





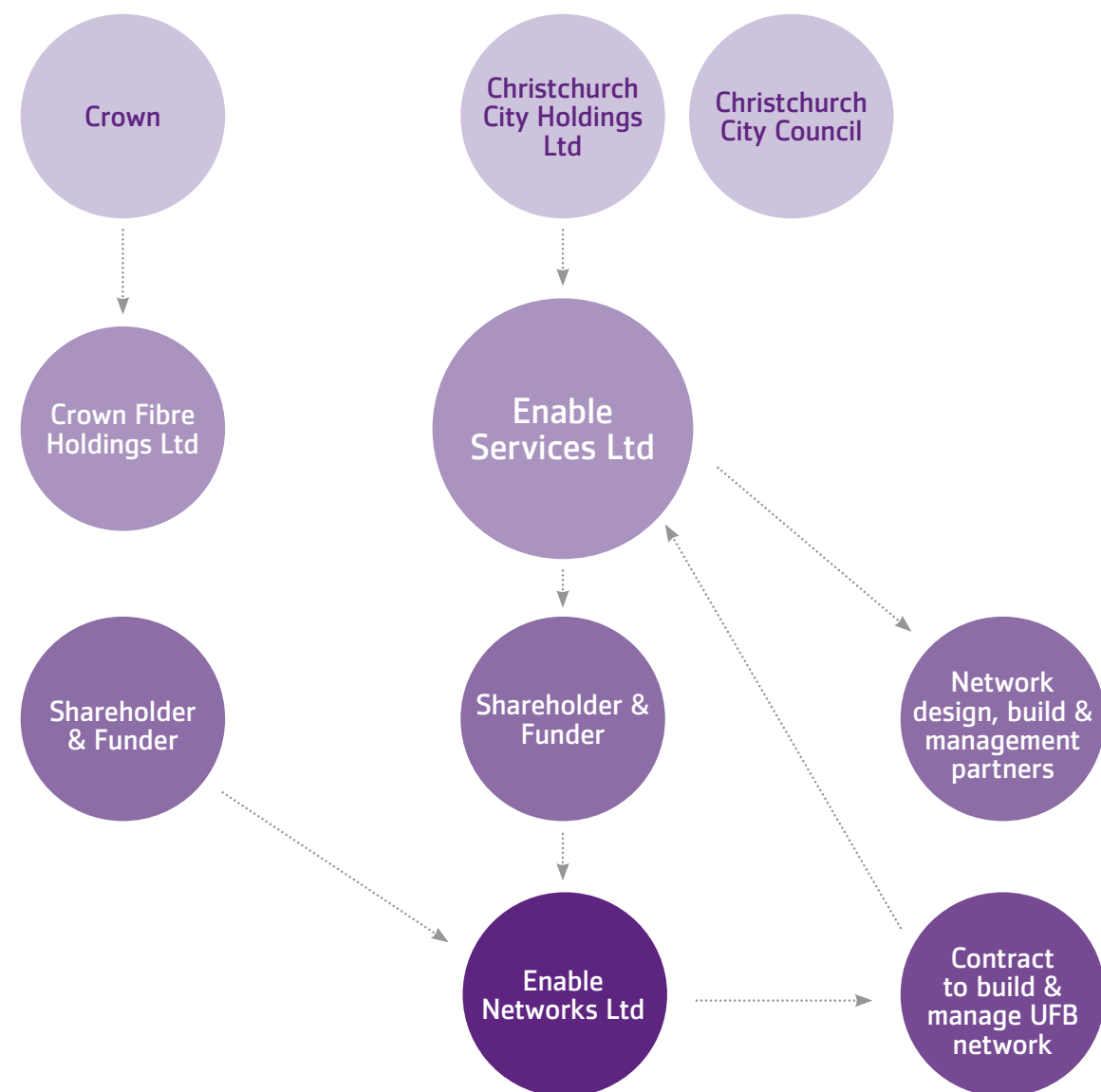
Enable Services Limited 2014 Annual Report

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About Enable Services Limited

Enable Services Limited (ESL) is a major investor in a fibre broadband network that will transform how people use technology in their businesses and homes, and will provide tremendous value to our community as an enabler of future innovation and economic growth.



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

In May 2011, ESL entered into a partnership with the Government to provide fibre broadband services to 180,000 homes, businesses, schools and healthcare facilities across Christchurch and parts of Waimakariri and Selwyn – as part of the national ultra-fast broadband (**UFB**) initiative.

Winning the UFB contract resulted in the creation of a new joint venture, local fibre company, Enable Networks Limited (ENL). ENL is owned by ESL

and Government agency Crown Fibre Holding Limited (CFH) - with ESL currently holding a 56 percent shareholding in ENL.

ESL is transforming from a small fibre provider into both a large local infrastructure investment business and a leading infrastructure services company.

First and foremost, ESL is a major investor – on behalf of the greater Christchurch community – in what will become the largest and most important telecommunications network in our city. As more and more people connect to fibre broadband, the true value of this investment will become clear to those that are enjoying the benefits of fibre and to

those that are creating new economic and social opportunities over fibre-based connectivity. The Council, through CCHL, will also benefit from long term future dividends.

As an infrastructure services company, ESL is contracted to build and operate this new fibre broadband network for ENL. ESL is also contracted (via a Management Services Agreement) to provide chief executive, sales and marketing, financial, management/ administration support, and operating and maintenance services. In its role as network build and management contractor, ESL has generated approximately 400 new jobs within the local community – including in ESL itself and across the organisations it partners with.

Chairman and CEO Report

Higher than expected uptake of fibre broadband services combined with a network deployment programme now running at full pace are the highlights of a year where the true value of Christchurch City's investment in fibre broadband is beginning to be realised.

The true potential of fibre broadband will be realised by communities around the country as more businesses, schools, healthcare providers and homes in these communities make the switch. 2014 has demonstrated that the Christchurch community is well set to realise these benefits ahead of other areas.

The local community is embracing fibre broadband with the uptake rate soon to hit 10 percent - well ahead of national uptake. This is clear evidence that the people of Christchurch see advantages and benefits of fibre broadband services already.

This local uptake success can be attributed to a number of factors including our history of connecting businesses and schools, and our focus on not only delivering fibre technology to the local community, but also driving uptake itself. This strong uptake story also places ESL in a very strong position with its investment in a fibre future - again enhancing the benefit to the local community as owners.

The establishment of all of the key business operational cornerstones required to be a large-scale, mass-market fibre network operator were nearing completion by the end of 2014 - setting the foundations for

business growth and even higher performance in the future.

Christchurch is the only city in New Zealand that will own its strategic telecommunications infrastructure. As local uptake increases and the community begins to embrace the possibilities of fibre, this ownership will allow us to maximise our responsiveness to the local community and play a significant role in driving economic and societal advantages for greater Christchurch through fibre broadband services.

Performance as an infrastructure service provider

We are now approximately a third of the way through the fibre broadband network construction programme - that is scheduled to be completed by the end of 2019. Today the business is also managing almost twice the network infrastructure and more than three times the customer connections than at the end of last year.

Health and safety at the heart of how we work

Health and safety is a key focus for ESL. We continue to work with all our people and network partners to operate an industry

best-practice health and safety management system across all aspects of the business.

Health and safety is at the forefront of our business, and our systems and processes will continue to be refined and improved to the maximum extent possible.

At the end of 2014, the Loss of Time Frequency Rate across all ESL activity was 2.55 injuries per million hours worked - this represented a significant improvement throughout the year from 10.24 in July 2013. The business is focused on further reducing this key measure by continuously improving our health and safety management system.

The policies and procedures in place across the business are well understood and applied by everybody working for the business - including in our corporate environment with an office hazard management process in place and team specific health and safety plans. We also regularly assess our partners and suppliers' health and safety processes and performance.

We are ready to meet the requirements of the Health and Safety Reform Bill introduced to parliament in March 2014 and expected to come into force on 1 April 2015.



CEO Steve Fuller and
Chairman Mark Bowman.



Network build programme

Network deployment was completed to over 25,000 home and business premises in 2014 – almost twice the rate of network deployment compared to the previous year, with the Year Three build programme delivered on time.

25 more schools within Christchurch were able to connect to fibre as part of this deployment programme. The total number of schools connected or able to connect is 111 and all 148 schools within the coverage area will be reached by the end of 2015.

ENL won all contracts to deploy network in new subdivisions inside or adjacent to the network area – meaning the business is set to connect 4,950 new Greenfields addresses to the network sometime soon. The amount of new Greenfield premises with network deployed grew by 876 to 1,612 in 2014.

In addition, the construction of the 12 Central Offices was completed – core network infrastructure hubs that have been purpose built for the Christchurch environment. All but one of these Central Offices is now fully operational and delivering services to customers.

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Full inter-candidate backhaul was also successfully completed in 2014 connecting the communities of Rolleston, Lincoln, Templeton, Prebbleton, Rangiora, Woodend and Kaiapoi directly to the core of the network.

Establishing the Network Delivery Alliance

Early in the financial year, we began working with our network build partner Transfield Services (NZ) Limited (**TSL**) to agree a more effective way for the two businesses to work together. The focus was on establishing a mutually beneficial operating and commercial structure that supported an accelerated network deployment within Christchurch's current construction environment.

We agreed to move from a traditional contract supplier/customer relationship to an Alliance arrangement where all the people working on the deployment of the network would come together under one team.

This new operating model came into effect on 3 February 2014 with the finalisation of a Project Alliance Agreement. The Alliance – called

the Network Delivery Alliance – was established under the governance of an Alliance Leadership Team made up of two representatives from ESL, two from TSL and an independent Chair.

The Network Delivery Alliance team was brought together almost immediately to complete the remaining Year Three network stages and begin planning for Year Four. Quarter Four of this financial year was the first full quarter of operation for the Network Delivery Alliance and saw network deployment to 11,700 potential customers completed – the most successful quarter to date.

Management of the network

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

We again performed very strongly in the last year in delivering all aspects of our network management obligations.

There was a 300 percent increase in the number of customers connected to

the network in 2014 – with 4,477 active connections at year end, plus another 991 connections underway. This has required an increase in investment in network management, customer services and connections resources in order to maintain delivery capacity in line with the growing demand for fibre broadband services.

We have worked very closely with our connection partners Downer and MultiMedia Communications to not only increase connection resource in line with higher volumes, but also to increase the productivity of the available resources and improve customer experience.

Continuous improvement of how connections are carried out and the introduction of new connection options that improve efficiency and customer experience have been a strong focus.

We continued to deliver services to 88 percent of new customers on the date agreed – well above our required key performance indicator of 75 percent – despite managing significant month-on-month connection growth.

In June 2013, 42 customer connections were completed while in June 2014 the connections figure was 530.

The increase in order volumes has also required the introduction of more customer services resources. In 2014, the customer services team managed 17,644 inbound calls, 5,777 service order requests from retail service providers and over 40,000 other customer engagements.

In terms of the management of the network infrastructure, we again performed very strongly – consistently delivering network performance well in excess of contracted service levels and the core network is running at 100 percent availability.

We continue to invest in developing the operating and business systems required to integrate seamlessly with retail

service providers – in order to manage large numbers of orders and customer connections, and to improve underlying operational process and efficiency.

Driving Enable Networks Limited's success

Our local community embraces fibre broadband

By 30 June 2014, 56,553 homes, businesses and schools could access Enable's fibre broadband services. This represented an 80 percent increase in the number of potential customers able to switch to fibre broadband over the course of the year.

What made 2014 a tremendous year was that almost 10 percent of these potential customers have already chosen to move to fibre – with a total of 5,468 customers either connected or having ordered a home or business fibre broadband service.

This level of interest in fibre broadband from the Christchurch community is well ahead of the national uptake rate and our expectations.

Included in the new areas launched in the year were the entire Rolleston and Lincoln townships – making them the first fully fibred towns in New Zealand. Uptake in these communities, and in Halswell, has been even higher than other areas – passing or approaching 20 percent.

We continued to market the availability and benefits of fibre broadband aggressively and worked closely with retail service providers to integrate marketing efforts to maximise awareness and take up wherever possible.

More retail service providers enter the market

By year end, 38 retail service providers were contracted to deliver fibre broadband services over the network of which seven had launched in the residential market.

The most significant retail launch of the year was that of Spark (formerly Telecom) – with business services launched in December 2013 and full residential launch in February 2014. Spark is the largest retail service provider in New Zealand accounting for approximately 50 percent of the residential telephone and broadband market.

Building a high performing team

The success of our business is reliant on creating a high performing culture and environment where the capabilities of the team can be fully realised and their knowledge harnessed.

In recent years we have been going through a growth phase, but 2014 saw staff numbers growing more slowly – from 63 to 72 people, plus a small number of contractors.

We have been able to move our attention away from recruitment to focusing on retaining, developing and rewarding our people.

We have increased focus on identifying individual performance and professional development opportunities while also introducing regular innovation and excellence awards.

From a recruitment brand perspective, Enable has a strong employment brand presence in the local and technology sector job markets.

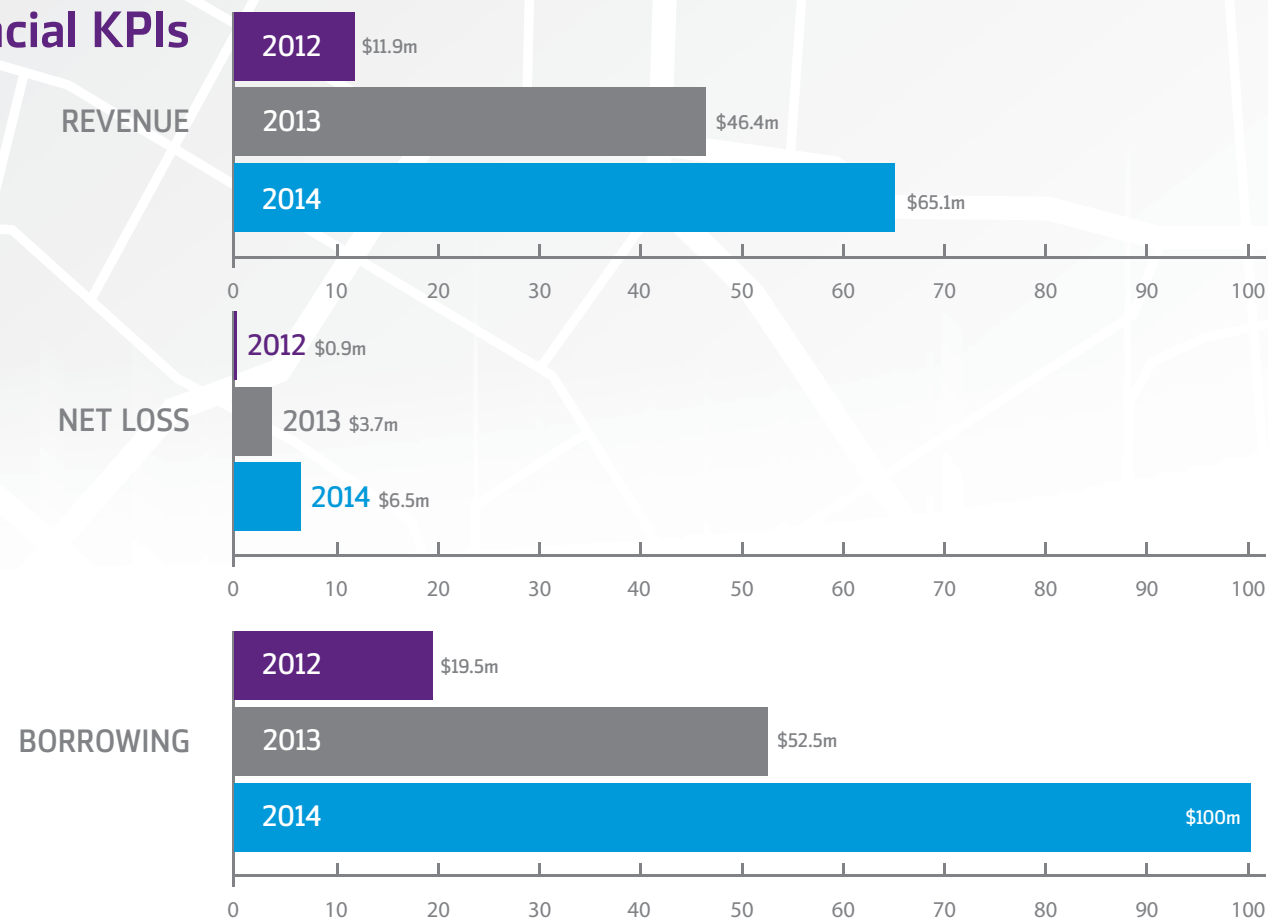
ESL's financial performance

Our financial performance for 2014 was aligned with expectations – and with the business's dual role in the delivery of fibre broadband to the Christchurch community.

We are a major shareholder and investor in ENL – a rapidly growing telecommunications network provider that requires considerable short-term investment – and we are also

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Financial KPIs



the infrastructure services company contracted to physically deliver and operate the network.

Our 2014 revenue figures largely reflect the second part of this relationship. As the network is deployed at a greater rate and the number of customer connections increases, we earn more revenue from ENL. In the past year revenue has increased by \$18.7m to \$65.1m - \$3.0m ahead of expected revenue.

Overall, we made a net loss of \$6.5m up from \$3.7m on the previous year but in alignment with expectations. This can be partially attributed to ESL's shareholding in ENL. As is expected from the start-up company, ENL's total loss increased in FY2014 resulting in a larger loss from ESL's investment in ENL.

As ENL becomes a larger and more successful company, ESL needs to increase its investment in the company and borrow more to do

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so. In 2014, borrowings grew from \$52.5m to \$100m as ESL funded ENL's growth. This level is in line with ESL's long-term business plan and the expectations of ESL's shareholder.

Looking ahead

Expectations for the coming year are clear – to become the most successful fibre network provider in New Zealand. It's through achieving this goal that we can make the greatest contribution to our shareholder – Christchurch City Holdings Limited – and to our community, the people of greater Christchurch.

The overarching focus of the year ahead is to achieve 'high performance' across the key functional areas of the business – health and safety, market uptake, customer service, network deployment, connections and network

operations. This will be achieved by creating a business environment where the team is highly engaged and feels supported to continually seek outstanding results for the business and its customers.

As always, health and safety will be our top priority with continual improvement a key focus ensuring all people involved in our business have a healthy and safe environment to work within.

The Network Delivery Alliance is now deploying network to homes and businesses at full pace, the majority of retail service providers are in the local fibre market and the remaining players will enter soon, and our network partners are prepared and resourced to manage growing demand for fibre broadband services.

On 1 July 2014, we began our Year Four network deployment programme that will provide an additional 30,000 homes, businesses and schools access

to fibre broadband services by around mid-2015. This deployment programme is the most aggressive to date.

This programme will increase the total number of premises passed to over 68,000 – well ahead of our Statement of Intent for 2015 – and increase the total number of potential fibre broadband customers across greater Christchurch to over 88,000 or almost half our total coverage area. Importantly, this programme of work also ensures we are on target to make fibre broadband services available to all schools and 90 percent of businesses by the end of 2015.

We are focused on supporting the Network Delivery Alliance to deliver this aggressive deployment plan and confident that it will complete the plan on time, and could potentially deploy to an even higher number of potential customers.

A key focus in the coming year will be continuing to support retail service providers to switch more of their customers to fibre broadband services.

The combination of more retail service providers, a growing network footprint, increased consumer awareness of fibre and its benefits, and our marketing effort are all expected to contribute to much greater order volumes. We need to be fully prepared to manage 1,000 customer connections per month by year end.

This requires us working closely with our network partners to ensure all the operational and business processes and systems are in place to seamlessly manage this volume of orders, as well as having the connection and customer service resources required.

We will continue to work closely with our network management partner Huawei and our technology partner Tech Mahindra to ensure the business is geared to operate at large-scale and to improve the experience retail service providers receive. We will also continue to work with Downer and MultiMedia Communications

to both scale up and innovate with regards to connections to ensure the commitment to ENL to improve the overall connection experience fibre broadband customers receive.

In 2015 continuous improvement, innovation, cost savings initiatives and increased efficiency to further strengthen our business and deliver even better results will continue to be an important focus.

Our success will ultimately continue to be driven by the team of exceptional people working for the business – so continuing to support this outstanding team to develop and deliver the best outcomes will be a focus of the Board and CEO.

As Board Chairman and CEO we say a big 'THANK YOU' to the ESL team and congratulate them on a job extremely well done and look forward to an even more successful year next year.

Mark Bowman, Chairman

Steve Fuller, CEO



Board of Directors



Brett Gamble Director

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

Prior to this Brett held senior executive positions at Solid Energy focused on development of new and growth business opportunities. 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 also sits on the board of ENL.

Charlotte Walshe Director

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

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

Mark Bowman Chairman

Mark Bowman is a Christchurch-based professional Director specialising in the governance and leadership of high growth businesses.

Mark has experience in the technology, telecommunications, healthcare, tourism, industrial, and energy sectors. Prior to his governance roles, Mark held senior executive roles with Navman, HP and Hitachi.

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

Bill Luff Director

Bill Luff has spent the last 35 years working in government and multinational business roles. Much of his experience has been with British Petroleum (BP) in New Zealand and overseas.

Since returning to New Zealand in 1996, he has held a number of significant executive and board positions. These include CEO of Tasman Energy Limited, CEO of Canterbury Development Corporation, Chief Strategy and Marketing Officer for Solid Energy and Deputy Chairman of the Lyttelton Port Company.

Bill was Chairman of ESL from its establishment through until 30 June 2013.

Chris Birkett Director

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

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

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

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 also sits on the ENL board.

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The Directors are pleased to present the audited financial statements of Enable Services Limited for the year ended 30 June 2014



Mark Bowman
Director
Christchurch
1 September 2014



Brett Gamble
Director
Christchurch
1 September 2014

Glossary

ENL	Enable Networks Limited
ESL	Enable Services Limited. ESL is a shareholder and the contractor building and operating the UFB network assets. ESL is also a partner funding ENL.
CCC	Christchurch City Council
CFH	Crown Fibre Holdings Limited. CFH is a shareholder and funder of ENL.
CCHL	Christchurch City Holdings Limited
CPPP	Cost Per Premises Passed for Communal Infrastructure
IRU	Indefeasible Right of Use
NIPA	Network Infrastructure Project Agreement
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
“B” shares	B shares in the capital of ENL having the rights and restrictions set out in the ENL Constitution
Concession period	The period commencing on the date ENL was incorporated and ending on the tenth anniversary of the date of ENL's incorporation (31 May 2021)
NDP	Network Deployment Plan
CO	Central Office
TSL	Transfield Services (New Zealand) Limited

Statement of Comprehensive Income

For the year ended 30 June 2014

	Notes	2014	2013
		\$000	\$000
Income			
Revenue	2	65,140	46,358
Interest income	2	631	62
Total income		65,771	46,420
Expenses			
Directors' fees	3	294	254
Finance costs	4	4,227	1,403
Cost of sales	5	58,542	42,565
Other expenses	6	4,585	3,492
Share of Loss of Associate	14	5,158	2,723
Total expenses		72,806	50,437
Profit/(loss) before tax		(7,035)	(4,017)
Tax expense / (credit)	7	(524)	(316)
Net profit/(loss) and total comprehensive income/(loss) for the year		(6,511)	(3,701)

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 2014

	Notes	2014 \$'000	2013 \$'000
Assets			
<i>Current assets</i>			
Cash and cash equivalents	8	504	2,697
Trade, other receivables and prepayments	9	23,175	27,589
Inventories	10	2,246	2,677
Current tax asset	7	-	334
Construction contract work in progress	11	31,766	12,652
Deferred CO Receivable from ENL		1,425	-
Total current assets		59,116	45,949
<i>Non-current assets</i>			
Property, plant and equipment	12	660	856
Intangible assets	13	3,963	1,145
Investment in Associate	14	37,246	34,600
Construction contract work in progress	11	575	636
Trade & Other Receivables & Prepayments	9	4,745	-
Deferred tax asset	7	1,070	216
Senior Notes with Associate	25	16,441	-
Loan to TSL	25	5,000	-
Deferred CO Receivable from ENL		962	-
<i>Total non-current assets</i>		<i>70,662</i>	<i>37,453</i>
Total assets		129,778	83,402
Liabilities			
<i>Current Liabilities</i>			
Creditors and other provisions	15	6,690	8,022
Employee entitlements	16	1,003	795
Total current liabilities		7,693	8,817
<i>Term liabilities</i>			
Deferred tax liabilities	7	77	85
Employee entitlements	16	462	300
Non Current Retentions		-	144
Borrowings	17	100,000	52,500
<i>Total term liabilities</i>		<i>100,539</i>	<i>53,,029</i>
Total Liabilities		108,232	61,846
Net assets		21,546	21,566
Issued capital	18	31,000	24,500
Retained earnings		(9,454)	(2,944)
Total equity		21,546	21,566

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 2014

2014	Issued Capital	Retained Earnings	Total \$'000
Opening equity	24,500	(2,944)	21,556
Issue of ordinary shares	6,500	-	6,500
Net profit/(loss) and total comprehensive income/(loss)	-	(6,511)	(6,511)
Closing balance	31,000	(9,455)	21,546
2013	Issued Capital	Retained Earnings	Total \$'000
Opening equity	21,500	757	22,257
Issue of ordinary shares	3,000	-	3,000
Net profit/(loss) and total comprehensive income/(loss)	-	(3,701)	(3,701)
Closing balance	24,500	(2,944)	21,556

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 2014

	Notes	2014 \$000	2013 \$000
Cash flows from operating activities			
Receipts from customers		43,553	14,670
Interest received		443	62
Payments to suppliers and employees		(83,902)	(45,773)
Net GST movement		1,903	(1,796)
Interest and other finance costs paid		(3,597)	(1,098)
Income tax (paid)/received		(4)	316
Subvention Payments		-	(813)
Net cash outflow from operating activities	19	(41,604)	(34,432)
Cash flows from investing activities			
Payment for intangible assets and property, plant & equipment		(2,973)	(546)
Purchase of Investments		(11,616)	-
Payment for property, plant and equipment		-	(371)
Net cash outflow from investing activities		(14,589)	(917)
Cash flows from financing activities			
Proceeds for issues of equity securities	18	6,500	3,000
Proceeds from borrowings	17	47,500	33,000
Net cash inflow from financing activities		54,000	36,000
Net (decrease)/increase in cash and cash equivalents		(2,193)	651
Cash and cash equivalents at the beginning of the year		2,697	2,046
Cash and cash equivalents at the end of the year	8	504	2,697

Notes to the Financial Statements

1. Statement of accounting policies

Reporting entity

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

The financial statements of ESL are for the year ended 30 June 2014 and were authorised for issue by the ESL Board of Directors on 1 September 2014.

Statement of compliance

ESL is a profit-oriented entity, and these financial statements comply with International Financial Reporting Standards (IFRS). These financial statements also comply with New Zealand International Reporting Standards (NZ IFRS). ESL is reporting as a Tier 1 entity.

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

Basis of preparation

The financial statements have been prepared on a historical cost basis as set out below.

Functional and presentation currency

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

Significant accounting policies

Revenue

Interest

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

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

Fibre income

Fibre income is recognised in the period in which the service is provided by reference to either the completion of a specific transaction (connection fees) or the proportion of the on-going services provided (measured on a time basis) such as Access Revenues. No new fibre services are being contracted with end users and/or retailers by the Company.

Where the Company receives payment in advance for network access, the deferred revenue is recognised as a liability on the Statement of Financial Position and recognised as revenue as services are performed.

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

Goods sold and services rendered

Revenue from the sale of goods including greenfield revenue from developers is recognised in the statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the profit or loss in proportion to the stage of completion of the transaction at balance date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods or continuing management involvement with the goods. Revenue obtained from a contract, which provides an IRU the network, is spread equally over the term of the contract and recognised in the profit or loss accordingly.

Borrowing costs

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

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight line basis over the lease term.

Lease incentives received are recognised in the profit or loss over the lease term as an integral part of the total lease expense.

Cash and cash equivalents

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

Trade, Loans and other receivables

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

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

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

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

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

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling on the day of the transaction. Foreign currency monetary assets and liabilities at the balance date are translated into NZ dollars at the rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to NZ dollars at rates ruling at the dates the fair value was determined.

Property, plant and equipment

Assets are shown at historical cost less depreciation. Historical costs include expenditure that is directly attributable to the acquisition of the items, including labour and other costs.

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

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

Depreciation is on the following basis.

- Plant and Equipment 1 - 15 years
- Leasehold Improvements 6 - 14 years
- Motor Vehicles 5 years

Impairment of non-financial assets

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

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

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

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

Calculation of recoverable amount

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

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

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

Reversals of impairment

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

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

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

Inventories

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

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

Construction contracts

On 31 May 2011 ESL was awarded the government contract to install an open access fibre optic network to every premise in the Greater Christchurch Urban areas. Under this contract the Company takes on an obligation to build the network within ten years which it will progressively sell to ENL upon certain requirements being met. The contract is within the scope of NZ IAS 11 Construction Contracts.

When the outcome can be assessed reliably, contract revenue and associated costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. Revenue is measured at the fair value of consideration received or receivable in relation to that activity.

When ESL cannot measure the outcome of a contract reliably, revenue is recognised only to the extent of contract costs that have been incurred and are recoverable. Contract costs are recognised in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately in profit or loss.

The stage of completion of any construction contract is assessed by management by taking into consideration all information available at the reporting date including milestones for the project work to be carried out.

The maximum amount of revenue to be recognised for each milestone is determined by estimating relative contract fair values of each project phase; that is by comparing overall revenue that ESL expects from its construction contract with the profit expected to be made on fulfilling the corresponding milestone. Progress and related contract revenue in between milestones is determined by comparing costs incurred to date with the total estimated costs estimated for that particular milestone (this procedure is sometimes referred to as the “cost-to-cost” method).

The gross amount due from customers for contract work is presented as an asset as “Construction contracts work in progress” for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. The gross amount due to customers for contract work is presented as a liability within “other liabilities” for all contracts in progress for which progress billings exceed costs incurred plus recognised profits.

Cost allocations

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

Intangible assets

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

Investment in associate

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

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

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

Financial liabilities

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

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

Creditors and other payables

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

Provisions

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

Employee entitlements

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

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

A liability and an expense are recognised for short term incentives and long term incentive plans where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

Superannuation schemes

Defined contribution schemes

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

Goods and services tax

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

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

Commitments and contingencies are disclosed exclusive of GST.

Income tax

Income tax expense includes current tax and deferred tax.

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

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

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

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

Share capital

Ordinary shares are classified as equity. The shares on issue represent the total authorised shares of the Company as at 30 June 2014 under the Companies Act 1993. All ordinary shares are equally eligible to receive dividends and the repayment of capital, and represent one vote at ESL’s shareholder’s meeting.

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

Statement of cash flows

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

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

Critical accounting estimates and assumptions

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

Review for impairment of investment in associate

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

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

Critical judgements in applying accounting policies

Management has exercised the following critical judgements in applying ESL’s accounting policies for the year ended 30 June 2014.

Assessment of construction contract values

The Company is contracted to build the UFB network for ENL over a build programme concluding by December 2019. A project of this nature has a number of up-front costs, including initial design, resourcing of staff, and investment in total project infrastructure. These costs are required to be recovered throughout the build programme. The Company has exercised its judgement as to whether these costs will be recoverable through the life of the project.

Changes in accounting policies

There have been no significant changes to accounting policies during the year.

Adoption of new and revised Standards and Interpretations

In the current year, ESL adopted all mandatory new and amended standards and interpretations. None of the new and amended standards and interpretations had a material impact on the amounts recognised in these financial statements.

ESL is not aware of any standards in issue but not yet effective which would materially impact the amounts recognised or disclosed in the financial statements. They will be adopted when they become mandatory.

2. Revenue

	2014 \$000	2013 \$000
Interest income		
Interest earned on cash balances with financial institutions and Senior Notes	631	62
Total interest income	631	62
Revenue		
Fibre income – gross telecommunications services revenue	1,301	1,812
Greenfields Revenue from Developers	1,332	-
Rendering of services	470	193
Management services revenue	2,983	2,464
Operations and maintenance revenue	4,678	3,164
Construction contract revenue	48,252	34,218
Sale of Inventory	6,124	4,507
Total income	65,140	46,358

Gross telecommunications services revenue

In accordance with the information disclosure requirements under section 83 of the Telecommunications Act 2001, ESL’s gross telecommunications services revenue is \$1,301k (2013: \$1,812k).

There were allowable deductions of \$1,126k (2013: \$1,561k).

3. Directors’ fees

	# of board meetings attended in 2014	# of board meetings attended in 2013	2014 \$000	2013 \$000
Board member fees during the year were:				
William Luff	12	11	42	71
Mark Bowman (Chairman)	13	11	78	38
Brett Gamble	13	10	46	42
Charlotte Walshe	9	9	44	38
Owen Scott	11	6	42	27
Chris Birkett	12	7	42	27
Craig Richardson (resigned 17/10/2012)	-	3	-	11
Total Board member fees			294	254

ESL 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.

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

4. Finance costs

	2014 \$000	2013 \$000
Interest expense on CCHL borrowings	4,227	1,403
Total finance costs	4,227	1,403

5. Cost of sales

	2014 \$000	2013 \$000
Cost of goods sold – Communal Infrastructure Network Build – Layer 1	38,929	31,545
Cost of goods sold – Communal Infrastructure Network Build – Layer 2	6,519	1,775
Costs of goods sold – Communal Infrastructure Network Build – Connections Layer 1	2,267	899
Cost of goods sold – Communal Infrastructure Network Build – Connections Layer 2	537	-
Costs of goods sold – Other	330	93
Cost of goods sold – Inventory	6,122	4,530
Operations and maintenance – Direct Costs	2,712	2,162
UFB fibre charges from ENL	1,126	1,561
Total cost of sales	58,542	42,565

6. Other expenses

	2014 \$000	2013 \$000
Audit fees for the financial statements – 2014	57	-
– 2013	-	47
– 2012 under provision	-	18
Office expenses	641	300
Net foreign exchange losses	(4)	1
Professional services	93	125
Travel	118	105
Motor vehicle costs	86	70
Other*	3,594	2,826
Total other expenses	4,585	3,492

* Other expenses includes Depreciation and Amortisation costs as per notes 12 &13, and Employee costs and Operating Leases as listed below.

	2014 \$000	2013 \$000
Salaries and wages	5,831	5,539
Employer contributions to defined contribution plans	135	92
Increase in employee entitlements	340	275
Total employee costs	6,306	5,906

Operating Leases at gross amounts \$478k (2013: \$205k) expensed per GL.

Some of these costs have been allocated to Construction Contract Work in Progress.

7. Taxation

	2014 \$000	2013 \$000
Income tax expense/(credit) recognised in profit/(loss)		
Current tax expense/(credit) in respect of the current period	-	(334)
Current tax expense/(credit) relating to prior year adjustments	334	-
Deferred tax expense relating to the origination and reversal of temporary differences	(860)	(49)
Tax expense/(income) relating to prior year adjustments	2	67
Income tax expense	(524)	(316)

	2014 \$000	2013 \$000
Reconciliation		
Profit/(loss) for the year	(7,035)	(4,017)
Income tax expense/(credit) calculated at 28% (2013:28%)	(1,970)	(1,125)
Effect of expenses that are not deductible	1,444	763
Effect on deferred tax balances of prior period tax losses	2	46
Income tax expense	(524)	(316)

Current tax assets and liabilities		
	2014 \$000	2013 \$000
Income tax payable	-	-
Subvention payments receivable from members of the CCC Tax Group		(334)
Current tax payable / (receivable)	-	(334)

ESL is a member of the CCC Tax group. The Company has paid or receives subvention payments to/from other members of the CCC tax group. These payments are treated as if they were payments/receipts of income tax and they are reflected as part of the taxation payable/(receivable) amount.

The subvention accrual in 2013 was not paid and with the additional tax loss for 2014 has now been classified as a deferred tax asset.

Deferred tax assets and liabilities				
Year Ended 30 June 2014	2014 Opening balance \$000	2014 Charged to profit/(loss) \$000	2014 Charged to equity \$000	2014 Closing balance \$000
Deferred tax asset/(liability):				
Temporary differences				
Property, plant and equipment	(84)	7	-	(77)
Employee entitlements	208	83	-	291
Expense accruals	8	3	-	11
Loss Carried Forward	-	768	-	768
Total	132	861	-	993
Represented by:				
Deferred tax assets	216	854	-	1,070
Deferred tax liabilities	(84)	7	-	(77)
Net deferred tax asset/(liability)	132	861	-	993

Tax losses are recognised on the basis that future profit to utilise these losses is considered probable. The Company is investing in ENL to part fund its investment in infrastructure, which involves significant initial investment. The Company and ENL will incur losses in the start-up phase but will revert to reliable profitability in future years. This view is reinforced by Company projections which are based upon the Board approved business plan.

The projected period over which the tax profits will be derived is the period until the end of the 2023 financial year. ESL, at the end of the Concession period in 2021, is likely to exercise its rights to purchase A shares in ENL from CFH at \$1 per share. At that point ESL will be in a position to utilise its tax losses as profits are generated from the combined ESL and ENL businesses.

The Company feels the projections are robust and reflect the best available information.

Year Ended 30 June 2013	2013 Opening balance \$000	2013 Charged to profit/(loss) \$000	2013 Charged to equity \$000	2013 Closing balance \$000
Deferred tax asset/(liability):				
Temporary differences				
Property, plant and equipment	(37)	(47)	-	(84)
Employee Entitlements	112	96	-	208
Expense Accruals	8	-	-	8
Total	83	49	-	132
Represented by:				
Deferred tax assets	120	96	-	216
Deferred tax liabilities	(37)	(47)	-	(84)
Net deferred tax asset/(liability)	83	49	-	132
			2014 \$000	2013 \$000
Imputation credits available for use in subsequent periods			485	485

8. Cash and cash equivalents

	2014 \$000	2013 \$000
Cash on hand and at bank	504	2,697
Total cash and cash equivalents	504	2,697

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

9. Trade, other receivables and prepayments

Current	2014 \$000	2013 \$000
Trade receivables	971	1,541
Related party trade receivables*	21,304	22,194
Prepayments	900	2,684
GST receivables	-	1,170
Total Current trade, other receivables and prepayments	23,175	27,589
Non Current	2014 \$000	2013 \$000
Related party trade receivables*	2,024	-
Prepayments	2,721	-
Total Non-Current trade, other receivables and prepayments	4,745	-
Total trade, other receivables and prepayments	27,920	27,589

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

*This includes \$151k (2013: nil) for Secondary Access Network Income to be received by ENL, and \$21.650m (2013: 15.441m) of revenue recognition for percentage completion calculation on Capital WIP. There is no capital WIP this year and there was \$1.993 million in 2013.

10. Inventories

	2014 \$000	2013 \$000
Inventory	2,246	2,677
Total inventories	2,246	2,677

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

11. Construction Contract Work in Progress

	2014 \$000	2013 \$000
Current asset		
Opening balance	12,652	7,024
Additions	67,305	39,627
Transfer from non-current portion of construction contract	61	219
Sale of Construction Network asset to ENL	(48,252)	(34,218)
Current Construction Contract Work in Progress	31,766	12,652
Non-current asset		
Opening balance	636	855
Additions	-	-
Transfer to current portion of construction contract	(61)	(219)
Non-Current Construction Contract Work in Progress	575	636

Construction contract work in progress is determined on a percentage completion basis. Costs of Sale \$114.645m (2013: \$66.39m) have been incurred in accordance with the network build contract with ENL, no profit has and will not be recognised. ESL has received payment for UFB network stages to a total of \$61.662m (2013: \$20.138m). No payment in advance has been received nor are retentions held in relation to the contract at balance date.

12. Property, plant and equipment

	Plant & equipment at cost \$000	Work in progress at cost \$000	Leasehold improvements at cost \$000	Motor vehicles at cost \$000	Total \$000
Gross carrying amount:					
Balance at 30 June 2012	477	586	102	81	1,246
Additions	344	249	3	6	602
Disposal	-	(586)	(2)	(31)	(619)
Balance at 30 June 2013	821	249	103	56	1,229
Additions	394	-	6	12	412
Disposals	(21)	(249)	-	-	(270)
Transfers to intangible assets	(104)	-	(29)	-	(133)
Balance at 30 June 2014	1,090	-	80	68	1,238

	Plant & equipment at cost \$000	Work in progress at cost \$000	Leasehold improvements at cost \$000	Motor vehicles at cost \$000	Total \$000
Accumulated depreciation, amortisation and impairment:					
Balance at 30 June 2012	(140)	-	(29)	(41)	(210)
Depreciation expense	(150)	-	(18)	(19)	(187)
Disposals	-	-	-	24	24
Impairment losses	-	-	-	-	-
Balance at 30 June 2013	(290)	-	(47)	(36)	(373)
Depreciation expense	(265)	-	(13)	(12)	(290)
Disposals	55	-	30	-	85
Impairment losses	-	-	-	-	-
Balance at 30 June 2014	(500)	-	(30)	(48)	(578)

Net book value at 30 June 2013	531	249	56	20	856
Net book value at 30 June 2014	590	-	50	20	660

13. Intangible assets

	Work in progress \$000	Software \$000	Total \$000
Gross carrying amount			
Gross carrying amount at 30 June 2012	478	272	750
Additions	355	586	941
Transfer to Software	(338)	-	(338)
Disposals	-	(21)	(21)
Gross carrying amount at 30 June 2013	495	837	1,332
Additions (software)	2973	10	2,983
Disposals	-	-	-
Transfers from property, plant and equipment	-	133	133
Gross carrying amount at 30 June 2014	3,468	980	4,448

	Work in progress \$000	Software \$000	Total \$000
Accumulated amortisation and impairment			
Accumulated depreciation and impairment at 30 June 2012	-	(23)	(23)
Amortisation expense	-	(164)	(164)
Accumulated amortisation and impairment at 30 June 2013	-	(187)	(187)
Amortisation expense	-	(298)	(298)
Accumulated amortisation and impairment at 30 June 2014	-	(485)	(485)

Carrying amount at 30 June 2013	495	650	1,145
Carrying amount at 30 June 2014	3,468	495	3,963

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

14. Investment in associate

	2014 \$000	2013 \$000
Shares Received		
A shares received for UFB network	34,738	6,250
B shares received for UFB Layer 2	2,547	1,609
B shares received for Existing Network	3,442	28,813
B shares received for Working Capital	6,050	2,300
Total Costs of Shares in ENL	46,777	38,971
Cumulative share of Profit/(Loss) in Associate	(9,531)	(4,371)
Total investment in associate	37,246	34,600

ESL entered an agreement with CFH and ENL on 31 May 2011 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.

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

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

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

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

A Shares

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

B Shares

B shares have dividend rights but do not have voting rights. Where free cash flow in ENL is not sufficient to purchase UFB network, the Layer Two Communal Infrastructure, all End User Specific Infrastructure and working capital requirements in ENL are funded by ESL using a hierarchy of specified equity, then debt through note instruments to certain debt/equity ratios and if required through B shares. Where funding to ENL is provided through B shares the transaction occurs as a non-cash transaction in return for the relevant part of the Network or in return for cash in the case of working capital requirements. At 30 June 2014 \$16.441m debt had been drawn down (2013: Nil).

In addition to these B shares ESL also received B shares for the sale of the existing fibre network to ENL in February 2012. These B shares are able to convert to A shares to the extent that ESL does not hold more than 49% of voting rights through A shares during the UFB network build period. At 30 June 2014: 25,371,310 (2013: Nil) B shares for existing fibre network had been converted to A shares.

All A shares and B shares in ENL convert to ordinary shares at the end of the Concession period.

Associate status

Although ESL holds the substantial majority of total shares issued in ENL, it only holds approximately 49% (2013: 33%) of the voting shares and does not control ENL. It is deemed to hold significant influence over ENL through its holding of A and B shares and therefore accounts as an associate for ENL.

Summarised financial statements of associate for the 12 months ended 30 June 2014

	2014 \$000	2013 \$000
Current Assets	1,870	2,363
Non-Current Assets	91,074	57,715
Current Liabilities	12,391	6,893
Non-Current Liabilities	41,099	11,373
Revenue	5,273	3,989
Net profit/(loss) after tax/Total Comprehensive Income (loss)	(8,474)	(3,286)

Reconciliation of summarised financial statements of associate to carrying amount of interest in associate as at 30 June 2014

	2014	2013
Net Assets of ENL	39,454	35,812
Proportion of ESL’s ownership in ENL	56.39%	76.04%
Carrying Amount of ESL’s interest in ENL	37,246	34,600

15. Creditors and other provisions

	2014 \$000	2013 \$000
Creditors & accrued expenses	6,467	7,325
Income in Advance	-	420
GST payable	28	-
Retentions	195	277
Total creditors and other provisions	6,690	8,022

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

16. Employee entitlements

	2014 \$000	2013 \$000
Current employee entitlements are represented by:		
Employee incentives	436	329
Annual leave	340	285
Other	227	181
Total current employee entitlements	1,003	795
Non current employee entitlements are represented by:		
Long term employee incentive plan	462	300
Total non current employee entitlements	462	300

17. Borrowings

	2014 \$000	2013 \$000
Loan from CCHL	100,000	52,500
Total borrowings	100,000	52,500

ESL has a subordinated loan agreement with CCHL. The loan is unsecured and the interest rate is a base rate plus a 1% margin. At 30 June 2014 the rate was 5.83% (2013: 4.10%). The line of credit is for \$220m of which ESL has drawn down \$100m to date (2013: \$52.5m).

18. Issued capital

	2014 No. of Shares #000	2013 No. of Shares #000	2014 Value of Shares \$000	2013 Value of Shares \$000
Issued capital – fully paid and authorised				
Opening balance – ordinary shares	24,500	21,500	24,500	21,500
Shares issued	6,500	3,000	6,500	3,000
Closing balance – ordinary shares	31,000	24,500	31,000	24,500

During the year there were no costs associated with share issues (2013: nil).

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

	2014 \$000	2013 \$000
Net profit/(loss) after tax	(6,511)	(3,701)
Add/(less) non-cash items:		
Depreciation, amortisation expense	590	351
Deferred tax charged/(credited) to income	(862)	(48)
Share of associates loss/(profit)	5,158	2,722
Net foreign exchange (gains)/losses	-	1
Other – non cash shares in ENL for Construction Contract	(17,627)	(6,725)
Total non-cash items plus Net Loss after Tax	(12,741)	(7,400)
Add/(less) items classified as investing or financing activities		
(Gain)/loss on disposal of non-current assets	-	4
Depreciation allocated to construction WIP	(298)	-
Movement in capital creditors	58	323
Total items classified as investing or financing activities	(240)	327
	2014 \$000	2013 \$000
Add/(less) movements in working capital items		
Current Inventories	431	(684)
Trade and other receivables and prepayments – current	4,414	(24,423)
Construction contract work in progress – current assets	(19,114)	(5,628)
Deferred CO Receivable – current	(1,425)	-
Deferred CO Receivable – non current	(962)	-
Creditors and other payables	(1,332)	3,504
Construction Contract WIP – non current	61	219
Employee entitlements – current	208	175
Employee Entitlements – non current	162	100
Income tax payable/(receivable)	334	(765)
Retentions	(144)	143
Debtors – non current	(4,745)	-
<i>Net movements in working capital items</i>	(22,112)	(27,359)
Net cash from operating activities	(41,604)	(34,432)

ESL had the following significant non-cash transactions during the 2014 period.

- UFB Network Assets of \$3.116m were sold to ENL in exchange for A shares.
- UFB Network Assets of \$937k were sold to ENL in exchange for B shares.
- UFB Network Assets of \$13.574m were sold to ENL in exchange for Senior Notes.
- Deferred CO Receivables \$2.837m.

ESL had the following significant non-cash transactions during the 2013 period.

- UFB Network Assets of \$5.117m were sold to ENL in exchange for A shares.
- UFB Network Assets of \$1.609m were sold to ENL in exchange for B shares.

20. Commitments

Capital commitments

ESL has entered into agreements to build, operate and maintain a UFB network on behalf of ENL as described in note 27. The agreements require ESL to have built the UFB network past 90% of priority premises (business, health, schools and government) by December 2015 with all premises to be passed by December 2019. Upon each stage of the network being completed and subject to that stage satisfactorily passing user acceptance testing ENL will purchase that stage.

The actual number and placement of premises to be built is agreed in detail in Network Deployment Plan. In addition, the agreements require ESL to connect, on request, any entity within the built UFB network. These connections are to be paid for by ENL 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 2014 the estimated cost of the UFB network including connections, central office construction and other components of the network to December 2021 is \$403m. The total remaining after cash payments at balance date was \$286m (2013: \$401m) expected cost.

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

ESL has contracted with Tech Mahindra to deliver an OSS/BSS operating system. There is \$1.87m remaining to be paid on this contract as at 30 June 2014 when delivery milestones are met.

Lease payments as lessee under operating leases

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

	2014 \$000	2013 \$000
Not later than one year	463	417
Later than one year and not later than five years	1,422	1,493
Later than five years	26	341
Total non-cancellable operating leases	1,911	2,251

During the 2012 year ESL cancelled its existing premise lease on Show Place without penalty and entered a lease to rent premises in Wrights Road which was occupied in July 2013. The lease is for a period of six years with two further rights of renewal for six years.

Lease receipts as lessor under operating leases

The future aggregate minimum lease payments to be collected as lessor under operating leases are as follows.

	2014 \$000	2013 \$000
Not later than one year	411	1,093
Later than one year and not later than five years	1,025	1,316
Later than five years	165	295
Total non-cancellable operating leases	1,601	2,704

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

The lease obligations in 2014 reflect remaining customer contracts. These are fulfilled by ESL acquiring UFB service from ENL under a Wholesale Services Agreement which it in turn provides to customers.

21. Contingencies

Contingent liabilities

Liquidated Damages

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

LDs are potentially payable to ENL on NDP1, NDP2 and some of NDP3. No such demand has been made to date.

Contingent assets

Network Delivery Alliance (NDA)

Under the NDA agreement a set of accounts is prepared at the completion of each Network Deployment Plan (NDP). This agreement has a fixed Gross Maximum Price which has been broken down into a budget for the NDP. NDP actuals are compared to budgets to derive a Pain/Gain situation relating to that NDP. If a pain situation exists, TSL will refund any overspend on that stage to ESL. If a gain situation exists, ESL and TSL will share the gain.

At the time of signing the accounts this process was not completed for NDP3. TSL has lodged a \$22.5m performance bond with ESL under the Network Delivery Alliance agreement (2013: \$47.5m).

22. Related party transactions and key management personnel

Related parties

ESL is 100% owned by CCHL. CCHL is 100% owned by the CCC.

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

During the period, no transactions were entered into by ESL with any of its Directors other than the payment of Directors’ fees and the reimbursement of valid ESL-related expenses. Positano Holdings Limited a company in which Brett Gamble is a director and shareholder provided professional services - \$77k was paid of which \$18k was owing at balance date (2013: nil).

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

CCHL was a party to the ultra-fast broadband contract documents signed with CFH on 31 May 2011 under which it undertakes some of the obligations of ESL and will provide a performance bond for the sum of \$45,000,000 as at 30 June 2014 (2013: \$50,000,000).

ESL is a member of the CCC tax group. The Company pays or receives subvention payments to/from other members of the CCC tax group. The subvention accrual in 2013 was not paid and that plus the additional tax loss for 2014 has been classified as a deferred tax asset. It is not anticipated that any subvention payment will be receivable in 2014.

ESL has entered into a subordinated loan agreement with CCHL. The loan is unsecured and the interest rate is a base rate plus a 1% margin. At 30 June 2014 the base rate was 4.83% (2013: 4.10%). The line of credit is for \$220m of which ESL has drawn down \$100m to date (2013: \$52.5m). The final repayment date for this loan is March 2023.

The following transactions were made during the financial year.

Significant transactions with the Parent and related entities (CCHL)

	2014 \$000	2013 \$000
Issue of equity to CCHL	6,500	3,000
Sales to CCC for services	237	330
Sales to City Care Ltd	4	21
Additional Loan from CCHL	47,500	33,000
Payments to CCC for services	385	1,148
Subvention Payments to CCC Tax group	-	813
Payments to Orion New Zealand Ltd for services	75	101
Payments to Vbase for services	-	1
Payments to Connetics for services	150	105
Payments to Christchurch International Airport Ltd for services	10	22
Payments to CCHL for interest	3,596	1,111

Significant transactions with the associate (ENL)

During 2014, ESL sold UFB assets to its associate of \$43.911m (2013: \$16.778m).

During the 2014 period, ESL sold fibre network assets to the associate, and received shares in ENL and cash as set out in notes 11 and 14.

ESL has received payment for stages from ENL by way of Senior Notes issued in its favour of \$16.441m. These notes are maturing from June 2021. \$357k of interest was paid and payable in the current year (2013: Nil).

In addition, ESL provides support services to the associate under a Management Services Agreement, operations and maintenance services under the NIPA and other minor contract on-charges. ESL charged \$7.813m (2013: \$5.628m) during the period for these services. At balance date \$1.705m (2013: \$6.698m excl GST) is outstanding (included within debtors and other accruals), and is receivable under normal commercial terms.

Following sale of the existing fibre network to ENL, ESL purchases UFB product from ENL in order to fulfil its remaining customer contracts. This is a transitional arrangement that will reduce as remaining ESL customer contracts expire. The total UFB product purchased from ENL for the year was \$ 1.126m (2013: \$1.561m) with no balance payable at year end.

During the year ESL transferred seven Central Office land titles to ENL. These assets are paid for under the NIPA as a component of each premise passed. At 30 June 2014 ESL has recognised this amount receivable from ENL as a Deferred Purchase Receivable from ENL of \$2.387m (2013: Nil).

Significant balances with related parties at year end

	2014 \$000	2013 \$000
Accounts payable to CCC	13	120
Accounts receivable from CCC	13	73
Accounts payable to Orion New Zealand Ltd	3	35
Accounts payable to Connetics	-	27
Accounts payable to ENL	78	110
Accounts receivable from ENL	23,328	22,194
Loan Owed to CCHL	100,000	52,000
Accrued Interest to CCHL	968	337

Key management personnel compensation

	2014 \$000	2013 \$000
Short-term employee benefits including Salaries and Directors’ fees	2,229	2,191
Other Long Term Employee Benefits	260	125
Total key management personnel compensation	2,489	2,316

Key management personnel comprise the Directors, Chief Executive, General Manager Finance, Chief Financial Officer, Programme Director, General Manager Marketing & Sales, General Counsel, General Manager Customer Service & Administration, General Manager Network Planning & Design, General Manager Network Deployment, Project Director Network Delivery Alliance and General Manager Network Operations.

23. Employee remuneration

Total remuneration paid for the year is as follows.

Salary Bands (\$000)	2014	2013
100-110	4	6
110-120	3	5
120-130	5	1
130-140	1	1
140-150	1	1
160-170	2	2
180-190	1	-
190-200	1	1
200-210	1	-
210-220	1	-
220-230	-	2
230-240	-	1
420-430	1	-
440-450	-	1
Total employees	21	21

During the year ended 30 June 2014, no employees received compensation and other benefits in relation to cessation (2013: nil).

24. Categories of financial assets and liabilities

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

	2014 \$000	2013 \$000
Loans and receivables:		
Cash and cash equivalents	504	2,697
Loan to TSL	5,000	-
Senior Notes	16,441	-
Trade and other receivables	24,299	23,735
Deferred CO Receivable	2,388	-
Total loans and receivables	48,632	26,432
<i>Financial liabilities measured at amortised cost:</i>		
Creditors, other payables and retentions	6,690	8,022
Borrowings from CCHL	100,000	52,500
Total financial liabilities measured at amortised cost	106,690	60,522

25. Financial instrument risks

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

Market risk

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. ESL's exposure to fair value interest rate risk is with its bank term deposits and senior notes which are held at fixed rates of interest. These are not accounted for at fair value and fluctuations in interest rates do not have an impact on the profit/loss of ESL or the carrying amount of the financial instruments recognised in the statement of financial position.

The average interest rate on ESL's term deposits is 2.75% (2013: 2.5%).

Senior Notes lending are matched against fixed interest LGFA Bonds. Senior Notes of \$11.5m mature in 2021 and the interest rate for the \$4.941m maturing in 2023 will be converted into a fixed rate in the August 2014 LGFA tender. The current average interest rate is 6.61% (2013: nil).

ESL has lent TSL a \$5m cash advance (2013: nil). The interest rate on this arrangement is based on the average lending cost from CCHL funding. As at 30 June 2014, the interest rate was 6.5%.

Cash flow interest rate risk

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

Sensitivity analysis

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

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

Sensitivity to interest rate changes

	Effect on equity 2014 \$000	Effect on equity 2013 \$000	Effect on net profit after tax 2014 \$000	Effect on net profit after tax 2013 \$000
1% increase in interest rates	(680)	(378)	(680)	(378)
1% decrease in interest rates	680	378	680	378

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

Credit risk

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

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

Owing to the timing of its cash inflows and outflows, ESL invests surplus cash with a major registered trading bank (the BNZ). ESL’s Treasury Policy limits the amount of credit exposure to any one institution.

ESL’s maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents (note 8) trade and other receivables (note 9) – Senior Notes and Loan to TSL. There is no collateral held as security against these financial instruments and no instruments are overdue or impaired.

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

Credit risk exposure to trade receivables

\$000	Gross Receivables 2014	Gross Receivables 2013	Impairment 2014	Impairment 2013
Not past due	2,478	7,162	-	-
Past due 1-30 days	110	1,023	-	-
Past due 31-60 days	40	23	35	-
Past due 61+ days	7	85	-	18
Total trade receivables	2,635	8,293	35	18

All receivables have been reviewed and \$35k (2013: \$18k) has been set aside to provide for a doubtful debt. The balance of debtors were considered to be fully collectible.

These balances exclude Revenue Recognition balances of \$21.65m and Deferred CO Receivable \$2.388m.

Liquidity risk

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

The major liquidity requirement for the Company relates to its obligation to fund ENL in conjunction with CFH. CCHL has guaranteed the provision of funding.

Contractual maturity analysis of financial liabilities and assets

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

2014	Balance Sheet \$000	Contractual Cashflows \$000	Less than 1 Year \$000	Between 1 and 2 Years \$000	Between 2 and 5 Years \$000	Greater than 5 years \$000
Financial Assets						
Cash and cash equivalents	504	504	504	-	-	-
Senior Notes	16,441	24,210	1,034	1,034	3,102	19,040
Deferred CO Receivable from ENL	2,387	2,387	1,425	962	-	-
Loan to TSL	5,000	6,300	325	325	5,650	-
Trade and other receivables	24,299	24,299	22,275	2,024	-	-
Total	48,631	57,700	25,563	4,345	8,752	19,040
Financial Liabilities						
Creditors, other payables and retentions	6,690	6,690	6,690	-	-	--
Borrowings from CCHL	100,000	150,977	5,826	5,826	17,478	121,847
Total	106,690	157,667	12,516	5,826	17,478	121,847

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

26. Capital management

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

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

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

On 31 May 2011 ESL was awarded the government contract to install an open access fibre optic network to every premise in the Greater Christchurch Urban areas, including Christchurch City, Rangiora, Rolleston, Woodend, Kaiapoi, Lincoln and Prebbleton. This is part of a broader Ultra-Fast Broadband (UFB) project contracted by the Crown to provide open access fibre optic network throughout all urban areas in New Zealand.

The UFB contract involves a partnership with CFH which is the Government entity negotiating and administering the contract. The partnership is through a subsidiary entity of CFH, ENL, which both ESL and CFH invest in. The Board of ENL is made up of three delegates each from ESL and CFH plus an independent chair. The percentage of shares and level of voting control held by each entity will change through the lifecycle of the project.

Under the UFB project, ESL takes on an obligation to build the network within eight years which it will sell to ENL upon requirements being meet. The agreement includes a requirement to build to priority users including health, education and business areas by the end of 2015. The expected cost of the build is approximately \$403m and, in addition to CFH investment, other funding has been arranged with CCHL on a mixture of debt and equity.

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

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

28. Civil Construction Contract with Transfield Services (New Zealand) Limited

In Feb 2014 ESL entered into an Alliance with TSL to build the ultra-fast broadband network. The arrangement mirrors many of the obligations placed on ESL in the ultra-fast broadband contract. This construction Alliance is a five year arrangement with a remaining value of approximately \$162.6m (2013: \$208m).

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

The Statement of Intent (Sol) issued by ESL last year in respect of the 2013/14 financial year included a number of financial and non-financial performance measures. The following table compares the actual financial results for the year ended 30 June 2014 with the targets contained within the Sol.

	Actual \$Ms	Target \$Ms
Revenue	66	62.1
Cost of Sales Network	(57)	(54.4)
Cost of Sales Other	(1.1)	(2.7)
Net Revenue after Cost of Sales	7.3	4.9
EBITDA	2.1	1.2
Net profit/(loss) after tax	(6.51)	(6)
Number of premises passed (cumulative UAT tested)	47,773	53,516
Number of connections (cumulative)	4,477	10,060
Schools connected (cumulative)	76	105
Priority Premises Passed (cumulative)	7,660	6,225
Priority Connections (cumulative)	1,238	1,330
Schools able to access UFB	89%	60%
Businesses accessing UFB	9.86%	14%
Residences accessing UFB	9.4%	6%
Achieve environmentally friendly design standards	100% ducting underground	>70% ducting underground

Variances between the actual results for the year ended 30 June 2014 and the targets contained within the Sol are as follows.

• Revenue / Cost of Sales Network

The contract build project had increased sales of completed stages to ENL vs target and recorded Greenfields contribution revenue from developers of \$1,332k. EBITDA represents ESL profitability prior to the deduction of interest, tax, depreciation and amortisation expenses. It also excludes the share of losses in ENL as it represents the underlying profitability of the operational part of the business. Under the UFB contract, the Company sells most of its products and services at cost to ENL.

• Net profit/(loss) after tax

Net Profit After Tax was slightly lower than expected due to the inclusion of a higher proportion of the loss in ENL due to ESL holding a higher share proportion of the company than was anticipated in the Sol.

• Number of premises passed

With the completion of Year Two deployment programme and the momentum generated by the newly established Network Delivery Alliance which is now operating at full capacity, the shortfall is being quickly addressed.

• Number of connections

ENL’s ability to achieve a greater number of connections was impacted by late or non-entry into the local fibre market by the three largest retail service providers. Total uptake of fibre broadband services over ENL’s network is 5,468 (4,477 active connections and 991 connections underway) and this equates to 9.4 percent uptake – well above the national uptake rate.

• Schools connected / Schools Accessing

Fibre broadband services are now available to 111 schools within ENL’s coverage area – with the deployment programme on target to reach the remaining schools by the end of 2015. ENL is working closely with Network 4 Learning to drive the prioritisation of connecting local schools that can access fibre broadband services.

• Priority Connections/Business Accessing UFB

ESL is required to make fibre broadband services available to all schools, all hospitals and 90 percent of businesses by the end of 2015 and is on target to do so. The actual number of priority connections and percentage of businesses accessing UFB is a result of late entry or non-entry to market by a number of key retail service providers.

• Achieve environmentally friendly design standards

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

30. Events after the balance sheet date

There were no significant events after the balance date.

Independent Auditor’s Report



To the readers of Enable Services Limited’s financial statements and statement of service performance for the year ended 30 June 2014

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

We have audited:

- the financial statements of the company on pages 17 to 52, that comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the company on pages 51 and 52.

Opinion

Financial statements and statement of service performance

In our opinion:

- the financial statements of the company on pages 17 to 52:
 - comply with generally accepted accounting practice in New Zealand;
 - give a true and fair view of the company’s:
 - financial position as at 30 June 2014; and
 - financial performance and cash flows for the year ended on that date; and
- the statement of service performance of the company on pages 51 and 52:
 - complies with generally accepted accounting practice in New Zealand; and
 - gives a true and fair view of the company’s service performance achievements measured against the performance targets adopted for the year ended 30 June 2014.

Other legal requirements

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

Our audit was completed on 1 September 2014. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

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

An audit also involves evaluating:

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

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

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements and a statement of service performance that:

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

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

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

Responsibilities of the Auditor

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

Independence

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

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



Julian Tan

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

Statutory Information

Principal activities

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

Directors’ interests

ESL maintains an interests register in which particulars of certain transactions and matters involving the Directors are recorded. These are requirements under the Companies Act 1993. The following entries were recorded in the interests register during the year ended 30 June 2014.

Director	Directors’ Interests
William Luff	Director of Arts Management Limited, Luff Trading Limited, Isaac Construction Limited
	Trustee of Christchurch Symphony Orchestra Trust, Woodlands Family Trust, Isaac Wildlife Conservation Trust
	Chief Strategy & Marketing Officer at Solid Energy New Zealand Limited
Mark Bowman (Chairperson)	Director of Enable Networks Limited
	Director & Shareholder of Comrad Holdings Limited, Magic Memories Group Holdings Limited, Scarlett Hydraulics Limited
	Trustee of MJ & RM Bowman Family Trust
Brett Gamble	Director of Positano Holdings Limited, Enable Networks Limited, Aoraki Services Limited, Aoraki Partners Holdings Limited, Milisa Holding Limited, Chart Noticeboards Limited, C2H Limited
	Trustee of Hammersmith Property Trust, Gamble Family Trust
	Officer of Mobile Surgical Services, Mobile Medical Technologies
Charlotte Walshe	Director of Cluster Limited, Invacare Holdings Limited, Dynamic Controls, Dynamic Suzhou Holdings NZ
Owen Scott	Director & Shareholder of Concentrate Limited, Concentrate NZ Limited, Scott Afforestation Limited, AintoG Limited
	Shareholder of Elliotvale Afforestation Limited
	Trustee of Madgeo Trust, The New Zealand Hi-Tech Trust
Chris Birkett	Managing Director of General Cable New Zealand Ltd, General Cable Superconductors Investments Ltd, General Cable Australia Pty Ltd (Australian Company), General Cable Holdings New Zealand Ltd General Cable New Zealand India Cable 1 Ltd, General Cable New Zealand India Cable 2 Ltd, Dominion Wire and Cable Ltd (Fijian Company)
	Trustee of Birkett (No.2) Family Trust

Donations

No donations were made during the year.

Dividends

No dividends were paid during the year.

Directory

Shareholders

Christchurch City Holdings Limited

Registered office

Enable House

2nd Floor

106 Wrights Road

Christchurch 8149

New Zealand

Contact address

PO Box 9228

Tower Junction

Christchurch 8149

New Zealand

Web www.enable.net.nz

Email admin@enable.net.nz

Phone + 0800 434 273

Auditor

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

Solicitor

Simpson Grierson

Lane Neave

Banker

BNZ



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