



**Christchurch City Networks Limited**

**Trading as Enable Networks**

**Statement of Intent**

**For the year ending 30 June 2011**



## Directory

Address	PO Box 9228, Christchurch
Registered office	1 Show Place, Tower Junction, Christchurch
Board	Bill Luff (Chair) Bill Dwyer Bob Lineham Wesley Bernard
Chief Executive	Steve Fuller
Telephone no.	03 363 2965
Web	<a href="http://www.enablenetworks.co.nz">www.enablenetworks.co.nz</a>
Email	<a href="mailto:steve@enablenetworks.co.nz">steve@enablenetworks.co.nz</a>

## Statement of Intent for the year ending 30 June 2011

### Introduction

This Statement of Intent (“Sol”) is prepared in accordance with Section 64(1) of the Local Government Act 2002.

The Sol specifies for Christchurch City Networks Limited (CCNL) trading as Enable Networks (“EN”) the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the company may be judged in relation to its objectives, amongst other requirements.

The process of negotiation and determination of an acceptable Sol is a public and legally-required expression of the accountability relationship between the company and its shareholder, Christchurch City Holdings Ltd.

The Sol is reviewed annually with CCHL and covers a three year period.

CCNL’s registered office is at 1 Show Place, Tower Junction, Christchurch.

CCNL is a council-controlled trading organisation (‘CCTO’) for the purposes of the Local Government Act 2002.

CCNL’s parent company, Christchurch City Holdings Ltd (‘CCHL’), has stated its intent “to own and manage key infrastructure investments” that make Christchurch internationally competitive as a ‘World Class Boutique City’. The economic and social development of Christchurch is a key priority which a world class open access broadband network supports.

CCNL recognises the importance of the social and environmental aspect of Christchurch and will conduct its business paying close attention to these areas. In particular, all network infrastructure will be deployed in a way that minimises the impact to the environment, ie, underground.

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

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

At the time of writing this Sol, CCNL has submitted proposals to the Government in regards to their Ultra-fast Broadband Initiative which plans to deploy fibre to 75% of premises within New Zealand over the next ten years. This Sol has not taken into consideration any implications of these submissions as the initiative is in its very early stages of development. However, CCNL plans to participate fully in this initiative which could result in a significant investment in the future.

## Objectives

CCNL's primary objectives are:

- Making investments in infrastructure that increases broadband usage and affordability through the construction of open access networks and facilities in Christchurch.
- Encourage and support the development of policy and design standards for making telecommunications ducting mandatory for new building and subdivision consents by Christchurch City Council.
- The sponsorship of demand aggregation resources in sectors where a collective approach can bring substantial benefits to the consumers. The initial priority in this regard is schools.
- Actively encouraging private investment in telecommunications infrastructure in Christchurch.

## Nature and scope of activities

In January 2007 CCNL was incorporated as a company and commenced operations in June 2007. The initial investment of a metropolitan open access fibre optic network has been completed and expansion plans are under action for further network deployments resulting in network coverage of 85% of business, 100% of schools and 90% of major health entities.

CCNL will proactively secure customer demand through its even expanding array of business partners and it will continue to seek and evaluate opportunities that provide the city with 'open access broadband capability' which are compatible with the company's objectives.

## Governance

### *Role of the Board*

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

### *Responsibilities of the Board*

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

1. providing strategic direction for, and approving the company's business strategies and objectives;
2. reviewing and approving the company's budgets and business plans and monitoring the management of the Company's capital, including the progress of any major capital expenditure, acquisitions or divestments;
3. providing leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed;
4. identifying the principal risks faced by the company and taking reasonable steps designed to ensure that appropriate internal controls and monitoring systems are in place to manage and, to the extent possible, reduce the impact of these risks;
5. monitoring the operational and financial position and performance of the company;

6. requiring that financial and other reporting mechanisms are put in place by the executive which result in adequate, accurate and timely information being provided to the Board and the company's shareholders being fully informed of all material developments relating to the Company;
7. appointing and removing members of the executive team, planning for executive succession and monitoring the performance of the executives having regard to the company's strategic direction and goals;
8. reviewing and approving the company's remuneration policies;
9. establishing procedures to ensure that financial results are appropriately and accurately reported on a timely basis in accordance with all legal and regulatory requirements;
10. adopting appropriate procedures to ensure compliance with all laws, governmental regulations and accounting standards;
11. approving and regularly reviewing the company's internal decision making and compliance policies and procedures, including any codes of conduct, the Board Charter and the charters of the Board's committees; and
12. ensuring that the company's internal decision making and compliance policies and procedures are adhered to, to ensure that the business of the company is conducted in an open and ethical manner.

#### *Delegation of responsibilities to management*

The Board has delegated management of the day-to-day affairs and management responsibilities of the company to the executive team to deliver the strategic direction and goals determined by the Board.

The Board has also developed a statement of their 'Reserved Powers'.

#### *Delegation of responsibilities to committees*

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

An Audit and Risk Committee has been established.

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

### Ratio of shareholders' funds to total assets

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

Y/e 30 June	2011	2012	2013
Shareholder's funds to total assets	60%	49%	46%
Debt (\$'000s)	13,000	20,500	22,000
Equity (\$'000s)	22,237	21,600	21,188

The above ratios are based on financial projections that relate primarily to the Metropolitan Area Network and include a further \$2m of additional equity contribution by the shareholder over the next three years.

### Accounting policies

CCNL has adopted accounting policies that are consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by the Christchurch City Council group. Key accounting policies are shown in the attached appendix.

### Performance targets

#### a) *Financial performance targets*

The financial performance targets for the company, which relate primarily to the Metropolitan Area Network, are as follows:

Y/e 30 June	2011	2012	2013
Operating Revenue	2,718	3,549	4,520
Depreciation (\$'000s)	907	1,282	1,479
Net Profit After Tax (\$'000s)	(338)	(637)	(412)

Net profit after tax is positive in Yr 4 and beyond.

#### b) *Operational performance targets*

Target	Performance measure 2010/11
Circuits connected	450
Telecommunications ducting installed	260 km
Network reliability	99.9%

c) *Environmental and social performance targets*

Performance target	Performance measure 2010/11
Aggregate demand from schools in order assist in the transformation of educational services	Assist in a project for aggregating demand from schools with greater than 60 schools connected to the network
Achieve environmentally friendly design standards	All ducting and optical fibre to be undergrounded
Continued support for providing capability for crime prevention cameras	Further request received by the CCC to be evaluated on commercial terms and executed accordingly.

**Distributions**

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

No dividends are forecast to be payable in the three year planning period which is consistent with expectations from when the company was formed.

**Information to be provided to shareholders**

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

Half-yearly reports will also be provided to the shareholders. These reports will contain unaudited information and comply with NZ IAS 34.

Annual reports will be produced consistent with the "triple bottom line" (or "sustainability") reporting philosophy. The reports will outline the company's objectives and performance in terms of:

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

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

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

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

### **Acquisition/divestment procedures**

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

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

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

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

Where the company decides to incorporate or subscribe for shares in subsidiaries to undertake its commercial activities, the company will ensure effective management. Board control of any subsidiary is exercised by CCNL's directors and staff.

### **Compensation sought from local authority**

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

Currently, no such activities are undertaken.

### **Estimate of commercial value of shareholder's investment**

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

### **Role in the Christchurch City Council group and regional economy**

#### **a) *Commercial relationships within the CCC group***

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

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

#### **b) *Role in the growth of the regional economy***

The establishment of an open access metropolitan area broadband network has the potential to provide substantial benefits to the regional economy in terms of facilitating communication and making Christchurch an attractive place in which to do business.

## 1. STATEMENT OF ACCOUNTING POLICIES

### Reporting entity

Christchurch City Networks Limited ('CCNL') is a wholly owned subsidiary of Christchurch City Holdings Limited formed for the purpose of development of telecommunications infrastructure in Christchurch. CCHL (1) Limited became CCNL on 13 December 2006, and began operations in January 2007.

The financial statements of CCNL are for the year ended 30 June 2008. The financial statements were authorised for issue by the CCNL board of directors on 29 September 2008.

### Basis of preparation

The financial statements of CCNL have been prepared in accordance with generally accepted accounting practice in New Zealand ('NZ GAAP'). They comply with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS'), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities.

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

The financial statements have been prepared on the basis of historical cost.

The reporting currency used in the preparation of these financial statements is New Zealand dollars, rounded to the nearest thousand.

### *New standards and interpretations issued and not yet adopted*

The following new standards, interpretations and amendments may have an impact on CCNL's future financial statements, but are not yet effective for the year ended 30 June 2008, and have not been applied in preparing these financial statements:

	Effective for annual reporting periods commencing on or after
NZ IFRS 1 First time Adoption of New Zealand Equivalents to International Financial Reporting Standards (restructured)	1 July 2009
NZ IFRS 2 Amendments to Share Based Payments	1 January 2009
NZ IFRS 3 Business Combinations (revised)	1 July 2009
NZ IFRS 4 Insurance Contracts – Amendments	1 January 2009
NZ IFRS 8 Operating Segments	1 January 2009
NZ IAS 1 Presentation of financial statements (amended)	1 January 2009
NZ IAS 23 Borrowing Costs	1 January 2009
NZ IAS 27 Consolidated and Separate Financial Statements (amended)	1 July 2009
NZ IAS 32 Financial Instruments: Presentation	1 January 2009
NZ IAS 32 Financial Instruments: Recognition and Measurement	1 July 2009
NZ IAS 40 Property under construction or development for future use as investment property	1 January 2009
NZ IFRIC 15 Agreements for the construction of Real Estate	1 January 2009
NZ IFRIC 16 Hedges of a net investment in a foreign operation	1 October 2008
NZ IFRIC 17 Distributions of Non-cash Assets to Owners	1 July 2009

The company has not yet determined the potential impact of the new standards, interpretations and amendments.

## Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling on the day of the transaction.

Foreign currency monetary assets and liabilities at the balance date are translated to NZ dollars at the rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to NZ dollars at rates ruling at the dates the fair value was determined.

## Property, plant and equipment

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

At this stage, CCNL considers historical cost equates to fair value. CCNL will perform valuations of its network assets with sufficient regularity to ensure that their fair value does not vary significantly from the carrying value.

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

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

Depreciation is on the following basis:

- |   |            |
|---|------------|
| • Main Distribution Frames              | 12.5 years |
| • Fibre (Lead-In, Distribution, Feeder) | 15.5 years |
| • Ducts and In-Ground Conduits          | 50 years   |
| • Chambers and Access Pits              | 50 years   |
| • Office Equipment                      | 5 years    |

## 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.

## 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.

## Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits, and other short-term highly liquid investments with maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of CCNL's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows, and in current liabilities on the balance sheet.

## Impairment

The carrying amounts of CCNL's assets, other than inventories (see Inventories policy) and deferred tax assets (see Income Tax policy), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

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

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

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the income statement even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

### (i) Calculation of recoverable amount

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

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

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

### (ii) Reversals of impairment

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

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement.

An impairment loss in respect of goodwill is not reversed.

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

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

## Trade and other payables

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

## Share capital

### (i) Share capital

Ordinary shares are classified as equity.

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

## Provisions

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

## Employee entitlements

CCNL's employee compensation policy is based on Total Cash Remuneration: a single cash payment in compensation for work, where the employee is responsible for and able to individually decide how best to use their remuneration to meet their needs over time in the mix and type of benefits purchased.

Provision is made in respect of CCNL's liability for the following short-term employee entitlements.

### (i) Short-term entitlements

Liabilities for annual leave and time off in lieu are accrued at the full amount owing at the pay period ending immediately prior to the balance sheet date.

Liabilities for accumulating short-term compensated absences (e.g., sick leave) are measured as the amount of unused entitlement accumulated at the pay period ending immediately prior to the balance sheet date, that the entity anticipates employees will use in future periods, in excess of the days that they will be entitled to in each of those periods.

## Revenue

### (i) Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods or continuing management involvement with the goods.

### (ii) Interest income

Interest income is recognised using the effective interest method.

### (iii) Rental income

Rental income from the telecommunications infrastructure is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

## Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### Goods and Services Tax

The financial statements are prepared exclusive of GST with the exception of receivables and payables that are shown inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense.

### Critical judgements, estimates and assumptions in applying CCNL's accounting policies

Preparing financial statements to conform with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and assumptions have formed the basis for making judgements about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from these estimates.

In the process of applying the company's accounting policies, management has made the following judgements, estimates and assumptions that have had the most significant impact on the amounts recognized in these financial statements:

- Judgement has been exercised in preparing these financial statements in relation to calculating provisions for doubtful debts, assessing the level of any recoverable work in progress, and calculating provisions for employee benefits.