

Annual Report  
**2014**





# Northpower Fibre Limited

## Annual Report 2014

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In respect of the period ended 30 June 2014, the directors of Northpower Fibre Limited (previously known as Whangarei Local Fibre Company Limited) submit the following report.

## Chair's Report



It is seldom Northland is on the podium ahead of the rest of the country.

With the completion of Northpower Fibre's ultra-fast broadband network in Whangarei this year, that landscape has changed.

We have built a super highway to the rest of the world, opening up a future filled with opportunities we once could not have dreamt of.

Northpower has been superb in completing New Zealand's first UFB fibre network – ahead of time and on budget. We have so much respect for the team that made this happen. They worked tirelessly, they worked safely and they worked closely with our community in a seamless manner.

In doing so, the company has given Whangarei an advantage over much of the country of being the first city in New Zealand able to be connected by fibre. Locals have been quick to recognise the opportunities and take advantage of them.

When you consider the social, economic and infrastructural challenges facing Northland, having a world-class broadband network at our fingertips is something to cherish.

The success of the network build has been all about partnership. We have had, and continue to have, a great level of support from local authorities and the Government.

Our partner in the build, Crown Fibre Holdings, has been nothing but constructive and supportive.

The more we see the positive UFB impact on Whangarei, the more we believe in the vision of the Government's UFB initiative.

Now is the time to really capitalise on this open-access fibre network that is delivering true competition and vast opportunity. The types of businesses that will evolve will be fascinating to see.

But what we are most excited about is the educational opportunities provided by UFB. We have witnessed this first-hand at Manaia View School. Quite simply, it is changing lives dramatically.

Over the past year much work has gone into establishing the Te Puawai Education Programme – a vision that will initially see students at six Whangarei schools armed with tablets and a whole new way of learning. Within a matter of years, we anticipate that will extend to dozens of schools.

What this means for those students and their families is that this new way of e-learning will help them to achieve outstanding educational outcomes, such as those already being experienced through the 12 Tamaki schools involved with the Manaia Trust in Auckland.

While our operational focus is solely on the Whangarei UFB network, there is a broader desire to extend the reach of fibre and technology throughout Northland. That would be the ultimate.

I will leave you with the following thoughts.

We have an opportunity to tackle student underachievement and engagement in low socio-economic communities through new learning and teaching approaches using technology. We can change the future of our children with the Te Puawai Education Programme and thereby transform our community and economy. Working together can realise this.

To have been part of a catalyst for such positive change makes me immensely proud of the efforts of all involved in this wonderful journey. Northpower Fibre is creating a legacy that will be reflected on as a game-changer for generations to come.

Jo Brosnahan  
Chairperson

A handwritten signature in black ink that reads "Jo Brosnahan". The signature is written in a cursive, flowing style.

## Chief Executive's Report



I am immensely proud of all involved in completing the build of the Northpower Fibre ultra-fast broadband network.

When we hosted Prime Minister John Key at Manaia View School in May 2014, it

was the end of an era in some respects. Years of meticulous planning had led to three intense years of building new infrastructure from the ground up. From April 2011 until May 2014, a 100-strong team of specialists combined to build a fibre network to more than 19,000 premises. It was New Zealand's first fully-completed UFB network.

As we celebrated bringing the build to an end, we also hailed the start of a new era as we began to drive uptake on the network.

At the time of writing this report, our uptake penetration was 13% – and consistently lifting between 1% and 2% per month - with over 2500 people connected to the Northpower Fibre UFB network and plenty more lining up to come on board. Now, while that might not sound a large number, it is among the highest uptake in New Zealand.

And that is the pleasing aspect of this: the community effort that went in and the resulting community benefits as more people connect to a world class fibre network.

And, thanks to our open access fibre network, fibre customers now have an immense choice of service providers. That means strong competition in packages, options and pricing and that was always a goal of the Government's UFB initiative. We have fantastic retailers on the Northpower Fibre network and there are no more barriers to entry for newcomers.

I am looking forward to everyone hitting their straps in whatever they want to do with fibre as that is what it is all about, and we would sincerely like to maintain the leading penetration of UFB uptake for all of New Zealand. I know we have the dedication among our team members to make that happen and, as word spreads about the benefits of fibre-based communications, we are seeing an increase in word-of-mouth referrals in new connections.

So, to the future? Well, within five years, I would like to see Northland as the broadband capital of New Zealand and, with so many other developments underway in the North, the 'future city' tag has a nice ring to it.

Darren Mason  
Chief Executive

A handwritten signature in black ink, appearing to read 'DM', positioned to the right of the printed name and title.

## Directors' Report

	30 June 2014	30 June 2013
	\$	\$
Operating surplus (deficit) for the period	(2,027,766)	(849,648)
Opening retained earnings	<u>(1,411,336)</u>	<u>(561,688)</u>
Leaving retained earnings at end of period	<u><u>(3,439,102)</u></u>	<u><u>(1,411,336)</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 2014.

The following entries are in the interest register:

#### Jo Brosnahan



- Chair - Leadership NZ
- Chair - Abilities Foundation
- Chair – Hunter Downs Development Company Limited
- Advisory Trustee – Leadership NZ
- Director - Personal Footprint Limited
- Trustee - Harkness Trust
- Trustee – NZ Day Trust
- Principal - Jo Brosnahan Leadership and Governance and Leaders for the Future

#### Nikki Davies-Colley



- Director - Northpower Limited
- Director - Northpower Western Australia Pty Limited
- Director - Westcoast Energy Pty Limited
- Director - Farmlands Co-Operative Society Limited
- Director - Landcorp Limited
- Trustee - Ngarakau Family Trust. This trust holds shares in Chorus.

#### Mark Gatland



- Director - AMAG Limited
- Director - BMAG Limited
- Chief Executive Officer - Northpower Limited

#### Graham Mitchell



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

#### Sean Wynne



- Director - UltraFast Fibre Limited
- Director - Twenty4media Pty Limited
- Director - Enable Networks Limited
- Director / Shareholder - Twenty4media Limited (formerly VC Image Limited)
- Officer - Crown Fibre Holdings Limited
- Member - Chorus Steering Committee
- Member – Telecommunications as a Service for New Zealand Government Advisory Board.

## 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 2014.

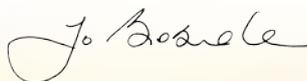
### Auditor

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

### Statement of Responsibility

1. The Board of Northpower Fibre Limited accepts 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 2014 fairly reflect the financial position and operations of Northpower Fibre Limited.

Signed on behalf of the board



Director

1 September 2014



Director

1 September 2014

## Fibre in Action

### Whangarei's first app on fibre



Complaints that there is nothing to do in Northland will be a thing of the past from this summer, when CHART North launches a new app telling people what's on in the beach, bar and band scenes. Rosie Riggir, CHART North Funding and Projects Manager, says during her

many years of working with events and touring bands, she found that lots was happening but not many people knew about it.

"One day I woke up and had a Eureka moment that we needed to build an app." Ms Riggir put her entertainment knowledge together with app programmer Alex Mason and development manager Daniel Beazley's technological skills to come up with SUP App, a Northland-wide events guide. Mr Mason says their app is the first one to be produced in Northland and has taken approximately 1500 hours to build so far. The app is expected to be launched for the upcoming summer 2014/15 season.

### A helping hand

Patients in remote areas of Northland are now getting better care thanks to the use of fibre in medical practices.

Dr Aniva Lawrence of Te Whareora O Tikipunga says that virtual clinics are being piloted in schools and remote rural locations to bring healthcare to people who missed out in the past.

Since 2012, new technology has been trialled to see if it is the answer to medical workforce shortages and long distances between patients and health professionals.

Video conferencing is being used to keep in touch with remote clinics, enabling remote populations from Kawakawa to Green Bay to be serviced. "I'm one of the younger generation of medical practitioners. UFB and fibre are what our generation is about.



We need speed in order to work effectively. We get clear pictures instead of low quality and we're able to see and hear patients perfectly." Dr Lawrence says that all the records where she works are now electronic, meaning that large files can be transferred extremely quickly.

### Proof of progress



Fibre fans at Jeff Oliver Print are calling on other Whangarei businesses to satisfy their need for speed by signing up for "crazy fast" internet. Co-owner Dean Oliver says the firm has saved money since switching to fibre in June 2011. But the efficiency gains achieved using the new technology have brought the greatest benefits.

The firm can turn around jobs much faster, which is crucial in the print business where deadlines are so important. Jeff Oliver prints annual reports, colour ads and community newspapers, among other products.

In the past, getting documents to print meant courioring them backwards and forwards between the printer and the business. Now, drafts are transmitted electronically and clients can give approval by email.

Fibre has enabled Jeff Oliver Print to broaden the scope of services offered as well as to pitch for work in Australia, neither of which would previously have been possible.

## Fibre in Action

### Art through connectivity



New technology is helping to nurture the creative spirit among the bush-clad hills and craggy rock faces of the Quarry Arts Centre. Community manager Andrea Beazley says the centre uses fibre both to increase its administrative efficiency and to communicate better with artists.

One of the main purposes of the centre is to offer a platform to display the talents of local artisans through on-site art studios, the Quarry Craft co-op shop and the Yvonne Rush gallery. There are 16 artists' studios - ranging from painters to jewellers, carvers and sculptors - and fibre now runs right through the complex.

"Our intention is to use a lot more video streaming because we run a lot of workshops here.

"Using high speed fibre will build the profile of the Arts Centre and increase community education, which is a huge improvement on what we have been able to do before," says Ms Beazley. She hopes that in future the centre will offer web workshops, connecting tutors and participants virtually rather than physically.

### Local TV goes national

Fibre lets Whangarei community TV station Channel North beat the big boys at their own game.

Producer Raewyn Barry says when a major story is shot in Northland, it can be sent to TVNZ or TV3 in five minutes - rather than the hour it would have taken in the past. This allows stories from the north to get to air around the country a lot faster.

Production manager Gareth Mauchline says the station now uploads directly to YouTube for clients.

"We recently did a national TV programme. It took us five minutes to upload to our FTP server and it took them three hours to upload it to their own FTP server. So that's the difference with us on fibre and them on copper."



Co-Tutor Video and Electronic Media at NorthTec, Karen Sidney, has big plans for the station's future off the back of fibre. The new technology is also allowing Channel North to move into areas of news production that were previously off-limits, such as current affairs.

### Progress in private



Dramatic cost-savings year-on-year are putting a smile on the face of Kensington Hospital finance manager, Karen Duncan, since the private hospital switched to fibre three years ago. In that time, the hospital has shaved \$35,000 off its phone and internet bills. Ms Duncan says the move has paid off handsomely

in terms of time, money and improved patient care. General Manager Steve Soufflot echoes that, saying the move to fibre has been a great experience.

"From a surgeon's perspective, our surgeons love it. They have high-quality, high-resolution images available. They're not shuffling old X-ray films around. They can call up multiple images at a time."

Ms Duncan observes that the hospital's interactions with agencies such as ACC and the National Immunisation Register are more efficient.

In future, she expects more patient documents, such as discharge and referral letters, to be electronic.

# Independent Auditor's Report

## To the readers of Whangarei Local Fibre Company Limited's financial statements for the year ended 30 June 2014

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 1 to 18, that comprise the statement of financial position as at 30 June 2014, 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

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### Financial statements

In our opinion the financial statements of the company on pages 1 to 18:

- 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 2014; 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 1 September 2014. 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	2014 \$	2013 \$
<b>Income</b>			
Fibre connection services revenue		957,040	585,020
Interest income		4,185	3,158
Total income		<u>961,225</u>	<u>588,178</u>
<b>Expenses</b>			
Depreciation and amortisation expense	8&9	1,156,032	522,054
Management fee		302,000	296,518
Salaries and wages		193,409	169,314
Other expenses	3	1,143,841	780,255
Total expenses		<u>2,795,282</u>	<u>1,768,141</u>
Profit (loss) before tax		(1,834,057)	(1,179,963)
Income tax benefit	4	(193,709)	330,315
<b>Net profit (loss) for the period</b>		<u>(2,027,766)</u>	<u>(849,648)</u>
Other comprehensive income		-	-
<b>Total comprehensive income (loss) for the period</b>		<u>(2,027,766)</u>	<u>(849,648)</u>
<b>Profit (loss) attributable to:</b>			
Equity holders of the company		<u>(2,027,766)</u>	<u>(849,648)</u>
<b>Total comprehensive income (loss) attributable to:</b>			
Equity holders of the company		<u>(2,027,766)</u>	<u>(849,648)</u>

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

## Statement of Financial Position

	Notes	2014 \$	2013 \$
<b>Current assets</b>			
Cash and cash equivalents	5	82,003	9,395
Trade and other receivables	6	238,253	212,820
Prepayments	7	1,552	451,119
<b>Total current assets</b>		<u>321,808</u>	<u>673,334</u>
<b>Non-current assets</b>			
Plant and equipment	8	30,110,354	18,102,044
Intangible assets	9	-	-
Deferred Tax	4	<u>353,682</u>	<u>547,391</u>
<b>Total non-current assets</b>		<u>30,464,036</u>	<u>18,649,435</u>
<b>Total assets</b>		<u>30,785,844</u>	<u>19,322,769</u>
<b>Current liabilities</b>			
Trade and other payables	10	<u>360,518</u>	<u>282,974</u>
<b>Total current liabilities</b>		<u>360,518</u>	<u>282,974</u>
<b>Total liabilities</b>		<u>360,518</u>	<u>282,974</u>
<b>Net assets</b>		<u>30,425,326</u>	<u>19,039,795</u>
<b>Equity</b>			
Share capital	11	33,864,428	20,451,131
Retained earnings		<u>(3,439,102)</u>	<u>(1,411,336)</u>
<b>Total equity</b>		<u>30,425,326</u>	<u>19,039,795</u>

  
Director

  
Director

Date: 1 September 2014

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



## Cash Flow Statement

	Note	2014 \$	2013 \$
<b>Cash flows from operating activities -</b>			
Cash was provided from:			
Receipts from customers		955,589	533,024
Interest received		4,185	3,158
Tax refund		-	1,122
GST refunds		21,355	118,881
Cash was distributed to:			
Payments to suppliers		(1,387,224)	(1,218,078)
Payments to Employees		(198,504)	(165,294)
<b>Net cash inflow from operating activities</b>	12a	<u>(604,599)</u>	<u>(727,187)</u>
<b>Cash flows from investing activities -</b>			
Cash was provided from:			
Proceeds from sale of website		-	3,133
Cash was applied to:			
Purchase of property, plant and equipment	12b	(10,224,277)	(7,292,412)
Prepayment of property, plant and equipment		-	-
<b>Net cash outflow from investing activities</b>		<u>(10,224,277)</u>	<u>(7,289,279)</u>
<b>Cash flows from financing activities -</b>			
Cash was provided from:			
Share capital		10,901,484	7,992,415
<b>Net cash inflow from financing activities</b>		<u>10,901,484</u>	<u>7,992,415</u>
Net increase (decrease) in cash and cash equivalents		72,608	(24,051)
Add cash and cash equivalents at the beginning of the year		9,395	33,446
<b>Cash and cash equivalents at the end of the year</b>		<u>82,003</u>	<u>9,395</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 Northpower Fibre Limited (“the company”). Northpower Fibre Limited is a company incorporated under the Companies Act 1993 on the 13th day of December 2010 as Whangarei Local Fibre Company Limited and changed its name to Northpower Fibre Limited on the 1st day of October 2013. 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 Northpower Fibre 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 1 September 2014. 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 Northpower Fibre 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

Northpower Fibre 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 is a Tier 3 for-profit entity and has elected to report in accordance with Tier 3 for-profit accounting standards. The Company is eligible to report in accordance with Tier 3 for-profit accounting standards on the basis that it does not have public accountability and because it is not a large for-profit public sector entity.

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 Northpower Fibre 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 Equivalents to International Financial Reporting Standards and IFRIC interpretations effective for the financial year beginning 1 July 2013.

- i. NZ IFRS 10 Consolidated Financial Statements
- ii. NZ IFRS 11 Joint Arrangements
- iii. NZ IFRS 12 Disclosure of Interests in other entities

### 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 premise 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 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:

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 taken at balance date.

### 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.

## Accounting Policies

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

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

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

### **r) Significant accounting estimates and assumptions**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

#### Estimation of useful lives of assets

The estimation of useful lives of assets has been based on industry experience as well as manufacturers' claims and warranties.

#### Future estimates of tax profits

The estimation of future tax profits has been based on the company's business plan. The business plan relies on key assumptions made in the areas of end-user take-up and connection mix which are the drivers of revenue. Uptake of UFB fibre in Whangarei is modelled on the uptake rates of DSL in the 2000s which aligns with the IDC forecast published in Insight "When will fibre take off in New Zealand (2013)". Over time entry level priced plans are expected to become the minority.

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

## Notes to the Financial Statements

	2014	2013
	\$	\$
<b>3 Other Expenses</b>		
Auditor's remuneration		
- Auditing financial statements	18,500	15,000
- Auditing information disclosures and TDL 2013	10,950	
- Auditing information disclosures 2014	8,200	-
Directors' fees	90,000	90,000
Doubtful debts	-	23,910
Operations & Maintenance	805,299	529,609
Other expenses	210,892	121,736
	<u>1,143,841</u>	<u>780,255</u>

### 4 Taxation

#### Components of income tax benefit

Current tax	-	-
Deferred tax	513,536	330,315
Losses not recognised	(707,245)	-
Income tax benefit	<u>(193,709)</u>	<u>330,315</u>

#### Relationship between tax benefit and comprehensive income (loss)

Profit (loss) before taxation per statement of comprehensive income	(1,834,057)	(1,179,963)
Tax at 28%	513,536	330,390
Add (less) tax effect of:		
Non-deductible expenditure	-	(75)
Losses not recognised	(707,245)	-
Income tax benefit/(expense)	<u>(193,709)</u>	<u>330,315</u>

A deferred tax asset has not been recognised in relation to tax losses of \$2,499,000.

#### Deferred tax asset (liability)

	Property, Plant & Equipment	Employee Entitlements	Provisions	Tax Losses	Total
Opening balance 1 July 2013	(190,642)	1,718	10,895	725,420	547,391
Charged to profit or loss	(223,478)	2,606	3,276	23,887	(193,709)
Charged to other comprehensive income	-	-	-	-	-
Closing balance 30 June 2014	<u>(414,120)</u>	<u>4,324</u>	<u>14,171</u>	<u>749,307</u>	<u>353,682</u>

This balance comprises:

Tax benefit of losses	749,307
Deferred tax asset (liability)	<u>(395,625)</u>
	<u>353,682</u>

The tax loss benefit has been calculated based on tax provision information contained in Northpower Fibre's business plan for the period from when Northpower Fibre starts making a tax profit in 2018 until the end of the concession period when a loss of shareholder continuity is anticipated in 2020.

## 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 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>

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

	2014	2013
<b>Imputation credit account:</b>	<b>\$</b>	<b>\$</b>
Opening balance	-	1,122
Resident withholding tax	-	-
Less tax refunded	-	(1,122)
	<u>-</u>	<u>-</u>
Imputation credits available for use in subsequent periods	<u>-</u>	<u>-</u>

### 5 Current Asset - Cash and Cash Equivalents

Cash at Bank	<u>82,003</u>	<u>9,395</u>
	<u>82,003</u>	<u>9,395</u>

### 6 Current Assets - Trade and Other Receivables

Trade receivables	203,796	147,876
Less doubtful debts	<u>(23,910)</u>	<u>(23,910)</u>
	179,886	123,966
GST receivable	<u>58,367</u>	<u>88,854</u>
	<u>238,253</u>	<u>212,820</u>

### 7 Prepayments

Insurance	1,552	21,200
Salary	-	1,667
Deferred Network Asset Cost	-	<u>428,252</u>
	<u>1,552</u>	<u>451,119</u>

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

## Notes to the Financial Statements

	2014	2013
	\$	\$
<b>8 Property Plant and Equipment</b>		
<b>Fibre Optic Network Assets</b>		
<b>Cost or fair value</b>		
Opening balance	18,772,876	10,592,421
Addition	<u>13,164,342</u>	<u>8,180,455</u>
	<u>31,937,218</u>	<u>18,772,876</u>
<b>Accumulated depreciation</b>		
Opening balance	670,832	150,219
Depreciation expense for the year	<u>1,156,032</u>	<u>520,613</u>
	<u>1,826,864</u>	<u>670,832</u>
<b>Net carrying value</b>	<u><u>30,110,354</u></u>	<u><u>18,102,044</u></u>

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

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

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

<b>10 Trade and Other Payables</b>		
Trade payables (GST inclusive)	181,358	195,457
Accrued payables (GST exclusive)	55,244	20,084
Employee entitlements		
Holiday pay accrual	15,444	6,137
Income in advance	<u>108,472</u>	<u>61,296</u>
	<u><u>360,518</u></u>	<u><u>282,974</u></u>

## Notes to the Financial Statements

	2014	2013
	\$	\$
<b>11 Share Capital</b>		
<b>(a) A shares</b>		
<b>Crown Fibre Holdings Limited</b>		
Opening balance	15,126,339	8,332,779
Add shares issued during the year	<u>9,761,139</u>	<u>7,292,412</u>
	24,887,478	15,625,191
Less unpaid shares	<u>-</u>	<u>-</u>
	24,887,478	15,625,191
Less 1,092,915 shares sold to Northpower Limited (2013: 498,852 shares)	<u>1,092,915</u>	<u>498,852</u>
Total paid-up A shares held by Crown Fibre Holdings Limited	<u><u>23,794,563</u></u>	<u><u>15,126,339</u></u>
<b>Northpower Limited</b>		
Opening balance	649,044	150,192
Add 1,092,915 shares purchased from from Crown Fibre Holdings Limited (2013: 498,852 shares)	<u>1,092,915</u>	<u>498,852</u>
Total paid-up A shares held by Northpower Limited	<u><u>1,741,959</u></u>	<u><u>649,044</u></u>
Total paid-up A shares	<u><u>25,536,522</u></u>	<u><u>15,775,383</u></u>
The A shares have voting rights but no ordinary rights to dividends.		
<b>(b) B shares</b>		
Opening balance	4,675,749	3,410,412
Add shares issued during the year	<u>3,652,158</u>	<u>1,265,337</u>
	8,327,907	4,675,749
Less unpaid shares	<u>1</u>	<u>1</u>
Total paid-up B shares	<u><u>8,327,906</u></u>	<u><u>4,675,748</u></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	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	13,413,297	8,557,749
Total issued capital	33,864,430	20,451,133
Total paid-up capital	33,864,428	20,451,131

## Notes to the Financial Statements

	2014	2013
	\$	\$
<b>12 a) Reconciliation with Cash Inflow from Operating Activities</b>		
Reported net profit (loss) after taxation	(2,027,766)	(849,648)
Add (less) non-cash items:		
Depreciation and amortisation	1,156,032	522,054
Movements in tax benefit of losses	193,709	(330,315)
Doubtful debts	-	23,910
Movements in working capital:		
Increase (decrease) in trade and other payables	79,211	(149,622)
(Increase) decrease in taxation refund	-	1,122
(Increase) decrease in trade and other receivables	(5,785)	55,312
<b>Net cash inflow from operating activities</b>	<u>(604,599)</u>	<u>(727,187)</u>
<b>b) Reconciliation to Statement of Financial Position</b>		
Purchase of property, plant and equipment per statement of Cash Flow.	10,224,277	7,292,412
Purchase of property, plant and equipment paid for in shares	2,511,813	565,334
Prepayments capitalised	<u>428,252</u>	<u>322,709</u>
Total additions per note 8	13,164,342	8,180,455
Add opening balance	18,102,044	10,442,202
Less depreciation expense	<u>1,156,032</u>	<u>520,613</u>
Property, plant and equipment per Statement of Financial Position	<u>30,110,354</u>	<u>18,102,044</u>

### 13 Contingent Liabilities

The company has no contingent liabilities at balance date (2013: nil).

### 14 Lease Commitments

The company has no lease commitments at balance date (2013: 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 communal network was completed in May 2014. The remaining funding required within the contractual period for construction of end-user specific infrastructure is estimated at \$9.871m. (FY13 \$22.144m which included communal infrastructure) 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 2014 or 2013.

Reimbursements income from Northpower, \$0 (\$51,400 FY13)

Income billed to Northpower as agent of the company, \$145,173 (\$208,445 FY13)

Construction costs charged by Northpower, \$14,646,504 (\$9,036,407 FY13)

Services other than construction charged by Northpower, \$1,504,841 (\$1,158,601 FY13)

Amount owed by Northpower at 30 June 2014, \$12,438 (\$20,900 FY13)

Amount owed to Northpower at 30 June 2014, \$157,107 (\$191,897 FY13)

Capital contributions received from Northpower, \$960,599 (\$700,003 FY13)

Capital account balance of Northpower at 30 June 2014 of \$1,741,959 A shares (\$649,044 FY13) and \$8,327,906 of B shares (\$4,675,748 FY13)

Capital contributions received from Crown Fibre Holdings, \$9,761,139 (\$7,292,412 FY13)

Capital account balance of Crown Fibre Holdings at 30 June 2014, \$23,794,563 (\$15,126,339 FY13)

All amounts specified above are GST inclusive.

#### (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 2013.

#### (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	<u>30,000</u>
	<u>90,000</u>

Salaries and wages of \$193,409 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

There are no events post balance date.

## Northpower Fibre Limited:

### Chair

Jo Brosnahan, MA (Hons), FCILT, FNZIM, QSO, Fellow IOD.

### Directors:

Mark Gatland, BE, MIPENZ, MBA.

Nikki Davies-Colley, BBS, MBA, Fellow IOD.

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](http://www.northpowerfibre.co.nz)