



ENABLE SERVICES LIMITED
2013 ANNUAL REPORT

Delivering new possibilities

Enable Services Limited 2013 Annual Report

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Crown

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About Enable Services Limited

Enable Services Limited (ESL) is a leading infrastructure provider specialising in building and operating open access fibre networks. In May 2011, ESL entered into a partnership with the Government to provide fibre broadband services to Christchurch, and parts of Waimakariri and Selwyn – as part of the national ultra-fast broadband (UFB) initiative.

ESL was launched in 2007 with a focus on delivering the business, education and community benefits of fibre broadband to the greater Christchurch community. It is a fully owned subsidiary of Christchurch City Holdings Limited, the investment arm of Christchurch City Council.

Prior to UFB, ESL built a 350 kilometre network that provided fibre broadband services to hundreds of businesses, and many schools and healthcare facilities.

Winning the UFB contract to partner with Government agency Crown Fibre Holdings Limited (CFH) 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 - this shareholding will change as the fibre network build progresses.

ENL contracted ESL to build its extensive new UFB network and purchased ESL's existing network assets – including network access to thousands of commercial customer premises in the city. ESL was also contracted (via a Management Services Agreement) to provide ENL with chief executive, sales and marketing, financial, management/administration support, and operating and maintenance services. This ensured ESL's considerable operating experience, talent pool and systems infrastructure are maximised in delivering the UFB project.

Under this operating model, ENL's network has grown rapidly over the past two years. It will continue to grow to provide fibre broadband access to 180,000 homes, schools and businesses in Christchurch, Kaiapoi, Lincoln, Prebbleton, Rangiora, Rolleston, Templeton, and Woodend.

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

Chairman and CEO Report

ESL has focused on supporting ENL to launch mass-market fibre broadband services to Christchurch and accelerating its network build to make these services available to more homes and businesses.

The last year will be remembered as a landmark year for both ESL and ENL, with the introduction of fibre broadband services to local homes for the first time. This entry into the mass broadband market – residential and small business – is a major step towards ENL's fibre network becoming the primary telecommunications network in greater Christchurch.

More importantly, it is a step towards realising fibre broadband's potential to impact the growth of the greater Christchurch community and influence the economic success of the region.

The progress towards, and focus on, this vision is highlighted by a number of business achievements in the past year. The number of homes and businesses connected to ENL's network has more than doubled, more retail service providers are connecting customers to fibre broadband services in Christchurch than ever before, and the number of local homes and businesses that can access fibre broadband services has passed 31,000. Work with key regional stakeholders has also continued to ensure the potential of fibre broadband is linked to the earthquake recovery effort.

ESL's transformation from small fibre provider to major investor in, and build and operational contractor, for large-scale infrastructure is now complete. It is fully focused on delivering its contractual obligations to build and operate ENL's fibre broadband network, and support ENL's commercial success. It has completed a large recruitment programme to have 63 staff and enjoyed significant revenue growth from $11.9m last year to $46.4m.

Next year's deployment plan has been agreed and will see the number of homes and businesses that can connect to fibre broadband services go beyond 50,000.

The largest challenge the business has faced in the last year has been to deliver the network build programme against plan in an operating environment where there is a severe shortage of construction resources.

ESL's performance as an infrastructure service provider

ESL is now over 18 months into the fibre broadband network construction programme – that will take until the end of 2019 to complete – as well as its contract to manage all aspects of the operation of the network.

Network build programme

ESL has continued to accelerate network deployment over the past year, but not at the required rate against its agreed plan with ENL. The labour market in Christchurch remains very tight as a result of the extensive earthquake recovery infrastructure works in the city.

ESL is working very closely with its contractor Transfield Services (New Zealand) Limited (Transfield) to increase civil construction resources as quickly as possible, and to utilise new deployment methods and network design alternatives to accelerate network deployment. These initiatives will have a positive impact on the network deployment in the coming year and in the years that follow.

In total, 15,264 premises have been passed since the build programme began. When combined with the existing network infrastructure, this new network makes fibre broadband services available to over 31,000 homes and businesses.

As a result of this build programme, ESL has deployed its network and worked with retail service providers to launch fibre broadband services in Halswell, Papanui, Bishopdale, Northcote, Casebrook and Redwood; some parts of Rolleston and Hei Hei; and in a number of commercial areas of the city.

Considerable focus has been placed on deploying network to all new subdivisions inside or adjacent to ENL's coverage area. During the year contracts were finalised to deploy network to 31 new housing subdivisions, amounting to 1,904 new properties – with network deployment completed to 736 of these by year-end. These new subdivision properties are replacement for areas that will not be rebuilt following the earthquakes.

"Fibre broadband services are available to over 31,000 homes and businesses."

ESL CEO, Steve Fuller
ESL Chairman, Bill Luff

ESL's objective of providing fibre broadband services to these new subdivisions by the time the first families move into their homes has been met.

Construction of the 12 central office buildings to house the network's fibre and electronic equipment is also well advanced – with completion expected by 31 December 2013. Currently seven of the central offices are complete and operational, and four more are under construction. The completion of these central offices, along with other core infrastructure, is critical to future deployment plans. It gives greater flexibility to deploy network to meet market needs.

ESL has also continued to work closely with the Stronger Christchurch Infrastructure Rebuild Team (SCIRT) and other infrastructure providers to take advantage of network deployment opportunities within the earthquake recovery programme. There are a number of examples across Christchurch where ducting has been installed at the same time as other infrastructure works takes place. This ensures the community will face less disruption from the network build programme in the future, and provides an opportunity for ESL to realise the benefits of shared civil construction costs.

Management of the network

ESL is responsible for managing the fibre broadband network on behalf of ENL – including ensuring uninterrupted network operation, managing the connection of new users and on-going service provision to retail service providers and their customers.

ESL has performed very strongly in the last year in delivering all aspects of its network management obligations.

The performance of the network infrastructure and the electronic equipment layer is measured primarily by the amount of downtime and the impact this has on users of ENL's network.

ESL has consistently delivered network performance in excess of contracted service levels, averaging greater than 90% achievement since January 2013.

ESL works with its primary connection partner Downer and other contractors to install all new customer connections to the network. The quality of installation and the delivery timeframes are vitally important as the basis for the customer experience promise to retail service providers. ESL and Downer have continued to deliver the vast majority of installations on time in the last year, even as order quantities have significantly increased.

The feedback received from retail service providers is that ESL's customer care and the overall connection experience is setting the industry standard.

Driving Enable Networks Limited's success

The Management Services Agreement between ENL and ESL means that a considerable amount of ESL's expertise and resources are focused on delivering the commercial and operational success of ENL.

This includes driving the marketing and sales of fibre broadband services under the "Enable" brand, managing all customer and community engagement, and providing a range of support services to ENL.

Launching residential fibre broadband services

In the last year ENL officially launched mass-market fibre broadband for the first time. This was only made possible by an intensive programme of work, carried out by ESL, that included completing the operational requirements to be able to offer and provision services by launch on 14 September 2012, working closely with retail service providers to enter the local fibre broadband market, and marketing fibre broadband services to drive uptake.

Fibre broadband services were initially launched to 5,000 potential customers in Halswell, with 5% uptake in the first two months – a figure well above the national average.

As coverage increased, so did uptake with hundreds of families and small businesses connecting. The number of fibre broadband connections over the network continued to track well ahead of the national uptake rate.

Total customer connections more than doubled in the financial year from 637 to 1,454. This includes 64 schools in the region connected to fibre broadband and most of the major health locations.

There was a significant upward trend in fibre broadband orders received towards the end of the year – with over 100 orders per month in the final quarter (April – June), more than double the orders received between January and March. The expectation is that the number of orders per month will increase even further in the next quarter.

Bringing retail service providers to market

Critical to driving long-term success is getting more retail service providers focused on connecting their customers to fibre broadband and this has been a significant focus area.

Snap was the first retail service provider to launch residential fibre broadband packages in Christchurch – to coincide with the Halswell launch. In April, a second residential retail service provider, Orcon, entered the market and ENL has enjoyed greater uptake since.

Today ENL has 15 retail service providers connecting business customers to its fibre broadband network. Work is well underway with a number of other retail service providers to test products and bring them to market as quickly as possible. These retail service providers are at different levels of maturity in terms of their readiness to retail fibre products, operating models, business systems, scale of their business and customer numbers.

ESL has worked to ensure that the business is geared to deliver the operational requirements that retail service providers need and to develop a clear roadmap for implementing the automation of business processes to seamlessly manage thousands of customer interactions each month.

Driving community benefits

ESL has continued to work closely with the Canterbury Earthquake Recovery Authority (CERA), the local Councils, Canterbury Development Corporation (CDC), Enterprise North Canterbury, SCIRT, Nga Pu Waea and other stakeholders to ensure the potential of fibre broadband is realised in our community.

In December 2012, CERA released its economic recovery programme for the region and this included a specific work stream to drive fibre broadband uptake. ESL worked with CERA and CDC in the months leading up to this release to define and have recognised the important role fibre broadband will play in the region's economic recovery and future growth.

ESL has supported CDC in its efforts to establish a local Digital Leaders Forum to govern and manage this programme of work, along with other appropriate initiatives that will support economic growth. The structure of the Forum has been agreed and work is underway to source regional economic development funding to create a digital strategy for Canterbury.

ESL has also continued to support national Māori broadband working group, Nga Pu Waea to ensure short-term employment opportunities for local Māori are realised within the build programme and to identify fibre broadband-based economic and community growth opportunities for Māori.

ESL's financial performance

The completion of ESL's transformation into a large-scale infrastructure construction and management business is highlighted in the shift in its financial position.

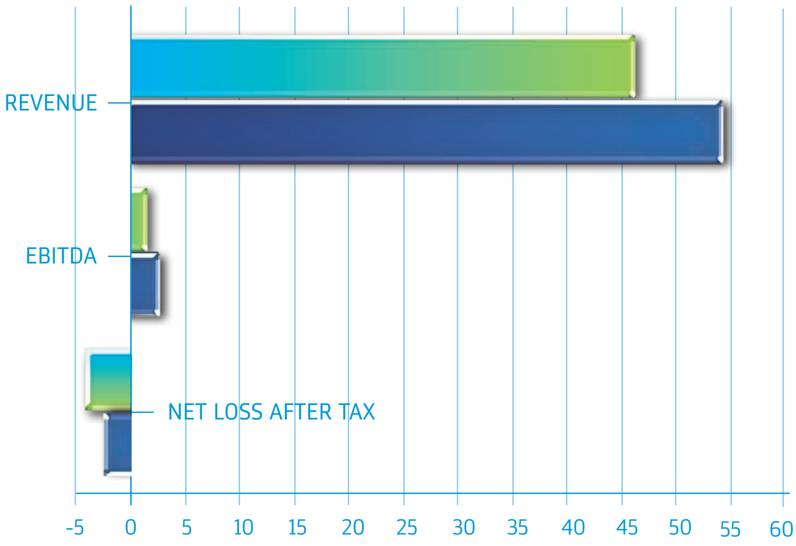
Most notable is the significant increase in revenue year-on-year from $11.9m to $46.4m as the network programme advances. The new revenue is largely made up of earnings from ENL to build the fibre broadband network and connect customers to it. As a result, most of the additional revenue is passed on to ESL's subcontractors as expenses.

Although this revenue figure is well above last year, it is $8.2m below the forecast for 2013. This is as a result of the network build programme advancing at a slower rate than initially planned.

Earnings before interest, taxes, depreciation, amortisation (EBITDA less associate loss) were also slightly lower than expected at $0.2m against a budgeted $0.5m.

Overall ESL's results translated into a net loss of $3.7m – which is a greater loss than was forecast ($0.3m loss) due to the lower EBITDA and ESL being responsible for a higher proportion of ENL's losses than expected. Again, this is because of a slower than anticipated network build resulting in ESL maintaining a greater shareholding in ENL.

Financial KPIs



	Actual ($Ms)	Budget ($Ms)
Revenue	46.4	54.6
EBITDA	0.2	0.5
Net loss after tax	(3.7)	(0.3)

ESL is making a long-term investment in ENL and expects to generate considerable long-term returns from this investment. Net loss is expected and is manageable during the eight year build programme.

In saying that, cost control will be of paramount importance for ESL in the coming year and the business is working with its partners to further improve efficiency in the network build and operation. ESL is also carefully managing the interest costs of its debt financing and has secured comparatively low long-term interest rates.

ESL also continues to carry $30m in working capital assets as core infrastructure projects are completed and more network premises are passed that will pay for these. As the build programme further accelerates in the coming year, cash flow from these assets will improve.

Building ESL's team and culture

ESL has continued to grow its team of outstanding people and is focused on building a high-performing and rewarding business culture.

ESL continued to grow in staff numbers in the 2013 financial year – but at a much slower rate than the previous year. At the end of June 2013 it had 63 staff working in its office with some contractors and sub-contractors.

With less focus on recruitment, 2013 has been about fine tuning ESL's organisational structure and accountabilities, and building a culture of success and innovation that will maximise the capabilities of its highly-skilled workforce.

ESL's people have identified the values that they want to exhibit at all times - Honest, Inspiring, Excellent, United and Customer Driven – and the business has introduced a number of other staff-led initiatives to promote a successful culture.

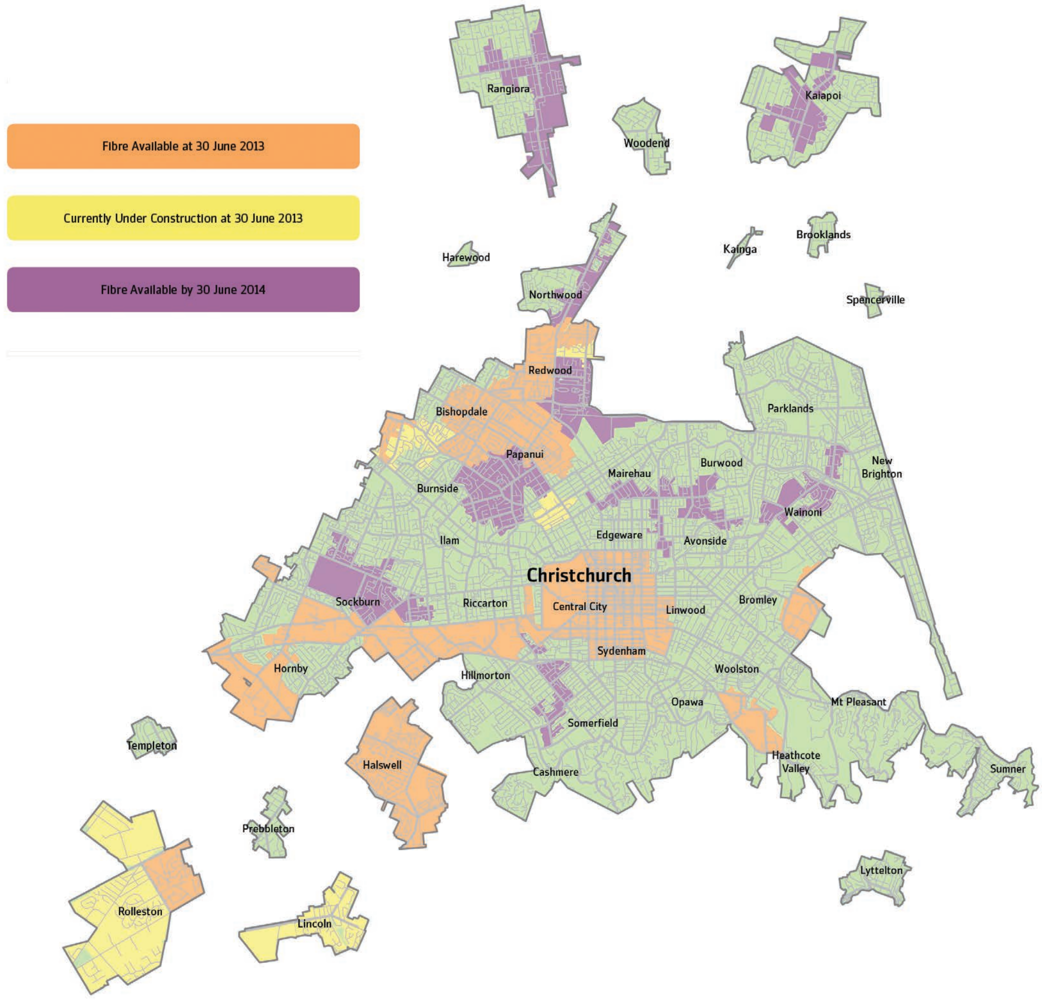
The business recently moved into a new purpose-built office from a temporary office near Addington Raceway.

ESL's commitment to providing its staff, contractors and visitors with a safe working environment that supports the delivery of outstanding results is a key focus for management and the Board. The business has continued to work to protect its people by operating an industry best-practice Health and Safety Management System.

Looking ahead

For ESL the focus for the coming year will be on supporting ENL to drive greater uptake of fibre broadband services.

First and foremost, ESL will be focused on accelerating the network deployment to significantly increase the number of homes and businesses that can access fibre broadband services – creating a much larger potential customer base to market to and drive uptake.



On 2 July 2013, the network deployment plan up to July 2014 was announced. Fibre broadband services will be available to 20,000 more businesses, schools and homes - meaning by the middle of next year there will be approximately 50,000 total potential fibre broadband customers.

This deployment plan, ESL's year three plan, has a particular emphasis on making services available to more schools – with 26 new schools to get access to fibre broadband services. This will mean 111 schools will have access to fibre – with all remaining schools to be provided access in the following 18 months.

ESL will also continue to work with its contractors, primarily Transfield, to implement the new deployment methods to speed up future deployment and support Transfield to resolve the resourcing challenge. It is ESL's intention to be able to commit to deploying fibre broadband network to a greater number of homes, businesses and schools in the plans that will cover years four and five.

Network expansion in areas required to serve new subdivisions will remain a priority for the business, as will securing and delivering on contracts to deploy network in these subdivisions.

Driving uptake through marketing, stakeholder engagement and by supporting more retail service providers to begin offering fibre broadband services over the network is another important priority for the coming year. As is, continuing to provide a high level of support to retailer service providers that are already delivering services in greater Christchurch.

The introduction of more mass market retail providers will drive much greater fibre broadband uptake. ESL will continue to develop operational systems and processes to be ready to manage large-scale growth, as well as continuing to grow operational capability, and continue to work with Downer to refine the connection processes, continually improve the connection experience and increase connection capability.

The ESL team has worked tirelessly to grow the business over the past year and deserves the credit for the increase in public awareness of fibre broadband, the growth of the network and the increase in uptake of fibre broadband services. The on-going effort of this outstanding team – along with support from the ESL Board and our shareholder, Christchurch City Holdings Limited – has prepared the business for more people connecting to fibre broadband services and begin to enjoy the benefits in the coming year.

Bill Luff
Chairman

Steve Fuller,
CEO

Board of Directors

Brett Gamble, Director

Brett Gamble is currently a management consultant and professional director specialising in start-up and growth businesses within the energy and technology industries.

Prior to this Brett held senior executive positions at Solid Energy focused on development of new and growth business opportunities, successfully co-founded a financial and technology consulting business in Australia and has had an extensive career in management and corporate finance consulting, living and working in New Zealand, Australia, the United States and United Kingdom.

Brett also sits on the board of ENL.

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.

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.

Mark took up the position of Chairman of ESL, effective 1 July 2013. He also sits on the board of ENL.

Bill Luff, Chairman

Bill Luff was Chairman of ESL until 30 June 2013. Bill stood down from the position at the end of the financial year to focus on other business commitments. He is remaining a director of ESL.

Bill has spent the last 35 years working in government and multinational business roles. Much of his 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 Bill is Chief Strategy and Marketing Officer for Solid Energy.

Chris Birkett, Director

Chris Birkett is Managing Director of General Cable Oceania which encompasses New Zealand, Australia and the Pacific Islands, and he was previously Chief Financial Officer (CFO) Asia Pacific for the business.

Prior to working for General Cable, Chris was CFO for high-end mountain bike component supplier RockShox Inc. and had built a career in PwC's Audit practice in New Zealand and abroad.

Chris holds a degree in commerce and accounting from the University of Victoria, and is a member of the New Zealand Society of Chartered Accountants.

Chris became a Director of ESL on 10 October 2012.

Owen Scott, Director

Owen Scott has 25 years' experience in the New Zealand technology sector. Since 2004 he has been the managing director of Christchurch-based strategic marketing company, Concentrate. Prior to establishing Concentrate, he held a number of senior roles at Jade Software Corporation – including Vice President Operations, Jade USA and General Manager Marketing.

Owen is an Adjunct Senior Fellow for the University of Canterbury's Engineering Management Programme, and is a member of the New Zealand Institute of Management and the New Zealand Institute of Directors.

Owen became a Director of ESL on 17 October 2012 and was recently appointed to a position on the ENL board – effective 10 July 2013.

Craig Richardson, Director (absent from photo)

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.

Craig stood down from his position on the ESL board on 17 October 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 2013:

Director	Directors' Interests
William Luff (Chairperson)	**Director of** Arts Management Limited, Luff Trading Limited, Isaac Construction Limited, Enable Networks Limited, Natures Flame Limited **Trustee of** Christchurch Symphony Orchestra Trust, Woodlands Family Trust, Isaac Wildlife Conservation Trust **Chief Strategy & Marketing Officer 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, Enable Networks Limited **Trustee of** Hammersmith Property Trust, Gamble Family Trust **Officer of** Mobile Surgical Services, Mobile Medical Technologies
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, Dynamic Suzhou Holdings NZ
Owen Scott	**Director & Shareholder of** Concentrate Limited, Concentrate NZ Limited, Scott Afforestation Limited, AintoG Limited **Shareholder of** Elliotvale Afforestation Limited **Trustee of** Madgeo Trust, The New Zealand Hi-Tech Trust
Chris Birkett	**Director of** General Cable New Zealand Ltd, General Cable Superconductors Investments Ltd, General Cable Australia Pty Ltd (Australian Company), General Cable Holdings New Zealand Ltd, General Cable New Zealand India Cable 1 Ltd, General Cable New Zealand India Cable 2 Ltd, Dominion Wire and Cable Ltd (Fijian Company) **Trustee of** Birkett (No.2) Family Trust

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 2013.

Mark Bowman
Director
Christchurch
19 August 2013

Brett Gamble
Director
Christchurch
19 August 2013

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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 2013

	Notes	2013 $000	2012 $000
Income			
Revenue	2	46,358	11,915
Interest income	2	62	38
Total income		**46,420**	**11,953**
Expenses			
Directors' fees	3	254	230
Finance costs	4	1,403	434
Cost of sales	5	42,565	6,258
Other expenses	6	3,492	3,911
Share of Loss of associate	14	2,723	1,650
Impairment of UFB network assets		-	65
Total expenses	**6**	**50,437**	**12,548**
Profit/(loss) before tax		**(4,017)**	**(595)**
Tax expense / (credit)	**7**	**(316)**	**290**
Net profit/(loss) and total comprehensive income/(loss) for the year		**(3,701)**	**(885)**

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 2013

	Notes	2013 $000	2012 $000
Assets			
Current assets			
Cash and cash equivalents	8	2,697	2,046
Trade, other receivables and prepayments	9	27,589	3,166
Inventories	10	2,677	1,993
Current tax asset	7	334	-
Construction contract work in progress	11	12,652	7,024
Total current assets		**45,949**	**14,229**
Non-current assets			
Property, plant and equipment	12	856	1,036
Intangible assets	13	1,145	727
Investment in associate	14	34,600	30,596
Construction contract work in progress	11	636	855
Deferred tax assets	7	216	120
Total non-current assets		*37,453*	*33,334*
Total assets		**83,402**	**47,563**
Liabilities			
Current Liabilities			
Creditors and other provisions	15	8,022	4,518
Employee entitlements	16	795	620
Current tax liabilities	7	-	431
Total current liabilities		*8,817*	*5,569*
Term liabilities			
Deferred tax liabilities	7	85	37
Employee entitlements	16	300	200
Non Current Retentions		144	-
Borrowings	17	52,500	19,500
Total term liabilities		*53,209*	*19,737*
Total Liabilities		**61,846**	**25,306**
Net assets		**21,566**	**22,257**
Issued capital	**18**	**24,500**	**21,500**
Retained earnings		**(2,944)**	**757**
Total equity		**21,566**	**22,257**

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 2013

2013	Issued Capital	Retained Earnings	Total $000
Opening equity	21,500	757	22,257
Issue of ordinary shares	3,000	-	3,000
Net profit/(loss) and total comprehensive income/(loss)	-	(3,701)	(3,701)
Closing balance	**24,500**	**(2,944)**	**21,556**

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**

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 2013

	Notes	2013 $000	2012 $000
Cash flows from operating activities			
Receipts from customers		14,670	9,285
Interest received		62	38
Payments to suppliers and employees		(45,773)	(15,863)
Net GST movement		(1,796)	-
Interest and other finance costs paid		(1,098)	(402)
Income tax (paid)/received		316	(314)
Subvention Payments		(813)	-
Net cash outflow from operating activities	**19**	**(34,432)**	**(7,256)**
Cash flows from investing activities			
Payment for intangible assets		(546)	(577)
Payment for Investment in ENL - 'B'- Shares		-	(2,300)
Payment for property, plant and equipment		(371)	(3,116)
Net cash outflow from investing activities		**(917)**	**(5,993)**
Cash flows from financing activities			
Proceeds for issues of equity securities	18	3,000	-
Proceeds from borrowings	17	33,000	13,500
Net cash inflow from financing activities		**36,000**	**13,500**
Net (decrease)/increase in cash and cash equivalents		**651**	**251**
Cash and cash equivalents at the beginning of the year		**2,046**	**1,795**
Cash and cash equivalents at the end of the year	**8**	**2,697**	**2,046**

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

Notes to Financial Statements
For the year ended 30 June 2013

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 2013. The financial statements were authorised for issue by the ESL board of directors on 19 August 2013.

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 and interpretations 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 / Greenfields Contributions
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 and greenfields contributions , 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.

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.

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

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

Depreciation is on the following basis:

Impairment of non-financial assets

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

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

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

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

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

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

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

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

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

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

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

Inventories

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

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

Construction contracts

On 31 May 2011 ESL was awarded the government contract to install an open access fibre optic network to every premise in the Greater Christchurch Urban areas. Under this contract the company takes on an obligation to build the network within 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.

Cost allocations

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

Intangible assets

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

Investment in associate

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

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

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

Financial liabilities

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

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

Creditors and other payables

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

Provisions

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

Employee entitlements

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

Income tax expense includes current tax and deferred tax.

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

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

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

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

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

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

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

Share capital

Ordinary shares are classified as equity. The shares on issue represent the total authorised shares of the Company as at 30 June 2013 under the Companies Act 1993. All ordinary shares are equally eligible to receive dividends and the repayment of capital, and represent one vote at ESL's shareholder's meeting.

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

Statement of cash flows

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

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

Critical accounting estimates and assumptions

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

Review for impairment of investment in associate

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

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

In addition to ESL's own assessment of the value of ENL, the value has also been reviewed 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 2013:

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

	2013 $000	2012 $000
Interest income		
Interest earned on cash balances with financial institutions	62	38
Total interest income	**62**	**38**
Revenue		
Fibre income	1,812	3,785
Rendering of services	193	554
Management services revenue	2,464	1,889
Operations and maintenance revenue	3,164	700
Construction contract revenue	34,218	3,361
Sale of inventory	4,507	1,626
Total income	**46,358**	**11,915**

3. Directors' fees

	# of board meetings attended in 2013	# of board meetings attended in 2012	2013 $000	2012 $000
Board member fees during the year were:				
William Luff (Chairman)	11	11	71	74
Brett Gamble (appointed 13/09/2011)	10	8	42	28
Charlotte Walshe (appointed 13/09/2011)	9	8	38	28
Mark Bowman (appointed 17/11/2011)	11	6	38	28
Owen Scott (appointed 17/10/2012)	6	-	27	-
Chris Birkett (appointed 17/10/2012)	7	-	27	-
Craig Richardson (resigned 17/10/2012)	3	9	11	38
Bill Dwyer (resigned 30/04/2012)	-	9	-	34
Bob Lineham (resigned 17/11/2011)	-	6	-	-
Total Board member fees			**254**	**230**

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. Finance costs

	2013 $000	2012 $000
Interest expense on CCHL borrowings	1,403	434
Total finance costs	**1,403**	**434**

5. Cost of sales

	2013 $000	2012 $000
Cost of goods sold – Communal Infrastructure Network Build – Layer 1	31,545	3,361
Cost of goods sold – Communal Infrastructure Network Build – Layer 2	1,775	-
Costs of goods sold – Communal Infrastructure Network Build – Connections	899	-
Costs of goods sold – Other	93	-
Cost of goods sold – inventory	4,530	1,519
Operations and maintenance – Direct Costs	2,162	339
UFB fibre charges from ENL	1,561	1,039
Total cost of sales	**42,565**	**6,258**

6. Other expenses

	2013 $000	2012 $000
Audit fees for the financial statements – 2013	47	-
– 2012	18	41
– 2011	-	7
Office expenses	300	430
Net foreign exchange losses	1	30
Professional services	125	275
Travel	105	104
Motor vehicle costs	70	51
Other	2,826	2,973
Total other expenses	**3,492**	**3,911**

Total Expenses includes Depreciation and Amortisation costs as per notes 12 &13 ,and Employee costs as listed below

	2013 $000	2012 $000
Salaries and wages	5,539	3,485
Employer contributions to defined contribution plans	92	43
Increase in employee entitlements	275	496
Total employee costs	**5,906**	**4,024**

7. Taxation

	2013 $000	2012 $000
Income tax expense/(credit) recognised in profit/(loss)		
Current tax expense/(credit) in respect of the current period	(334)	745
Deferred tax expense relating to the origination and reversal of temporary differences	(49)	(455)
Tax expense/(income) relating to prior year adjustments	67	-
Income tax expense	**(316)**	**290**

	2013 $000	2012 $000
Reconciliation		
Profit/(loss) for the year	(4,017)	(595)
Income tax expense/(credit) calculated at 28% (2012:28%)	(1,125)	(166)
Effect of expenses that are not deductible	763	463
Effect of revenue that is exempt from taxation	-	(7)
Effect on deferred tax balances of prior period adjustments	46	-
Income tax expense	**(316)**	**290**

Current tax assets and liabilities

	2013 $000	2012 $000
Income tax payable	-	431
Subvention Payments receivable from members of the CCC tax group	(334)	-
Current tax payable / (receivable)	**(334)**	**431**

Deferred tax assets and liabilities

Year Ended 30 June 2013	2013 Opening balance $000	2013 Charged to profit/(loss) $000	2013 Charged to equity $000	2013 Closing balance $000
Deferred tax asset/(liability):				
Temporary differences				
Property, plant and equipment	(37)	(47)	-	(84)
Employee entitlements	112	96	-	208
Expense accruals	8	-	-	8
Total	**83**	**49**	**-**	**132**
Represented by:				
Deferred tax assets	120	96	-	216
Deferred tax liabilities	(37)	(47)	-	(84)
Net deferred tax asset/(liability)	**83**	**49**	**-**	**132**

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**

Enable Services Ltd is a member of the Christchurch City Council (CCC) Tax group. The company pays or receives subvention payments to/from other members of the CCC tax group. The amount receivable from 2012- 2013 tax year is $335,449 (2012 : payable $813,475) . These payments are treated as if they were payments/receipts of income tax and they are reflected as part of the taxation payable / (receivable) amount.

	2013 $000	2012 $000
Imputation credits available for use in subsequent periods	**485**	**485**

8. Cash and cash equivalents

	2013 $000	2012 $000
Cash on hand and at bank	2,697	2,046
Cash equivalents – term deposits	-	-
Total cash and cash equivalents	**2,697**	**2,046**

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.

9. Trade, other receivables and prepayments

	2013 $000	2012 $000
Trade receivables	1,541	2,045
Related party receivables*	22,194	923
Prepayments	2,684	198
GST receivables	1,170	-
Total trade, other receivables and prepayments	**27,589**	**3,166**

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

*This includes $1.993m for Construction Contract work in progress that is recognised in ENL and $15.441m of revenue recognition for percentage completion calculation on Capital WIP.

10. Inventories

	2013 $000	2012 $000
Inventory	2,677	1,993
Total inventories	**2,677**	**1,993**

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.

11. Construction Contract Work in Progress

	2013 $000	2012 $000
Current asset		
Opening balance	7,024	125
Additions	39,627	10,243
Transfer from non current portion of construction contract	219	17
Sale of Construction Network asset to ENL	(34,218)	(3,361)
Current Construction Contract Work in Progress	**12,652**	**7,024**
Non current asset		
Opening balance	855	872
Additions	-	-
Transfer to current portion of construction contract	(219)	(17)
Non Current Construction Contract Work in Progress	**636**	**855**

Construction contract work in progress is determined on a percentage completion basis. Costs of $66.39 m have been incurred in accordance with the network build contract with ENL, no profit has and will not be recognised. ESL has received payment for UFB network stages to a total of $20.138m. No payment in advance has been received nor are retentions held in relation to the contract at balance date.

12. Property, plant and equipment

	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 2011	272	-	79	80	431
Additions	238	586	73	1	898
Disposal	(33)	-	(50)	-	(83)
Balance at 30 June 2012	**477**	**586**	**102**	**81**	**1,246**
Additions	344	249	3	6	602
Disposals	-	(586)	(2)	(31)	(619)
Balance at 30 June 2013	**821**	**249**	**103**	**56**	**1,229**

	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 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)**
Depreciation expense	(150)	-	(18)	(19)	(187)
Disposals	-	-	-	24	24
Impairment losses	-	-	-	-	-
Balance at 30 June 2013	**(290)**	**-**	**(47)**	**(36)**	**(373)**
Net book value at 30 June 2012	**337**	**586**	**73**	**40**	**1,036**
Net book value at 30 June 2013	**531**	**249**	**56**	**20**	**856**

13. Intangible assets

	Work in progress $000	Software $000	Total $000
Gross carrying amount			
Gross carrying amount at 30 June 2011	-	22	22
Additions	478	250	728
Gross carrying amount at 30 June 2012	**478**	**272**	**750**
Additions (software)	355	586	941
Transfer to Software	(338)	-	(338)
Disposals	-	(21)	(21)
Gross carrying amount at 30 June 2013	**495**	**837**	**1,332**

	Work in progress $000	Software $000	Total $000
Accumulated amortisation and impairment			
Accumulated depreciation and impairment at 30 June 2011	-	(8)	(8)
Amortisation expense	-	(15)	(15)
Accumulated amortisation and impairment at 30 June 2012	**-**	**(23)**	**(23)**
Amortisation expense	-	(164)	(164)
Accumulated amortisation and impairment at 30 June 2013	**-**	**(187)**	**(187)**
Carrying amount at 30 June 2012	**478**	**249**	**727**
Carrying amount at 30 June 2013	**495**	**650**	**1,145**

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 on behalf of ENL.

14. Investment in associate

	2013 $000	2012 $000
Shares Received:		
A shares received for UFB network	6,250	1,134
B shares received for UFB Layer 2	1,609	-
B shares received for Existing Network	28,813	28,813
B shares received for Working Capital	2,300	2,300
Total Costs of Shares in ENL	**38,971**	**32,246**
Cumulative share of Profit/(Loss) in Associate	(4,371)	(1,650)
Total investment in associate	**34,600**	**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 2013 no debt had been drawn down.

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 2013 no B shares for existing fibre network had been converted 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 12 months ended 30 June 2013 (2012 Comparative is for 13 months)

	2013 $000	2012 $000
Assets	54,078	34,459
Liabilities	18,626	3,592
Revenue	3,989	1,171
Net profit/(loss) after tax	(3,286)	(1,763)

15. Creditors and other provisions

	2013 $000	2012 $000
Creditors & accrued expenses	7,325	4,217
Income in Advance	420	-
GST payable	-	101
Retentions	277	200
Total creditors and other provisions	**8,022**	**4,518**

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.

16. Employee entitlements

	2013 $000	2012 $000
Current employee entitlements are represented by:		
Annual leave and short-term entitlements	466	318
Other	329	302
Total current employee entitlements	**795**	**620**

Non current employee entitlements are represented by:		
Other	300	200
Total non current employee entitlements	**300**	**200**

17. Borrowings

	2013 $000	2012 $000
Loan from CCHL	52,500	19,500
Total borrowings	**52,500**	**19,500**

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 2013 the base rate was 4.10% (2012: 3.99%). The line of credit is for $220m of which ESL has drawn down $52.5m to date.

18. Issued capital

	2013 #000	2012 #000	2013 $000	2012 $000
Issued capital – fully paid and authorised				
Opening balance – ordinary shares	21,500	21,500	21,500	21,500
Shares issued	3,000	-	3,000	-
Closing balance – ordinary shares	**24,500**	**21,500**	**24,500**	**21,500**

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

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

	2013 $000	2012 $000
Net profit/(loss) after tax	**(3,701)**	**(885)**
Add/(less) non-cash items:		
Depreciation, amortisation and impairment expense	351	183
Deferred tax charged/(credited) to income	(48)	(455)
Share of associates loss/(profit)	2,722	1,650
Net foreign exchange (gains)/losses	1	30
Other – non cash shares in ENL for Construction Contract	(6,725)	-
Total non-cash items plus Net Loss after Tax	(7,400)	1,408
Add/(less) items classified as investing or financing activities		
(Gain)/loss on disposal of non-current assets	4	75
Movement in capital creditors	323	255
Total items classified as investing or financing activities	*327*	*330*

	2013 $000	2012 $000
Add/(less) movements in working capital items		
Current Inventories	(684)	(1,439)
Trade and other receivables and prepayments	(24,423)	(2,145)
Construction contract work in progress – current/non current assets	(5,409)	(6,882)
Creditors and other payables	3,504	2,208
Employee entitlements	175	296
Non-current provisions and employee entitlements	100	200
Income tax payable/(receivable)	(765)	431
Other non-current liabilities	143	(778)
Net movements in working capital items	*(27,359)*	*(8,109)*
Net cash from operating activities	**(34, 432)**	**(7,256)**

ESL had the following significant non-cash transaction during the 2013 period:

- UFB Network Assets of $5.117m were sold to Enable Networks Limited in exchange for A shares.
- UFB Network Assets of $1.609m were sold to Enable Networks Limited in exchange for B shares.

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.

20. Commitments

Capital commitments

ESL has entered into agreements to build, operate and maintain a UFB network on behalf of ENL as described in note 27. 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 2013 the estimated cost of UFB network including connections, central office construction and other components of the network, to December 2021 is $401m (2012 : $357m):

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 are as follows:

	2013 $000	2012 $000
Not later than one year	417	264
Later than one year and not later than five years	1,493	1,331
Later than five years	341	524
Total non-cancellable operating leases	**2,251**	**2,119**

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 which was occupied in July 2013. The lease is for a period of six years with two further rights of renewal for six years.

Lease receipts as lessor under operating leases

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

	2013 $000	2012 $000
Not later than one year	1,093	2,130
Later than one year and not later than five years	1,316	2,522
Later than five years	295	533
Total non-cancellable operating leases	**2,704**	**5,185**

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 2013 reflect remaining customer contracts. These are fulfilled by ESL acquiring UFB service from ENL under a Wholesale Services Agreement which it in turn provides to customers.

21. Contingencies

Contingent liabilities

Transfield Services (NZ) Ltd (TSL)

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.

Liquidated Damages

Under clause 6.2 of the NIPA, if the Contractor(ESL) fails to achieve any milestone to which Liquidated Damages apply on or before the applicable milestone Date, ENL will be entitled to claim, and the Contractor will pay on demand (such demand from either the LFC or CFH), the Liquidated Damages (LDs) applicable to that milestone for each day (or part thereof) that any such milestone is not met.

It is clear that LDs are potentially payable to ENL, but to date this demand for LDs payment has not been made.

Legal advice has confirmed that TSL would likely be subject to a general damages claim regardless of whether or not the LDs provisions in the TSL contract are enforceable. However, the timing and quantum of this would be subject to a legal process.

22. 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 ENL,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.

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.

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.

Enable Services Ltd is a member of the Christchurch City Council (CCC) Tax group. The company pays or receives subvention payments to/from other members of the CCC tax group. The amount receivable from 2012- 2013 tax year is $335,449 (2012 : payable $813,475) . These payments are treated as if they were payments/receipts of income tax and they are reflected as part of the taxation payable / (receivable) amount.

The Company expects to transfer tax losses of $1,199,103 to other members of the Council group (2012: tax profits of $2,091,793) by way of a subvention receipt of $335,449 (2012: payable $813,475) which has been accrued and a loss offset of $863,354 (2012: Gain $1,278,318).

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 2013 the base rate was 4.10% (2012:3.99%). The line of credit is for $220m of which ESL has drawn down $52.5m to date. (2012: $19.5m) The final repayment date for this loan is March 2023.

The following transactions were made during the financial year:

Significant transactions with the Parent and related entities (CCHL)

	2013 $000	2012 $000
Issue of equity to CCHL	3,000	-
Sales to CCC for services	330	350
Sales to City Care Ltd	21	-
Additional Loan from CCHL	33,000	13,500
Payments to CCC for services	1,148	966
Subvention Payments to CCC Tax group	813	-
Payments to Orion New Zealand Ltd for services	101	35
Payments to Vbase for services	1	13
Payments to Connetics for services	105	17
Payments to Christchurch International Airport Ltd for services	22	20
Payments to CCHL for interest	1,111	434

Significant transactions with the associate (ENL)

During 2013 , ESL sold UFB assets to its associate of $16.778 m (2012 : $3.4 m)

During the 2012 period, ESL sold fibre network assets to the associate, and received shares in ENL and cash as set out in notes 11 and 14. This includes the sale to ENL of the existing fibre network at book value on 10 February 2012, for $29.619 m.

In addition, ESL provides support services to the associate under a management services agreement and an operations and maintenance agreement. ESL charged $5.628 m (2012: $2.589m) during the period for these services. At balance date $6.698m (2012: $0.887m excl GST) is outstanding (included within debtors and other accruals), and is receivable 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 $1.561 m (2012 : $1.039 m) with no balance payable at year end.

Significant balances with related parties at year end

	2013 $000	2012 $000
Accounts payable to CCC	120	-
Accounts receivable from CCC	73	36
Accounts payable to Orion New Zealand Ltd	35	7
Accounts payable to Connetics	27	6
Accounts payable to V-Base	-	1
Accounts payable to ENL	110	-
Accounts receivable from ENL	22,194	887
Loan Owed to CCHL	52,000	19,500
Accrued Interest to CCHL	337	32

Key management personnel compensation

	2013 $000	2012 $000
Short-term employee benefits including Salaries and Directors' fees	2,191	1,701
Other Long Term Employee Benefits	125	200
Total key management personnel compensation	**2,316**	**1,901**

Key management personnel comprise the Directors, Chief Executive, General Manager Finance , Programme Director, General Manager Marketing & Sales, General Counsel , General Manager Customer Service & Administration, General Manager Network Planning & Design, General Manager Network Deployment and General Manager Network Operations. An amount of $274,796 (2012: $320,400) was on-charged to ENL for services provided by key management personnel under the Management Services Agreement.

23. Employee remuneration

Total remuneration paid or payable for the year:

Salary Bands ($000)	2013	2012
100-110	6	1
110-120	5	2
120-130	1	1
130-140	1	-
140-150	1	2
160-170	1	-
170-180	1	-
190-200	1	-
210-220	1	-
220-230	1	-
230-240	1	1
240-250	-	1
260-270	-	-
270-280	-	1
590-600*	1	-
610-620*	-	1
Total employees	**21**	**10**

* 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 2013, no employees received compensation and other benefits in relation to cessation. (2012:nil)

24. 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:

	2013 $000	2012 $000
Loans and receivables:		
Cash and cash equivalents	2,697	2,046
Trade and other receivables	23,735	2,968
Total loans and receivables	**26,432**	**5,014**
Financial liabilities measured at amortised cost:		
Creditors, other payables and retentions	8,022	4,518
Borrowings from CCHL	52,500	19,500
Total financial liabilities measured at amortised cost	**60,522**	**24,018**

25. 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. These are not accounted for at fair value and 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% (2012: 2.5%).

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 2013 $000	Effect on equity 2012 $000	Effect on net profit 2013 $000	Effect on net profit 2012 $000
1% increase in interest rates	(378)	(175)	(378)	(175)
1% decrease in interest rates	378	175	378	175

The impact of any movement in the foreign exchange rates and cash 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 8) and trade and other receivables (note 9). 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 2013	Gross Receivables 2012	Impairment 2013	Impairment 2012
Not past due	7,162	1,531	-	-
Past due 1-30 days	1,023	732	-	-
Past due 31-60 days	23	506	-	-
Past due 61+ days	85	199	18	-
Total trade receivables	**8,293**	**2,968**	**18**	**-**

All receivables have been reviewed and $18k has been set aside to provide for a doubtful debt. The balance of debtors were considered to be fully collectible.

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.

2013	Balance Sheet $000	Contractual Cashflows $000	Less than 1 Year $000	Between 1 and 2 Years $000	Between 3 and 5 Years $000	Greater than 5 years $000
Financial Assets						
Cash and cash equivalents	2,697	2,697	2,697	-	-	
Trade and other receivables	23,735	23,735	23,735	-	-	
Total	**26,432**	**26,432**	**26,432**	**-**	**-**	
Financial Liabilities						
Creditors, other payables and retentions	8,022	8,022	8,022	-	-	
Borrowings from CCHL	52,500	74,070	2,157	2,157	6,471	63,285
Total	**60,552**	**82,092**	**10,179**	**2,157**	**6,471**	**63,285**

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**

26. 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.

27. 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 $420 m 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.

28. 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 remaining value of approximately $208 m. (2012:$260m)

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

The Statement of Intent ('SoI') issued by ESL last year in respect of the 2012/13 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 2013 with the targets contained within the SoI:

	Actual $Ms	Target $Ms	2012 Actual $Ms
Revenue	46	54.6	11.9
Cost of Sales Network	(41)	(47.6)	(5.2)
Cost of Sales Other	(1.6)	(1.5)	(1.0)
Net Revenue after Cost of Sales	3.4	5.5	5.7
EBITDA	0.23	0.5	1.6
Net profit/(loss) after tax	(3.7)	(0.3)	(0.8)
Number of premises passed (cumulative UAT tested)	21,847	44,550	2,347
Number of connections (cumulative)	1,454	2,220	637
Schools connected (cumulative)	64	85	59
Priority Premises Passed (cumulative)	6,443	8,910	44
Priority Connections (cumulative)	1,001	1,286	637
Aggregate demand from schools in order to assist in the transformation of educational services (cumulative)	64	>75	59
Achieve environmentally friendly design standards	100% ducting underground	>70% 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 2013, and the targets contained within the SoI:

Revenue/Cost of Sales :

- The contract build project did not achieve number of premises passings during the year which flows on to reduced sales of completed stages to ENL. A remedial plan has been put in place to complete the required premises by September 2013.

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 loss 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 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. A remedial plan has been put in place to complete the required premises by September 2013.

Number of connections:

- ENL continued to make progress in the sale of fibre based product based on its existing network after the purchase of the existing fibre network from ESL in February 2012. New connection numbers have been lower than expected as the number of Retail Service Providers (R.S.P.) selling actively in the market has been down. R.S.P's are committing to actively sell UFB services in the coming year and connections are expected to catch up with forecasts.

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.

Priority Premises Passed / Priority Connections :

- ESL had pursued a strategy of building to and connecting businesses and health premises. This remains a strong objective of the Company, however specific standalone build to businesses and health premises 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 these premises we connect in the early stages of the build

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.

30. Events after the balance sheet date

No material events have occurred following the balance sheet date.

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 2013

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 18 to 51 that comprise the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company on pages 50 to 51.

Opinion

Financial statements and statement of service performance
In our opinion:

- the financial statements of the company on pages 18 to 51:
  - 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 2013; and
    - financial performance and cash flows for the year ended on that date; and
- the statement of service performance of the company on pages 50 to 51:
  - 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 2013.

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 19 August 2013. 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, in our judgement, are likely to influence readers' 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 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 is also responsible for the publication of the financial statements and statement of service performance, whether in printed or electronic form.

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 External Reporting Board.

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

Julian Tan

Julian Tan

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

Directory

Shareholder

Christchurch City Holdings Limited

Registered office

Enable House
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Christchurch 8149
New Zealand

Contact address

PO Box 9228
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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