



# **ENABLE NETWORKS LIMITED**

## **2015 ANNUAL REPORT**

**enable**  
Fibre Broadband





# BRINGING FIBRE BROADBAND TO GREATER CHRISTCHURCH

Enable is providing fibre broadband services to homes, businesses and schools in Christchurch and in a number of towns in the Waimakariri and Selwyn Districts - as part of the national ultra-fast broadband initiative.

Fibre broadband will empower the people of our community to build new businesses, and make existing businesses more productive and profitable. It will provide our children with exciting new learning opportunities and change how healthcare is provided. It will also transform how we use technology in our homes, by making it possible to access exciting new online entertainment options and ways to connect with friends and family.

Enable's fibre broadband network will provide tremendous value to our community as an enabler of future innovation and growth.

## CONTENTS

Christchurch Families and Businesses Connect	Page 4
Enable Take a Kid to Footy	Page 5
Enable Networks Limited - A Partnership Approach to UFB	Page 6
Chairman and CEO Report	Page 8
Key Achievements for the Year	Page 14
Board of Directors	Page 16
Governance	Page 18
Financial Statements	Page 20
Independent Auditor's Report	Page 56
Statutory Information	Page 58



# CHRISTCHURCH FAMILIES AND BUSINESSES FLOCK TO FIBRE

People across Christchurch, Rolleston, Lincoln, Rangiora, Kaiapoi and Woodend continue to make the move to fibre broadband in huge numbers.

At year end, Enable's network reached over 86,000 homes and businesses across the greater Christchurch community. During the year, close to 8,000 people connected to the network – almost tripling Enable's total number of connections to 12,295.

Enable's total uptake rate was over 14 percent – but this does not tell the whole story. In areas that have had access to fibre broadband for some time, the uptake rate is much higher. Rolleston is almost at 40 percent, Lincoln and Halswell will soon reach 30 percent and many other suburbs are over 20 percent.



"With fibre we're able to download a movie in only a couple of minutes. Before it would take half an hour – and then it buffers."

Ben Peters – Bishopdale

"Even with up to ten devices connected, now with fibre nobody has any problems with it going slow. Now we can all do whatever we like, when we like online."

Joanne Russell - Rolleston



## ENABLE – THE PROUD SPONSOR OF THE CRUSADERS TAKE A KID TO FOOTY

In 2015, Enable became the proud sponsor of the Crusaders Take a Kid to Footy – with this new partnership marking a significant step forward in Enable's market presence and its promotion of the availability and benefits of fibre broadband.

The Crusaders is a great fit for the business, being the much loved local Super Rugby team and with the heart of its catchment area aligning with Enable's fast growing coverage.

Enable Take a Kid to Footy strengthens Enable's links to local families – one of the key groups most likely to benefit from moving to fibre broadband.





# ENABLE NETWORKS LIMITED – A PARTNERSHIP APPROACH TO UFB

## The ultra-fast broadband (UFB) initiative

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

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

## A partnership approach

The Government has partnered with leading infrastructure providers around the country to deliver on the UFB initiative.

In Christchurch, the local partner is fully Christchurch City owned company, Enable Services Limited. The investment in the UFB initiative is approximately \$440 million, made up of Crown investment and investment by ESL – with the support of Christchurch City Council’s investment arm, Christchurch City Holdings Limited.

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



This unique central/local government joint venture is bringing fibre broadband to approximately 180,000 homes and businesses. Enable’s UFB initiative coverage area consists of two UFB candidate areas – Christchurch (including Rolleston, Lincoln, Prebbleton and Templeton) and Rangiora (including Kaiapoi and Woodend).

## A company committed to our community

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

The investment being made to make fibre broadband widely available is already beginning to generate returns for the broader community.

The network build project has created hundreds of local jobs over the last four years. The benefits of fibre broadband are now being

realised by the thousands of families and businesses connected to the network and enjoying superior connectivity. The vast majority of schools are now connected to fibre broadband with the remaining schools being connected in the coming months. Key providers of community services – from all major hospitals to the City Council’s libraries – are connected and depend on Enable’s connectivity to deliver their important services to the people of Christchurch and surrounding townships.

Enable remains committed to working with a range of groups across greater Christchurch to further realise the potential of fibre broadband within our community.



# CHAIRMAN AND CEO REPORT

Enable was recognised as the fastest growing technology business in the South Island and the 21st fastest growing business in New Zealand in the 2014 Deloitte Fast 50 Awards. These awards recognised the outstanding growth of Enable in its first three years of operation: 2012 – 2014.

The expectations of Enable's shareholders, the Board and senior management were that we would continue our aggressive growth trajectory in 2015. We are pleased to announce that 2015 has been another outstanding year and that these expectations have been met.

All key targets relating to fibre broadband connections, network deployment, our revenue growth and other key financial forecasts have been met or exceeded in the year.

As a business, we set ourselves aggressive goals, recognising the need to deliver fibre broadband as quickly as possible to a greater Christchurch community that is demonstrating ever increasing demand for our services.

## Thousands make the switch to fibre broadband

86,500 homes, businesses and schools can now access Enable's fibre broadband services – meaning our potential market has increased by 30,000 potential customers or 53 percent in the past year.

We continue to take an aggressive approach to marketing fibre broadband directly to this potential customer base to ensure quick uptake in areas where we've just

launched fibre as well as ongoing growth in established fibre broadband suburbs.

7,818 new customers connected to the network during the year – increasing our total connections by 175 percent to 12,295. This included 6,964 homes and 825 new businesses – exceeding our connection targets in both markets.

In addition, we connected 29 new schools to fibre broadband – extending the total number of schools connected to 104.

At year end, our uptake rate across our entire network was 14.2 percent. In areas where UFB has been available for some time, the uptake is much higher.

There are a number of uptake hot spots in Christchurch with uptake close to 40 percent in Rolleston, Halswell and Lincoln approaching 30 percent and a number of other suburbs over 20 percent.

We launched fibre broadband services to our second UFB candidate area – Rangiora (including Kaiapoi and Woodend) – for the first time in the 2015 financial year. We have enjoyed immediate uptake across Rangiora, Kaiapoi and Woodend with almost 500 connections since launch.

## Customer experience drives our business

Ten retail service providers are now offering fibre broadband services to the residential market over Enable's network and 32 to the business market.

Most significantly, New Zealand's second largest telecommunications retailer, Vodafone, entered the local residential fibre broadband market in September 2014 – following Spark's entry in early 2014. This meant that four of the top five residential providers were connecting customers to our network for most of the year – with the final top five providers testing services by year end in preparation for launch.

Delivering excellent levels of customer experience to all our retail service providers is defined within Enable as our single most important business objective. Maintaining our high standards in this area has also been our greatest challenge in the year – particularly as the number, and scale, of the retailers we work with has grown. We have continued to invest in new systems, improve operational efficiency and ensure we are suitably resourced throughout the year to meet this challenge.

**"86,500 homes, businesses and schools can now access Enable's fibre broadband services"**



Chairman Tim Lusk and CEO Steve Fuller.





Beyond the almost 8,000 new connections delivered, the business also experienced a considerable increase in modification to customer connections as end users elect to upgrade their fibre plans. The business managed more than 2,500 building and access consents required to deliver customer connections and proactively installed almost 700 fibre lead-ins into Christchurch homes and businesses to prepare them for fibre broadband as they were built or underwent earthquake repairs

### Evolving our products to meet our customers' needs

Our product development strategy is built around responding to the demands of our retail service provider customers. 2015 saw the first major evolution of our products since our mass-market launch, with successful new products across most segments.

In the residential market, we introduced a new 100/20 Mbps

product aimed at making 100 Mbps plus services more accessible and affordable for consumers. We also introduced a new 200/200 Mbps product focused on end users with high bandwidth demands. Both new products have been tremendously successful.

In the month of June 2015, the 100 Mbps products accounted for almost 40 percent of total residential connections and we expect the 100/20 Mbps product to become the most popular product early in 2016. Demand for the 200/200 Mbps product grew also and it made up 5 percent of residential connections in June 2015.

In the business market, we responded to the need for higher capacity products for small businesses and more cost effective enterprise solutions. We launched products capable of delivering up to 1Gbps speeds with a wholesale price under \$300 for the first time.

We also introduced a new set of education products that meet the needs of schools as defined

by Network for Learning – which will ensure all schools are quickly connected to fibre.

### Expanding our network reach

We completed our most aggressive network deployment programme to date in 2015, passing 27,207 premises.

The deployment result was almost 15 percent ahead of target – meaning we were able to bring forward our planned network build completion date to 31 December 2018.

Included in the premises passed were 2,759 Greenfield premises – taking the total Greenfields premises deployed under the project to 4,425.

The build programme also included reaching 23 additional schools. 134 schools within our coverage are now able to connect to fibre broadband; 90 percent of all schools.

We completed our core infrastructure programme during the year – made up of 12 central

offices that house all our network equipment and the fibre connectivity between each of these. We now have live customer connections in every one of these central offices.

### Health and Safety first

Ensuring Health and Safety remains at the forefront of every aspect of our business has been a focus in 2015, and will remain a focus of the business. Our goal is to ensure Health and Safety is more than a business activity – that it is part of Enable's DNA.

At the end of 2015, the Loss of Time Frequency Rate (LTIFR) across the entire Enable project was 5.34 injuries per million hours worked (2.55 in FY 2014) – below the reported (2014) New Zealand construction sector benchmark of 5.7.

Working closely with our network build and operation partner, ESL, we continually strive to improve our overall approach and performance. We completed 993 worksite audits across all aspects of the project and all subcontractors. The findings

from the site audits were fed back into our ongoing Health and Safety training and procedures to ensure the business maintains excellence in Health and Safety practice.

### Financial performance

Enable's 2015 financial performance marks a significant turning point towards the business becoming profitable – driven primarily by continued revenue growth.

Our UFB revenue grew by over 60% from \$5.08m in 2014 to \$8.37m in the last year. The revenue growth came from the significant increase in sales of wholesale fibre broadband services to retail service providers – a direct result of strong market uptake.

At the same time, our operating expenses began to stabilise in 2015.

We are also on target to be EBITDA positive next year (FY2016) – in line with our prediction in 2014. Our 2015 EBITDA was (\$1.75m) down from (\$3.77m) in the previous year.

Stable costs and predicted revenue growth has meant our projections

for achieving an NPAT positive position have been brought forward to FY2019 – earlier than previous predictions.

The accelerated network deployment programme is reflected in Enable's total asset base which has grown from \$92.94m to \$147.07m – in line with the business' expectations as we continue to extend the network as quickly as possible.

### Our people are our business

Under our Network Infrastructure Project Agreement and Management Services Agreement we continue to be represented by ESL's people in all aspects of our business.

Through the year, we have actively supported further development of the reward and recognition programme within the business – by building on our quarterly awards by aligning them with delivering customer excellence and our business values.



We have also taken steps to introduce a formal professional development programme. This will be based on individual development plans based around leadership training and skills enhancement.

**We have supported Health and Wellness becoming a central part of our people strategy.**

A number of new health-focused initiatives have been implemented to ensure Enable is a place where people feel empowered to perform, supported in their work and beyond, and energised each day about what they can achieve as part of this business.

We also continue to work with our contract delivery partners – the Network Delivery Alliance, Downer, Huawei, MultiMedia Communications and Tru-line Civil – to empower their people to act as part of the Enable team when they represent our business.

### Contributing to our community

We continue to seek opportunities to contribute to the economic and social growth of our community – and ensure that due consideration is given to the potential of fibre broadband in all conversations about the future of greater Christchurch.

In the past year, we participated in a number of key forums focused on Christchurch's future. These included the Innovation Partnership Forum on Christchurch's Digital Future, the Trans-Tasman Business Circle Innovation Forum, NetHui South as a sponsor and panellist in discussions on what a connected Canterbury could look like, and the governance group for the finalised and soon to be launched regional digital strategy – Connected Canterbury.

In addition, we were a gold sponsor of the Special Children's Christmas Party which was thrown in December for 1,800 local children and their families and we continue to sponsor free Wi-Fi in the Re:Start shopping district.

Our new sponsorship, Enable Take a Kid to Footy also provided the opportunity to give back to our community by inviting school students to undertake rugby skills sessions with

Crusaders players. We held two of these programmes at local schools in Christchurch and Rolleston.

### Engaging with industry and key stakeholders

In 2015, the telecommunications industry has placed a strong emphasis on its reputation. There is an opportunity for the telecommunications sector in New Zealand to dramatically improve how it does business – for the benefit of all key players.

At Enable, we are committed to this goal and have actively pursued it in the UFB Product Forum, the Telecommunications Carriers Forum, in engagement with Government, and in discussions with the other network providers and our customers.

We have worked with the other industry players to ensure greater national consistency in products and standardisation of key processes such as the installation of services.

We have also begun to engage at a local level with associated industries that have the potential to impact customer experience and help drive our success. For example, we are working with the commercial building and electrical contracting industries to ensure all new homes and buildings in Christchurch are made fibre-ready as part of the rebuild.

### The year ahead

**In the 2016 financial year we will maintain our focus on working with our retail service providers to dramatically increase the uptake of fibre broadband services across our rapidly growing network footprint. We will also deliver on our goal of providing an excellent customer experience in all aspects of our business.**

Our Year Five deployment programme began on 1 July and continues our trend of targeting a year-on-year increase in the number of homes and businesses we reach. Our intention is to reach approximately 33,000 more homes and businesses – extending our network to 120,000 homes and businesses, meaning our build programme will be two thirds complete by year end.

**“The ongoing success of Enable is dependent on the passion and dedication of the entire Enable team.”**

The first half of the programme focuses on reaching businesses and the remaining 16 schools within our coverage area. By 31 December 2015, 15,500 businesses (over 90 percent) and all 151 schools within our coverage will be able to access Enable's fibre broadband services.

Along with announcing Enable's Year Five programme, we also recently published indicative deployment plans to the end of our network roll-out – in response to community demand for this information. A focus for the coming year is confirming these plans – to provide greater certainty to our community.

We have set a stretch target of doubling our number of connected customers – that is, doing over 12,000 connections this coming year.

The final mass-market retail service provider – Slingshot – will enter the market very early in the new financial year. A number of factors will ensure this connection target is obtainable including all retailers aggressively marketing fibre broadband, the heating up of the online content



market and the associated consumer demand for better connectivity, and our own marketing effort.

We will remain focused on operational investment in systems, processes and resources to ensure we can meet the demands of our customers as volumes continue to increase. This operational investment strategy is built on our non-negotiable requirement to deliver excellent customer experience along with driving operational efficiency throughout Enable.

2016 will also be a significant year from a regulatory perspective and Enable will need to take an active role in the telecommunications industry review set to begin this year, as well as other regulatory

discussions such as the Land Access for Telecommunications discussion paper.

In the coming year, we will also continue to work closely with our partners to maintain excellence in our Health and Safety practice and ensure it is an intrinsic part of Enable's DNA.

We have witnessed a tipping point in public awareness of Enable, and understanding of and demand for UFB services – and this will continue. We are ready to take full advantage of the opportunities this will present for Enable to continue the exceptional growth journey the company has been on for the past four years.

What we have achieved in the last year and will achieve in the year to come is only possible because of the exceptional effort of all the people of Enable, our strategic partners and our key stakeholders – including Crown Fibre Holdings Limited, Enable Services Limited and Christchurch City Holdings Limited.

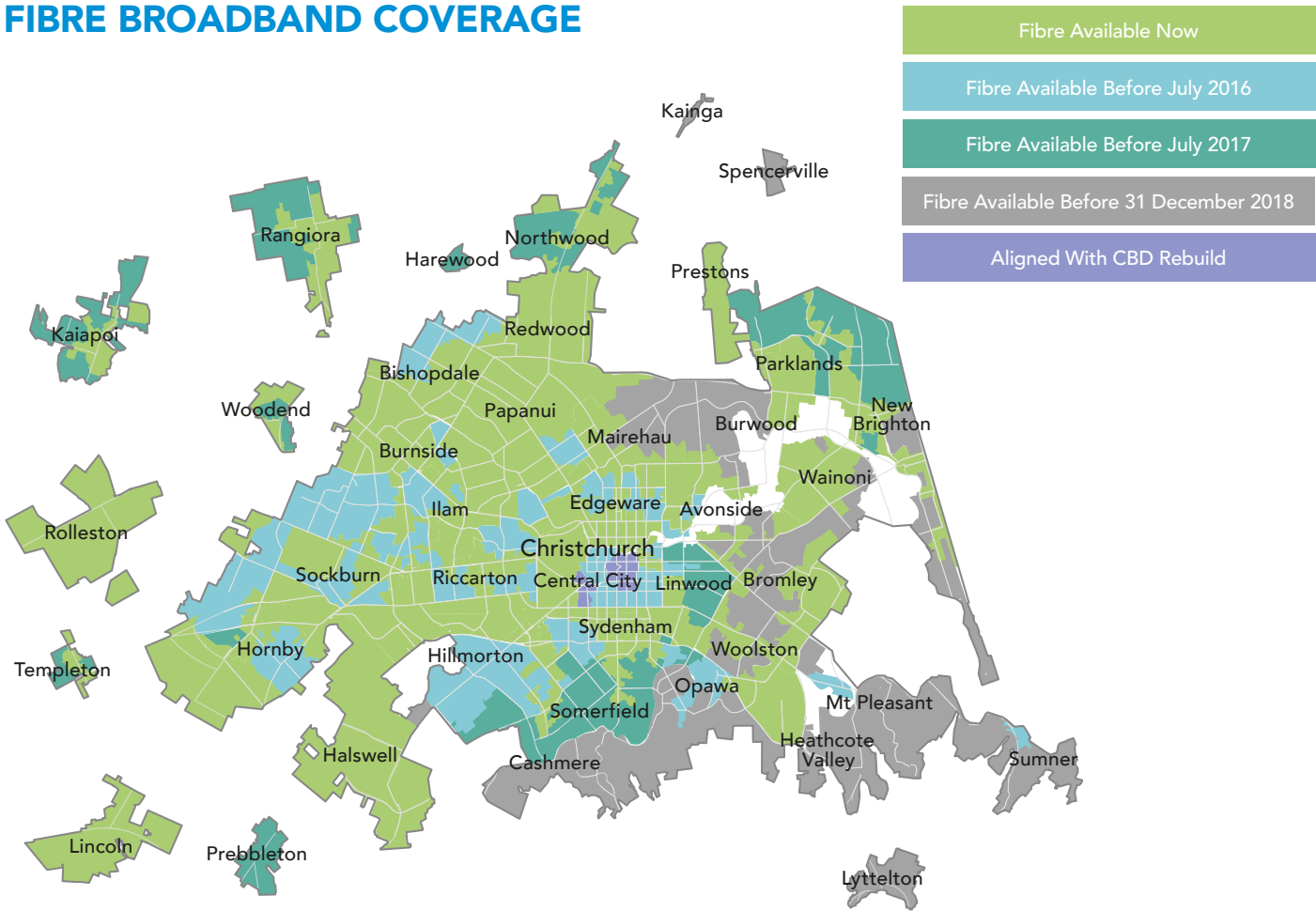
TIM LUSK, Chairman

STEVE FULLER, CEO



# KEY ACHIEVEMENTS 2015 FINANCIAL YEAR

## FIBRE BROADBAND COVERAGE



## PROGRESS BY UFB CANDIDATE AREA

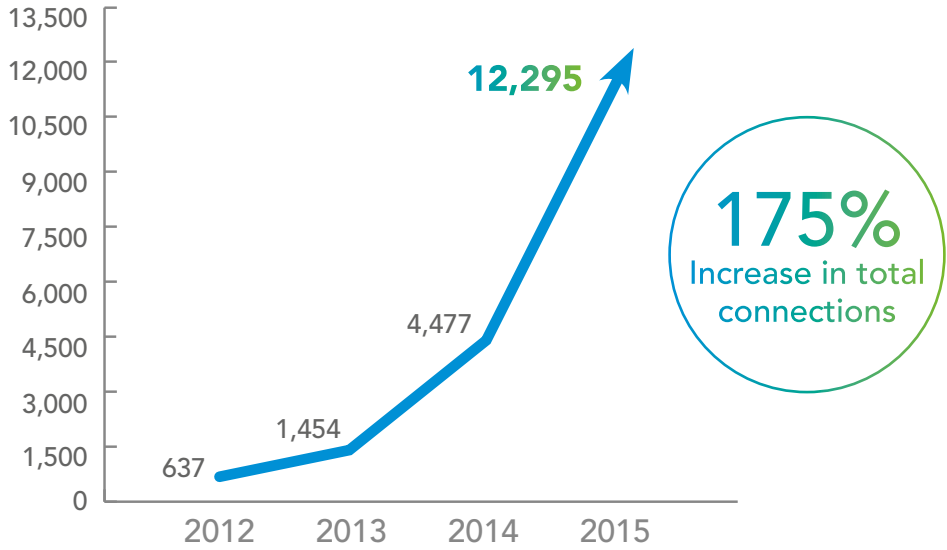
	CHRISTCHURCH	RANGIORA
Total premises*	134,633	9,444
Build completed	49%	34%
Uptake	14.4%	10.0%

\*Excludes Greenfields.

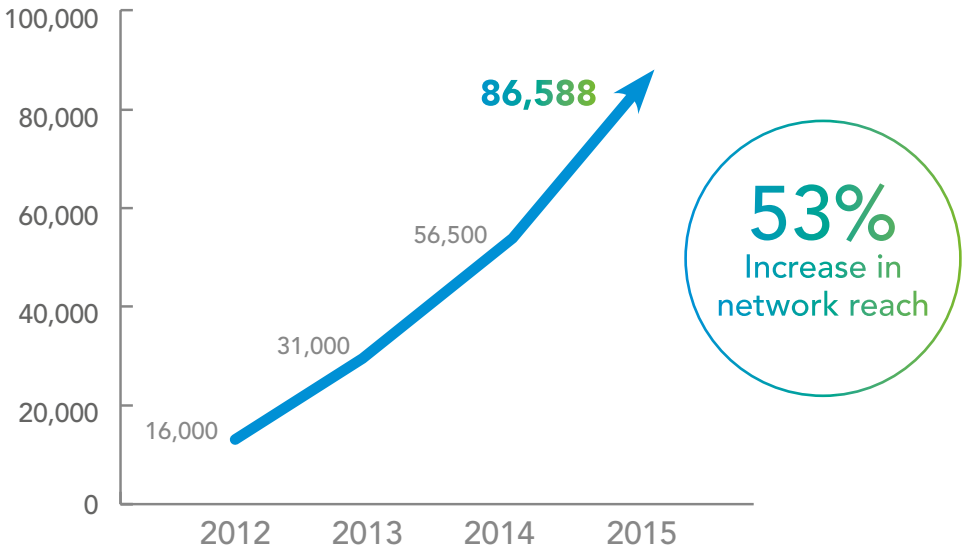
## NETWORK PERFORMANCE



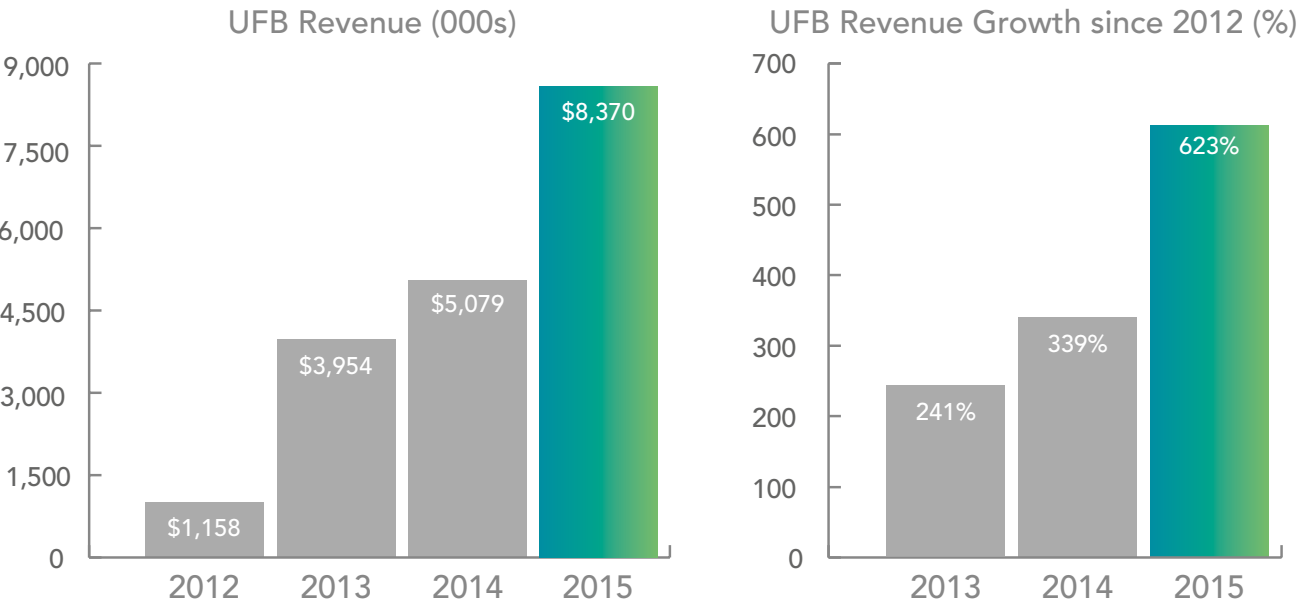
## CUSTOMER CONNECTION FIGURES



## CUSTOMERS ABLE TO ACCESS FIBRE



## FINANCIAL KPIS





# BOARD OF DIRECTORS



## **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, and is a member of the New Zealand Institute of Management and the New Zealand Institute of Directors.

Owen is also a Director of Enable Services Limited.

## **Sean Wynne Director**

Sean is Chief Commercial Officer for Crown Fibre Holdings.

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

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

## **Brett Gamble Director**

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

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

Brett is also a Director of Enable Services Limited.

## **Tim Lusk Chairman**

Tim Lusk has been chairman of Enable since the formation of the joint venture company in 2011.

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

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

## **Mark Bowman Director**

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

Prior to his governance roles, Mark held senior executive roles with Navman, HP and Hitachi. Mark is also the Chairman of Enable Services Limited.

## **Murray Milner Director**

Murray Milner is a world-class telecommunications technology expert with a doctorate in electrical engineering and 35 years' experience in the New Zealand ICT industry.

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

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

## **Graham Mitchell Director**

Graham Mitchell is CEO of Crown Fibre Holdings.

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

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



# GOVERNANCE

## AT ENABLE NETWORKS LIMITED (ENABLE)

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

Enable was established with the specific objective of deploying, owning and operating a fibre broadband network for Christchurch and key centres in the Waimakariri and Selwyn districts.

### Governing documents

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

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

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

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

### Board role and responsibilities

The Board is responsible for the company's overall direction and management, and formulation

of policies that will support the deployment and uptake of fibre broadband within Enable's coverage area.

### Board structure and appointment

The Board consists of no more than seven Directors.

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

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

### Board Sub-Committees

The **Audit and Risk Committee** assists the Board in discharging its responsibilities in financial reporting and external audits, risk management and assurance, and capital structure and treasury. The Committee is made up of no more than four members of the Board, with at least one member from each Enable shareholder.

The **Remuneration Committee** assists the Board in establishing remuneration, recruitment, retention and termination policies and practices. The Committee is made up of at least two members, with one representative from each Shareholder.

### Management Services Agreement

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

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

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

The MSA provided for the following specified services.

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

### Role of Enable CEO

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

### Role of General Manager – Partnership Performance

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





CONTENTS

Glossary ..... 21

Directory ..... 22

Statement of Responsibility ..... 23

Statement of Comprehensive Income for the year ended 30 June 2015 ..... 24

Statement of Financial Position as at 30 June 2015 ..... 25

Statement of Changes in Equity for the year ended 30 June 2015 ..... 26

Statement of Cash Flows for the year ended 30 June 2015 ..... 27

Notes to Financial Statements ..... 28

    1. Statement of accounting policies ..... 28

    2. UFB contract with Crown Fibre Holdings Limited and the partner ..... 36

    3. Revenue ..... 37

    4. Directors’ fees ..... 38

    5. Personnel costs ..... 39

    6. Management fees and professional advisory fees ..... 39

    7. Other expenses ..... 40

    8. Taxation ..... 40

    9. Cash and cash equivalents ..... 42

    10. Trade and other receivables ..... 43

    11. UFB network assets ..... 43

    12. Creditors and other payables ..... 44

    13. Employee entitlements ..... 44

    14. Borrowings ..... 45

    15. Liability component of A shares and Issued capital ..... 45

    16. Reconciliation of net profit/(loss) to net cash from operating activities ..... 49

    17. Commitments ..... 50

    18. Contingencies ..... 50

    19. Related party transactions and key management personnel ..... 51

    20. Employee remuneration ..... 52

    21. Categories of financial assets and liabilities ..... 52

    22. Financial instrument risks ..... 53

    23. Capital management ..... 55

    24. Events after the balance sheet date ..... 55

Independent Auditor’s Report ..... 56

Statutory Information ..... 58

GLOSSARY

ENL	Enable Networks Limited
ESL	Enable Services Limited (the partner)
CFH	Crown Fibre Holdings Limited. CFH is a shareholder and funder of ENL.
CPPP CPPC	Cost Per Premises Passed for Communal Infrastructure Cost Per Premises Connection to Communal Infrastructure
NIATA	Network Infrastructure Asset Transfer Agreement
NIPA	Network Infrastructure Project Agreement
IRU	Indefeasible Right of Use
UAT	User Acceptance Testing
UFB network	Ultra-Fast Broadband network
Network layer 1	Passive fibre optic network infrastructure
Network layer 2	Active network infrastructure
“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. The ‘A’ shares convert to ordinary shares on 1 June 2021.
“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. The ‘B’ shares convert to ordinary shares on 1 June 2021.
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).



## Shareholders

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

## 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

Harmos Horton Lusk

## Banker

BNZ

# STATEMENT OF RESPONSIBILITY

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

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

In the Board's opinion, the financial statements fairly reflect the financial position and operations of Enable Networks Limited for the year ended 30 June 2015.

Signed on behalf of the Board



Timothy Lusk  
Chair  
27 August 2015



Graham Mitchell  
Chair of the Audit & Risk Committee  
27 August 2015



# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2015

	Notes	2015 \$000	2014 \$000
<b>Income</b>			
Interest income	3	27	39
Other Non Qualifying Revenue	3	124	155
UFB income	3	8,370	5,079
<b>Total income</b>		<b>8,521</b>	<b>5,273</b>
<b>Expenses</b>			
Cost of Goods Sold – Contract On Charge		110	150
Directors' fees	4	180	180
Personnel costs	5	268	267
Management Service fees	6	3,656	2,984
Operation and Maintenance fees	6	5,342	4,677
Professional advisory fees	6	214	265
Other expenses	7	504	524
Depreciation expense	11	4,355	2,590
Imputed Interest on CFH A shares	15	2,672	1,781
Interest		1,265	357
<b>Total expenses</b>		<b>18,566</b>	<b>13,775</b>
<b>Profit/(loss) before tax</b>		<b>(10,045)</b>	<b>(8,502)</b>
<b>Income tax expense/(benefit)</b>	<b>8</b>	<b>(3,907)</b>	<b>(28)</b>
<b>Net profit/(loss) and total comprehensive income/(loss) for the year after tax</b>		<b>(6,138)</b>	<b>(8,474)</b>

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

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

	Notes	2015 \$000	2014 \$000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	76	394
Trade and other receivables	10	2,975	1,474
Current Tax Asset		-	2
<b>Total current assets</b>		<b>3,051</b>	<b>1,870</b>
<b>Non-current assets</b>			
UFB network assets	11	138,275	89,240
Deferred tax assets	8	5,742	1,834
<b>Total non-current assets</b>		<b>144,017</b>	<b>91,074</b>
<b>Total assets</b>		<b>147,068</b>	<b>92,944</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Creditors and other payables	12	18,417	1,905
Employee entitlements	13	10	19
Deferred revenue	3	97	87
Liability component of A shares	15	17,149	8,955
Deferred purchase payable to ESL	19	1,596	1,425
<b>Total current liabilities</b>		<b>37,269</b>	<b>12,391</b>
<b>Term liabilities</b>			
Deferred revenue – IRU	3	447	499
Liability component of A shares	15	30,443	23,197
Borrowings – Senior Notes	14	28,077	16,441
Deferred purchase payable to ESL	19	3,855	962
<b>Total term liabilities</b>		<b>62,822</b>	<b>41,099</b>
<b>Total Liabilities</b>		<b>100,091</b>	<b>53,490</b>
<b>Net Assets</b>		<b>46,977</b>	<b>39,454</b>
<b>Equity</b>			
Issued Capital	15	66,639	52,977
Retained Earnings		(19,662)	(13,523)
<b>Total Equity</b>		<b>46,977</b>	<b>39,454</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 2015

	Notes	Issued Capital	Retained Earnings	Total \$000
<b>2015</b>				
Opening equity		52,977	(13,523)	39,454
<b>Owners transactions:</b>				
Share issue – A shares	15	9,278	-	9,278
Share issue – B shares	15	4,384	-	4,384
Net profit/(loss) and total comprehensive income/(loss)		-	(6,139)	(6,139)
<b>Closing Balance</b>		<b>66,639</b>	<b>(19,662)</b>	<b>46,977</b>
<b>2014</b>				
Opening equity		40,861	(5,049)	35,812
<b>Owners transactions:</b>				
Share issue – A shares	15	7,429	-	7,429
Share issue – B shares	15	4,687	-	4,687
Net profit/(loss) and total comprehensive income/(loss)		-	(8,474)	(8,474)
<b>Closing balance</b>		<b>52,977</b>	<b>(13,523)</b>	<b>39,454</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 2015

	Notes	2015 \$000	2014 \$000
<b>Cash flows from operating activities</b>			
Receipts from customers		8,697	4,876
Interest received		27	39
Payments to suppliers		(10,414)	(11,157)
Interest Paid		(1,225)	(169)
Payments to employees		(277)	(259)
Goods and services tax (net)		374	(1,388)
<b>Net cash inflow from operating activities</b>	<b>16</b>	<b>(2,818)</b>	<b>(8,058)</b>
<b>Cash flows from investing activities</b>			
Purchase of UFB network assets		(19,630)	(23,898)
<b>Net cash outflow from investing activities</b>		<b>(19,630)</b>	<b>(23,898)</b>
<b>Cash flows from financing activities</b>			
Senior Notes – Working Capital		2,000	2,867
Capital Contribution - A shares – liability component	15	12,768	19,584
Capital Contribution – A shares – equity component	15	6,862	4,313
Capital Contribution – B shares	15	500	3,750
<b>Net cash inflow from financing activities</b>		<b>22,130</b>	<b>30,514</b>
Net increase in cash and cash equivalents		(318)	(1,442)
Cash and cash equivalents at the beginning of the year		394	1,836
<b>Cash and cash equivalents at end of year</b>	<b>9</b>	<b>76</b>	<b>394</b>

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



# NOTES TO FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2015

### 1. Statement of accounting policies

#### 1.(a) Significant accounting policies

##### Reporting entity

The reporting entity is ENL (or the Company). ENL was incorporated on 31 May 2011.

ENL is a limited liability company incorporated in New Zealand under the Companies Act 1993.

The purpose of the Company is to implement Ultra-Fast Broadband (UFB) in the Christchurch and Rangiora candidate areas, as set out further in note 2. The Company's key investors are CFH (a Crown owned entity) and ESL (or the partner), in a public-private arrangement to deploy UFB. ENL is a profit-oriented entity. ESL is a subsidiary of Christchurch City Holdings Limited which is wholly owned by Christchurch City Council.

These financial statements were approved by the Board of Directors on 27 August 2015.

##### Statement of compliance

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

The Company has opted to report as a Tier 3 entity applying NZ IFRS differential reporting as it is not large and publicly accountable.

The Company has applied only the following differential reporting concessions.

- NZ IFRS 7 Financial Instruments: Disclosures - no disclosure has been made that discloses the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.
- NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – no disclosure has been made of new NZ IFRSs that have been issued but are not yet effective.
- NZ IAS 24 Related Party Disclosures - no disclosure has been made for Key Management Personnel Compensation.
- ENL elects not to comply with NZ IFRS 13 Fair Value Measurement.

##### Basis of preparation

The financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments as set out below.

##### Functional and presentation currency

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

# NOTES TO FINANCIAL STATEMENTS (CONT.)

## FOR THE YEAR ENDED 30 JUNE 2015

### Revenue

#### Interest

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

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

#### UFB income

UFB income is recognised in the period in which the UFB service is provided by reference to either the completion of a specific transaction (connection fees) or the proportion of the on-going services provided (measured on a time basis) such as UFB Access Revenues.

### Cash and cash equivalents

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

### Trade and other receivables

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

Receivables that are assessed not to be impaired individually are also subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio passed the average credit period of one month, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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



NOTES TO  
FINANCIAL STATEMENTS (CONT.)  
FOR THE YEAR ENDED 30 JUNE 2015

UFB network assets

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

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

Additions

The cost of an item is recognised as an asset only when it is probable that the future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

Disposals

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

Subsequent costs

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

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

Depreciation

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

UFB Network assets:

Layer one (Provision of unlit optical fibre)	20 – 40 years
Central Offices	5 – 50 years
Land is not depreciated	-
Layer two (Ethernet communication equipment)	5 -12 years

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

Impairment of non-financial assets

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

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

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

NOTES TO  
FINANCIAL STATEMENTS (CONT.)  
FOR THE YEAR ENDED 30 JUNE 2015

Debt and equity instruments issued by the Company

Classification as debt or equity

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

Equity instruments

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

Compound instruments (redeemable A shares)

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

Financial liabilities

Debt (including the liability component of the redeemable A shares) is initially measured at fair value net of transaction costs and subsequently at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis.

Amounts which may be required to be settled within 12 months are presented as current liabilities, and the remainder is presented as non-current liabilities.

Creditors and other payables

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

Deferred revenue

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

Employee entitlements

Short-term employee entitlements

Employee entitlements that the Company expects to be settled within 12 months of balance date are measured at undiscounted nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, and annual leave earned but not yet taken at balance date. A liability for sick leave is recognised based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that it is expected to be used by staff to cover future absences.

A liability and an expense are recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation.



# NOTES TO FINANCIAL STATEMENTS (CONT.)

## FOR THE YEAR ENDED 30 JUNE 2015

### Superannuation schemes

#### Defined contribution schemes

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

### Goods and services tax

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

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

Commitments and contingencies are disclosed exclusive of GST.

### Borrowing costs

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

### 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 Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

# NOTES TO FINANCIAL STATEMENTS (CONT.)

## FOR THE YEAR ENDED 30 JUNE 2015

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

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

### Statement of cash flows

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

Operating activities are the principal revenue-producing activities of the Company and other activities that are not investing or financing activities.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities are those activities that result in changes in the size and composition of the contributed equity and borrowings of the Company.

### 1.(b) Critical accounting estimates and assumptions

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

### Impairment of UFB network assets

The UFB network assets include the existing fibre optic network assets purchased from ESL in February 2012 and the new network assets purchased from ESL since that time.

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

The network build is four years into an eight year build programme and the Company has concluded that no impairment exists.

This judgement is based on a Board approved business plan containing many assumptions, including the following.

- Uptake Percentage (% of customers connected versus those that are able to connect): Based on an International Data Corporation (IDC) model of forecast profiles for NZ fibre uptake and short term RSP forecasts.
- Interest Rate: The model assumes a long term commercial interest rates on debt.
- Price Changes: Pricing is based upon the published Reference Offer including associated Glide Path Pricing with long term pricing based on a view of future regulatory prices.
- Cost Movements and Inflation: The model assumes increases across all cost bases relative to inflation.
- Timing of Capital Expenditure: Capital Expenditure for future investment in the Network has been provided for from 2020 onwards.
- Timing of Network Roll out: Assumes all brownfield premises will be passed by December 2019 and 97,696 connections are in place by June 2021.



# NOTES TO FINANCIAL STATEMENTS (CONT.)

## FOR THE YEAR ENDED 30 JUNE 2015

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

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

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

- physical inspections of assets; and
- asset replacement programmes in line with useful life expectations.

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

### Measurement of liability component of redeemable A shares

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

#### CFH A shares

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

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

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

The Company has used a discount rate for a similar instrument of 6.5% (2014:6.5%) and has estimated that the earliest possible repayment for the A shares issued to CFH will be during and from the June 2015 financial year.

If the discount rate used is changed by 1% it would have the following impact.

		2015	2015	2014	2014
	Effect on	Decrease 1%	Increase 1%	Decrease 1%	Increase 1%
1.	Imputed Interest	(346,093)	324,046	(292,000)	277,000
2.	Equity	(1,755,575)	1,675,042	(599,000)	579,000
3.	Debt	1,130,345	(1,086,545)	308,000	301,000

# NOTES TO FINANCIAL STATEMENTS (CONT.)

## FOR THE YEAR ENDED 30 JUNE 2015

1. Recognised in Profit and Loss.
2. Initial value of Equity recognised.
3. Year end liability component of A shares.

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

#### ESL A shares

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

### Critical judgements in applying accounting policies

Management has exercised the following critical judgements in applying the Company's accounting policies for the year ended 30 June 2015.

#### Determination of the parent entity

The Company is a subsidiary of CFH at 30 June 2015. The determination of whether the partner or CFH controls the Company will be required to be reassessed on an on-going basis, depending on the respective ownership interests and the nature of the underlying agreements, however at 30 June 2015 and during the Concession period, CFH is considered the parent entity as it holds the majority of A shares which are the only equity instruments with voting powers.

#### Lease classification

Determining whether a right of use arrangement represents a finance lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the user. Classification as a finance lease would mean the asset is recognised in the statement of financial position as UFB network assets.

Judgement is required on various aspects that include, but are not limited to, whether the assets used are dedicated solely to the user, the fair value of the asset, the economic life of the assets, and determining an appropriate discount rate to calculate the present value of the payments.

The Company has exercised its judgement regarding the appropriate classification of equipment provided under indefeasible right of use agreements, and has determined that these are not finance leases.

#### Deferred tax treatment

Recognition of income tax losses as a deferred tax asset may occur if the utilisation of those tax losses is believed to be probable. The Company has exercised its judgement as to whether the utilisation of the tax losses is probable. These judgements are outlined in note 8.

#### Changes in accounting policies and disclosures

There have been no changes in accounting policies. All policies have been applied on bases consistent with the prior year.



# NOTES TO FINANCIAL STATEMENTS (CONT.)

## FOR THE YEAR ENDED 30 JUNE 2015

### 2. UFB contract with Crown Fibre Holdings Limited and the partner

On 31 May 2011 the Company was formed and entered into an agreement with CFH and the partner relating to the construction, deployment and operation of the UFB network for the Christchurch (which includes the Kaiapoi and Rolleston areas) and Rangiora Candidate Areas. This is part of the wider project by the Crown to provide open access fibre optic network to 75% 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 agreement sets out the key commercial terms of the relationships between CFH (the Crown entity that negotiated and administers the agreement), the Company and the partner. This includes CFH and the partner having shareholdings in the Company that will reflect the level of each entity's investment in the deployment of the UFB network in each Candidate Area.

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

The deployment plans drive CFH's level of investment in the Company. As each stage of the deployment plan is completed by the partner, the Company purchases the UFB network from the partner based on an agreed cost per premises passed (CPPP) for the number of premises passed by fibre optic cable upon successful user acceptance testing (UAT). CFH will in turn fund approximately 67% of the Company's purchase of each stage by way of subscribing for A shares (these shares carry full voting rights, with no dividend rights until 10 years from establishment (the Concession period)) in the Company, the price for which is the agreed CPPP. The partner receives A shares or Senior Notes for the remaining component of the CPPP. The partner has the option, at any time during the Concession period, provided that CFH retains voting control through the network build programme, to purchase A shares from CFH at a fixed price of \$1. Alternatively, the partner may instruct the Company to repurchase A shares from CFH at this value. The partner is 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. The partner generally receives B shares for funding these obligations (B shares carry full dividend rights, but no voting rights until the end of the Concession period), although partner debt funding is permitted as set out at note 22 (liquidity risk). The percentage of shares and level of voting control held by the partner and CFH will change through the lifecycle of the project. All A and B class shares in the Company convert to ordinary shares at the end of the Concession Period.

# NOTES TO FINANCIAL STATEMENTS (CONT.)

## FOR THE YEAR ENDED 30 JUNE 2015

### 3. Revenue

	2015 \$000	2014 \$000
<b>Interest income</b>		
Interest earned on cash balances with financial institutions	27	39
<b>Total interest income</b>	<b>27</b>	<b>39</b>
Other Non Qualifying Income	124	155
Total Other Non Qualifying income	124	155
<b>UFB income</b>		
Connection income	340	216
Access income	8,030	4,863
<b>Total UFB income</b>	<b>8,370</b>	<b>5,079</b>

The effective weighted average interest rate for monies on deposit is 3.26% (2014: 2.75%).

#### Gross telecommunications services revenue

In accordance with the information disclosure requirements under section 83 of the Telecommunications Act 2001, ENL's gross telecommunications services revenue is \$8,370k (2014: \$5,079k). There were no allowable deductions (2014: nil).

#### Deferred Revenue

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



# NOTES TO FINANCIAL STATEMENTS (CONT.)

## FOR THE YEAR ENDED 30 JUNE 2015

### 4. Directors’ fees

	# of committee 2015 meetings attended***	# of board 2015 meetings attended	Fees paid 2015 \$000
Timothy Lusk (independent chair)	5	11	70
Mark Bowman**	-	11	25
Brett Gamble**	5	11	25
Murray Milner*	-	10	35
Graham Mitchell*	5	11	-
Sean Wynne*	-	11	-
Owen Scott**	-	10	25
<b>Total Board member fees</b>			<b>180</b>

	# of committee 2014 meetings attended***	# of board 2014 meetings attended	Fees paid 2014 \$000
Timothy Lusk (independent chair)	7	11	70
Mark Bowman**	-	10	25
Brett Gamble**	7	11	25
Murray Milner*	-	10	35
Graham Mitchell*	7	11	-
Sean Wynne*	-	10	-
Owen Scott** (appointed 10 July 2013)	-	9	25
<b>Total Board member fees</b>			<b>180</b>

William Luff resigned 10 July 2013.

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

\* Appointed by Crown Fibre Holdings Limited  
 \*\* Appointed by Enable Services Limited  
 \*\*\* Audit and Risk Committee meetings

# NOTES TO FINANCIAL STATEMENTS (CONT.)

## FOR THE YEAR ENDED 30 JUNE 2015

### 5. Personnel costs

	2015 \$000	2014 \$000
Salaries and wages	260	241
Contractor	-	-
Recruitment	-	-
Employer contributions to defined contribution plans	7	7
Increase/(decrease) in employee entitlements	1	19
<b>Total personnel costs</b>	<b>268</b>	<b>267</b>

### 6. Management fees and professional advisory fees

	2015 \$000	2014 \$000
Marketing and sales	2,498	1,548
Corporate services	998	1,192
Strategy leadership	160	244
Operations and Maintenance	5,342	4,677
<b>Total management fees and costs on-charged by ESL</b>	<b>8,998</b>	<b>7,661</b>

Accounting	158	109
Legal	56	156
<b>Total professional advisory fees</b>	<b>214</b>	<b>265</b>



# NOTES TO FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2015

## 7. Other expenses

	2015 \$000	2014 \$000
Audit fees for the financial statements	43	36
Audit Fee – Commerce Commission	12	12
Audit Fee – Telecommunications Development Levy 2014	2	6
Audit Fee 2014 under provision	18	-
Insurance	51	66
Sponsorship	-	-
Donations	-	-
Telecommunications Development Levy	75	112
Travel	2	5
Other	301	287
<b>Total other expenses</b>	<b>504</b>	<b>524</b>

## 8. Taxation

	2015 \$000	2014 \$000
Current tax expense	-	-
Deferred tax expense relating to the origination and reversal of Temporary differences	(3,907)	(28)
<b>Income tax expense/(credit)</b>	<b>(3,907)</b>	<b>(28)</b>
<b>Reconciliation</b>		
Profit/(loss) for the period	10,045	8,502
Income tax expense/(credit) calculated at 28% (2014:28%)	(2,813)	(2,381)
Reversal of loss carried forward	-	1,845
Effect of revenue that is exempt from taxation	-	-
Effect of other expenses that are not deductible	751	499
Effect on deferred tax balances of prior period tax losses	(1,845)	9
<b>Income tax expense/(credit)</b>	<b>(3,907)</b>	<b>(28)</b>

# NOTES TO FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2015

	2015 Opening Balance \$000	2015 Charged to profit/(loss) \$000	2015 Charged to equity \$000	2015 Closing balance \$000
<b>Deferred tax asset/(liability):</b>				
Temporary differences				
UFB network assets	(363)	(288)	-	(651)
Employee entitlements	4	4	-	8
Expense Accruals	26	14	-	40
Tax losses	2,167	4,178	-	6,345
<b>Total</b>	<b>1,834</b>	<b>3,908</b>	<b>-</b>	<b>5,742</b>
<b>Represented by:</b>				
Deferred tax assets	2,197	4,196	-	6,393
Deferred tax liabilities	(363)	(288)	-	(651)
<b>Net deferred tax asset/(liability)</b>	<b>1,834</b>	<b>3,908</b>	<b>-</b>	<b>5,742</b>

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

The projected period over which the tax profits will be derived is the period from the 2018/19 financial year. At the end of the Concession period, ESL may exercise its rights to purchase A shares from CFH at \$1 per share. As ESL has for a period held less than 49% of the shares in the Company, this by itself will not provide the level of shareholding required for tax loss carry forward. CFH has at all times held not less than 51% of the voting shares and hence there is no doubt that the Company is currently in a position to consider the carry forward of tax losses.

The Company considers the projections are robust and reflect the best available information, and it is considered probable the deferred tax asset will be used by 2021.

The business plan projections used to calculate the Deferred Tax Asset have been approved by the Board. The business plan projects taxable profits from 2018/19. Further information regarding the assumptions underpinning the Company's business plan are discussed in note 1(b).

The value of the unrecognised Deferred Tax Assets in relation to tax losses is nil (2014: \$6,468k)



# NOTES TO FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2015

	2014 Opening Balance \$000	2014 Charged to profit/(loss) \$000	2014 Charged to equity \$000	2014 Closing balance \$000
<b>Deferred tax asset/(liability):</b>				
Temporary differences				
UFB network assets	(132)	(231)	-	(363)
Employee entitlements	-	4	-	4
Expense Accruals	(9)	35	-	26
Tax losses	1,947	220	-	2,167
<b>Total</b>	<b>1,806</b>	<b>28</b>	<b>-</b>	<b>1,834</b>
<b>Represented by:</b>				
Deferred tax assets	1,938	259	-	2,197
Deferred tax liabilities	(132)	(231)	-	(363)
<b>Net deferred tax asset/(liability)</b>	<b>1,806</b>	<b>28</b>	<b>-</b>	<b>1,834</b>

## Imputation Credits

No imputation credits are available for use in subsequent reporting periods (2014: nil).

## 9. Cash and cash equivalents

	2015 \$000	2014 \$000
Cash on hand and at bank	76	394
<b>Total cash and cash equivalents</b>	<b>76</b>	<b>394</b>

All cash on hand is held with the BNZ. The carrying value of short-term deposits with maturity dates of three months or less approximates their fair values.

# NOTES TO FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2015

## 10. Trade and other receivables

	2015 \$000	2014 \$000
Trade receivables	278	557
Related party receivables	-	2
GST receivables	2,697	915
<b>Total Trade and Other receivables</b>	<b>2,975</b>	<b>1,474</b>

The carrying value of receivables approximates their fair value.

## 11. UFB network assets

Movements for each class of UFB network asset are as follows.

2015	UFB network layer one \$000	UFB network layer two \$000	Central Offices \$000	Total 2015 \$000
Opening Balance	79,866	7,257	6,580	93,703
Additions during the period	44,249	4,730	4,411	53,390
<b>Balance at 30 June 2015</b>	<b>124,115</b>	<b>11,987</b>	<b>10,991</b>	<b>147,093</b>
Accumulated depreciation	(3,633)	(765)	(65)	(4,463)
Depreciation charge for the year	(2,860)	(1,303)	(192)	(4,355)
<b>Balance at 30 June 2015</b>	<b>(6,493)</b>	<b>(2,068)</b>	<b>(257)</b>	<b>(8,818)</b>
<b>Net book value at 30 June 2015</b>	<b>117,622</b>	<b>9,919</b>	<b>10,734</b>	<b>138,275</b>

2014	UFB network layer one \$000	UFB network layer two \$000	Central Offices \$000	Total 2014 \$000
Opening Balance	46,302	3,487	-	49,789
Additions during the period	33,564	3,770	6,580	43,914
<b>Balance at 30 June 2014</b>	<b>79,866</b>	<b>7,257</b>	<b>6,580</b>	<b>93,703</b>
Accumulated depreciation	(1,645)	(228)	-	(1,873)
Depreciation charge for the year	(1,988)	(537)	(65)	(2,590)
<b>Balance at 30 June 2014</b>	<b>(3,633)</b>	<b>(765)</b>	<b>(65)</b>	<b>(4,463)</b>
<b>Net book value at 30 June 2014</b>	<b>76,233</b>	<b>6,492</b>	<b>6,515</b>	<b>89,240</b>



# NOTES TO FINANCIAL STATEMENTS (CONT.)

## FOR THE YEAR ENDED 30 JUNE 2015

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

The UFB network assets include the purchase of the existing fibre optic network owned by ESL in February 2012 for \$29.619 million and the purchase of new stages of UFB network covering areas in Halswell, Papanui, Redwood, Rolleston and some commercial areas for \$117.5 million. As the UFB network build continues the existing fibre optic network from ESL becomes an integral part of the UFB network.

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

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

Central Offices contain both Building Costs and setup costs – Fire Protection, Security and Backup Generator assets. They have an expected useful life of 5 – 50 years. Land is not depreciated.

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

### 12. Creditors and other payables

	2015 \$000	2014 \$000
Creditors	19	89
Related party payables - ESL	18,234	1,705
Accrued expenses	164	111
<b>Total creditors and other payables</b>	<b>18,417</b>	<b>1,905</b>

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

### 13. Employee entitlements

	2015 \$000	2014 \$000
Current employee entitlements are represented by:		
Annual leave and short-term entitlements	10	19
<b>Total employee entitlements</b>	<b>10</b>	<b>19</b>

# NOTES TO FINANCIAL STATEMENTS (CONT.)

## FOR THE YEAR ENDED 30 JUNE 2015

### 14. Borrowings

	2015 \$000	2014 \$000
Senior Notes – fixed rate	28,077	16,441
<b>Total Borrowings</b>	<b>28,077</b>	<b>16,441</b>

Senior Notes were placed with ESL during 2015 as follows.

\$5.0 million with a fixed rate of 6.449% and maturing during April 2023;  
 \$4.0 million with a fixed rate of 5.208% and maturing during April 2023;  
 \$1.0 million with a fixed rate of 5.1916% and maturing during April 2023;  
 \$4.5 million with a fixed rate of 5.4624% and maturing during April 2027; and  
 \$2.077 million with an average floating rate of 5.3287% until the August 2015 LGFA tender when they will be converted to a fixed rate expiring in 2027.

Senior Notes were placed with ESL during 2014 as follows.

\$7.0 million with a fixed rate of 6.8616% and maturing during June 2021;  
 \$4.5 million with a fixed rate of 6.4078% and maturing during June 2021; and  
 \$4.941 million with an average floating rate of 5.3734% converted to a fixed rate in 2014/15 year.

Interest is paid quarterly for each of the Senior Notes above.

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

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

	2015 \$000	2014 \$000
A shares issued to CFH – total consideration received	55,806	36,176
Liability component	(42,743)	(29,975)
<b>Equity component - residual</b>	<b>13,063</b>	<b>6,201</b>

NOTES TO  
FINANCIAL STATEMENTS

(CONT.)

FOR THE YEAR ENDED 30 JUNE 2015

NOTES TO  
FINANCIAL STATEMENTS

(CONT.)

FOR THE YEAR ENDED 30 JUNE 2015

Issued capital 2015

	A shares CFH 2015 # shares	A shares ESL 2015 # shares	B shares ESL 2015 # shares	Total 2015 # shares
Issued capital – fully paid and authorised				
Opening Balance	36,176	34,738	12,039	82,953
Shares issued during the year	19,630	2,415	4,384	26,429
Shares repurchased /Reclassified	-	6,345	(6,345)	-
Closing balance	55,806	43,498	10,078	109,382

	A shares CFH 2015 \$000	A shares ESL 2015 \$000	B shares ESL 2015 \$000	Total 2015 \$000
Issued capital – fully paid and authorised	6,200	34,738	12,039	52,977
Shares issued	19,631	2,415	4,384	26,430
Shares repurchased/Reclassified	-	6,345	(6,345)	-
Total value of shares issued	25,831	43,498	10,078	79,407
Less value of A shares attributed to liability	(12,768)	-	-	(12,768)
Closing balance of issued capital in equity	13,063	43,498	10,078	66,639

Issued capital 2014

	A shares CFH 2014 # shares	A shares ESL 2014 # shares	B shares ESL 2014 # shares	Total 2014 # shares
Issued capital – fully paid and authorised				
Opening Balance	12,279	6,250	32,813	51,342
Shares issued	23,897	3,117	4,597	31,611
Shares repurchased /Reclassified	-	25,371	(25,371)	-
Closing balance	36,176	34,738	12,039	82,953

	A shares CFH 2014 \$000	A shares ESL 2014 \$000	B shares ESL 2014 \$000	Total 2014 \$000
Issued capital – fully paid and authorised	1,888	6,250	32,723	40,861
Shares issued	23,897	3,117	4,687	31,701
Shares repurchased	-	25,371	(25,371)	-
Total value of shares issued	25,785	34,738	12,039	72,562
Less value of A shares attributed to liability	(19,585)	-	-	(19,585)
Closing balance of issued capital in equity	6,200	34,738	12,039	52,977

During the year there were no costs associated with share issues (2014: nil).

	2015 \$000	2014 \$000
Opening Liability Component A shares	32,152	10,786
Liability Component A shares issued during the year	12,768	19,585
Unwinding of Liability Component (Interest) during the year	2,672	1,782
Liability component of A shares per Balance Sheet	47,592	32,152



# NOTES TO FINANCIAL STATEMENTS (CONT.)

## FOR THE YEAR ENDED 30 JUNE 2015

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

### A shares

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

The A shares issued to CFH are compound financial instruments as the partner has the option, at any time during the concession period, to purchase from CFH its A shares at \$1 per share, or alternatively the partner may instruct the Company to repurchase the A shares from CFH, subject to certain conditions which are set out in the critical accounting estimates and assumptions section of the accounting policies. The total consideration received on issue of A shares to CFH, and the amount attributed to the liability component is set out earlier in this note 15.

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

At the end of the Concession Period, any remaining A shares convert to ordinary shares.

At 30 June 2015 the number of A shares owned by CFH is 55,806,336 (2014:36,175,951) and 43,498,184 (2014: 34,738,201) are owned by ESL. The total number of A shares issued is 99,304,520 (2014: 70,914,152). The Company has not repurchased any of its own A shares.

### B shares

The partner is 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, and in return is issued either B shares or Senior Notes depending on certain funding criteria being met (as described in note 22). B shares have the right to dividends, which may only be paid in accordance with the terms of the Shareholders' Agreement. B shares issued to ESL in exchange for certain vended network assets will convert to A shares, so long as this does not result in ESL holding greater than 49% of the total A shares on issue. During this period ESL has reclassified 6,344,657 (2014: 25,371,310) B shares into A shares. At the end of the Concession Period, any remaining B shares convert to ordinary shares.

# NOTES TO FINANCIAL STATEMENTS (CONT.)

## FOR THE YEAR ENDED 30 JUNE 2015

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

	2015 \$000	2014 \$000
Net profit/(loss) after tax	(6,138)	(8,474)
Add/(less) non-cash items:		
Depreciation expense	4,355	2,590
Deferred tax	(3,907)	(28)
Indefeasible rights of use	(87)	(87)
Interest on A Share Loan	2,672	1,781
Non-cash items	3,033	4,256
Add/(less) movements in working capital items:		
Trade and other receivables and prepayments	(1,498)	(951)
Creditors and other payables	1,771	(2,908)
Employee entitlements	14	19
Net movements in working capital items	287	(3,840)
Net cash from operating activities	(2,818)	(8,058)

In 2015 the Company had the following significant non-cash transaction during the period.

- UFB network assets of \$53.390m (2014: \$44.038m) were purchased from ESL.  
ESL funds approximately 63% \$33.597m (2014: 45% \$20.150m) of this UFB network build.  
ESL is paid in A shares \$2.415m (2014: \$3.116m) as a non-cash transaction for CPPP assets.  
ESL is paid in B shares \$3,884k (2014: \$937k) as a non-cash transaction for CPPP Layer two assets.  
ESL is paid in Senior Notes \$9.636m (2014: \$11.507m) as a non-cash transaction for CPPP assets.
- No CPPC assets (2014: \$2.067m) were purchased and paid for with Senior Notes as a non – cash transaction.
- Deferred Purchase Payable to ESL of \$3.063m (2014: \$2.387m).

# NOTES TO FINANCIAL STATEMENTS (CONT.)

## FOR THE YEAR ENDED 30 JUNE 2015

### 17. Commitments

#### Capital commitments

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

In addition, the NIPA requires ESL to connect, on request, any premises and end users within the built UFB network coverage area. These connections are to be paid for by the Company at agreed rates. The actual profile and value of the connections is dependent on the actual profile of connections requested on the network.

As at 30 June 2015 the estimated cost of UFB network assets including connections to December 2021 is \$414m (2014: \$403m), and as at 30 June 2015, the estimated remaining cost to build is \$296m (2014: \$337m).

The funding arrangements in relation to these purchases are set out in note 22 (liquidity risk).

#### Commitment to repurchase A shares

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

### 18. Contingencies

#### Contingent liabilities

The Company has a contingent liability in the form of a number of IRU contracts acquired with the network purchase from ESL on 10 February 2012. The services under these contracts are still to be performed and the amount owing under these contracts as at 30 June 2015, if the contracts were cancelled or not performed is \$273k (2014: \$316k).

The Company has a letter of credit with BNZ for \$30k (2014: \$30k) in favour of Fusion 5 who provide payroll services to the Company. The letter of credit covers salary and other payroll costs paid to the Company employees by Fusion 5, which are then reimbursed by the Company.

The Company has no other contingent liabilities as at 30 June 2015 (2014: \$nil).

#### Contingent assets

##### Liquidated Damages

Under the NIPA, if ESL fails to achieve any Milestone to which Liquidated Damages apply on or before the applicable Milestone Date, ENL will be entitled to claim, and ESL will pay on demand (demand may be made by either ENL or CFH), the Liquidated Damages applicable to that Milestone for each day (or part thereof) that any such Milestone is not met.

Liquidated Damages are payable for certain stages within prior years' work (NDP1, NDP2, NDP3, and NDP4) to ENL if a demand is made by ENL. To date, no demand for Liquidated Damages has been made.

The Company had no other contingent assets as at 30 June 2015 (2014: \$nil).

# NOTES TO FINANCIAL STATEMENTS (CONT.)

## FOR THE YEAR ENDED 30 JUNE 2015

### 19. Related party transactions and key management personnel

#### Related parties

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

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

#### Significant transactions with CFH and other government-related entities

The Company has been provided with a contribution from CFH of \$19.3m (2014: \$23.897m) to fund the UFB network assets development, in exchange for A shares as set out in note 15.

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

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

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

The Company also purchases goods and services from entities controlled, significantly influenced or jointly controlled by the Crown and the Christchurch City Council and related Council organisations. Purchases from these government-related entities for the year ended 30 June 2015 totalled \$288,451 (2014: \$275,050). These purchases included audit fees, Local Body rates and the purchase of travel from Air New Zealand.

#### Significant transactions with the partner

During the period, the Company purchased existing fibre network assets from the partner, and issued shares to the partner as set out in notes 15 and 16.

As set out in note 2, the Company purchases UFB network assets from the partner as they meet certain criteria. The commitment relating to these purchases is disclosed at note 17. At balance date \$16.787m including GST is outstanding for asset purchases included within credits and payable under normal commercial terms.

ESL provides support services to the Company under a Management Services Agreement and operations and maintenance services under the NIPA and other minor contract on-charges. ESL charged \$8.998m (2014: \$7.813m) during the period for these services. At balance date \$1.446m including GST (2014: \$1.705m) is outstanding (included within creditors and other provisions), and is payable under normal commercial terms.

ENL pays ESL interest on Senior Notes quarterly as discussed in Note 14. At balance date \$390k (2014: \$188k) is outstanding for interest to 30 June 2015. This is included within creditors and payable under normal commercial terms. Interest paid during the year was \$1,265k (2014:\$357k).



# NOTES TO FINANCIAL STATEMENTS (CONT.)

## FOR THE YEAR ENDED 30 JUNE 2015

In total ENL owed ESL \$18.234m as at balance date (2014: \$1.705m).

The Company charges ESL for UFB services purchased by ESL for use under the transitional agreement for existing ESL customers on the existing network. The charges are at standard arms-length published UFB product rates. The arrangement will reduce as remaining ESL customer contracts expire. The total UFB services sold to ESL for the year was \$0.537 m (2014: \$1.126m) with nil receivable from ESL at year end (2014: nil).

During the year ESL transferred five Central Office land titles to ENL. These assets are paid for under the NIPA as a component of each premise passed. At 30 June 2015 ENL has recognised this amount payable to ESL as a Deferred Purchase Payable to ESL of \$5.45m (2014: \$2.387m).

### 20. Employee remuneration

#### Total remuneration paid or payable for the year

	2015	2014
\$240,000 - \$249,999	-	1
\$260,000 - \$269,999	1	
Total employees	1	1

During the year ended 30 June 2015, no employee received compensation or other benefits in relation to cessation (2014: nil).

### 21. Categories of financial assets and liabilities

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

	2015 \$000	2014 \$000
<b>Loans and receivables:</b>		
Cash and cash equivalents	76	394
Trade and other receivables	2,975	1,474
Total loans and receivables	3,051	1,868
<b>Financial liabilities measured at amortised cost:</b>		
Creditors and other payables	18,417	1,905
Deferred Purchase CO's Payable to ESL	5,451	2,387
Borrowings – Senior Notes	28,077	16,441
Liability component of A shares	47,592	32,152
Total financial liabilities measured at amortised cost	99,537	52,885

# NOTES TO FINANCIAL STATEMENTS (CONT.)

## FOR THE YEAR ENDED 30 JUNE 2015

### 22. Financial instrument risks

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

#### Market risk

##### Fair value interest rate risk

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

The average interest rate on the Company's term deposits is 3.26% (2014: 2.75%).

The average interest rate on the Company's fixed rate senior debt is 6.08% (2014: 6.18%).

##### Cash flow interest rate risk

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

##### Sensitivity analysis

As at 30 June 2015 and 30 June 2014, if the deposit rate had been 50 basis points higher or lower, with all other variables held constant, the loss for the period would have been lower by an insignificant amount. This movement is attributable to increased or decreased interest income on the cash balances.

#### Credit risk

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

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

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

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

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

NOTES TO  
FINANCIAL STATEMENTS (CONT.)  
FOR THE YEAR ENDED 30 JUNE 2015

Credit risk exposure to trade receivables

\$000	Gross Receivables 2015	Gross Receivables 2014	Impairment 2015	Impairment 2014
Not past due	238	310	-	-
Past due 1-30 days	40	247	-	-
Past due 31-60 days	-	-	-	-
Past due 61+ days	-	-	-	-
Total trade receivables	278	557	-	-

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

Liquidity risk

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

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

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

Contractual maturity analysis of financial liabilities

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

NOTES TO  
FINANCIAL STATEMENTS (CONT.)  
FOR THE YEAR ENDED 30 JUNE 2015

	Balance Sheet \$000	Contractual Cash flows \$000	Less than 6 Months \$000	Between 6 Months and 1 Year \$000	Between 1 and 8 Years \$000
2015					
Creditors and other payables (note 12)	18,417	18,417	18,417	-	-
Deferred Purchase of CO’s Payable to ESL	5,451	5,451	798	798	3,855
Repayment of CFH “A” shares (note 15)	55,806	55,806	11,449	6,288	38,069
Borrowings – Senior notes (note 14)	28,077	41,451	853	853	39,745
Total	107,751	121,125	31,517	7,939	81,669

The earliest possible buy-back date for the A shares held by CFH will be during and from the June 2015/16 financial year. See note 1(b).

	Balance Sheet \$000	Contractual Cash flows \$000	Less than 6 Months \$000	Between 6 Months and 1 Year \$000	Between 1 and 8 Years \$000
2014					
Creditors and other payables (note 12)	1,905	1,905	1,905	-	-
Deferred Purchase of CO’s Payable to ESL	2,387	2,387	712	713	962
Repayment of CFH “A” shares (note 15)	36,176	36,176	4,729	4,729	26,718
Borrowings – Senior notes (note 14)	16,441	24,209	517	517	23,175
Total	56,909	64,677	7,863	5,959	50,855

23. Capital management

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

The Company is prevented from borrowing from any party other than the partner. Details of the funding arrangements with the partner are set out in note 22 (liquidity risk).

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

24. Events after the balance sheet date

There were no significant events after the balance date.



# INDEPENDENT AUDITOR'S REPORT

AUDIT NEW ZEALAND  
Mana Arotake Aotearoa

# INDEPENDENT AUDITOR'S REPORT (CONT.)

## To the readers of Enable Networks Limited's financial statements for the year ended 30 June 2015.

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

### Opinion on the financial statements

We have audited the financial statements of the company on pages 24 to 55, that comprise the statement of financial position as at 30 June 2015, 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.

#### In our opinion the financial statements of the company:

- present fairly, in all material respects:
  - its financial position as at 30 June 2015; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards with differential reporting concessions.

### Uncertainties with the recognition of the deferred tax asset relating to tax losses

Without modifying our opinion, we draw your attention to the disclosures in Note 8 on pages 40 to 42. This note describes the recognition of the deferred tax asset, the significance of the amount and the inherent uncertainties in the information on which the asset has been based. We consider the disclosures to be adequate.

Our audit was completed on 27 August 2015. 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 and our responsibilities, and explain our independence.

### Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

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

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the adequacy of the disclosures in the financial statements; and
- the overall presentation of the financial statements.

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

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

### Responsibilities of the Board

The Board is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- present fairly the company's financial position, financial performance and cash flows.

The Board's responsibilities arise from clause 21.1 of the company's Shareholders' Agreement.

The Board is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board is also responsible for the publication of the financial statements, whether in printed or electronic form.

### Responsibilities of the Auditor

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

### Independence

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

In addition to the audit, we were engaged to issue an audit certificate pursuant to the LFC Information Disclosure Determination 2012 for the 2015 disclosure year. This engagement is compatible with those independence requirements.

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



Julian Tan

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

# STATUTORY INFORMATION

## Principal activities

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

## Directors’ interests

ENL 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 2015.

Director	Directors’ Interests
Tim Lusk (Chairperson)	Director of Transpower Limited Director & Shareholder of Dublin Days Limited Member of Transpower Limited Board Sub Committee on Network Risk, Environmental Protection Authority
Mark Bowman	Director of Enable Services Limited Director & Shareholder of Comrad Holdings Limited, Magic Memories Group Holdings Limited, Scarlett Hydraulics Limited Trustee of MJ & RM Bowman Family Trust
Brett Gamble	Director of Positano Holdings Limited, Enable Services Limited, Aoraki Services Limited, Aoraki Partners Holdings Limited, Milisa Holdings Limited, Chart Noticeboards Limited, C2H Limited, Canterbury Seismic Instruments Limited, Masterguard Fire and Security Limited Trustee of Hammersmith Property Trust, Gamble Family Trust Officer of Mobile Surgical Services, Mobile Medical Technologies
Murray Milner	Managing Director of Milner Consulting Limited Board Chair of Harmonic Aotearoa Limited, National Health IT Board Director of Crown Fibre Holdings Limited Shareholder of Spark New Zealand Limited Trustee of Milner Family Trust, NZIPv6 Trust Member of National Health Board, Health Capital Investment Committee, Expert Advisory Group on Information Security, Chair of the Emergency Services Resiliency Working Group, Chair of WGRN Governance Board
Graham Mitchell	Director of UltraFast Fibre Limited, Northpower Fibre Limited Chief Executive Officer of Crown Fibre Holdings Limited Member of Chorus Steering Committee
Owen Scott	Director of Enable Services Limited Director and Shareholder of Concentrate Limited, Concentrate NZ Limited, Scott Afforestation Limited, AintoG Limited Shareholder of Elliotvale Afforestation Limited Trustee of Madgeo Trust, The New Zealand Hi-Tech Trust
Sean Wynne	Director of UltraFast Fibre Limited, Northpower Fibre Limited, twenty4media Pty Limited Director & Shareholder of Twenty4Media Limited Officer of Crown Fibre Holdings Limited Member of Chorus Steering Committee

**Donations** No donations were made during the year.

**Dividends** No dividends were paid during the year.



Enable Networks Limited  
2015 Annual Report

