2019 ANNUAL REPORT

ENABLE SERVICES LIMITED

enable
Fibre Broadband

Connecting our community with unlimited opportunity

Over 100,000 local families, businesses, schools, healthcare providers and community service providers are embracing fibre broadband to realise unlimited opportunities.

Enable is 100 percent owned by the people of Christchurch, through Christchurch City Holdings Limited. It is focused on delivering the full benefits of fibre broadband to its local community.

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100,000 customers connected

In June 2019, we celebrated connecting the 100,000th customer to our fibre broadband network.

The rate at which our community has embraced fibre broadband is tremendous and the uptake is well beyond what was anticipated when we began to roll-out our network to homes and businesses across our community in November 2011. Hundreds of thousands of people in greater Christchurch are using our services to do all the things they want online – running their businesses, learning, connecting with friends and family, and enjoying a range of entertainment services.

We launched the first mass-market fibre broadband service in Halswell in September 2012, with our network available to about 5,000 homes and businesses. It took two and half years to connect 10,000 customers, in April 2015, and then after almost five years we had 50,000 customers connected.

Over the last two years we have more than doubled our fibre broadband customers to have over 100,000 now connected.

Five out of every ten home and business broadband customer connections, within our coverage area, are now on Enable fibre broadband – and in some suburbs and towns that figure is nearly nine out of every ten.

We enjoyed celebrating this connection milestone with our customers, community and other important partners and stakeholders.

CUSTOMER STORIES

Salome Seyedalikhani
Lincoln
"When I find some spare time to stream a movie or catch up with friends and family online, fibre broadband makes it easy and quick."

Ryan Ballantyne
Burnside
"Already having a fibre broadband connection means I can take advantage of any exciting new online services – any time I want."

Julia Read
Student – Upper Riccarton
"With so many people in the house we don't even have to worry about the internet anymore, with fibre it's so easy."

Our people – connecting our community

JAMES MCDONALD – CONTRACTOR MANAGER

"I'm proud of how many customers we've connected to our network. We're asking our community to open their doors to us, to trust us working in their homes, and it's really rewarding to see that over 100,000 customers have done just that.

We're a local company – owned by our community and based in Christchurch. We connect our friends, our family, our neighbours and our city. To actually see the changes for myself, in bringing Christchurch into the 21st Century, connecting Christchurch to the rest of the world, is really rewarding.

We do over 100 connections per day now, maintain a fantastic health and safety record and deliver high quality work. When I'm out with our service partners connecting customers, it doesn't matter if it's a grandmother wanting to connect with her grandchildren, or a hospital transferring high density images around the city or world; I want to deliver a great result for everyone."

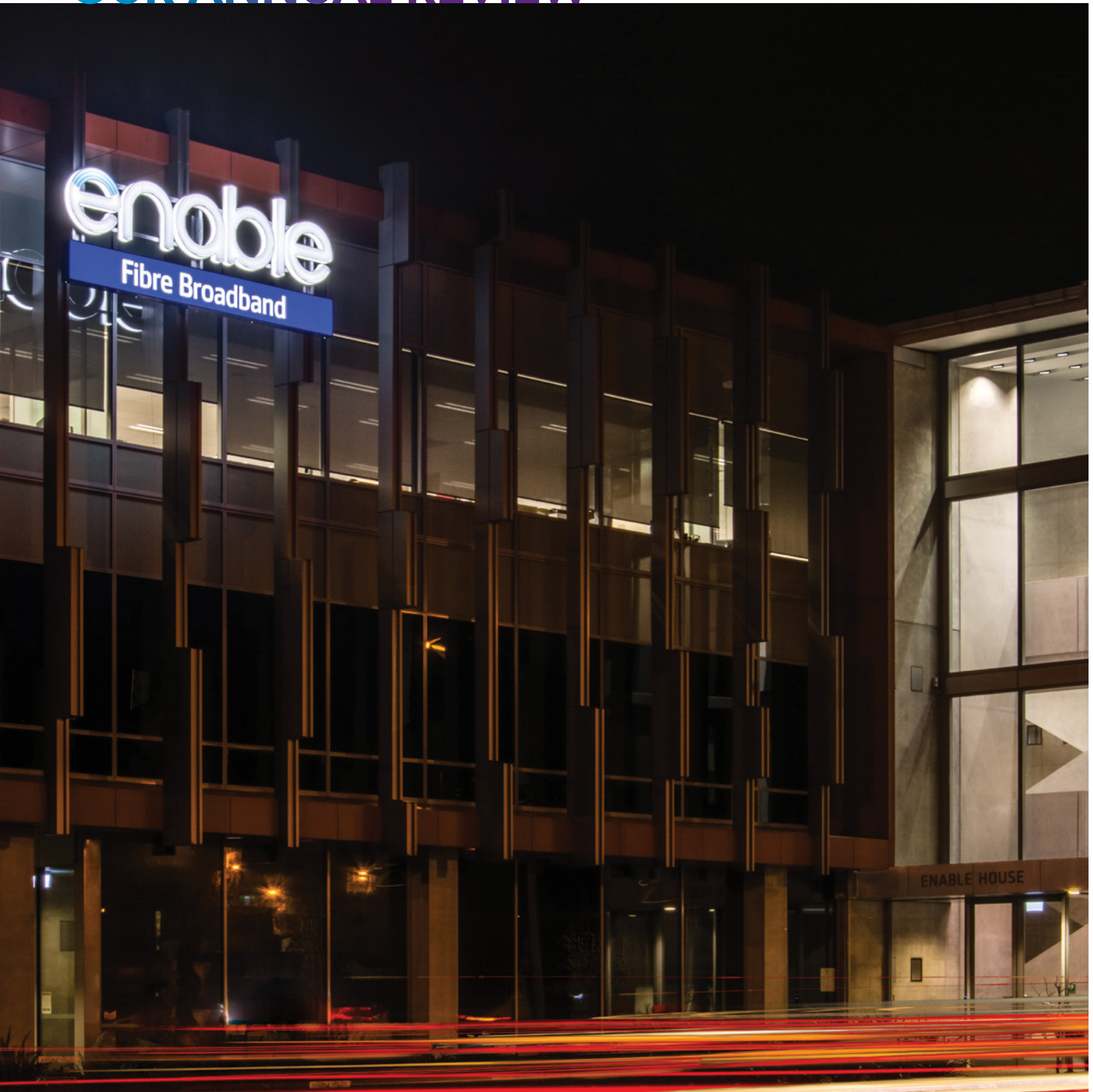
STACIE REED – CUSTOMER CARE TEAM LEADER

"Having 100,000 customers connected to our network, and in such a short space of time, makes the value we're providing our community real for everyone. We all believe in the opportunities fibre broadband presents so it's great to see Christchurch is embracing it.

When we're talking to customers on the phone, we hear stories from sports fans wanting to watch games without buffering, students wanting six or more laptops connected to the internet at once, and small businesses wanting to expand and take advantage of new technologies. We have such a diverse range of customers with different needs, and fibre meets those needs – by delivering unlimited opportunity.

As we've connected more people, our work has become more varied. Every day we're working with mums and dads, students, retirees, new building developers, business owners, IT teams, property managers and more all wanting fibre broadband connected as soon as possible. Every day is different and challenging, and that's what we love."

2019
OUR ANNUAL REVIEW



Chair and CEO introduction

2019 was Enable's first full year after completing our seven-year fibre broadband network deployment. We have made significant progress in our transition from an infrastructure build company to a service delivery company resulting in significant change, growth and development right across our organisation.

We have been focused on establishing a future mode of operation that ensures we deliver maximum value to the people of Christchurch as our customers and owners – recognising our role as a critical strategic asset for the city.

Our community continued to demonstrate high demand for our fibre broadband services. We have more than doubled our customer connections in the last two years and have a connected customer base that is much greater than anticipated when we began constructing our fibre broadband network in 2011.

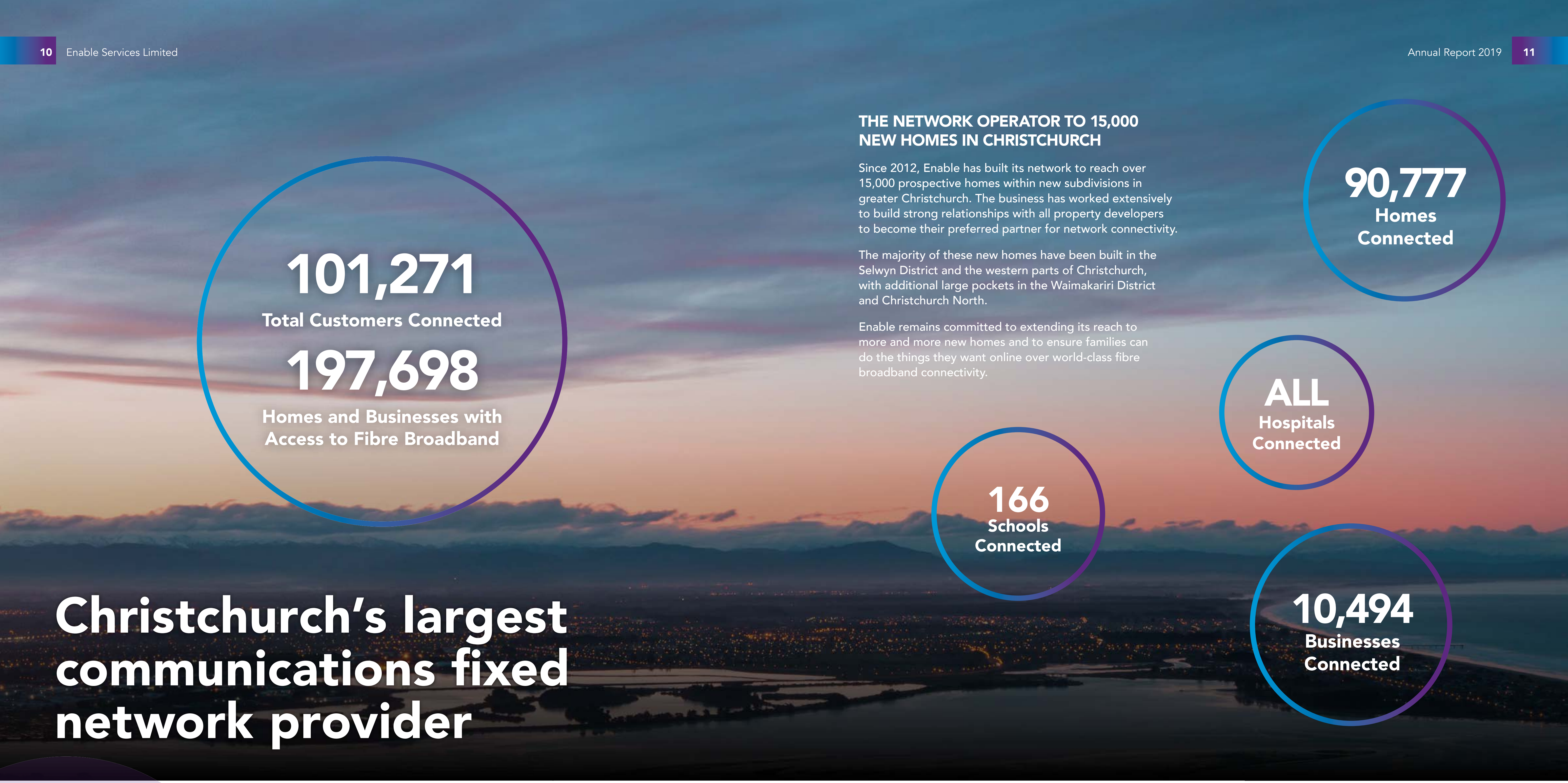
Our Annual Review focuses on how we increased customer volumes to above 100,000 connections and delivered a market-leading customer experience, through a focus on operational excellence and developing a high-performing and passionate team.

From a financial performance perspective it was a landmark year for Enable. The return on our half billion dollars worth of assets began to be realised as our revenue passed $50m and we generated our first profit of $11m, ahead of plan.

The outlook for the business in 2020 is for further growth in connected customers, revenue and profit. Our transition to a service delivery company will continue ensuring we are competitive in the broadband access market where the growth rate of customer connections is expected to slow. Our focus will remain on service delivery, customer retention and the operation and maintenance of our network to continue to provide world class services.

The Board and Executive are immensely proud of what Enable has achieved as it matures into a sustainable business delivering on its purpose of 'connecting our community with unlimited opportunity'.

Mark Bowman, Chair **Steve Fuller, CEO**



Christchurch's largest communications fixed network provider

101,271 Total Customers Connected

197,698 Homes and Businesses with Access to Fibre Broadband

We finished the year with 101,271 customers connected – an increase of 24,122.

This means we have more than doubled the number of customers connected over the last two years and now hold nearly 60 percent of the fixed broadband market across our greater Christchurch coverage area.

We are now the largest wholesale fixed broadband service provider in our community – and our profits are returned to the city of Christchurch.

Although we achieved a significant connection milestone, the result was 2,700 total connections below our target.

It has become increasingly difficult to convert customers to fibre broadband as we have increased our market share. As with the adoption of any new technology, the latter part of the market is taking longer to realise that the performance benefits of fibre broadband are relevant to them. This year we also faced increased competition with internet providers directing customers to their own competing access technologies, such as fixed wireless.

THE NETWORK OPERATOR TO 15,000 NEW HOMES IN CHRISTCHURCH

Since 2012, Enable has built its network to reach over 15,000 prospective homes within new subdivisions in greater Christchurch. The business has worked extensively to build strong relationships with all property developers to become their preferred partner for network connectivity.

The majority of these new homes have been built in the Selwyn District and the western parts of Christchurch, with additional large pockets in the Waimakariri District and Christchurch North.

Enable remains committed to extending its reach to more and more new homes and to ensure families can do the things they want online over world-class fibre broadband connectivity.

90,777 Homes Connected

ALL Hospitals Connected

166 Schools Connected

10,494 Businesses Connected

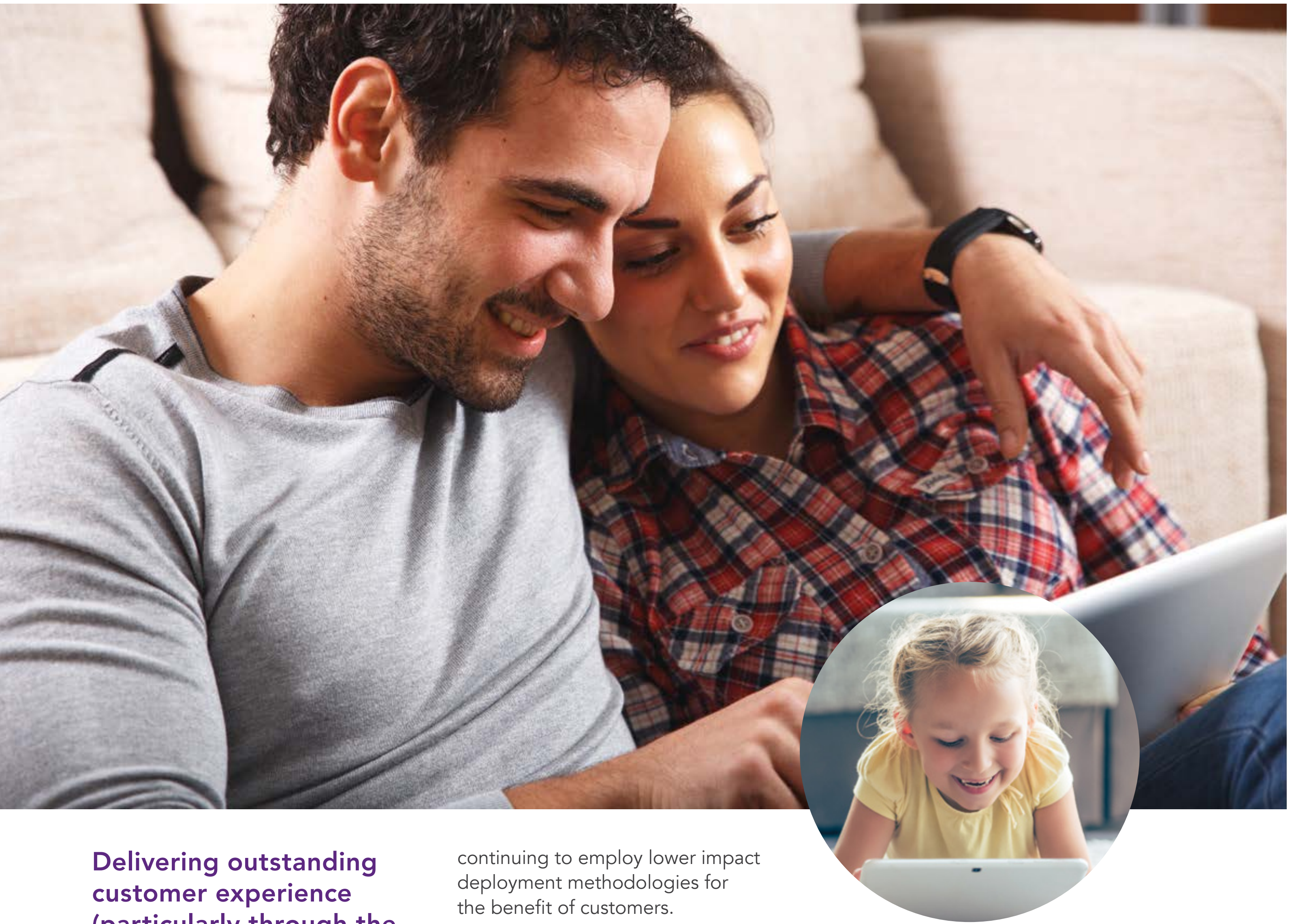
In response to this challenge, we have continued to invest in a strong market brand presence. We have built on our Generation Fibre campaign to educate our community that fibre broadband is the solution for all broadband consumers. In addition, we have been running a significant consumer education campaign to rugby fans in our community. We want to ensure fans know that the World Cup will be streamed in September 2019, that they know how to access this content and switch to fibre in time to ensure they have the best streaming experience.

We have also established a team of Fibre Ambassadors who have visited over 15,000 homes across our coverage area to help educate consumers as to why fibre broadband provides unlimited opportunity and provide support in moving to it.

We continued to lead product innovation in the industry with the lowest priced gigabit residential fibre broadband product available in the country and our free double speed offer for our residential 100Mbps product. All but two of our internet provider customers have applied our speed upgrade. As a result, 24,500 households are now enjoying a 200Mbps fibre broadband service and an additional 7,000 are connected to gigabit fibre broadband.

We have now also connected over 10,000 businesses to our network – which equates to 55 percent of all commercial properties within our community.

Delivering an excellent customer experience



Delivering outstanding customer experience (particularly through the fibre installation journey) remains critical to Enable's success – particularly as we face increased competition from easier to install, but lower performing, fixed wireless broadband services.

We continue to invest in delivering outstanding customer experience by better understanding our customers, working more closely with internet providers to provide a seamless experience, improving our systems and processes, and continuing to employ lower impact deployment methodologies for the benefit of customers.

We continued to build on the previous year, and again led the industry, with an average net promoter score of 39.

We made a significant investment in a customer interaction management system that has provided us with vastly improved visibility of the connection journey of customers – meaning we are able to address customer needs much more efficiently, with fewer interactions with us and much less rework. Our ConnectMe self-service tool continues to empower our customers to book their own appointments and has been used by more than 16,000 customers. We have also introduced online consenting for landlords and shared property owners and continued to improve our educational material relating to connecting to fibre broadband.

We focused on the time it takes to connect customers to fibre with customers in a standalone property able to be connected in less than two weeks – including agreeing a connection plan, undertaking any required construction work, installing network equipment and testing the service.

Caring for our people

Our Health, Safety and Wellness vision of "we CARE for each other" remains a central focus of all our business activities.

Our senior leaders set the example in helping all of our people live this vision every day. Our Health, Safety and Wellness Committee did an outstanding job driving engagement across our organisation in a range of activities – based on the New Economics Foundation's wellbeing themes of Connect, Give, Take Notice, Keep Learning and Be Active – all aimed at helping our people live healthy lives. We have continued to invest in Health, Safety and Wellness leadership training – with all new Enable staff participating in the training.

A shift away from the core network build activity has allowed us to place an even greater emphasis on supporting our connection contractor workforce to ensure that they look after themselves, their colleagues, the public and our customers. We have worked with each of our contractors to establish revised Health, Safety and Wellness plans and to educate their people on these. We have invested in leaders within our contract partner organisations participating in the same Health, Safety and Wellness leadership training our people go through.

We conducted 9,691 site audits and safety interactions – working closely with our partners during each of these.

We ended the year with three recordable injury incidents and zero serious harm injury incidents. Our Total Recordable Injury Frequency Rate was 3.5 injuries per million hours worked. This result was a slight improvement on last year, but above our target of 2.5.

Total Recordable Injury Frequency Rate

	2015	2016	2017	2018	2019
TRI*	14	14	9	6	3
TRIFR**	8.6	8.5	5.5	3.7	3.5

*Total Recordable Injury **Total Recordable Injury Frequency Rate

Smash boundaries
Work together to create bold new outcomes

Keep it simple & fresh
Innovation loves clarity

Own the experience
Take charge & make great happen now

Show the love
Care for each other, our customers, our community & the environment

Building a high performing team

We have continued to build on our organisational culture growth journey that was established around our shared purpose and our values of Smash Boundaries; Keep it Simple and Fresh; Own the Experience; and Show the Love. We have now defined the set of behaviours expected of all of our people in order to realise this purpose and live up to our values.

A large focus is now on empowering our people to own our organisational culture, with a particular emphasis on developing the leaders across our organisation to drive the empowerment of our people.

The Senior Leadership Team has focused on developing our emotional intelligence through a 12 month growth programme. Through our Leadership Growth Programme a larger group of leaders have also been able to focus on emotional intelligence, other training and growth opportunities and have played a significant part in business planning.

We have continued to improve our internal communications, as well as our reward and our recognition programmes. Our approach to performance management has continued to mature – focused on setting clear expectations and measuring delivery against these.

The Enable team consists of 135 people, a reduction in our total team size of almost 20 percent against the previous year. We have completed our build programme and we are moving beyond peak connection volumes. We continue to utilise a considerable partner workforce of approximately 200 people representing our business with our customers and community – as we undertake connections, and maintain and operate our network.

Commitment to our community

We continue to maintain key partnerships aimed at benefiting our community – in terms of social and economic growth – and support many small organisations and initiatives through community sponsorships.

For a second year we have been the major sponsor of the Canterbury Employers' Chamber of Commerce. We have partnered with them to deliver the Enable Digital Series aimed at educating and inspiring local businesses to grab and take full advantage of digital technology. We also sponsor the Chamber's Next Gen Series which provides an education and networking forum for future business leaders.

We sponsor the Christchurch chapter of Future Leaders in Technology (a national industry programme aimed at providing development and networking opportunities to future leaders in the technology sector) run by the Telecommunications Users Association of New Zealand.

Throughout the year we have also supported 12 small community-focused clubs and organisations that our people are directly involved in; sponsored the refurbishment of outdoor furniture for a local school (through a radio competition); and provided free fibre connectivity to Youthline Central South Island and small business hub GreenHouse.

Enable's sustainability strategy

Throughout 2019 we have worked to develop a sustainability strategy which sets our long-term themes and commitments to sustainability within our community. We have established three key areas of focus – Our Place, Our Community and Our People.

We have undertaken a significant review of our current operating practices, engaging with key stakeholders and our broader community on their expectations of Enable, and working with our people to establish these themes in line with our purpose and values.

In the past year our environmental sustainability efforts have focused on deploying a low-impact passive optical network, designing and deploying the network to minimise waste, employing long-life (50 year) ducting products, utilising low impact connection methods and operating an efficient corporate office from an energy efficiency and waste management perspective.

Operational excellence as an infrastructure provider

With the large scale network deployment now complete, our primary operational focus is on connecting customers to our network, and maintaining and operating our network to ensure it meets the needs of our community well into the future.

Our three connection partners – Downer, MultiMedia Communications and Clearvision– visited circa 25,000 new properties in Christchurch to physically install our network. In addition, we deployed shared infrastructure up almost 2,000 shared driveways or private right of ways, making it easier for thousands of customers to access our fibre broadband services.

In the final quarter of the year, we implemented a significant operational change to our business by beginning to apply the Telecommunications (Property Access and Other Matters) Amendment Act 2017. The Act provides us with increased rights to deploy our network in shared accessways based on the impact of the network deployment methods we use. Thousands of customers who have been unable to gain consent from their neighbours for connections to be completed, are set to benefit from the application of these new laws in coming years.

We have continued to invest in internal systems and process improvements with a focus on smart automation, better visibility and management of our business assets, and improving our customers' experience.

We have also continued to augment our network by increasing capacity and reach. We doubled the bandwidth capacity of our network to be ready for an anticipated increase in content streaming during the Rugby World Cup and progressed key network diversity programmes (such as a secondary fibre link to Rangiora) to ensure service continuity for our customers.

We consistently delivered overall service performance well above contracted service levels with 99.98% service availability achieved across all customers being within service level targets.

99.98%
Overall service availability

Financial performance

We delivered another year of strong revenue growth.

The highlight was achieving our first net profit as we move into a new phase of business growth. We have moved beyond our network capital investment programme (with the completion of our network build last year) and are now primarily focused on growing revenue through increased customer connections. Our net profit was $11m, compared to a $4m loss last year.

Total external operating revenue was $59m, compared to $48m last year. This was primarily a result of growth in customer connections. The total value of Enable's total assets grew to $548m – an increase of $25m against the previous year.

Our shareholder and major funder, Christchurch City Holdings Limited (CCHL), continued to support the growth of our business. Loans increased by $20m to $291m and share capital to $222m.

Enable met or exceeded all of the financial targets committed to CCHL through our Statement of Intent – with external operating revenue on target, EBITDA $2m above target and net profit $12m above target.

Enable's financial position will continue to strengthen over 2020 in line with expectations.

Engaging with industry and Government

This year was a very significant one for the entire telecommunications industry with the passing of the Telecommunications (New Regulatory Framework) Amendment Act 2018 that sets the regulatory framework for the industry from 2020.

The current Telecommunications Act was established in 2001 and has undergone iterative reform since. This reform process included a wholesale review of the regulatory environment – with a focus on fibre broadband connectivity now being the dominant access technology, rather than copper.

Throughout this reform process, Enable has invested significantly in ensuring our future interests are protected. We have drawn on expert advice and worked closely with our industry partners (significantly the other Local Fibre Companies) to ensure a regulatory outcome that would continue to promote the best interests of the customer, ongoing long term industry investment and innovation.

We were largely satisfied with the general outcome of the reforms as they progress implementation through the Commerce Commission. We now have greater certainty in this area when undertaking long-term business planning.

We also continue to participate in a number of industry and local business-related forums and bodies. We are members of the Canterbury Tech Cluster, Christchurch and Canterbury Employers' Chamber of Commerce, Telecommunications User Association of New Zealand and the New Zealand Telecommunications Forum Inc (TCF). We actively contribute to the TCF's work programme through working parties addressing various matters across the sector, policy and communications, which includes the UFB Product Forum.

2020
THE YEAR AHEAD

Having moved beyond our peak connection volumes, we will be busy preparing for our long-term future operating the primary communications network in Christchurch.

Ensure more people are benefiting from fibre broadband

We want more of our community benefiting from our services and will end the year with nearly 124,000 customers connected.

Customer experience is key to our future

We must continue to deliver an outstanding customer experience to all those wanting to connect to fibre broadband and those already connected.

Leverage our strong financial position

We must become a financially sustainable business and deliver returns to our shareholder, and therefore, the ratepayers of Christchurch.

Prepare our business for the future

We need to shape our business for future opportunities beyond our current focus on connecting new customers.

Become a truly sustainable business

We must build on our progress to deliver more value to our community through our sustainability strategy – Our Place, Our Community and Our People.

Ensure more people are benefiting from fibre broadband

We have begun to see the number of new customers moving to fibre broadband slow down beyond 100,000 connections as we progress through the second half of the addressable market. We continue to face strong competition from competing access technologies – including copper, hybrid fibre-coaxial and fixed wireless.

We ended last year connecting approximately 100 new customers each day, a reduction from the peak of 140 per day. The challenge for this year is to maintain connection momentum for as long as possible with the goal of connecting approximately 22,000 new customers. This will see us end the year with approximately 123,800 customers connected, approaching 70 percent of the fixed broadband market.

In order to achieve this we will continue to invest marketing directly to consumers of broadband services, with an increased emphasis on providing individual customer support to move to fibre. We will also work closely with internet providers to ensure they are moving their customers on to fibre and away from legacy access technologies (such as copper), and lower performing access technologies (such as hybrid fibre-coaxial and fixed wireless).

Customer experience is key to our future

For the last two years we have maintained an industry leading net promoter score of close to 40. It is our goal to continue to set appropriate standards in this area in the coming year – again setting a net promoter score of 40 as the target.

Key to our approach will be to engage more with existing customers to enhance their fibre broadband experience and ensure they will never consider settling for any other broadband access technology.

We will continue to work with internet providers and our connection partners to deliver new connections quickly, and ensure connections are of high quality and have minimal impact on properties.

We will also build on our current systems to enhance customer experience – particularly through the development of a new knowledge base addition to our Customer Interaction Manager. We will enhance our existing channels and introduce new ones to provide better information to new customers connecting as well as existing customers.

We will commence development of improved assurance systems as our customer base grows, to ensure the time to restore services when things go wrong is minimised.

Leverage our strong financial position

We expect to reach our peak debt levels in 2020, as we continue to invest in customer connections. We anticipate remaining close to this peak debt position for several months before our revenue growth profile means we reach a positive free cashflow position and begin to reduce debt in the following year.

We need to maximise our customer connections to realise the revenue growth we require, while also continuing to tightly control costs right across our business. If we achieve our connection target and realise our business efficiency goals, total revenue will grow to $69m and we will generate $13m in net profit.

We will also continue to working closely with Government, the telecommunications industry and other key stakeholders to ensure the market and regulatory environments support our long-term growth goals.

Prepare our business for the future

Although we still have two to three years of connecting new customers to our network ahead, we need to prepare for a future where our core focus is on operating and maintaining the primary communications network in greater Christchurch.

We will focus on a product development roadmap, and the required network upgrades, to ensure we meet the needs of our internet provider customers and our community in the future. This includes being ready to deliver an unbundled fibre product, as per our contractual obligations, from 1 January 2020 and also preparing for the next generation of fibre broadband, such as 10 gigabit services.

We are preparing for new business opportunities including 5G mobile, Internet of Things, Smart City and Artificial Intelligence. We will ensure we are positioned to play our part in ensuring greater Christchurch benefits from these new technologies.

Become a truly sustainable business

We have identified three themes in our sustainability strategy. Each of these themes include a strategy that will place added emphasis on new initiatives to protect and enhance the environment, and grow our community.

For Our People we will continue to nurture a healthy, innovative and ethical culture that values diverse thinking and capability, and fosters inclusion and trust. For Our Community we will continue to leverage our infrastructure, knowledge, relationships and unique expertise to support community good and growth initiatives in greater Christchurch.

The majority of our strategy implementation for 2020 will be focused on Our Place as we operate our business in an environmentally responsible way and work towards achieving lower emissions and waste. The first phase of activity will include assessing our current state and setting specific targets and improvement objectives for 2020 and 2021, while also implementing immediate improvements such as introducing our first low emission vehicles to our fleet early in the new year.

Board of Directors

CHAIR – MARK BOWMAN

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. He joined the Enable Board of Directors in November 2011 and was reappointed Chair on 1 January 2019 (having previously been Chair in 2016 and 2017).

CRAIG ELLIOTT

Craig has thirty years of experience in Silicon Valley as an international technology executive focusing on networking. Craig spent ten years at Apple Computer in a variety of executive positions in their networking and communications divisions. He then founded, and was CEO of Packeteer, the company that developed deep packet inspection and application based networking. He also founded Pertino, which built the first cloud based, global business network. He also served as CEO.

Craig is currently an independent consultant working with companies to develop their technical and global expansion strategies.

BILL LUFF

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

Since returning to New Zealand he has held a number of significant executive and board positions. Bill is currently Chairman of Ballantynes, a Director of Isaac Construction and Central Plains Water and a Trustee of the Christchurch Symphony Orchestra, the Isaac Conservation and Wildlife Trust and the Lighthouse Vision Trust. Bill was Chairman of Enable Services Limited from its establishment through until 30 June 2013.

SCOTT WEENINK

Scott has broad governance experience including Executive Director roles with telecommunications companies in Singapore, Myanmar and in the Philippines. Scott has also been a Director of North Queensland Airports, and Scott's current board roles include Modica Group (a NZ based enterprise messaging platform), Generate KiwiSaver Funds Management, Asset Finance Limited and also the New Zealand Cricket Players Association. Scott has previously held General Counsel roles in the telecommunications industry in Asia and the airport industry in New Zealand. Scott has a Masters in Law from Oxford University.

Scott joined the Enable Board in December 2018.

BRETT GAMBLE

Brett Gamble is the CEO of the Ben Gough Family Office and Tailorspace Ltd managing a local and global investment portfolio and philanthropic activities. He has a 20-year background in corporate finance and private equity investment and has held executive roles in the energy and technology sectors. He joined the Enable Board of Directors in June 2012 and was Chairman of Enable Networks Limited from August 2017 through until December 2018.

In addition to Enable, Brett is a Director of Southbase Construction Ltd, Mike Greer Homes Ltd and LJ Partnership (NZ) Ltd. Brett also chairs the Chalky Carr Trust, a charity supporting cancer effected families.

KATHY MEADS

Kathy is a professional independent director, and is currently serving on five boards. She has extensive governance, commercial and financial experience and has held senior executive positions with Telecom/ConnecTel, Ngai Tahu Holdings Corporation and Lyttelton Port of Christchurch.

Kathy is a Director of Port Taranaki Ltd, NZPM Group Ltd, Shipowners Mutual Protection and Indemnity Association (Luxembourg), and Transpower New Zealand Ltd.

MARK PETRIE

Mark has twenty years of experience as a Director in the telecommunications field and holds Board memberships of several companies including De Novo Partners, an investment and holding company. As an acquirer of numerous startups and the founder/CEO of Snap, Mark integrated Snap's national and international fibre telecommunications network with Two Degrees, which laid the foundation for Two Degrees' growth into a major, full-service telecommunications provider. He has been closely involved in all facets of the design, build and maintenance of telecommunications networks, digital service marketing, channel sales and cyber security audits.

Mark joined the Enable Board in June 2019.

FORMER DIRECTORS

Mark Rushworth resigned from the Board last year, his resignation was effective from December 2018.

Governance

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

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

On 29 June 2016, ESL became the sole shareholder in ENL, meaning ENL and its world-class fibre infrastructure became fully owned by Christchurch city. Combined, ESL and ENL make up the Enable Group **(Enable).**

GOVERNING DOCUMENTS

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

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

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

BOARD ROLE AND RESPONSIBILITIES

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

BOARD STRUCTURE AND APPOINTMENT

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

BOARD SUB-COMMITTEES

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

The Health, Safety and People Sub-Committee assists the Boards to fulfil its corporate governance responsibilities relating to Health, Safety and Wellness policies and practices of the company and to improve the Health and Safety performance of the company and our contractors. This Sub-Committee also assists the Boards to establish remuneration, recruitment, retention and termination policies and practices. The Sub-Committee is made up of at least three members.

The Future Technology & Products Sub-Committee assists the Boards to fulfil its corporate governance responsibilities relating to future technology and product investment and performance of the company. The Sub-Committee is made up of at least two members.

MANAGEMENT SERVICES AGREEMENT

ESL operates under a thin company structure with strategic and operational services provided to ESL by ENL under contract. A Management Services Agreement (MSA) between ESL and ENL sets out this relationship.

The MSA covers the provision of Chief Executive, Finance, Legal, Administrative, Health and Safety services, and other executive management services required by ESL.

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STATEMENT OF RESPONSIBILITY

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

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

In the Board's opinion, the financial statements fairly reflect the financial position and operations of Enable Services Limited for the year ended 30 June 2019.

Signed on behalf of the Board

Mark Bowman
Chair
28 August 2019

Kathy Meads
Chair of Audit and Risk Committee
28 August 2019

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

	Note	Group 2019 $'000	Group 2018 $'000
Operating revenue	5	58,768	48,473
Total revenue		**58,768**	**48,473**
Operating expenses	6	(20,609)	(22,527)
Earnings before interest, tax, depreciation and amortisation		**38,159**	**25,946**
Depreciation and amortisation	3, 14	(20,471)	(18,489)
Earnings before interest and tax		**17,688**	**7,457**
Finance income	7	68	201
Finance costs	7	(13,951)	(13,064)
Net finance costs		**(13,883)**	**(12,863)**
Profit/(loss) before income tax		3,805	(5,406)
Income tax credit	8	7,025	1,623
Profit/(loss) for the year		**10,830**	**(3,783)**
Other comprehensive income			
Items that will not be recycled to profit or loss:			
Revaluation of assets	3	–	34,519
Income tax relating to other comprehensive income		–	(9,665)
Other comprehensive income for the year, net of tax		**–**	**24,854**
Total comprehensive income/(loss) for the year, net of tax		**10,830**	**21,071**

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 2019

	Note	Group 2019 $'000	Group 2018 $'000
Current assets			
Cash and cash equivalents	10	1,941	1,772
Trade and other receivables	11	2,433	3,865
Inventories	12	2,468	3,600
Current tax asset	8 (c)	2,000	2,582
Total current assets		**8,842**	**11,819**
Non-current assets			
Property, plant and equipment	3	517,130	476,008
Construction contract work in progress	13	12,604	28,787
Intangible assets	14	9,916	6,907
Total non-current assets		**539,650**	**511,702**
Total assets		**548,492**	**523,521**
Current liabilities			
Creditors and other liabilities	15	11,298	15,819
Employee entitlements	16	2,039	2,044
Deferred revenue	17	61	86
Total current liabilities		**13,398**	**17,949**
Non-current liabilities			
Borrowings	4	291,400	270,900
Employee entitlements	16	–	322
Deferred tax liability	8 (d)	15,213	20,820
Deferred revenue	17	493	578
Total non-current liabilities		**307,106**	**292,620**
Total liabilities		**320,504**	**310,569**
Net assets		**227,988**	**212,952**
Equity			
Share capital	18	221,702	217,496
Retained earnings		(18,568)	(29,398)
Revaluation reserve	3	24,854	24,854
Total equity		**227,988**	**212,952**

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 2019

	Note	Share capital $'000	Revaluation reserve $'000	Retained earnings $'000	Total $'000
Balance as at 1 July 2017		**164,503**	**–**	**(25,615)**	**138,888**
Loss for the year		–	–	(3,783)	(3,783)
Revaluation of P,P&E	3	–	24,854	–	24,854
Issue of ordinary shares	18	23,500	–	–	23,500
Issue of redeemable preference shares	18	29,493	–	–	29,493
Balance as at 30 June 2018		**217,496**	**24,854**	**(29,398)**	**212,952**
Profit for the year		–	–	10,830	10,830
Issue of redeemable preference shares	18	4,206	–	–	4,206
Balance as at 30 June 2019		**221,702**	**24,854**	**(18,568)**	**227,988**

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 2019

	Note	Group 2019 $'000	Group 2018 $'000
Cash flows from operating activities			
Receipts from customers and other sources		59,378	49,706
Interest received		68	201
Payments to suppliers and employees		(23,732)	(27,920)
Interest and other finance costs paid		(13,831)	(13,273)
Subvention receipts	19	2,000	4,669
Net cash provided by operating activities	**20**	**23,883**	**13,383**
Cash flows from investing activities			
Payment for property, plant and equipment	3	(43,848)	(80,657)
Payment for intangible assets		(4,572)	(3,430)
Net cash used in investing activities		**(48,420)**	**(84,087)**
Cash flows from financing activities			
Proceeds from borrowing	19	20,500	13,000
Proceeds from issue of shares		4,206	52,993
Net cash provided by financing activities		**24,706**	**65,993**
Net increase in cash and cash equivalents		169	(4,711)
Cash and cash equivalents at beginning of year		1,772	6,483
Cash and cash equivalents at end of year	**10**	**1,941**	**1,772**

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

1. Statement of accounting policies

Reporting entity

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

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

Statement of compliance

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

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

These financial statements were approved by the Board of Directors on 28 August 2019.

Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for the UFB network assets, which has been measured at fair value as described in Note 3.

Functional and presentation currency

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

Accounting policies

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

	Note		Note
Property, plant & equipment	3	Borrowings	4
Operating revenue	5	Operating expenses	6
Finance income and costs	7	Income taxes	8
Cash and cash equivalents	10	Trade and other receivables	11
Creditors and other liabilities	15	Deferred revenue	17
Share capital	18	Classification of assets and liabilities	21

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2019

New accounting standards and interpretations

The Group changed its accounting policies following the adoption of NZ IFRS 9 and NZ IFRS 15. No other new accounting standards or interpretations that became effective for the period had a material impact on the Group.

NZ IFRS 15, Revenue from Contracts with Customers, became effective on 1 July 2018. The Group has adopted NZ IFRS 15 using the retrospective approach. The Group has performed an assessment of its contracts with customers in accordance with NZ IFRS 15 and determined that the standard has no material impact on the timing of revenue recognition for all major revenue streams and therefore no material impact on reported revenue in the prior year or opening retained earnings. The practical expedient in para 121 of NZ IFRS 15 that allows the company not to disclose information on the transaction price allocated to the remaining performance obligations has been applied.

The Group has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date (generally on a monthly basis), the Group recognises revenue in the amount to which it has the right to invoice.

NZ IFRS 9 Financial Instruments, replaces the provisions of NZ IAS 39 that relate to the recognition, classification and measurement of financial assets and liabilities, derecognition of financial instruments and impairment of financial assets. The adoption of NZ IFRS 9 Financial Instruments from 1 July 2018, resulted in changes in accounting policies and impairment methodology for amounts recognised in the financial statements. The new accounting policy is set out in Note 11. The impact of the change in impairment methodology did not result in a material change to the Group's net trade receivables in the current or prior reporting periods. There have been no changes to the initial or subsequent measurement of financial assets or liabilities as a result of adopting NZ IFRS 9.

NZ IFRS 16 Leases, is effective 1 July 2019. NZ IFRS 16, will result in almost all leases being recognised on the balance sheet as the distinction between operating and finance leases is removed. The only exception is short term and low value leases. The adoption of NZ IFRS 16 is not expected to have a material impact on the Group.

Changes in accounting policies and disclosures

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

2. Critical judgements, estimates and assumptions

In preparing these financial statements the Group has made estimates and assumptions concerning the future. These estimates and assumptions may differ from subsequent actual results.

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed within the specific accounting note as shown below.

Area of estimate or judgement	Note	
Valuation of UFB network assets	3	Property, plant & equipment
Deferred tax recognition	8	Income taxes

KEY ASSETS AND LIABILITIES

3. Property, plant & equipment

	UFB network Layer 1 $'000	UFB network Layer 2 $'000	Central offices $'000	Other plant and equipment $'000	Total $'000
Gross carrying amount					
Cost/valuation at 1 July 2017	349,593	30,328	10,997	1,225	392,143
Additions	71,575	8,488	113	481	80,657
Disposals	–	–	–	(1)	(1)
Revaluation adjustments	3,907	–	–	–	3,907
Cost/valuation at 30 June 2018	**425,075**	**38,816**	**11,110**	**1,705**	**476,706**
Additions	55,709	3,611	491	222	60,033
Disposals	–	–	–	(7)	(7)
Cost/valuation at 30 June 2019	**480,784**	**42,427**	**11,601**	**1,920**	**536,732**
Accumulated depreciation and impairment					
Accumulated balance at 1 July 2017	(7,640)	(5,507)	(254)	(304)	(13,705)
Depreciation expense	(9,542)	(7,416)	(253)	(394)	(17,605)
Written back on revaluation adjustment	17,182	12,923	507	–	30,612
Accumulated balance at 30 June 2018	**–**	**–**	**–**	**(698)**	**(698)**
Depreciation expense	(10,605)	(7,651)	(242)	(412)	(18,910)
Disposals	–	–	–	6	6
Accumulated balance at 30 June 2019	**(10,605)**	**(7,651)**	**(242)**	**(1,104)**	**(19,602)**
Carrying amount at 30 June 2018	425,075	38,816	11,110	1,007	476,008
Carrying amount at 30 June 2019	**470,179**	**34,776**	**11,359**	**816**	**517,130**

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

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

UFB network Layer 2 assets comprise the electronics necessary to light the optical fibre or the means by which communication occurs down the Layer 1 pathway. These assets are located in Central Offices and in the premises of end users.

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

KEY ASSETS AND LIABILITIES (CONT.)

Recognised fair value measurements

The UFB network Layers 1 and 2 assets, together with the Central Offices (collectively described as UFB network assets), are owned by ESL's 100% subsidiary ENL. These UFB network assets were revalued to fair value as at 30 June 2018 by independent valuers Ernst & Young Transaction Advisory Services Limited (EY). EY are considered to have the appropriate qualifications and experience in the fair value measurement of such assets.

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

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

The DCF methodology involved assessing:

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

Using this methodology, the mid-point enterprise value of ENL at 30 June 2018 was assessed at $495m. Working capital and non-network assets of $20m was deducted to arrive at the estimated value of the UFB network assets at 30 June 2018 of $475m. The current book value of $516m reflects this value plus the net effect of additions and disposals at cost, and depreciation in the 2019 financial year.

The carrying value of property, plant and equipment as at 30 June 2019 approximates fair value, supported by the current business plan, financial forecast and performance of the Group remain consistent with the forecast underpinning the 2018 valuation. The 30 June 2019 carrying value is considered appropriate.

If UFB network assets were stated at historical cost, the carrying value would be as follows:

	Group 2019 $'000	Group 2018 $'000
UFB network assets		
Cost	530,905	471,094
Accumulated depreciation	(49,032)	(30,612)
Net book value	**481,873**	**440,482**

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

Useful lives and residual values of UFB network assets

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

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

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

KEY ASSETS AND LIABILITIES (CONT.)

Security

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

Accounting policy – property, plant and equipment

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

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

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

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

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

Additions

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

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, these are recognised through profit or loss. When revalued assets are sold, any revaluation reserve relating to the particular asset is transferred to retained earnings.

Subsequent costs

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

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

Depreciation

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

KEY ASSETS AND LIABILITIES (CONT.)

UFB Network assets:

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

Land is not depreciated.

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

Impairment of non-financial assets

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

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

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

4. Borrowings

	Note	Group 2019 $'000	Group 2018 $'000
Loan from CCHL	19	291,400	270,900
		291,400	**270,900**

The Group has a subordinated loan agreement with CCHL. The loan is unsecured and the interest rate is a base rate reflecting CCHL's cost of borrowing plus a 1% margin. At 30 June 2019 the weighted average interest rate was 4.9% (2018: 4.9%).

The line of credit under the loan agreement is available to the Group until March 2023 and totals $300m (2018: $285m).

Accounting policy – borrowings

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

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

PROFIT AND LOSS INFORMATION

5. Operating revenue

	Note	Group 2019 $'000	Group 2018 $'000
Gross telecommunications revenue	(i)	54,566	39,336
Sale of inventory		2,486	6,628
Other		1,716	2,509
		58,768	**48,473**

(i) Gross telecommunications revenue is required to be disclosed in accordance with the information disclosure requirements under section 83 of the Telecommunications Act 2001. There were no allowable deductions.

Accounting policy – revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable.

The Group recognises revenue as it provides services to its customers. Billings are generally made on a monthly basis. Unbilled revenues from the billing cycle date to the end of each month are recognised as revenue during the month the service is provided. Revenue is deferred in respect of the portion of fixed monthly charges that have been billed in advance. Revenue from installations and connections is recognised upon completion of the installation or connection.

Generally, control for inventory is transferred and revenue recognised at the point in time it is delivered to the contractor.

6. Operating expenses

	Note	Group 2019 $'000	Group 2018 $'000
Audit fees	6 (a)	163	178
Directors' fees		358	332
Net foreign exchange losses/(gains)		15	21
Operating leases		980	931
Employee costs	6 (b)	6,568	4,994
Other		12,525	16,071
		20,609	**22,527**

PROFIT AND LOSS INFORMATION (CONT.)

6 (a). Remuneration of auditors

	Note	Group 2019 $'000	Group 2018 $'000
Audit New Zealand			
Audit of the financial statements		125	123
Regulatory audit work		14	14
Total		**139**	**137**
Other auditor – KPMG			
Assurance-related		24	41
		24	41
Total auditor remuneration	6	**163**	**178**

6 (b). Employee costs

	Note	Group 2019 $'000	Group 2018 $'000
Employee costs			
Salaries and wages		13,780	14,681
Less capitalised salaries and wages		(7,259)	(10,100)
Net salaries and wages		6,521	4,581
Defined contribution plan employer contributions		374	379
Increase/(decrease) in employee entitlements/liabilities		(327)	34
Total employee costs	6	**6,568**	**4,994**

7. Finance income and costs

	Note	Group 2019 $'000	Group 2018 $'000
Finance income			
Interest – bank		59	140
Interest – other		9	61
		68	201
Financing costs			
Interest paid/payable to CCHL	19	13,951	13,064

PROFIT AND LOSS INFORMATION (CONT.)

Accounting policy – finance income and costs

Finance income

Interest income is recognised using the effective interest method.

Financing costs

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

8. Income taxes

8 (a). Components of tax expense

	Group 2019 $'000	Group 2018 $'000
Components of tax expense		
Current tax credit	(2,000)	(2,582)
Adjustments to current tax of prior years	582	(275)
Deferred tax (credit)/expense	(5,607)	1,234
Total income tax credit	**(7,025)**	**(1,623)**

8 (b). Reconciliation of prima facie income tax

	Group 2019 $'000	Group 2018 $'000
Profit /(loss) before tax	3,805	(5,406)
Tax at statutory rate of 28%	1,065	(1,514)
Tax loss not recognised as deferred tax asset	(1,420)	–
Previously unrecognised and unused tax losses now recognised as deferred tax assets	(7,574)	–
Over provision of income tax in previous year	904	(109)
Income tax credit	**(7,025)**	**(1,623)**

PROFIT AND LOSS INFORMATION (CONT.)

8 (c). Current tax asset

	Group 2019 $'000	Group 2018 $'000
Opening balance	2,582	4,394
Tax asset for the year	1,418	2,857
Subvention receipts	(2,000)	(4,669)
Closing balance	**2,000**	**2,582**

8 (d). Deferred taxation

	30 June 2018				30 June 2019	
	Opening balance $'000	Profit/ loss $'000	Other comprehensive income $'000	Closing balance $'000	Profit/ loss $'000	Closing balance $'000
Deferred tax liabilities:						
Property, plant and equipment	10,530	1,091	9,665	21,286	1,665	22,951
	10,530	**1,091**	**9,665**	**21,286**	**1,665**	**22,951**
Deferred tax assets:						
Provisions/employee entitlements	602	(138)	–	464	(311)	153
Doubtful debts and impairment losses	7	(5)	–	2	9	11
Tax losses	–	–	–	–	7,574	7,574
	609	**(143)**	**–**	**466**	**7,272**	**7,738**
Net deferred tax liability	**9,921**	**1,234**	**9,665**	**20,820**	**(5,607)**	**15,213**

The Group is a member of the CCC tax group, which comprises CCC, CCHL and a number of other group entities. The Group pays or receives subvention payments to/from other members of the CCC tax group. The amount recognised as a receivable for the 2019 tax year is $2.0m (2018: $2.6m), in relation to the tax effect of tax losses transferred. The Group received a subvention payment from other members of the CCC tax group of $2.0m (2018: $4.7m). 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 Group reviewed its ability to utilise previous tax losses from its change in shareholding as part of the 2016 re-organisation. While the matter is finely balanced, the Company considers it is probable to accept the carry forward of the pre-2017 tax losses. The company has recognised additional losses with a tax impact of $8.26 million. Some of these losses have been utilised in the current year and the residual balance has been recognised in deferred tax.

PROFIT AND LOSS INFORMATION (CONT.)

8 (e). Imputation credits

The amount of imputation credits available for use in subsequent reporting periods by the Group is $485k (2018: $485k).

Accounting policy – income tax

Income tax expense includes current tax and deferred tax.

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

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

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

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

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

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

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

FINANCIAL RISK MANAGEMENT

9. Financial risk management

The Group's activities expose it to a variety of financial instrument risks, including liquidity risk, interest rate risk and credit risk. The Group has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

9 (a). Liquidity risk

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

As described in Note 4, the Group has guaranteed debt funding from CCHL of up to $300m until March 2023. Following the 2016 re-organisation, CCHL passes on funding to the Group received from CIP for stage sale settlements, equivalent to the amounts that would have been provided directly by CIP to ENL under the original UFB contract. This funding is in the form of redeemable preference shares or debt.

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

Contractual maturity analysis of financial assets and financial liabilities

The following table analyses the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows. The contractual undiscounted amounts are equal to the carrying amounts.

	Balance sheet $'000	Contractual cash flows $'000	Less than 1 year $'000	1-2 years $'000	2-5 years $'000	5 years + $'000
30 June 2019						
Cash, cash equivalents and deposits	1,941	1,941	1,941	–	–	–
Trade and other receivables	1,829	1,829	1,829	–	–	–
Creditors and other payables	(10,035)	(10,035)	(10,035)	–	–	–
Borrowings from CCHL	(291,400)	(360,174)	(15,334)	(14,623)	(98,016)	(232,201)
	(297,665)	**(366,439)**	**(21,599)**	**(14,623)**	**(98,016)**	**(232,201)**
30 June 2018						
Cash, cash equivalents and deposits	1,772	1,772	1,772	–	–	–
Trade and other receivables	3,865	3,865	3,865	–	–	–
Creditors and other payables	(14,771)	(14,771)	(14,771)	–	–	–
Borrowings from CCHL	(270,900)	(341,987)	(13,941)	(13,941)	(41,823)	(272,282)
	(280,034)	(351,121)	(23,075)	(13,941)	(41,823)	(272,282)

FINANCIAL RISK MANAGEMENT (CONT.)

9 (b). Interest rate risk

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. The Group's exposure to fair value interest rate risk is with its bank current account balances. Borrowings from CCHL are at floating rates of interest. These are not accounted for at fair value and fluctuations in interest rates do not have an impact on the profit/loss of the Group or the carrying amount of the financial instruments recognised in the statement of financial position.

The average interest rate received on the Group's bank current account for 2019 is 1.5% (2018: 1.8%).

Cash flow interest rate risk

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

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

Sensitivity analysis

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

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

	Effect on equity Group 2019 $'000	Effect on equity Group 2018 $'000	Effect on profit Group 2019 $'000	Effect on profit Group 2018 $'000
1% increase in interest rates	(1,760)	(1,550)	(1,760)	(1,550)
1% decrease in interest rates	1,760	1,550	1,760	1,550

FINANCIAL RISK MANAGEMENT (CONT.)

9 (c). Credit risk

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

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

The Group's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents Note 10 and trade and other receivables Note 11. There is no collateral held as security against these financial instruments and no instruments are overdue or impaired. The Group's deposits are currently held with the BNZ, a registered New Zealand bank.

Ageing of receivables

	Note	Group 2019 $'000	Group 2018 $'000
Gross receivables			
Not past due		1,121	1,411
Past due 0-30 days		448	709
Past due 31-60 days		100	150
Past due more than 60 days		166	115
	11	**1,835**	**2,385**
Impairment			
Not past due		–	–
Past due 0-30 days		–	–
Past due 31-60 days		–	–
Past due more than 60 days		(39)	(8)
	11	**(39)**	**(8)**
Gross trade receivables		1,835	2,385
Individual impairment		–	–
Collective impairment		(39)	(8)
Trade receivables (net)		**1,796**	**2,377**

The Group maintains a provision for impairment losses when there is objective evidence of its customers being unable to make required payments and makes provision for doubtful debt where debt is more than 90 days overdue. There have been no significant individual impairment amounts recognised as an expense. Trade receivables are net of disputed balances with customers.

OTHER ASSETS AND LIABILITIES

10. Cash and cash equivalents

	Group 2019 $'000	Group 2018 $'000
Cash balances	1,941	1,772
	1,941	**1,772**

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

Accounting policy – 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.

11. Trade and other receivables

	Note	Group 2019 $'000	Group 2018 $'000
Current			
Trade receivables		1,835	2,385
	9 (c)	1,835	2,385
Prepayments		604	742
GST receivable		33	746
		2,472	**3,873**
Provision for impairment – trade receivables	9 (c)	(39)	(8)
Total trade debtors, other receivables and prepayments		**2,433**	**3,865**

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

Accounting policy – trade and other receivables

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

The Group applies the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on historical experience, external indicators and forward looking information.

OTHER ASSETS AND LIABILITIES (CONT.)

12. Inventories

	Group 2019 $'000	Group 2018 $'000
Current		
Inventory	2,468	3,600
	2,468	**3,600**

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

Accounting policy – 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.

13. Construction contract work in progress

	Group 2019 $'000	Group 2018 $'000
Current		
Opening balance	28,787	22,220
Additions	43,137	86,630
Transferred to property, plant and equipment	(59,320)	(80,063)
Total construction contract work in progress	**12,604**	**28,787**

OTHER ASSETS AND LIABILITIES (CONT.)

14. Intangible assets

	Note	Goodwill $'000	Software $'000	Work in progress $'000	Total $'000
Gross carrying amount					
Cost/valuation at 1 July 2017		848	4,262	1,142	6,252
Additions		–	–	3,431	3,431
Transfers	3	–	1,840	(1,840)	–
Cost/valuation at 30 June 2018		**848**	**6,102**	**2,733**	**9,683**
Additions		–	–	4,572	4,572
Transfers	3	–	5,300	(5,300)	–
Disposals		–	(1,378)	–	(1,378)
Cost/valuation at 30 June 2019		848	10,024	2,005	12,877
Accumulated depreciation and impairment					
Accumulated balance at 1 July 2017		–	(1,892)	–	(1,892)
Amortisation expense		–	(884)	–	(884)
Accumulated balance at 30 June 2018		**–**	**(2,776)**	**–**	**(2,776)**
Amortisation expense		–	(1,561)	–	(1,561)
Disposals		–	1,376	–	1,376
Accumulated balance at 30 June 2019		**–**	**(2,961)**	**–**	**(2,961)**
Carrying amount at 30 June 2018		848	3,326	2,733	6,907
Carrying amount at 30 June 2019		**848**	**7,063**	**2,005**	**9,916**

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

Management have reviewed intangible assets at balance date and concluded that there were no indicators of impairment (2018: nil).

Accounting policy – intangible assets

Intangible assets comprise costs incurred in purchasing and installing software systems for use by the business. The software is a non-monetary asset without physical substance. The costs relating to the project can be reliably measured from invoices and allocation of internal costs. They are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis at a rate of 20-40% 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.

OTHER ASSETS AND LIABILITIES (CONT.)

15. Creditors and other liabilities

	Note	Group 2019 $'000	Group 2018 $'000
Trade payables and accrued expenses		9,647	14,404
Income in advance		1,263	1,048
Interest payable to CCHL	19	388	367
		11,298	**15,819**

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.

Accounting policies – creditors and other liabilities, employee entitlements and GST

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.

Employee entitlements

Employee entitlements that the Group expects to be settled within 12 months of balance date are measured at undiscounted nominal values based on accrued entitlements at current rates of pay. A liability and an expense are recognised for bonuses where there is a contractual obligation.

Goods and services tax

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

16. Employee entitlements

	Group 2019 $'000	Group 2018 $'000
Current		
Accrued pay	651	705
Annual leave	584	682
Employee incentives	804	657
	2,039	**2,044**
Non-current		
Employee incentives	–	322
	–	**322**

OTHER ASSETS AND LIABILITIES (CONT.)

17. Deferred Revenue

	Group 2019 $'000	Group 2018 $'000
Current portion	61	86
Non-current portion	493	578
	554	**664**

Deferred revenue arises from IRUs (irrevocable rights of use) sold to retail service providers. This revenue is amortised over the life of the IRUs.

Accounting policy – deferred revenue

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

OTHER DISCLOSURES

18. Share Capital

	Note	Ordinary shares $'000	Redeemable Preference shares $'000	Total shares $'000
Balance at 1 July 2017		44,000	120,503	164,503
Shares issued during year		23,500	29,493	52,993
Balance at 1 July 2018		67,500	149,996	217,496
Shares issued during year	19	–	4,206	4,206
Balance at 30 June 2019		**67,500**	**154,202**	**221,702**

ESL has 67,500,000 fully paid shares to CCHL, carrying one vote per share and the rights to dividends.

ESL issued 4,206,285 fully paid redeemable preference shares to CCHL in 2019. ESL has 154,201,965 fully paid redeemable preference shares, paid to $1 to CCHL. The redeemable preference shares have the same dividend entitlement rights on a per share basis, as holders of the ordinary shares and no voting rights. ESL may elect at any time to redeem all or part of the redeemable preference shares.

During the year there were no costs associated with share issues (2018: Nil).

Capital management

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

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

Accounting policy – equity instruments

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

Accounting policy – consolidation

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

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

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

OTHER DISCLOSURES (CONT.)

19. Related party disclosures

Identification of related parties

The Group is 100% owned by CCHL. CCHL is 100% owned by CCC. ENL is a 100% owned subsidiary of ESL.

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

During the period, no transactions were entered into by the Group with any of its Directors other than the payment of Directors' fees and the reimbursement of valid Group-related expenses.

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

Key management personnel compensation

	Group 2019 $'000	Group 2018 $'000
Short term employee benefits (inc. salaries and Directors' fees)	3,241	3,438
KiwiSaver employer contributions	84	97
Other long term employee benefits	–	212
Total	**3,325**	**3,747**

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

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

CCHL is a party to the UFB contract documents signed with CIP on 31 May 2011 under which it undertakes some of the obligations of ESL, and has provided a performance bond of $25m as at 30 June 2019 (2018: $30m).

Balances and transactions between the ESL and its subsidiary, which are related parties have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Significant transactions and balances with related entities

	Note	Group 2019 $'000	Group 2018 $'000
Transactions during the year			
Issue of equity to CCHL	(i)	4,206	52,993
Borrowed from CCHL	(ii)	20,500	13,000
Interest paid to CCHL	(iii)	13,852	13,064
Interest option paid to CCHL	(iii)	–	297
Subvention payments from CCC tax group	(iv)	2,000	4,669
Sales to CCC		30	67
Sales to City Care Ltd		1	2
Sales to Christchurch International Airport Ltd		13	–
Payments to Crown, CCC and controlled entities		1,015	1,129
Payments to Christchurch International Airport Ltd for services		1	1
Payments to City Care Ltd for services		10	12
Payments to Connetics Ltd for network-related services		–	3
Payments to Vbase Ltd for services		–	23

OTHER DISCLOSURES (CONT.)

	Note	Group 2019 $'000	Group 2018 $'000
Balances at end of year			
Loan balance due to CCHL	(v)	291,400	270,900
Interest payable to CCHL	(vi)	388	367
Accounts payable to CCC		13	14
Accounts payable to Canterbury Development Corporation		–	15
Accounts receivable from CCC		2	–
Accounts receivable from City Care Ltd		–	2

(i) The Group issued $4.2m of redeemable preference shares during the year as per Note 18.

(ii) The Group borrows from CCHL under a subordinated loan agreement, as outlined in Note 4, to fund its operations.

(iii) Interest is charged on the CCHL loan at CCHL's weighted average cost of borrowing, plus a fixed margin of 1%. In 2018 the Group purchased a 3 year interest option on $70m of debt, from CCHL for $0.3m.

(iv) The Group is a member of the CCC tax group, which comprises CCC, CCHL and a number of subsidiaries of each entity. In exchange for the use of its tax losses, the Group receives subvention payments from other CCC tax group entities. In 2019 a subvention payment of $2.0m was received from Lyttelton Port Company Group, a subsidiary of CCHL.

(v) The loan balance due to CCHL at balance date is outlined in Note 4.

(vi) Interest is payable to CCHL on a quarterly basis, and the balance accrued at balance date is included in trade creditors.

Other related party disclosures

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

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

OTHER DISCLOSURES (CONT.)

20. Reconciliation of profit to net cash operating flows

	Note	Group 2019 $'000	Group 2018 $'000
Profit/(loss) for the year		**10,830**	**(3,783)**
Add/(less) non-cash items			
Depreciation, amortisation and impairment expense	3, 14	20,471	18,489
Deferred tax charged/(credited) to income	8 (d)	(5,607)	1,234
Net foreign exchange losses/(gains)		15	21
		14,879	**19,744**
Add/(less) items classified as investing or financing activities			
Other		(14)	(21)
		(14)	**(21)**
Add/(less) movement in working capital items			
Trade and other receivables, prepayments – current		1,432	1,090
Inventories and work in progress – current		1,132	(6,311)
Creditors and other payables		(4,631)	818
Employee entitlements – current		(5)	205
Employee entitlements – non-current		(322)	(171)
Income tax		582	1,812
		(1,812)	**(2,557)**
Net cash used in operating activities		**23,883**	**13,383**

21. Classification of assets and liabilities

	Group 2019 $'000	Group 2018 $'000
Loans and receivables		
Cash and cash equivalents	1,941	1,772
Trade and other receivables	2,433	3,865
	4,374	**5,637**
Financial liabilities measured at amortised cost		
Creditors and other payables	11,298	15,819
Borrowings from CCHL	291,400	270,900
	302,698	**286,719**

OTHER DISCLOSURES (CONT.)

22. Statement of service performance

The Statement of Intent (SoI) issued by ESL last year in respect of the 2019 financial year included both financial and non-financial performance measures. The following table compares ESL's actual results for the year ended 30 June 2019 with the targets contained within the SoI.

	Unit	Actual Group 2019	Target Group 2019
Financial performance targets			
External operating revenue	$'000	58,768	58,600
EBITDA	$'000	38,159	36,200
Net profit/(loss) after tax	$'000	10,830	(800)
Operational performance targets			
Number of connections (cumulative)	Number	101,271	104,000
Operational service level agreement achievement	%	96%	>95%
Core network availability	%	99.990%	>99.999%
Health and safety performance targets			
TRIFR (per million hours)	Number	3.50	<2.5
Serious harm injuries	Number	Nil	Nil
Site audits and safety observations conducted	Number	9,691	>1,000
Corporate social responsibility performance targets			
Environmentally friendly design – network ducting underground	%	100%	90%
Sustainability framework		Framework published in 2020 SoI	Framework published

Variances between the actual results for the year ended 30 June 2019 and the targets contained within the SoI are as follows.

Financial performance targets

External operating revenue represents gross telecommunications revenue to retail service providers, sale of inventory to contractors and other revenue to external customers. The positive variance is driven by a greater proportion of other revenue than originally forecast. EBITDA represents Group profitability prior to the deduction of net interest, tax, depreciation and amortisation expenses. Net profit after tax was $11.6m greater than the target of ($0.8m) at $10.8m, because of the recognition of $7.6m of deferred tax losses (Note 8(d)) and tighter cost controls.

Operational performance targets

The number of connections (cumulative) was 2,729 below target as a result of uptake slowing as we enter the broadband market late majority and the increased prevalence of fixed wireless services. Operational service levels (with 96% of customers connected on time) performance was a result of close management of our connection field force, and 99.990% core network availability resulting from careful management of our network assets.

TRIFR per million hours / Serious harm injuries / Site audits

The business continues to set very high standards and improvement goals in health and safety, as reflected by an above target number of site audits and safety observations undertaken. The success of our health and safety programme is evidenced by our zero serious harm injury record. The business' high standards are emphasis in our TRIFR target of <2.5, which was close to being achieved.

Corporate social responsibility performance targets

100% of the business' communal infrastructure was deployed underground – reflecting our commitment to sustainability. Our sustainability framework target was met by publishing our sustainability strategy (focussed initially on environment sustainability) in the 2020 SoI.

UNRECOGNISED ITEMS

23. Capital and operating lease commitments

Capital commitments

Under the terms of the UFB contract, the Group is required to build Communal Infrastructure and Central Offices, and to connect the network to relevant premises when an end user requests this from a retail service provider.

The estimated cost of network connections through to December 2019 is $14m. The Group will use net operating cashflows and committed funding from CCHL to meet these obligations, as outlined in Note 9(a).

Lease payments as lessee under operating leases

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

	Group 2019 $'000	Group 2018 $'000
Not later than one year	161	786
Later than one year and not later than five years	49	179
Later than five years	–	–
Total non-cancellable operating leases	**210**	**965**

The Group's premise lease on 106 and 114 Wrights Road has less than 12 months remaining, with two further rights of renewal for six years each.

24. Contingent liabilities and assets

Contingent liabilities

As part of the 2016 re-organisation, the Group has provided a guarantee of CIP's loan to CCHL. At 30 June 2019 this loan amounted to $154.2m (2018: $150.0m).

The Group had no other material contingent liabilities as at 30 June 2019 (2018: $nil).

Contingent assets

Network Delivery Alliance (NDA)

Broadspectrum has lodged a $22.5m performance bond with the Group under the Network Delivery Alliance agreement (2018: $22.5m).

The Group had no other material contingent assets as at 30 June 2019 (2018: Nil).

25. Events after the balance sheet date

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

GOVERNANCE AND RELATED INFORMATION

Governance

Corporate governance framework

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

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

The Board regularly reviews and assesses Enable's policies, processes and practices to ensure they reflect Enable's operations and culture, and to identify opportunities for improvement.

Board role and responsibilities

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

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

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

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

Board relationship with shareholder

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

Conduct of Directors

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

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

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

Directors are entitled to have access, at all reasonable times, to all relevant company information and to management.

GOVERNANCE AND RELATED INFORMATION (CONT.)

Directors are expected to strictly observe the provisions of the Companies Act 1993 applicable to the use and confidentiality of company information.

Board Chairperson

The Chairperson is responsible for representing the Board to the shareholder, and for ensuring the integrity and effectiveness of the governance process of the Board.

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

The Chairperson acts as facilitator at meetings of the Board to ensure that discussion results in logical and understandable outcomes. The Chairperson leads a Board and Director evaluation exercise every two years.

Remuneration and performance

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

Directors' remuneration

Total remuneration paid to Directors for the year ended 30 June 2019 was determined by the shareholder, and was allocated as follows.

	ESL $	ENL $	Group Total $
Mark Bowman	10,439	59,151	69,590
Craig Elliott	7,827	44,353	52,180
Brett Gamble	10,439	59,151	69,590
Bill Luff	7,902	44,778	52,680
Kathy Meads	8,427	47,753	56,180
Mark Petrie (appointed 18 June 2019)	615	3,484	4,099
Scott Weenink (appointed 18 December 2018)	4,303	24,385	28,688
Mark Rushworth (ceased 19 December 2018)	3,689	20,901	24,590
	53,641	**303,956**	**357,597**

Chief Executive Officer's remuneration

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

The CEO's total remuneration paid in the year ending 30 June 2019 was as follows:

	Note	$'000
Fixed remuneration		583
Performance-based	(i)	375
Total		**958**

GOVERNANCE AND RELATED INFORMATION (CONT.)

Notes:

(i) Performance based remuneration includes a short-term incentive payment of $73,966 relating to the prior year and a payment relating to the long term incentive scheme established in 2012 of $300,935. The short-term incentive is set at a maximum of 30% of base remuneration and is linked to the achievement of targets in health & safety, employee engagement, customer connections and satisfaction, and financial performance set annually by the Board. The long-term incentive is linked to the achievement of financial return targets over a longer period.

(ii) Any holiday pay has been excluded from the remuneration paid.

(iii) In addition to the compensation noted above, $30,400 in KiwiSaver employer contributions were made on behalf of the CEO in the year ended 30 June 2019.

Employee remuneration range

The following table shows the number of employees and former employees who, in their capacity as such, received remuneration and other benefits in excess of $100,000 during the year ended 30 June 2019:

$	Number of employees in the year ended 30 June 2019 (Based on actual payment)
100,000 – 109,999	7
110,000 – 119,999	6
120,000 – 129,999	3
130,000 – 139,999	8
140,000 – 149,999	4
150,000 – 159,999	1
160,000 – 169,999	–
170,000 – 179,999	2
180,000 – 189,999	1
190,000 – 199,999	–
200,000 – 209,999	1
210,000 – 219,999	1
220,000 – 229,999	1
230,000 – 239,999	–
240,000 – 249,999	1
250,000 – 259,999	1
260,000 – 269,999	–
290,000 – 299,999	1
950,000 – 959,999	1

GOVERNANCE AND RELATED INFORMATION (CONT.)

Other disclosures

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 2019.

Director	Directors' Interests
Mark Bowman Chair	**Director** of Enable Networks Limited, Comrad Holdings Limited, Claremont Investments Limited, Napoleon Investments Limited, Tourplan Holdings Limited **Director & Shareholder** of Magic Memories Group Holdings Limited, Scarlett Hydraulics Limited **Trustee** of MJ & RM Bowman Family Trust
Craig Elliott	**Director** of Enable Networks Limited, Autogrow Systems Limited, Magic Memories Group Holdings Limited **Council Member** of Yosemite Conservation Council
Brett Gamble	**Director** of Enable Networks Limited, Biocann Investments Limited, Mike Greer Homes NZ Limited, Mojo Coffee Cartel Limited, New Zealand Assets Management Limited, Southbase Construction Limited, LJ Partnership (NZ) Ltd (and related Companies), Gough Group Limited (and related Companies), Pathfinder Asset Management Limited **Director and Shareholder** of Aoraki Services Limited, Positano Holdings Limited Trustee of Hammersmith Property Trust **Officer** of Mobile Surgical Services, Mobile Medical Technologies, Tailorspace Limited, Ben Gough Family Office
Bill Luff	**Director** of Enable Networks Limited, Luff Trading Limited, Isaac Construction Limited, J Ballantyne Company Limited, Central Plains Water Limited, Harewood Gravels Company Limited, Overseer Limited, South Island Aggregates Limited **Trustee** of Christchurch Symphony Orchestra Trust, Isaac Wildlife Conservation Trust, The Lighthouse Vision Trust
Kathy Meads	**Director** of Enable Networks Limited, Port Taranaki Limited, NZPM Group Limited, Shipowners' Mutual Protection and Indemnity Association (Luxembourg), Transpower New Zealand Limited **Trustee** of Christchurch Symphony Orchestra Trust Consultant to Lyttelton Port Company Limited
Mark Petrie (appointed 18 June 2019)	**Director** of Enable Networks Limited **Director and Shareholder** of CommArc Consulting Limited, De Novo Partners Limited, KMCH Holdings Limited (corporate trustee of the Petrie Investment Trust), Mark Petrie Investments Limited **Trustee** of Mark and Kelly Petrie Family Trust, Mark Petrie Family Trust, Petrie Investment Trust
Scott Weenink (appointed 20 November 2018)	**Director** of Enable Networks Limited, Eastbourne Trust Investments Limited, Escalate Investments Limited, Generate Funds Limited, Generate Investment Holdings Limited, Generate Investment Management Limited, Modica Group Limited, New Zealand Cricket Players Association **Officer** of Modica Group
Former Directors	
Mark Rushworth (ceased 18 December 2018)	**Director** of Enable Networks Limited, Education Investments Group Limited, Freightways Limited, Geo Limited, Ihug Limited, Pathways Education Group Limited, Yellow Drill Limited **Director & Shareholder** of Corporate Investments Limited

GOVERNANCE AND RELATED INFORMATION (CONT.)

Attendances of ESL Board and Committee meetings during the 2019 financial year

	ARC	HSW&P	FTP	Board
Total number of meetings	**4**	**3**	**5**	**9**
Mark Bowman	N/A	N/A	5	9
Craig Elliot	N/A	N/A	5	9
Brett Gamble	4	1	N/A	8
Bill Luff	4	3	N/A	9
Kathy Meads	4	3	N/A	8
Mark Petrie (appointed 18 June 2019)	N/A	N/A	N/A	1
Scott Weenink (appointed 18 December 2018)	N/A	1	N/A	5
Mark Rushworth (ceased 19 December 2018)	N/A	N/A	N/A	5

Attendances of ENL Board and Committee meetings during the 2019 financial year

	ARC	HSW&P	FTP	Board
Total number of meetings	**4**	**3**	**5**	**9**
Mark Bowman	N/A	N/A	5	9
Craig Elliot	N/A	N/A	5	9
Brett Gamble	4	1	N/A	8
Bill Luff	4	3	N/A	9
Kathy Meads	4	3	N/A	8
Mark Petrie (appointed 18 June 2019)	N/A	N/A	N/A	1
Scott Weenink (appointed 18 December 2018)	N/A	1	N/A	5
Mark Rushworth (ceased 19 December 2018)	N/A	N/A	N/A	5

ARC – Audit and Risk Committee HSW&P – Health, Safety, Wellness & People Committee FTP – Future Technology & Products Committee

Insurance

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

Donations

A donation of $25,000 was made to the "Our People, Our City Fund" in the wake of the tragic events of 15 March 2019.

Dividends

No dividends were paid during the year.

Principal activities

The principal activity of the Group is the supply of communication infrastructure and services in Christchurch.

INDEPENDENT AUDITOR'S REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To the readers of Enable Services Limited's group financial statements and performance information for the year ended 30 June 2019

The Auditor-General is the auditor of Enable Services Limited Group (the Group). The Auditor-General has appointed me, Chantelle Gernetzky, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information of the Group, on his behalf.

Opinion

We have audited:

- the financial statements of the Group on pages 33 to 61, that comprise the statement of financial position as at 30 June 2019, 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 performance information of the Group on page 60.

In our opinion:

- the financial statements of the Group on pages 33 to 61:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2019; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards; and
- the performance information of the Group on pages 60 presents fairly, in all material respects, the Group's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Group's objectives for the year ended 30 June 2019.

Our audit was completed on 28 August 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the performance information for the Group.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT (CONT.)

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible solely for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify in our audit.

Our responsibilities arise from the Public Audit Act 2001.

INDEPENDENT AUDITOR'S REPORT (CONT.)

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 3 to 32 and 62 to 71, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report the fact. We have nothing to report in this regard.

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners, issued by New Zealand Auditing and Assurance Standards Board.

In addition to the audit we were engaged to perform assurance engagements for the 2019 disclosure year pursuant to the Local Fibre Company Information Disclosure Determination 2018, and information disclosure requirements of section 83 of the Telecommunications Act 2001. These engagements are compatible with those independence requirements.

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

Chantelle Gernetzky
Audit New Zealand
On behalf of the Auditor General
Christchurch, New Zealand

GLOSSARY

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

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

Contractual/financial	
Re-organisation	The series of transactions that took place on 29 June 2016, which resulted in ESL acquiring full ownership of ENL.
CPPP	Cost per Premise passed for Communal Infrastructure
CPPC	Cost per Premises Connected to Communal Infrastructure
IRU	Indefeasible Right to Use
UAT	User Acceptance Testing
A shares	A shares in the capital of ENL having the rights and restrictions set out in the ENL Constitution; in particular, they carry voting but not dividend rights
B shares	B shares in the capital of ENL having the rights and restrictions set out in the ENL Constitution; in particular, they carry rights to dividends but not voting rights
Concession period	The period commencing on the date ENL was incorporated and ending on the tenth anniversary of the date of ENL's incorporation (31 May 2021)

DIRECTORY

Shareholder
Christchurch City Holdings Limited

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

Contact address
PO Box 9228
Tower Junction
Christchurch 8149
New Zealand

Web: www.enable.net.nz
Email: admin@enable.net.nz
Phone: + 0800 434 273

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

Solicitor
Simpson Grierson

Banker
BNZ


enable
Fibre Broadband