CONNECTING OUR COMMUNITY

ENABLE SERVICES LIMITED
2018 ANNUAL REPORT

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CONNECTING OUR COMMUNITY WITH UNLIMITED OPPORTUNITY

Every local family, business, school, healthcare provider and community service provider that embraces fibre broadband is bringing us a step closer to realising our purpose.

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STORIES FROM OUR COMMUNITY

77,000 homes, businesses, schools, healthcare providers and community organisations in greater Christchurch are connected with unlimited opportunity to Enable fibre broadband. This translates into hundreds of thousands of people within our community making the most of the digital world – running businesses, delivering community services, learning, and living more connected lives.

Stephen Walters
Rangiora New Life School

"Distance is no longer a barrier - we can connect our students to another teacher in another school in a virtual class, and with everything being instant there's no lag - it's just as good as being in the same room as them."

Laura Bateman
Owner, Float Club

"Fibre has now made everything we do online so much easier for business."

Helen Vessey
Halswell

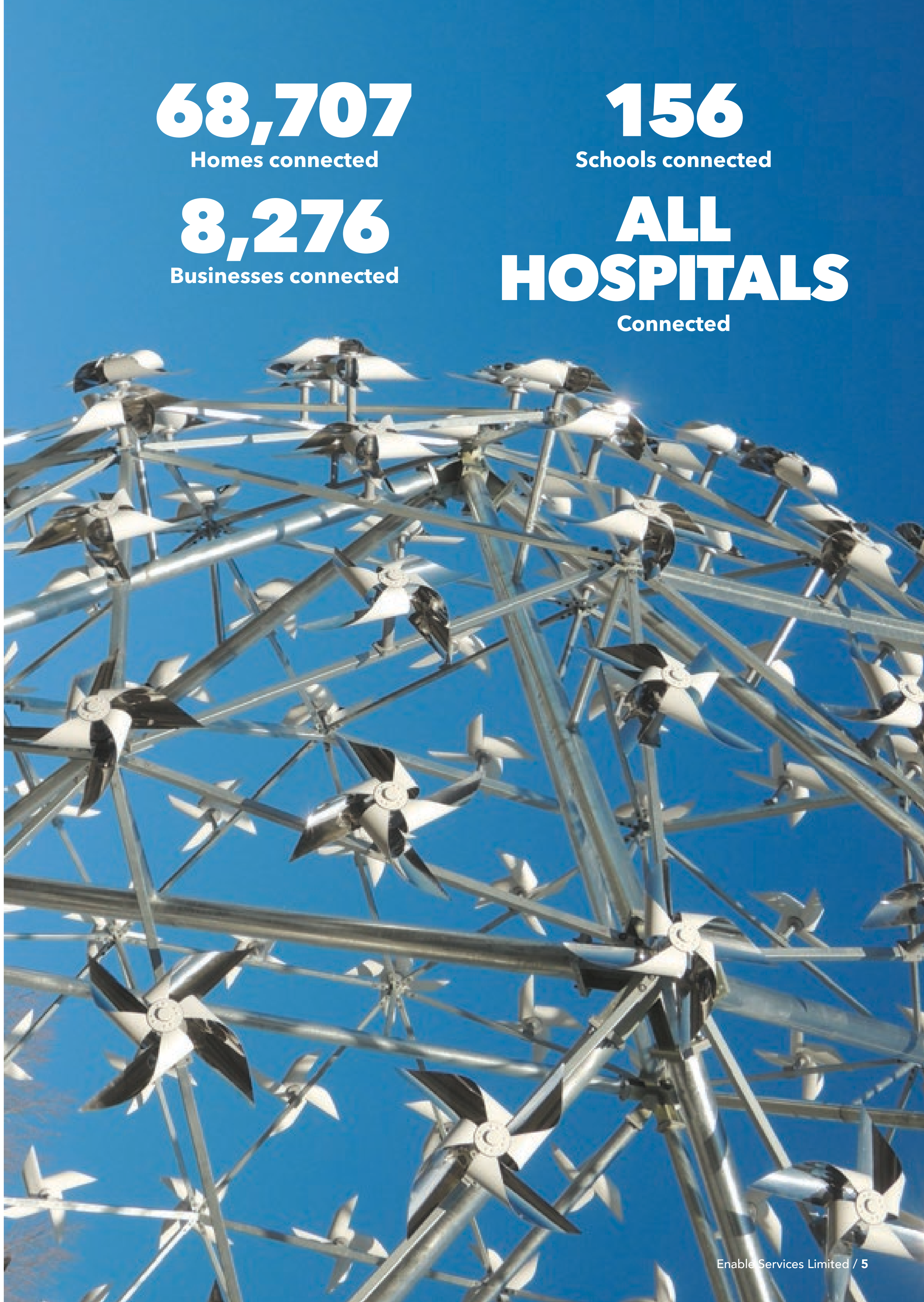
"On Christmas day, I was Skyping with my Dad in the UK and it was an absolutely perfect picture. He was able to watch our son opening his Christmas presents - it was a huge thing. Dad felt like he was in the room - the next best thing."

Geoff Gale
Rangiora

"We've got a hectic household. We don't have time to be mucking around waiting for a slow internet connection. Fibre broadband has put a stop to this."

Sue Mercer
Prebbleton

"Spending time connecting with friends and family is important to us - we do a lot of it online, particularly with family overseas. We won't let an inferior connection get in the way of this."



NETWORK BUILD COMPLETED

We completed our network build across greater Christchurch bringing fibre broadband to 200,000 homes, businesses and schools – even better, we did this 18 months ahead of schedule.

Since the beginning of this enormous project in November 2011, we have built a network that is more than five times the length of New Zealand, and with quality and safety front of mind.

We were immensely proud to announce to our greater Christchurch community that we had completed our network rollout to every home and business in our coverage area, and that everyone can now connect to our world-class fibre broadband services.

It is fair to say that the construction of the network was an enormous challenge in a city that was devastated by earthquakes. The Network Delivery Alliance formed between Enable and Broadspectrum (Australia) Pty Limited brought innovation to the way the network was built. It is this Alliance and innovation that was instrumental to delivery of the network early.

We also collaborated closely with the Government, Crown Infrastructure Partners Limited (CIP), the Christchurch City Council (CCC) and our shareholder Christchurch City Holdings Limited (CCHL), other local councils and many infrastructure contracting companies to achieve what we have. We thank all of them for their support. We enjoyed the opportunity to celebrate this huge infrastructure build achievement together at the end of May.

Most importantly we thank the Christchurch community for their patience and tolerance while we built the network.

Steve Fuller
Enable Chief Executive

"We met our original commitment to Christchurch, Rangiora, Kaiapoi, Woodend, Rolleston, Lincoln, Templeton and Prebbleton 18 months early. Plus, extended our fibre broadband to more communities at the same time – including Kennedys Bush, Ohoka, Tuahiwi, Clearwater, Tai Tapu and more areas on the fringe of Christchurch."

Hon. Lianne Dalziel
Mayor of Christchurch

"Christchurch has ambitions to be a smart city. We need the building blocks and that's what Enable have given us. We are now ready for the future."

John Greenhough
Crown Infrastructure Partners

"The handover quality of UFB deployment in Christchurch and the surrounding areas has been the highest in the country."

OUR PEOPLE BELIEVE IN OUR BUSINESS

Quality Officer Garth Lancaster reflects on the role he has played in helping his community connect with unlimited opportunity.

"I've worked on projects throughout New Zealand and Australia, but the build and rollout of fibre broadband in Christchurch has definitely been the best one.

"The people in our business are genuinely good people; I've met members of our community from all walks of life. Christchurch is a beautiful city and because the network coverage area is so vast, some days I have gone from my favourite part of Christchurch, Taylors Mistake, through to Woodend.

"The challenges were the best part; it brought a lot of job satisfaction. Connecting the hill suburbs, specifically Lyttelton, was interesting; dealing with volcanic rock and narrow, one-way streets. We always found a way though, and we trusted in our build partners' expertise. It's been a real team effort to connect our community to fibre broadband.

"Fibre has been around for a while now, and it's great that all our community can make the most of it in their homes and businesses."

Garth himself made sure he connected his home to Enable fibre broadband when he and his family moved to their home in Rolleston.

"It was my youngest son who demanded we got Enable fibre broadband. It really does remove the frustration of waiting for things to load. The advancement of technology makes life so much easier."

2018 – OUR ANNUAL REVIEW

Brett Gamble, Chair

Steve Fuller, Chief Executive

CHAIR AND CEO INTRODUCTION

2018 was Enable's eleventh year of business, and it was another significant one, where we set ourselves ambitious goals and exceeded them.

Our community continued to demonstrate a remarkable demand for our fibre broadband services that far outstretches every prediction made when we began our fibre broadband project in 2011.

Our Annual Review focuses on how we have responded to our community's demand for fibre broadband to finish the year with over 77,000 customers connected. It examines how we continued to accelerate our network build to the point that our final months of mass build were some of our most efficient – finishing the network build 18 months early and helping us finish the year ahead of our revenue target.

These remarkable high-level achievements have only been made possible by our people and our shared organisational culture – with a focus on continuously improving our customer experience, caring for each other, our partners and our customers, and maintaining a world-class fibre network for our community to enjoy.

We have grown Enable into an asset worth over half a billion dollars which is owned by our community. We are well set to deliver significant future dividends back to our community as we continue to meet our growth expectations. We will ensure our business is a valuable strategic asset with a long future that can support CCC's long-term investment in community growth.

Everyone involved in our business is firmly focused on our shared purpose of 'connecting our community with unlimited opportunity' through our fibre broadband services and the growth of our business.

RECORD DEMAND FOR FIBRE BROADBAND

We connected 27,043 homes, businesses and schools to fibre broadband – 2,754 more than the year before and 4,927 more than the target set out in our Statement of Intent (SoI). We finished the year with 77,149 customers connected.

As more and more customers connect to fibre broadband and we quickly approach 50 percent share of fixed broadband market share, we know we need to work harder to help potential customers understand what fibre broadband means to them.

We have invested in creating a strong market persona for the Enable brand emphasising that fibre broadband delivers the next generation of connectivity solution. The faces of Enable in this successful campaign are our Generation Fibre (Gen-F) experts – Bri and Bostyn – who were discovered in our community via a social media competition.

Targeting areas as we completed the network build, for example in Rangiora, we placed great emphasis on digital and social media, including reinvigorating our own digital platforms and investing in more content. This approach generated a closer connection and more engagement with potential customers.

Wholesale product innovation was front and cente as we focused on further differentiating fibre broadband from our competitors – copper, hybrid fibre-coaxial and fixed wireless networks that all compete in our market. We set a market-leading wholesale price for our fastest residential fibre product – capable of delivering close to Gigabit speeds – to enable our internet service providers to offer more compelling retail pricing.

We also launched a plan doubling the download speed of the most popular residential fibre broadband service – the 100Mbps plan – to 200Mbps, and offered this to our internet service providers at no extra cost. This means approximately 45,000 customers may enjoy an even faster fibre broadband experience.

A CUSTOMER CENTRIC BUSINESS

Customer experience remains a cornerstone of our business – as we continuously work to improve on delivering an excellent experience in every interaction with our internet service providers and their customers.

We built on strong customer experience momentum from the previous year to deliver an industry-leading average net promoter score of 37, an increase of 42 percent.

We worked in collaboration with our internet service providers and our partners to improve how we connect customers. We also made significant investments in our internal systems, processes and training programmes aimed at empowering our people to deliver the best customer outcomes.

The most significant project was the release of ConnectMe, our self-service tool for customers to book and manage their own appointments with Enable online, at a time that suits them. In the eight months since it launched, more than 7,000 new Enable customers had used the tool to book their appointments.

We ran a number of sizeable trials of smarter, more streamlined ways of connecting customers (such as completing all aspects of an installation in a single day); we improved our customer education and consenting material; automated much of the processing of our orders; and worked closely with our connection partners to upskill their people.

Today, we will have a customer in a standalone property connected in less than 2 weeks from receiving the order.

HEALTH, SAFETY AND WELLNESS - PART OF OUR DNA

We continue to emphasise Health, Safety and Wellness above all else through our vision - "We CARE for each other." Everyone at Enable is a part of this vision and live it every day.

We invested in Health, Safety and Wellness leadership training for all our people and for key leaders in our partner organisations. This empowered our people to own their Health, Safety and Wellness decisions and support each other, our partner organisations and even their families to be safe, healthy and well.

All new Enable people are invited to sign up to our Health, Safety and Wellness Pledge – this sets out the vision, our beliefs and the actions we all take. This is visibly displayed in our office.

We collaborate with our network build and connection partners to take shared responsibility for Health, Safety and Wellness, jointly own risk, and ensure transparency in applying controls and taking actions to minimise risk.

We conducted 7,618 site audits and safety interactions, and continued to work closely with our contract partners to support their performance and create a work environment where our people, their people and our community are safe.

Our Total Recordable Injury Frequency Rate was 3.7 injuries per million hours worked. This result was slightly above our target of 3.0 but was a significant improvement on last year's result of 5.5.

Enable has an extensive wellness programme within our business – led by our people who are passionate about supporting each other to live healthy and rewarding lives. The vast majority of people voluntarily participate in this programme.

Total Recordable Injury Frequency Rate

2015	2016	2017	2018
8.6	8.5	5.5	3.7

OUR PEOPLE: REALISING OUR PURPOSE

Our people have led our culture journey over the last 12 months. We started the year with our purpose in place. It was created by our people - and they truly believe in it. This year has been about identifying what needs to be true within our organisation to realise our purpose and deliver our business objectives, with a focus on our values and positive behaviours.

People from across our business created four values that underpin what it means to work at Enable. These are Smash Boundaries; Keep it Simple and Fresh; Own the Experience; and Show the Love. These values have taken on a real life in our business and are used as a yard stick in decision making. They have become powerful statements with clear meaning for our people.

We have launched a Leadership Growth Programme to provide opportunities for top performing people to explore their own leadership journey. This includes training opportunities, internal mentoring, opportunities to play a greater role in decision making and project leadership across our business.

We continued to improve our internal communications, our reward and recognitions programmes and our performance management programme – targeted at empowering and motivating to deliver outstanding results for our business, customers and community.

The Enable team consists of 159 people, and we have a considerable partner workforce representing our business with our customers and community, as we undertake connections, maintain and operate our network.

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

SUPPORTING OUR COMMUNITY

We are committed to investing in growth and innovation within our community that maximises the potential of connectivity as well as breaking down barriers to access this potential.

We maintain several strategic partnerships and smaller sponsorships aimed at benefiting our community – in terms of social and economic growth.

We are a major sponsor of the Canterbury Employers' Chamber of Commerce and partner 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 are also the inaugural sponsor of 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) launched during the year by the Telecommunications Users Association of New Zealand.

We worked closely with CCC to provide free Wi-Fi in Cathedral Square to align with Tech-week NZ, and continued to support Youthline Central South Island and small business hub GreenHouse with free fibre connectivity.

We are also proud to provide opportunities for our people to bring Enable to life within their own communities. This year we sponsored eleven clubs and organisations around Canterbury that our people are directly involved in.

Enable is committed to sustainability for the betterment of our community – both by sponsoring initiatives as well as in our own business practices. Fibre broadband supports local businesses to utilise solutions that reduce their environmental impact, reduce commuting, support flexible working arrangements and strengthen communities by helping people work closer to home.

Throughout the deployment of our network, we have worked to minimise our environmental and community impact – deploying a passive optical network, designing the network to minimise waste, using longlife (50 year) ducting products and utilising low impact deployment methods – such as drilling and shallow trenching.

OPERATIONAL EXCELLENCE AS AN INFRASTRUCTURE PROVIDER

Enable's central focus remains to operate a world-class fibre broadband network that delivers on our community's needs today and in the future.

Our network was deployed to our entire coverage area 18 months earlier than our contractual requirements and six months ahead of the anticipated finish date from a year ago. We ensured it was of a high quality and delivers on performance and reliability to our community.

In total, we deployed our network to 160,051 premises, including 11,291 premises in new suburbs and commercial areas. We built to 31,856 premises in FY18. The total network deployment took approximately six and a half years and with 40 percent built in the final two years. Our productivity peaked at circa three kilometres of completed network per day. In addition, the latter end of the network was built in the hill suburbs of Christchurch, a particularly challenging part of the city to deploy new infrastructure.

The Network Delivery Alliance we established with Broadspectrum (New Zealand) Limited has delivered an excellent outcome for our community in completing this project.

We continued to manage our network with great efficiency – completing the connection of new customers, ensuring uninterrupted fibre broadband service and network operations, providing outstanding service to internet service providers and their customers, and augmenting network capacity and capability to meet customer needs today and in the future.

Our three connection partners – Downer, MultiMedia Communications and Clearvision Communications – installed more physical connections than in any other year as they continued to scale their capability to match customer demand. We worked closely with all three partners throughout the year to innovate our installation methodologies and processes – with a focus on delivering the best customer experience outcomes.

We made significant internal systems and process improvements with a focus on smart automation, better visibility and management of our business assets, and improving our customers' experience. Throughout the year we deployed more than 100 system improvements – ranging from large-scale introductions of new ways of working to small incremental changes.

We consistently delivered network performance well above contracted service levels with 100 percent core network availability and 99.994 percent total network availability, and all customer downtime metrics being within service level targets.

Core network availability

100%

Total network availability

99.994%

Network Deployment - Premises Passed

FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
2,111	13,025	25,158	27,207	27,787	32,908	31,856

FINANCIAL PERFORMANCE

We delivered another year of strong growth with financial performance exceeding all 2018 SoI financial targets.

The total value of the Enable UFB network asset grew to $476m – an increase of $98m against the previous year. This increase was driven primarily by the accelerated network deployment. The core network is now essentially completed apart from infill, and connection build volumes were above expectation. A revaluation of the network assets at 30 June 2018 contributed $35m to the increased asset value. Enable's total asset value of $523m compares favourably to total borrowings.

Total group operating revenue increased from $36m to $48m. This was a result of a significant growth in underlying telecommunications revenue – resulting directly from strong uptake of fibre broadband across our community.

Gross telecommunications revenue grew from $26m to $39m – an increase of over 50 percent.

We generated EBITDA of $25m which exceeded the SoI target by $5m. Again, this was achieved because of the strong increase in telecommunications revenue and our focus on operational efficiency and cost control.

We delivered a net trading loss of $4m. This was well ahead of target. The UFB network asset revaluation boosted total comprehensive income after tax to $21m.

CCHL's strong support of the business as our shareholder and major funder during our growth phase continued. Loans increased by $13m to $271m, and share capital increased by $53m to $218m.

Our financial results are consistent with or above expectation, within the context of the network asset that is not yet 50 percent utilised. These results place the business in a strong position to become profitable and return dividends to our community in line with CCHL's expectations.

$476m
Network asset value

$98m
Up

$39m
Telecommunications revenue

$13m
Growth

$25m
EBITDA

$5m
Above target

$218m
Share capital

$53m
Increase

$4m
Net trading loss

$48m
Total operating revenue

ENGAGING WITH INDUSTRY AND GOVERNMENT

It was a very significant year not only for Enable but for the entire telecommunications industry as the industry worked closely with Government and other key stakeholders to develop an effective and appropriate telecommunications regulatory environment for the future.

Enable has invested in ensuring its voice has been heard throughout the consultation period for this new regime. We advocated for a fair regulatory outcome that will promote ongoing investment in telecommunications in New Zealand and deliver the best outcome for customers. Discussions relating to the final regulatory outcome in the shape of the Telecommunications (New Regulatory Framework) Amendment Bill are ongoing and we continue to engage Government and officials.

We worked closely with CIP and we were pleased to be able to extend our planned coverage area under UFB2+ to reach even more towns in our community – including Ohoka, Tuahiwi and Tai Tapu.

We actively participated 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 Telecommunications Carriers Forum (TCF). We have strengthened our relationship with two of these organisations through new sponsorships. We actively contribute to the TCF's work programme through working parties addressing various matters across the sector, policy and communications, and includes the UFB Product Forum.

2019 – THE YEAR AHEAD

Having completed our network build programme, we are focused on ensuring our community maximises the potential of our world-class fibre broadband connectivity.

1. **Our people are our greatest asset**
   Our people have defined our purpose, values and how we want to behave – bringing these to life through what we do and how we do it is a huge focus for Enable.

2. **Connecting our community drives us**
   We will ensure our growth trajectory continues and end the year with 104,000 customers connected to fibre broadband.

3. **Customer experience is our life blood**
   We will leverage our momentum to be a market leader in delivering outstanding customer experience to our internet service providers and our community.

4. **Build on our strong financial foundations**
   We will move beyond our core capital investment programme closer to being a financially sustainable business.

5. **Deliver more to our community**
   We will work with our community stakeholders to grow Enable's role in Christchurch's digital future.

The vast majority of our focus and resources will be on continuing to grow our business by connecting more of our community.

We are committed to growing our value and impact on our community. We'll do this by working to maximise the potential and benefit of our fibre connectivity so we can realise Christchurch's future city goals.

1. Our people are our greatest asset

It's our people's ideas, determination and dedication that will drive us forward and ensure we achieve our long-term ambitions to grow our business.

With our purpose, values and desired behaviours in place, our people are focused on what they need to achieve and how to achieve it.

Under our Enable Way people strategy we will continue to support the growth and development of each individual, caring for each other, rewarding our people appropriately, holding them to account for their actions, and nurturing their collective capability to deliver to our community.

We will continue to empower our people to own their Health, Safety and Wellness actions and behaviours.

2. Connecting our community drives us

Our goal is to finish 2019 with 104,000 customers connected – an increase of another 27,000 total connections – leveraging our connection momentum, the maximum number of potential customers and our significant connection partner resource.

We know we have strong market competition from the copper, hybrid fibre-coaxial and fixed wireless networks operating in greater Christchurch, and that as we approach 50 percent market share, customers become harder to convince to make the switch to fibre broadband.

To combat this, we will continue to innovate in how we reach and connect with our community. We will continue to evolve our marketing approach with a suburb-by-suburb approach aimed at areas with the maximum growth opportunities and communicate in a way that resonates strongly with very localised communities.

3. Customer experience is our life blood

We are in the final phase of developing and launching our largest ever systems enhancement, Customer Interaction Manager, which is set to transform how our frontline people interact with our customers – empowering them to have better informed conversations, answer questions immediately, help customers and progress orders more quickly.

We will work with our connection partners and internet service providers to leverage this considerable step forward and enhance the end-to-end customer journey to remove any and all barriers to customers choosing fibre broadband over competing connectivity options. We are committed to delivering a simple, single day fibre connection experience for a significant proportion of our customers and continuously improving in all other aspects of customer experience.

4. Build on our strong financial foundations

We will keep a constant focus on operating below our peak debt levels through the upcoming two year period as we continue to invest in customer connections.

We will continue to maximise our connection revenue to put us in the best position to become a financially sustainable business. We will also continue to reduce and manage cost right across our business. We expect a net loss of $1m in the next financial year before becoming and staying profitable.

We will continue to work closely with Government and the telecommunications industry to ensure the future regulatory environment will provide a fair opportunity to meet our forecasted long-term returns.

5. Deliver more to our community

We know we are at the beginning of the next technology revolution – built around the likes of Artificial Intelligence, Internet of Things and Smart Cities. What is more, we know we have a significant role to play in ensuring greater Christchurch maximises this potential and the opportunities that this revolution will provide.

We will build on our current partnerships and establish new ones that will help us smash the digital divide that exists within our community – including any barrier between an individual, family, community, business or organisation and their ability to truly embrace the digital world.

BOARD OF DIRECTORS

Brett Gamble (Chair)

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 became Chair in August 2017.

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 affected families.

Craig Elliott

Craig has 30 years 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.

Kathy Meads

Kathy has extensive commercial and financial experience and has held senior executive positions with Telecom/ConnecTel, Ngai Tahu Holdings Corporation and Lyttelton Port Company.

She is currently an independent consultant, working with a range of clients on process improvements, business performance and strategic planning.

Kathy has governance experience from previous Board appointments, and is currently a Director on the Board of Shipowners Club (UK), Chair of its Audit and Risk Committee, and a Trustee of the Christchurch Symphony Orchestra.

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.

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 Chair of Enable Services Limited from its establishment through until 30 June 2013.

Former Directors

Three Directors resigned from the Board throughout the year. Owen Scott and Tim Lusk's resignations were effective from 24 October 2017, and Charlotte Walshe's resignation was effective from 13 February 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 their 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 and Products Sub-Committee assists the Boards to fulfil their 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, People and Culture, Health and Safety services, and other executive management services required by ESL.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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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 2018.

Signed on behalf of the Board

Brett Gamble
Chair
21 August 2018

Kathy Meads
Chair of Audit and Risk Committee
21 August 2018

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Note	Group 2018 $'000	Group 2017 $'000
Operating revenue	5	48,473	36,272
Total revenue		48,473	36,272
Operating expenses	6	(22,527)	(21,982)
Earnings before interest, tax, depreciation and amortisation		**25,946**	**14,290**
Depreciation and amortisation	3, 14	(18,489)	(14,223)
Earnings before interest and tax		**7,457**	**67**
Finance income	7	201	181
Finance costs	7	(13,064)	(11,987)
Net finance costs		**(12,863)**	**(11,806)**
Loss before income tax		**(5,406)**	**(11,739)**
Income tax credit	8	1,623	3,221
Loss for the year		**(3,783)**	**(8,518)**
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		**21,071**	**(8,518)**

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

STATEMENT OF FINANCIAL POSITION

For the year ended 30 June 2018

	Note	Group 2018 $'000	Group 2017 $'000
Current assets			
Cash and cash equivalents	10	1,772	6,483
Trade and other receivables	11	3,865	4,955
Inventories	12	3,600	3,856
Current tax asset	8(c)	2,582	4,394
Total current assets		11,819	19,688
Non-current assets			
Property, plant and equipment	3	476,008	378,438
Construction contract work in progress	13	28,787	22,220
Intangible assets	14	6,907	4,360
Total non-current assets		511,702	405,018
Total assets		523,521	424,706
Current liabilities			
Creditors and other liabilities	15	15,819	14,870
Employee entitlements	16	2,044	1,839
Deferred revenue	17	86	111
Total current liabilities		17,949	16,820
Non-current liabilities			
Borrowings	4	270,900	257,900
Employee entitlements	16	322	493
Deferred tax liability	8(d)	20,820	9,921
Deferred revenue	17	578	684
Total non-current liabilities		292,620	268,998
Total liabilities		310,569	285,818
Net assets		212,952	138,888
Equity			
Share capital	18	217,496	164,503
Retained earnings		(29,398)	(25,615)
Revaluation reserve	3	24,854	-
Total equity		212,952	138,888

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 2018

	Note	Share capital $'000	Revaluation reserve $'000	Retained earnings $'000	Total $'000
Balance as at 1 July 2016		117,896	-	(17,097)	100,799
Profit for the year		-	-	(8,518)	(8,518)
Issue of ordinary shares	18	10,000	-	-	10,000
Issue of redeemable preference shares	18	36,607	-	-	36,607
Balance as at 30 June 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

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 2018

	Note	Group 2018 $'000	Group 2017 $'000
Cash flows from operating activities			
Receipts from customers and other sources		49,706	37,197
Interest received		201	181
Payments to suppliers and employees		(27,920)	(13,937)
Interest and other finance costs paid		(13,273)	(13,498)
Subvention receipts	19	4,669	2,223
Net cash provided by operating activities	**20**	**13,383**	**12,166**
Cash flows from investing activities			
Payment for property, plant and equipment	3	(80,657)	(92,423)
Payment for intangible assets		(3,430)	(1,923)
Net cash used in investing activities		**(84,087)**	**(94,346)**
Cash flows from financing activities			
Proceeds from borrowing	19	13,000	39,000
Proceeds from issue of shares		52,993	46,607
Net cash provided by financing activities		**65,993**	**85,607**
Net increase in cash and cash equivalents		(4,711)	3,427
Cash and cash equivalents at beginning of year		6,483	3,056
Cash and cash equivalents at end of year	**10**	**1,772**	**6,483**

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 2018

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 21 August 2018.

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 2018

New accounting standards and interpretations

NZ IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019. NZ IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The accounting requirements for lessors are substantially the same as those in NZ IAS 17, and while the company is yet to assess NZ IFRS 16's full impact, it is not expected to be material. The company will apply this standard from 1 July 2019.

NZ IFRS 15 Revenue Recognition and NZ IFRS 9 Financial instruments are effective for annual periods beginning on or after 1 January 2019. The company is yet to assess or perform preliminary assessments of NZ IFRS 15 and NZ IFRS 9, but does not expect their impact to be material. The company will apply these standards from 1 July 2019.

Changes in accounting policies and disclosures

There have been no 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 and 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 2016	266,048	21,753	10,991	929	299,721
Additions	83,545	8,575	6	297	92,423
Disposals	-	-	-	(1)	(1)
Cost/valuation at 30 June 2017	**349,593**	**30,328**	**10,997**	**1,225**	**392,143**
Revaluation adjustments	3,907	-	-	-	3,907
Additions	71,575	8,488	113	481	80,657
Disposals	-	-	-	(1)	(1)
Cost/valuation at 30 June 2018	**425,075**	**38,816**	**11,110**	**1,705**	**476,706**
Accumulated depreciation and impairment					
Accumulated balance at 30 June 2017	-	-	-	(1)	(1)
Depreciation expense	(7,640)	(5,507)	(254)	(303)	(13,704)
Accumulated balance at 30 June 2018	**(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)**
Carrying amount at 30 June 2017	341,953	24,821	10,743	921	378,438
Carrying amount at 30 June 2018	**425,075**	**38,816**	**11,110**	**1,007**	**476,008**

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.

The estimated value of UFB network of $475m.

The sensitivity of the valuation of $475m to relevant factors is summarised as follows:

Movement in	Range	Upper Value $m	Lower Value $m
Peak connection %	+ or – 5.0%	$513m	$432m
WACC	+ or – 0.5%	$508m	$446m
Terminal growth rate	+ or – 0.5%	$490m	$463m

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.

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

	Group 2018 $'000	Group 2017 $'000
UFB network assets		
Cost	471,094	390,918
Accumulated depreciation	(30,612)	(13,401)
Net book value	440,482	377,517

Useful lives and residual values of UFB network assets

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

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

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

Security

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.

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.

KEY ASSETS AND LIABILITIES (CONT.)

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 2018 $'000	Group 2017 $'000
Loan from CCHL	19	270,900	257,900
		270,900	**257,900**

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 2018 the weighted average interest rate was 4.9% (2017: 4.9%).

The line of credit under the loan agreement is available to the Group until March 2023 and totals $285m (2017: $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 2018 $'000	Group 2017 $'000
Gross telecommunications revenue	(i)	39,336	25,675
Sale of inventory		6,628	8,781
Other		2,509	1,816
		48,473	**36,272**

(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.

6. Operating expenses

	Note	Group 2018 $'000	Group 2017 $'000
Audit fees	6(a)	178	139
Directors' fees		332	349
Net foreign exchange losses/(gains)		21	(23)
Operating leases		931	741
Employee costs	6(b)	4,994	5,109
Other		16,071	15,667
		22,527	**21,982**

To align with industry standards, there has been a change in approach as to the classification of employee capital expenditure being offset against employee costs, rather than other expenditure for $9.7m (2017: $6.6m).

6 (a). Remuneration of auditors

	Note	Group 2018 $'000	Group 2017 $'000
Audit New Zealand			
Audit of the financial statements		123	110
Regulatory audit work		14	15
Total		137	125
Other auditor - KPMG			
Assurance-related		41	14
		41	14
Total auditor remuneration	6	178	139

6 (b). Employee costs

	Note	Group 2018 $'000	Group 2017 $'000
Employee costs			
Salaries and wages		4,581	4,310
Defined contribution plan employer contributions		379	301
Other		34	498
Total employee costs	6	4,994	5,109

Employee costs represents costs related to non-capital expenditure.

7. Finance income and costs

	Note	Group 2018 $'000	Group 2017 $'000
Finance income			
Interest - bank		140	172
Interest - other		61	9
		201	181
Financing costs			
Interest paid/payable to CCHL	19	13,064	11,987

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 2018 $'000	Group 2017 $'000
Current tax credit	(2,582)	(4,281)
Adjustments to current tax of prior years	(275)	-
Deferred tax expense	1,234	1,060
Total income tax credit	(1,623)	(3,221)

8 (b). Reconciliation of prima facie income tax

	Group 2018 $'000	Group 2017 $'000
Loss before tax	(5,406)	(11,739)
Tax at statutory rate of 28%	(1,514)	(3,287)
Over provision of income tax in previous year	(109)	66
Income tax credit	(1,623)	(3,221)

8 (c). Current tax asset

	Group 2018 $'000	Group 2017 $'000
Opening balance	4,394	2,336
Tax asset for the year	2,857	4,281
Subvention receipts	(4,669)	(2,223)
Closing balance	2,582	4,394

PROFIT AND LOSS INFORMATION (CONT.)

8 (d). Deferred taxation

	30 June 2017			30 June 2018		
	Opening balance $'000	Profit/ loss $'000	Closing balance $'000	Profit/ loss $'000	Other comprehensive income $'000	Closing balance $'000
Deferred tax liabilities:						
Property, plant and equipment	9,796	734	10,530	1,091	9,665	21,286
	9,796	734	10,530	1,091	9,665	21,286
Deferred tax assets:						
Provisions/employee entitlements	214	388	602	(138)	-	464
Doubtful debts and impairment losses	-	7	7	(5)	-	2
Other	721	(721)	-	-	-	-
	935	(326)	609	(143)	-	466
Net deferred tax liability	8,861	1,060	9,921	1,234	9,665	20,820

ESL is a member of the CCC tax group, which comprises CCC, CCHL and a number of other group entities. The Group pays or receives subvention payments to/from other members of the CCC tax group. The amount recognised as a receivable for the 2018 tax year is $2.7m (2017: $4.4m), 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 $4.7m (2017: $2.2m). These payments are treated as if they were payments/receipts of income tax and they are reflected as part of the taxation payable/(receivable) amount.

Following the change in shareholding as part of the re-organisation in June 2016, the Group reviewed its ability to utilise previous tax losses. While the matter is finely balanced, the ability to utilise historical ENL losses may not meet the probable threshold for financial reporting purposes, and therefore no deferred tax asset has been recognised in 2018 with respect to these losses, which in total amount to $29.5m. Unrecognised deferred tax assets are reassessed at each reporting date.

8 (e). Imputation credits

The amount of imputation credits available for use in subsequent reporting periods by the Group is $485k (2017: $485k).

PROFIT AND LOSS INFORMATION (CONT.)

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 $285m 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 timeframes.

Contractual maturity analysis of financial liabilities

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

	Balance sheet $'000	Contractual cash flows $'000	Within 1 year $'000	1-2 years $'000	2-5 years $'000	Greater than 5 years $'000
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	(15,819)	(15,819)	(15,819)	-	-	-
Borrowings from CCHL	(270,900)	(341,987)	(13,941)	(13,941)	(41,823)	(272,282)
	(281,082)	(352,169)	(24,123)	(13,941)	(41,823)	(272,282)
30 June 2017						
Cash, cash equivalents and deposits	6,483	6,483	6,483	-	-	-
Trade and other receivables	4,955	4,955	4,955	-	-	-
Creditors and other payables	(14,870)	(14,870)	(14,870)	-	-	-
Borrowings from CCHL	(257,900)	(340,289)	(13,508)	(13,508)	(40,525)	(272,748)
	(261,332)	(343,721)	(16,940)	(13,508)	(40,525)	(272,748)

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 on ESL's bank current account is 1.8% (2017: 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 2018 $'000	Effect on equity Group 2017 $'000	Effect on profit Group 2018 $'000	Effect on profit Group 2017 $'000
1% increase in interest rates	(1,550)	(807)	(1,550)	(807)
1% decrease in interest rates	1,550	807	1,550	807

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.

FINANCIAL RISK MANAGEMENT (CONT.)

Ageing of receivables

	Note	Group 2018 $'000	Group 2017 $'000
Gross receivables			
Not past due		1,411	2,623
Past due 0-30 days		709	836
Past due 31-60 days		150	30
Past due more than 60 days		115	47
	11	2,385	3,536
Impairment			
Not past due		-	-
Past due 0-30 days		-	-
Past due 31-60 days		-	-
Past due more than 60 days		(8)	(24)
	11	(8)	(24)
Gross trade receivables		2,385	3,536
Individual impairment		-	-
Collective impairment		(8)	(24)
Trade receivables (net)		2,377	3,512

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 2018 $'000	Group 2017 $'000
Cash balances	1,772	6,483
	1,772	6,483

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 2018 $'000	Group 2017 $'000
Current			
Trade receivables		2,385	3,536
	9(c)	2,385	3,536
Prepayments		742	247
GST receivable		746	1,196
		3,873	4,979
Provision for impairment - trade receivables	9(c)	(8)	(24)
Total trade debtors, other receivables and prepayments		3,865	4,955

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.

OTHER ASSETS AND LIABILITIES (CONT.)

12. Inventories

	Group 2018 $'000	Group 2017 $'000
Current		
Inventory	3,600	3,856
	3,600	3,856

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

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 2018 $'000	Group 2017 $'000
Current		
Opening balance	22,220	10,609
Additions	86,630	103,731
Transferred to property, plant and equipment	(80,063)	(92,120)
Total construction contract work in progress	28,787	22,220

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 2016		848	1,920	1,578	4,346
Additions		-	796	1,127	1,923
Transfers	3	-	1,563	(1,563)	-
Disposals		-	(17)	-	(17)
Cost/valuation at 30 June 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
Accumulated depreciation and impairment					
Accumulated balance at 1 July 2016		-	(1,375)	-	(1,375)
Amortisation expense		-	(519)	-	(519)
Disposals		-	2	-	2
Accumulated balance at 30 June 2017		-	(1,892)	-	(1,892)
Amortisation expense		-	(884)	-	(884)
Accumulated balance at 30 June 2018		-	(2,776)	-	(2,776)
Carry amount at 30 June 2017		848	2,370	1,142	4,360
Carry amount at 30 June 2018		848	3,326	2,733	6,907

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 (2017: 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 25-40% over their estimated useful lives, from when the asset is available for use. They are reviewed at each reporting date to determine whether there is any indication of impairment.

15. Creditors and other liabilities

	Note	Group 2018 $'000	Group 2017 $'000
Trade payables and accrued expenses		14,404	13,845
Income in advance		1,048	672
Interest payable to CCHL	19	367	353
		15,819	14,870

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 2018 $'000	Group 2017 $'000
Current		
Accrued pay	705	614
Annual leave	682	553
Employee incentives	657	672
	2,044	1,839
Non-current		
Employee incentives	322	493
	322	493

OTHER ASSETS AND LIABILITIES (CONT.)

17. Deferred revenue

	Group 2018 $'000	Group 2017 $'000
Current portion	86	111
Non-current portion	578	684
	664	795

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 2016		34,000	83,896	117,896
Shares issued during year:		10,000	36,607	46,607
Balance at 1 July 2017		44,000	120,503	164,503
Shares issued during year	19	23,500	29,493	52,993
Balance at 30 June 2018		**67,500**	**149,996**	**217,496**

ESL issued 23,500,000 fully paid ordinary shares to CCHL in 2018. ESL has 67,500,000 fully paid shares to CCHL, carrying one vote per share and the rights to dividends.

ESL issued 29,492,525 fully paid redeemable preference shares to CCHL in 2018. ESL has 149,995,680 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 (2017: 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.

	Group 2018 $'000	Group 2017 $'000
Key management personnel compensation		
Short term employee benefits (inc. salaries and Directors' fees)	3,438	3,300
KiwiSaver employer contributions	97	82
Other long term employee benefits	212	249
Total	3,747	3,631

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 $30m as at 30 June 2018 (2017: $40m).

Balances and transactions between 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.

OTHER DISCLOSURES (CONT.)

Significant transactions and balances with related entities

	Note	Group 2018 $'000	Group 2017 $'000
Transactions during year			
Issue of equity to CCHL	(i)	52,993	46,607
Borrowed from CCHL	(ii)	13,000	39,000
Interest paid to CCHL	(iii)	13,064	11,987
Interest option paid to CCHL	(iii)	297	-
Subvention payments from CCC tax group	(iv)	4,669	2,223
Sales to CCC		67	37
Sales to City Care Ltd		2	5
Payments to Crown, CCC and controlled entities		1,129	390
Payments to Canterbury Development Corporation for services		-	13
Payments to Christchurch International Airport Ltd for services		1	-
Payments to City Care Ltd for services		12	-
Payments to Connetics Ltd for network-related services		3	9
Payments to Vbase Ltd for services		23	31

	Note	Group 2018 $'000	Group 2017 $'000
Balances at end of year			
Loan balance due to CCHL	(v)	270,900	257,900
Interest payable to CCHL	(vi)	367	353
Accounts payable to CCC		14	14
Accounts payable to Canterbury Development Corporation		15	15
Accounts receivable from City Care Ltd		2	-

(i) The Group issued $23.5m of ordinary shares and $29.5m 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%. 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 2018 the subvention payment of $4.7m 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 DISCLOSURES (CONT.)

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.

20. Reconciliation of profit to net operating flows

	Note	Group 2018 $'000	Group 2017 $'000
Profit/(loss) for the year		(3,783)	(8,518)
Add/(less) non-cash items			
Depreciation, amortisation and impairment expense	3, 14	18,489	14,223
Deferred tax charged/(credited) to income	8(d)	1,234	1,060
Deferred revenue		-	359
Net foreign exchange losses/(gains)		21	(23)
		19,744	**15,619**
Add/(less) items classified as investing or financing activities			
Loss on disposal of non-current assets		-	16
Other		(21)	23
		(21)	**39**
Add/(less) movement in working capital items			
Trade and other receivables, prepayments - current		1,090	14,459
Inventories and work in progress - current		(6,311)	(11,187)
Creditors and other payables		818	3,314
Employee entitlements - current		205	466
Employee entitlements - non-current		(171)	32
Income tax		1,812	(2,058)
		(2,557)	**5,026**
Net cash used in operating activities		13,383	12,166

OTHER DISCLOSURES (CONT.)

21. Classifications of assets and liabilities

	Group 2018 $'000	Group 2017 $'000
Loans and receivables		
Cash and cash equivalents	1,772	6,483
Trade and other receivables	3,865	4,955
	5,637	**11,438**
Financial liabilities measured at amortised cost		
Creditors and other payables	15,819	14,870
Borrowings from CCHL	270,900	257,900
	286,719	**272,770**

22. Statement of service performance

The Statement of Intent (SoI) issued by ESL last year in respect of the 2018 financial year included both financial and non-financial performance measures. The following table compares ESL's actual results for the year ended 30 June 2018 with the targets contained within the SoI.

	Unit	Actual Group 2018	Target Group 2018
Financial			
Gross telecommunications revenue	$'000	39,336	34,600
EBITDA	$'000	25,946	20,600
Net profit/(loss) after tax	$'000	21,071	(7,400)
Operational performance targets			
Number of connections (cumulative)	Number	77,149	72,222
Operational service level agreement achievement	%	97%	>=90%
Core network availability	%	100%	>=99.999%
Health and safety performance targets			
TRIFR (per million hours)	Number	3.70	<3
Serious harm injuries	Number	Nil	Nil
Site audits and safety observations conducted	Number	7,618	>5,000
Corporate social responsibility targets			
Businesses/residences connected (uptake)	%	40%	39%
Ducting and optical fibre underground	%	100%	90%

ESL completed building the communal infrastructure to 149,203 premises in June 2018, 18 months ahead of plan.

OTHER DISCLOSURES (CONT.)

Variances between the actual results for the year ended 30 June 2018 and the targets contained within the SoI are as follows.

Gross telecommunications revenue

Gross telecommunications revenue represents all sales to retail service providers. The positive variance is driven by the increase in customers connected.

EBITDA

EBITDA represents Group profitability prior to the deduction of net interest, tax, depreciation and amortisation expenses.

Net profit / (loss) after tax

Net profit after tax was $28.0m greater than SoI target of ($7.4m) at $20.6m, because of the $34.5m revaluation of assets and $4.8m of additional gross telecommunications revenue, and the tax implications therein.

Number of connections / Businesses/residences connected (uptake) achievement

A larger potential market for fibre broadband services, due to an ahead of schedule network deployment, has resulted in an above target connection result. This is emphasised by the overall uptake rate being aligned with target.

Ducting and optical fibre underground / Operational service level agreement

100% of the business' communal infrastructure has been deployed underground – this result, well above target, demonstrates the business' commitment to sustainability. Operational service levels (with >97% of customers connected on time) performance was a reflection of close management of our connection field force careful management.

TRIFR per million hours / Serious harm injuries / Site audits

The business continues to set very high standards and improvement goals in health and safety. This is reflected in the number of site audits and safety observations undertaken being much higher than anticipated. 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 <3, which was close to being achieved.

UNRECOGNISED ITEMS

23. Capital and operating lease commitments

Capital commitments

Under the terms of the UFB contract and subsequent Re-organisation as outlined in Note 1, 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 $42m. 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 2018 $'000	Group 2017 $'000
Not later than one year	786	628
Later than one year and not later than five years	179	676
Later than five years	-	-
Total non-cancellable operating leases	965	1,304

The Group's premise lease on 106 and 114 Wrights Road has 13 to 15 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 2018 this loan amounted to $150.0m (2017: $120.5m).

The Group had no other material contingent liabilities as at 30 June 2018 (2017: $nil).

Contingent assets

Network Delivery Alliance (NDA)

BroadSpectrum has lodged a $22.5m performance bond with the Group under the Network Delivery Alliance agreement (2017: $45m).

The Group had no other material contingent assets as at 30 June 2018 (2017: 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.

GOVERNANCE AND RELATED INFORMATION (CONT.)

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 place emphasis on strategic issues and policy.

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

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

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

Board Chairperson

The 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 2018 was determined by the shareholder, and was allocated as follows:

	ESL $	ENL $	Group Total $
Brett Gamble	22,050	66,150	88,200
Mark Bowman	12,175	36,524	48,699
Craig Elliott (appointed 24 October 2017)	8,519	25,556	34,075
Bill Luff	12,634	37,902	50,536
Tim Lusk (ceased 24 October 2017)	3,967	11,900	15,867
Kathy Meads (appointed 1 August 2017)	12,421	37,264	49,685
Owen Scott (ceased 24 October 2017)	3,750	11,250	15,000
Charlotte Walshe (ceased 13 February 2018)	7,503	22,510	30,013
	83,019	**249,056**	**332,075**

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 2018 was as follows:

	Note	$'000
Fixed remuneration		450
Performance-based	(i)	484
Total		934

Notes:

(i) Performance based remuneration includes a short-term incentive payment relating to the prior year and a payment relating to the long term incentive scheme established in 2012. The short-term incentive is set at a maximum of 35% 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, $30k in KiwiSaver employer contributions were made on behalf of the CEO in the year ended 30 June 2018.

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 2018:

$	Number of employees in the year ended 30 June 2018 (Based on actual payment)
100,000 - 109,999	13
110,000 - 119,999	5
120,000 - 129,999	6
130,000 - 139,999	8
140,000 - 149,999	3
150,000 - 159,999	1
160,000 - 169,999	2
170,000 - 179,999	1
180,000 - 189,999	-
190,000 - 199,999	3
200,000 - 209,999	-
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	1
930,000 - 939,999	1

Other disclosures

Principal activities

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

Directors' interests

ESL maintains an interests register in which particulars of certain transactions and matters involving the Directors are recorded. These are requirements under the Companies Act 1993. The following entries were recorded in the interests register during the year ended 30 June 2018.

Director	Directors' Interests
Brett Gamble Chair	**Director of** Enable Networks Limited, Gough Group Limited (and related companies), LJ Partnership (NZ) Limited (and related companies), Mike Greer Homes NZ Limited, Southbase Construction Limited **Director and Shareholder of** Aoraki Services Limited, Chart Notice Boards Limited, Masterguard Fire and Security Limited, Positano Holdings Limited **Trustee of** Hammersmith Property Trust **Officer of** Mobile Surgical Services, Mobile Medical Technologies, Tailorspace Limited, Ben Gough Family Office
Mark Bowman	**Director of** Enable Networks Limited, Comrad Holdings Limited, Claremont Investments Limited, Napoleon Investments Limited **Director & Shareholder of** Magic Memories Group Holdings Limited, Scarlett Hydraulics Limited **Trustee of** MJ & RM Bowman Family Trust
Craig Elliott (appointed 24 October 2017)	**Director of** Enable Networks Limited, Magic Memories Group Holdings Limited **Council Member of** Yosemite Conservation Council
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 **Trustee of** Christchurch Symphony Orchestra Trust, Isaac Wildlife Conservation Trust, The Lighthouse Vision Trust
Kathy Meads (appointed 1 August 2017)	**Director of** Enable Networks Limited, Port Taranaki Limited, Shipowners' Mutual Protection and Indemnity Association (Luxembourg) **Trustee of** Christchurch Symphony Orchestra Trust **Consultant to** Lyttelton Port Company Limited

GOVERNANCE AND RELATED INFORMATION (CONT.)

Former Directors	
Tim Lusk (ceased 24 October 2017)	**Director of** Enable Networks Limited, Transpower Limited **Director & Shareholder of** Dublin Days Limited Member of Transpower Limited Board Sub Committee on Network Risk, Environmental Protection Authority
Owen Scott (ceased 24 October 2017)	**Director of** Enable Networks Limited **Director and Shareholder of** Concentrate Limited, Concentrate NZ Limited, Scott Afforestation Limited, Elliotvale Afforestation Limited **Trustee of** Madgeo Trust, The New Zealand Hi-Tech Trust
Charlotte Walshe (ceased 13 February 2018)	**Director of** Enable Networks Limited, Cluster Limited, Invacare Holdings Limited, Dynamic Controls, Culture by Design Limited, Dynamic Suzhou Holdings New Zealand, New Zealand Trade and Enterprise **Member of** Callaghan Innovation Stakeholder Advisory Group

GOVERNANCE AND RELATED INFORMATION (CONT.)

Attendances of ENL Board and Committee meetings during the 2018 financial year

	ARC	P&P	H&S	Board
Total number of meetings	4	5	4	11
Brett Gamble	4	3	N/A	11
Mark Bowman	N/A	4	N/A	11
Craig Elliott (appointed 24 October 2017)	N/A	N/A	N/A	6
Bill Luff	4	1	4	11
Tim Lusk (ceased 24 October 2017)	N/A	2	2	4
Kathy Meads (appointed 1 August 2017)	4	1	2	10
Owen Scott (ceased 24 October 2017)	N/A	N/A	2	4
Charlotte Walshe (ceased 13 February 2018)	N/A	4	N/A	4

Attendances of ESL Board and Committee meetings during the 2018 financial year

	ARC	P&P	H&S	Board
Total number of meetings	4	5	4	11
Brett Gamble	4	3	N/A	11
Mark Bowman	N/A	4	N/A	11
Craig Elliott (appointed 24 October 2017)	N/A	N/A	N/A	6
Bill Luff	4	1	4	11
Tim Lusk (ceased 24 October 2017)	N/A	2	2	4
Kathy Meads (appointed 1 August 2017)	4	1	2	10
Owen Scott (ceased 24 October 2017)	N/A	N/A	2	4
Charlotte Walshe (ceased 13 February 2018)	N/A	4	N/A	4

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

Insurance

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

Donations

No Donations were made during the year.

Dividends

No dividends were paid during the year.

INDEPENDENT AUDITOR'S REPORT

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 2018.

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 62, that comprise the statement of financial position as at 30 June 2018, 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 pages 60 to 61.

In our opinion:

- the financial statements of the Group on pages 33 to 62:
- present fairly, in all material respects:
- its financial position as at 30 June 2018; 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 to 61 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 2018.

Our audit was completed on 31 August 2018. 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 our 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.

INDEPENDENT AUDITOR'S REPORT (CONT.)

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.

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.

For the budget information reported in the performance information, our procedures were limited to checking that the information agreed to the Group's statement of intent.

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.

INDEPENDENT AUDITOR'S REPORT (CONT.)

- 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.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 32 and 63 to 73, 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 an assurance engagement pursuant to the Local Fibre Company Information Disclosure Determination 2012 for the 2018 disclosure year for a Group subsidiary. This engagement is compatible with those independence requirements.

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

Physical network	
UFB Network	Ultra-Fast Broadband network, as contracted between 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

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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

Fibre Broadband