided from:			
Receipts from customers		533,024	199,641
Interest received		3,158	3,473
Tax refund		1,122	133
GST refunds		118,881	-
Cash was distributed to:			
Payments to suppliers		(1,218,078)	(311,742)
Payments to Employees		(165,294)	(121,945)
GST Paid		-	(237,976)
Income tax paid		-	(1,122)
Net cash inflow from operating activities	12a	<u>(727,187)</u>	<u>(469,538)</u>
Cash flows from investing activities -			
Cash was provided from:			
Proceeds from sale of website		3,133	-
Cash was applied to:			
Purchase of property, plant and equipment	12b	(7,292,412)	(7,701,259)
Prepayment of property, plant and equipment		-	(750,960)
Net cash outflow from investing activities		<u>(7,289,279)</u>	<u>(8,452,219)</u>
Cash flows from financing activities -			
Cash was provided from:			
Share capital		7,992,415	8,902,220
Net cash inflow from financing activities		<u>7,992,415</u>	<u>8,902,220</u>
Net increase (decrease) in cash and cash equivalents		(24,051)	(19,537)
Add cash and cash equivalents at the beginning of the year		33,446	52,983
Cash and cash equivalents at the end of the year		<u>9,395</u>	<u>33,446</u>

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

Accounting Policies

1. GENERAL INFORMATION

Reporting Entity

These are the financial statements of Whangarei Local Fibre Company Limited (“the company”). Whangarei Local Fibre Company Limited is a company incorporated in New Zealand on 13 December 2010 and registered under the Companies Act 1993. The company is domiciled in New Zealand. The address of the registered office is 28 Mount Pleasant Road, Raumanga, Whangarei 0110.

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

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

These financial statements were approved for issue by the Board of Directors on 2 September 2013. The Board does not have the power to amend these financial statements after issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

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

b) Differential Reporting

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

The company has taken advantage of all differential reporting exemptions, except for:

- i. the exemption allowed under NZ IAS 7 Statement of Cash Flows for qualifying entities not to prepare a statement of cash flows;
- ii. the exemption under NZ IAS 12 Income Taxes that permits qualifying entities to use the taxes payable method;
- iii. the exemption available in NZ IAS 18 Revenue that permits qualifying entities to recognise revenue and expenses on a GST inclusive basis.

c) Basis of Preparation

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

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

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

Accounting Policies

d) New accounting standards and interpretations

The accounting policies adopted are consistent with those of the prior year, except as follows;

The company has adopted the following new and amended New Zealand Equivalent to International Financial Reporting Standards and IFRS interpretations as of 1 January 2012.

- i. Amendment to NZ IFRS 7 Financial Instruments: effective 1 July 2011
- ii. FRS-44 New Zealand Additional Disclosures: effective 1 July 2011
- iii. Harmonisation Amendments: effective 1 July 2011

e) Revenue

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

- Revenue from fibre connection services
Revenue is recognised as the end-customer has been provided with a working fibre connection to the UFB network and other related connection services have been rendered.
- Interest income
Interest revenue is recognised as the interest accrues using the effective interest method.
- Deferred revenue
Revenue is deferred in respect of the portion of the monthly charges that have been billed in advance

f) 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.

g) 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.

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.

Accounting Policies

h) 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 recognised at cost which is the contract average cost per premises passed as per the Network Infrastructure Project Agreement (NIPA).

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 profit and loss 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:

Fibre Optic Network Assets 5 – 40 years

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

Building Infrastructure

- Leasehold Improvements – 20 years

Plant and Equipment 4 – 10 years

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

The asset's residual value and useful lives are reviewed, and adjusted if appropriate, at balance date.

Accounting Policies

i) Impairment of Property, Plant and Equipment and Intangible Assets

Non-financial assets such as property, plant and equipment and intangible assets 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. 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 have suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

j) Assets Under Construction

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

k) Intangible Assets

I. Website Development

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

II. Amortisation

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

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

l) 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.

m) Goods and Services Tax

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

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

Accounting Policies

n) Taxation

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

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

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

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

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

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

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

o) 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.

p) 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, and annual leave earned but not yet taken at balance date.

Accounting Policies

q) 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 premises to the fibre network is incurred by Northpower Limited, who then sells the connection assets to Whangarei Local Fibre Company Limited in return for B shares or cash in accordance with the contract.

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

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

Notes to the Financial Statements

	2013	2012
	\$	\$
3 Other Expenses		
Auditor's remuneration		
- Auditing financial statements	15,000	15,000
Directors' fees	90,000	90,000
Doubtful debts	23,910	-
Other expenses	<u>651,345</u>	<u>406,678</u>
	<u>780,255</u>	<u>511,678</u>
4 Taxation		
Components of income tax benefit		
Current tax	-	-
Deferred tax	<u>330,315</u>	<u>186,063</u>
Income tax benefit	<u>330,315</u>	<u>186,063</u>
Relationship between tax benefit and comprehensive income (loss)		
Profit (loss) before taxation per statement of comprehensive income	(1,179,963)	(668,004)
Tax at 28%	330,390	187,041
Add (less) tax effect of:		
Non-deductible expenditure	<u>(75)</u>	<u>(978)</u>
Income tax benefit	<u>330,315</u>	<u>186,063</u>

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

Deferred tax asset (liability)

	Property, Plant & Equipment	Employee Entitlements	Provisions	Tax Losses	Total
Opening balance 1 July 2012	-	3,325	4,200	209,551	217,076
Charged to profit or loss	(190,642)	(1,607)	6,695	515,869	330,315
Charged to other comprehensive income	-	-	-	-	-
Closing balance 30 June 2013	<u>(190,642)</u>	<u>1,718</u>	<u>10,895</u>	<u>725,420</u>	<u>547,391</u>

This balance comprises:

Tax benefit of losses	725,420
Deferred tax asset (liability)	<u>(178,029)</u>
	<u>547,391</u>

Notes to the Financial Statements

4 Taxation Continued

Deferred tax asset (liability)

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

Tax losses are recognised as a deferred tax asset on the basis that future profits to utilise these losses are considered probable.

	2013	2012
Imputation credit account:	\$	\$
Opening balance	1,122	-
Resident withholding tax	-	1,122
Less tax refunded	<u>(1,122)</u>	<u>-</u>
	<u>-</u>	<u>1,122</u>
Imputation credits available for use in subsequent periods	<u>-</u>	<u>-</u>

5 Current Asset - Cash and Cash Equivalents

Cash at Bank	<u>9,395</u>	<u>33,446</u>
	<u>9,395</u>	<u>33,446</u>

6 Current Assets - Trade and Other Receivables

Trade receivables	147,876	50,894
Less doubtful debts	<u>(23,910)</u>	<u>-</u>
	123,966	50,894
GST receivable	<u>88,854</u>	<u>240,415</u>
	<u>212,820</u>	<u>291,309</u>

7 Prepayments

Insurance	21,200	23,600
Salary	1,667	-
Deferred Network Asset Cost	<u>428,252</u>	<u>750,960</u>
	<u>451,119</u>	<u>774,560</u>

Deferred Network Asset Cost is the cost of assets that are yet to be constructed

Notes to the Financial Statements

	2013	2012
	\$	\$
8 Property Plant and Equipment		
Fibre Optic Network Assets		
Cost or fair value		
Opening balance	10,592,421	-
Addition	8,180,455	10,592,421
	<u>18,772,876</u>	<u>10,592,421</u>
Accumulated depreciation		
Opening balance	150,219	-
Depreciation expense for the year	520,613	150,219
	<u>670,832</u>	<u>150,219</u>
Net carrying value	<u>18,102,044</u>	<u>10,442,202</u>

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

9 Intangible Assets		
Website		
Cost or fair value		
Opening balance	6,275	6,275
Addition	-	-
Sales	(3,134)	-
	<u>3,141</u>	<u>6,275</u>
Accumulated amortisation		
Opening balance	1,700	131
Amortisation expense for the year	1,441	1,569
	<u>3,141</u>	<u>1,700</u>
Net carrying value	<u>-</u>	<u>4,575</u>

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

10 Trade and Other Payables		
Trade payables (GST inclusive)	195,457	349,030
Directors' fees due	-	-
Accrued payables (GST exclusive)	20,084	38,955
Employee entitlements		
Holiday pay accrual	6,137	11,876
Salary accrual	-	3,776
Income in advance	61,296	28,959
	<u>282,974</u>	<u>432,596</u>

Notes to the Financial Statements

	2013	2012
	\$	\$
11 Share Capital		
(a) A shares		
Crown Fibre Holdings Limited		
Opening balance	8,332,779	30,752
Add shares issued during the year	<u>7,292,412</u>	<u>8,452,219</u>
	15,625,191	8,482,971
Less unpaid shares	<u>-</u>	<u>-</u>
	15,625,191	8,482,971
Less 498,852 shares sold to Northpower Limited (2012: 149,743 shares)	<u>498,852</u>	<u>150,192</u>
Total paid-up A shares held by Crown Fibre Holdings Limited	<u><u>15,126,339</u></u>	<u><u>8,332,779</u></u>
Northpower Limited		
Opening balance	150,192	-
498,852 shares purchased from Crown Fibre Holdings Limited (2012: 149,743 shares)	<u>498,852</u>	<u>150,192</u>
Total paid-up A shares held by Northpower Limited	<u><u>649,044</u></u>	<u><u>150,192</u></u>
Total paid-up A shares	<u><u>15,775,383</u></u>	<u><u>8,482,971</u></u>
The A shares have voting rights but no ordinary rights to dividends.		
(b) B shares		
Opening balance	3,410,412	100,001
Add shares issued during the year	<u>1,265,337</u>	<u>3,310,411</u>
	4,675,749	3,410,412
Less unpaid shares	<u>1</u>	<u>1</u>
Total paid-up B shares	<u><u>4,675,748</u></u>	<u><u>3,410,411</u></u>
The B shares are held by Northpower Limited, have no voting rights but carry ordinary rights to dividends.		
(c) Government share		
Opening balance	1	1
Less unpaid shares	<u>1</u>	<u>1</u>
Total paid-up Government shares	<u><u>-</u></u>	<u><u>-</u></u>
The Government share carries regulatory rights.		
Total shares issued during the year	8,557,749	11,762,630
Total issued capital	20,451,133	11,893,383
Total paid-up capital	20,451,131	11,893,382

Notes to the Financial Statements

	2013	2012
	\$	\$
12 a) Reconciliation with Cash Inflow from Operating Activities		
Reported net profit (loss) after taxation	(849,648)	(481,941)
Add (less) non-cash items:		
Depreciation and amortisation	522,054	151,788
Movements in tax benefit of losses	(330,315)	(186,063)
Doubtful debts	23,910	-
Movements in working capital:		
Increase (decrease) in trade and other payables	(149,622)	353,498
(Increase) decrease in taxation refund	1,122	(989)
(Increase) decrease in trade and other receivables	55,312	(305,831)
Net cash inflow from operating activities	<u>(727,187)</u>	<u>(469,538)</u>
b) Reconciliation to Statement of Financial Position		
Purchase of property, plant and equipment per statement of Cash Flow.	7,292,412	7,701,259
Purchase of property, plant and equipment paid for in shares	565,334	
Capital contribution made from Northpower to the company through the asset transfer.	-	2,860,411
Assets disclosed as under construction in 2011 and transferred to property, plant and equipment during 2012.	-	30,751
Prepayments capitalised	322,709	-
Total additions per note 7	<u>8,180,455</u>	<u>10,592,421</u>
Add opening balance	10,442,202	-
Less depreciation expense	<u>520,613</u>	<u>150,219</u>
Property, plant and equipment per Statement of Financial Position	<u>18,102,044</u>	<u>10,442,202</u>

13 Contingent Liabilities

The company has no contingent liabilities at balance date (2012: nil).

14 Lease Commitments

The company has no lease commitments at balance date (2012: nil).

15 Capital Commitments

The company has entered into a contract to construct a fibre optic network in Whangarei.

The funding for the construction is provided by Crown Fibre Holdings Limited and Northpower Limited. The remaining funding required to complete construction of the communal network along with the end-user infrastructure is estimated at \$22.144m to the end of the contract period. (FY12 \$31.693m)

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

Notes to the Financial Statements

16 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 11 for share transaction movements.

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

No related party debts were written off during 2013 or 2012.

Reimbursements income from Northpower, \$51,400 (\$19,932 FY12)

Income billed to Northpower as agent of the company, \$208,445 (\$39,014 FY12)

Construction costs charged by Northpower, \$9,036,407 (\$8,902,220 FY12)

Services other than construction charged by Northpower, \$1,158,601 (\$384,941 FY12)

Amount owed by Northpower at 30 June 2013, \$20,900 (\$5,482 FY12)

Amount owed to Northpower at 30 June 2013, \$191,897 (\$340,214 FY12)

Capital contributions received from Northpower, \$700,003 (\$3,310,411 FY12)

Capital account balance of Northpower at 30 June 2013 of \$649,044 A shares (\$150,192 FY12) and \$4,675,748 of B shares (\$3,410,411 FY12)

Capital contributions received from Crown Fibre Holdings, \$7,292,412 (\$8,452,219 FY12)

Capital account balance of Crown Fibre Holdings at 30 June 2013, \$15,126,339 (\$8,332,779)

(b) Directors

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

The independent director and chair is JA Brosnahan.

All of these directors were also directors during the period ended 30 June 2012.

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

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

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

Salaries and wages of \$169,314 represents the payment to the Chief Executive Officer.

(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.

17 Events Post Balance Date

In July an additional Network Build Stage was capitalised resulting in the issue of A Shares to Crown Fibre Holdings Limited for \$518,967.

Northpower Fibre Limited:

Chair

Jo Brosnahan, MA (Hons), FCILT, FNZIM, A Minst D, QSO.

Directors:

Mark Gatland, BE, MIPENZ, MBA.

Nikki Davies-Colley, BBS, MBA. AM Inst D.

Graham Mitchell, BCA, ACA.

Sean Wynne, LLB.

Executive officers:

Chief Executive

Darren Mason, BMS (Hons).

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.

www.northpowerfibre.co.nz