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Delivering new possibilities

ENABLE SERVICES LIMITED

STATEMENT OF INTENT

FOR YEAR ENDING 30 JUNE 2016

DIRECTORY

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INTRODUCTION

This Statement of Intent (**SoI**) is submitted by the Board of Directors of Enable Services Limited (**ESL**) and is prepared in accordance with Section 64(1) of the Local Government Act 2002. ESL is a council-controlled trading organisation (**CCTO**) for the purposes of the Local Government Act 2002.

The SoI specifies the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of ESL may be judged in relation to its objectives, amongst other requirements. The SoI covers the activities of ESL and its investment in its associate Enable Networks Limited (**ENL** and/or **Enable**), which is jointly owned by Crown Fibre Holdings Limited (**CFH**) and ESL.

The process of negotiation and determination of an acceptable SoI is a public and legally-required expression of the accountability relationship between the company and its shareholder, Christchurch City Holdings Limited (**CCHL**). The SoI is reviewed annually with CCHL and covers a three year period.

OBJECTIVES

ESL's vision is

For fibre broadband to be an essential enabler of a vibrant, digitally connected and globally competitive Christchurch

ESL will drive the realisation of this vision by:

- Successfully delivering the Ultra-Fast Broadband (**UFB**) network for greater Christchurch, consistent with Crown requirements and in a way that will create world leading 'open access' UFB capability for every home and business within Enable's defined coverage area.

- Operating and managing all aspects of the UFB network to a high level ensuring the delivery of very positive end-user (customer) experiences.

- Driving uptake of UFB services through effective go-to-market strategies based around market-led product development, outstanding retail service provider relationships and innovative end-user marketing activity.

ESL is also committed to maximising the UFB network asset to secure commercial returns on the UFB investment that meet or exceed the cost of equity capital, taking into account the long-term nature of this infrastructure investment. ESL is cognisant that long-term returns are impacted by the optimisation of annual returns throughout the early build programme.

NATURE AND SCOPE OF ACTIVITIES

Establishment

ESL's parent company, CCHL, has stated its intent "to own and manage key infrastructure investments" that make Christchurch internationally competitive. The economic and social development of Christchurch is a key priority, which a world class open access broadband network supports.

In January 2007, ESL was incorporated as a company and commenced operations in June 2007. Over the next four years it invested in and built a metropolitan open access fibre optic network – winning approximately 600 schools, hospitals and businesses as customers from incumbent network providers.

UFB Contract

In May 2011, ESL entered into an arrangement with CFH (as part of the national UFB initiative) to deliver an open access fibre network providing wholesale fibre broadband services to 180,000 homes and businesses in Christchurch , Rangiora, Rolleston, Woodend, Kaiapoi, Lincoln, Templeton and Prebbleton (**UFB contract**).

The ESL UFB contract involves a partnership with CFH which is the Government entity administering the contract and the associated investment. The partnership is through the subsidiary, ENL, in which both ESL and CFH have invested. The Board of ENL is made up of three delegates from each of ESL and CFH and an independent chair. The percentage of shares and level of voting control held by each entity will change through the lifecycle of the project.

Under the UFB contract, ESL takes on an obligation to build the UFB network for ENL by 31 December 2019. The agreement includes a requirement to build to all schools, hospitals and 90 percent of businesses by 31 December 2015.

Enable provides fibre broadband wholesale services to retail services providers, on the UFB network, who then on sell these wholesale services as retail fibre based broadband, voice, internet, TV, content and IT services to customers (homes and businesses). Enable is prohibited from providing retail services or to have a related party that is a vertically integrated telecommunications provider.

Enable will proactively secure customer demand through its ever expanding array of business partners (retail service providers) and it will continue to seek and evaluate opportunities that provide the city with 'UFB open access broadband capability' which are compatible with the company's objectives and the contractual obligations of Enable.

CONTRIBUTION TO THE GROWTH OF GREATER CHRISTCHURCH

Social Transformation and Development

ESL recognises the significant social and environmental benefits that can be gained for Christchurch through the successful implementation of the UFB project. These benefits are especially important given the numerous impacts on the Greater City area from the Canterbury earthquakes.

The way in which societies across New Zealand connect within themselves and with each other is transforming, with an increasing demand of quality high speed connectedness, both wireline (fibre) and wireless, anytime anywhere.

ESL conducts its business paying close attention to these areas including:

- Providing affordable wholesale fibre based broadband connectivity.
- Assisting businesses by providing efficient access to new network connections.
- Focussing network build areas to ensure new Greenfield developments (subdivisions) have access to UFB capability where possible.
- Maximising co-ordination with the rebuild of Christchurch when deploying the UFB network.
- Ensuring network infrastructure is deployed in a way that minimises the impact to the environment.
- Maximising the opportunity to ensure the large numbers of new commercial and residential buildings in Christchurch are designed and built with provision for fibre connectivity included.

In addition, ESL works closely with the education, health and business sectors in Christchurch ensuring UFB capability investments are targeted in these areas for the wider good of the community.

Finally, ESL ensures its broadband capability plays a significant role in ensuring Christchurch has a safe community – ie, continual support and expansion of community based services such as crime prevention camera capability.

All activities are carried out in line with the objective of protecting and growing shareholder value.

Retention of Key Staff

Retention and attraction of talented employees is vital to ESL and Enable's success. As a major civil construction project during the earthquake recovery process and in a very competitive job market, this is even more apparent. ESL and Enable intend to achieve the retention and attraction of talented employees by:

- Remunerating employees at a competitive market rate
- Building a culture that stimulates and motivates employees to perform in and enjoy their work environment
- Continuing to implement an industry best-practice health and safety management system that ensures the health, safety and wellbeing of ESL and Enable's employees
- Providing development opportunities
- Ensuring ESL's leadership team is effective, united and supportive

Regional and City Planning

ESL's delivery of the UFB network aligns with and supports the rebuild, recovery and long-term growth plans of local and central Government for greater Christchurch. The UFB Network will be fundamental to the future growth of the economic and social wellbeing of the people of Christchurch

a) Community Outcomes for Christchurch

ESL's investment in the UFB network is a key input into many of the outcomes sought under the 2013-16 Community Outcomes for Christchurch developed as part of the Christchurch City Council's Three Year Plan. All Council activity is focused on achieving these defined community outcomes of a Liveable City, Strong Communities, Healthy Environment and Prosperous Economy.

The delivery of world-class fibre infrastructure across greater Christchurch by Enable will have a dramatic impact on the Council's – as well as the community's – ability to deliver on these outcomes.

The prosperous economy Community Outcome is specifically focused on:

- Infrastructure that supports sustainable growth.
- Christchurch becoming a great place to work, live, invest in and do business.
- Nurturing a critical mass of innovative key business sectors.
- Christchurch having globally competitive businesses.

Enable's fibre broadband network will have a positive impact on a number of the other Community Outcomes, including:

- Liveable City
  - The central city is a vibrant and prosperous business centre.
  - Suburban centres provide the focus for services, employment and social interaction.
- Strong communities
  - People have strong social networks.
  - Services are available locally within the urban areas.
  - People have the information and skills to enable them to participate in society.
- Healthy environment
  - Energy is used more efficiently.

b) Support of redevelopment of Central City

In the Central City, ESL has assisted with the Re-start project in Cashel Mall, and other areas, by providing sponsored fibre to enable the free ultra-fast wireless connection in the area. Enable's UFB network remains in full working order and is immediately available for entities as they re-enter the Central City area. Enable is also building to all remaining business, health, education and government premises as a priority in the Central City and is working closely with all other infrastructure providers to maximise opportunities and minimise disruption.

ESL has taken a six year lease with renewal rights on a building in Wrights Road, Addington for its head office. This decision was made immediately post 22 February earthquake when the company's personnel numbers were growing significantly and after reviewing options taking into account a desire to support the redevelopment of the central city. ESL will continually evaluate the location of its head office and relocate to the Central City when the opportunity arises while satisfying operational and commercial parameters.

c) *Involvement in infrastructure repair*

ESL is a member of the CERA Infrastructure Group which allows it to plan infrastructure installation in tandem with other infrastructure assets where this makes commercial sense. It also contributes to discussion and planning on the infrastructural rebuild. ESL will treat as a priority working in synergy with the SCIRT rebuild works in order to minimise the amount of disruption to street surfaces and the public.

d) *Development of a Digital Strategy for Canterbury*

Alongside Canterbury Development Corporation and a coalition of agencies responsible for regional economic development, Enable has played a leading role in the creation of a draft digital strategy for Canterbury – named Connected Canterbury.

The vision of the strategy is "a Connected Canterbury with a strong economy and an inspired community that harnesses, understands and embraces digital technologies." This will be achieved by focusing on economic, education and social goals – and access to Enable's fibre connectivity is fundamental to achieving these goals.

A Connected Canterbury Advisory Board has been established to govern the implementation of the digital strategy and Enable is committed to the strategy as a member of the Advisory Board.

e) *Christchurch Transport Strategic Plan*

Enable does not provide physical transport infrastructure, however the provision of a UFB network can work in tandem with the Christchurch Transport Strategic Plan 2012-2042 (**Transport Plan**) to enhance transport outcomes for the community. The UFB services assist with achieving the four goals of the Transport Plan.

- Improve access and choice: The provision of UFB makes it a viable option for people to choose to access most goods and services via the Internet, reducing load on the transport network.
- Create safe, healthy and liveable communities: Provision of the UFB network complements the integration of land use by encouraging the recovery of the Central City, suburban centres and the establishment of new growth areas. UFB services such as the provision of free ultra-fast wireless in Cashel Mall assist the re-establishment of commerce in the City Centre.
- Support economic vitality: The plan focuses on enhancing access between the port, airport and freight hubs. Enable has provided UFB services to these areas to enhance the efficiency of companies operating out of these locations.
- Create opportunities for environmental enhancements: The UFB network is being utilised to manage traffic light systems in an efficient manner. Enable is committed to building environmentally friendly infrastructure and is using the rebuild of City infrastructure and roads to reduce the build impact. The UFB network can assist in reducing traffic volumes by enabling working from home and purchasing goods and services via the Internet.

Commitment

Directors and management are committed to effective governance. Governance requires competent people with a commitment to good governance and an effective set of systems and processes. This provides shareholders and other stakeholders with the assurance that ESL is appropriately governed.

Good governance involves continual changes to meet the changing dynamics of the business. This is particularly the case with ESL as it grows and changes throughout the UFB contract lifecycle. ESL has experienced rapid growth and new systems, processes and positions have been established over the last three years in order to meet the future needs of the business.

ESL is now in a stabilisation phase to ensure that the benefits of these changes are maximised and that the company is operating as effectively as possible.

The Directors and management are very conscious of the need to have high-calibre people backed by excellent systems and processes in order to create a world class UFB organisation, including governance of the highest order.

Role of the Board

The Board is ultimately responsible for setting the strategic direction of the company and oversight of the management of the company, with the ultimate aim being an increase in shareholder value and the development of telecommunications infrastructure for the economic and social benefit of the people of greater Christchurch. The Board is accountable to its shareholder for the performance of the company.

Responsibilities of the Board

In carrying out its principal function, the Board's specific responsibilities include:

1. providing strategic direction for, and approving the company's business strategies and objectives;

2. establishing the values of the company and monitoring the operation of the company on the basis of these values;

3. reviewing and approving the company's budgets and business plans and monitoring the management of the company's capital, including the progress of any major capital expenditure, acquisitions or divestments;

4. providing leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed;

5. providing health and safety leadership by understanding, directing and monitoring the company's health and safety framework, management system and performance ensuring prudent and effective controls are in place;

6. identifying the principal risks faced by the company and taking reasonable steps designed to ensure that appropriate internal controls and monitoring systems are in place to manage and, to the extent possible, reduce the impact of these risks;

7. monitoring the operational and financial position and performance of the company;

8. requiring that financial and other reporting mechanisms are put in place by the executive which result in adequate, accurate and timely information being provided to the Board and the company's shareholder to ensure it is fully informed of all material developments relating to the company;

9. appointing and removing members of the executive team, planning for executive succession and monitoring the performance of the executives having regard to the company's strategic direction and goals;

10. reviewing and approving the company's remuneration policies;

11. establishing procedures to ensure that financial results are appropriately and accurately reported on a timely basis in accordance with all legal and regulatory requirements;

12. adopting appropriate procedures to ensure compliance with all laws, governmental regulations and accounting standards;

13. approving and regularly reviewing the company's internal decision making and compliance policies and procedures, including any codes of conduct, the Board Charter and the charters of the Board's committees;

14. ensuring that the company's internal decision making and compliance policies and procedures are adhered to, to ensure that the business of the company is conducted in an open and ethical manner; and

15. appointing three directors to the Board of ENL.

Delegation of responsibilities to management

The Board has delegated management of and the responsibility for the day-to-day affairs of the company to the executive team to deliver the strategic direction and goals determined by the Board. The Board has also reserved a number of powers and responsibilities to the Board.

Delegation of responsibilities to committees

The Board may, from time to time, establish committees to assist it in carrying out its responsibilities. For each committee the Board adopts a formal charter that sets out the delegated functions and responsibilities for, and the composition and any administrative matters relating to, that committee.

A Health and Safety Committee, an Audit and Risk Committee and a People and Performance Committee have been established and are operational.

The Board is responsible for the oversight of its committees. This oversight includes, in relation to each committee, determining and reviewing its composition and structure and regularly reviewing its performance against its charter.

RATIO OF SHAREHOLDERS' FUNDS TO TOTAL ASSETS

The forecasted ratio of shareholders' funds to total assets and capital structure for the next three years is as set out below.

ESL - Y/e 30 June $m	2016	2017	2018
Debt	183	199	209
Total Liabilities	192	209	219
Equity	4	4	7
Value of investment in ENL*	120	147	171
Total Assets	196	213	225
Shareholder's Funds to Total Assets Ratio	2%	2%	3%

* Equity and Debt Invested minus losses incurred in ENL

Assumptions

- The above ratios are based on financial projections based on the continuing rollout of the UFB project to be completed by 30 June 2019.
- ESL has an aspirational target to complete the UFB rollout by 30 June 2018. If successful ESL will have higher debt requirements during the period in order to fund the accelerated capital expenditure.

ACCOUNTING POLICIES

ESL has adopted accounting policies that are consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by CCHL. The company's current accounting policies are attached to this Statement of Intent (Appendix One).

PERFORMANCE TARGETS

By its nature, investment in infrastructure, particularly the UFB network, requires substantial upfront investment with a long-term focus on returns. The UFB network will hold a strong market position with consistent dependable cash flows being received over many years.

Return profiles on the investment in the UFB network have been set at 30 year levels and through the initial eight year build period Enable will not be profitable. ENL is expected to become EBITDA positive in FY2016 and achieve profit after tax in FY2020. Thereafter, profitability increases substantially.

While profitability may not be apparent for a number of years, the successful completion of a high quality network build at ongoing cost effective levels has major ramifications on future profitability.

The performance of ESL in building the network, the performance of ENL in obtaining and growing customers and the establishment of an efficient operating structure (including a low cost network operating environment), are fundamental to future performance.

ESL builds the network for the purpose of sale to ENL and provides ongoing management and operational services. The financial statements of ESL reflect the sale of the network and provision of management and operational services to ENL as revenue and the network build costs as inventory. ENL will capitalise the network on purchase from ESL and expense services accordingly.

a) *Financial performance targets*

The financial performance targets for ESL show the significant growth path the company is expected to take. However, ESL is focused on the long-term return from the investment in ENL and therefore charges ENL for services and network build on a cost recovery basis only. Profitability will occur in ESL as ENL achieves profitability.

ESL - Y/e 30 June $m	2016	2017	2018
Operating Revenue	80.0	65.2	67.8
Cost of Sales – Network Build	(70.9)	(55.6)	(58.2)
Net Revenue after Cost of Sales	5.8	5.8	5.9
EBITDA	0.5	1.1	1.4
Net Profit/(Loss) After Tax	(11.5)	(9.6)	(7.4)

ESL has a high turnover with low profitability as it is in the process of constructing the UFB network on revenue account. Costs associated with the UFB network build are reflected as expenses meaning low EBITDA and profit results during the build period. As customer uptake on the network occurs over the next ten years, the profitability of ENL and its return to ESL increases.

Profitability ratios are not included as the project's return is based on a longer term profile than the three year period.

The forecasts for ESL show the investment in ENL at cost.

b) *Operational performance targets*

Y/e 30 June	2016	2017	2018
Number of premises passed (brownfield)(cumulative)	84,533	104,330	124,125
Number of connections (cumulative)	23,514	36,636	52,224
Operational SLA achievement (1)	=>85%	=>90%	=>95%
Core Network Availability	>99.999%	>99.999%	>99.999%

1. Operational SLA achievement pertains to the delivery of operational services within contracted SLAs which are set at 75%. Operational services include the connection of customers relative to their expectations and the performance of the network.

c) *Health and safety performance targets*

Y/e 30 June	2016	2017	2018
Km's built/utility strike (1)	1.250	1.500	1.750
Lost time injuries/million hours	3.0	2.6	2.2
Serious harm injuries incurred	Nil	Nil	Nil
Site audits and safety observations conducted	1,000	1,200	1,400

1. Kms built / utility strike measures the performance of the actions taken to avoid striking (hitting) other underground services during network construction.

d) *Corporate social responsibility performance targets*

Performance Target	Performance Measure 2015/16
Promote the uptake of UFB services in the greater Christchurch area to drive business and economic growth and gain lifestyle improvement for residents	• 100% of schools passed • 19% of residential/businesses passed are connected to the network - uptake
Achieve environmentally friendly design standards	• Ducting and optical fibre to be underground for 70% or more of the city

DISTRIBUTIONS

ESL will pay dividends to its shareholder after taking into account its profitability and future investment requirements. The dividends payable to the shareholders will be determined by the Board after consideration of the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993.

No dividends are forecast to be payable in the three year planning period which is consistent with expectations when entering the UFB contract.

INFORMATION TO BE PROVIDED TO SHAREHOLDERS

An annual report will be submitted to the shareholders. The annual report will include audited financial statements and such other details as are necessary to permit an informed assessment of the company's performance and financial position during the reporting period.

A quarterly report will be provided to the shareholder covering all aspects of business performance including health and safety practices.

A half-yearly report will be provided to the shareholder. These reports will contain unaudited information and will comply with NZ IAS 34.

The statement of intent will be submitted to the shareholder for consultation annually, as required by the Local Government Act 2002. The directors will include any other information they consider appropriate. Where appropriate, revised forecasts will be submitted to the shareholder.

The company will operate on a "no surprises" basis in respect of significant shareholder-related matters, to the extent possible in the context of commercial sensitivity and confidentiality obligations.

The company will provide information requested by the shareholder in accordance with the requirements of the Local Government Act.

ACQUISITION /DIVESTMENT PROCEDURES

The subscription or acquisition of securities in any company or organisation, or a divestment of part of the existing business, will only be considered where it is consistent with the long-term commercial objectives of ESL.

When the subscription, acquisition or divestment is considered by directors to be significant to the company's business operations, it will be subject to consultation with and, where required, approval of, the shareholder.

Major transactions as defined in the Companies Act 1993, s129(2), will be subject to shareholders' approval by special resolution.

COMPENSATION SOUGHT FROM LOCAL AUTHORITIES

At the request of the shareholder, the company may undertake activities that are not consistent with normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of providing such activities. Currently, no such activities are undertaken.

ESTIMATE OF COMMERCIAL VALUE

At this preliminary stage of the company's investment in UFB life cycle, the estimated value is considered by the directors to be equivalent to the equity contributed by the Shareholder as recorded in the financial statements.

ROLE IN THE CHRISTCHURCH CITY COUNCIL GROUP AND REGIONAL ECONOMY

a) *Commercial relationships within the wider Christchurch City Council group*

Enable recognises that, as a wholly-owned subsidiary of CCHL, there may be commercial opportunities with other group companies that can be developed to benefit ESL, the wider Christchurch City Council group and the greater Christchurch region.

ESL will ensure such opportunities are explored and developed as appropriate.

i. Procurement

In view of the large network build programme under way, ESL has created a specialised procurement team to maximise the efficiency of purchases.

The company negotiated substantial UFB supply agreements for inventory required over the UFB network build in conjunction with other Local Fibre Companies (**LFC**) and CFH, and achieved significant savings through this process.

ESL has reviewed the use of whole of Government supply contracts and GSB procured discounts and utilises these where the costs associated with them make it viable. The company is also committed to engaging with other CCHL group companies and the Christchurch City Council to achieve additional procurement savings.

ii. Network Build

ESL has arrangements in place with Connetics (a subsidiary of Orion) to provide UFB network in Greenfields and is in ongoing discussions to expand opportunities with Connetics and other Group related parties that the companies could work together on.

iii. Other

The company also continues to discuss opportunities for cost efficiency or additional revenues with other group companies, such as Christchurch International Airport Limited and Orion.

b) *Role in the growth of the regional economy*

Treasury studies have shown that the establishment of an ultra-fast open access broadband network has the potential to provide substantial benefits to the regional economy in terms of facilitating communication, transforming business practice and making Christchurch an attractive place in which to do business.

Appendix One - STATEMENT OF ACCOUNTING POLICIES

The financial statements of ESL for the year ended 30 June 2014 were authorised for issue by the ESL Board of Directors on 1 September 2014 and included the following statement of accounting policies.

Statement of compliance

ESL is a profit-oriented entity, and these financial statements comply with International Financial Reporting Standards (IFRS). These financial statements also comply with New Zealand International Reporting Standards (NZ IFRS). ESL is reporting as a Tier 1 entity.

The accounting policies set out below have been applied consistently in all periods presented in the financial statements.

Basis of preparation

The financial statements have been prepared on a historical cost basis as set out below.

Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest one thousand dollars ($000). ESL's functional currency is New Zealand dollars.

Significant accounting policies

Revenue

Interest

Interest income is recognised using the effective interest method. Interest income on an impaired financial asset is recognised using the original effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts or payments (including all fees and points paid or received between the parties to the contract that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period to the net carrying amount of the financial instrument at the time of initial recognition.

Fibre income

Fibre income is recognised in the period in which the service is provided by reference to either the completion of a specific transaction (connection fees) or the proportion of the on-going services provided (measured on a time basis) such as Access Revenues. No new fibre services are being contracted with end users and/or retailers by the company.

Where the company receives payment in advance for network access, the deferred revenue is recognised as a liability on the Statement of Financial Position and recognised as revenue as services are performed.

Goods sold and services rendered

Revenue from the sale of goods including greenfield revenue from developers is recognised in the statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the profit or loss in proportion to the stage of completion of the transaction at balance date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods or continuing management involvement with the goods. Revenue obtained from a contract, which provides an IRU the network, is spread equally over the term of the contract and recognised in the profit or loss accordingly.

Borrowing costs

Borrowing costs primarily comprise interest on ESL's borrowings. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or resale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight line basis over the lease term.

Lease incentives received are recognised in the profit or loss over the lease term as an integral part of the total lease expense.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily converted to known amounts of cash and are subject to an insignificant risk of changes in value. All investments are held in New Zealand.

Trade, Loans and other receivables

Trade, loans and other receivables including the loan to TSL, Senior Notes and deferred CO receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Impairment of a receivable is established when there is objective evidence that ESL will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, the probability that the debtor will enter into bankruptcy, and defaults in payment are considered indicators that the receivable is impaired.

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 ESL's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of one month, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment is the difference between the receivables carrying amount and the present value of estimated future cash flows, discounted at the receivables original effective interest rate.

The carrying amount of the receivable is reduced by the impairment loss directly for all receivables with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the receivable at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling on the day of the transaction. Foreign currency monetary assets and liabilities at the balance date are translated into NZ dollars at the rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to NZ dollars at rates ruling at the dates the fair value was determined.

Property, plant and equipment

Assets are shown at historical cost less depreciation. Historical costs include expenditure that is directly attributable to the acquisition of the items, including labour and other costs.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to ESL and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to allocate the cost or re-valued amounts, net of their residual values, over their estimated useful lives.

Depreciation is on the following basis.

• Plant and Equipment	1 - 15 years
• Leasehold Improvements	6 - 14 years
• Motor Vehicles	5 years

Impairment of non-financial assets

The carrying amounts of ESL's assets, other than inventories (see Inventories policy) and deferred tax assets (see Income Tax policy), are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Values are primarily assessed on the basis of fair value less cost to sell.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit or loss. Impairment losses on revalued assets offset any balance in the asset revaluation reserve, with any remaining impairment loss being posted to the profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Assessment of potential impairment may involve the use of a number of significant assumptions including approximations of specific asset impairment based on average asset costs and estimates of likely future losses based on current circumstances.

Calculation of recoverable amount

The recoverable amount of ESL's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their market value less cost to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of other inventories is based on average cost and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Construction contracts

On 31 May 2011 ESL was awarded the government contract to install an open access fibre optic network to every premise in the Greater Christchurch Urban areas. Under this contract the company takes on an obligation to build the network within ten years which it will progressively sell to ENL upon certain requirements being met. The contract is within the scope of NZ IAS 11 Construction Contracts.

When the outcome can be assessed reliably, contract revenue and associated costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. Revenue is measured at the fair value of consideration received or receivable in relation to that activity.

When ESL cannot measure the outcome of a contract reliably, revenue is recognised only to the extent of contract costs that have been incurred and are recoverable. Contract costs are recognised in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately in profit or loss.

The stage of completion of any construction contract is assessed by management by taking into consideration all information available at the reporting date including milestones for the project work to be carried out.

The maximum amount of revenue to be recognised for each milestone is determined by estimating relative contract fair values of each project phase; that is by comparing overall revenue that ESL expects from its construction contract with the profit expected to be made on fulfilling the corresponding milestone. Progress and related contract revenue in between milestones is determined by comparing costs incurred to date with the total estimated costs estimated for that particular milestone (this procedure is sometimes referred to as the “cost-to-cost” method).

The gross amount due from customers for contract work is presented as an asset as “Construction contracts work in progress'” for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. The gross amount due to customers for contract work is presented as a liability within “other liabilities” for all contracts in progress for which progress billings exceed costs incurred plus recognised profits.

Cost allocations

Some contract costs relating to the construction contract have been directly attributed or allocated to Contract Costs in line Contract Agreements. Contract costs and other operating expenses include all costs directly related to specific contracts, costs that are specifically chargeable to the customer under the terms of the contract and an allocation of overhead expenses.

Intangible assets

Intangible assets comprise costs incurred in purchasing and installing software systems for use by the business. The software is a non-monetary asset without physical substance. The costs relating to the project can be reliably measured from invoices and allocation of internal costs. They are accounted for using the cost model whereby capitalised costs are amortised on a straight line basis at a rate of 25 - 40% over their estimated useful lives, from when the asset is available for use. They are reviewed at each reporting date to determine whether there is any indication of impairment.

Investment in associate

Associates are entities over which ESL has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method, after initially being recognised at cost.

ESL’s share of its associates’ post‑acquisition profits or losses is recognised through profit or loss, and its share of post‑acquisition movements in reserves is recognised in reserves. The cumulative post‑acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates reduce the carrying amount of the investment.

ESL’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, it does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Financial liabilities

Debt is initially measured at fair value net of transaction costs and subsequently at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis.

Amounts which may be required to be settled within twelve months are presented as current liabilities, and the remainder is presented as non-current liabilities.

Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions

A provision is recognised in the statement of financial position when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits, the amount of which can be reliably estimated, will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Employee entitlements

Employee entitlements that ESL expects to be settled within 12 months of balance date are measured at undiscounted nominal values 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. A liability for sick leave is recognised based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that it is expected to be used by staff to cover future absences.

A liability and an expense are recognised for short term incentives and long-term incentive plans where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

Superannuation schemes

Defined contribution schemes

Obligations for contributions to KiwiSaver are accounted for as contributions to defined contribution superannuation schemes and are recognised as an expense in the profit or loss as incurred.

Goods and services tax

All items in the financial statements are presented exclusive of goods and services tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, Inland Revenue is included as part of other receivables or creditors and other payables in the statement of financial position. The net GST paid to or received from Inland Revenue, including the GST relating to investing and financing activities, is classified as operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Income tax

Income tax expense includes current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable surplus for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on 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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which ESL expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and ESL intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items recognised directly in equity, in which case the tax is also recognised directly in equity.

Share capital

Ordinary shares are classified as equity. The shares on issue represent the total authorised shares of the company as at 30 June 2014 under the Companies Act 1993. All ordinary shares are equally eligible to receive dividends and the repayment of capital, and represent one vote at ESL's shareholder's meeting.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Statement of cash flows

The following are the definitions of the terms used in the statement of cash flows.

- Operating activities are the principal revenue-producing activities of ESL and other activities that are not investing or financing activities.
- Investing activities are those activities relating to the acquisition and disposal of non-current assets.
- Financing activities are those activities that result in changes in the size and composition of the contributed equity and borrowings of ESL.

Critical accounting estimates and assumptions

In preparing these financial statements ESL has made estimates and assumptions concerning the future. These estimates and assumptions may differ from subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Review for impairment of investment in associate

The investment in ENL represents an investment in a start-up infrastructure company. The investment is recognised as an investment in an associate and as such is not revalued in the financial statements. ESL is required to assess the value of the investment for impairment.

Assessment of the value of ENL requires significant assumptions including levels of uptake, average rates of sales, operating cost levels, depreciation rates and financing costs.

Critical judgements in applying accounting policies

Management has exercised the following critical judgements in applying ESL's accounting policies for the year ended 30 June 2014.

Assessment of construction contract values

The company is contracted to build the UFB network for ENL over a build programme concluding by December 2019. A project of this nature has a number of up-front costs, including initial design, resourcing of staff, and investment in total project infrastructure. These costs are required to be recovered throughout the build programme. The company has exercised its judgement as to whether these costs will be recoverable through the life of the project.

Changes in accounting policies

There have been no significant changes to accounting policies during the year.

Adoption of new and revised Standards and Interpretations

In the current year, ESL adopted all mandatory new and amended standards and interpretations. None of the new and amended standards and interpretations had a material impact on the amounts recognised in these financial statements.

ESL is not aware of any standards in issue but not yet effective which would materially impact the amounts recognised or disclosed in the financial statements. They will be adopted when they become mandatory.