



# Enable Services Limited

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2016  
Annual  
Report

**enable**  
Fibre Broadband



# Bringing fibre broadband to greater Christchurch

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Enable's fibre network is an essential enabler of an economically and socially vibrant, innovative, connected and globally competitive Christchurch.

Enable CEO, Steve Fuller.

This vision is being realised today, with more and more families, businesses, schools and community organisations embracing fibre broadband to transform how we live our lives.

Children across our community are taking advantage of exciting new online learning opportunities in school and beyond.

The business community – from Rangiora to Rolleston, and throughout the city – are discovering new ways to do business and

access customers with fibre connectivity.

Families throughout greater Christchurch are moving to online entertainment options in enormous numbers and discovering new ways to connect with friends and family.

The potential value of Enable's fibre broadband is no longer a promise to be realised tomorrow – it is here now bringing benefits and opening new possibilities for everyone in our community.

## Contents

**4** Celebrating 50 percent uptake in Rolleston

**5** Christchurch families and businesses connect

**6** The Enable Group and UFB in greater Christchurch

**8** Chairman and CEO report

**26** Board of Directors

**28** Governance

**30** Financial statements

**75** Independent Auditor's report



# Celebrating 50 percent uptake with the Rolleston community

In April 2016, Rolleston became the first town in New Zealand to pass the half way mark for fibre broadband uptake – and at year end had reached 55 percent.

We invited the people of Rolleston to join Enable, Communications Minister Hon Amy Adams, Selwyn District Mayor Kelvin Coe and some of the BNZ Crusaders (as part of Enable's Take a Kid to Footy sponsorship) in celebrating how quickly the community is embracing fibre broadband. At the time, Rolleston was two and half times the national uptake rate.

Other parts of greater Christchurch have also taken to fibre at tremendous rates – including Wigram, Halswell and Lincoln enjoying over 40 percent uptake and Burnside, Northwood, Bishopdale and Redwood over 30 percent.



# Christchurch families and businesses enjoying their fibre experience

Enable's network currently reaches 118,000 homes and businesses across the greater Christchurch community.

At year end, almost 26,000 people were connected to fibre broadband – more than double the number from a year ago.

People across the community are using fibre broadband in different ways and have been driven to make the switch for a variety of reasons.



Residential



We wouldn't go back to having a non-fibre connection. You never go back when you've got something better.

Ged Robinson, BNZ Crusaders



Business



Companies that we deal with in Sydney and San Francisco are envious of the fibre that we have here in Christchurch.

Ross Beck, Orly



The really easy thing is that we can all do anything that we want on the internet, at any time.

Cameron Taffs, Sydenham



We produce eight TV ads a day, each of those can be around a gigabyte. Uploading those without fibre would take a lot of time.

Aaron Pero, Mike Pero Real Estate



# The Enable Group and UFB in greater Christchurch

The Enable Group is made up of Enable Services Limited (ESL) and local fibre company, Enable Networks Limited (ENL).

ESL is a fully owned subsidiary of Christchurch City Holdings Limited (CCHL), the investment arm of the Christchurch City Council (the Council). It was launched in 2007 to build a commercial fibre network aimed at providing better quality broadband services to businesses and schools in Christchurch.

In May 2011, ESL entered into a partnership with the Government as part of the national ultra-fast broadband (UFB) initiative. The partnership is providing fibre broadband services to two UFB candidate areas – making up approximately 180,000 homes, businesses, schools and healthcare facilities across Christchurch and parts of the Waimakariri and Selwyn districts. These candidate areas are Christchurch (including Rolleston, Lincoln, Prebbleton and Templeton) and Rangiora (including Kaiapoi and Woodend).

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

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Enable becoming fully owned by Christchurch City was able to be achieved in 2016 because of the tremendous success of the business and the way in which the people of greater Christchurch are embracing fibre broadband.

Mark Bowman, Enable Chairman.

On 29 June 2016, the link to the local community was further strengthened when ESL took full ownership of ENL, its critical network infrastructure and its underlying potential to transform our community.

The UFB initiative investment is supported by CCHL and is funded commercially and by an interest free loan to CCHL from the Crown. This Annual Report covers the activities of the Enable Group.



# Chairman and CEO report

Enable - Christchurch's own fibre network



Steve Fuller,  
CEO

Mark Bowman,  
Chairman

Enable becoming fully owned by the people of Christchurch was a major milestone for our business.

At the beginning of the year we set some ambitious goals that would see our business continue to grow at an aggressive rate and would set a platform for even greater future success. Just how successful we have been in achieving these goals is highlighted by the confidence that has been shown by our shareholders – CCHL and the Council – and by Crown Fibre Holdings Limited (CFH)

in agreeing that ENL would become a fully owned subsidiary of ESL. This new agreement took effect on 29 June 2016.

It was always planned that Enable and its world-class fibre infrastructure would become fully owned by Christchurch City. Shifting this plan forward was possible because we are delivering on all of our key metrics.

We are deploying the network at a rate that will ensure the build phase of our business will be completed by the end of 2018 – a year ahead of the plan. We received tremendous support from our community, in receiving orders at volumes not expected for two years – and connected more customers than forecast.

Bringing full ownership of Enable forward presents a number of immediate and long-term benefits for the business, for our shareholders and for our community. Enable remains a commercially funded company with some of its debt funding from Central Government, yet our community owns 100 percent of an asset that will grow to generate significant returns to this same community.

We now have the autonomy to determine capital structures and shareholder returns and fully drive key operational decisions. We are able to run the business under a less complex operating model and ensure that our strategic direction maximises the benefits for the greater Christchurch community.

## Local connections almost 26,000 - more than doubling in a year

**Our community has demonstrated remarkable levels of demand for fibre broadband in the past year.**

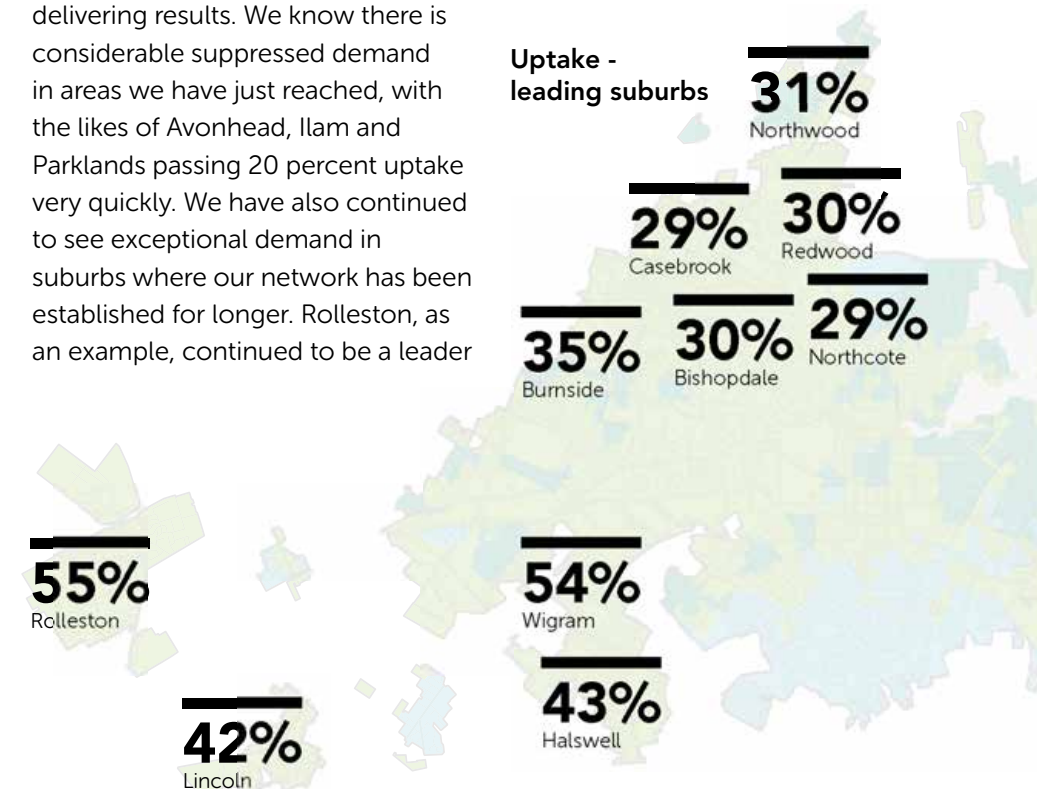
At year end, 25,817 business, school and home broadband users were connected to our fibre network – realising the benefits and potential.

We more than doubled the total connections on our network, with 13,522 net new connections – above our stretch target of 12,000.

We grew the potential customer base by more than 31,000 homes and businesses to 117,988 and continued to proactively market the availability and benefits of fibre broadband.

Our marketing approach of focusing on areas of new coverage as well as broader marketing to the whole community (with two-thirds now able to connect) is clearly delivering results. We know there is considerable suppressed demand in areas we have just reached, with the likes of Avonhead, Ilam and Parklands passing 20 percent uptake very quickly. We have also continued to see exceptional demand in suburbs where our network has been established for longer. Rolleston, as an example, continued to be a leader

on a national level – with over half the community now connected. A number of other suburbs where our network was well established continued to see significant uptake.





# Customer experience underpins everything we do

17 retail service providers are now offering residential fibre broadband services, far more than expected.

The business fibre market is served by an even greater number of retail service providers - 36 in total.



A significant market shift in the year has seen retail service providers become more aggressive in promoting fibre broadband to their customers - driving significant order volumes into our business, with the highest month passing 3,000 orders.

We have also seen a marked change in the fibre products being consumed – particularly in the residential market. 58 percent of our total connections are now 100Mbps or faster. This has been driven by the majority of new customers choosing to connect to 100Mbps at the outset and by existing customers migrating to higher capacity products. This clearly demonstrates the growing consumer need for faster, higher quality broadband as use increases in our daily lives.

Along with the confidence our retailers have shown in Enable came

a very clear challenge - to ensure we are providing excellent customer service to their end user customers.

Throughout the year, Enable has continued to connect greater numbers of customers and invest in resources and systems to more effectively manage our fibre installation experience.

We connected 92 customers per day in June 2016 against a 40 connection per day average in June 2015. We have introduced automation that has reduced the order processing time, different methods (texting, emails and outbound calling) to contact customers which have improved the response rate and reduced processing time, and we are providing improved information to customers about what is involved in connecting to fibre.

We have also improved the feedback to our retail service providers so they can keep their end user customers better informed.

Importantly we delivered service to 92 percent of new customers on time – a considerable improvement on last year (87 percent) and continued performance well above our contracted key performance indicator of 75 percent of all connections delivered on the date agreed.

The customer experience we provide extends to broader engagement we have with our community and services we provide. We answered 19,000 calls from customers and our community, processed 17,168 requests for utility service plans and we installed 1,095 proactive service lead-ins as local people build or repair their homes.

**Managing a significant uplift in order volumes and translating these orders into connections, while continuing to improve customer experience, has been a key focus of our business.**



# Customer highlights

**25,817**  
customers connected

more than doubled  
our connections

**149**  
local schools connected

**22%**  
uptake

delivering service  
on agreed date

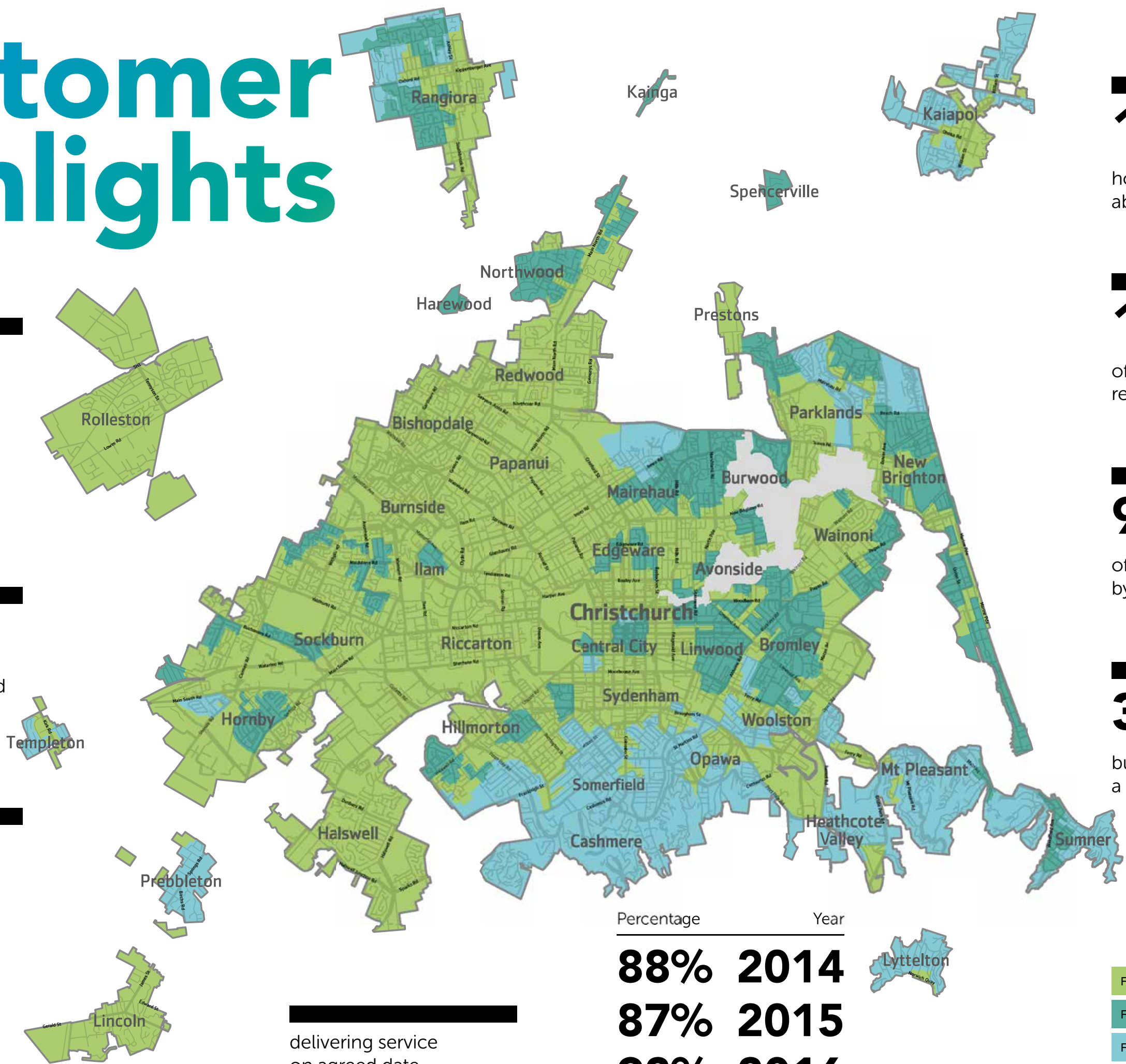
**117,988**  
homes and businesses  
able to connect

**100%**  
of schools and hospitals  
reached by 31/12/15

**90%**  
of businesses reached  
by 31/12/15

**31/12/18**  
build completion date –  
a year early

Percentage	Year
88%	2014
87%	2015
92%	2016



- Fibre available now
- Fibre available before July 2017
- Fibre available before December 2018



# Health and Safety at the heart of our business

Health, Safety and Wellness continues to underpin all aspects of our business.

We continue to work to embed looking after each other, our partner organisations and their people, our customers and our community in everything we do.

We introduced a new Health, Safety and Wellness Governance Charter and Plan in 2016 that was an evolution of our previous work done in this area. This new charter and plan is based around a clear vision that "We Care for Each Other" and includes an action plan that will ensure we continue to maintain excellence in Health, Safety and Wellness practice.

During the year we conducted over 1,369 site safety interactions and audits, with all board members and senior managers actively involved.

At year end, our Loss of Time Injury Frequency Rate (LTIFR) was 5.2 injuries per million hours worked with a Total Recordable Injury Frequency Rate (TRIFR) of 8.5 –

**At the heart of our Health, Safety and Wellness plan is collaboration with our partners to ensure a consistent, high performance approach is applied in all aspects of our business.**

with these results coming off the back of a considerable increase in operational activity. Both measures were below industry benchmarks and are a testament to the high value placed on Health, Safety and Wellness by our people and our partners – particularly Broadspectrum NZ Limited, our Network Delivery Alliance (NDA) partner.

Enable has also signed up to the Canterbury Rebuild Safety Charter, along with 325 other local organisations. We believe this is a valuable initiative that helps demonstrate a whole-of-community commitment to Health, Safety and Wellness.

We know that being great at everything we do comes down to our people and their commitment to our business.

We continued our concerted effort to further develop our people to support them to do their very best, to develop and to take ownership of their contribution to our business.

**Our people are  
our business**

We want to empower our people to succeed in their roles, grow within the business and be recognised for what they achieve.

We have introduced a new leadership model to help define and set clear expectations around the working environment we want within our business. We have introduced a new performance management process to set clear objectives and expectations with our people and provide plenty of opportunities to seek feedback and get support. We have also continued to celebrate the success of our people through quarterly awards focused on our values

and drive to deliver outstanding customer experiences.

The Enable team grew to 90 people plus a small number of contractors working in our business. Throughout the year, we continued to recruit specialist roles required to meet our growth needs.

The extended Enable team includes our main partner organisations of the NDA (Broadspectrum), Downer, Huawei and MultiMedia Communications all of which provide vital support in providing fibre broadband to the local community. At year end this was approximately 500 people.





# Operational highlights

## Health & Safety measures



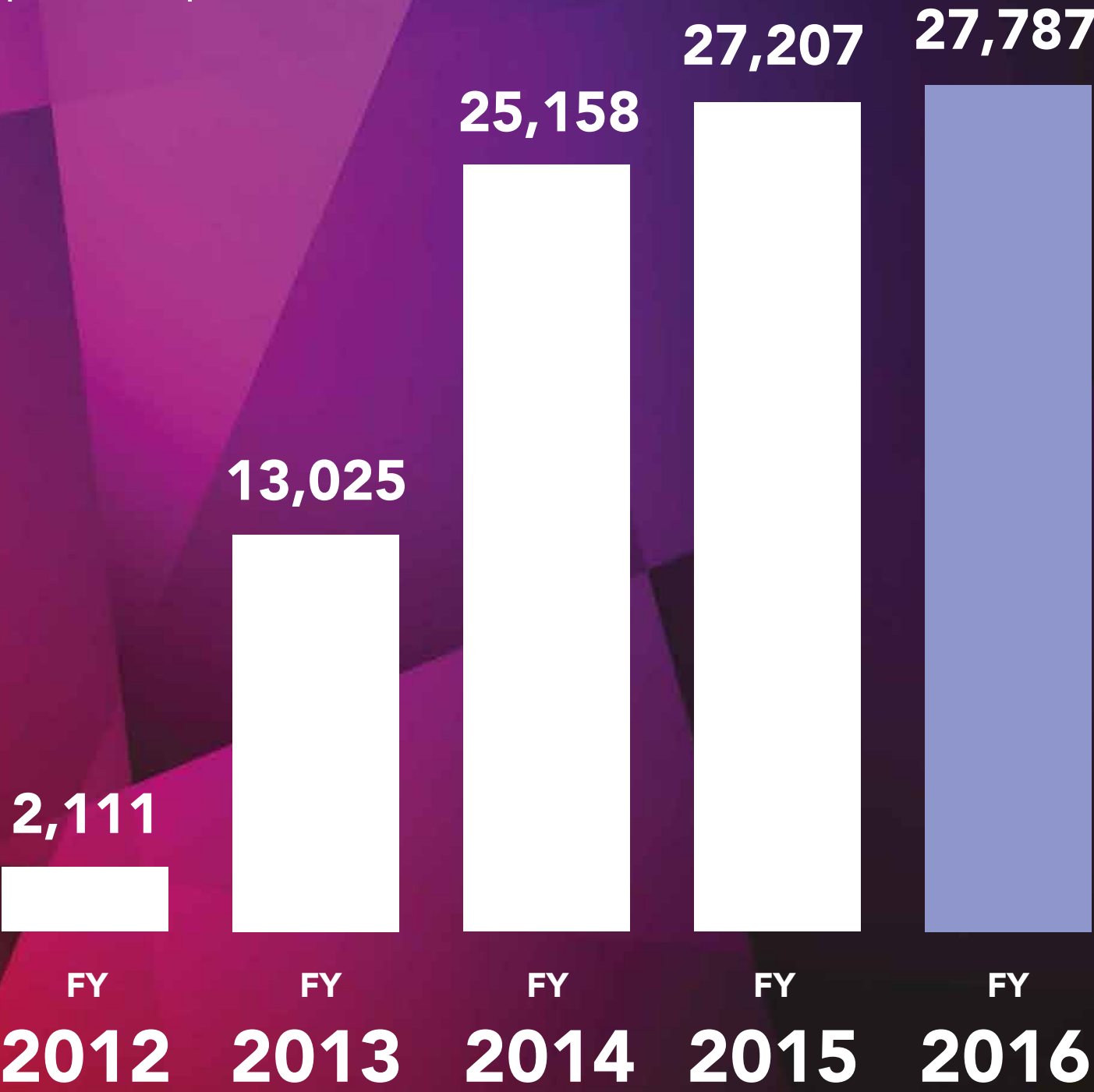
## Network performance measures



## Build progress - by candidate area

	Christchurch	Rangiora	Greenfields
Total premises	85,186	3,224	6,878
Build complete	63%	34%	N/A

## Build progress - premises passed





# Expanding our network (our service coverage)

Our NDA played a major role in completing a network deployment programme passing 27,787 premises, with the total of 95,288 premises passed since we began the network build.

The deployment result was ahead of the plan agreed with CFH and also exceeded the commitment made to CCHL through our Statement of Intent. This continued the momentum from last year, where the NDA also outperformed agreed targets in challenging build conditions. The business remains on target to complete the network build by 31 December 2018.

As part of our network deployment, we met the key objectives of ensuring our services were available to all 154 schools and nine hospitals within our coverage area, and 90 percent of local businesses.

Included in the premises passed were 2,453 Greenfield premises – taking the total deployment to new suburbs and commercial areas to 6,878 premises.

# Managing our network (our service)

Management of our fibre broadband service includes ensuring uninterrupted broadband service and network operations, the connection of new premises and on-going service provision to retail service providers and their customers.

Managing connection volumes now that were not forecast for another two years has been a big challenge facing Enable, our partners and the industry as a whole in 2016.

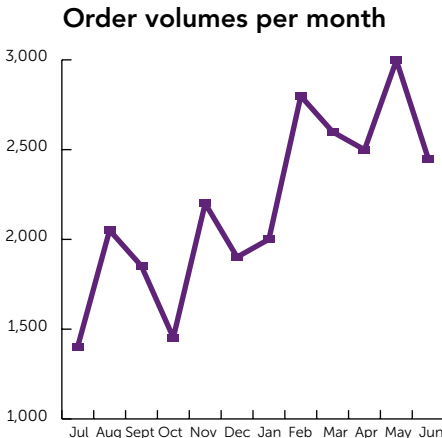
Midway through the year order volumes stepped up nearly 100% and then another 50% midway through the third quarter, placing incredible pressure on internal operations. The average time to connect a customer increased as order volumes increased well above forecast and outstripped our short-term internal and external connection capability.

**We are now completing 2,000 new connections to homes and businesses in greater Christchurch each month. This is two and a half times the volume from 12 months ago.**

We worked very closely with our connection partners Downer and MultiMedia Communications to grow our connection capacity in line with this rising demand - more than doubling the average number of new connections completed each day. We refocused considerable internal resources and made additional investment in people and systems to meet the expectation of our retail service providers and their customers.

In terms of the management of the network infrastructure, we continue to perform very strongly. We consistently delivered network performance well in excess of

contracted service levels with 100 percent core network availability, greater than 99.99 percent access network reliability achieved and all average downtime metrics being within service level targets.



# Financial performance

Our financial results reflect the initial benefits of the business taking full ownership of ENL.

Total Group revenue of \$75.2m includes a gain of \$11.8m due to the increased value of ESL's historical investment in ENL recognised as a result of the reorganisation.

Construction contract revenue decreased by \$12.6m against the previous year to \$43.1m as a result of the timing of some network asset sales to ENL. Under the new Group structure we will no longer derive construction contract revenue from ENL. This means that for 2017 and beyond, Group revenue will focus on UFB income earned from retail service providers and their customer connections to the network. This is the most important forward looking revenue stream for the Group, and

it will more accurately reflect the growing success of Enable.

For 2016 UFB income appears within the share of loss of associate. ENL's record year of UFB income, along with a stringent focus on operating costs, has produced ENL's first year of positive EBITDA of \$3.8m, a \$5.5m increase against last year.

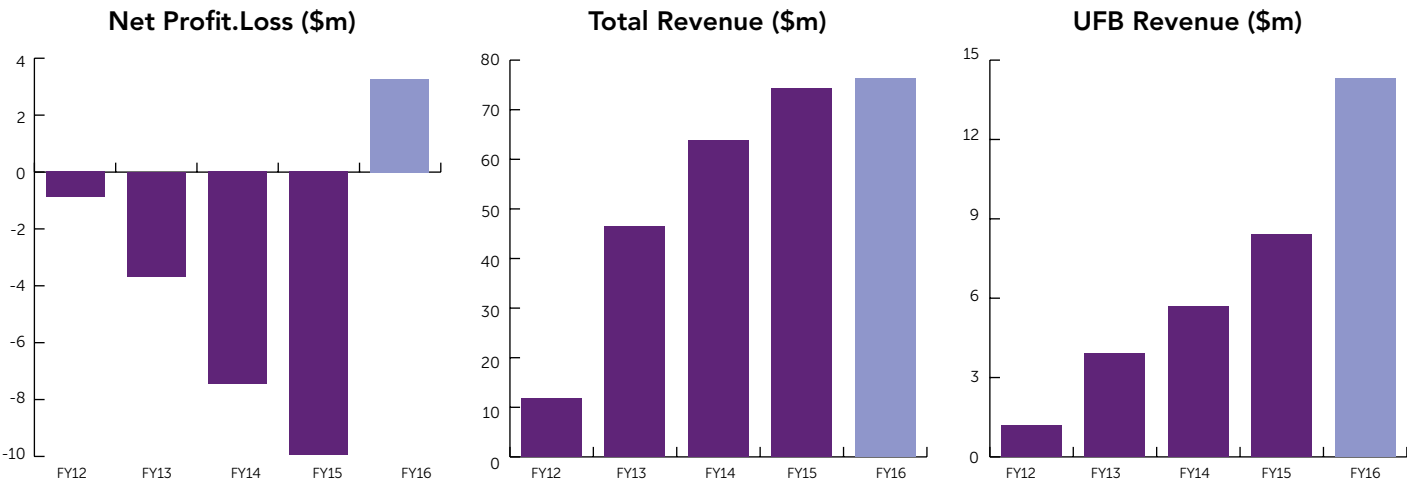
Total Group operating expenses decreased by \$14m against last year to \$63m as a result of lower network asset sales to ENL.

The Group recorded profit after tax of \$3.3m. This profit is largely a result of the effects of the reorganisation. We still expect the business to sustain small operating losses over the next three years, before an NPAT positive position becomes the norm.

The significant uplift in Group property, plant and equipment to \$300m reflects the purchase of ENL, and the significant ongoing investment made during the year due to accelerated network deployment and a record uplift in connections.

**2016 was a record year for UFB income, exceeding expectations. UFB income increased by 71% to \$14.3m – which is a direct result of the growth in customer connections.**

Share capital has increased by \$83.9m to \$117.9m as a result of CCHL increasing its investment in our business as a result of the reorganisation. This additional capital has strengthened the Group's financial position, leaving us well placed to grow further in 2017 and beyond.







# Engaging with industry stakeholders and Government

During the year the telecommunications industry has worked to clearly articulate the enormous contribution it makes to New Zealand – economically and socially.

This work has been led by the Telecommunications Carriers Forum (TCF) and Enable has actively contributed to this programme of work.

This work culminated in the release of a significant industry-wide report into the sector, a new industry prospectus and a media-focused launch event in February that provided the opportunity for industry leaders (including Enable) to discuss the future opportunities and challenges in the industry.

Enable holds a position on the Board of the TCF representing its Tier 3 members, on a range of industry

matters and TCF working parties. These working parties address various matters across the sector, policy and communications, and include the UFB Product Forum.

This year has also been a very significant year from a regulatory perspective and Enable has worked closely with the other local fibre companies (Ultrafast Fibre and Northpower Fibre), key Government departments and a range of other stakeholders to ensure its perspective on regulatory matters and interests are discussed.

The most notable regulatory outcome was the Commerce Commission's final decision in setting the whole copper pricing to be charged over the next five years, with the outcome being a higher price than previously indicated. A positive result for fibre-only network operators from a competitive perspective.

The Government also began its review of the Telecommunications Act 2001 – a process that will determine the regulatory environment Enable operates in from 2020 – and is drafting new land access regulations that will make it easier to install our fibre network for some customers. Enable is participating in both of these processes.

## Contributing to our community

We work to engage with and contribute to our community through a range of activities.

For the past three years, Enable has been working with the Canterbury Development Corporation (CDC), Environment Canterbury, Enterprise North Canterbury, the Canterbury Employers' Chamber of Commerce and a number of other local stakeholders to develop a regional digital strategy.

Throughout this process, Enable has been a strong advocate of the need to focus on educating local business owners to switch to fibre and maximise its potential to improve their businesses.

In 2016, this strategy was adopted and launched by the Canterbury Mayoral Forum under the Canterbury Regional Economic Development Strategy – with Enable continuing to be involved in implementation as a member of the Digital Strategy Advisory Group.

We are also working with CDC to develop and run a UFB inspiration

programme focused at small businesses. This programme will begin early in the new year and will be one of the first initiatives under the strategy.

Our sponsorship of the Crusaders Take a Kid to Footy provides us with a unique opportunity to give back to our community – particularly by connecting with local families and children. We focused our involvement on further enhancing the rugby experience by creating a children's website where they could have more involvement with the team and the game. We also took Crusader players to meet students at 15 schools around the city – including a large-scale celebration at Clearview Primary School in Rolleston. This year we held an event to thank Rolleston for taking up fibre at a tremendous rate. The Crusaders joined Enable, Communications Minister Hon Amy Adams, Selwyn District Mayor Kelvin Coe and hundreds of local residents to mark 50 percent fibre uptake in Rolleston.

Enable continues to support a number of other initiatives by sponsoring fibre connectivity. These include free Wi-Fi for visitors to the Re:Start central city shopping district, Youthline Central South Island and GreenHouse – a Christchurch

**We continue to place high value on our relationship with the greater Christchurch community, and even more so in light of Christchurch City taking full ownership of Enable.**

collaborative hub focused on supporting and commercialising small business.

At Enable we are very conscious that through our network build programme and in installing our fibre broadband into people's homes and businesses, we can have a considerable impact on our community. We employ network deployment and installation methodologies that minimise this impact. We ensure we inform our community of our intentions and consult effectively with anyone affected by our work – and we always want to talk to anyone that has any concerns, feedback or questions about our business.





# The year ahead

Our business, with tremendous support from our community, has laid a very strong platform for future success. We have a clear strategy in place to build on this success and deliver on our promise to our customers, our community, our people and our shareholder.

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## 1

We care for each other  
The Health, Safety and Wellness of our people and our community will continue to be an engrained value for Enable.

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## 2

We will grow our people  
Enable can only reach its goals if we have the very best people doing their best work for our business.

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## 3

We will deliver excellent customer experiences  
Our retail service providers and their customers have a choice and we need to ensure they choose fibre broadband by providing an excellent customer experience.

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## 4

We will grow our business  
We will make fibre broadband available to 30,000 more homes and businesses in the next year and connect at least 24,000 more people.

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## 5

We will carefully manage our investment  
We will continue to innovate and improve efficiency across our business to drive the best result for our shareholder.



# 2017 will be another very significant year for Enable in terms of its growth

We are embarking on our second to last deployment programme and are fast approaching the end of the build phase of our project. Our focus is shifting towards connecting more customers and managing a well established infrastructure company.

## 1. We care for each other

Health, Safety and Wellness sits at the heart of everything we do at Enable and we will continue to grow an environment where we genuinely care for each other, our partners and our community – and ensure that caring is a belief that is realised through all of our decisions.

We are determined to ensure continuous improvement in Health, Safety and Wellness as a fundamental value and a strategic objective of Enable. The leaders of our business (Board and the Leadership Team) have all made personal commitments to driving our Health, Safety and Wellness culture through their actions.

We will begin the year by engaging our people and our partners in a Safety Perception Survey, based on the globally recognised DuPont Bradley safety performance model. The results from this survey will inform the prioritisation of new initiatives to introduce that will build on our strong, established culture.

## 2. We will grow our people

We will continue to grow our culture to ensure Enable matures into a great organisation in which our people and everyone that works with us have a special connection with the business.

The Leadership Team has committed to a way of running Enable that empowers our people. Our philosophy is based on clear objective and expectation setting, plenty of opportunities to seek feedback and get support, and agreed measures of success.

2017 is a year in which we will bring our leadership model to life through every interaction with our people – starting with the introduction of our new performance management process with individual team members at the beginning of the year. This process will form the basis of regular reviews, engagement and feedback throughout the year.

At an organisational level, we will be running our first staff engagement survey to set a benchmark on our organisation, to identify improvement opportunities and to make Enable an even better place to work.

## 3. We will deliver excellent customer experiences

Our already well established emphasis on delivering an outstanding customer experience will be an overarching strategic objective in the coming year. We know our customers – our retail service providers – and broadband users have choice in the Christchurch market. We know that the best way we can influence the market to choose Enable is by doing an exceptional job of customer experience as they connect to fibre and by providing high quality fibre broadband services that meet their needs now and in to the future.

Over the coming months we will continue to evolve how we manage customers through the installation of fibre broadband – with particular focus on more regular and complete communication throughout the process and high quality information on what is involved.

We will also continue to invest in systems that allow us to process more orders, provide a more consistent experience when dealing with us and provide better quality information to our retail service providers.

## 4. We will grow our business

It is our intention to grow our total connections to over 50,000 by the end of the 2017 financial year – with a minimum of 24,000 new connections. We have the capacity within our business to achieve this now – and need to ensure demand continues to grow.

This will be achieved by continuing to drive greater uptake in established fibre broadband areas and by significantly growing our coverage – to tap into the suppressed demand in areas yet to have access to our services.

We will continue to market fibre availability and benefits to key segments within our community to support our retailers to drive demand. We will be placing a particular marketing emphasis on driving business uptake.

On 1 July 2016 we began our sixth UFB deployment programme which again targets reaching over 30,000 homes and businesses – with an emphasis on completing our build in western and northern parts of Christchurch, completing the vast majority of eastern Christchurch and extending our network in Rangiora.

## 5. We will carefully manage our investment

We are two years from reaching our peak debt levels, as we complete the network deployment and reach our peak connection volumes. It is vital that cost reduction through innovative network deployment and installation to our customers, and through operational efficiency, remains a key focus. This will ensure we are well placed to reduce our debt quickly and meet our commitment of returns to our shareholder and community.

2017 will also be a critical year for Enable and the other network providers as the Government and the Industry work to define the future operating and regulatory environment – most significantly through the Telecommunications Act review. We will continue to work closely with our industry partners and the Government to ensure the regulatory environment post-2020 is balanced and promotes continued industry investment in world-leading communications infrastructure for New Zealand for the benefit of end users.

We genuinely believe that 2017 will be the year that propels Enable into the next phase of its growth journey. Our coverage and presence will be significant and we will continue to grow our role as an essential enabler of the economic and social growth and development of Christchurch.

We look forward to the continued support from our people, CCHL (our shareholder), our partners, our retail service providers and our community to achieve this.



# Board of Directors

## Brett Gamble Director

Brett Gamble is the CEO of the Ben Gough Family Office and Tailorspace Limited overseeing all portfolio investment, financial and philanthropic activities. He has a 20-year background in corporate finance and private equity investment, and has held executive roles in the energy and technology sectors.

Brett is a Director on the Boards of ENL, Southbase Construction Ltd, Masterguard Fire and Security Ltd and Canterbury Seismic Instruments Ltd. Brett also chairs the Foundation Trust Board at St Margaret's College.

## 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 eight 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. She is also an ENL Director.

## Mark Bowman Chairman

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 has been Chairman of ESL since 1 July 2013 and also became the Chair of ENL on 29 June 2016.

## Bill Luff Director

Bill Luff 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 he has held a number of significant executive and board positions. Bill is currently Chairman of Ballantynes; a Director of Isaac Construction and Central Plains Water; and a Trustee of the Christchurch Symphony Orchestra, the Isaac Conservation and Wildlife Trust and the Lighthouse Vision Trust.

Bill was Chairman of ESL from its establishment through until 30 June 2013. He also sits on the ENL Board.

## Chris Birkett Director

Chris Birkett is Chief Financial Officer at Watson & Son, a leading supplier of Manuka products globally. Prior to this, he was Managing Director of General Cable Oceania which encompasses New Zealand, Australia and the Pacific Islands.

Chris has held a number of senior finance roles in New Zealand and abroad throughout his career – including with General Cable, RockShox Inc. and PwC. Chris holds a degree in commerce and accounting from the University of Victoria, and is a member of the Chartered Accountants Australia and New Zealand.

Chris is also an ENL Director.

## Owen Scott Director

Owen Scott has 25 years' experience in the New Zealand technology sector. Since 2004 he has been 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, a trustee of the New Zealand Hi-Tech Trust, a member of the New Zealand Institute of Management, a Chartered Member of the New Zealand Institute of Directors and is an ENL Director.

## Tim Lusk Director (ENL Board Only)

Tim Lusk was Chairman of ENL from the formation of the joint venture company in 2011 until the change of ownership on 29 June 2016. Tim remains a Director of ENL.

Tim recently retired from a 40 year executive management career – largely in the communications and utilities infrastructure sectors. His most recent role was CEO of Meridian Energy, a role Tim held for almost four years, and has held senior executive roles at Telecom, Transpower and Power New Zealand Limited.

Tim is a director of Transpower NZ Limited, the Environmental Protection Authority and the Wairarapa Rural Fire Authority, and has previously been on the Board of Meridian Energy Limited and Unison Networks Limited.





# Governance at Enable Services Limited and Enable Networks Limited (the Enable Group)



Enable Services Limited (ESL) is a fully owned subsidiary of Christchurch City Holdings Limited (CCHL).

ESL partnered with Crown Fibre Holdings Limited to build and operate the ultra-fast broadband (UFB) network for Christchurch and surrounding centres – which resulted in the establishment of Enable Networks Limited (ENL).

## Governing documents

The documents that govern the establishment of ENL and the on-going partnership are as follows.

- The Network Infrastructure Project Agreement sets out the relationship between, and the obligations of ENL, ESL and CFH in creating and managing the network.
- The Network Infrastructure Assets Transfer Agreement transferred ESL's existing fibre network to ENL.

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

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

## Board role and responsibilities

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

**On 29 June 2016, ESL became the sole shareholder in ENL, meaning Enable and its world-class fibre infrastructure became fully owned by Christchurch City.**

## Board structure and appointment

The Board of ESL consists of no more than six Directors appointed by CCHL. The Board of ENL consists of no more than seven Directors appointed by ESL.

## Board Sub-Committees

The **Audit and Risk Committee** assists the Boards in discharging their responsibilities in financial reporting and external audits, risk management and assurance, and capital structure and treasury. The Committee is made up of no more than four members.

The **People and Performance Committee** assists the Boards in establishing remuneration, recruitment, retention and termination policies and practices. The Committee is made up of at least two members.

The **Health and Safety Committee** assists the Board to fulfil its corporate governance responsibilities relating to Health and Safety policies and practices of the company and to improve the Health and Safety performance of the company, the Network Delivery Alliance and other contractors.

## Management Services Agreement

ESL operates under a thin company structure with strategic and operational services provided to ESL by ENL under contract.



# Financial statements for the year ended 30 June 2016

## Contents

	Page
<b>Financial statements</b>	
Statement of responsibility .....	32
Statement of comprehensive income .....	33
Statement of financial position .....	34
Statement of changes in equity .....	35
Statement of cash flows .....	36
<b>Notes to the financial statements</b>	
1. Statement of accounting policies .....	37
2. Background and significant events during the year .....	38
3. Business combination .....	39
3. (a) Assets and liabilities acquired under business combination .....	39
3. (b) Goodwill on acquisition .....	40
3. (c) Gain arising from business combination .....	40
3. (d) Purchase consideration - cash outflow .....	40
4. Critical accounting estimates and judgements .....	41
<b>Key assets and liabilities</b>	
5. Property, plant & equipment .....	42
6. Borrowings .....	45
<b>Profit and loss information</b>	
7. Operating revenue .....	46
8. Operating expenses .....	47
8. (a) Remuneration of auditors .....	47
8. (b) Employee costs .....	47
9. Finance income and costs .....	48
10. Income taxes .....	48
10. (a) Components of tax expense .....	48
10. (b) Reconciliation of prima facie income tax .....	49
10. (c) Deferred taxation .....	49
<b>Financial risk management</b>	
11. Financial risk management .....	51
11. (a) Liquidity risk .....	51
11. (b) Interest rate risk .....	52
11. (c) Credit risk .....	53

	Page
<b>Other assets and liabilities</b>	
12. Cash and cash equivalents .....	54
13. Trade and other receivables .....	54
14. Inventories .....	55
15. Construction contract work in progress .....	55
16. Intangible assets .....	56
17. Investment in associate .....	57
18. Loans to associate .....	58
19. Other non-current assets .....	59
20. Creditors and other liabilities .....	59
21. Employee entitlements .....	60
22. Deferred revenue .....	60
<b>Other disclosures</b>	
23. Share capital .....	61
24. Related party disclosures .....	61
25. Reconciliation of profit to net cash operating flows .....	64
26. Classification of assets and liabilities .....	65
27. Statement of service performance reporting .....	65
<b>Unrecognised items</b>	
28. Capital and operating lease commitments .....	68
29. Contingent liabilities and assets .....	69
30. Events after the balance sheet date .....	69
Governance and related information .....	70
Independent auditor's report .....	75
Glossary .....	78
Directory .....	79



# Statement of responsibility

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

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

In the Board’s opinion, the financial statements fairly reflect the financial position and operations of Enable Services Limited for the year ended 30 June 2016.

Signed on behalf of the Board



Mark Bowman  
Chair  
30 August 2016



Brett Gamble  
Chair of the Audit & Risk Committee  
30 August 2016

# Statement of comprehensive income

For the year ended 30 June

	Note	2016 \$'000	2015 \$'000
<b>Income statement</b>			
Operating revenue	7	63,370	74,414
Gain arising from business combination	3(c)	11,838	-
<b>Total revenue</b>		<b>75,208</b>	<b>74,414</b>
Operating expenses	8	(62,955)	(77,018)
Share of loss of associate	17	(2,953)	(3,255)
<b>Earnings before interest, tax, depreciation and amortisation</b>		<b>9,300</b>	<b>(5,859)</b>
Depreciation and amortisation	5,16	(938)	(671)
<b>Earnings before interest and tax</b>		<b>8,362</b>	<b>(6,530)</b>
Finance income	9	2,811	1,703
Finance costs	9	(10,083)	(7,785)
<b>Net finance costs</b>		<b>(7,272)</b>	<b>(6,082)</b>
<b>Profit/(loss) before income tax</b>		<b>1,090</b>	<b>(12,612)</b>
Income tax credit	10	2,221	2,617
<b>Profit/(loss) for the year</b>		<b>3,311</b>	<b>(9,995)</b>

### Explanatory note

As the re-organisation described in Note 2 did not take place until 29 June 2016, the results and cash flows for the year reflect the equity-accounted results of Enable Networks Limited, consistent with the 2015 financial year. Operating revenues and cashflows therefore represent the sale of constructed stages to Enable Networks Limited, and operating expenses and cashflows and the costs of constructing the network. For the year ending 30 June 2017, the Statement of Comprehensive Income will reflect the consolidated results of ESL and ENL (the Group), with the above-noted operating revenues, expenses and cash flows being eliminated and replaced, respectively, by revenue and cashflow from customers, and expenses and cash outflows of operating the network.

The balance sheet at 30 June 2016 reflects the consolidated assets, liabilities and equity of Enable Services Limited and Enable Networks Limited.



# Statement of financial position

As at 30 June

	Note	2016 \$'000	2015 \$'000
<b>Current assets</b>			
Cash and cash equivalents	12	3,056	1,176
Trade and other receivables	13	19,414	50,524
Inventories	14	4,280	4,321
Current tax asset		2,336	2,529
Construction contract work in progress	15	10,609	48,861
<b>Total current assets</b>		<b>39,695</b>	<b>107,411</b>
<b>Non-current assets</b>			
Property, plant and equipment	5	299,720	481
Intangible assets	16	2,971	1,640
Investment in associate	17	-	40,790
Loans to associate	18	-	28,077
Deferred tax asset	10(c)	-	750
Other non-current assets	19	-	12,305
<b>Total non-current assets</b>		<b>302,691</b>	<b>84,043</b>
<b>Total assets</b>		<b>342,386</b>	<b>191,454</b>
<b>Current liabilities</b>			
Creditors and other liabilities	20	11,580	11,710
Employee entitlements	21	1,373	1,175
Deferred revenue	22	87	-
<b>Total current liabilities</b>		<b>13,040</b>	<b>12,885</b>
<b>Non-current liabilities</b>			
Borrowings	6	218,900	164,500
Employee entitlements	21	461	477
Deferred tax liability	10(c)	8,861	-
Deferred revenue	22	325	-
<b>Total non-current liabilities</b>		<b>228,547</b>	<b>164,977</b>
<b>Total liabilities</b>		<b>241,587</b>	<b>177,862</b>
<b>Net assets</b>		<b>100,799</b>	<b>13,592</b>
<b>Equity</b>			
Share capital	23	117,896	34,000
Retained earnings		(17,097)	(20,408)
<b>Total equity</b>		<b>100,799</b>	<b>13,592</b>

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

# Statement of changes in equity

For the year ended 30 June

	Note	Share Capital \$'000	Retained Earnings \$'000	Total \$'000
Balance as at 1 July 2014		31,000	(10,413)	20,587
(Loss) for the year		-	(9,995)	(9,995)
Issue of ordinary shares		3,000	-	3,000
<b>Balance as at 30 June 2015</b>		<b>34,000</b>	<b>(20,408)</b>	<b>13,592</b>
Profit for the year		-	3,311	3,311
Issue of redeemable preference shares	23	83,896	-	83,896
<b>Balance as at 30 June 2016</b>		<b>117,896</b>	<b>(17,097)</b>	<b>100,799</b>

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



# Statement of cash flows

For the year ended 30 June

	Note	2016 \$'000	2015 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers and other sources		49,392	33,270
Interest received		2,461	1,476
Payments to suppliers and employees		(101,657)	(90,595)
Interest and other finance costs paid		(9,681)	(7,365)
Subvention receipts	24	2,280	705
<b>Net cash used in operating activities</b>	25	<b>(57,205)</b>	<b>(62,509)</b>
<b>Cash flows from investing activities</b>			
Payment for property, plant and equipment	5	(274)	(106)
Payment for intangible assets		(1,591)	(1,713)
Payment for investments		-	(2,500)
Cash acquired in business combination	3(a)	1,550	-
Loan advances repaid	19	5,000	-
<b>Net cash provided by/(used in) investing activities</b>		<b>4,685</b>	<b>(4,319)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowing	24	54,400	64,500
Proceeds from issue of shares		-	3,000
<b>Net cash provided by financing activities</b>		<b>54,400</b>	<b>67,500</b>
Net increase in cash and cash equivalents		1,880	672
Cash and cash equivalents at beginning of year		1,176	504
<b>Cash and cash equivalents at end of year</b>	12	<b>3,056</b>	<b>1,176</b>

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

# Notes to the financial statements

For the year ended 30 June 2016

## 1. Statement of accounting policies

### Reporting entity

The financial statements are for the Group, consisting of Enable Services Limited (ESL) and its subsidiary Enable Networks Limited (ENL). ESL is a limited liability company incorporated in New Zealand under the Companies Act 1993, and is a profit-oriented entity.

ESL is a wholly-owned subsidiary of Christchurch City Holdings Limited, itself a wholly owned subsidiary of Christchurch City Council (CCC).

### Explanatory note

On 29 June 2016, ESL acquired all of the shares in ENL previously held by Crown Fibre Holdings Limited (CFH), and ENL became a wholly-owned subsidiary of ESL. The details of this re-organisation are provided in Note 2.

Prior to the re-organisation ENL was accounted for as an associated company using the equity method. The results and cash flows for the year thus reflect the results and cash flows of ESL and the equity accounted results of ENL, whereas the Statement of Financial Position reflects the consolidated assets, liabilities and equity of the Group.

### Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP).

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for profit-oriented entities.

These financial statements were approved by the Board of Directors on 30 August 2016.

### Basis of preparation

The financial statements have been prepared on an historical cost basis, except for the revaluation of UFB network assets.

### Functional and presentation currency

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

### Accounting policies

Accounting policies are included in the individual notes to the financial statements, as follows:

	Note		Note
Property, plant & equipment	5	Borrowings	6
Operating revenue	7	Operating expenses	8
Finance income and costs	9	Income taxes	10
Cash and cash equivalents	12	Trade and other receivables	13
Creditors and other liabilities	20	Deferred revenue	22
Share capital	23	Classification of assets and liabilities	26



# Notes to the financial statements (cont.)

## For the year ended 30 June 2016

### Changes in accounting policies and disclosures

There have been no changes in accounting policies, other than for the revaluation of the UFB network assets as described in Note 5. All policies have been applied on bases consistent with the prior year.

### 2. Background and significant events during the year

#### Re-organisation on 29 June 2016

On 29 June 2016, ESL acquired all of CFH's shareholding in ENL as part of a re-organisation of the business (the Re-organisation). A summary of the Re-organisation is provided on page 39.

#### Structure prior to Re-organisation

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

The UFB contract set out the key commercial terms of the relationships between CFH (the Crown entity that negotiated and administered the agreement), ENL and ESL. This included CFH and ESL having shareholdings in ENL reflecting the level of each entity's investment in the deployment of the UFB network in each Candidate Area.

CFH and ESL had equal Board representation on ENL's Board of Directors (up to three Directors each) with an independent chair appointed.

The network deployment plans drove CFH's level of investment in ENL. As each stage of the network deployment plan was completed by ESL, ENL purchased the UFB network from ESL based on an agreed cost per premises passed (CPPP) for the number of premises passed by fibre optic network upon successful user acceptance testing (UAT).

CFH in turn funded approximately 67% of ENL's purchase of each stage by way of subscribing for A shares (these shares carried full voting rights, with no dividend rights until 10 years from establishment (the Concession period)) in ENL, the price for which was the agreed CPPP. ESL received A shares or Senior Notes for the remaining component of the CPPP.

ESL had the option, at any time during the Concession period, provided that CFH retained voting control through the network build programme, to purchase A shares from CFH at a fixed price of \$1. Alternatively, ESL could instruct ENL to repurchase A shares from CFH at this value.

ESL was required to fund the cost to connect a premise and end customer (essentially the fibre optic lead in from the street), the electronics necessary to light the optical fibre and operational costs. ESL generally received B shares for funding these obligations (B shares carried full dividend rights, but no voting rights until the end of the Concession period), although partner debt funding was permitted as set out at Note 6). The percentage of shares and level of voting control held by ESL and CFH changed through the lifecycle of the project. All A and B class shares in ENL would have converted to ordinary shares at the end of the Concession period.

### Reorganisation

During the 2016 financial year ENL, ESL and CFH, together with CCHL – the 100% shareholder of ESL – entered into discussions about the restructuring of the existing arrangements, with a view to streamlining the structure established under the UFB contract. As a result of this, the parties entered into a Deed of Re-organisation, under which ESL purchased all of the shares held by CFH in ENL for \$1 per share on 29 June 2016. Other key conditions of the Deed of Re-organisation include the following.

- The Group is required to pass at least 21,000 premises (excluding Greenfield premises) per annum, and to meet quarterly milestone targets. The Group is not required to obtain CFH's approval of Annual Network Deployment Plans as long as these meet the minimum 21,000 premises per annum commitment and related matters.
  - ESL is entitled to charge actual network build costs to ENL rather than being restricted to the previously-contracted CPPP price.
  - CFH will continue to part-fund the Communal Network build though the provision of interest-free debt to CCHL (subject to certain default conditions). CCHL in turn will use this funding from CFH to invest in the Group to enable construction of the network to continue. In turn ESL will provide 100% of ENL funding. Funding will be provided by ESL to ENL through a combination of ordinary shares, redeemable preference shares or debt.
- The existing Note Issue Facility Agreement between ENL, CFH and CCHL was terminated, meaning that there will be greater flexibility in the Group's funding arrangements. A new funding agreement between ENL and ESL has been entered into.
- As part of the Re-organisation, the Group has provided a guarantee in respect of CFH's loan to CCHL, and a first ranking security to CFH over all of the Group's assets.
  - The Crown has retained the Government Share in ENL. The Group remains bound by the current pricing and services obligations under the Shareholders' Agreement, through a Deed of Undertaking, until 31 December 2019.

### 3. Business combination

#### 3. (a) Assets and liabilities acquired under business combination

The following net assets of ENL, stated at fair value, were acquired on 29 June 2016 as a consequence of the Re-organisation:

	Note	2016 \$'000	2015 \$'000
Cash and cash equivalents		1,550	-
Trade debtors and other receivables		1,494	-
Property, plant and equipment		207,118	-
Intangible assets		148	-
Deferred tax liability		(9,746)	-
Creditors and accrued expenses		(3,974)	-
Borrowings		(63,419)	-
Other liabilities		(447)	-
Net assets	3(b)	132,724	-

The fair value of the trade debtors and other receivables shown above is considered to be equivalent to the gross contractual amounts receivable, with all contractual cash flows expected to be collected.

ENL had no significant contingent liabilities at the date of the Re-organisation.



# Notes to the financial statements (cont.)

## For the year ended 30 June 2016

### 3. (b) Goodwill on acquisition

The purchase consideration and consequent goodwill on acquisition comprises the following:

	Note	2016 \$'000	2015 \$'000
Fair value of equity investment in ENL prior to acquisition		49,676	-
Consideration paid for CFH shares in ENL		83,896	-
Total fair value of consideration		133,572	-
Less fair value of net assets acquired	3(a)	(132,724)	-
Goodwill on acquisition		848	-

### 3. (c) Gain arising from business combination

The gain arising from the business combination reflects the revaluation of ESL's investment in ENL as an associate immediately prior to the purchase of CFH's shares in ENL:

	2016 \$'000	2015 \$'000
Revaluation of investment in associate prior to full acquisition	11,838	-
	11,838	-

The business combination resulted in an overall gain as a result of the revaluation of the network assets to fair value, and the purchase of CFH's shares in ENL at \$1 per share.

As the business combination took place on 29 June 2016, no revenue or expenditure of the acquiree (ENL) has been recognised in these financial statements. ESL recorded its equity-accounted share of ENL's losses for the period up to 29 June 2016.

ENL's reporting date is the same as ESL's.

### 3. (d) Purchase consideration - cash outflow

The business combination did not result in any net cash outflow for the group, as the consideration for the purchase of the shares in ENL held by CFH was satisfied by the issue of redeemable preference shares to CCHL for an equivalent value. Both of these transactions were completed by book entry, with no cash flowing in or out, of the group.

Acquisition-related costs of \$377k are included in other expenses in profit or loss and in operating cash flows in the statement of cash flows.

### Accounting policy – consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of the subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

### 4. Critical accounting estimates and judgements

In preparing these financial statements the Group 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 outlined in the notes to the financial statements as follows:

	Note		Note
Valuation of UFB network assets	5	Useful lives of UFB network assets	5
Recognition of deferred tax asset	10		



# Key assets and liabilities

## 5. Property, plant and equipment

	Note	UFB network Layer 1 \$'000	UFB network Layer 2 \$'000	Central offices \$'000	Other plant and equipment \$'000	Total \$'000
<b>Gross carrying amount</b>						
Cost/valuation at 1 July 2014		-	-	-	1,238	1,238
Additions		-	-	-	106	106
Disposals		-	-	-	(112)	(112)
Cost/valuation at 30 June 2015		-	-	-	1,232	1,232
Additions		-	-	-	274	274
Acquired through business combination		266,048	21,678	8,916	930	297,572
Transferred from intangible assets	16	-	-	-	643	643
Cost/valuation at 30 June 2016		266,048	21,678	8,916	3,079	299,721
<b>Accumulated depreciation and impairment</b>						
Accumulated balance at 1 July 2014		-	-	-	(578)	(578)
Depreciation expense		-	-	-	(248)	(248)
Disposals		-	-	-	75	75
Accumulated balance at 30 June 2015		-	-	-	(751)	(751)
Disposals		-	-	-	1,221	1,221
Depreciation expense		-	-	-	(471)	(471)
Accumulated balance at 30 June 2016		-	-	-	(1)	(1)
Carrying amount at 30 June 2015		-	-	-	481	481
Carrying amount at 30 June 2016		266,048	21,678	8,916	3,078	299,720

Property, plant and equipment includes the original fibre optic network owned by the Group and the subsequent capital cost of deploying the UFB network covering circa 60 percent of Christchurch; all of Rolleston and Lincoln; and parts of Rangiora, Kaiapoi and Woodend. The UFB network assets are long term infrastructure assets with long term investment horizons.

UFB network Layer 1 represents the physical fibre network assets which are essentially the unlit pipeline or pathway that the electronics use to transmit data, otherwise known as dark fibre. These assets include ducting and optical fibre.

UFB network Layer 2 assets represent the electronics necessary to light the optical fibre or the means by which communication occurs down the layer one pathway. These assets are located in ENL central offices, points of interconnect and in the premises of end users.

Central Offices include both building costs and setup costs – fire protection, security and backup generator assets.

### Recognised fair value measurements

The UFB network Layer 1 and 2 assets, together with the Central Offices (collectively described as UFB network assets), are owned by ESL's 100% subsidiary ENL. These UFB network assets were revalued to fair value as part of the

business combination described in Note 3 by independent valuers EY. EY are considered to have the appropriate qualifications and experience in the fair value measurement of such assets.

EY considered that the discounted cash flow (DCF) methodology was the most appropriate method of valuation, given that:

- long term cash flow forecasts were available
- there is a reasonable degree of predictability around the cash flows
- a potential buyer of these assets would primarily be interested in the future economic benefits they could generate.

The DCF methodology involved assessing:

- the future free cash flows of the business (excluding expansionary capital expenditure and related revenue)
- a terminal value for cash flows beyond the forecast period
- discounting the above cash flows using a discount rate based on weighted average cost of capital
- whether there were any surplus assets.

Using this methodology the mid-point enterprise value of ENL was assessed at \$307m. Working capital of \$9m was deducted from this figure to arrive at the estimated value of the UFB network assets of \$298m.

The sensitivity of the enterprise valuation of \$307m to relevant factors is summarised as follows:

Movement in	Range	Upper value	Lower value
		\$m	\$m
EBITDA	+ or – 5%	324	291
WACC	+ or – 0.3%	322	295
Terminal growth rate	+ or – 0.25%	314	302
Capital expenditure	+ or – 5%	310	305

All property, plant and equipment is classified as Level 3 within the fair value hierarchy under NZ IFRS 13 – Fair Value Measurement. Assets are classified as Level 3 where one or more significant inputs into the determination of fair value are not based on observable market data. The Group had no other Level 1, Level 2 or Level 3 non-financial assets measured at fair value during the year.

### Useful lives and residual values of UFB network assets

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

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

- investing in high quality, class-leading assets and infrastructure
- physical inspections of assets; and
- asset replacement programmes in line with useful life expectations.

### Security

CFH has a first ranking security over the Group's assets.



# Key assets and liabilities (cont.)

## Accounting policy – property, plant and equipment

Property, plant and equipment asset classes consist of the UFB network assets, being Layer 1 (relating to the provision of unlit optical fibre), Layer 2 (relating to the provision of communication equipment on the un-lit fibre), and Central Offices (buildings which contains Layer 2 assets, with fire protection, security and backup generator assets).

UFB network assets, and central offices are recognised at fair value based on valuations by external independent valuers, less subsequent depreciation.

Valuations are performed with sufficient regulatory to ensure that the fair value of the assets does not vary materially from their carrying value. Any revaluation increase arising on the revaluation of these assets is credited to the asset revaluation reserve included in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense through profit and loss, in which case the increase is credited to profit and loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of these assets is charged as an expense through profit and loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

All other property, plant and equipment is recognised at historical cost less depreciation.

### Additions

Additions are recorded at historical cost less depreciation until the next revaluation. The cost of an item is recognised as an asset only when it is probable that the future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

### Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in profit or loss.

### Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that the future economic benefits or service potential associated with the item will flow to the Group and the cost of the item can be measured reliably.

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

### Depreciation

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

#### UFB Network assets

Layer 1 (Provision of unlit optical fibre)	20 – 50 years
Layer 2 (Ethernet communication equipment)	5 – 12 years
Central Offices	5 – 50 years
Property, plant and equipment	1 – 25 years

Land is not depreciated.

The residual value and useful life of an asset is reviewed, and adjusted, if applicable, annually.

### Impairment of non-financial assets

UFB network assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts might not be recoverable. An impairment loss is recognised if the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised immediately in profit or loss.

## 6. Borrowings

	Note	2016 \$'000	2015 \$'000
Loan from CCHL	24	218,900	164,500
		218,900	164,500

The Group has a subordinated loan agreement with CCHL. The loan is unsecured and the interest rate is a base rate reflecting CCHL's cost of borrowing plus a 1% margin. At 30 June 2016 the weighted average interest rate was 5.0% (2015: 5.5%).

The line of credit under the loan agreement is available to the Group until March 2023 and totals \$285m (2015: \$220m).

## Accounting policy – borrowings

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 12 months are presented as current liabilities, and the remainder is presented as non-current liabilities.



# Profit and loss information

## 7. Operating revenue

	Note	2016 \$'000	2015 \$'000
Construction contract revenue	24	43,144	55,778
Gross telecommunications revenue	(i)	390	684
Sale of inventory		8,538	8,372
Reimbursement for services provided to associate	24	9,552	8,998
Other		1,746	582
		63,370	74,414

(i) Gross telecommunications revenue is required to be disclosed in accordance with the information disclosure requirements under section 83 of the Telecommunications Act 2001. There were allowable deductions of \$234k (2015: \$537k).

Accounting policy - revenue

Construction contract revenue

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 the 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 revenue, the expected loss is recognised immediately in profit and 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 revenues 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 for that particular milestone (this procedure is sometimes referred to as the "cost-to-cost" method).

## 8. Operating expenses

	Note	2016 \$'000	2015 \$'000
Audit fees	8(a)	118	81
Directors' fees		303	294
Net foreign exchange losses		5	11
Impairment		-	3,474
Operating leases		598	514
Employee costs	8(b)	9,172	7,790
Other		52,759	64,854
		62,955	77,018

### 8. (a) Remuneration of auditors

	Note	2016 \$'000	2015 \$'000
<b>Audit New Zealand</b>			
Audit of the financial statements		118	81
Total	8	118	81

### 8. (b) Employee costs

	Note	2016 \$'000	2015 \$'000
Salaries and wages		8,754	7,572
Defined contribution plan employer contributions		237	194
Other		181	24
Total employee costs	8	9,172	7,790

# Profit and loss information (cont.)

## 9. Finance income and costs

	Note	2016 \$'000	2015 \$'000
<b>Finance income</b>			
Interest - bank		105	122
Interest - external loan		229	316
Interest - loan to ENL	24	2,477	1,265
		<b>2,811</b>	<b>1,703</b>
<b>Financing costs</b>			
Interest paid/payable to CCHL	24	<b>10,083</b>	<b>7,785</b>

### Accounting policy – finance income and costs

#### Finance income

Interest income is recognised using the effective interest method.

#### Financing costs

Financing costs primarily comprise interest on the Group's borrowings, and are expensed in the period in which they are incurred and reported in finance costs.

## 10. Income taxes

### 10. (a) Components of tax expense

	2016 \$'000	2015 \$'000
Current tax (income)/expense	(2,221)	(2,529)
Adjustments to current tax of prior years	135	(705)
Deferred tax (income)/expense	(135)	617
<b>Total tax (income)/expense</b>	<b>(2,221)</b>	<b>(2,617)</b>

### 10. (b) Reconciliation of prima facie income tax

	2016 \$'000	2015 \$'000
Profit/(loss) before tax	1,090	(12,612)
Tax at statutory rate of 28%	305	(3,532)
Non-deductible expenses	827	911
Non-assessable income and deductible items	(3,315)	-
Effect on deferred tax balances of prior period tax losses	-	4
Over provision of income tax in previous year	(38)	-
<b>Total tax expense/(income)</b>	<b>(2,221)</b>	<b>(2,617)</b>

### 10. (c) Deferred taxation

	30 June 2015			30 June 2016		
	Opening balance \$'000	Profit/loss \$'000	Closing balance \$'000	Profit/loss \$'000	Acquired through business combination \$'000	Closing balance \$'000
<b>Deferred tax liabilities:</b>						
Property, plant and equipment	77	(31)	46	(46)	9,796	9,796
	77	(31)	46	(46)	9,796	9,796
<b>Deferred tax assets:</b>						
Provisions/employee entitlements	291	(166)	125	89	-	214
Tax losses	768	(768)	-	-	-	-
Other	384	287	671	-	50	721
	1,443	(647)	796	89	50	935
<b>Net deferred tax (asset)/liability</b>	<b>(1,366)</b>	<b>616</b>	<b>(750)</b>	<b>(135)</b>	<b>9,746</b>	<b>8,861</b>



# Profit and loss information (cont.)

ESL is a member of the CCC tax group, which comprises CCC, CCHL and a number of other group entities. The Group pays or receives subvention payments to/from other members of the CCC tax group. The amount recognised as a receivable from the 2016 tax year is \$2,336K (2015: \$2,529K). The Group received a subvention payment from other members of the CCC tax group of \$2,280K (2015: \$705K). 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.

Following the change in shareholding (as outlined in Note 2) the Group has reviewed its ability to utilise previous tax losses. While the matter is finely balanced, the ability to utilise historical ENL losses may not meet the probable threshold for financial reporting purposes, and therefore no deferred tax asset has been recognised with respect to these losses, which in total amount to \$29.5m. Unrecognised deferred tax assets are reassessed at each reporting date.

## Imputation credits

No imputation credits are available for use in subsequent reporting periods (2015: nil).

Accounting policy - 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 the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group 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.

# Financial risk management

## 11. Financial risk management

The Group’s activities expose it to a variety of financial instrument risks, including liquidity risk, interest rate risk and credit risk. The Group 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.

### 11. (a) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty raising liquid funds to meet commitments as they fall due. The Group’s primary mechanism for managing liquidity risk is through issuing shares and debt to CCHL.

As described in Note 6, the Group has guaranteed debt funding from CCHL of up to \$285m until March 2023. Additionally, following the Re-organisation, CCHL will also pass on funding to the Group received from CFH for stage sale settlements, equivalent to the amounts that would have been provided directly by CFH to ENL under the original UFB contract. This funding will be in the form of redeemable preference shares or debt.

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

### Contractual maturity analysis of financial liabilities

The following table analyses the Group’s financial assets and 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.

	Balance sheet \$'000	Contractual cash flows \$'000	Less than 1 year \$'000	1-2 years \$'000	2-5 years \$'000	5 years + \$'000
30 June 2016						
Cash, cash equivalents and deposits	3,056	3,056	3,056	-	-	-
Trade and other receivables	19,414	19,414	19,414	-	-	-
Creditors and other payables	(11,580)	(11,580)	(11,580)	-	-	-
Borrowings from CCHL	(218,900)	(308,127)	(11,492)	(11,492)	(34,477)	(250,666)
	(208,010)	(297,237)	(602)	(11,492)	(34,477)	(250,666)

# Financial risk management (cont.)

	Balance sheet \$'000	Contractual cash flows \$'000	Less than 1 year \$'000	1-2 years \$'000	2-5 years \$'000	5 years + \$'000
<b>30 June 2015</b>						
Cash, cash equivalents and deposits	1,176	1,176	1,176	-	-	-
ENL Senior Notes	28,077	41,450	1,706	1,706	5,118	32,920
Deferred CO receivable from ENL	5,450	5,450	1,596	1,739	2,115	-
Loan to BroadSpectrum	5,000	5,975	325	325	5,325	-
Trade and other receivables	49,148	49,148	48,338	810	-	-
Creditors and other payables	(11,710)	(11,710)	(11,710)	-	-	-
Borrowings from CCHL	(164,500)	(235,616)	(9,271)	(9,271)	(27,815)	(189,259)
	(87,359)	(144,127)	32,160	(4,691)	(15,257)	(156,339)

## 11. (b) Interest rate risk

### Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. The Group's exposure to fair value interest rate risk is with its bank current account balances. Borrowings from CCHL are at floating 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 the Group or the carrying amount of the financial instruments recognised in the statement of financial position.

The average interest rate on ESL's bank current account is 2.5% (2015: 3.26%).

The \$5m loan to network delivery alliance partner BroadSpectrum was repaid during the year. The interest rate on this loan was based on the average lending cost from CCHL funding.

### 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 at variable interest rates expose the Group to cash flow interest rate risk.

To mitigate interest rate risk, the Group has completed agreements with CCHL whereby CCHL has entered into a series of forward start swaps in respect of its own borrowing to on-lend to the Group. The swaps are in CCHL's name and accounted for by CCHL. The effect of the swaps is to fix the rate for a significant portion of the on-lending that CCHL provides to the Group. However, the remainder of the Group's borrowing from CCHL is at floating rate. As CCHL charges the Group a weighted average interest rate based on its total lending to the Group, including hedging, effectively the whole CCHL loan is at floating rate (albeit moderated by the hedging entered into by CCHL).

## Sensitivity analysis

In managing interest rate risks, the Group aims to reduce the impact of short term fluctuations on its 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 interest rates, all other variables being held constant.

	Effect on equity 2016 \$'000	Effect on equity 2015 \$'000	Effect on profit 2016 \$'000	Effect on profit 2015 \$'000
1% increase in interest rates	(311)	(1,140)	(311)	(1,140)
1% decrease in interest rates	311	1,140	311	1,140

## 11. (c) Credit risk

Credit risk is the risk that a third party will default on its obligation to the Group, causing the Group to incur a loss. Credit risk arises in the Group from exposure to counterparties from trade and other receivables and cash deposits.

The Group invests surplus cash with major registered trading banks and limits exposure to any one institution.

The Group's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents (Note 12) and trade and other receivables (Note 13). There is no collateral held as security against these financial instruments and no instruments are overdue or impaired.

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

	Note	2016 \$'000	2015 \$'000
<b>Ageing of receivables</b>			
Gross receivables			
Not past due		17,031	49,496
Past due 0-30 days		565	299
Past due 31-60 days		146	85
Past due more than 60 days		18	54
	13	17,760	49,934

All receivables have been reviewed and are considered to be fully collectible.



# Other assets and liabilities

## 12. Cash and cash equivalents

	2016 \$'000	2015 \$'000
Cash on hand and at bank	3,056	1,176
	3,056	1,176

All cash on hand is held with the Bank of New Zealand. The carrying value approximates its fair value.

<b>Accounting policy - cash and cash equivalents</b>
Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

## 13. Trade and other receivables

	Note	2016 \$'000	2015 \$'000
<b>Current</b>			
Trade receivables and prepayments		17,760	1,137
Related party receivables		-	48,797
	11(c)	17,760	49,934
<b>Non-current</b>			
Prepayments		337	590
GST receivable		1,317	-
		19,414	50,524
<b>Non-current</b>			
Trade receivables and prepayments		-	1,278
Related party receivables		-	810
		-	2,088
Total trade debtors, other receivables and prepayments		19,414	52,612

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

<b>Accounting policy - trade and other receivables</b>
Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Impairment of a receivable is established when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivable.

## 14. Inventories

	2016 \$'000	2015 \$'000
<b>Current</b>		
Inventory	4,280	4,321
	4,280	4,321

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

<b>Accounting policy – inventories</b>
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.

## 15 Construction contract work in progress

	2016 \$'000	2015 \$'000
<b>Current</b>		
Opening balance	48,861	30,719
Additions	96,676	73,473
Re-classified from non-current to current	1,363	447
Sale of network asset to ENL	(136,291)	(55,778)
	10,609	48,861
<b>Non-current</b>		
Opening balance	1,363	1,572
Additions	-	238
Re-classified from non-current to current	(1,363)	(447)
	-	1,363
Total construction contract work in progress	10,609	50,224

# Other assets and liabilities (cont.)

## 16. Intangible assets

	Note	Goodwill \$'000	Software \$'000	Work in progress \$'000	Total \$'000
<b>Gross carrying amount</b>					
Cost/valuation at 1 July 2014		-	980	3,468	4,448
Additions		-	14	1,560	1,574
Transfers		-	367	(367)	-
Impairment		-	-	(3,474)	(3,474)
Cost/valuation at 30 June 2015		-	1,361	1,187	2,548
Additions		848	14	1,579	2,441
Transfers	5	-	545	(1,188)	(643)
Cost/valuation at 30 June 2016		848	1,920	1,578	4,346
<b>Accumulated depreciation and impairment</b>					
Accumulated balance at 1 July 2014		-	(485)	-	(485)
Amortisation expense		-	(423)	-	(423)
Accumulated balance at 30 June 2015		-	(908)	-	(908)
Amortisation expense		-	(467)	-	(467)
Accumulated balance at 30 June 2016		-	(1,375)	-	(1,375)
Carrying amount at 30 June 2015		-	453	1,187	1,640
Carrying amount at 30 June 2016		848	545	1,578	2,971

Intangible asset costs are predominantly software-related. The intangible asset work in progress relates primarily to the development of operating support systems and business support systems.

Management have reviewed the intangible assets at balance date and concluded that there were no indicators of impairment (2015: \$3,374k impairment charged to profit or loss).

### Accounting policy – intangible assets

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

## 17. Investment in associate

	Note	2016 \$'000	2015 \$'000
Opening balance		40,790	37,246
Shares acquired in associate		-	6,769
Share of loss of associate		(2,953)	(3,225)
Reclassification to subsidiary	3	(37,837)	-
Closing balance		-	40,790

	Note	2016 \$'000	2015 \$'000
A shares received for UFB network		43,497	43,497
B shares received for UFB network Layer 2		3,205	3,205
B shares received for existing network built by CCNL		324	324
B shares received for working capital		6,550	6,550
Total cost of shares in ENL		53,576	53,576
Less share of cumulative losses of ENL		(15,739)	(12,786)
Reclassification to subsidiary	3	(37,837)	-
		-	40,790

	2016 \$'000	2015 \$'000
<b>Summarised financial statements of associate</b>		
Assets	-	147,719
Liabilities	-	(100,741)
Net assets	-	46,978
Revenue	-	8,521
Net loss after tax	-	(6,138)

Following the Re-organisation, ENL ceased being an associate on 29 June 2016, and became a wholly-owned subsidiary.

The following information relates to the period up to 29 June 2016, when ENL was still an associate.



# Other assets and liabilities (cont.)

Structure prior to re-organisation on 29 June 2016

ENL's principal place of business is Christchurch and is incorporated in New Zealand.

ESL had contractual obligations to build the UFB network and sell it to ENL for a fixed price. The build requirements were split into Communal Infrastructure (the UFB network on public land to the edge of private boundaries) and End User Specific Infrastructure (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.

Prior to the Re-organisation, the agreement detailed how ENL was funded by CFH and ESL. The purchase of each part of the network was funded as follows.

**A shares**

A shares had voting rights but did not receive dividends. ESL funded approximately 33% of the cost of the Layer One Communal Infrastructure in return for A shares or debt in ENL as a non-cash transaction. The approximately 67% remaining was funded by CFH to ENL, being paid to ENL in cash in return for A Shares.

**B shares**

B shares had dividend rights but did not have voting rights. Where free cash flow in ENL was not sufficient to purchase the Layer Two Communal Infrastructure, End User Specific Infrastructure and working capital requirements in ENL, these were funded by ESL using a hierarchy of specified B Share equity, then debt through note instruments to certain debt/equity ratios and, if ratios were exceeded, through the issue of further B shares. Where funding to ENL was provided through B shares the transaction occurred 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 29 June 2016 ENL had issued Senior Notes to ESL of \$56.3m (2015: \$28.1m).

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 were able to convert to A shares to the extent that ESL did not hold more than 49% of voting rights through A shares during the UFB network build period. During the year no B Shares for existing fibre network were converted to A Shares (2015: 6,344,657).

**Associate status**

Until the Re-organisation, ESL was deemed to hold significant influence over ENL through its holding of A and B shares and it therefore accounted for ENL as an associate up until that date.

## 18. Loans to associate

	Note	2016 \$'000	2015 \$'000
Senior Notes in ENL	24	-	28,077
		-	28,077

As outlined in Note 2 and Note 17, ENL ceased to be an associate on 29 June 2016, and became a wholly-owned subsidiary. Intercompany loans to ENL are eliminated on consolidation.

## 19. Other non-current assets

	Note	2016 \$'000	2015 \$'000
Loan to BroadSpectrum		-	5,000
Trade and other receivables		-	2,088
Deferred receivable from ENL		-	3,854
Construction contract work in progress	15	-	1,363
		-	12,305

## 20. Creditors and other liabilities

	Note	2016 \$'000	2015 \$'000
Trade payables and accrued expenses		9,655	8,034
Security for supplier obligations		-	500
GST payable		-	1,599
Income in advance		35	-
Retentions		-	89
Interest payable to CCHL	24	1,890	1,488
		11,580	11,710

Creditors and other liabilities 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.

### Accounting policy - creditors and other liabilities, employee entitlements and GST

Creditors and other liabilities

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

Employee entitlements

Employee entitlements that the Group 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. A liability and an expense are recognised for bonuses where there is a contractual obligation.

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.

# Other assets and liabilities (cont.)

## 21. Employee entitlements

	2016 \$'000	2015 \$'000
<b>Current</b>		
Employee incentives	622	414
Annual leave	480	449
Accrued pay	271	312
	<b>1,373</b>	<b>1,175</b>
<b>Non-current</b>		
Employee incentives	461	477
	<b>461</b>	<b>477</b>

## 22. Deferred revenue

	2016 \$'000	2015 \$'000
Current portion	87	-
Non-current portion	325	-
	<b>412</b>	<b>-</b>

Deferred revenue arises from IRUs (irrevocable rights of use) sold on the network prior to the UFB contract. This revenue is amortised over the life of the IRUs.

Accounting policy – deferred revenue

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

# Other disclosures

## 23. Share capital

Redeemable				
	Note	Ordinary shares \$'000	Preference shares \$'000	Total shares \$'000
Balance at 1 July 2014		31,000	-	31,000
Shares issued during year:		3,000	-	3,000
Balance at 1 July 2015		34,000	-	34,000
Shares issued during year	24	-	83,896	83,896
Balance at 30 June 2016		<b>34,000</b>	<b>83,896</b>	<b>117,896</b>

All issued share capital is in the form of ordinary shares or redeemable preference shares. During the year there were no costs associated with share issues (2015: nil).

## Capital management

The Group’s capital is its equity, which comprises retained earnings and share capital. Equity is represented by net assets.

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

Accounting policy - equity instruments

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

## 24. Related party disclosures

### Identification of related parties

The Group is 100% owned by CCHL. CCHL is 100% owned by CCC. Following the Re-organisation, ENL is a 100%-owned subsidiary of ESL.

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

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. Positano Holdings Limited, a company in which Brett Gamble is a director and shareholder, provided professional services totalling \$72k of which \$nil was owing at balance date (2015: \$105k with \$43k owing).

Payments made by ESL to its key management personnel including Directors were as follows.



## Other disclosures (cont.)

	2016 \$'000	2015 \$'000
<b>Key management personnel compensation</b>		
Short term employee benefits (inc. salaries and Directors' fees)	2,688	2,161
KiwiSaver employer contributions	65	57
Termination benefits	-	80
Other long term employee benefits	243	218
<b>Total</b>	<b>2,996</b>	<b>2,516</b>

Key management personnel comprise the Directors and the members of the executive team.

Key management personnel of ESL did not make any purchases of goods and services from ESL during the period.

CCHL is a party to the UFB contract documents signed with CFH on 31 May 2011 under which it undertakes some of the obligations of ESL, and has provided a performance bond of \$40m as at 30 June 2016 (2015: \$42.5m).

The total owed by ENL to ESL at 30 June 2016 was \$3,739k (2015: \$18,234k).

### Significant transactions and balances with related entities

	Note	2016 \$'000	2015 \$'000
<b>Transactions during year</b>			
Issue of equity to CCHL	(i)	83,896	3,000
Borrowed from CCHL	(ii)	54,400	64,500
Interest paid to CCHL	(iii)	10,083	7,785
Construction contract revenue from ENL (as associate)		43,144	55,778
Reimbursement for services to ENL (as associate)	(iv)	9,552	8,998
Senior Notes issued by ENL	(v)	28,270	11,636
Interest charged to ENL (as an associate)	(v)	2,477	1,265
Subvention payments from CCC tax group	(vi)	2,280	705
Sales to CCC		38	63
Sales to Orion New Zealand Ltd		18	-
Sales to Christchurch International Airport Ltd		11	-
Payments to Crown, CCC and controlled entities		452	528
Payments to Connetics Ltd for network-related services		152	383
Payments to Vbase Ltd for services		20	-

	Note	2016 \$'000	2015 \$'000
<b>Balances at end of year</b>			
Loan balance due to CCHL	(vii)	218,900	164,500
Interest payable to CCHL	(viii)	1,890	1,488
Loan balance due from ENL	18	-	28,077
Accounts payable to CCC		19	-
Accounts payable to Connetics Ltd		1	17
Accounts receivable from CCC		-	11
Accounts receivable from Orion New Zealand Ltd		17	-
Accounts receivable from Civic Building Ltd		3	-

- (i) As part of the Re-organisation, the Group issued redeemable preference shares to the value of \$83,896k. At the same time, the Group acquired the shares in ENL held by CFH for the same value. These transactions were completed by book entry, with no cash flowing in or out.
- (ii) The Group borrows from CCHL under a subordinated loan agreement, as outlined in Note 6, to fund its operations.
- (iii) Interest is charged on the CCHL loan at CCHL's weighted average cost of borrowing, plus a fixed margin of 1%.
- (iv) Prior to the Re-organisation, ESL provide support services to ENL under a management services agreement, operations and maintenance services under the UFB contract and other minor contract on-charges.
- (v) Prior to the Re-organisation, ENL issued Senior Notes to ESL to fund its operations. Following the Re-organisation, the Senior Notes were replaced by a subordinated loan facility. In both cases, interest was/is charged at ESL's own cost of borrowing from CCHL.
- (vi) The Group is a member of the CCC tax group, which comprises CCC, CCHL and a number of subsidiaries of each entity. In exchange for the use of its tax losses, the Group receives subvention payments from other CCC tax group entities. In 2016 the subvention payments were received from Christchurch International Airport Limited (\$1,418k) and EcoCentral Limited (\$862k) – both subsidiaries of CCHL.
- (vii) The loan balance due to CCHL at balance date is outlined in Note 6.
- (viii) Interest is payable to CCHL on a quarterly basis, and the balance accrued at balance date is included in trade creditors.

### Other related party disclosures

The Group enters into various transactions with Government departments, Crown entities, state-owned enterprises, CCC and related council organisations. These transactions occur within a normal supplier or client relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the Group would have adopted if dealing with those entities at arms-length in the same circumstances. These have not been disclosed as related party transactions.

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

# Other disclosures (cont.)

## 25. Reconciliation of profit to net cash operating flows

	Note	2016 \$'000	2015 \$'000
Profit/(loss) for the year		3,311	(9,995)
<b>Add/(less) non-cash items</b>			
Depreciation, amortisation and impairment expense	5,16	938	671
Impairment of intangible assets		-	3,474
Deferred tax (credited)/charged to income	10(c)	(135)	616
Share of associate's loss		2,953	3,255
Deferred revenue		412	-
Net foreign exchange losses		5	11
Gain recognised on business combination	3(c)	(11,838)	-
Shares and Notes from ENL for construction contract		(28,270)	(15,935)
		(35,935)	(7,908)
<b>Add/(less) items classified as investing or financing activities</b>			
Deferred CO receivable - non-current		4,020	(2,892)
Other		-	21
		4,020	(2,871)
<b>Add/(less) movement in working capital items</b>			
Trade and other receivables, prepayments - current		(23,412)	(26,013)
Inventories and work in progress - current		(10,568)	(20,217)
Inventories and work in progress - non-current		1,363	209
Deferred CO receivable - current		1,596	(171)
Debtors - non-current		2,088	1,660
Creditors and other payables		(43)	5,137
Employee entitlements - current		198	173
Employee entitlements - non-current		(16)	16
Income tax		193	(2,529)
		(28,601)	(41,735)
<b>Net cash used in operating activities</b>		<b>(57,205)</b>	<b>(62,509)</b>

In addition to the cash transactions noted above, the Group had the following significant non-cash transactions:

	2016 \$'000	2015 \$'000
<b>Non-cash transactions</b>		
ESL A shares for CPPP assets	-	2,415
ESL B shares for CPPP Layer 2 assets	-	3,884
Senior Notes for CPPP assets	21,439	9,636
Senior Notes for CPPC assets	-	-
Deferred purchase payable for central offices	1,645	3,063

## 26. Classification of assets and liabilities

	2016 \$'000	2015 \$'000
<b>Loans and receivables</b>		
Cash and cash equivalents	3,056	1,176
Loan to BroadSpectrum	-	5,000
Trade and other receivables	19,414	19,309
	<b>22,470</b>	<b>25,485</b>
<b>Financial liabilities measured at amortised cost</b>		
Creditors and other liabilities	11,580	11,710
Borrowings from CCHL	218,900	164,500
	<b>230,480</b>	<b>176,210</b>



# Other Disclosures (cont.)

## 27. Statement of service performance reporting

The Statement of Intent (Sol) issued by ESL last year in respect of the 2016 financial year included a number of financial and non-financial performance measures. The following table compares ESL's actual results for the year ended 30 June 2016 with the targets contained within the Sol.

A Statement of Intent with Group performance measures will be reported on in the 2017 financial year.

	Unit	Actual	Target
<b>Financial</b>			
Operating revenue	\$'000	63,370	80,000
Cost of sales - network build	\$'000	43,144	70,900
Cost of sales - other	\$'000	13,460	
Net revenue after cost of sales	\$'000	6,766	5,800
EBITDA (excluding loss in associate)	\$'000	12,253	500
Net profit/(loss) after tax	\$'000	3,311	(11,500)
<b>Operational performance targets</b>			
Number of premises passed (brownfield, cumulative)	Number	88,410	84,533
Number of connections (cumulative)	Number	25,817	23,514
Operational service level agreement achievement	%	>91%	>=85%
Core network availability	%	100%	>=99.999%
<b>Health and safety performance targets</b>			
Km's built/utility strike	Number	1.00	1.25
Lost time injuries/million hours	Number	5.20	3.00
Serious harm injuries	Number	1	Nil
Site audits and safety observations conducted	Number	3,015	1,000
<b>Corporate social responsibility targets</b>			
Schools passed	%	100%	100%
Businesses/residences connected (uptake)	%	22%	19%
Ducting and optical fibre underground	%	100%	70%

Variances between the actual results for the year ended 30 June 2016 and the targets contained within the Sol are as follows.

### Operating revenue/cost of sales network /net revenue after cost of sales

Actual UFB Sales for the year were \$63.4m which was \$16.6m less than target \$80.0m. This variance was due to timings of stage sales to ENL which are expected to be sold in the first quarter of the new financial year. For FY17 and beyond, asset sales to ENL will eliminate upon consolidation, and not feature in the group statement of comprehensive income.

### EBITDA

EBITDA represents ESL profitability prior to the deduction of net interest, tax, depreciation and amortisation expenses. The Sol EBITDA target of \$0.5m excludes a budgeted \$4.4m share of losses in ENL. Actual results include the \$11.8m gain arising from business combination, there was no corresponding Sol target.

### Net profit/(loss) after tax

Net profit after tax was \$14.8m greater than Sol target of (\$11.5m) as a result of the \$11.8m gain arising from business combination, a \$0.2m savings in expenses, a \$0.2m saving in finance costs and a \$2.6m saving in tax.

### Number of premises passed (cumulative)/kms built per utility strike

The Network Delivery Alliance continued to deliver high productivity in 2016 – as a result of continuous improvements in deployment performance and methodology. This resulted in the delivery of more premises than our target. Kms built per utility strike was slightly under target and is a continued focus along with safety and quality in the network build.

### Number of connections/businesses/residences connected (uptake)/operational service level agreement achievement

The connection target was based primarily on forecast orders from retail service providers. There was a significant uplift in orders mid-year that exceeded the Sol target. This enabled the business to connect more customers than anticipated and, therefore, achieve higher uptake. The business closely managed its contractor field-force to ensure it was ready to manage increased orders, and its performance in operational service levels (with 93 percent of customers connected on time) was a reflection of this careful management.

### Lost time injuries per million hours/serious harm injuries/site audits

The business continues to set very high standards and improvement goals in health, safety and welfare management – which is reflected in targets of zero serious harm injuries and a target rate for lost time injuries per million hours of 3.0. The much higher than forecast number of site audits and safety observations is a reflection of this emphasis on continuous improvement and investment in meeting the high health, safety and wellness goals set as operational volumes significantly increase.

# Unrecognised items

## 28. Capital and operating lease commitments

### Capital commitments

Under the terms of the UFB contract and subsequent Re-organisation as outlined in Note 2, the Group is required to build Communal Infrastructure and Central Offices, and to connect the network to relevant premises when an end user requests this from a retailer.

The Group must pass at least 21,000 Premises (excluding Greenfield Premises) per annum, and to meet quarterly milestone targets.

The estimated cost of the communal network build programme over the remainder of the contractual period (through to 31 December 2019) is \$97m. The estimated cost of network connections through to June 2022 is \$128m. The Group has committed funding from CCHL to meet these obligations, as outlined in Note 11(a).

### Lease payments as lessee under operating leases

The future aggregate minimum lease payments to be paid as lessee under operating leases are as follows.

	2016 \$'000	2015 \$'000
Not later than one year	596	468
Later than one year and not later than five years	1,424	1,139
Later than five years	567	-
Total non-cancellable operating leases	2,587	1,607

The Group's premise lease on Wrights Road 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 are as follows.

	2016 \$'000	2015 \$'000
Not later than one year	-	315
Later than one year and not later than five years	-	793
Later than five years	-	78
Total non-cancellable operating leases	-	1,186

The Group transferred its pre-UFB fibre network into the UFB Network 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 pre-UFB fibre network (NIATA), the Group may not extend the existing contracts with customers – as they reach the end of the contracted period they are transferred to the UFB Network through a retail services provider.

The lease receipts shown above reflect the contracted cash flows from remaining customer contracts.

## 29. Contingent liabilities and assets

### Contingent liabilities

As part of the Re-organisation, the Group has provided a guarantee of CFH's loan to CCHL. At 30 June 2016 this loan amounted to \$83.9m (2015: nil).

The Group had no other material contingent liabilities as at 30 June 2016 (2015: \$nil).

### Contingent assets

#### Network Delivery Alliance (NDA)

BroadSpectrum has lodged a \$45m performance bond with the Group under the Network Delivery Alliance agreement (2015: \$22.5m).

The Group had no other material contingent assets as at 30 June 2016 (2015: \$nil).

## 30. Events after the balance sheet date

There were no significant events after the balance date requiring disclosure or adjustment in these financial statements.



# Governance and related information

## Governance

### Corporate governance framework

Enable's Board and management are committed to ensuring that our people act ethically, with integrity and in accordance with Enable's policies and values.

Enable (which for the purposes of this governance statement, comprises ESL and ENL) is ultimately owned by CCC, and its corporate governance practices and policies reflect the wider public accountability that this ownership structure entails. The contractual arrangements with CFH regarding the construction of the UFB Network also have a major influence on Enable's policies and practices.

The Board regularly reviews and assesses Enable's policies, processes and practices to ensure they reflect Enable's operations and culture, and to identify opportunities for improvement. The Re-organisation, and the resulting change in shareholding of ENL, has resulted in a review of the Group's governance framework.

### Board role and responsibilities

The Board is appointed by 100% shareholder CCHL, and is responsible for Enable's strategy, culture, governance and performance.

The Board effectively represents, and promotes the interests of the shareholders with a view to adding long-term value to the company's shares. The Board have all the powers necessary for managing, and for directing and supervising the management of the business and affairs of the Group. Having regard to its role, the Board directs and overviews the business and affairs of the company, including in particular:

- ensuring that Enable's goals are clearly established, and that strategies are in place for achieving them;
- establishing policies for strengthening the performance of Enable, to ensure enhancement of shareholder value;
- deciding on whatever steps are necessary to protect Enable's financial position and the ability to meet its debts and other obligations when they fall due, and ensuring that such steps are taken;
- ensuring the financial statements present fairly Enable's financial position and financial performance and otherwise conform with law;
- ensuring that Enable adheres to high standards of ethics and corporate behaviour;
- ensuring that Enable has appropriate risk management/ regulatory compliance policies in place;
- approving and implementing the business plan and Statement of Intent, and
- reviewing and approving capital investments and distributions.

The Board monitors economic, political, social and legal issues and other relevant external matters that may influence or affect the development of the business or the interests of the shareholder and, if thought appropriate, will take outside expert advice on these matters.

### Board relationship with shareholder

The Board uses their best endeavours to familiarise themselves with issues of concern to the shareholder. The Board aims to ensure that CCHL is informed of all major developments affecting Enable's state of affairs. Information is communicated to CCHL through periodic reports and briefings, and through both the annual report and the half yearly report.

### Conduct of Directors

The conduct of Directors is required to be consistent with their duties and responsibilities to Enable and, indirectly, to the shareholder. In carrying out their roles the Boards places emphasis on strategic issues and policy.

Directors are expected to keep themselves abreast of changes and trends in the business and in Enable's environment and markets. Directors use their best endeavours to attend board meetings and to prepare thoroughly and are expected to participate fully, frankly and constructively in Board discussions and other activities and to bring the benefit of their particular knowledge, skills and abilities to the board table.

A director may, with the Chairperson's prior approval, take independent professional advice (including legal advice) and request the attendance of such an advisor at a Board or Board Committee meeting.

Directors are entitled to have access, at all reasonable times, to all relevant company information and to management. Directors are expected to strictly observe the provisions of the Companies Act 1993 applicable to the use and confidentiality of company information.

### Board Chairperson

The Directors appoint a Chairperson from among them. The Chairperson is responsible for representing the Board to the shareholder, and for ensuring the integrity and effectiveness of the governance process of the Board.

The Chairperson is responsible for maintaining regular dialogue with the Chief Executive Officer over all operational matters and consults with the remainder of the Board promptly over any matter that gives him or her cause for major concern.

The Chairperson acts as facilitator at meetings of the Board to ensure that discussion results in logical and understandable outcomes. The Chairperson leads a Board and director evaluation exercise every two years. The Deputy Chairperson may fulfil the Chairperson's responsibilities in the absence of the latter.

### Remuneration and performance

Enable's remuneration model is based on principles of alignment to shareholder value, simplicity, clarity and fairness, and remuneration outcomes based on both individual and company performance.

### Directors' remuneration

Total remuneration paid to Directors for the year ended 30 June 2016 was determined by the shareholder, and was allocated as follows.

	ESL \$	ENL \$	Group Total \$
Mark Bowman (Chairman of ESL, Chairman of ENL from 30 June 2016)	80,427	25,000	105,427
Chris Birkett	44,294	-	44,294
Brett Gamble	47,681	25,000	72,681
William Luff	42,574	-	42,574
Owen Scott	42,574	25,000	67,574
Charlotte Walshe	45,127	-	45,127
Tim Lusk (Chairman of ENL until 30 June 2016)	-	70,000	70,000
Murray Milner*	-	35,000	35,000
Graeme Mitchell*	-	-	-
Sean Wynne*	-	-	-
	302,677	180,000	482,677

\*As a result of the Re-organisation these Directors retired on 29 June 2016.

# Governance and related information (cont.)

Additional remuneration was paid to Positano Holdings Limited, a company in which Brett Gamble is a director and shareholder, as outlined in Note 24.

## Chief executive officer’s remuneration

The Chief Executive Officer’s (CEO) remuneration consist of fixed and variable remuneration. The CEO’s package is reviewed annually by the People and Performance Committee and the Board after reviewing the CEO’s and Enable’s performance, taking advice from external remuneration specialists.

The CEO’s total remuneration paid in the year ending 30 June 2016 was as follows:

	Note	\$'000
Fixed remuneration		396
Performance-based	(i)	239
Total		635

### Notes

- (i) Performance based remuneration includes a short term incentive payment relating to the prior year, and the second payment relating to the long term incentive scheme established in 2012.
- (ii) In addition to the compensation noted above, \$19k in KiwiSaver employer contributions were made on behalf of the CEO in the year ended 30 June 2016.

## Employee remuneration range

The following table shows the number of employees and former employees who, in their capacity as such, received remuneration and other benefits in excess of \$100,000 during the year ended 30 June 2016:

	Number of Employees		
	ESL	ENL	Group
100,000 - 109,999	6	-	6
110,000 - 119,999	4	1	5
120,000 - 129,999	3	-	3
130,000 - 139,999	1	-	1
140,000 - 149,999	3	-	3
170,000 - 179,999	3	-	3
180,000 - 189,999	2	-	2
200,000 - 209,999	1	-	1
210,000 - 219,999	1	-	1
230,000 - 239,999	2	-	2
240,000 - 249,999	1	-	1
630,000 - 639,999	1	-	1

## Other disclosures

The principal activity of ESL is the development of communications 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 2016.

Director	Directors’ Interests
Mark Bowman (Chairman)	<b>Director</b> of Enable Networks Limited, Comrad Holdings Limited, Claremont Investments Limited, Napoleon Investments Limited <b>Director &amp; Shareholder</b> of Magic Memories Group Holdings Limited, Scarlett Hydraulics Limited <b>Trustee</b> of MJ & RM Bowman Family Trust
Chris Birkett	<b>Director</b> of Enable Networks Limited <b>Trustee</b> of Birkett (No.2) Family Trust
Brett Gamble	<b>Director</b> of Enable Networks Limited, Positano Holdings Limited, Aoraki Services Limited, Aoraki Partners Holdings Limited, Chart Noticeboards Limited, Canterbury Seismic Instruments Limited, Masterguard Fire and Security Limited, Southbase Construction Limited, Overseer Limited <b>Trustee</b> of Hammersmith Property Trust <b>Officer</b> of Mobile Surgical Services, Mobile Medical Technologies
William Luff	<b>Director</b> of Enable Networks Limited, Luff Trading Limited, Isaac Construction Limited, J Ballantyne Company Limited, Central Plains Water Limited, Harewood Gravels Company Limited <b>Trustee</b> of Christchurch Symphony Orchestra Trust, Isaac Wildlife Conservation Trust, The Lighthouse Vision Trust
Owen Scott	<b>Director</b> of Enable Networks Limited <b>Director and Shareholder</b> of Concentrate Limited, Concentrate NZ Limited, Scott Afforestation Limited, Elliotvale Afforestation Limited <b>Trustee</b> of Madgeo Trust, The New Zealand Hi-Tech Trust
Charlotte Walshe	<b>Director</b> of Enable Networks Limited, Cluster Limited, Invacare Holdings Limited, Dynamic Controls Limited, Culture by Design Limited, Dynamic Suzhou Holdings New Zealand, New Zealand Trade and Enterprise <b>Member</b> of Callaghan Innovation Stakeholder Advisory Group



# Governance and related information (cont.)

## Attendances during the 2016 financial year

	ARC	P&P	H&S	Board
Total number of meetings	5	7	5	15
Mark Bowman	N/A	6	N/A	15
Chris Birkett	4	N/A	5	14
Brett Gamble	5	N/A	N/A	14
William Luff	5	N/A	5	15
Owen Scott	N/A	N/A	4	14
Charlotte Walshe	N/A	7	N/A	12

ARC – Audit and Risk Committee  
P&P – People and Performance Committee  
H&S – Health and Safety Committee

### Insurance

The Group has effected Directors’ and Officers’ Liability insurance. The Group 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 Group’s Constitution and the Companies Act 1993.

### Donations

No donations were made during the year.

### Dividends

No dividends were paid during the year.

# Independent auditor’s report



## To the readers of Enable Services Limited Group’s financial statements and statement of service performance for the year ended 30 June 2016

The Auditor-General is the auditor of Enable Services Limited Group (the Group). 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 the statement of service performance of the Group, consisting of Enable Services Limited and its subsidiary, on her behalf.

### Opinion on the financial statements and the statement of service performance

We have audited:

- the financial statements of the Group on pages 33 to 69, that comprise the statement of financial position as at 30 June 2016, 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 Group on pages 66 to 67.

In our opinion:

- the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2016; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards; and
- the statement of service performance of the Group presents fairly, in all material respects, the Group’s actual performance, compared against the performance targets and other measures by which performance was judged in relation to the Group’s objectives for the year ended 30 June 2016.

Our audit was completed on 30 August 2016. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.



# Independent auditor’s report (cont.)

## 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 the 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 the 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 in the statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the 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 Group’s financial statements and statement of service performance 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 Group’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 appropriateness of the reported performance information within the Group’s framework for reporting performance;
- the adequacy of the disclosures in the financial statements and in the statement of service performance; and
- the overall presentation of the financial statements and the statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the statement of service performance. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the statement of service performance.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

## Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the Group that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparation of the statement of service performance for the Group.

The Board of Directors’ responsibilities arise from the Local Government Act 2002.



The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and the 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 the statement of service performance, whether in printed or electronic form.

## Responsibilities of the Auditor

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

## Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit, we were engaged to perform an assurance engagement pursuant to the Local Fibre Company Information Disclosure Determination 2012 for the 2016 disclosure year for a Group subsidiary. This engagement is compatible with those independence requirements.

Other than the audit and the assurance engagement, we have no relationship with or interests in the Group.

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



# Glossary

Parties involved	
ENL	Enable Networks Limited (previously jointly-owned by CFH and ESL – now, since 29 June 2016, wholly owned by ESL)
ESL	Enable Services Limited (previously Christchurch City Networks Limited)
CFH	Crown Fibre Holdings Limited – the Crown entity that negotiated and administers the UFB contract.
CCHL	Christchurch City Holdings Limited – the 100% owner of ESL
CCC	Christchurch City Council – the 100% owner of CCHL

Physical network	
UFB Network	Ultra-Fast Broadband network, as contracted between CFL, ENL, ESL and CCHL
Network Layer 1	Passive fibre optic network infrastructure - the physical fibre network assets which are essentially the unlit pipeline or pathway that the electronics use to transmit, otherwise known as dark fibre. These assets include ducting and optical fibre
Network Layer 2	The electronics necessary to light the optical fibre or the means by which communication occurs down the Layer 1 pathway. These assets are located in ENL central offices, points of interconnect and in the premises of end users
Central Office	Point of interconnect facility - building which contains Layer 2 assets, with fire protection, security and backup generator assets
Communal Infrastructure	Fibre optic cables running down every street, to the boundary of premises

Contractual/financial	
Re-organisation	The series of transactions that took place on 29 June 2016, as described in Note 2, which resulted in ESL acquiring full ownership of ENL.
CPPP	Cost per Premise passed for Communal Infrastructure
CPPC	Cost per Premises Connected to Communal Infrastructure
IRU	Indefeasible Right to Use
UAT	User Acceptance Testing
A shares	A shares in the capital of ENL having the rights and restrictions set out in the ENL Constitution; in particular, they carry voting but not dividend rights
B shares	B shares in the capital of ENL having the rights and restrictions set out in the ENL Constitution; in particular, they carry rights to dividends but not voting rights
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)

# Directory

## Shareholder

Christchurch City Holdings Limited

## Registered office

Enable House  
2nd Floor  
106 Wrights Road  
Christchurch 8149  
New Zealand

## Contact address

PO Box 9228  
Tower Junction  
Christchurch 8149  
New Zealand

Web: [www.enable.net.nz](http://www.enable.net.nz)

Email: [admin@enable.net.nz](mailto:admin@enable.net.nz)

Phone: 0800 434 273

## Auditor

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

## Solicitor

Simpson Grierson

## Banker

BNZ

Enable Services Limited  
2016 Annual Report

