enable

Delivering new possibilities

ENABLE SERVICES LIMITED

STATEMENT OF INTENT

FOR YEAR ENDING 30 JUNE 2015

DIRECTORY

Address	PO Box 9228, Christchurch
Registered office	Enable House, 2nd Floor, 106 Wrights Road, Addington, Christchurch
Board	Mark Bowman (Chair) Chris Birkett Brett Gamble William James Luff Owen Scott Charlotte Walshe
Chief Executive	Steve Fuller
Telephone	03 335 1765
Web	www.enablenetworks.co.nz
Email	steve.fuller@enable.net.nz

INTRODUCTION

This Statement of Intent (**SoI**) is submitted by the Board of Directors of Enable Services Limited (**ESL**) and is prepared in accordance with Section 64(1) of the Local Government Act 2002.

The SoI specifies the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the company may be judged in relation to its objectives, amongst other requirements. The SoI covers the activities of ESL and its investment in the associate Enable Networks Limited (**ENL**) which is jointly owned by the Crown and ESL.

The process of negotiation and determination of an acceptable SoI is a public and legally-required expression of the accountability relationship between the company and its shareholder, Christchurch City Holdings Ltd (**CCHL**). The SoI is reviewed annually with CCHL and covers a three year period.

ESL is a council-controlled trading organisation (**CCTO**) for the purposes of the Local Government Act 2002.

OBJECTIVES

Enable's primary objectives are:

- Successful implementation of the Ultra-Fast Broadband (**UFB**) network in Christchurch consistent with Crown requirements and in a way that will create world leading 'open access' UFB capability for every premise in Christchurch, Rangiora and Rolleston (within defined areas).
- Execute the required UFB operational and management services to a high level ensuring the end-user (customer) experience is maximised.
- Drive uptake on the UFB network ensuring Enable is successful and sponsorship of demand aggregation resources in sectors where a collective approach can bring substantial benefits to the consumers, eg, schools and health.
- Maximising the UFB network asset to secure commercial returns on the UFB investment that meet or exceed the cost of equity capital, taking into account the long term nature of this infrastructure investment. Also being cognisant that long term returns are impacted by the optimisation of annual returns throughout the early build programme.

NATURE AND SCOPE OF ACTIVITIES

Establishment

ESL's parent company, CCHL, has stated its intent "to own and manage key infrastructure investments" that make Christchurch internationally competitive. The economic and social development of Christchurch is a key priority which a world class open access broadband network supports.

In January 2007 ESL was incorporated as a company and commenced operations in June 2007. Over the next four years it completed the initial investment in a metropolitan open access fibre optic network and actively grew market share in the business broadband market.

UFB Contract

In May 2011 ESL was awarded the government contract to install and operate an open access fibre 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 UFB project contracted by the Crown to provide open access fibre network throughout all urban areas in New Zealand.

The ESL UFB contract involves a partnership with Crown Fibre Holdings Limited (**CFH**) which is the Government entity administering the contract and the associated investment. The partnership is through the subsidiary ENL which both ESL and CFH hold investments 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 UFB network by 31 December 2019 which it will sell to ENL upon requirements being meet. The agreement includes a requirement to build to most priority users including health, education and business areas by 31 December 2015.

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

Enable will proactively secure customer demand through its ever expanding array of business partners (retail service providers) and it will continue to seek and evaluate opportunities that provide the city with 'UFB open access broadband capability' which are compatible with the company's objectives and the contractual obligations of Enable.

CONTRIBUTION TO THE GROWTH OF GREATER CHRISTCHURCH

Social Transformation and Development

Enable recognises the significant social and environmental benefits that can be gained for Christchurch through the successful implementation of the UFB project. These benefits are especially important given the numerous impacts on the Greater City area from the Canterbury earthquakes.

Enable will conduct its business paying close attention to these areas including:

- Assisting relocating businesses by providing efficient access to new network connections
- Focus network build areas to ensure new Greenfield (subdivisions) developments have access to UFB capability where possible
- Maximising the co-ordination with the rebuilding of Christchurch and the establishment of the UFB network
- Minimising environmental impacts by ensuring network infrastructure will be deployed in a way that minimises the impact to the environment, ie, underground.

In addition, Enable will work closely with the education, health and business sectors in Christchurch ensuring UFB capability investments are targeted in these areas for the wider good of the community.

Finally, Enable will ensure its broadband capability plays a significant role in ensuring Christchurch has a safe community, ie, continual support and expansion of community based services such as crime prevention camera capability.

All activities will be carried out in line with the objective of protecting and growing shareholder value.

Retention of Key Staff

Retention and attraction of talented employees is vital to Enable's success. As a major civil construction project during the earthquake recovery process and in a very competitive job market, this is even more apparent. Enable intends to achieve the retention and attraction of talented employees by:

- Remunerating employees at a competitive market rate
- Taking steps to build a culture that stimulates and motivates employees to perform in and enjoy their work environment
- Putting in place policies and procedures that support employees' health, safety and wellbeing
- Providing development opportunities
- Ensuring our leadership team is effective, united and supportive

Regional and City Planning

Enable's business of building an UFB network aligns with and supports the plans of CERA and the Christchurch City Council. Of particular focus, the plans completed for Christchurch are noted below.

a) Christchurch Transport Strategic Plan

Enable does not provide physical transport infrastructure, however the provision of a UFB network can work in tandem with the Christchurch Transport Strategic Plan 2012 -2042 **(Transport Plan)** to enhance transport outcomes for the community. The UFB services assist with achieving of the four goals of the Transport Plan:

- Improve access and choice: The provision of UFB makes it a viable option for people to choose to access most goods and services via the Internet reducing load on the transport network.
- Create safe, healthy and liveable communities: Provision of the UFB network complements the integration of land use by encouraging the recovery of the Central City, suburban centres and the establishment of new growth areas. UFB services such as the provision of free ultra-fast wireless in Cashel Mall assist the re-establishment of commerce in the City Centre.
- Support economic vitality: The plan focuses on enhancing access between the port, airport and freight hubs. Enable has provided UFB services to these areas to enhance the efficiency of companies operating out of these locations.
- Create opportunities for environmental enhancements: The UFB network is being utilised to manage traffic light systems in an efficient manner. Enable is committed to building environmentally friendly infrastructure underground and is using the rebuild of City infrastructure and roads to reduce the build impact. The UFB network can assist in reducing traffic volumes by enabling work from home and purchase of goods and services via the Internet.

b) Community Outcomes for Christchurch

Enable's investment in UFB network is a key input into many of the listed outcomes sought under the 2013-22 Community Outcomes for Christchurch proposal and in particular, Prosperous Economy – with Christchurch being a good place to do business creating a strong economic base. The UFB network will enable vastly improved communications and technology capabilities for the business, education and health sectors removing the current limitations of price and broadband capability. International studies have highlighted the significant impact that UFB has on economic growth and the development of innovative communities.

Enable will also continue its investment in enabling a safer community, for example, the provision of fibre capability for crime cameras.

c) Support of redevelopment of Central City

In the Central City Enable has assisted with the Re-start project in Cashel Mall, and other areas, by providing sponsored fibre to enable the free ultra-fast wireless connection in the area. Enable's UFB network remains in full working order and is immediately available for entities as they re-enter the Central City area. Enable is also building to all remaining business, health, education and government premises as a priority in the Central City and is working closely with all other infrastructure providers to maximise opportunity and minimise disruption.

Enable has taken a six year lease with renewal rights on a building being constructed in Wrights Road, Addington for its head office. This decision was made immediately post 22 February earthquake when the company's personnel numbers were growing significantly and after reviewing options taking into account a desire to support the redevelopment of the central city. Enable will continually evaluate the location of its head office and relocate to the Central City when the opportunity arises while satisfying operational and commercial parameters.

d) *Involvement in infrastructure repair*

Enable is a member of the CERA Infrastructure Group which allows it to plan infrastructure installation in tandem with other infrastructural assets where this makes commercial sense. It also contributes to discussion and planning on the infrastructural rebuild. Enable will treat as a priority working in synergy with the SCIRT rebuild works in order to minimise of the amount of disruption to street surfaces and the public.

Enable is prioritising the network build in areas adjacent to known Greenfield development sites and will be available to new Greenfields as they come on line. Enable is focused on delivering high quality UFB to the Greater Christchurch area as part of a compelling lifestyle proposition for residents.

Enable looks forward to taking an active part in the recovery of Christchurch.

GOVERNANCE

Commitment

Directors and management are committed to effective governance. Governance requires competent people with a commitment to good governance and an effective set of systems and processes. This provides shareholders and other stakeholders with the assurance that the Company is appropriately governed.

Good governance will continually change to meet the changing dynamics of the business and its context. This is particularly the case with Enable as it grows and changes throughout the UFB contract lifecycle. The company has experienced rapid growth and new systems, processes and people have been established over the last eighteen months in order to meet the future needs of the business.

Following this establishment and mobilisation phase, the company has now embarked on a process of stabilisation to ensure that the benefits of these changes are maximised and that the company is operating as effectively as possible.

The Directors and management are very conscious of the need to have high calibre people backed by excellent systems and processes in order to create a world class UFB organisation, including governance of the highest order.

Role of the Board

The Board is ultimately responsible for setting the strategic direction of the Company, oversight of the management of the Company and direction of its business strategy, with the ultimate aim being an increase in shareholder value and the development of telecommunications infrastructure in Christchurch for economic development purposes. The Board is accountable to shareholders for the performance of the Company.

Responsibilities of the Board

In carrying out its principal function, the Board's specific responsibilities include:

1. providing strategic direction for, and approving the company's business strategies and objectives;

2. establishing the values of the company and monitoring the operation of the company on the basis of these values;

3. reviewing and approving the company's budgets and business plans and monitoring the management of the Company's capital, including the progress of any major capital expenditure, acquisitions or divestments;

4. providing leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed;

5. identifying the principal risks faced by the company and taking reasonable steps designed to ensure that appropriate internal controls and monitoring systems are in place to manage and, to the extent possible, reduce the impact of these risks;

6. monitoring the operational and financial position and performance of the company;

7. requiring that financial and other reporting mechanisms are put in place by the executive which result in adequate, accurate and timely information being provided to the Board and the company's shareholders being fully informed of all material developments relating to the Company;

8. appointing and removing members of the executive team, planning for executive succession and monitoring the performance of the executives having regard to the company's strategic direction and goals;

9. reviewing and approving the company's remuneration policies;

10. establishing procedures to ensure that financial results are appropriately and accurately reported on a timely basis in accordance with all legal and regulatory requirements;

11. adopting appropriate procedures to ensure compliance with all laws, governmental regulations and accounting standards;

12. approving and regularly reviewing the company's internal decision making and compliance policies and procedures, including any codes of conduct, the Board Charter and the charters of the Board's committees; and

13. ensuring that the company's internal decision making and compliance policies and procedures are adhered to, to ensure that the business of the company is conducted in an open and ethical manner; and

14. appointing three directors for the Board of ENL, as company representatives.

Delegation of responsibilities to management

The Board has delegated management of the day-to-day affairs and management responsibilities of the company to the executive team to deliver the strategic direction and goals determined by the Board. The Board has also developed a statement of their 'Reserved Powers'.

Delegation of responsibilities to committees

The Board may, from time to time, establish committees to assist it in carrying out its responsibilities. For each committee the Board adopts a formal charter that sets out the delegated functions and responsibilities for, and the composition and any administrative matters relating to, that committee.

An Audit and Risk Committee has been established and is operational.

A People and Performance Committee has been established and is operational.`

The Board is responsible for the oversight of its committees. This oversight includes, in relation to each committee, determining and reviewing its composition and structure and regularly reviewing its performance against its charter.

KEY STRATEGIES

ESL has two major functions. It is a contractor building and operating the UFB network in the greater Christchurch area and it is also an investor in ENL which owns that UFB network. The performance of ENL is essential to the performance of ESL as the only income and long term returns it achieves are from ENL. The intention is for ENL to be wholly owned by ESL following completion of the network build programme or soon after.

Enable's objectives and achievement of performance outcomes cover a thirty year period as the investment profile of infrastructure assets are long term.

In order to achieve these objectives and become a world class ultra-fast broadband provider the following key strategies have been set:

1. Build a world class ultra-fast broadband network at whole of life economic cost levels
2. Deliver operational excellence maximising the customer experience
3. Deliver appropriate investment returns by maximising uptake and achieving optimum operating efficiency levels

RATIO OF SHAREHOLDERS' FUNDS TO TOTAL ASSETS

The forecast ratio of shareholders' funds to total assets and capital structure for the next three years is:

ESL - Y/e 30 June $m	2015	2016	2017
Debt	128	164	185
Total Liabilities	130	165	186
Equity	16	9	14
Value of investment in ENL – Equity and Debt Invested minus losses incurred in ENL	104	135	162
Total Assets	146	175	201
Shareholder's Funds to Total Assets Ratio	11%	5%	7%

Assumptions

1. The above ratios are based on financial projections based on the continuing rollout of the UFB project to be completed by 31 December 2019.
2. The current regulated pricing for UBA (copper alternative product) remains consistent with the Final Determination by the Commerce Commission as of 1/1/2014.

ACCOUNTING POLICIES

ESL has adopted accounting policies that are consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by the Christchurch City Council group. The company's current accounting policies are attached to this Statement of Intent.

PERFORMANCE TARGETS

By its nature, investment in infrastructure, particularly UFB network, requires substantial upfront investment with a long term focus on returns. The UFB network will hold a strong market position with consistent dependable cash flows being received over many years.

Return profiles on the investment in the UFB network have been set at 30 year levels and through the initial eight year build period Enable will not be profitable. ENL is expected to become EBITDA positive in 2015 and achieve profit after tax in 2019 (eight years). Thereafter profitability increases substantially.

While profitability may not be apparent for a number of years the successful completion of a high quality network build at ongoing cost effective levels has major ramifications on future profitability.

The performance of ESL in building the network, the performance of ENL in obtaining and growing customers and the establishment of an efficient operating structure, including a low cost network operating environment, is fundamental to future performance.

ESL builds the network for the purpose of sale to ENL and provides ongoing management and operational services. The financial statements of ESL reflect the sale of the network and provision of management and operational services to ENL as revenue and the network build costs as inventory. ENL will capitalise the network on purchase from ESL and expense services accordingly.

a) *Financial performance targets*

The financial performance targets for the company show the significant growth path the company is expected to take. However the company is focused on the long term return from the investment in ENL and therefore charges ENL for services and network build on a cost recovery basis only. Profitability will occur in ESL as ENL achieves profitability.

ESL - Y/e 30 June $m	2015	2016	2017
Operating Revenue	58.4	58.4	61.6
Cost of Sales – Network Build	49.9	49.8	50.2
Cost of Sales – Other	4.8	4.9	5.2
Net Revenue after Cost of Sales	3.7	3.7	6.2
EBITDA	2.4	3.3	4.9
Net Profit/(Loss) After Tax	(7.6)	(6.8)	(4.6)

The company has a high turnover with low profitability as it is in the process of constructing the UFB network, an associate, on revenue account. Costs associated with the UFB network build are reflected as expenses meaning low EBITDA and Profit results during the build period. As uptake by customers on the network occurs over the next ten years the profitability of ENL and its return to ESL increases.

Profitability ratios are not included as the project return is based on a longer term profile than the three year period.

The forecasts for ESL show the investment in ENL at cost.

b) *Operational performance targets*

Y/e 30 June	2015	2016	2017
Number of premises passed (cumulative)	63,732	84,782	105,831
Number of connections (cumulative)	7,927	13,914	23,382
Number of priority connections (cumulative)	1,900	2,850	4,030
Schools passed	107	123	140

c) *Health and safety performance targets*

Y/e 30 June	2015	2016	2017
Km's built/utility strike	0.800	0.900	1.000
Lost time injuries/million hours	4.0	3.6	3.2
Serious harm injuries incurred	Nil	Nil	Nil
Site audits conducted	650	750	850

d) Corporate social responsibility performance targets

Performance target	Performance measure 2014/15
Promote the uptake of UFB services in greater Christchurch area to drive business and economic growth and gain lifestyle improvement for residents	• 65% of schools accessing UFB • 24% of businesses accessing UFB • 4% of residential population accessing UFB
Achieve environmentally friendly design standards	All ducting and optical fibre to be undergrounded for greater than 70% of the city

DISTRIBUTIONS

Enable will pay dividends to the shareholders after taking into account its profitability and future investment requirements. The dividends payable to the shareholders will be determined by the Board after consideration of the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993.

No dividends are forecast to be payable in the three year planning period which is consistent with expectations when entering the UFB contract.

INFORMATION TO BE PROVIDED TO SHAREHOLDERS

An annual report will be submitted to the shareholders. The annual report will include audited financial statements and such other details as are necessary to permit an informed assessment of the company's performance and financial position during the reporting period provided to the shareholders.

A quarterly report will be provided to shareholders which reports on health and safety practices and performance within the company.

A half-yearly report will be provided to CCHL. These reports will contain unaudited information and comply with NZ IAS 34.

Annual reports will include reporting on the company's objectives and performance, consistent with this statement of intent, in terms of:

- financial
- environmental and
- social inputs, outputs and outcomes.

The statement of intent will be submitted to the shareholders for consultation annually, as required by the Local Government Act 2002. The directors will include any other information they consider appropriate. Where appropriate, revised forecasts will be submitted to the shareholders.

The company will operate on a “no surprises” basis in respect of significant shareholder-related matters, to the extent possible in the context of commercial sensitivity and confidentiality obligations.

The company will provide information requested by the shareholders in accordance with the requirements of the Local Government Act.

ACQUISITION /DIVESTMENT PROCEDURES

The subscription or acquisition of securities in any company or organisation, or a divestment of part of the existing business, will only be considered where it is consistent with the long-term commercial objectives of Enable.

When the subscription, acquisition or divestment is considered by directors to be significant to the company's business operations, it will be subject to consultation with the shareholders.

Major transactions as defined in the Companies Act 1993, s129(2), will be subject to shareholders' approval by special resolution.

Notwithstanding the above, if Enable is considering a significant acquisition or disposal of assets or securities, the shareholders will be consulted with as much lead-time as is commercially practicable in the prevailing circumstances.

Where the company decides to incorporate or subscribe for shares in subsidiaries to undertake its commercial activities, the company will ensure effective governance and management structures are in place.

COMPENSATION SOUGHT FROM SHAREHOLDERS

At the request of the shareholder, the company may undertake activities that are not consistent with normal commercial objectives. Specific financial arrangements will be entered into to meet the full commercial cost of providing such activities.

Currently, no such activities are undertaken.

ESTIMATE OF COMMERCIAL VALUE

At this preliminary stage of the company’s investment in UFB life cycle, the estimated commercial value of the company is considered by the directors to be equivalent to the amount of shareholder’s equity recorded in the financial statements.

At 30 June 2013, CCHL obtained an independent valuation that agreed with this view on value.

ROLE IN THE CHRISTCHURCH CITY COUNCIL GROUP AND REGIONAL ECONOMY

a) Commercial relationships within the wider Christchurch City Council group

Enable recognises that, as a wholly-owned subsidiary of CCHL, there may be commercial opportunities with other group companies that can be developed to benefit Enable, the wider Christchurch City Council group and the greater Christchurch region.

Enable will make an effort to make contact with other group companies to explore such opportunities, and to develop new business, as appropriate.

a) Procurement

In view of the large network build programme under way, Enable has created a specialised procurement team to maximise the efficiency of purchases.

The company negotiated substantial UFB supply agreements for inventory required over the UFB network build in conjunction with other Local Fibre Companies (**LFC**) and CFH and achieved significant savings through this process.

Enable has reviewed the use of whole of Government supply contracts and GSB procured discounts and utilises these where the costs associated with them make it viable. The Company is also committed to engaging with other CCHL Group companies and the Christchurch City Council to achieve additional procurement savings.

b) Network Build

Enable has arrangements in place with Connetics (subsidiary of Orion) to provide UFB network in Greenfields and is in ongoing discussions to expand opportunities with Connetics and other Group related parties that the companies could work together on.

c) Other

The company also continues to discuss with other Group companies, such as Christchurch International Airport Limited and Orion, opportunities for cost efficiency or additional revenues.

b) Role in the growth of the regional economy

Treasury studies have shown that the establishment of an ultra-fast open access broadband network has the potential to provide substantial benefits to the regional economy in terms of facilitating communication, transforming business practice and making Christchurch an attractive place in which to do business.

Appendix One - STATEMENT OF ACCOUNTING POLICIES

The accounting policies as set out below form the basis of preparation of ESL's NZ IFRS financial statements and forecasts.

Statement of Accounting Policies (Consistent with 30 June 2013 Annual Report)

Reporting entity

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

The financial statements of ESL are for the year ended 30 June 2013. The financial statements were authorised for issue by the ESL board of directors on 19 August 2013.

Statement of compliance

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

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

New standards and interpretations issued and not yet adopted

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

Basis of preparation

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

Functional and presentation currency

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

Significant accounting policies

Revenue

Interest

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

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

Fibre income / Greenfields Contributions

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

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

Goods sold and services rendered

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

Borrowing costs

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

Operating leases

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

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

Cash and cash equivalents

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

Trade and other receivables

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

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

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

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

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

Foreign currency

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

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

Property, plant and equipment

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

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

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

Depreciation is on the following basis:

- Office Equipment — 5 years
- Plant and Equipment — 3 – 25 years
- Leasehold Improvements — 6 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 eight years which it will sell to Enable Networks Ltd (ENL) upon requirements being met. The contract is within the scope of NZ IAS 11 Construction Contracts.

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

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

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

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

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

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

Cost allocations

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

Intangible assets

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

Investment in associate

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

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

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

Financial liabilities

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

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

Creditors and other payables

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

Provisions

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

Employee entitlements

Short-term employee entitlements

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

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

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

Superannuation schemes

Defined contribution schemes

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

Goods and services tax

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

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

Income tax

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

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

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

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

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

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

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

Share capital

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

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

Statement of cash flows

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

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

Critical accounting estimates and assumptions

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

Review for impairment of investment in associate

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

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

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

Critical judgements in applying accounting policies

Management has exercised the following critical judgements in applying ESL's accounting policies for the year ended 30 June 2013:

Assessment of construction contract values

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