



Annual Report
2016

Northpower *FIBRE*

'connecting our future today'

"It is truly an open and symbiotic relationship between two leading and innovative companies, a partnership that enables Calix to work with Northpower Fibre to build the best practices and technologies to meet the demands of a future-focused fibre network in the challenging competitive broadband space. Together we've created a world-class network that can be transplanted into any environment."

Andy Lockhart

Senior Vice President Sales, Calix (Major USA Broadband Access Supplier)

Northpower Fibre Limited
Annual Report 2016

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In respect of the period ended 30 June 2016, the Directors of Northpower Fibre Limited submit the following report:

Chair and CEO Report

The roll-out of an ultra-fast broadband network is a truly fascinating journey to be involved with.

In Whangarei we are continuing to witness an evolution of opportunity, thanks to the Northpower Fibre UFB network.

We hear daily of community success stories in business, education, healthcare and on the home front – opportunity provided by our city having a world class broadband network. Ours is a strong community and the performance of the Northpower Fibre team is also strong. We are consistently number one in every performance measurement of our business and customer activities.

Northpower started Northland on this journey way back in 2007, with Northpower Fibre taking on the UFB build in 2011. The vision of enabling our community has remained throughout.

Our partnership with Crown Fibre Holdings has had an immensely positive impact on the success of the Whangarei UFB roll-out and our Board is a pleasure to work with. The broader Northpower and Northpower Fibre teams continue to do us proud and they work closely with our community, which has embraced the opportunity that fibre brings.

Our local authorities and business development agencies are equally supportive and important in the expansion of our UFB network and we look forward to continuing to develop these relationships. Similarly, we appreciate the work of contracting partners Vitel, Northcom, Northdrill, Hutton and Cameron and others.

We have an exceptionally reliable network that continues to evolve and provide a breadth of services and opportunities, due to the expertise of our fibre engineers and our international partners like Calix. As part of our on-going strategic approach, we will be trialling some of the most cutting-edge next generation electronics on our network in late 2016. With these on-going developments, there has never been a better time for local residents to connect to the Northpower Fibre UFB network.

To think that Northland and New Zealand were until recently held to a telecommunications monopoly is now hard to comprehend. In the space of a few years, the Northpower Fibre network has attracted dozens of retail service providers who are offering really competitive packages for those people connected to our network. With choice comes the opportunity for our community to really get ahead.

So thanks to our Retail Service Providers for their belief in a fibre future, connecting customers and enabling them to embrace the benefits of ultra-fast fibre broadband.

Between June 2015 and June 2016, we had more than 2500 new customers connect to the Northpower Fibre network - taking our total number of connections at the end of the financial year to 7116 (32% of possible connections), with 80 to 90% of new monthly connections now on speeds greater than 100Mbps.

We plan to lift that number to 10,000 (out of a potential 22,500 customers) by June 2017 and are confident that will happen, with the way Northlanders are embracing and adopting fibre broadband.

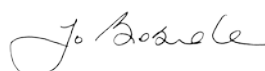
A major milestone of the 2015/2016 financial year for our team was the introduction of Gigabit services to three local high schools – in preparation for making it broadly available to all Northpower Fibre customers.

One of the most important opportunities to come from fibre involves changing the future educational outcomes in the region, particularly for low decile children. Our sponsorship of the Taitokerau Education Trust is helping to ensure that those most in need receive Chromebooks and are able to participate, with their whanau, in a digital learning programme based upon that piloted by the Manaiaakalani Trust in Auckland. We are excited about the opportunities that this brings for enhancing the future for our young people.

The relationship with the 20/20 Trust which runs the 'Computers in Homes' programme is really important in this programme. We want to see disadvantaged families have the internet and fibre in their homes, because the more we can get these households connected, the faster we are opening opportunities for those families and their children.

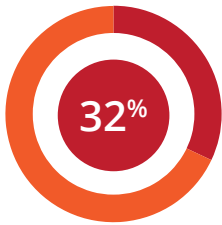
Northpower Fibre is ahead of the game and we plan to stay there. However, we want our community there with us and are committed to working with them to create those opportunities. The future looks exciting.

Jo Brosnahan
Chair

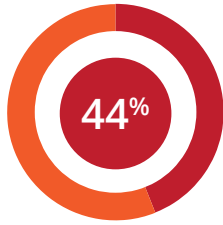


Darren Mason
Chief Executive





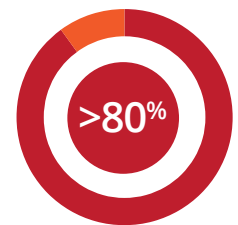
Current connections 7116
Connections possible: 22,322



June 2017 target 10,000
Connections possible: 22,500



Network availability



Connections over 100Mbps

Fibre in Action

● Changing the future for Northland

Northpower Fibre is helping put education into the hands of Northland school children in need – bringing a smile to hundreds of kids and their families by providing high tech devices and enabling the digital classroom. We've partnered with the Taitokerau Education Trust, a Northland incorporated trust set up to provide equity and access to learning methods that develop student engagement and achievement.

The pilot programme involves the Te Puawai Digital Immersion Cluster which includes 6 predominantly low decile Whangarei schools, with the ultimate goal of putting a Chromebook in the schoolbag of every Northland student in need.

The initial pilot, which involves changing the pedagogy, engaging the whanau, and enabling the purchase of Chromebooks for the students has been successful. The programme will be extended in the pilot schools next year, with plans to extend to other schools and those beyond Whangarei in 2018. The schools currently involved are Manaia View Primary, Hikurangi Primary, Whangarei Intermediate, Te Kura o Otangarei, Whau Valley Primary and Tikipunga High.

The children and their families are also supported by the 20/20 Trust, another partner in the project. This initiative is a vital community programme and we're thrilled to help provide digital support to kids hungry for knowledge.



● Fibre connections race ahead

Winning the government contract to build Whangarei's UFB Fibre Network in 2010 placed us firmly in the centre of one of Northland's most important business and community developments. Six years later demand continues to surge. Northpower Fibre has maintained its status as one of the country's leading UFB fibre network providers.

The number of business and residential connections has surpassed 7116, placing the goal of 10,000 connections by June 2017 firmly in reach. The connection forecast for 2020 is 16,000. We continue to improve our processing systems to minimise downtime and meet demand.

We've increased our staffing numbers but access, consents and undergrounding can unfortunately still hold up some connections. Northpower Fibre achieved two major milestones this year by connecting gigabit capacity to three of Whangarei's largest schools in preparation for the widespread market launch of gigabit services.

We also made our first dividend payment to Northpower Limited, significantly in excess of the business plan target. With up to 300 connections a month consistently – sometimes more – Northpower Fibre, in partnership with Crown Fibre Holdings, continues to have one of the highest UFB speeds and uptakes in New Zealand.

Directors' Report

	30 June 2016	30 June 2015
	\$000s	\$000s
Opening retained earnings	(4,678)	(3,439)
Operating surplus (deficit) for the period	573	(1,239)
Dividends Paid	(625)	
Leaving retained earnings at end of period	<u>(4,730)</u>	<u>(4,678)</u>

It is not proposed to make any transfer to reserves.

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.

The remuneration and Audit Risk Committee is the Board.

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 2016.

The following entries are in the interest register:

JA Brosnahan

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

KC Hames

- Director/Shareholder - Tomorata Dairy Farms Ltd
- Director - Te Arai Farms Ltd
- Partner - Ewenny Farms Partnership
- Trustee/Beneficiary - Ken Hames Trust
- Trustee/Beneficiary - G M Hames Estate
- Trustee/Beneficiary - Ken & Janine Hames Trust.

GR Mitchell

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

MR Gatland

- Director - AMAG Limited
- Director - BMAG Limited
- Director - West Coast Energy Pty Limited
- Director - Northpower Western Australia Pty Limited
- Director - Northpower Solutions Limited
- Board Member - Electricity Networks Association
- Chief Executive Officer - Northpower Limited

MS Wynne

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

RP Pearce

- Director / Owner - Pearce Energy Consultants Limited
- Director - Northpower Solutions Limited
- Executive Committee Member - Electricity Engineers Association



Jo Brosnahan



Ken Hames



Graham Mitchell



Mark Gatland



Sean Wynne



Richard Pearce

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 2016.

Auditor

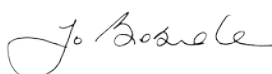
Audit New Zealand is appointed as Auditor in accordance with section 15 of the Public Audit Act 2001.

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 2016 fairly reflect the financial position and operations of Northpower Fibre Limited.

Signed on behalf of the board

Jo Brosnahan
Chair



1 September 2016

Mark Gatland
Director



1 September 2016

Independent Auditor's Report

To the shareholders of Northpower Fibre Limited's financial statements for the year ended 30 June 2016

The Auditor General is the auditor of Northpower Fibre 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.

Opinion

We have audited the financial statements of the company on pages 1 to 16, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion, the financial statements of the company:

- present fairly, in all material respects:
 - ◇ its financial position as at 30 June 2016; and
 - ◇ its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime.

Uncertainties with the recognition of the deferred tax asset relating to tax losses

Without modifying our opinion, we draw your attention to the disclosures in Note 4 on pages 11 and 12 about tax losses. This note describes the recognition of the deferred tax asset in relation to tax losses, the uncertainties in the information on which the asset is based, and the Board of Director's judgement on the carry forward of tax losses after the Ultra-Fast Broadband concession period. We consider the disclosures to be adequate.

Our audit was completed on 1 September 2016. 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 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 shareholders' 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 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.

Independent Auditor's Report

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 the disclosures in the financial statements; and
- the overall presentation of the financial statements.

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.

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 the preparation and fair presentation of financial statements for the company that comply with generally accepted accounting practice in New Zealand.

The Board of Directors' responsibilities arise from the Companies Act 1993.

The Board of Directors is also responsible for such internal control as it determines is 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.

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 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.

In addition to the audit, we were engaged to issue an audit certificate pursuant to the LFC Information Disclosure Determination 2012 for the 2016 disclosure year. This engagement is compatible with those independence requirements.

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	2016 \$000s	2015 \$000s
Income			
Fibre connection services revenue		3,929	2,199
Capital contributions		494	26
Interest income		11	5
Total income		4,434	2,230
Expenses			
Depreciation expense	7	1,873	1,579
Management fee		354	350
Salaries and wages		207	169
Other expenses	3	2,186	1,854
Total expenses		4,620	3,951
Profit (loss) before tax		(186)	(1,721)
Income tax expense	4	759	482
Profit (loss) and total comprehensive income (expense) for the year		573	(1,239)
Allocation for the period of Profit (Loss) and total comprehensive income (expense)			
Non Controlling Interest		292	(508)
Owner of the parent		281	(731)

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

Statement of Financial Position

	Notes	2016 \$000s	2015 \$000s
Current assets			
Cash and cash equivalents	5	797	133
Trade and other receivables	6	842	857
Other current assets		2	2
Total current assets		<u>1,641</u>	<u>993</u>
Non-current assets			
Assets under construction		105	-
Plant and equipment	7	36,457	33,050
Deferred Tax	4	1,595	836
Total non-current assets		<u>38,157</u>	<u>33,886</u>
Total assets		<u>39,798</u>	<u>34,878</u>
Current liabilities			
Trade and other payables	8	1,100	1,045
Total current liabilities		<u>1,100</u>	<u>1,045</u>
Total liabilities		<u>1,100</u>	<u>1,045</u>
Net assets		<u>38,698</u>	<u>33,833</u>
Equity			
Share capital	9	43,428	38,512
Retained earnings		(4,730)	(4,678)
Total equity		<u>38,698</u>	<u>33,833</u>

Jo Brosnahan

Chair



1 September 2016

Mark Gatland

Director



1 September 2016

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

Statement of Changes in Equity

		Attributable to equity holders of the company		
		2016		
		\$		
	Note	Share Capital	Retained Earnings	Total Equity
Balance as at 1 July 2015		38,512	(4,678)	33,834
Net profit (loss) for the year		-	573	573
Total comprehensive income (expense) for the year, net of tax		-	573	573
Transactions with owners				
Issue of share capital	9	4,917	-	4,917
Dividends Paid / Proposed			(625)	(625)
Equity as at 30 June 2016		43,429	(4,730)	38,699
		2015		
		\$		
	Note	Share Capital	Retained Earnings	Total Equity
Balance as at 1 July 2014		33,864	(3,439)	30,425
Net profit (loss) for the period		-	(1,239)	(1,239)
Total comprehensive income (expense) for the year, net of tax		-	(1,239)	(1,239)
Transactions with owners				
Issue of share capital	9	4,647	-	4,647
Equity as at 30 June 2015		38,512	(4,678)	33,833

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

Cash Flow Statement

	Note	2016 \$000s	2015 \$000s
Cash flows from operating activities -			
Cash was provided from:			
Receipts from customers		4,120	2,014
Interest received		11	5
GST refunds		318	207
Cash was distributed to:			
Payments to suppliers		(2,496)	(2,123)
Payments to Employees		(197)	(181)
Net cash inflow from operating activities	10	<u>1,756</u>	<u>(78)</u>
Cash flows from investing activities -			
Cash was applied to:			
Purchase of property, plant and equipment	11	(362)	(438)
Prepayment of property, plant and equipment		(105)	-
Net cash outflow from investing activities		<u>(467)</u>	<u>(438)</u>
Cash flows from financing activities -			
Cash was provided from:			
Share capital		-	567
Cash was applied to:			
Dividends		(625)	-
Net cash inflow from financing activities		<u>(625)</u>	<u>567</u>
Net increase (decrease) in cash and cash equivalents		664	51
Add cash and cash equivalents at the beginning of the year		133	82
Cash and cash equivalents at the end of the year		<u>797</u>	<u>133</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”).

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements have been prepared in accordance with the Companies Act 1993 and generally accepted accounting practice in New Zealand (NZ GAAP). For the purpose of complying with NZ GAAP, the Company has been designated as a profit-oriented entity.

The Company is a Tier 2 For-profit entity and has elected to report in accordance with Tier 2 For-profit Accounting Standards. The Company is eligible to report in accordance with Tier 2 For-profit Accounting Standards on the basis that it does not have public accountability and is not a large for-profit public sector entity.

The financial statements have been prepared on an historical cost basis.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) New accounting standards and interpretations

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

b) Revenue

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

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

c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term, highly liquid investments with original maturities of three months or less and which are subject to an insignificant risk of changes in value.

d) Trade and Other Receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less they are classified as current assets; if not they are presented as non-current assets.

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

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

Accounting Policies

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

e) Property, Plant and Equipment

Fibre Optic Network assets are constructed by Northpower Limited and are acquired by the Company once each stage is complete, has passed user acceptance testing (UAT) and a certificate of practical completion has been issued. Fibre Optic Network assets are initially recognised at cost which is the contract average cost per premise passed as per the Network Infrastructure Project Agreement (NIPA). Subsequently, all property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses.

I. Initial Cost

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the sites on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

II. Subsequent Cost

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the entity and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of comprehensive income as incurred.

III. Additions

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

IV. Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are recognised in the statement of comprehensive income.

V. Depreciation

Depreciation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment.

The estimated useful lives of the three classes of property, plant and equipment for the current period are as follows:

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 estimation of useful lives of assets has been based on industry experience as well as manufacturers' claims and warranties. The asset's residual value, method of depreciation and useful lives are reviewed, and adjusted if appropriate, at balance date.

Accounting Policies

VI. Impairment

Property, plant and equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Company conducts an annual internal review of asset values which is used as a source of information to assess for any indicators of impairment. External factors such as changes in expected future processes and technology and economic conditions are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. There were no indicators of impairment in the current or comparative period; hence no impairment assessment has been performed. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). The impairment loss is recognised in the statement of comprehensive income. Non-financial assets that had suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed

f) Assets Under Construction

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

g) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

h) Goods and Services Tax

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

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

i) Taxation

Income tax expense recognised in profit or loss is the sum of current tax and deferred tax not recognised in other comprehensive income or directly in equity.

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

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

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

Accounting Policies

Future Estimates of tax profits

The estimation of future tax profits has been based on the Company's business plan. The business plan relies on key assumptions made in the areas of end-user take-up and connection mix which are the drivers of revenue. Uptake of UFB fibre in Whangarei has been modelled on actual uptake demand to date which has consistently tracked higher than expected.

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

j) Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditure expected to be required to settle an obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in finance costs.

k) Employee Entitlements

Employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, and annual leave earned but not yet taken at balance date.

l) Share Capital (contributed equity)

Issued shares consist of A shares, B shares and a government share which are classified as equity. Incremental costs directly attributable to the issue of the new shares are shown in equity as a deduction, net of tax, from proceeds.

The company issues A shares to Crown Fibre Holdings Limited as capital funding of the fibre optic network assets once they have been constructed by Northpower Limited and certain conditions have been met.

When an end user connects to the fibre network, Northpower Limited is required to purchase an A share from Crown Fibre Holdings Limited which is the A share recycling mechanism.

The cost of connecting a premise to the fibre network is incurred by Northpower Limited, 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 10.

Notes to the Financial Statements

	2016 \$000s	2015 \$000s			
3 Other Expenses					
Doubtful debts	-	23			
Operations & Maintenance	1,604	1,539			
Other expenses	582	292			
	<u>2,186</u>	<u>1,854</u>			
4 Taxation					
Components of income tax benefit					
Current tax	-	-			
Deferred tax	759	482			
Losses not recognised	-	-			
Income tax benefit	<u>759</u>	<u>482</u>			
Relationship between tax benefit and comprehensive income (expense)					
Profit (loss) before taxation per statement of comprehensive income	(186)	(1,721)			
Tax at 28%	52	482			
Add (less) tax effect of:					
Recognition of losses previously not recognised	707	-			
Income tax benefit/(expense)	<u>759</u>	<u>482</u>			
Deferred tax asset (liability)					
	Property, Plant & Equipment	Employee Entitlements	Provisions	Tax Losses	Total
Opening balance 1 July 2015	(673)	9	15	1,485	836
Charged to profit or loss	(301)	(4)	1	1,063	759
Closing balance 30 June 2016	<u>(974)</u>	<u>5</u>	<u>16</u>	<u>2,548</u>	<u>1,595</u>
This balance comprises:					
Tax benefit of losses					2,548
Deferred tax asset (liability)					<u>(953)</u>
					<u>1,595</u>

The combination of better than expected performance against business plan and the acceptance of the IRD indicative view has meant that the company has recognised \$707k of previous tax losses which are now expected to be used going forward.

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

To date Northpower Fibre has performed better than plan.

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

Notes to the Financial Statements

4 Taxation (continued)

The tax loss benefit (deferred tax asset), is made up of tax losses expected to be utilised before the end of the concession period based on current forecast information and the decision to accept the IRD's indicative view regarding shareholder continuity

	\$000s
Tax losses expected to be utilised before the end of the concession period:	1,810
Tax losses expected to be utilised after the end of the concession period:	738
Total tax losses	2,548

Deferred tax asset (liability)

	Property, Plant & Equipment	Employee Entitlements	Provisions	Tax Losses	Total
Opening balance 1 July 2014	(414)	4	14	749	354
Charged to profit or loss	<u>(259)</u>	<u>4</u>	<u>1</u>	<u>735</u>	<u>482</u>
Closing balance 30 June 2015	<u><u>(673)</u></u>	<u><u>9</u></u>	<u><u>15</u></u>	<u><u>1,485</u></u>	<u><u>836</u></u>

The tax losses are recognised only to the extent that utilisation of these losses is considered probable. A deferred tax asset has not been recognised in relation to tax losses of nil (2015: \$2,499,000).

5 Current Asset - Cash and Cash Equivalents

Cash at Bank	<u>797</u>	<u>133</u>
	<u><u>797</u></u>	<u><u>133</u></u>

6 Current Assets - Trade and Other Receivables

Trade receivables	691	388
Less doubtful debts	<u>(24)</u>	<u>(24)</u>
	667	365
GST receivable	<u>175</u>	<u>493</u>
	<u><u>842</u></u>	<u><u>857</u></u>

Notes to the Financial Statements

	2016	2015
	\$000s	\$000s
7 Property Plant and Equipment		
Fibre Optic Network Assets		
Cost		
Opening balance	36,456	31,937
Addition	5,279	4,519
	<u>41,735</u>	<u>36,456</u>
Accumulated Depreciation		
Opening balance	3,406	1,827
Depreciation expense for the year	1,872	1,579
	<u>5,278</u>	<u>3,406</u>
Net carrying value	<u>36,457</u>	<u>33,050</u>

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

8 Trade and Other Payables

Trade payables (GST inclusive)	429	746
Accrued payables (GST exclusive)	273	50
Employee entitlements		
Holiday pay accrual	18	8
Salary & Bonus accrual	23	23
Income in advance	357	218
	<u>1,100</u>	<u>1,045</u>

Notes to the Financial Statements

	2016	2015
	\$000s	\$000s
9 Share Capital		
(a) A shares		
Crown Fibre Holdings Limited		
Opening balance	22,562	23,795
Add shares issued during the year	-	267
	<u>22,562</u>	<u>24,061</u>
Less 1,304,793 shares sold to Northpower Limited (2015: 1,499,238 shares)	(1,305)	(1,499)
Total paid-up A shares held by Crown Fibre Holdings Limited	<u>21,257</u>	<u>22,562</u>
Northpower Limited		
Opening balance	3,241	1,742
Add 1,304,793 shares purchased from from Crown Fibre Holdings Limited (2015: 1,499,238 shares)	1,305	1,499
Total paid-up A shares held by Northpower Limited	<u>4,546</u>	<u>3,241</u>
Total paid-up A shares	<u>25,803</u>	<u>25,803</u>
The A shares have voting rights but no ordinary rights to dividends.		
(b) B shares		
Opening balance	12,708	8,328
Add shares issued during the year	4,917	4,381
	<u>17,625</u>	<u>12,708</u>
Less unpaid shares	-	-
Total paid-up B shares	<u>17,625</u>	<u>12,708</u>
The B shares are held by Northpower Limited, have no voting rights but carry ordinary rights to dividends.		
(c) Government share		
Opening balance	-	-
Less unpaid shares	-	-
Total paid-up Government shares	<u>-</u>	<u>-</u>
The Government share carries regulatory rights.		
Total shares issued during the year	4,917	4,647
Total issued capital	43,428	38,512
Total paid-up capital	43,428	38,512

Notes to the Financial Statements

	2016	2015
	\$000s	\$000s
10 Reconciliation with Cash Inflow from Operating Activities		
Reported net profit (loss) after taxation	573	(1,239)
Add (less) non-cash items:		
Depreciation and amortisation	1,873	1,579
Movements in tax benefit of losses	(759)	(482)
Movements in working capital:		
Increase (decrease) in trade and other payables	54	684
(Increase) decrease in taxation refund	15	(620)
Net cash inflow from operating activities	<u>1,756</u>	<u>(78)</u>
11 Reconciliation to Statement of Financial Position		
Purchase of property, plant and equipment per statement of Cash Flow.	362	438
Purchase of property, plant and equipment paid for in shares	4,917	4,081
Prepayments capitalised	-	-
Total additions per Note 7	<u>5,279</u>	<u>4,519</u>
Add opening balance	33,050	30,110
Less depreciation expense	<u>1,872</u>	<u>1,579</u>
Property, plant and equipment per Statement of Financial Position	<u>36,457</u>	<u>33,050</u>

12 Contingent Liabilities

The Company has no contingent liabilities at balance date (2015: nil).

14 Lease Commitments

The Company has no lease commitments at balance date (2015: 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 \$10.660m. (FY15 \$13.238m which included communal infrastructure) The contract period (concession period) ends in the 2021 financial year.

Notes to the Financial Statements

15 Related Parties

(a) Transactions with related parties during the year

Crown Fibre Holdings Limited owns only A shares in the Company. Other than share transactions there are no other related party transactions with Crown Fibre Holdings Limited. Refer note 10 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 2016 or 2015.

Income billed to Northpower as agent of the Company, \$80k (\$76k FY15)

Construction costs charged by Northpower, \$6,136k (\$5,036k FY15)

Services other than construction charged by Northpower, \$2,711k (\$2,426k FY15)

Amount owed by Northpower at 30 June 2016, \$13k (\$13k FY15)

Amount owed to Northpower at 30 June 2016, \$385k (\$738k FY15)

Capital contributions received from Northpower, \$0 (\$300k FY15)

Capital account balance of Northpower at 30 June 2016 of \$4,546k A shares (\$3,241k FY15) and \$17,625 of B shares (\$12,708k FY15)

Capital contributions received from Crown Fibre Holdings, \$0 (\$267k FY15)

Capital account balance of Crown Fibre Holdings at 30 June 2016, \$21,257k (\$22,562k FY15)

All amounts specified above are GST inclusive where applicable.

(b) Directors

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

The independent director and chair is JA Brosnahan.

RP Pearce became a director of Northpower Fibre Limited on 1 October replacing KC Hames on the same date. All of the other directors were also directors during the period ended 30 June 2015.

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

The company pays director fees to two directors amounting to \$67,500 as follows:

JA Brosnahan	60,000
KC Hames	7,500
	<u>67,500</u>

Salaries and wages of \$206,773 represents the payment to the Chief Executive Officer. FY15 \$168,621.

(d) Contractual arrangements with shareholders

During the 2011 financial year Crown Fibre Holdings Limited entered into agreements with Northpower Limited to fulfil the UFB objective as noted in the statement of accounting policies under the heading Reporting Entity.

The agreements set out the key commercial terms of the relationship between Crown Fibre Holdings Limited and this company. This includes Crown Fibre Holdings Limited and Northpower Limited having shareholdings in the Company that will reflect the level of investment in the deployment of the UFB network in the Whangarei area.

16 Events Post Balance Date

The board resolved to pay a final dividend of \$728,364 for the year ended June 2016.

Northpower Fibre Limited:

Chair

Jo Brosnahan, QSO, MA (Hons), FCILT, FNZIM, CFInstD.

Directors:

Mark Gatland, BE, MIPENZ, MBA.

Richard Pearce, MBA, BE Hons.

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.