ENABLE SERVICES LIMITED
2012 ANNUAL REPORT

Enable Services Limited 2012 Annual Report

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"Investing in and building world-class fibre infrastructure for the people of greater Christchurch."

About Enable Services Limited

Enable Services Limited (ESL) is a leading infrastructure service provider specialising in building and operating open access fibre networks. In May 2011, ESL entered into a partnership with the Government to provide ultra-fast broadband (UFB) to Christchurch, Waimakariri and Selwyn – and was awarded the contract to build and operate the network.

ESL was launched in 2007 and is a fully owned subsidiary of Christchurch City Holdings Limited, the investment arm of Christchurch City Council.

Since its inception, it has been focused on delivering the business, education and community benefits of fibre broadband to the Christchurch community. At the beginning of the year, ESL already owned the most extensive (350 kilometre) fibre network in Christchurch. It covered 80 percent of Christchurch's commercial areas and provided services to hundreds of businesses, and many schools and healthcare facilities.

Winning the contract to partner with Government agency Crown Fibre Holdings Limited **(CFH)** to deliver UFB resulted in the creation of a new joint venture, a local fibre company Enable Networks Limited **(ENL)**. ESL currently owns a majority shareholding in ENL, although this will change as the UFB build programme progresses and CFH's investment increases.

As part of its establishment, ENL purchased ESL's existing network assets – including network access to thousands of commercial customer premises in the city. Under the 10 year UFB project, this network will grow extensively to provide fibre broadband access to 180,000 homes, schools and businesses in Christchurch, Rangiora, Kaiapoi, Woodend, Lincoln, Prebbleton and Rolleston.

ESL is also the network build contractor; as well as providing chief executive, sales and marketing, financial, management/administration support, and operating and maintenance services to ENL under contract. This ensures ESL's considerable operating experience, talent pool and systems infrastructure is maximised in delivering the UFB project.

Chairman and CEO Report

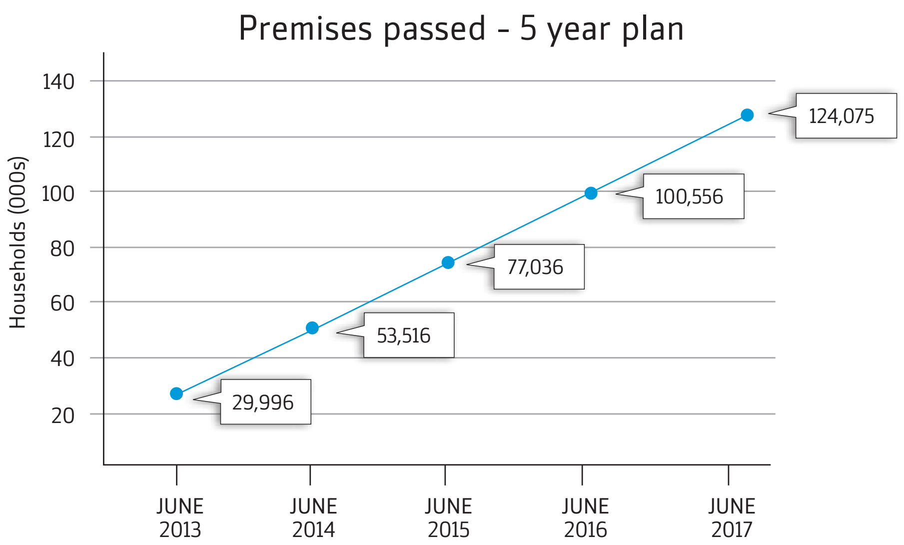
The last year has been primarily about establishing ENL and working with it to lay the foundations to deliver UFB - a once in a lifetime infrastructure initiative.

The last year has been transformational for ESL, with the business shifting focus and function significantly as a result of the partnership and contract with the government to deliver UFB. Prior to UFB, ESL was an aggressive, but small, fibre network provider. Today it is a major investor in, and build and operational contractor, for this unprecedented infrastructure project.

Since winning the contract in May 2011 ESL has grown from 11 staff to 55 people, has seen revenue jump from $5 million to $12 million and is targeting ongoing annual revenue throughout the UFB network build programme of $60 million based on UFB network sales to ENL.

By the end of this year ESL is expected to have built the UFB network past almost 30,000 premises and be actively connecting both commercial and residential customers in a number of suburbs. Over the next five years over 100,000 additional premises will have UFB network available at their boundaries.

ESL has had to respond quickly by bedding in agreements with its government partner CFH, up-weighting its internal resource



and forming new contract partnerships to establish a team capable of building and managing infrastructure of this scale, and matching its business and operating systems to its new role.

It has also had to adjust to its role as a shareholder and investor in ENL – a new entity that requires considerable upfront investment and planning before long-term returns can be realised.

ESL Chairman, Bill Luff

ESL's performance as an infrastructure service provider

Launching the seven year UFB network build programme was a critical milestone in 2011. As was establishing a network operations function from scratch in order to manage the network and deliver services over it.

ESL performed well in its first year of building the UFB network with its lead contract partner, Transfield Service (New Zealand) Limited. The business finalised a number of key contracts and up-scaled its internal resource quickly enabling the build programme to begin in November 2011 – a number of months ahead of the originally planned start date.

Since the UFB build programme began in November ESL has laid new network passed 5,905 premises in Christchurch. This meant a target to June 2012 of 6,088 premises passed was set, with 97% delivered. This is considered a good result in an environment where civil construction resource is very scarce, and where the business was working with newly contracted partners that needed to employ and train hundreds of new staff.

The programme of work included completing build to 5,000 homes and businesses in Halswell – where fibre-to-the-home services will be launched in September – and starting construction in Papanui, Bishopdale, Middleton, Hornby and Woolston.
The Halswell launch will mean 16,000 homes and businesses have access to fibre broadband in total.

Plans to construct 12 central office buildings to house the local fibre terminations and electronic equipment are well under way, with the first four sites already completed.

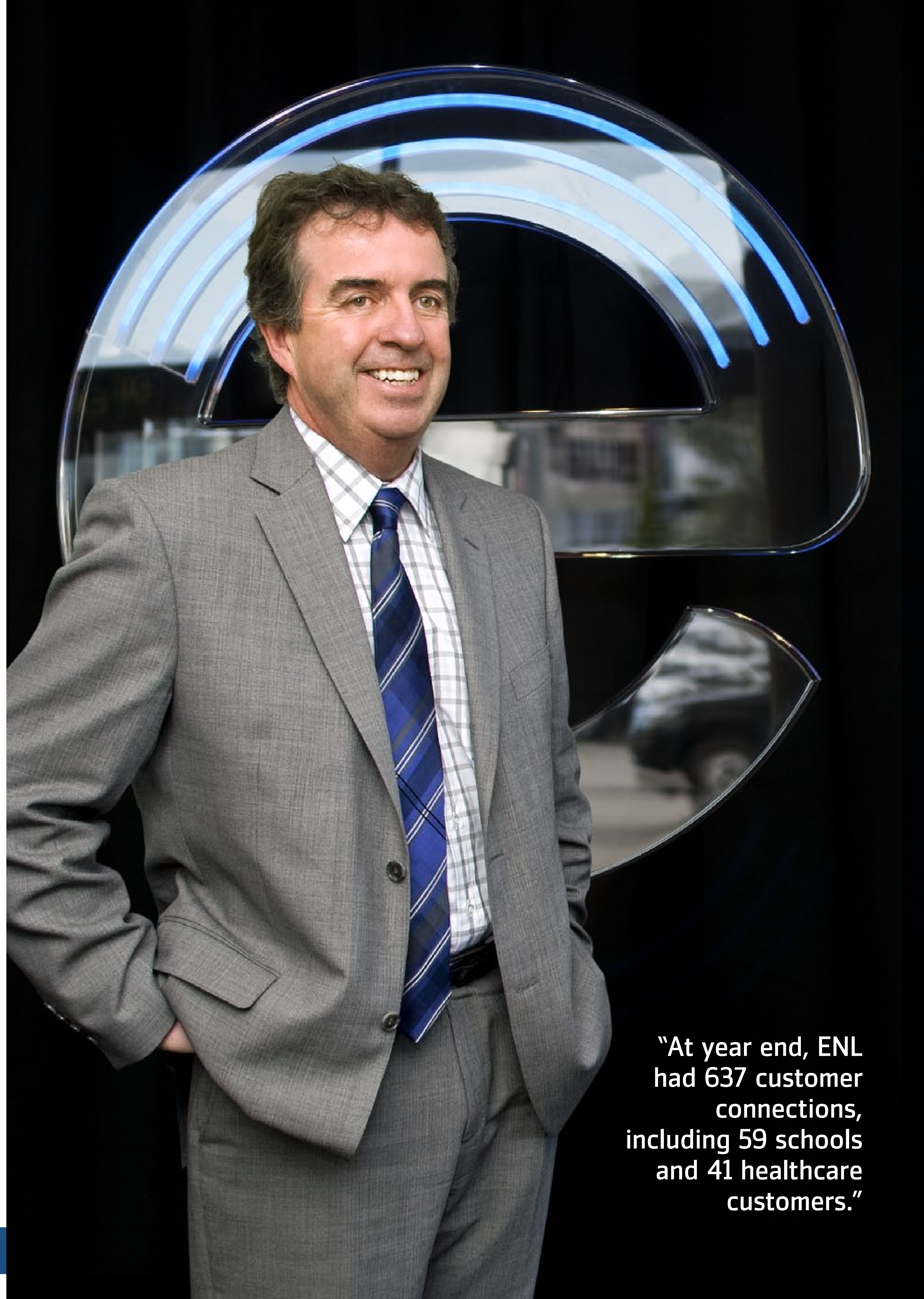
Another important part of ESL delivering on its contract with ENL is having the operational capability to manage the network and provision services over it. ESL has commenced transforming its operational capability by establishing a build, operate and transfer arrangement with Huawei Technology Limited NZ for core network equipment and services; investing in scalable financial systems; and introducing an interim customer relationship management capability as steps in delivering services on a mass-market scale. This included building a highly skilled network operations and customer services function, along with a range of support services.

Establishing the LFC (Enable Networks Ltd)

The Shareholder Agreement between ESL and CFH established ENL with a thin company structure – with strategic and operational services provided by ESL under contract.

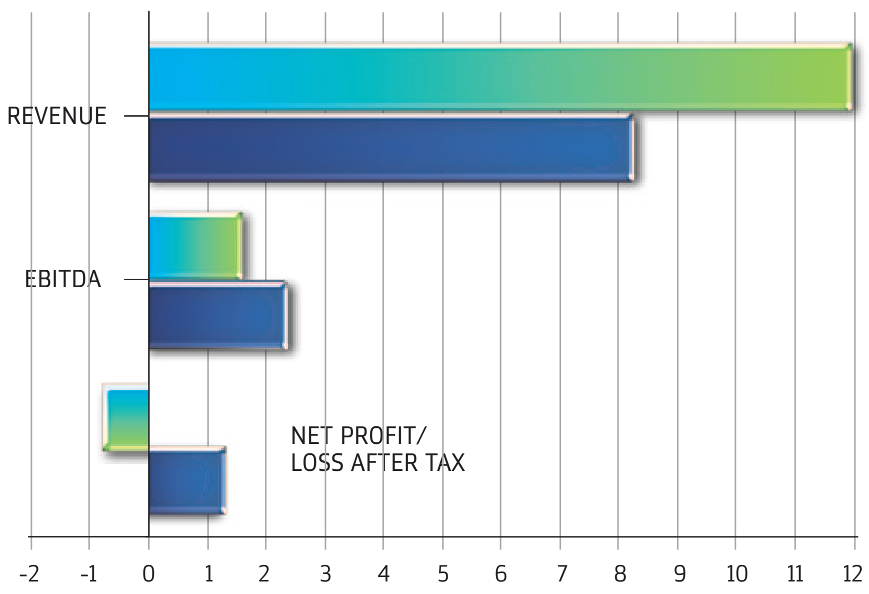
Agreements were finalised governing the responsibilities of the new company to the commerce commision, the transfer of ESL's existing fibre network, and the creation of a reference offer and wholesale services agreement.

With these agreements established, attention immediately shifted to building the network and capability to deliver services, growing ENL's market position, and meeting its customer connection and financial targets.



ESL CEO, Steve Fuller

Financial KPIs



	Actual ($Ms)	Target ($Ms)
Revenue	11.9	8.2
EBITDA	1.6	2.3
Net Profit/loss after tax	(0.8)	1.3

Actual

Target

The official launch of ENL took place in March, building on the established "Enable" brand and making it relevant to both retail service providers, as our customers, and the residents and businesses that will demand Enable's fibre broadband services.

ENL performed well financially in its first year – with revenue $66,000 ahead of target, $2 million lower expenses than budgeted and a net profit almost $2 million ahead of target.

ESL's financial performance

A significant shift in how ESL operates, the services ESL provides and the business' scale have had a significant impact on the business' finances.

In the past year ESL has transformed from a specialist fibre provider to a large infrastructure services provider with a significant shareholding in a new business. This means comparison with financial performance in previous years is of little value. For example, under the new model ESL does not expect to make a profit during the UFB build programme due to conclude in December 2018, as it invests in the future growth of ENL.

In this context and considered against the business' long-term objectives, ESL's financial performance for the year is considered a good result.

Revenue was $3.7 million above target, at $11.9 million – largely as a result of ESL beginning the UFB network build programme earlier than planned and gaining higher than expected income from this activity. Earnings before interest, taxes, depreciation, amortisation (EBITDA less associate loss) was also lower than expected at $1.6 million against a budgeted $2.3 million.

Overall, ESL's results translated into a net loss of $885,000 – which is lower than the expected profit due to the lower EBITDA and ESL being responsible for higher proportion ($1.65 million) of ENL's losses than expected.

Under the UFB model, ESL sells most of its products and services at cost to ENL - reducing the short-term profitability of its services to focus on the long-term returns from ENL. ESL's investment in ENL has increased in the year and will continue to increase throughout the next ten years.

Building our team and culture

ESL has established a team of outstanding people to represent its business and deliver UFB to the people of greater Christchurch.

ESL has grown in the last 12 months from 17 to having 55 people working in its office and representing our business and ENL. It has also worked closely with contract partners that have employed over 300 people to build and manage the network. Every one of ESL's team has responded outstandingly to this demanding and exciting initiative.

The business will continue to grow its culture to ensure customer service and experience are front and centre of the organisation.

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

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

Looking ahead

In the coming year, ESL and ENL will be focused on accelerating the UFB network build in line with deployment targets, launching services to more customers and driving uptake.

New mass market wholesale residential and small business fibre broadband services will be launched in Christchurch in the first quarter of the year.

These products will change how telecommunications, IT and entertainment services are delivered to both homes and businesses. They will be available to homes and businesses through retail service providers for about the same price as copper services. ESL and ENL's expectation is that the release of these products, supported by a significant wholesale/retail marketing effort, will result in exponential fibre broadband uptake.

This means the investment made in operational readiness will begin to deliver considerable value in the coming years. The business is ready to manage all aspects of service provision to meet the expected demand – including prequalification, order taking, connection activation and operational network management.

The ESL managed UFB 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. It also includes working closely with the Stronger Christchurch Infrastructure Rebuild Team to deploy network ducting in areas where underground infrastructure repairs are underway. This approach will reduce civil construction disruption to local communities and provide ESL with cost benefits.

Focus will continue on filling in the remaining gaps in commercial area coverage and reconfiguring some of ENL's existing network so it can deliver a full range of UFB services. Pivotal to the success of ENL, is the delivery of fibre broadband services from retail service providers and their continual innovation to enhance the value to the end customer. With over 30 retail service providers signed up to sell services over the network, ENL is well positioned to advance at pace next year.

ESL's investment in ENL is long term, and its true value is expected to be realised some years in the future. In saying that, ENL's first year performance – including financial performance and higher than expected fibre service sales – provides encouraging signs of the potential of ENL and UFB to generate significant return to ESL and, therefore, to its shareholder Christchurch City Holdings Limited.

ESL and ENL will also continue to work closely with CERA, the Councils, Christchurch Central Development Unit, CFH and other major stakeholders to ensure fibre broadband makes a significant contribution to the recovery and future of the Christchurch regional community and economy.

Bill Luff
Chairman

Steve Fuller,
CEO

Board of Directors

Bill Luff,
Chairman

Bill Luff 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 Strategy and Corporate Affairs for Solid Energy.

Bill also sits on the board of ENL.

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 ENL.

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.

He also sits on the board of ENL.

Craig Richardson,
Director

Craig Richardson is Managing Director of Jade Software Corporation, a leading developer of next generation software products and high performance technology for specialist global markets.

Prior to Jade, Richard was Chief Financial Officer in New Zealand for ASX listed company Coca-Cola Amatil Limited and has previously held senior executive roles with BlueScope Steel and Vodafone in Australia and Scandinavia. Craig is a Fellow of CPA Australia and now resides in Christchurch.

Charlotte Walshe,
Director

Charlotte Walshe is CEO of Dynamic Controls, a leading global designer and manufacturer of electronic control systems for power wheelchairs and mobility scooters. Charlotte has run the company from its Christchurch base for five years.

Before her current role, Charlotte held senior operations, sales and general management roles in the packaging and print industry – working for AEP Flexipac and Filmpac.

Bob Lineham,
Director (absent from photo)

Bob Lineham is the Chief Executive of Christchurch City Holdings Limited, a position he has held since the company was established in 1993. From 1985 to 2004 he held senior financial and management positions at the Christchurch City Council.

He is a director of Civic Assurance and Local Government Finance Corporation Limited. He is also an appointed member of the Canterbury District Health Board Finance Audit and Risk Committee.

Bob stood down from his position on the ESL board on 17 November 2011.

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 ESL board on 30 April 2012.

Statutory Information

Principal activities

The principal activity of ESL is the development of telecommunications infrastructure in Christchurch.

Directors' interests

ESL 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
Bill Luff (Chairperson)	**Director of** Arts Management Limited, Luff Trading Limited, Isaac Construction Limited **Director of** Enable Networks Limited **Trustee of** Christchurch Symphony Orchestra Trust, Woodlands Family Trust **Group Manager**, External Affairs at Solid Energy New Zealand Limited
Mark Bowman	**Director of** Enable Networks Limited **Director & Shareholder of** Comrad Holdings Limited, Magic Memories Group Holdings Limited, Scarlett Hydraulics Limited **Trustee of** MJ & RM Bowman Family Trust
Brett Gamble	**Director of** Positano Holdings Limited, Tinytown Toys Limited and Enable Networks Limited **Trustee of** Hammersmith Property Trust, Gamble Family Trust **Officer of** Mobile Surgical Services, Mobile Medical Technologies **Group Manager**, New Developments at Solid Energy New Zealand Limited
Craig Richardson	**Director of** Jade Software Corporation Limited, Monday Limited and Wynyard Group Limited **Trustee of** C & V Richardson Family Trust, Richardson Family Superannuation Fund
Charlotte Walshe	**Director of** Cluster Limited, Invacare Holdings Limited, Invacare New Zealand, Dynamic Controls and Dynamic Suzhou Holdings NZ
Bill Dwyer	**Director of** Christchurch City Holdings Limited, Enable Networks Limited **Trustee of** Wavertree Trust
Bob Lineham	**Director of** San Dona Olives Ltd, Enable Networks Limited, Civic Assurance, Local Government Finance Corporation Ltd **Committee Member of** Finance, Audit & Risk Committee of Canterbury District Health Board **CEO at** Christchurch City Holdings Ltd

Donations

No donations were made during the year.

Dividends

No dividends were paid during the year.

The Directors are pleased to present the audited financial statements of Enable Services Limited for the year ended 30 June 2012.

Bill Luff
Director
Christchurch
10 September 2012

Brett Gamble
Director
Christchurch
10 September 2012

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Glossary

ENL	Enable Networks Limited
ESL	Enable Services Limited. ESL is a shareholder and the contractor building and servicing the UFB network. ESL is also a partner funding 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 Comprehensive Income

For the year ended 30 June 2012

	Notes	2012 $000	2011 $000
Income			
Revenue	2	11,915	4,873
Interest income	2	38	39
Total income		**11,953**	**4,912**
Expenses			
Directors' fees	3	230	126
Personnel costs	4	2,489	1,036
Finance costs	5	434	174
Cost of sales	6	6,258	1,310
Other expenses	7	1,304	670
Depreciation and amortisation	13,14	118	838
Share of Loss of associate	15	1,650	-
Impairment of UFB network assets		65	148
Total expenses		**12,548**	**4,302**
Profit/(loss) before tax		(595)	610
Tax expense	8	290	156
Net profit/(loss) and total comprehensive income/(loss) for the year		**(885)**	**454**

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

Statement of Financial Position

As at 30 June 2012

	Notes	2012 $000	2011 $000
Assets			
Current assets			
Cash and cash equivalents	9	2,046	1,795
Trade, other receivables and prepayments	10	3,166	1,021
Inventories	11	1,993	554
Construction contract work in progress	12	7,024	125
Assets held for sale	13	-	27,572
Total current assets		**14,229**	**31,067**
Non-current assets			
Property, plant and equipment	13	1,036	330
Intangible assets	14	727	14
Investment in associate	15	30,596	-
Construction contract work in progress	12	855	872
Deferred tax assets	8	120	129
Total non-current assets		**33,334**	**1,345**
Total assets		**47,563**	**32,412**
Liabilities			
Current Liabilities			
Creditors and other provisions	16	4,518	1,667
Employee entitlements	17	620	324
Current tax liabilities	8	431	-
Total current liabilities		**5,569**	**1,991**
Term liabilities			
Deferred tax liabilities	8	37	501
Employee entitlements	17	200	-
Other non-current liabilities	18	-	778
Borrowings	19	19,500	6,000
Total term liabilities		**19,737**	**7,279**
Total liabilities		**25,306**	**9,270**
Net assets		**22,257**	**23,142**
Issued capital	20	**21,500**	**21,500**
Retained earnings		**757**	**1,642**
Total equity		**22,257**	**23,142**

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

Statement of Changes in Equity

For the year ended 30 June 2012

2012	Issued Capital	Retained Earnings	Total $000
Opening equity	21,500	1,642	23,142
Issue of ordinary shares	-	-	-
Net profit/(loss) and total comprehensive income/(loss)	-	(885)	(885)
Closing balance	**21,500**	**757**	**22,257**

2011	Issued Capital	Retained Earnings	Total $000
Opening equity	18,500	1,118	19,688
Issue of ordinary shares	3,000	-	3,000
Net profit/(loss) and total comprehensive income/(loss)	-	454	454
Closing balance	**21,500**	**1,642**	**23,142**

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

Statement of Cash Flows

For the year ended 30 June 2012

	Notes	2012 $000	2011 $000
Cash flows from operating activities			
Receipts from customers		9,285	3,678
Interest received		38	39
Payments to suppliers and employees		(15,863)	(2,683)
Net GST movement		-	(87)
Interest and other finance costs paid		(402)	(164)
Income tax paid		(314)	-
Net cash outflow from operating activities	**21**	**(7,256)**	**783**
Cash flows from investing activities			
Payment for intangible assets		(577)	(9)
Payment for Investment in ENL - ‘B’- Shares		(2,300)	-
Payment for property, plant and equipment		(3,116)	(6,587)
Net cash outflow from investing activities		**(5,993)**	**(6,596)**
Cash flows from financing activities			
Proceeds for issues of equity securities	20	-	3,000
Proceeds from borrowings	19	13,500	3,000
Net cash inflow from financing activities		**13,500**	**6,000**
Net (decrease)/increase in cash and cash equivalents		**251**	**187**
Cash and cash equivalents at the beginning of the year		**1,795**	**1,608**
Cash and cash equivalents at the end of the year	**9**	**2,046**	**1,795**

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

Notes to the Financial Statements

Notes to Financial Statements
For the year ended 30 June 2012

1. Statement of accounting policies

Reporting entity

Enable Services Limited ('ESL' or 'the Company') is a wholly owned subsidiary of Christchurch City Holdings Limited formed for the purpose of development of telecommunications infrastructure in Christchurch.

The financial statements of ESL are for the year ended 30 June 2012. The financial statements were authorised for issue by the ESL board of directors on 10 September 2012.

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).

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

New standards and interpretations issued and not yet adopted
At the date of authorisation of the financial statements, a number of Standards and Interpretations were in issue but not yet effective. We are not aware of any standards on issue but not yet effective which would materially impact the amounts recognised or disclosed in these financial statements.

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). 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 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.

Goods sold and services rendered
Revenue from the sale of goods 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 indefeasible right to use the network, is spread equally over the term of the contract and recognised in the profit or loss accordingly.

Interest expense

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

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 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 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 the 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 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.

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 to 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. At this stage, ESL considers the carrying value equates to fair value.

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 revalued amounts, net of their residual values, over their estimated useful lives.

Depreciation is on the following basis:

- Office Equipment 5 years
- Plant and Equipment 3 – 25 years
- Leasehold Improvements 6 years
- Motor Vehicles 5 years

Notes to the Financial Statements

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.

An impairment loss in respect of goodwill is not reversed.

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 eight years which it will sell to Enable Networks Ltd (ENL) upon 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.

Intangible assets

Intangible assets comprise costs incurred in purchasing and installing software systems for us 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% 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.

Non-current assets held for sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the profit or loss. Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.

Non-current assets held for sale (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

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

Short-term 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 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 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 2012 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.

Notes to the Financial Statements

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.

In addition to ESL's own assessment of the value of ENL, the value has also been assessed by Ernst & Young. The valuations indicate no indication of impairment in the investment.

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 2012:

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.

2. Revenue

	2012 $000	2011 $000
Interest income		
Interest earned on cash balances with financial institutions	38	39
Total interest income	**38**	**39**
Revenue		
Fibre income	3,785	3,078
Rendering of services	554	782
Management services revenue	1,889	-
Operations and maintenance revenue	700	-
Construction contract revenue	3,361	997
Sale of Inventory	1,626	16
Total income	**11,915**	**4,873**

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

3. Directors' fees

	# of board meetings attended in 2011	# of board meetings attended in 2012	2012 $000	2011 $000
Board member fees during the year were:				
Bill Luff (Chairman)	14	11	74	53
Mark Bowman	-	6	28	-
Brett Gamble	-	8	28	-
Craig Richardson	13	9	38	27
Bill Dwyer	13	9	34	27
Charlotte Walshe	-	8	28	-
Bob Lineham	13	6	-	-
Anthony Romano	5	-	-	19
Total Board member fees			**230**	**126**

During the year ended 30 June 2012 Mark Bowman, Brett Gamble and Charlotte Walshe were appointed directors while Bill Dwyer and Robert Lineham resigned.

ESL 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.

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

4. Personnel costs

	2012 $000	2011 $000
Salaries and wages	1,950	919
Employer contributions to defined contribution plans	43	-
Increase in employee entitlements	496	117
Total personnel costs	**2,489**	**1,036**

5. Finance costs

	2012 $000	2011 $000
Interest expense on CCHL borrowings	434	174
Total finance costs	**434**	**174**

6. Cost of sales

	2012 $000	2011 $000
Cost of goods sold – Cost per premise passed (CPPP)	3,361	1,188
Cost of goods sold – inventory	1,519	-
Operations and maintenance	339	122
UFB fibre charges from ENL	1,039	-
Total cost of sales	**6,258**	**1,310**

7. Other expenses

	2012 $000	2011 $000
Audit fees for the financial statements – 2012	41	-
– 2011	7	32
Office expenses	430	156
Net foreign exchange losses	30	17
Professional services	275	71
Travel	104	25
Motor vehicle costs	51	18
Other	366	351
Total other expenses	**1,304**	**670**

8. Taxation

	2012 $000	2011 $000
Income tax expense/(credit) recognised in profit/(loss)		
Current tax expense/(credit) in respect of the current period	745	-
Deferred tax expense relating to the origination and reversal of temporary differences	(455)	183
Deferred tax expense/(income) relating to changes in tax rates	-	(27)
Income tax expense	**290**	**156**

	2012 $000	2011 $000
Reconciliation		
Profit/(loss) for the year	(595)	610
Income tax expense/(credit) calculated at 28% (2011 : 30%)	(166)	183
Effect of expenses that are not deductible	463	2
Effect of revenue that is exempt from taxation	(7)	(2)
Effect on deferred tax balances of change in tax rate	-	(27)
Income tax expense	**290**	**156**

Current tax assets and liabilities

	2012 $000	2011 $000
Income tax payable	431	-
Current tax payable	**431**	**-**

Deferred tax assets and liabilities

Year Ended 30 June 2012	2012 Opening balance $000	2012 Charged to profit/(loss) $000	2012 Charged to equity $000	2012 Closing balance $000
Deferred tax asset/(liability):				
Temporary differences				
Property, plant and equipment	(501)	464	-	(37)
Employee entitlements	24	88	-	112
Expense accruals	10	(2)	-	8
Tax losses	95	(95)	-	-
Total	**(372)**	**455**	**-**	**83**
Represented by:				
Deferred tax assets	129	(9)	-	120
Deferred tax liabilities	(501)	464	-	(37)
Net deferred tax asset/(liability)	**(372)**	**455**	**-**	**83**

*Tax losses are recognised on the basis that continuity requirements are met throughout the period of likely utilisation of the losses.

Year Ended 30 June 2011	2011 Opening balance $000	2011 Charged to profit/(loss) $000	2011 Charged to equity $000	2011 Closing balance $000
Deferred tax asset/(liability):				
Temporary differences				
Property, plant and equipment	(292)	(209)	-	(501)
Future tax benefits	32	2	-	34
Tax losses	44	51	-	95
Total	**(216)**	**(156)**	**-**	**(372)**
Represented by:				
Deferred tax assets	76	53	-	129
Deferred tax liabilities	(292)	(209)	-	(501)
Net deferred tax asset/(liability)	**(216)**	**(156)**	**-**	**(372)**

*Tax losses are recognised on the basis that continuity requirements are met throughout the period of likely utilisation of the losses.

	2012 $000	2011 $000
Imputation credits available for use in subsequent periods	**1,230**	**485**

9. Cash and cash equivalents

	2012 $000	2011 $000
Cash on hand and at bank	2,046	1,795
Cash equivalents – term deposits	-	-
Total cash and cash equivalents	**2,046**	**1,795**

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.

10. Trade, other receivables and prepayments

	2012 $000	2011 $000
Trade receivables	2,045	835
Related party receivables	923	7
Prepayments	198	8
GST receivables	-	171
Total trade, other receivables and prepayments	**3,166**	**1,021**

The carrying value of receivables and prepayments approximates their fair value.

11. Inventories

	2012 $000	2011 $000
Inventory	1,993	554
Total inventories	**1,993**	**554**

Inventory is generally held short term for resale to contractors building the UFB network. Certain inventories are subject to security interests created by retention of title clauses.

Notes to the Financial Statements

12. Construction Contract Work in Progress

	2012 $000	2011 $000
Current asset		
Opening balance	125	-
Additions	10,243	87
Transfer from intangible assets – work in progress	-	38
Transfer from non current portion of construction contract	17	
Sale of construction network asset to ENL	(3,361)	-
Current Construction Contract Work in Progress	**7,024**	**125**
Non current asset		
Opening balance	872	-
Additions	-	612
Transfer to current portion of construction contract	(17)	-
Transfer from intangible assets – work in progress	-	260
Non Current Construction Contract Work in Progress	**855**	**872**

Construction contract work in progress is determined on a stage of completion basis. Costs of $11.2 million have been incurred to date with no profit recognised. ESL has received payment for the first four UFB network stages to a total of $3.4 million. No payment in advance has been received nor are retentions held in relation to the contract at balance date.

Notes to the Financial Statements

13. Property, plant and equipment

	Telecommunications infrastructure network at cost $000	Plant & equipment at cost $000	Work in progress at cost $000	Leasehold improvements at cost $000	Motor vehicles at cost $000	Total $000
Gross carrying amount:						
Balance at 30 June 2010	21,610	92	704	78	62	22,546
Additions	3,412	180	-	1	18	3,611
Transfer to intangible assets	(176)	-	-	-	-	(176)
Movement in WIP	-	-	3,508	-	-	3,508
Transfer to assets held for sale	(24,846)	-	(4,212)	-	-	(29,058)
Balance at 30 June 2011	**-**	**272**	**-**	**79**	**80**	**431**
Additions	-	238	586	73	1	898
Disposals	-	(33)	-	(50)	-	(83)
Balance at 30 June 2012	**-**	**477**	**586**	**102**	**81**	**1,246**

	Telecommunications infrastructure network at cost $000	Plant & equipment at cost $000	Work in progress at cost $000	Leasehold improvements at cost $000	Motor vehicles at cost $000	Total $000
Accumulated depreciation, amortisation and impairment:						
Balance at 30 June 2010	(738)	(13)	-	(16)	(14)	(781)
Depreciation expense	(776)	(30)	-	(13)	(15)	(834)
Disposals	176	-	-	-	-	176
Impairment losses	(148)	-	-	-	-	(148)
Transfer to assets held for sale	1,486	-	-	-	-	1,486
Balance at 30 June 2011	**-**	**(43)**	**-**	**(29)**	**(29)**	**(101)**
Depreciation expense	-	(83)	-	(8)	(12)	(103)
Disposals	-	10	-	8	-	18
Impairment losses	-	(24)	-	-		(24)
Balance at 30 June 2012	**-**	**(140)**	**-**	**(29)**	**(41)**	**(210)**
Net book value at 30 June 2011	**-**	**229**	**-**	**50**	**51**	**330**
Net book value at 30 June 2012	**-**	**337**	**586**	**73**	**40**	**1,036**

14. Intangible assets

	Work in progress $000	Software $000	Total $000
Gross carrying amount			
Gross carrying amount at 30 June 2010	298	13	311
Additions	-	9	9
Transfer to construction contract work in progress	(298)	-	(298)
Gross carrying amount at 30 June 2011	**-**	**22**	**22**
Additions (software)	478	250	728
Gross carrying amount at 30 June 2012	**478**	**272**	**750**

	Work in progress $000	Software $000	Total $000
Accumulated amortisation and impairment			
Accumulated depreciation and impairment at 30 June 2010	-	(4)	(4)
Amortisation expense	-	(4)	(4)
Accumulated depreciation and impairment at 30 June 2011	-	(8)	(8)
Amortisation expense	-	(15)	(15)
Accumulated depreciation and impairment at 30 June 2012	-	(23)	(23)
Carrying amount at 30 June 2011	**-**	**14**	**14**
Carrying amount at 30 June 2012	**478**	**249**	**727**

In past years ESL had recognised costs related to products and the design of a fibre to the home project as an intangible asset. In 2011 these costs were transferred to the UFB construction contract work in progress asset as they were directly attributable to that project.

Current intangible asset costs are all software related. The intangible asset work in progress relates primarily to the development of an operating support system and business support system for ESL.

15. Investment in associate

	2012 $000	2011 $000
A shares received for UFB network	1,134	-
B shares received for Existing Network	28,812	-
B shares received for Working Capital	2,300	-
Total cost of shares in ENL	**32,246**	**-**
Share of Profit/(Loss) in Associate	(1,650)	-
Total investment in associate	**30,596**	**-**

ESL entered an agreement with Crown Fibre Holdings Limited (CFH) and Enable Networks Limited (ENL) on 31 May 2011 relating to the construction, deployment and operation of the UFB network for the Christchurch (which includes Kaiapoi and Rolleston areas) and Rangiora Candidate Areas.

ESL has contractual obligations to build the UFB network and sell it to ENL for a fixed price. The build requirements are split into Communal Infrastructure which is the UFB network on public land to the edge of private boundaries. The End User Specific Infrastructure is the network built on private land connecting users from the boundary to their premise. The End User Specific Infrastructure is only built when a user requests connection.

Both Communal Infrastructure and End User Specific Infrastructure have two different components being Layer One which is the unlit fibre, and Layer Two which is the electronics required to light the fibre.

The agreement details how ENL is funded by CFH and ESL. The purchase of each part of the network is funded differently within ENL. The funding obligations on ESL to ENL are as follows:

A Shares

A shares have voting rights but do not receive dividends. ESL funds approximately 33% of the cost of the Layer One Communal Infrastructure in return for A shares in ENL as a non-cash transaction. Approximately 67% remaining is funded by CFH to ENL and paid on to the Company in cash.

B Shares

B shares have dividend rights but do not have voting rights. Where free cash flow in ENL is not sufficient to purchase UFB network, the Layer Two Communal Infrastructure, all End User Specific Infrastructure and working capital requirements in ENL are funded by ESL using a hierarchy of specified equity, then debt through note instruments to certain debt/equity ratios and if required through B shares. Where funding to ENL is provided through B shares the transaction occurs as a non-cash transaction in return for the relevant part of the Network or in return for cash in the case of working capital requirements. At 30 June 2012 no debt had been drawn down and $2.3 million of B shares had been acquired due to ENL working capital requirements.

In addition to these B shares ESL also received B shares for the sale of the existing fibre network to ENL in February 2012. These B shares are able to convert to A shares to the extent that ESL does not hold more than 49% of voting rights through A shares during the UFB network build period. At 30 June 2012 no B shares for existing fibre network had been transferred to A shares.

All A shares and B shares in ENL convert to ordinary shares 10 years from 31 May 2011.

Associate status

Although ESL holds the substantial majority of total shares issued in ENL, it only holds approximately 33% of the voting shares and does not control ENL. It is deemed to hold significant influence over ENL through its holding of A and B shares and therefore accounts for ENL as an associate.

Summarised financial statements of associate for the 13 months ended 30 June 2012

	2012 $000
Assets	34,459
Liabilities	3,592
Revenue	1,171
Net profit/(loss) after tax	(1,763)

16. Creditors and other provisions

	2012 $000	2011 $000
Creditors & accrued expenses	4,217	1,479
Income in Advance	-	158
GST payable	101	-
Lease incentive liability	-	6
Retentions	200	24
Total creditors and other provisions	**4,518**	**1,667**

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.

17. Employee entitlements

	2012 $000	2011 $000
Current employee entitlements are represented by:		
Annual leave and short-term entitlements	318	84
Other	302	240
Total current employee entitlements	**620**	**324**
Non current employee entitlements are represented by:		
Other	200	-
Total non current employee entitlements	**200**	**-**

18. Other non current liabilities

	2012 $000	2011 $000
Lease incentive liability	-	18
Income in advance	-	760
Total non current liabilities	**-**	**778**

The lease incentive liability related to the occupation of Show Place premises. The lease on these premises was terminated in agreement with the Landlord during 2012 and no repayment of any lease incentive was required.

The non current portion of income in advance related to the Indefeasible Rights of Use contracted to certain fibres. These were transferred to ENL as part of the network sale during 2012.

19. Borrowings

	2012 $000	2011 $000
Loan from CCHL	19,500	6,000
Total borrowings	**19,500**	**6,000**

ESL has entered into a subordinated loan agreement with Christchurch City Holdings Limited. The loan is unsecured and the interest rate is a base rate plus a 1% margin. At 30 June 2012 the base rate was 3.99% (2011:2.64%).

20. Issued capital

	2012 #000	2011 #000	2012 $000	2011 $000
Issued capital – fully paid and authorised				
Opening balance – ordinary shares	21,500	18,500	21,500	18,500
Shares issued	-	3,000	-	3,000
Closing balance – ordinary shares	**21,500**	**21,500**	**21,500**	**21,500**

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

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

	2012 $000	2011 $000
Net profit/(loss) after tax	**(885)**	**454**
Add/(less) non-cash items:		
Depreciation, amortisation and impairment expense	183	986
Deferred tax charged/(credited) to income	(455)	166
Share of associates loss/(profit)	1,650	-
Other	30	-
Total non-cash items	1,408	1,606
Add/(less) items classified as investing or financing activities		
(Gain)/loss on disposal on non-current assets	75	-
Movement in capital creditors	255	(536)
Total items classified as investing or financing activities	330	(536)

	2012 $000	2011 $000
Add/(less) movements in working capital items		
Current Inventories	(1,439)	(13)
Trade and other receivables and prepayments	(2,145)	(138)
Construction contract work in progress – current/non current assets	(6,882)	(789)
Creditors and other payables	2,208	635
Employee entitlements	296	117
Non-current provisions and employee entitlements	200	-
Income tax payable	431	-
Other non-current liabilities	(778)	(99)
Net movements in working capital items	(8,109)	(287)
Net cash from operating activities	**(7,256)**	**783**

ESL had the following significant non-cash transaction during the period:

- The existing network assets were sold to Enable Networks Ltd for $29.619m. After adjusting for Indefeasible Right of Use of $0.806m, B shares of $28.813m were received.
- UFB Network Assets of $1.134m were sold to Enable Networks Limited in exchange for A shares.

22. Commitments

Capital commitments
ESL has entered into agreements to build, operate and maintain a UFB network on behalf of ENL as described in note 29. 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 placement of premises to be built is agreed in detail in Network Deployment Plan. 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 ESL 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, central office construction and other components of the network, 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

ESL has secured funding from its parent, Christchurch City Holdings Limited, in order to meet the costs of building the network prior to sale to ENL, and its share of the funding obligations to ENL.

Lease payments as lessee under operating leases
The future aggregate minimum lease payments to be paid as lessee under operating leases is as follows:

	2012 $000	2011 $000
Not later than one year	264	71
Later than one year and not later than five years	1,331	242
Later than five years	524	-
Total non-cancellable operating leases	**2,119**	**313**

During the 2012 year ESL cancelled its existing premise lease on Show Place without penalty and entered a lease to rent premises in Wrights Road currently under construction and due for completion in early 2013. The lease is for a period of six years with two further rights of renewal for six years.

ESL entered into a lease to rent a photocopier for three years commencing in January 2011.

Lease receipts as lessor under operating leases

The future aggregate minimum lease payments to be collected as lessor under operating leases is as follows:

	2012 $000	2011 $000
Not later than one year	2,130	3,633
Later than one year and not later than five years	2,522	5,761
Later than five years	533	1,423
Total non-cancellable operating leases	**5,185**	**10,817**

ESL sold its existing fibre network to ENL in February 2012. Prior to that time it had contracted with a number of customers to provide fibre network services with a standard contract period of two years but ranging from 12 months to 10 years. Under the agreement for transfer of the existing fibre network to ENL, ESL will not extend the existing contracts with customers. As ESL contracts with customers reach the end of the contracted period they are transferred to ENL through a Retail Services Provider.

The lease obligations in 2012 reflect remaining customer contracts. These are fulfilled by ESL acquiring UFB product from ENL under a Wholesale Services Agreement which it in turn provides to customers.

23. Contingencies

Contingent liabilities
ESL is currently in dispute with Transfield Services (NZ) Limited, its main contractor for build of the UFB network, over contractual terms and conditions. ESL is unable to quantify the financial impact of this dispute at present. There is currently no perceived material impact on the contract with ENL.

ESL had contingent liabilities at 30 June 2011 of $443,337 relating to a number of indefeasible right of use contracts acquired with the CFNL network purchase in 2008. These were transferred to ENL as part of the sale of the existing network in February 2012 and no longer represent a contingent liability for ESL.

24. Related party transactions and key management personnel

Related parties
ESL is 100% owned by Christchurch City Holdings Limited ("CCHL"). CCHL is 100% owned by Christchurch City Council ("CCC").

Related parties comprise CCHL, other members of the CCC Group, CCHL and CCC key management personnel, and the key management personnel of ESL.

ESL undertakes transactions with its related parties, all of which are carried out on a commercial and arm's length basis. During the period, no material transactions were entered into with the related parties, except as disclosed below.

During the period, no transactions were entered into by ESL with any of its directors other than the payment of directors' fees and the reimbursement of valid ESL-related expenses, and for professional services as detailed below. Some minor transactions were entered into with companies in which some directors held directorships and with other related parties. These transactions were carried out on a commercial and arm's length basis.

Payments made by ESL to its key management personnel are disclosed below. Key management personnel of ESL did not make any purchases of goods and services from ESL during the period.

ESL entered into a subordinated loan agreement with Christchurch City Holdings Limited in 2010. The agreement is for up to $25,000,000 and is to be used to assist ESL in carrying out the expansion of its broadband network in Christchurch. At balance date ESL had borrowed $19,500,000 (2011: $6,000,000). The final repayment date is 9 October 2014 and the interest rate is a base rate plus 1% margin.

CCHL was a party to the ultra-fast broadband contract documents signed with Crown Fibre Holdings Limited on 31 May 2011 under which it undertakes some of the obligations of ESL and will provide a performance bond for the same to a maximum value of $50,000,000, reducing over time.

The following transactions were made during the financial year:

Significant transactions with the Parent and related entities (CCHL)

	2012 $000	2011 $000
Issue of equity to CCHL	-	3,000
Sales to CCC for services	350	7
Additional Loan from CCHL	13,500	3,000
Payments to CCC for services	966	1,683
Payments to Orion New Zealand Ltd for services	35	321
Payments to Vbase for services	13	3
Payments to Connetics for services	17	-
Payments to Christchurch International Airport Ltd for services	20	-
Payments to CCHL for interest	434	166

Significant transactions with the associate (ENL)
During the period, ESL sold UFB and fibre network assets to the associate, and received shares in ENL and cash as set out in notes 12 and 15. This includes the sale to ENL of the existing fibre network at book value on 10 February 2012, for $29.619 million, and sale of new UFB network asset of $3.4 million.

In addition, ESL provides support services to the associate under a management services agreement and an operations and maintenance agreement. ESL charged $2.589 million during the period for these services. At balance date $0.887 million is outstanding (included within creditors and other provisions), and is payable under normal commercial terms.

Following sale of the existing fibre network to ENL, ESL purchases UFB product from ENL in order to fulfil its remaining customer contracts. This is a transitional arrangement that will reduce as remaining ESL customer contracts expire. The total UFB product purchased from ENL for the year was $1.039 million with no balance payable at year end.

Significant balances with related parties at year end

	2012 $000	2011 $000
Accounts payable to CCC	-	286
Accounts receivable from CCC	36	7
Accounts payable to Orion New Zealand Ltd	7	239
Accounts payable to Connetics	6	-
Accounts payable to V-Base	1	-
Accounts payable to ENL	-	-
Accounts receivable from ENL	887	-
Loan Payable to CCHL	19,500	6,000
Accrued interest to CCHL	32	-

Key management personnel compensation

	2012 $000	2011 $000
Salaries, short-term employee benefits and Directors' fees	1,858	693
Total key management personnel compensation	**1,858**	**693**

Key management personnel comprise the Directors, Chief Executive, General Manager of Finance and Corporate Services, Programme Director, General Manager Marketing & Sales, General Manager Customer Service & Administration, General Manager Network Design & Build and General Manager Network Operations. An amount of $320,400 was on-charged to ENL for services provided by key management personnel under the Management Services Agreement. This amount has been included in the Employee benefits and Directors fees above.

25. Employee remuneration

Total remuneration paid or payable for the year:

Salary Bands ($000)	2012	2011
100-110	1	1
110-120	2	-
120-130	1	-
140-150	2	2
170-180	-	1
220-230	-	1
230-240	1	-
240-250	1	-
270-280	1	-
460-470	-	1
610-620*	1	-
Total employees	**10**	**6**

* Including a Long Term Incentive (LTI) accrual that is payable as part of a broader LTI scheme at June 2014

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

26. 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	2011 $000
Loans and receivables:		
Cash and cash equivalents	2,046	1,795
Trade and other receivables	2,968	1,013
Total loans and receivables	**5,014**	**2,808**

Financial liabilities measured at amortised cost:

Creditors, other payables and retentions	4,518	1,503
Borrowings from CCHL	19,500	6,000
Total financial liabilities measured at amortised cost	**24,018**	**7,503**

27. Financial instrument risks

ESL's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. ESL 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. ESL'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/loss of ESL or the carrying amount of the financial instruments recognised in the statement of financial position.

The average interest rate on ESL'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
In managing interest rate risks, ESL aims to reduce the impact of short term fluctuations on the company's earnings. Over the longer term however, changes in interest rates will affect reported profits.

The following table summarises the impact of a 1% movement in the cost of lending funds, all other variables being held constant.

Sensitivity to interest rate changes

	Effect on equity 2012 $000	Effect on equity 2011 $000	Effect on net profit 2012 $000	Effect on net profit 2011 $000
1% increase in interest rates	(175)	(42)	(175)	(42)
1% decrease in interest rates	175	42	175	42

The impact of any movement in the foreign exchange rates is insignificant.

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 for ESL 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, ESL invests surplus cash with a major registered trading bank (the BNZ). ESL's Treasury Policy limits the amount of credit exposure to any one institution.

ESL'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.

ESL's deposits are currently held with the BNZ, a registered New Zealand bank.

Credit risk exposure to trade receivables

$000	Gross Receivables 2012	Gross Receivables 2011	Impairment 2012	Impairment 2011
Not past due	1,531	335	-	-
Past due 1-30 days	732	231	-	-
Past due 31-60 days	506	139	-	-
Past due 61+ days	199	137	-	-
Total trade receivables	**2,968**	**842**	**-**	**-**

All receivables are considered to be fully collectible therefore no impairment has been provided.

Liquidity risk

Liquidity risk is the risk that ESL will encounter difficulty raising liquid funds to meet commitments as they fall due. ESL's primary mechanism for managing liquidity risk is through issuing shares to CCHL, its parent company, and through borrowing funds from CCHL.

The major liquidity requirement for the company relates to its obligation to fund ENL in conjunction with CFH. Christchurch City Holdings Limited, has guaranteed the provision of funding.

Contractual maturity analysis of financial liabilities

The tables below analyse ESL'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.

2012	Balance Sheet $000	Contractual Cashflows $000	Less than 1 Year $000	Between 1 and 2 Years $000	Between 3 and 5 Years $000
Financial Assets					
Cash and cash equivalents	2,046	2,046	2,046	-	-
Trade and other receivables	2,968	2,968	2,968	-	-
Total	**5,014**	5,014	5,014	**-**	**-**
Financial Liabilities					
Creditors, other payables and retentions	4,518	4,518	4,518	-	-
Borrowings from CCHL	19,500	21,102	712	712	19,678
Total	**24,018**	25,620	5,230	712	19,678

2011	Balance Sheet $000	Contractual Cashflows $000	Less than 1 Year $000	Between 1 and 2 Years $000	Between 3 and 5 Years $000
Financial Assets					
Cash and cash equivalents	1,795	1,795	1,795	-	-
Trade and other receivables	1,013	1,013	1,013	-	-
Total	**2,808**	2,808	2,808	-	-
Financial Liabilities					
Creditors, other payables and retentions	1,503	1,503	1,503	-	-
Borrowings from CCHL	6,000	6,764	235	470	6,059
Total	**7,503**	8,267	1,738	470	6,059

28. Capital management

The Company's capital is its equity, which comprises accumulated funds and share capital. Equity is represented by net assets. The capital also includes a subordinated loan shown as borrowings.

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.

29. Ultra-fast broadband contract with Crown Fibre Holdings Limited

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, including Christchurch City, Rangiora, Rolleston, Woodend, Kaiapoi, Lincoln and Prebbleton. This is part of a broader Ultra-Fast Broadband (UFB) project contracted by the Crown to provide open access fibre optic network throughout all urban areas in New Zealand.

The UFB contract involves a partnership with Crown Fibre Holdings Limited (CFH) which is the Government entity negotiating and administering the contract. The partnership is through a subsidiary entity of CFH called Enable Networks Limited (ENL) which both ESL and CFH will invest in. The Board of ENL is made up of three delegates each from ESL and CFH plus 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 project, ESL takes on an obligation to build the network within eight years which it will sell to ENL upon requirements being meet. The agreement includes a requirement to build to priority users including health, education and business areas by the end of 2015. The expected cost of the build is approximately $440 million and, in addition to CFH investment, other funding has been arranged with Christchurch City Holdings Limited on a mixture of debt and equity.

As part of the UFB project ESL sold its existing fibre network to ENL in February 2012. The transaction occurred at net book value.

ENL is only able to offer wholesale services on the network and both ENL and ESL are prohibited from providing retail services or to have a related party that is a vertically integrated telecommunications provider.

30. Civil Construction Contract with Transfield Services NZ Limited

In June 2011 ESL entered a construction contract with Transfield Services Limited to be the company's civil construction partner under the ultra-fast broadband contract. The contract mirrors many of the obligations placed on ESL in the ultra-fast broadband contract. The construction contract is a ten year contract with a value of approximately $260 million.

31. Statement of Service Performance (Statement of Intent Reporting)

The Statement of Intent ('SoI') issued by ESL last year in respect of the 2011/12 financial year included a number of financial and non-financial performance measures. The following table compares the actual financial results for the year ended 30 June 2012 with the targets contained within the SoI:

	Actual	Target	2011 Comparatives
Revenue	$11.9M	$8.2M	$4.8M
EBITDA	$1.6M	$2.3M	$1.6M
Net profit/(loss) after tax	$(0.8)M	$1.3M	$0.4M
Number of kilometres deployed	115	61	35
Number of premises passed - user acceptance testing	2,347	3,201	-
Number of connections	637	543	546
Schools connected	59	70	58
Aggregate demand from schools in order to assist in the transformation of educational services	59	70	58
Achieve environmentally friendly design standards	100% ducting underground	100% ducting underground	100% ducting underground
Continued support for providing capability for crime prevention cameras	Crime camera connections supplied	Crime camera connections supplied	Crime camera connections supplied

Variances between the actual results for the year ended 30 June 2012, and the targets contained within the SoI:

Revenue:

- ESL commenced the UFB network build earlier than expected at the time of completion of the SOI and has therefore gained higher network build revenue than expected. In addition ESL now purchases the UFB inventory and on-sells this to the contractor.

EBITDA:

- EBITDA represents ESL profitability prior to the deduction of interest, tax, depreciation and amortisation expenses. It also excludes the share of losses in ENL as it represents the underlying profitability of the operational part of the business. Under the UFB contract, the company sells most of its products and services at cost to ENL. The level of profit made on the actual UFB build and management services has been reduced with ESL focusing on the long term returns coming from its investment in ENL.

Net profit/(loss) after tax:

- Net profit after tax was lower than expected due to the lower EBITDA and the inclusion of a higher proportion of the loss in ENL due to ESL holding a higher proportion of the company than anticipated in the SOI. ENL is expected to make losses over the first seven years of operation as it builds the network and gains market share.

Number of kilometres deployed:

- The UFB network build commenced earlier than originally planned under the SOI and as a result additional distance of UFB network in the ground is higher.

Number of premises passed:

- While a higher number of premises were substantially passed the reliance on Central Office establishment, UAT testing of the Communal Infrastructure and Layer 2 testing has led to a lower number of Premises Passed, ie, fully tested and available for service.

Number of connections:

- ESL continued to make progress in the sale of fibre based product based on its existing network and ENL continued this progress after the purchase of the existing fibre network from ESL in February 2012. The number of connections represents those achieved by both ESL pre-sale of the network and ENL post-purchase of the network.

Schools connected and aggregation of school demand:

- ESL had pursued a strategy of building to and connecting schools in conjunction with the Ministry of Education. This remains a strong objective of the Company, however specific standalone build to schools has now been brought under the broader UFB design and build programme. We are designing the UFB network build in a way that maximises the number of schools we connect in the early stages of the build. In any event, the Company is required to build to all schools in the coverage areas by December 2015.

Achieve environmentally friendly design standards:

- ESL continues to focus on building the network in the most effective way possible for the environment. The Company is committed to building as much of the UFB network as is possible underground.

Continued support for providing capability for crime prevention cameras:

- ESL continues to provide crime camera connections.

32. Events after the balance sheet date

Adjudication notice from Transfield Services NZ Limited
ESL received an adjudication notice from Transfield Services NZ Limited on 17 August 2012. The notice sets out Transfield Services NZ Limited matters of dispute in relation to the UFB network build contract include variations on architecture, pricing methodology and the contractual relationship.

ESL is currently compiling the formal response to the adjudication notice and any decision from the adjudicator will be available towards the end of October 2012. The notice will be vigorously defended but at the moment ESL cannot make an estimate of the financial impact of the notice. There is currently no perceived material impact on the contract with ENL. At this time all parties are proceeding in line with the requirements of the formal contracts.

Independent Auditor's Report

Independent Auditor's Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To the readers of Enable Services Limited's financial statements and statement of service performance for the year ended 30 June 2012

The Auditor-General is the auditor of Enable Services 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 and statement of service performance of the company on her behalf.

We have audited:

- the financial statements of the company on pages 17 to 53, that comprise the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include the statement of accounting policies and other explanatory information; and
- the statement of service performance of the company on pages 52 to 53.

Opinion

Financial statements and statement of service performance
In our opinion:

- the financial statements of the company on pages 17 to 53:
  - 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 year ended on that date; and
- the statement of service performance of the company on pages 52 to 53:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the company's service performance achievements measured against the performance targets adopted for the year ended 30 June 2012.

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 10 September 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 and statement of service performance 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 and statement of service performance. 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 and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance 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 and statement of service performance 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 statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. 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 and a statement of service performance that:

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

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error.

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 69 of the Local Government Act 2002.

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

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Auditor

The Auditor-General pursuant to section 14 of the Public Audit Act 2001 and Section 70 of the Local Government Act 2002. Julian Tan of Audit New Zealand was appointed to perform the audit on behalf of the Auditor-General

Solicitor

Lane Neave
Simpson Grierson

Banker

BNZ