



enable

ENABLE NETWORKS LIMITED  
2012 ANNUAL REPORT

# Bringing ultra-fast broadband to greater Christchurch

Enable’s ultra-fast broadband network will become one of Canterbury’s most valuable infrastructure assets. It will make our businesses more productive and profitable, improve the way our children learn, and change the way we use technology in our lives.

It will be vitally important as an enabler of innovation and economic growth in our community, city and region as part of our long-term recovery from the devastating earthquakes of 2010 and 2011.

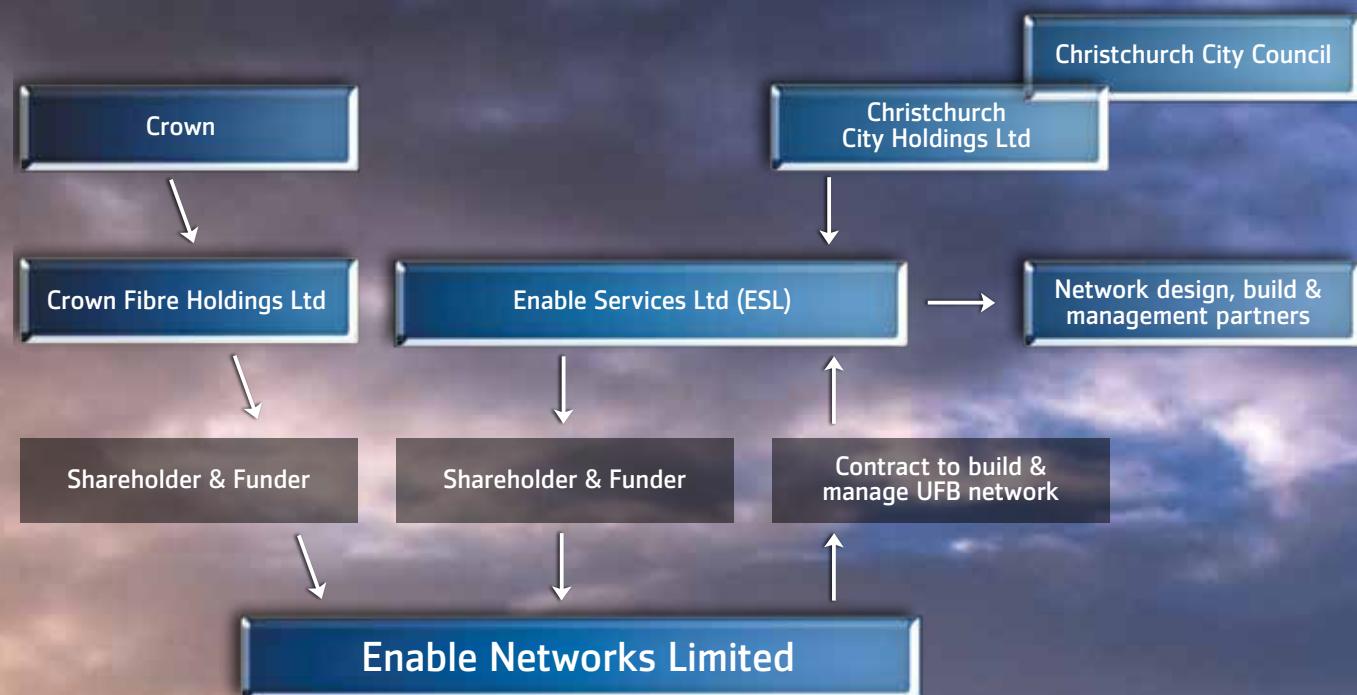


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# Enable Networks Limited

## A Partnership Approach to UFB

### The ultra-fast broadband (UFB) initiative

The UFB initiative is a \$1.3 billion investment by the Crown to build a fibre broadband network that will deliver future-proof telecommunications and technology services into New Zealand businesses, homes, schools and healthcare facilities.

UFB will connect 75% of New Zealanders to exciting new technology services. It will generate new industry, and provide unprecedented access to global markets and services for businesses. It will enable kiwis to connect with each other and the world in exciting new ways, and change the way we are entertained in our homes. It will also transform how our children learn and how we all receive and benefit from important social services, including healthcare.

### A partnership approach

The Government has partnered with leading infrastructure providers around the country to deliver this unprecedented national infrastructure project.

Enable Networks Limited (Enable) was formed as a partnership between Government agency, Crown Fibre Holdings Limited (CFH) and Christchurch City owned Enable Services Limited (ESL).

This unique central/local government joint venture will deliver fibre broadband to over 180,000 homes and businesses in Christchurch, Rangiora, Kaiapoi, Woodend, Lincoln, Prebbleton and Rolleston.

**"Ultra Fast Broadband will connect 75% of New Zealanders to exciting new technology services."**



**A Christchurch company  
committed to our community**

Focused only on our region, Enable is inherently linked to the people of Christchurch and Canterbury and is committed to making a positive contribution to this community.

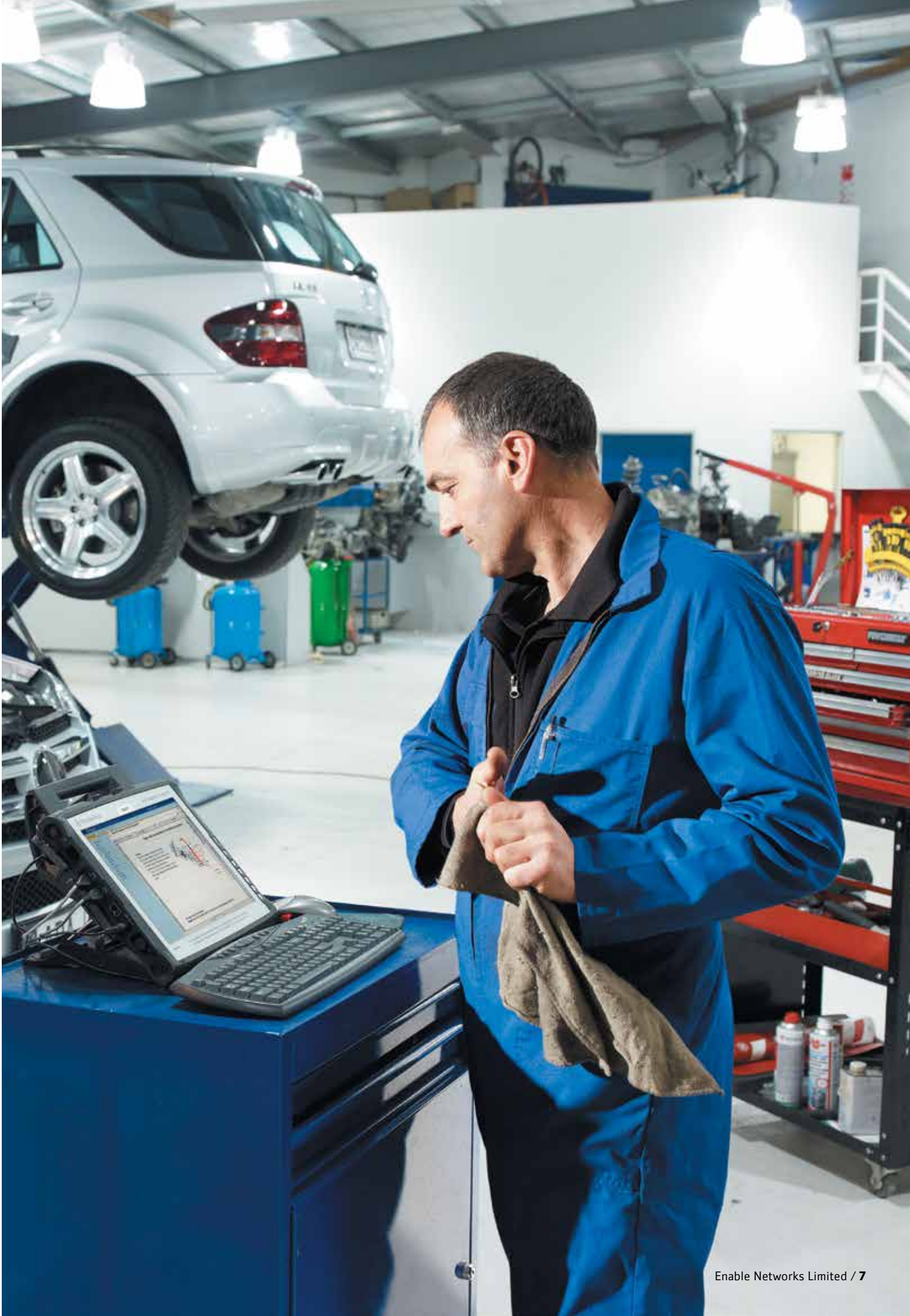
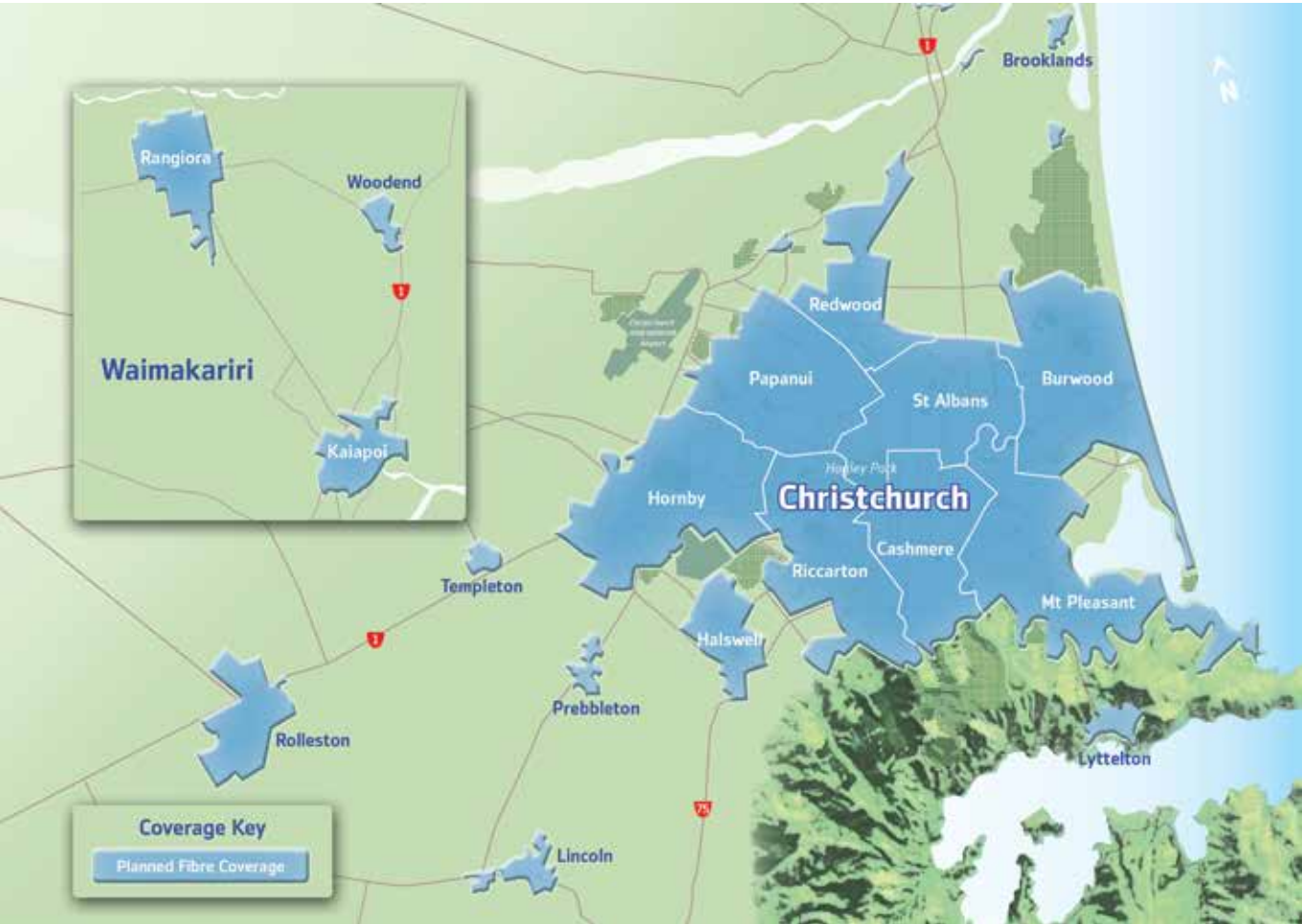
The investment being made to make fibre broadband widely available has the potential to generate significant returns to our city and the broader community. The UFB initiative is already making a large contribution to our region having created over 350 new local jobs.

We are also committed to working with government organisations, healthcare

providers, educators, community groups, local iwi, and city and community leaders across Christchurch, Waimakariri and Selwyn to realise the potential for UFB as our community recovers and thrives in the wake of the 2010 and 2011 earthquakes.

**“Enable will bring  
fibre broadband to  
over 180,000 homes  
and businesses in  
greater Christchurch.”**

**Coverage map**





# Chairman and CEO Report

The last year has been primarily about establishing the new central/local government partnership company and laying the foundations to deliver on this once in 50 year infrastructure initiative.

UFB is a unique opportunity to build a valuable infrastructure asset for our region. It will positively impact the lives of everyone in the community as a springboard for multi-generational innovation, economic growth and social development.

The UFB initiative will translate to new job opportunities, new ways for communities to connect and support their members, more opportunities for people to express themselves, and new ways for our children to learn and grow.

Central and local government leaders have clearly expressed their appetite for leading the region through enormous transformation for the long-term good, and Enable is an important part of this shared vision.

## Establishing Enable

**Establishing Enable with a focus and goals that reflect both shareholders has been an important priority in its first year of operations.**

Enable has been established to reflect the objectives of a Government committed to maximising the benefit of UFB in all coverage areas and for the country as a whole. While also meeting the ambitions of a City Council shareholder and regional stakeholders

determined to realise competitive advantages and unique benefits for our local communities.

We have drawn on Enable's history and reputation as an aggressive and responsive start-up in the commercial fibre market. We are determined to maintain these positive attributes as we create an operating model and culture that fits our future role.

Establishing the business in the aftermath of the earthquakes has presented practical challenges for Enable. Building capability within our business and that of our partners, and sourcing appropriate accommodation for a rapidly growing business are two challenges we have worked hard to overcome.

## Serving our customers

Enable owns the relationship with many retail service providers – our direct customers. But we are very aware that the quality of service we provide can also impact the thousands of residential and business end users that are, or will be, connected to our network.

Excelling in the level of service we provide our customers and the user experience we provide their customers will continue to be of paramount importance to us.



Enable Chairman Tim Lusk and CEO Steve Fuller



**We have focused on two distinct challenges in serving our customers – preparing for a UFB world where we need to provide outstanding levels of service on a mass market scale and effectively managing a growing number of customer connections today.**

Enable has invested in systems and processes along with continuous improvement programmes to provide seamless interaction and integration with our customers. This will translate into an excellent experience in homes and businesses connected to our network.

Enable is highly focused on delivering to our existing customers and growing our business, school and health sector connections. We now have 637 circuit connections over the network.

At the end of June there were 59 schools connected to fibre services with broadband speeds of 100Mbps to 1000Mbps. Christchurch remains the location in New Zealand with the most fibre connections into schools – with another 15 schools to connect before December 2012, and more schools soon after.

We have provided a subsidised UFB price to schools to continue our support of affordable broadband to our schools. We also continue to support the Greater Christchurch Schools Network to help schools make the most of our fibre broadband connectivity.

Enable has provided fibre connections to most of the major health sector organisations in Christchurch including a large number of Canterbury District Health Board sites and most radiology providers. The health sector has benefited substantially from the reliability and performance that fibre can provide. The speed of the fibre connection eliminates the constraints of distance so that high resolution images can be viewed and transported around Christchurch instantaneously.

As the demand for mobile data increases exponentially, mobile providers are turning to fibre as the preferred way of delivering high bandwidth to cell sites around the city.



Two of the three mobile providers are already using Enable to substantially increase the bandwidth available to cell sites, and over the next 12 months we expect this to be a high growth area.

**Building the network**

The new UFB network build programme was formally launched in November 2011 and we have made tremendous progress in a number of key areas that underpin the overall programme.

We completed the network build to 5,905 premises to end of June 2012, largely made up of 5,000 potential residential and business customers in Halswell. This means over 16,000 Christchurch homes and businesses have access to fibre broadband services.

We are also well underway with our second major suburb-based build (Papanui and Bishopdale) and will launch services in these suburbs later in the year.

**“16,000 homes and businesses have access to Enable’s fibre broadband.”**



Enable’s central office programme is well advanced. It plays a vital part in us prioritising network design and build to deliver services to all businesses, schools and healthcare facilities by the end of 2015.

Christchurch will experience significant new subdivision growth and we are determined to deploy our network to all new properties. We have already won the contract to supply our network to three major subdivisions.

Our existing network covers approximately 80 percent of commercial areas in Christchurch and we have also been focused on growing this coverage with network build projects completed or underway in the commercial parts of Hornby, Woolston and Middleton.

**“Our revenue was \$66,000 above target at \$1.17million as a result of strong demand for business products.”**



**Financial performance**

**Large-scale infrastructure investment and development projects require considerable capital investment and upfront operating costs before realising a long-term return. Our UFB initiative is no exception.**

In its first year of operation, Enable’s financial performance has been better than projected which has enabled us to bring forward our prediction of when we will achieve positive EBITDA from year five to year four and positive NPAT from year nine to year seven.

The stronger than expected financial performance partially resulted from higher than budgeted revenue, while a larger portion was a result of lower than expected expenses.

Our revenue was \$66,000 above target at \$1.17 million as a result of strong demand for business products from existing and new customers. Future revenue projections also look strong with continued demand for business services and expected demand for our new residential services.

Expenses were considerably lower than expected in the year - \$3.62 million against a budgeted \$5.49 million. Costs have also been kept under tight control by managing resources and minimising overhead expenses.

Overall this translated into a net loss of \$1.76 million against a forecast loss of \$3.65 million.



637 connections



The company has established a strong base of UFB network assets during the year with the purchase of an existing fibre optic network for just under \$29 million. The business has also built new UFB network in Halswell, for just over \$3 million.

The year has also seen the establishment of core infrastructure with Central Offices built in many parts of the city. More of these Central Offices will be commissioned as the UFB network build progresses into new areas.

Enable is well capitalised at over \$30 million of equity and future funding requirements are secured.

**Contributing to Christchurch's recovery**

UFB has significant potential to support the recovery of our city – so Enable is playing its part and working with city leaders to realise this potential.

From a network build perspective, we are working closely with the Stronger Christchurch Infrastructure Rebuild Team (SCIRT) and other infrastructure providers to take advantage of opportunities to build our UFB network. Particular attention has been applied to the redevelopment of the CBD recognising the importance of giving developers and businesses certainty around infrastructure disruption as they look to return.

**Christchurch has a true competitive advantage over the other cities with UFB. We are the only city with the opportunity to deploy UFB connectivity into almost every building as they are built. All of these buildings can be designed with exciting innovations dependent on fibre.**

We have begun an education and support campaign aimed at developers, architects, engineers and potential building tenants to maximise this opportunity.

We are also working closely with CERA, the Canterbury Development Corporation (CDC) and other key stakeholders to define and implement a programme of economic recovery work focused on leveraging UFB. This programme aims to educate and engage local businesses and the broader community to maximise uptake and new business innovation opportunities that fibre broadband provides.



In the last year, we have also actively supported initiatives aimed at rejuvenating our city and our economy, most notably the Christchurch City Re:Start project. In conjunction with TradeMe, FX Networks and the Press, we have sponsored free WiFi for everyone in the Re:Start shopping centre. We are also working with these partners to expand this initiative to other key business areas.

**Building our team and culture**

**Enable wants to be recognised as one of Christchurch's leading technology businesses - bright, intelligent, nimble, responsive, innovative and community minded.**

**Realising this vision is entirely dependent on the people in our business and the environment we create for them to work in.**

We have grown in the last 12 months from 17 to having 55 people working in our office and representing our business. We also work closely with contract partners who have employed over 300 people to build and manage our network under our brand.

Every one of our team has responded outstandingly to this demanding but exciting initiative.

We will continue to grow our culture to ensure customer service and experience are front and centre of our organisation.

**“Enable wants to be recognised as one of Christchurch's leading technology businesses.”**



We are also committed to providing our staff, contractors and visitors with a safe working environment that supports the delivery of outstanding results.

To deliver on this, Enable has introduced a Health and Safety Management System that reflects and mitigates risks associated with our operating environment. Senior management have committed to delivering outstanding health and safety performance measured against best practice principles.

**The year ahead**

**This coming year will be focused on ramping up our network build, launching new services to thousands of homes and businesses, and driving uptake.**

Enable will launch its new mass market wholesale residential and small business fibre broadband services in the first quarter of next year. The development of these services, over GPON fibre architecture marks a major step forward in the delivery of broadband to both homes and businesses – and will make high performing fibre broadband extremely affordable.

These products will change how telecommunications, IT and entertainment services are delivered to both homes and businesses. The retail price of these services, offered by retail service providers (RSPs), will be about the same as copper services, and connection for most homes will be free.

Our expectation is that the release of these products will grow the number of customers on our network exponentially.



The build programme for the up-coming year sees a step-up in the number of homes and business passed – extending the reach of the network considerably. Focus will continue on filling in the remaining gaps in our commercial area coverage and reconfiguring some of our existing network so it can deliver our full range of services.

This network build will also be mirrored by our operational readiness programme. As our network and customer demand grows, programmed investment will be made to evolve our systems and processes to deal with the predicted increase in volumes.

We will also continue to work closely with our RSP partners to help more of them bring a wide range of UFB services to market – giving customers great choice.

We will continue to work very closely with CERA, the Councils, Christchurch Central Development Unit, CDC, CFH, Nga Pu Waea and other major stakeholders to ensure the potential of UFB to transform our economy and the lives of the people in our community is better understood and realised.

This potential is something everyone at Enable truly believes in.

  
**Tim Lusk,**  
Chairman

  
**Steve Fuller,**  
CEO

350 new jobs

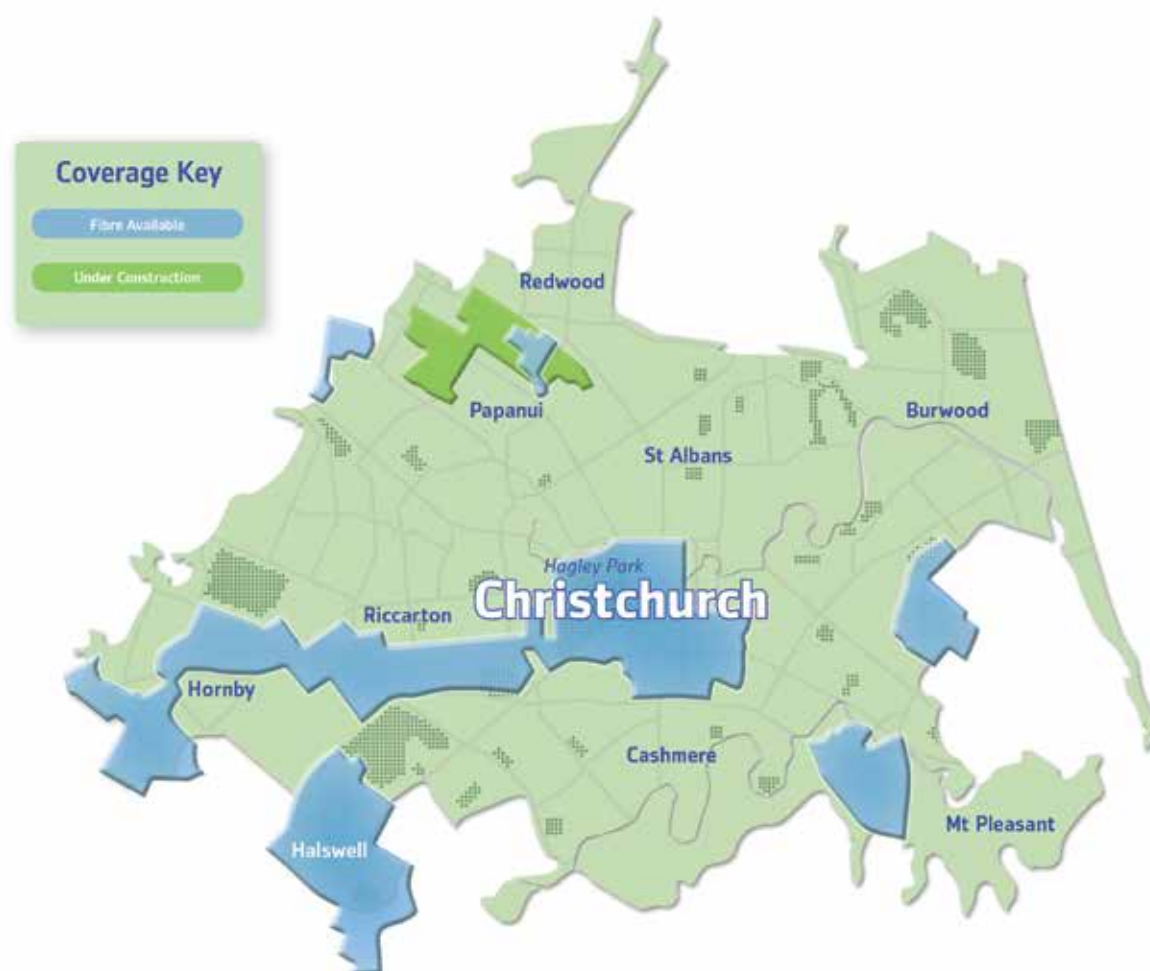
# Enable's Achievements YEAR ONE

## Job creation Coverage map

Grown from 17 to 55  
Enable staff.

Over 300 new contractor  
roles to build and manage  
our network.

16,000 homes and business  
customers can access fibre  
broadband now.



Premises passed

5,905

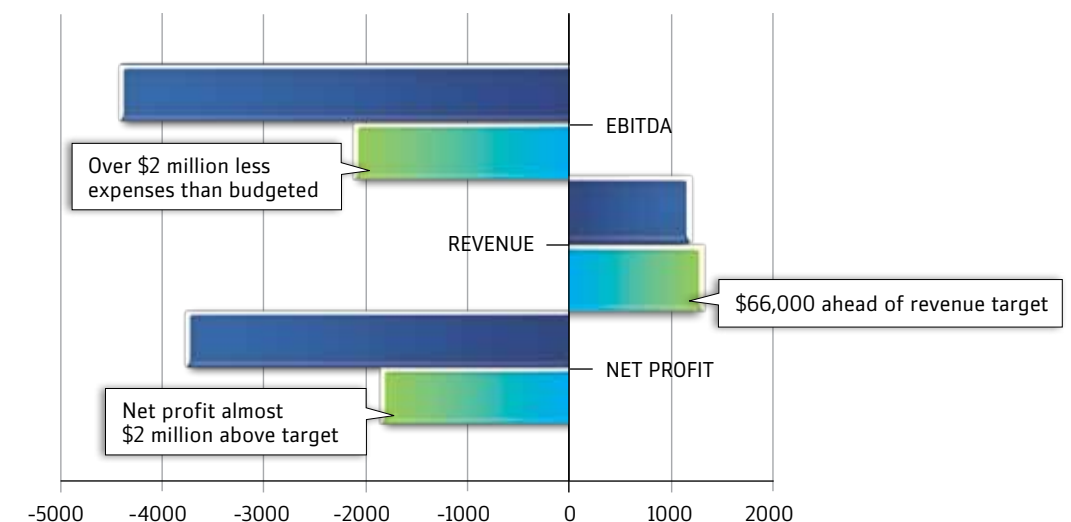


Target

6,088



### Financial KPIs



	Actual (000s)	Budget (000s)
Revenue	\$1,171	\$1,105
EBITDA	\$(2,064)	\$(4,385)
Net Profit	\$(1,763)	\$(3,651)

Actual  
Budget

## Customer connection figures

637 total customer connections

59 schools connected – another 15 underway for connection

41 healthcare customers connected



# Board of Directors



## **Bill Dwyer, Director** (absent from photo)

Bill Dwyer is General Counsel at Solid Energy. Previously he was a partner in Christchurch law firm Lane Neave where he headed the Corporate and Commercial team, specialising in mergers and acquisitions, commercial contracts, securities law, financing and general corporate advice.

Bill stood down from his position on the Enable board on 30 April 2012.

## **Bill Luff, Director**

Bill Luff is also Chairman of ESL.

He has spent the last 34 years working in government and multinational business roles. Much of Bill's experience has been with British Petroleum (BP) in New Zealand and overseas.

Since returning to New Zealand in 1996, he has held a number of significant executive and board positions. These include CEO of Tasman Energy Limited, CEO of Canterbury Development Corporation and Deputy Chairman of the Lyttelton Port Company Board. Today he works as Group Manager External Affairs for Solid Energy.

## **Sean Wynne, Director**

Sean Wynne is Chief Commercial Officer for Crown Fibre Holdings.

Prior to this, he held CEO positions at twenty4media and INL – where he was responsible for selling the company's publishing interests to Fairfax Media and for the company's merger with Sky Television.

Sean has also held a number of senior executive roles with Saturn Communications (later TelstraSaturn) and worked as a lawyer within large national law firms.

## **Brett Gamble, Director**

Brett Gamble is Group Manager New Developments for Solid Energy and has worked for the business in strategy, business and project development roles for ten years.

Prior to Solid Energy, Brett developed extensive experience in management consulting and corporate finance - with roles in New Zealand, Australia, the United States and the United Kingdom.

Brett was appointed to the Enable board on 1 June 2012. He also sits on the board of ESL.

## **Tim Lusk, Chairman**

Tim Lusk was appointed chairman of Enable at the formation of the new joint venture company.

Tim recently retired from a 40 year executive management career. His most recent role was CEO of Meridian Energy, a role Tim held for almost four years.

Tim has extensive experience working within complex regulatory environments in the telecommunications and utilities infrastructure sectors. He was General Manager Wholesale at Telecom from 2002 to 2006, and has held senior roles at Transpower and Power New Zealand Ltd.

## **Mark Bowman, Director**

Mark Bowman is a Christchurch-based professional Director specialising in the governance and leadership of high growth businesses. Mark has experience in the technology, telecommunications, healthcare, tourism, industrial, and energy sectors.

Prior to his governance roles, Mark held senior executive roles with Navman, HP and Hitachi. He also sits on the board of ESL.

## **Murray Milner, Director**

Murray Milner is a world-class telecommunications technology expert with a doctorate in electrical engineering and 34 years' experience in the New Zealand ICT industry.

He held a variety of senior positions within Telecom New Zealand including, until September 2005, Chief Technology Officer.

Since leaving Telecom in 2005, he has worked as a consultant and has also held a range of governance positions including currently sitting on the Crown Fibre Holdings board.

## **Graham Mitchell, Director**

Graham Mitchell is CEO of Crown Fibre Holdings.

Prior to his current role, Graham held a number of senior positions over 15 years in the telecommunications sector - including CEO of Cogent Communications (part of the OneSource Group), head of US telecommunications venture capital funded Optical WDM OEM and general management roles at Telecom.

Graham also has considerable corporate finance experience, derived from roles with Telecom, Brierley Investments, Electricity Corporation and Transpower.





Communications and Information Technology Minister Amy Adams and Enable CEO Steve Fuller at the Enable Launch, 20 March 2012.

# Governance

## at Enable Networks Limited (Enable)

Enable is a partnership between Government agency, Crown Fibre Holdings Limited (CFH) and Christchurch City owned Enable Services Limited (ESL).

It was established with the specific objective of deploying, owning and operating an ultra-fast broadband network for Christchurch and key centres in Waimakariri and Selwyn Districts.

### Governing documents

The documents that govern the establishment of Enable and the on-going partnership are as follows:

- **The Shareholders Agreement** regulates the management of Enable, the relationship of the shareholders and their dealings with Enable
- **The Network Infrastructure Project Agreement** sets out the relationship between, and the obligations of Enable, ESL and CFH in creating and managing the network
- **The Network Infrastructure Assets Transfer Agreement** transferred ESL's existing fibre network to Enable.

In addition, and as required by the Telecommunications Act 2001, Enable has entered into a **Deed of Open Access Undertakings for Fibre Services** in favour of the Crown. The purpose of the Deed is to promote market competition in telecommunications.

Copies of all four documents are available from Enable's website: [enable.net.nz](http://enable.net.nz).

### Board role and responsibilities

The Board is responsible for the company's overall direction and management, and formulation of policies that will support the deployment and uptake of ultra-fast broadband within Enable's coverage area.

### Board structure and appointment

The Board consists of no more than seven Directors:

- Up to three Directors appointed by CFH
- Up to three Directors appointed by ESL
- One Independent Director appointed by mutual agreement of CFH and ESL.

The Chairman is the person holding the position of Independent Director.

### Audit and Risk Committee

The Audit and Risk Committee assists the Board in discharging its responsibilities in financial reporting and external audits; risk management and assurance; and capital structure and treasury.

The Committee is made up of no more than four members of the Board, with at least one member from each Enable shareholder.

### Management Services Agreement

The Shareholders' Agreement includes establishment of a thin company structure with strategic and operational services provided to Enable by ESL under contract.

A Management Services Agreement (MSA) between ESL and Enable has been established setting out this relationship.

It covers the provision of Chief Executive and marketing and sales services, and is designed to ensure that the strategic and operational requirements of Enable are able to be delivered in a manner which leverages ESL's considerable operating experience, talent pool and systems infrastructure.

The MSA provides for the following specified services:

- Chief Executive Services
- Sales and Marketing Services
- Financial and Accounting Services
- Customer and Administrative Services
- Company Secretarial Services
- Business Planning Services
- Support Services, including Asset Management
- Technology Support Services.

### Role of Enable CEO

Through the provision of Chief Executive Services under the MSA, the CEO of ESL is also the CEO of Enable.

### Role of General Manager – Enable

The role of General Manager – Enable has been established primarily to be responsible for matters where conflict exists between ESL's role in building and servicing the UFB network, and its management role in Enable. These areas include the Network Infrastructure Project Agreement, provision of operating and maintenance services and oversight of MSA performance.



# Statutory Information

## Directors’ Interests

The company maintains an interests register in which particulars of certain transactions and matters involving the directors are recorded. These are requirements under the Companies Act 1993. The following entries were recorded in the interests register during the year ended 30 June 2012:

Director	Directors Interests
Mark Bowman	<b>Director of</b> Enable Services Limited <b>Director &amp; Shareholder of</b> Comrad Holdings Limited, Magic Memories Group Holdings Limited, Scarlett Hydraulics Limited <b>Trustee of</b> MJ & RM Bowman Family Trust
Bill Dwyer	<b>Director of</b> Christchurch City Holdings Limited, Enable Services Limited <b>Trustee of</b> Wavertree Trust
Brett Gamble	<b>Director of</b> Positano Holdings Limited, Tinytown Toys Limited and Enable Services Limited <b>Trustee of</b> Hammersmith Property Trust, Gamble Family Trust <b>Officer of</b> Mobile Surgical Services, Mobile Medical Technologies <b>Group Manager,</b> New Developments at Solid Energy New Zealand Limited
Bill Luff	<b>Chairman and Director of</b> Enable Services Limited <b>Director of</b> Arts Management Limited, Luff Trading Limited, Isaac Construction Limited <b>Trustee of</b> Christchurch Symphony Orchestra Trust, Woodlands Family Trust <b>Group Manager,</b> External Affairs at Solid Energy New Zealand Limited
Tim Lusk (Chairman)	<b>Director of</b> Unison Networks Limited <b>Member of</b> NIWA Strategic Advisory Panel, Transpower Limited Board Sub Committee on Network Risk, Environmental Protection Authority <b>Director and Shareholder of</b> Dublin Days Limited
Murray Milner	<b>Managing Director of</b> Milner Consulting Limited <b>Board Chair of</b> Harmonic Aotearoa Limited, National Health IT Board <b>Director of</b> Crown Fibre Holdings Limited <b>Trustee of</b> Milner Family Trust (Trustee and Beneficiary), NZ IPv6 Trust <b>Shareholder of</b> Telecom Corporation of New Zealand Limited, Chorus Limited <b>Member of</b> National Health Board, Health Capital Investment Committee
Graham Mitchell	<b>Director of</b> UltraFast Fibre Limited, Whangarei Local Fibre Company Limited <b>Chief Executive Officer of</b> Crown Fibre Holdings Limited <b>Member of</b> Chorus Steering Committee
Sean Wynne	<b>Director of</b> UltraFast Fibre Limited, Whangarei Local Fibre Company Limited, Twenty4media Pty Limited <b>Director and Shareholder of</b> Twenty4Media Limited <b>Chief Commercial Officer at</b> Crown Fibre Holdings Limited <b>Member of</b> Chorus Steering Committee

Transactions between Enable Networks Limited and entities with whom certain directors are associated are described in Note 18 to the financial statements.

### Loans to directors

There were no loans made to directors.

### Donations

No donations were made during the year.

### Dividends

No dividends were paid during the year.

### Use of Company Information

During the year the board received no notices from directors of the company requesting to use company information received in their capacity as directors which would not otherwise have been available to them.

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Glossary

ENL	Enable Networks Limited
ESL	Enable Services Limited. ESL is the contractor building and servicing the UFB network. ESL is also a shareholder and funder of ENL.
CFH	Crown Fibre Holdings Limited. CFH is a shareholder and funder of ENL.
CPPP	Cost Per Premises Passed for Communal Infrastructure
IRU	Indefeasible Right of Use
UAT	User Acceptance Testing
UFB network	Ultra-Fast Broadband network
Network layer 1	passive fibre optic network infrastructure
Network layer 2	active fibre optic network infrastructure
“A” shares	A Shares in the capital of ENL having the rights and restrictions set out in the ENL Constitution
“B” shares	B Shares in the capital of ENL having the rights and restrictions set out in the ENL Constitution
Concession period	The period commencing on the date ENL was incorporated and ending on the tenth anniversary of the date of ENL’s incorporation (31 May 2021)

Statement of Responsibility

The Board is responsible for the preparation of Enable Networks Limited’s financial statements and for the judgements made in them.

The Board of Enable Networks Limited has responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the Board’s opinion, the financial statements fairly reflects the financial position and operations of Enable Networks Limited for the thirteen months ended 30 June 2012.

Signed on behalf of the Board:



**Timothy Lusk**  
Chair  
21 August 2012



**Graham Mitchell**  
Chair of the Audit and Risk Committee  
21 August 2012

## Statement of Comprehensive Income

### Statement of Comprehensive Income

For the 13 months ended 30 June 2012

	Notes	2012 \$000
<b>Income</b>		
Interest income	3	13
UFB income	3	1,158
<b>Total income</b>		<b>1,171</b>
<b>Expenses</b>		
Directors' fees	4	150
Personnel costs	5	126
Management fees	6	2,589
Professional advisory fees	6	224
Other expenses	7	133
Depreciation expense	11	398
Impairment of UFB network assets	11	-
<b>Total expenses</b>		<b>3,620</b>
<b>Profit/(loss) before tax</b>		<b>(2,449)</b>
<b>Tax expense/(credit)</b>	<b>8</b>	<b>(686)</b>
<b>Net profit/(loss) and total comprehensive income/(loss) for the period</b>		<b>(1,763)</b>

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

## Statement of Financial Position

### Statement of Financial Position

As at 30 June 2012

	Notes	2012 \$000
<b>Assets</b>		
<i>Current assets</i>		
Cash and cash equivalents	9	771
Trade and other receivables	10	382
Prepayments		6
<b>Total current assets</b>		<b>1,159</b>
<i>Non-current assets</i>		
UFB network assets	11	32,614
Deferred tax assets	8	686
<b>Total non-current assets</b>		<b>33,300</b>
<b>Total assets</b>		<b>34,459</b>
<b>Liabilities</b>		
<i>Current Liabilities</i>		
Creditors and other payables	12	948
Employee entitlements	13	33
Deferred revenue		91
<b>Total current liabilities</b>		<b>1,072</b>
<i>Term liabilities</i>		
Deferred revenue		676
Liability component of A shares	14	1,844
<b>Total term liabilities</b>		<b>2,520</b>
Total Liabilities		3,592
<b>Net assets</b>		<b>30,867</b>
<i>Equity</i>		
Issued capital	14	32,630
Retained earnings		(1,763)
<b>Total Equity</b>		<b>30,867</b>

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.



## Statement of Changes in Equity

### Statement of Changes in Equity

For the 13 months ended 30 June 2012

	Notes	Issued Capital	Retained Earnings	Total \$000
Net profit/(loss) and total comprehensive income/(loss)		-	(1,763)	(1,763)
Owners transactions:				
Share issue – A shares	14	1,517	-	1,517
Share issue – B shares	14	31,113	-	31,113
<b>Closing balance</b>		<b>32,630</b>	<b>(1,763)</b>	<b>30,867</b>

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

## Statement of Cash Flows

### Statement of Cash Flows

For the 13 months ended 30 June 2012

	Notes	2012 \$000
<b>Cash flows from operating activities</b>		
Receipts from customers		1,067
Interest received		13
Payments to suppliers		(2,179)
Payments to employees		(103)
Goods and services tax (net)		(327)
<b>Net cash outflow from operating activities</b>	<b>15</b>	<b>(1,529)</b>
<b>Cash flows from investing activities</b>		
Purchase of UFB network assets		(2,227)
<b>Net cash outflow from investing activities</b>		<b>(2,227)</b>
<b>Cash flows from financing activities</b>		
A shares – liability component	14	1,844
Capital contribution – A shares – equity component	14	383
Capital contribution – B shares	14	2,300
<b>Net cash inflow from financing activities</b>		<b>4,527</b>
Net (decrease)/increase in cash and cash equivalents		
<b>Cash and cash equivalents at the end of the year</b>	<b>9</b>	<b>771</b>

The accompanying notes form an integral part of these financial statements and should be read in conjunction with them.

Notes to Financial Statements  
For the 13 months ended 30 June 2012

1. Statement of accounting policies

Reporting entity

The reporting entity is Enable Networks Limited (ENL or the Company). ENL was incorporated on 31 May 2011, and these are the first financial statements for the 13 months ended 30 June 2012. Accordingly, no comparative information is provided.

ENL is a limited liability company incorporated in New Zealand under the Companies Act 1993, and is a reporting entity for the purposes of the Financial Reporting Act 1993.

The purpose of the Company is to implement Ultra-Fast Broadband (UFB) in the Christchurch and Rangiora Candidate Areas, as set out further in note 2. The Company’s key investors are Crown Fibre Holdings Limited (CFH, a Crown entity) and Enable Services Limited (ESL, the partner), in a public-private arrangement to deploy UFB. ENL is a profit-oriented entity. ESL was previously known as Christchurch City Networks Limited, and is a subsidiary of Christchurch City Holdings Limited which is wholly owned by Christchurch City Council.

These financial statements were approved by the Board of Directors on 21 August 2012.

Statement of compliance

The financial statements of the Company have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for profit-oriented entities.

The Company qualifies for differential reporting concessions as it is not large and not publicly accountable. The Company has applied only the following differential reporting concessions:

- NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* – no disclosure has been made of new NZ IFRSs that have been issued but are not yet effective.

Basis of preparation

The financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments 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). The functional currency of the Company 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.

Ultrafast Broadband income

Ultrafast Broadband (UFB) income is recognised in the period in which the UFB 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.

Interest expense

Interest expense is recognised using the effective interest method, which is described above.

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 and other receivables

Trade and other 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 the Company 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 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 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 receivable’s carrying amount and the present value of estimated future cash flows, discounted at the receivable’s 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.



UFB network assets

Property, plant and equipment asset classes consist of the UFB network assets, being layer one (relating to the provision of unlit optical fibre) and layer two (relating to Ethernet or lit optical fibre, being the provision of communication equipment on the un-lit fibre).

UFB network assets are shown at cost less any accumulated depreciation and impairment losses.

Additions

The cost of an item is recognised as an asset only when it is probable that the 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.

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 included in profit or loss.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that the 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.

The costs of day-to-day servicing of UFB network assets are recognised in the profit or loss as they are incurred.

Depreciation

Depreciation is provided on a straight-line basis on all UFB network assets at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of asset have been estimated as follows:

UFB Network assets:

- Layer one (provision of unlit optical fibre) 20 – 40 years
- Layer two (Ethernet communication equipment) 5 -12 years

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial period end.

Impairment of non-financial assets

UFB network assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts might not be recoverable. 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.

If an asset’s carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised immediately in profit or loss. Further information regarding impairment is provided in the section titled critical accounting estimates and assumptions below.

Debt and equity instruments issued by the Company

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the transactions.

Equity instruments

An equity instrument is any contract that provides a residual interest in the assets of the Company after deducting the Company’s liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of any direct issue costs.

Compound instruments (redeemable A shares)

The component parts of compound instruments issued by the Company are classified separately as financial liabilities and as equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument, based on the earliest date at which the Company could be required to redeem the instrument. This amount is recorded as a liability and accounted for on an amortised cost basis using the effective interest rate until extinguished upon conversion or repurchase. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole, and is not subsequently re-measured.

Financial liabilities

Debt (including the liability component of the redeemable A shares) 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.

Deferred revenue

Where the Company receives payment in advance for network access (an indefeasible right of use), the revenue is deferred and recognised on a straight line basis over the period of access. The deferred revenue is recognised as a liability on the statement of financial position.

Employee entitlements

Short-term employee entitlements

Employee entitlements that the Company 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 bonuses 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

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 the Company 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 the Company 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.

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 the Company 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 the Company.

Critical accounting estimates and assumptions

In preparing these financial statements the Company 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:

Impairment of UFB network assets

The UFB network assets include the existing fibre optic network assets purchased from ESL in February 2012 and the new network assets purchased from ESL between April 2012 and June 2012.

The existing fibre optic network was the subject of extensive due diligence undertaken on behalf of the Company by CFH and Northpower Limited, an independent party, in January and February 2012 to support the calculation of the purchase price. On this basis and given there has been no subsequent indications of impairment the Company has concluded that there is no need to impair the carrying value of the asset.

The new network assets purchased between April 2012 and June 2012 are based on the agreed contract pricing between ENL and ESL. The network build is in the very early stages of an 8 year build programme and the Company has concluded that no impairment exists given the very recent nature of the asset purchases and no subsequent indications of impairment.

The company has one cash-generating unit being the entire interdependent UFB network.

Useful lives and residual values of UFB network assets

At balance date the Company reviews the useful life and residual value of its UFB network assets. Assessing the appropriateness of useful life and residual value estimates of UFB network assets requires the Company to consider a number of factors, such as the physical condition of the assets, expected period of use of the assets by the Company, and expected disposal proceeds from the future sale of the assets.

An incorrect estimate of the useful life or residual value will impact on the depreciation expense recognised in the profit or loss, and the carrying amount of the asset in the statement of financial position. The Company minimises the risk of this estimation uncertainty by:

- Physical inspections of assets; and
- Asset replacement programmes in line with useful life expectations.

The carrying amounts of UFB network assets are disclosed in note 11.

Measurement of liability component of redeemable A shares

A shares convert to ordinary shares at the end of the concession period, however there is also an obligation to buy-back under certain conditions.

CFH A shares:

The A shares held by CFH may be required to be repurchased by the Company (at a fixed price of \$1 per share) at any time during the concession period when notified to do so by ESL, provided that:

- ESL funds the buy-back;
- certain solvency and debt covenant requirements are met; and
- if the build of the network is incomplete the buy-back would not result in CFH holding less than 51% of the total A shares on issue (in which case the buy-back is deferred until the build is complete).

This represents an unavoidable obligation of the Company to repurchase the A shares for cash, and accordingly the A shares held by CFH represent a compound financial instrument. In determining the liability component, the Company has estimated the earliest possible date at which the Company would be required to buy-back the A shares, and discounted the repayment at that date to arrive at the amount to be recognised as a liability. The remainder is recognised as equity.

The Company has used a discount rate of 6.5%, and estimated that the earliest possible date of repayment for the A shares issued to CFH during the year is June 2015.

If the earliest possible date of repayment were to move by 6 months, the carrying value of the liability would change by approximately \$62,000.

The A shares held by CFH are also required to be repurchased in the event of certain cost-savings as described below, however this is considered remote and has not impacted the measurement of the liability component of A shares held by CFH as described above.



ESL A shares:

The A shares held by ESL may also be required to be repurchased by the Company (at a fixed price of \$1 per share) at any time during the build period in the event that ESL returns certain cost-savings to the Company. The Company is required to use the refund to repay firstly certain debt instruments, and if any refund remains unused to use the remainder to buy-back firstly the A shares held by ESL, and secondly the A shares held by CFH. Whilst this represents an unavoidable obligation of the Company to repurchase A shares for cash, and therefore the A shares held by ESL also represent a compound financial instrument, the Company considers the likelihood of cost savings sufficient to repay all debt and then to begin repaying A shares to be remote and has not attributed any amount to the liability component.

The Company considers the likelihood to be remote as it has estimated it will issue Notes to a value of \$27 million of debt by June 2013 rising to \$110 million by June 2017. Given the estimated network build cost is \$58 million in the June 2013 year the actual build savings would have to approach 50% in the June 2013 year before any A share repurchase was required. Likewise in the period to June 2017 the level of network build cost is expected to be over \$260 million which would require cost savings of over 40% throughout this time. Savings of that level are not expected given contracted rates and the general growth of construction costs in Christchurch following the earthquakes. Accordingly, all consideration for A shares from ESL has been recognised as equity.

Critical judgements in applying accounting policies

Management has exercised the following critical judgements in applying the Company’s accounting policies for the 13 months ended 30 June 2012:

*Determination of the parent entity*

The Company is a subsidiary of CFH at 30 June 2012. The determination of whether the partner or CFH controls the Company will be required to be reassessed on an ongoing basis, depending on the respective ownership interests and the nature of the underlying agreements however at 30 June 2012 and during the concession period, CFH is considered to control the Company as it holds the majority of A shares which are the only equity instruments with voting powers.

*Lease classification*

Determining whether a right of use arrangement represents a finance lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the user.

Judgement is required on various aspects that include, but are not limited to, whether the assets used are dedicated solely to the user, the fair value of the asset, the economic life of the asset, and determining an appropriate discount rate to calculate the present value of the payments. Classification as a finance lease would mean the asset is not recognised in the statement of financial position as UFB network assets.

The Company has exercised its judgement regarding the appropriate classification of equipment provided under indefeasible right of use agreements, and has determined that no arrangements are finance leases.

*Deferred tax treatment*

Recognition of income tax losses as a deferred tax asset may occur if the utilisation of those tax losses is believed to be probable. The Company has exercised its judgement as to whether the utilisation of the tax losses is probable.

2. Ultra-Fast broadband contract with Crown Fibre Holdings Limited and the partner

On 31 May 2011 the Company was formed and entered into an agreement with CFH and the partner relating to the construction, deployment and operation of the UFB network for the Christchurch (which includes the Kaiapoi and Rolleston areas) and Rangiora Candidate Areas. This is part of the wider project by the Crown to provide open access fibre optic network to 75% population coverage in urban New Zealand. The projected cost of the build in the Christchurch and Rangiora Candidate Areas is \$440 million.

The agreement sets out the key commercial terms of the relationships between CFH (the Crown entity that negotiated and administers the agreement), the Company and the partner. This includes CFH and the partner having shareholdings in the Company that will reflect the level of each entity’s investment in the deployment of the UFB network in each Candidate Area.

CFH and the partner have equal board representation on the Company’s Board of Directors (up to three directors each) with an independent chair appointed.

The deployment plans drive CFH’s level of investment in the Company. As each stage of the deployment plan is completed by the partner, the Company purchases the UFB network from the partner based on an agreed cost per premises passed (CPPP) for the number of premises passed by fibre optic cable upon successful user acceptance testing (UAT). CFH will in turn fund approximately 67% of the Company’s purchase of each stage by way of subscribing to A shares (these shares carry full voting rights, with no dividend rights until 10 years from establishment (the concession period)) in the Company, the price for which is the agreed CPPP. The partner receives A shares for the remaining component of the CPPP it funds. The partner has the option, at any time during the concession period, provided that CFH retains voting control through the network build programme, to purchase A shares from CFH at a fixed price of \$1, or alternatively, the partner may instruct the Company to repurchase the A shares from CFH at this value. The partner is required to fund the cost to connect a premise and end customer (essentially fibre optic lead in from street), the electronics necessary to light the optical fibre and operational costs. The partner generally receives B shares for funding these obligations (B shares carry full dividend rights, but no voting rights until the end of the concession period), although partner debt funding is permitted as set out at note 21 (liquidity risk). The percentage of shares and level of voting control held by the partner and CFH will change through the lifecycle of the project. All A and B class shares in the Company convert to ordinary shares 10 years from establishment date.

3. Revenue

	2012 \$000
<b>Interest income</b>	
Interest earned on cash balances with financial institutions	13
Total interest income	13
<b>UFB income</b>	
Connection income	17
Access income	1,141
<b>Total UFB income</b>	<b>1,158</b>

The effective weighted average interest rate for monies on deposit is 2.5%.

#### 4. Directors' fees

	# of committee meetings attended ***	# of board meetings attended	Fees paid 2012 \$000
Timothy Lusk (independent chair)	6	11	70
Mark Bowman** (appointed 1 October 2011)	6	8	14
Bill Dwyer ** (20 October 2011 to 30 April 2012)	-	6	12
Brett Gamble ** (appointed 12 June 2012)	-	1	-
Robert Lineham ** (resigned 20 October 2011)	-	3	-
William Luff**	-	8	19
Murray Milner*	-	8	35
Graham Mitchell*	6	11	-
Michael Wynne*	-	11	-
<b>Total Board member fees</b>			<b>150</b>

\* Appointed by Crown Fibre Holdings Limited

\*\* Appointed by Enable Services Limited

\*\*\* Audit and Risk Committee meetings

The Company has effected Directors' and Officers' Liability insurance to cover Directors and Officers. The Company indemnifies the Directors against costs and liabilities incurred by Directors for acts or omissions made in their capacity as Directors to the extent permitted by the Company's Constitution and the Companies Act 1993.

#### 5. Personnel costs

	2012 \$000
Salaries and wages	91
Employer contributions to defined contribution plans	2
Increase in employee entitlements	33
<b>Total personnel costs</b>	<b>126</b>

#### 6. Management fees and professional advisory fees

	2012 \$000
Marketing and sales	1,193
Corporate services	505
Strategy leadership	191
Layer one operations and maintenance	700
<b>Total management fees and costs on-charged by ESL</b>	<b>2,589</b>
Accounting	37
Legal	187
<b>Total professional advisory fees</b>	<b>224</b>

#### 7. Other expenses

	2012 \$000
Audit fees for the financial statements	25
Insurance	26
Sponsorship	64
Donations	-
Other	18
<b>Total other expenses</b>	<b>133</b>



## 8. Taxation

	2012 \$000
Income tax expense/(credit) recognised in profit/(loss)	
Current tax expense/(credit) in respect of the current period	-
Deferred tax expense relating to the origination and reversal of temporary differences	(686)
<b>Income tax expense/(credit)</b>	<b>(686)</b>
Reconciliation	
Profit/(loss) for the period	(2,449)
Income tax expense/(credit) calculated at 28%	(686)
Effect of revenue that is exempt from taxation	-
Effect of other expenses that are not deductible	-
<b>Income tax expense/(credit)</b>	<b>(686)</b>

	2012 Charged to profit/(loss) \$000	2012 Charged to equity \$000	2012 Closing balance \$000
Deferred tax asset/(liability):			
<i>Temporary differences</i>			
UFB network assets	-	-	-
Employee entitlements	2	-	2
Expense Accruals	5	-	5
Tax losses	679	-	679
<b>Total</b>	<b>686</b>	<b>-</b>	<b>686</b>

*Represented by:*

Deferred tax assets	686	-	686
Deferred tax liabilities	-	-	-
<b>Net deferred tax asset/(liability)</b>	<b>686</b>	<b>-</b>	<b>686</b>

Tax losses are recognised on the basis that future profit to utilise these losses is considered probable. The Company invests in infrastructure which requires significant initial investment and will incur losses in the start up phase but will revert to reliable profitability in future years. This is reinforced by Company projections. In addition expected shareholder continuity levels meet the tax loss continuity requirement throughout the period in which utilisation of the losses is probable.

## Imputation Credits

No imputation credits are available for use in subsequent reporting periods.

## 9. Cash and cash equivalents

	2012 \$000
Cash on hand and at bank	771
Cash equivalents – term deposits	-
<b>Total cash and cash equivalents</b>	<b>771</b>

All cash on hand is held with the BNZ. The carrying value of short-term deposits with maturity dates of three months or less approximates their fair values. The weighted average effective interest rate for monies on deposit at 30 June 2012 is 2.50%.

## 10. Trade and other receivables

	2012 \$000
Trade receivables	53
Related party receivables	-
Other receivables	2
Interest receivables	-
GST receivables	327
<b>Total other receivables</b>	<b>382</b>

The carrying value of receivables approximates their fair value.

## 11. UFB network assets

Movements for each class of property, plant and equipment are as follows:

	UFB network layer one \$000	UFB network layer two \$000	Total \$000
Cost			
Additions during the period	31,134	1,878	33,012
<b>Balance at 30 June 2012</b>	<b>31,134</b>	<b>1,878</b>	<b>33,012</b>
Accumulated depreciation			
Depreciation charge for the year	313	85	398
<b>Balance at 30 June 2012</b>	<b>313</b>	<b>85</b>	<b>398</b>
<b>Net book value at 30 June 2012</b>	<b>30,821</b>	<b>1,793</b>	<b>32,614</b>

The key estimates and assumptions used in determining the recoverable amount and related impairment expense for UFB network assets are set out in note 1.

The UFB network assets include the purchase of the existing fibre optic network owned by ESL in February 2012 for \$29.619 million and the purchase of four new stages of UFB network built in the Christchurch suburb of Halswell for \$3.361 million. As the UFB network build continues the existing fibre optic network from ESL will become an integral part of the UFB network.

UFB network layer one represents the physical fibre network assets which are essentially the unlit pipeline or pathway that the electronics use to transmit, otherwise known as dark fibre. These assets include ducting, the optical fibre and other physical assets such as the Central Offices. These assets make up the biggest investment cost and tend to be long term assets with expected useful life of 20 – 40 years.

UFB network layer two assets represent the electronics necessary to light the optical fibre or the means by which communication occurs down the layer one pathway. These assets are located in ENL Central Offices, Points of Interconnect, street cabinets and in the premises of fibre optic users. As these assets are generally electronic they have a shorter expected useful life of 5-12 years.

The UFB network assets are long term infrastructural assets with long term investment horizons. It is expected that UFB fibre will become the preferred medium of choice by the majority of telecommunications users over time, as the requirement for faster and more reliable broadband levels increase.

## 12. Creditors and other payables

	2012 \$000
Creditors	3
Related party payables - ESL	887
Accrued expenses	58
<b>Total creditors and other payables</b>	<b>948</b>

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value.

## 13. Employee entitlements

	2012 \$000
Current employee entitlements are represented by:	
Annual leave and short-term entitlements	33
Other	-
<b>Total employee entitlements</b>	<b>33</b>

## 14. Liability component of A shares and Issued capital

As described in the critical accounting estimates and assumptions section of the accounting policies, the A shares held by CFH contain a liability component. The consideration has been attributed to the liability and equity components (issued capital) as set out below:

	2012 \$000
A shares issued to CFH – total consideration received	2,227
Liability component	1,844
<b>Equity component - residual</b>	<b>383</b>

### Issued capital

	A shares CFH 2012 #	A shares ESL 2012 #	B shares ESL 2012 #	Total 2012 #
Issued capital – fully paid and authorised				
Shares issued	2,227	1,134	31,113	34,474
Shares repurchased	-	-	-	-
<b>Closing balance</b>	<b>2,227</b>	<b>1,134</b>	<b>31,113</b>	<b>34,474</b>

	A shares CFH 2012 \$000	A shares ESL 2012 \$000	B shares ESL 2012 \$000	Total 2012 \$000
Issued capital – fully paid and authorised				
Shares issued	2,227	1,134	31,113	34,474
Shares repurchased	-	-	-	-
Total value of shares issued	2,227	1,134	31,113	34,474
Less value of A shares attributed to liability	1,844	-	-	1,844
<b>Closing balance of issued capital in equity</b>	<b>383</b>	<b>1,134</b>	<b>31,113</b>	<b>32,630</b>



During the period there were no costs associated with share issues.

As each stage of the deployment plan is completed by the partner, the Company purchases the UFB network from the partner based on an agreed cost per premises passed (CPPP) for the number of premises passed by fibre optic cable upon successful user acceptance testing (UAT).

A Shares

CFH funds approximately 67% of the Company’s purchase of each stage by way of subscribing to A shares (these shares carry full voting rights, with no dividend rights until 10 years from establishment (the end of the concession period), the price for which is the agreed CPPP. The remaining 33% of each stage is funded by ESL in return for A shares with the same rights as those issued to CFH.

The A shares issued to CFH are compound financial instruments as the partner has the option, at any time during the concession period, to purchase from CFH its A shares at \$1 per share, or alternatively the partner may instruct the Company to repurchase the A shares from CFH, subject to certain conditions which are set out in the critical accounting estimates and assumptions section of the accounting policies. The total consideration received on issue of A shares to CFH, and the amount attributed to the liability component is set out earlier in this note 14.

The A shares held by CFH and ESL are also required to be repurchased in the event of certain cost-savings as described below, however this is considered remote and has not impacted the amount attributed to equity.

At the end of the concession period, any remaining A shares convert to ordinary shares.

At 30 June 2012 the number of A shares owned by CFH is 2,227, and 1,134 are owned by ESL. The Company has repurchased none of its own A shares.

B Shares

The partner is required to fund the cost to connect a premise and end customer (essentially fibre optic lead in from street), the electronics necessary to light the optical fibre and operational costs, and in return is issued either B shares or notes depending on certain funding criteria being met (as described in note 21). B shares have the right to dividends, which may only be paid in accordance with the terms of the agreement. B shares issued to ESL in exchange for certain vended network assets will convert to A shares, so long as this does not result in ESL holding greater than 49% of the total A shares on issue. At the end of the concession period, any remaining B shares convert to ordinary shares.

15. Reconciliation of net profit/(loss) to net cash from operating activities

	2012 \$000
Net profit/(loss) after tax	(1,763)
Add/(less) non-cash items:	
Depreciation expense	398
Deferred tax	(686)
Indefeasible rights of use	(71)
Total non-cash items	(359)
Add/(less) movements in working capital items	
Trade and other receivables and prepayments	(388)
Creditors and other payables	948
Employee entitlements	33
Net movements in working capital items	593
Net cash from operating activities	(1,529)

The Company had the following significant non-cash transaction during the period:

- The existing fibre optic network assets of ESL were purchased off ESL for \$29.619m in February 2012. After adjusting for the value of Indefeasible Rights of Use attached to the asset the final net sale value was \$28.813m. The transfer of the network was a non-cash transaction paid by the issuance of 28.813m B shares to ESL.
- UFB network assets of \$3.361m were purchased from ESL of which \$1.134m was paid as a non-cash transaction through the issuance of 1.134m A shares to ESL. ESL funds approximately 33% of the UFB network build and is paid for this in A shares as a non-cash transaction.

16. Commitments

Capital commitments

The Company has entered into agreements to purchase the UFB network from ESL as it is built, subject to certain conditions being met which are described in note 2. The agreements require ESL to have built the UFB network past all priority premises (business, health, schools and government) by December 2015 and all premises to be passed by December 2019. Upon each stage of the network being completed and subject to that stage satisfactorily passing user acceptance testing ENL will purchase that stage.

The actual number and order of premises to be built is agreed in detail in a Network Deployment Plan. The estimated amount of payment for UFB network in the coming year is \$47.5 million.

In addition, the agreements require ESL to connect, on request, any entity within in the built UFB network. These connections are to be paid for by the Company at agreed rates. The actual profile and value of the connections is dependent on the actual profile of connections requested on the network.

As at 30 June 2012 the estimated cost of UFB network including connections to December 2019 is as follows:

	Financial Year 2013	Financial Year 2014	Financial Year 2015	Financial Year 2016	Financial Year 2017	Financial Year 2018	Financial Year 2019	Total
Estimated cost of UFB network (\$m)	47.5	47.0	49.5	52.1	55.2	62.0	43.8	357.1

The funding arrangements in relation to these purchases are set out in note 21 (liquidity risk).

Commitment to repurchase A shares

As set out in note 2, the partner may instruct the Company to repurchase the A shares from CFH at any time during the concession period.

17. Contingencies

Contingent liabilities

The Company has a contingent liability in the form of a number of indefeasible right to use contracts acquired with the network purchase from ESL on 10 February 2012. The services under these contracts are still to be performed and the amount owing under these contracts as at 30 June 2012, if the contracts were cancelled or not performed is \$400,897.

The Company has a letter of credit with BNZ for \$30,000 in favour of Fusion 5 who provide payroll services to the Company. The letter of credit covers salary and other payroll costs paid to the Company employees by Fusion 5 and reimbursed by the Company.

The Company has no other contingent liabilities as at 30 June 2012.

Contingent assets

The Company has no contingent assets as at 30 June 2012.

18. Related party transactions and key management personnel

Related parties

The immediate parent of the Company is CFH. CFH is a wholly owned entity of the Crown, and accordingly the ultimate controlling entity is the Crown.

The partner has significant influence over the Company, by virtue of its representation on the board of directors and a number of shareholder reserved matters including participation in decisions about dividends or other distribution, approval of business plans, approval of material transactions and employment of senior management

Significant transactions with CFH and other government-related entities

The Company has been provided with a contribution from CFH of \$2.227million to fund the UFB network development, in exchange for A shares as set out in note 14.

In addition, the Company enters into other transactions with Government departments, Crown entities, state-owned enterprises, Christchurch City Council and related Council organisations. These transactions occur within a normal supplier or client relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the Company would have adopted if dealing with those entities at arm’s length in the same circumstances. These have not been disclosed as related party transactions.

Collectively, but not individually, significant transactions with government-related entities

In conducting its activities, the Company is required to pay various taxes and levies (such as income tax, GST, PAYE, ACC levies, and rates) to the Crown and entities related to the Crown and Christchurch City Council and related Council organisations. The payment of these taxes and levies is based on the standard terms and conditions that apply to all tax and levy payers.

The Company also purchases goods and services from entities controlled, significantly influenced or jointly controlled by the Crown and Christchurch City Council and related Council organisations. Purchases from these government-related entities for the year ended 30 June 2012 totalled \$26,000. These purchases included audit fees and the purchase of travel from Air New Zealand.

Significant transactions with the partner

During the period, the Company purchased existing fibre network assets from the partner, and issued shares to the partner as set out in notes 14 and 15. This includes the purchase of the partner’s existing fibre optic network at book value on 10 February 2012, for \$29.619 million.

As set out in note 2, the Company purchases UFB network assets from the partner as they meet certain criteria. The commitment relating to these purchases is disclosed at note 16.

ESL provides support services to the Company under a Management Services Agreement. The Company paid \$1.702 million during the period for these management services. At balance date \$0.887 million is outstanding (included within creditors and other payables), and is payable under normal commercial terms.

The Company charges ESL for UFB products purchased by ESL for use under the transitional agreement for existing ESL customers on the existing network. The charges are at standard arms length published UFB product rates. The arrangement will reduce as remaining ESL customer contracts expire. The total UFB product sold to ESL for the year was \$1.039 million with no amount receivable from ESL at year end.



Key management personnel compensation

	2012 \$000
Salaries, short-term employee benefits and Directors’ fees	594
Defined contribution plans	2
<b>Total key management personnel compensation</b>	<b>596</b>

Key management personnel include the Directors, the GM ENL as Company’s only employee, and the Chief Executive and GM Finance and Corporate Services who provide services to the company through a Management Services Agreement with ESL.

The Management Services Agreement fee included a charge of \$320,400 (included in the table above) for the management services provided by the Chief Executive and GM Finance and Corporate Services.

19. Employee remuneration

Total remuneration paid or payable for the year

	2012
\$120,000 - \$129,000	1
<b>Total employees</b>	<b>1</b>

During the year ended 30 June 2012, no employees received compensation and other benefits in relation to cessation.

20. Categories of financial assets and liabilities

The carrying amounts of financial assets and liabilities in each of the NZ IAS 39 categories are as follows:

	2012 \$000
Loans and receivables:	
Cash and cash equivalents	771
Trade and other receivables	382
<b>Total loans and receivables</b>	<b>1,153</b>
Financial liabilities measured at amortised cost:	
Creditors and other payables	981
Liability component of A shares	1,844
<b>Total financial liabilities measured at amortised cost</b>	<b>2,825</b>

21. Financial instrument risks

The Company’s activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. The Company has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into. Investments of a financial nature can only be transacted with New Zealand major trading banks or in Government securities.

Market risk

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. The Company’s exposure to fair value interest rate risk is limited to its bank term deposits which are held at fixed rates of interest, and the liability component of the A shares which is not interest bearing. However, because these are not accounted for at fair value, fluctuations in interest rates do not have an impact on the profit or loss of the Company or the carrying amount of the financial instruments recognised in the statement of financial position.

The average interest rate on the Company’s term deposits is 2.50%.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. At call cash deposits and borrowings (where applicable) at variable interest rates expose the Company to cash flow interest rate risk.

Sensitivity analysis

As at 30 June 2012, if the deposit rate had been 50 basis points higher or lower, with all other variables held constant, the loss for the period would have been lower by an insignificant amount. This movement is attributable to increased or decreased interest income on the cash balances.

Credit risk

Credit risk is the risk that a third party will default on its obligation to the Company, causing the Company to incur a loss.

Credit risk arises in the Company from exposure to counterparties where the Company deposits its surplus cash and from trade and other receivables.

Owing to the timing of its cash inflows and outflows, the Company invests surplus cash with major registered trading banks and limits exposure to any one institution.

The Company’s maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents (note 9) and trade and other receivables (note 10). There is no collateral held as security against these financial instruments and no instruments are overdue or impaired.

The Company’s deposits are currently held with the BNZ, a registered New Zealand bank.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty raising liquid funds to meet commitments as they fall due. The Company’s primary mechanism for managing liquidity risk is through issuing A shares to fund UFB network assets (layer one), and through funding from ESL.

The Company and ESL have funding agreements in place which set out that ESL will fund the Company’s UFB network assets (layer two) and other working capital requirements using a range of instruments including equity (B shares), senior notes (up to a maximum debt/equity ratio of 50%) and convertible notes (up to a maximum debt/equity ratio of 65%). The Company is not permitted to borrow from any other source. In the event that the Company’s debt/equity ratio exceeds 65%, the convertible notes would convert to equity. Christchurch City Holdings Limited, which owns ESL, has guaranteed the provision of this funding. Christchurch City Holdings Limited has a maximum liability of \$50 million under the guarantee with a reducing liability to \$15 million at the end of the build programme in 2019.

In meeting its liquidity requirements, the Company maintains a target level of cash which is available within specified timeframes.

Contractual maturity analysis of financial liabilities

The table below analyses the Company’s financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows. The contractual undiscounted amounts are equal to the carrying amounts.

	Less than 6 Months \$000	Between 6 Months and 1 Year \$000	Between 1 and 5 Years \$000
2012			
Creditors and other payables (note 12)	981	-	-
Liability component of A shares	-	-	2,227
Total	981	-	2,227

The earliest possible buy-back date for the A shares held by CFH is estimated at June 2015.

22. Capital management

The Company’s capital is its equity, which comprises accumulated funds and share capital. Equity is represented by net assets.

The Company is prevented from borrowing from any party other than the partner. Details of the funding arrangements with the partner are set out in note 21 (liquidity risk).

The Company manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments and general financial dealings to ensure the Company effectively achieves its objectives and purpose, whilst remaining a going concern.

23. Events after the balance sheet date

There were no significant events after the balance date.



Independent Auditor’s Report  
To the readers of Enable Networks Limited’s financial  
statements for the 13 months ended 30 June 2012



The Auditor-General is the auditor of Enable Networks Limited (the company). The Auditor-General has appointed me, Julian Tan, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the company on her behalf.

We have audited the financial statements of the company on pages 24 to 49, that comprise the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of accounting policies for the 13 months ended on that date and the notes to the financial statements that include explanatory information.

Opinion

Financial statements

- In our opinion:
- the financial statements of the company on pages 24 to 49:
    - comply with generally accepted accounting practice in New Zealand; and
    - give a true and fair view of the company’s:
      - financial position as at 30 June 2012; and
      - financial performance and cash flows for the 13 months ended on that date.

Other legal requirements

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

Our audit was completed on 21 August 2012. 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 would affect a reader’s overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

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

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

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

- The Board of Directors is responsible for preparing financial statements that:
- comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the company’s financial position, financial performance and cash flows.

The Board of Directors is also responsible for such internal control as 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’ responsibilities arise from the Public Finance Act 1989 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

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

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

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

Julian Tan

Audit New Zealand  
On behalf of the Auditor-General  
Christchurch, New Zealand

This audit report relates to the financial statements of Enable Networks Limited (the company) for the 13 months ended 30 June 2012 included on the company’s website. The company’s board of directors is responsible for the maintenance and integrity of the website. We have not been engaged to report on the integrity of the website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements as well as the related audit report dated 21 August 2012 to confirm the information included in the audited financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

# Directory

## Shareholders

Crown Fibre Holdings Limited  
Enable Services Limited  
Minister of Finance (in capacity of holding the Government share)

## Registered office

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48 Shortland Street  
Auckland 1140  
New Zealand

## Contact address

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New Zealand

Web: [www.enable.net.nz](http://www.enable.net.nz)  
Email: [admin@enable.net.nz](mailto:admin@enable.net.nz)  
Phone: + 0800 434 273

## Auditor

The Auditor-General pursuant to section 14 of the Public Audit Act 2001.  
Julian Tan of Audit New Zealand was appointed to perform the audit on behalf of the Auditor-General.

## Solicitor

Harmos Horton Lusk

## Banker

BNZ