Annual Report

For the Year Ended 31 March 2018

2018 Annual Report

Contents

Board of Directors:
Gary Leech (Chairman)
Philip McKendry (Deputy Chairman)
Bruce McPherson
Paul Munro
Richard Fitzgerald
Ray Davy (Retired 30 August 2017)
Roger Sutton (Appointed 30 August 2017)

Shareholders Committee:
Ian Cullimore (Chairman)
Anne Marett
Chris Robertson
David Ward
Jeanette Maxwell
Bev Fraser (Retired 19 June 2017)
Jim Lischner (Retired 19 June 2017)
Robert Newlands (Appointed 19 June 2017)
Alister Lilley (Appointed 19 June 2017)

Management:

Chief Executive Officer	Gordon Guthrie
Network Manager	Brendon Quinn
Field Services Manager	Tony Hannah
Commercial Manager	Jeremy Adamson
Chief Financial Officer	Mark Lester

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Ashburton Business Estate
Ashburton 7772

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Auditors:
PricewaterhouseCoopers
Level 4, 60 Cashel Street
Christchurch Central
Christchurch 8013

General Company Solicitor:
Tavendale and Partners
Level 1 Tavendale and Partners Centre
62 Cass Street
Ashburton 7700

Company Solicitor for Shareholders Related Issues
David Stock
Level 3, White Fox and Jones House
22 Moorhouse Avenue
Christchurch 8011

Statement of comprehensive income

Audited financial statements - EA Networks - year ended 31 March 2018

	Notes	2018 $000	2017 $000
Operating revenue	2	**54,304**	**46,691**
Operating expenses	3	(26,648)	(21,185)
Interest and associated costs	4	(3,768)	(3,253)
Depreciation and amortisation		(9,281)	(10,081)
Operating surplus before share of Joint Venture, customer deferred discount and taxation		**14,607**	**12,172**
Preferential right to income from the BCI Joint Venture	19	1,184	2,321
Share of BCI Joint Venture loss for the year	19	(954)	(1,890)
Operating surplus before customer deferred discount and taxation		**14,837**	**12,603**
Customer deferred discount		(2,858)	(2,782)
Operating surplus before taxation		**11,979**	**9,821**
Taxation	5	(3,718)	(2,778)
Operating surplus after taxation		**8,261**	**7,043**
Non-operating income			
Sale of Kermode Street property			
Proceeds from sale of Kermode Street property		0	2,989
Taxation associated with the sale of Kermode Street	5	0	177
Adjusted proceeds from sale of Kermode Street		**0**	**3,166**
Sale of JV	17		
Net proceeds from sale of JV		14,633	0
Tax liability associated with the sale of JV	5	2,866	0
Adjusted profit from sale of JV		17,499	0
Other comprehensive income		0	0
Total comprehensive income		**25,760**	**10,209**

Statement of changes in equity and members' interests

Audited financial statements - EA Networks – year ended 31 March 2018

	Notes	JV revaluation reserve $000	Equity $000	Deferred shares $000	Rebate shares $000	Total $000
Balance as at 1 April 2016		**1,817**	**110,810**	**31,484**	**1,342**	**145,453**
Comprehensive income:						
Operating Surplus after Taxation		0	7,043	0	0	7,043
Profit on sale of Kermode Street property		0	3,166	0	0	3,166
		0	**10,209**	**0**	**0**	**10,209**
Movement in JV revaluation reserve		(17)	0	0	0	(17)
Transactions with owners:						
Shares issued		0	0	0	81	81
Shares repaid		0	0	0	(90)	(90)
		0	**0**	**0**	**(9)**	**(9)**
Balance as at 31 March 2017		**1,800**	**121,019**	**31,484**	**1,333**	**155,636**
Comprehensive income:						
Operating surplus after taxation		0	8,261	0	0	8,261
Profit on sale of JV		0	17,499	0	0	17,499
		0	**25,760**	**0**	**0**	**25,760**
Transactions with owners:						
Shares issued		0	0	0	82	82
Shares repaid		0	0	0	(88)	(88)
		0	**0**	**0**	**(6)**	**(6)**
Reversal of JV revaluation reserve	**17, 19**	**(1,800)**	**0**	**0**	**0**	**(1,800)**
Balance as at 31 March 2018		**0**	**146,779**	**31,484**	**1,327**	**179,590**

Statement of financial position

Audited financial statements - EA Networks – as at 31 March 2018

	Notes	2018 $000	2017 $000
Equity and members' interests		179,590	155,636
Represented by:			
Current assets			
Cash and cash equivalents		210	27
Inventories	8	4,639	5,028
Trade and other receivables	10	6,412	8,000
Tax refund due		0	275
Naming rights to EA Networks Centre	11	67	67
Total current assets		**11,328**	**13,397**
Non-current assets			
Intangibles	9	1,110	633
Naming rights to EA Networks Centre	11	733	800
Property, plant, and equipment	12	256,818	247,224
Investment in the BCI Joint Venture	17, 19	0	14,122
Derivative financial instruments	13	149	438
Total non-current assets		**258,810**	**263,217**
Total assets		**270,138**	**276,614**
Current liabilities:			
Trade and other payables	14	3,853	3,697
Tax payable		154	0
Employee entitlements	15	1,996	1,866
Derivative financial instruments	13	54	10
Total current liabilities		**6,057**	**5,573**
Non-current liabilities:			
Deferred income tax liabilities	6	24,477	25,648
Borrowings	20	59,050	89,000
Derivative financial instruments	13	964	757
Total non-current liabilities		**84,491**	**115,405**
Total liabilities		**90,548**	**120,978**
Net assets		**179,590**	**155,636**

For and on behalf of the Board

....
Director

....
Director

27 June 2018

Statement of cash flows

Audited financial statements - EA Networks - year ended 31 March 2018

	Notes	2018 $000	2017 $000
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		53,724	46,799
GST received		107	0
Interest received		0	11
		53,831	**46,810**
Cash was applied to:			
Payments to suppliers & employees		(25,158)	(21,549)
Customer deferred discount paid		(2,775)	(2,701)
Interest paid		(3,483)	(3,856)
GST paid		0	(259)
Taxation paid		(1,593)	(1,639)
		(33,009)	**(30,004)**
Net cash flows from operating activities	16	**20,822**	**16,806**
Cash flows from investing activities			
Cash was provided from:			
Preferential right to income from the Joint Venture		2,941	2,212
Sale of property, plant and equipment		261	4,300
Sale of interest in JV		26,000	0
		29,202	**6,512**
Cash was applied to:			
Investment in property, plant and equipment		(19,803)	(22,447)
Investment in BCI/EAL Joint Venture		0	(904)
		(19,803)	**(23,351)**
Net cash flows from investing activities		**9,399**	**(16,839)**
Cash flows from financing activities			
Cash was provided from:			
Bank loans – borrowings		0	200
		0	**200**
Cash was applied to:			
Bank loans - repayments		(29,950)	0
Purchase of shares from owners		(88)	(90)
		(30,038)	**(90)**
Net cash flows from financing activities		**(30,038)**	**110**
Net increase (decrease) in cash held		**183**	**77**
Cash and cash equivalents at start of year		27	(50)
Cash and cash equivalents at end of year		**210**	**27**

Notes to the financial statements

Principal activities

EA Networks' principal activities are:

- Development, operation and maintenance of an electricity distribution and communication network.
- Contracting, electrical construction and maintenance services for distribution networks and end users.
- Investment in other infrastructural assets such as energy utilisation enhancement projects and communication network.

All operations are conducted in New Zealand.

1 Significant changes in the current reporting period

The financial position and performance of the Company was particularly affected by the following events and transactions during the reporting period:

The disposal of BCI JV

EA Networks was a cornerstone investor in the Barrhill Chertsey irrigation scheme. In 2017 EA Networks sold its investment in the scheme to its other partner in the JV, Barrhill Chertsey Irrigation Limited. Refer notes 17 and 19 for further detail.

Other matters

No other significant changes have occurred during the period.

2 Operating revenue

	2018 $000	2017 $000
Distribution line charge revenue	49,526	42,156
Communication network revenue	1,177	1,210
Rental property	149	273
Other income including contracting revenue	3,387	3,041
Interest income	0	11
Gain on sale of PPE	65	0
	54,304	**46,691**

Accounting policies relating to revenue recognition

Distribution line charge revenue
Distribution line charge revenue is recognised as the service is consumed and regulated by the Commerce Commission with revenue being derived from fixed and variable charges. Distribution line charge revenue is recognised in accordance with the requirements of the Commerce Commission default price path regulations.

For additional information concerning distribution line charge revenue, the reader is directed to the Commerce Commission electricity distribution information disclosure determination 2012 (consolidated in 2015), downloadable from Commerce Commission website, and EA Networks information disclosures downloadable from the company's website.

Communication network revenue
Users of the company communication network are charged at daily rate. Revenue recognition reflects the accumulation of daily charges over the financial year.

Rental property
Rental income is recognised in accordance with the substance of the relevant lease agreements.

Other income includes contracting revenue
Other income is primarily made up of contracting revenue. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or where there is continuing management involvement with the goods.

All other income
All other revenue is recognised in the accounting period in which the service is provided.

3 Operating expenses

	2018 $000	2017 $000
Pass-through and recoverable costs	13,315	7,717
Employee benefit costs*	6,402	5,894
Distribution system maintenance	3,700	2,921
Harmonics incentive	48	912
Directors and shareholders committee fees	355	344
Rental & operating lease payments	44	54
Audit fees – financial statements	36	35
Loss on sale of property, plant and equipment	0	721
Other operating expenses including contracting activities	2,748	2,587
	26,648	**21,185**

Pass-through and recoverable costs: Under the Commerce Commission price path regulations EA Networks can recover transmission, systems rates, Commerce Commission levies and other sundry costs by increasing its prices without affecting its regulated revenue.

*Includes all employee benefit cost net of internal labour charged to: capitalised property, plant & equipment (refer note 12). The total wages, salaries and benefits excluding FBT paid to employees in 2018 was $11.4 million (2017: $10.8 million).

Directors fees and shareholders fees, A breakdown of these costs are found on page 33

Audit and regulated services paid to PricewaterhouseCoopers 2018: $145,883 (2017: $120,810). A breakdown of these costs are found on page 34

4 Interest and associated cost

	2018 $000	2017 $000
Interest expense on loans	2,658	3,197
Bank fees associated with financing	570	546
Movements in derivatives associated with financing	540	(490)
	3,768	**3,253**

5 Taxation

	2018 $000	2017 $000
Tax reconciliation:		
Operating surplus before taxation	11,979	9,821
Sale of investment property	0	2,989
Sale of interest in JV (refer note 17)	14,633	0
	26,612	**12,810**
Prima facie taxation at 28%	7,451	3,587
Movements in tax due to: -		
Permanent differences		
Non-assessable income	(6,636)	(1,014)
Non-deductible expenses	39	31
Tax expenses	**(6,597)**	**(983)**
	854	**2,604**
Timing differences	1,164	(1,633)
Current taxation charge for the year	**2,018**	**971**
Prior year tax adjustment		
Permanent difference	5	(3)
Taxation charge for the year	**2,023**	**968**
Comprising		
Current taxation	2,018	971
Current deferred taxation	(1,164)	1,633
	854	**2,604**
Prior period taxation	5	(3)
Prior period deferred taxation	(7)	0
	(2)	**(3)**
	852	**2,601**
Tax adjustment associated with the sale of investment property	0	177
Tax liability associated with the sale of interest in JV (refer note 17)	2,866	0
Tax expense for the Year	**3,718**	**2,778**

how the numbers are calculated

Imputation credit account

	Opening balance $000	Tax paid $000	Tax refunded $000	Closing balance $000
31 March 2017	20,575	1,639	(98)	22,116
31 March 2018	22,116	1,593	0	23,709

6 Deferred tax account

	Depreciation $000	BCI JV	Other $000	Total $000
Balance at 1 April 2016	**22,872**	**1,444**	**(301)**	**24,015**
Tax expense	727	956	(50)	1,633
Balance as at 31 March 2017	**23,599**	**2,400**	**(351)**	**25,648**
Tax expense	1,507	0	(224)	1,283
Prior period adjustment	0	47	(54)	(7)
Sale of JV (refer note 17)	0	(2,447)	0	(2,447)
Balance as at 31 March 2018	**25,106**	**0**	**(629)**	**24,477**

Accounting policies relating to Income Tax

The income tax charged to the statement of comprehensive income includes both the current year's provision on the taxable income based on the income tax rate and the deferred tax effect attributed to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statement and to unused tax losses.

Current Tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the probable profit or tax loss for the period. It is calculated using the rates and laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability or asset to the extent that it is unpaid or refundable.

Temporary differences arising from transactions, other than business combinations, affecting neither accounting profit nor taxable profit are ignored.

Current and deferred tax is recognised as an expense, or income, in the statement of comprehensive income except when it relates to items credited or debited directly to equity, in which case the deferred tax or current tax is also recognised directly in equity.

Tax accounting is applied on a comprehensive basis to all timing differences using the liability method. A deferred tax asset is only recognised to the extent that it is probable there will be future taxable profits to utilise the temporary differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the periods when the asset and liability giving rise to them are realised or settled, based on the rates and tax laws that have been enacted or substantively enacted by reporting date. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax asset and liabilities on a net basis.

7 Share capital

There are 30,366,000 shares in the Company (2017: 30,296,100) comprising:

	Deferred shares	Rebated shares issued and fully paid	Unallocated rebate shares	Total rebate shares
2017				
Shares	28,750,000	1,333,078	213,022	30,296,100
Value of shares	$31,484,118	$1,333,078	$0	$32,817,196
2018				
Shares	28,750,000	1,327,604	288,396	30,366,000
Value of shares	$31,484,118	$1,327,604	$0	$32,811,722

Deferred shares
There are 28,750,000 of deferred shares held by the Ashburton District Council, which have the following conditions or rights attached to them:

(a) There is no right to distributions, dividends or rebates.
(b) There is a right to vote if the rights attached to the deferred share are to be altered, or there is a proposal that would change the control of the Company, or the rights of the council are not carried forward on an amalgamation.
(c) The shares are not transferable, except to another local authority, or if 25 per cent of the voting shares are controlled by one person.
(d) The right to an equal distribution with the holders of the rebate shares on a winding up of the Company.

Rebate shares issued
The Company issues to those connected to the Network $100 of non-tradable rebate shares with the following provisions:

(a) No user shall be required to hold any more rebate shares than any other user.
(b) The user must be connected to the Network.

When the user ceases to be connected to the Network the $100 will be refunded less any monies owing on purchase of the rebate shares.

8 Inventories

	2018 $000	2017 $000
Distribution system	3,960	4,425
Communication network	679	603
	4,639	**5,028**

No inventories are subject to a retention of title clause or hedged as security for a liability (2017: Nil).

Accounting policies relating to inventory
Inventories are recognised at the lower of cost, determined on a weighted average cost basis, and net realisable value.

The cost of work in progress and finished goods includes the cost of direct materials and associated internal labour costs.

9 Intangible assets

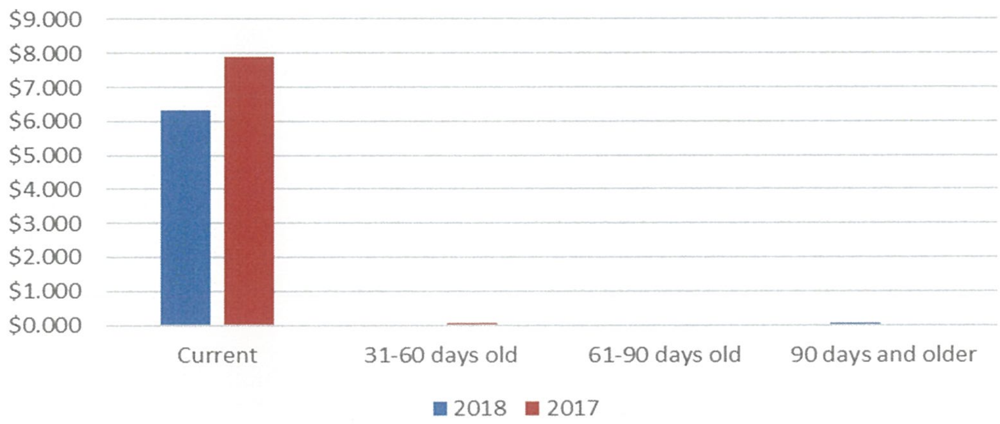
	2018 $000	2017 $000
Software		
Opening purchase cost	2,808	2,648
Additions in the year	494	160
Reclassified from property, plant and equipment	478	0
Closing purchase cost	**3,780**	**2,808**
Opening accumulated amortisation	2,325	2,278
Amortisation for the year	372	47
Reclassified from property, plant and equipment	287	0
Closing accumulated amortisation	**2984**	**2,325**
Net book value	**796**	**483**
Add work in progress	314	150
Total intangibles	**1,110**	**633**

Accounting policies relating to intangible assets
Intangible assets mainly consist of software which is shown at cost less amortisation. Amortisation of software is charged on a diminishing value base using rates from 40% to 60% p.a. Intangible assets are assessed annually for impairment.

10 Accounts receivable

	2018 $000	2017 $000
Account receivables	5,444	6,867
Prepayments	970	1,146
Provision for impairment	(2)	(13)
	6,412	**8,000**

Age of trade and other receivables in millions



Individually impaired accounts receivable relates to customers for whom there is objective evidence of ability to pay. Generally, no collateral is held for account receivables.

Changes in the impaired allowance account

	2018 $000	2017 $000
Opening balance	13	2
Addition/(Released)	(11)	11
Closing balance	**2**	**13**

Accounting policies relating to trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently at amortised cost less provision for doubtful debts. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Except for a few customers with extended credit terms, the resulting carrying amount for receivables is not materially different from realisable value (loans and receivables).

11 Naming rights

	2018 $000	2017 $000
EA Networks Centre		
Purchase cost	1,000	1,000
Opening accumulated amortisation	133	66
Amortisation for the year	67	67
Closing accumulated amortisation	**200**	**133**
Book value of naming rights	**800**	**867**
Made-up from		
Current asset naming right	**67**	**67**
Non-current asset naming right	**733**	**800**
Carrying value of naming right	**800**	**867**

how the numbers are calculated

EA Networks has purchased the naming rights to the Ashburton Stadium Complex from the Ashburton Stadium Complex Trust for a period of 15 years from the date that the council officially opens the complex. The naming rights are amortised over 15 years, which is the life of the naming right.

Accounting policies concerning naming rights

Naming rights are stated at cost less accumulated amortisation.

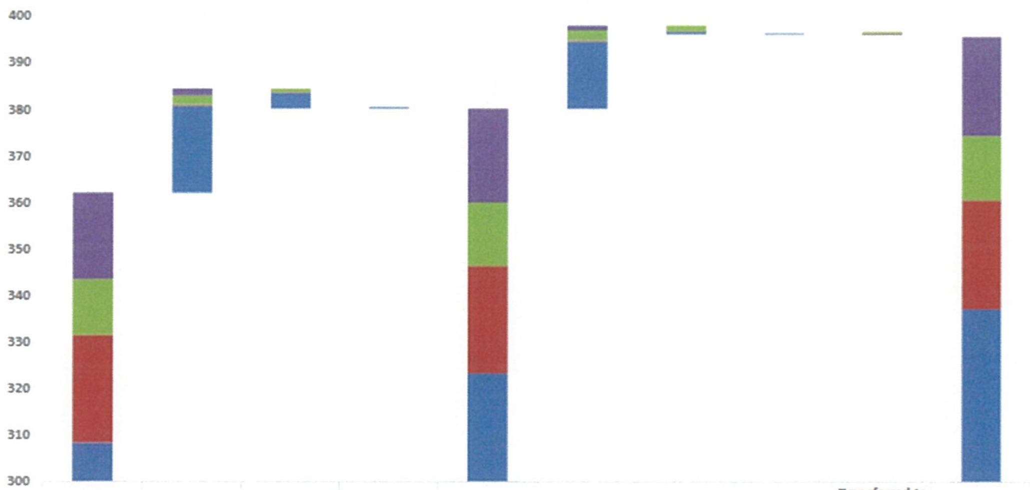
12 Property, plant and equipment

We have reviewed the classification of property, plant and equipment items, and have streamlined the categorisation to enhance the understandability of asset classification.

Purchase cost, as at 31 March 2016, of property plant and equipment allocated to new headings						
Previous classification		New classification of property, plant and equipment				
		Electricity network	Broadband network	Vehicles & contracting equipment	All other items	Total
Electricity reticulation assets	308,274	308,274				308,274
Buildings	12,641				12,641	12,641
Land	7,434				7,434	7,434
Vehicles	8,261			8,261		8,261
Plant	5,579			3,952	1,627	5,579
Office equipment	1,414				1,414	1,414
Communication network	18,543		18,543			18,543
Total	**362,146**	**308,274**	**18,543**	**12,213**	**23,116**	**362,146**

12 Property, plant and equipment (continued)

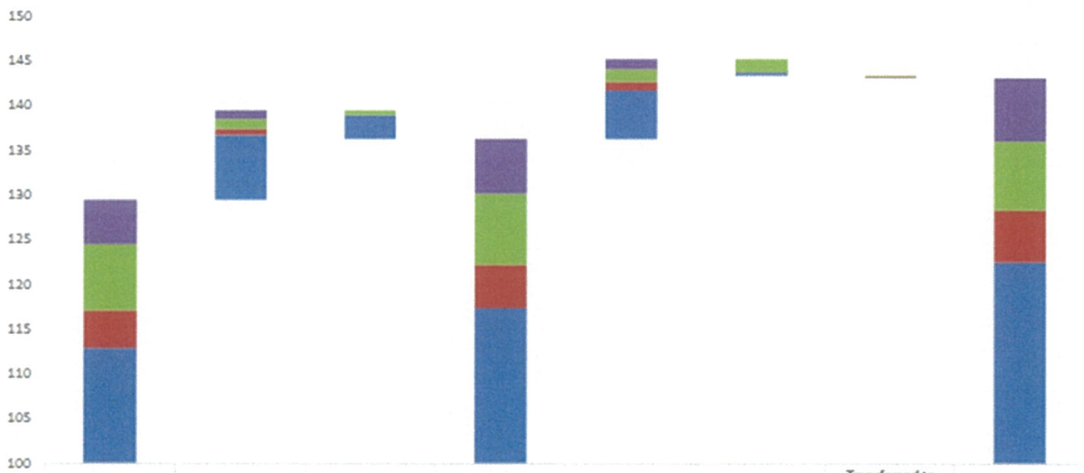
Purchase cost of property plant and equipment
In millions



	Balance 31 March 2016	Additions	Sold or scrapped	Transferred to Inventory	Balance 31 March 2017	Additions	Sold or scrapped	Transferred to Inventory	Transferred to other non-current assets	Balance 31 March 2018
Broadband Network	18.54	1.70	0.00	0.00	20.25	1.22	0.00	0.00	0.00	21.47
Vehicles & contracting equipment	12.21	1.89	0.71	0.00	13.39	2.09	1.49	0.00	0.27	13.72
All other items	23.12	0.22	0.01	0.00	23.33	0.22	0.01	0.00	0.11	23.43
Electricity Network	308.27	18.51	3.58	0.05	323.15	14.43	0.40	0.02	0.10	337.06
Totals	362.14	22.32	4.30	0.05	380.12	17.96	1.9	0.02	0.48	395.68

Electricity Network All other items Vehicles & contracting equipment Broadband Network

Property plant and equipment accumulated depreciation
in millions



	Balance 31 March 2016	Additions	Depreciation recovered	Balance 31 March 2017	Additions	Depreciation recovered	Transferred to other non-current assets	Balance 31 March 2018
Broadband Network	5.11	1.02	0.00	6.13	1.07	0.00	0.00	7.20
Vehicles & contracting equipment	7.35	1.14	0.64	7.85	1.41	1.39	0.21	7.66
All other items	4.22	0.70	0.00	4.92	0.91	0.01	0.06	5.76
Electricity Network	112.81	7.15	2.66	117.30	5.52	0.31	0.02	122.49
Totals	129.49	10.01	3.30	136.20	8.91	1.71	0.29	143.11

Electricity Network All other items Vehicles & contracting equipment Broadband Network

how the numbers are calculated

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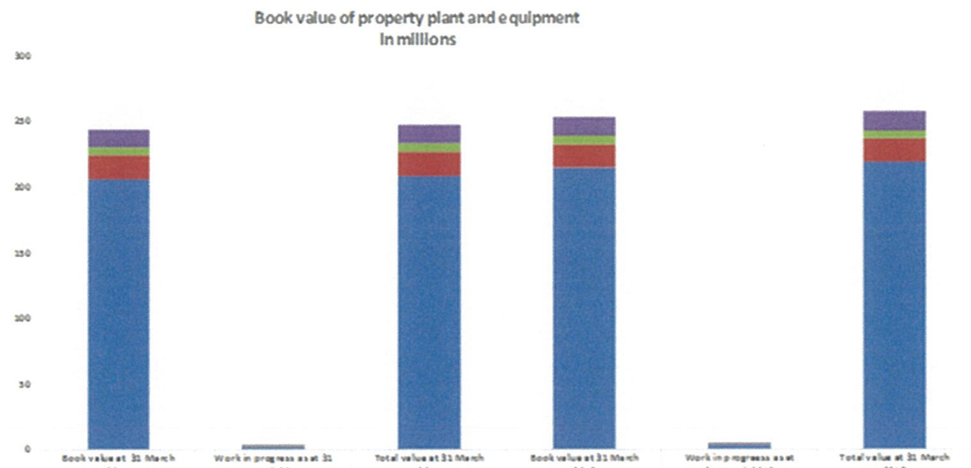
12 Property, plant and equipment (continued)



	Book value at 31 March 2017	Work in progress as at 31 March 2017	Total value at 31 March 2017	Book value at 31 March 2018	Work in progress as at 31 March 2018	Total value at 31 March 2018
Broadband Network	14.12	0.14	14.26	14.27	0.11	14.38
Vehicles & contracting equipment	5.34	0.80	6.14	6.06	0.05	6.11
All other items	18.41	0.33	18.74	17.67	0.07	17.74
Electricity Network	205.85	2.25	208.10	214.37	4.02	218.39
Total	243.92	3.32	247.24	252.37	4.25	256.82

Electricity Network   All other items   Vehicles & contracting equipment   Broadband Network

Total wage and salary capitalised to property, plant and equipment for 2018 was $1.12m (2017: $1.14m)

Accounting policies concerning property, plant and equipment

Property, plant and equipment purchased prior to 1 April 2006 are shown at 'deemed cost' less subsequent depreciation, and impairment write-down. Property, plant and equipment purchased after 1 April 2006 is recorded at the value of the consideration given to acquire and/or construct the assets, plus the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service, less subsequent depreciation and impairment write-down.

Electricity customer capital contributions received from customers have been offset against the cost of the electricity reticulation networks property, plant and equipment since 1 April 2013.

Communication Network Assets are stated at cost less depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

Land is stated at cost and not depreciated.

Measurement of buildings, plant and equipment are stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation has been provided on all property, plant and equipment other than freehold Land on the following basis and at the following rates, which amortise the cost of the asset over their economic lives.

Item	Rate	Method
Electricity network	1.43% to 6.67%	Straight line
Broadband network	3.00% to 17.50%	Straight line
Other: - Buildings - All other items	1.00% to 2.50% 4.80% to 12.00%	Straight line Diminishing value
Vehicles & contracting equipment	7.50% to 60.00%	Diminishing value

The assets residual values and useful lives are reviewed and adjusted if appropriate at each balance date. The standard physical assets lives reflect the useful life defined in the Electricity Distribution Input Methodologies determination 2012, downloadable from http://www.comcom.govt.nz/dmsdocument/16045.

12 Property, plant and equipment (continued)

Easements are recorded at cost and expensed in the period they are paid.

Impairment
If the recoverable amount of an item of property, plant and equipment is less than the carrying amount, the item is written down to its recoverable amount. The write down of an item recorded at historical cost is recognised as an expense in the statement of comprehensive income. When a revalued item is written down to recoverable amount, the write down is recognised as a downward revaluation to the extent of the corresponding revaluation reserve, and any balance is recognised in the Statement of comprehensive income.

The carrying amount of an item of property, plant and equipment that has previously been written down to recoverable amount, is increased to its current recoverable amount if there has been a change in the estimates used to determine the amount of the write down. The increased carrying amount of the item will not exceed the carrying amount that would have been determined if the write down to recoverable amount had not occurred.

Reversals of impairment write downs are recognised in the Statement of comprehensive income.

Other assets are impaired where there is objective evidence that because of one or more events that occurred after the initial recognition of the asset, that the future cash flows of the asset have been impacted. The carrying amount of the asset is reduced by the impairment loss and this loss is recognised as an expense in the Statement of comprehensive income.

Capital Work in Progress is stated at cost and is not depreciated. It includes an accrual for the proportion of work completed at the end of the year.

13 Derivative financial instruments

	2018 $000	2017 $000
Non-current assets		
Interest rate CAPS	149	438
	149	**438**
Current liabilities		
Interest rate SWAPS	(54)	(10)
	(54)	**(10)**
Non-current liabilities		
Interest rate SWAPS	(964)	(757)
	(964)	**(757)**
Net value of derivative financial instruments	**(869)**	**(329)**

The company enters into interest rate swaps and caps to manage the financial risk associated with any potential movement in the cost of debt funding.

Financial instruments are recorded at the fair value in the Statement of financial position, with any movement in the associated value being recorded in the Statement of financial performance.

The valuation of the financial instruments, present value has been undertaken by the registered banks who are parties to the SWAP and CAPS contract.

No adjustment has been made to the present value of the financial instruments to reflect the risk of default. This is due to the other contracting parties to the financial instrument being the BNZ and Westpac who are registered banks, therefore any adjustment to the present value would be immaterial.

Derivatives are initially recognised at fair value on the date the contract becomes binding and subsequently re-measured to their fair value at the end of each quarter. The resulting gain or loss is recognised in the Statement of Comprehensive Income immediately. We have not adopted hedge accounting.

14 Trade and other payables

	2018 $000	2017 $000
Trade creditors	3,739	3,329
Interest accrual	114	368
	3,853	**3,697**

Accounting policies concerning trade and other payables
This amount represents the liability for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition (financial liabilities at amortised cost).

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

15 Employee entitlements

	Leave entitlement $000	Retirement gratuity $000	Total entitlement $000
Balance as at 1 April 2016	**1,105**	**827**	**1,932**
Movement during the period	2	(68)	(66)
Balance as at 31 March 2017	**1,107**	**759**	**1,866**
Movement during the period	71	59	130
Balance as at 31 March 2018	**1,178**	**818**	**1,996**

Accounting policy for employee entitlements
Employee benefits are allocated into:

Leave entitlement
Leave entitlement is made up of:
Annual leave is recognised as employees accrues entitlement.
Long service leave. An accrual is made towards entitlement, each year, using a probability matrix of the employee realising their entitlement to the leave. Once a qualifying employee becomes entitled to long service leave the value actual value of the leave is recognised.

Retirement gratuity
Gratuities are payable when a qualifying employee elects to retire. The Company recognises the liability when an employee reaches the minimum length of service and apportions the entitlement in the reporting year based on length of service, age and the current age eligibility, in these accounts.

16 Reconciliation of Net Cash Flows from Operating Activities to Operating Surplus after Taxation

	2018 $000	2017 $000
Operating surplus after taxation	**8,261**	**7,043**
Add / (Less) non-cash items: -		
Depreciation and amortisation	9,281	10,081
Movement in financial derivatives	540	(490)
Movement in deferred taxation	(1,171)	1,810
Loss / (Gain) on sale of property, plant and equipment	(65)	721
Discount used by shareholders to purchase shares	83	81
Return on investment in Joint Venture	(1,184)	(2,321)
Amortisation of naming rights	67	67
Loss from Joint Venture	954	1,890
Total non-cash items	**8,505**	**11,839**
Movement in net current assets / liabilities: -		
Decrease / (Increase) in inventory	389	298
Decrease / (Increase) in trade and other receivables	1,588	(356)
Increase / (Decrease) in trade and other payables	156	(633)
Increase / (Decrease) in employee entitlement	130	(66)
Increase / (Decrease) in taxation payable	429	(572)
Total net current assets/liabilities movement	**2,692**	**(1,329)**
Other: -		
Inventory transferred from property, plant and equipment	(16)	(48)
Trade and other payables relating to property, plant and equipment.	273	(808)
Trade and other payables relating to investment in the JV	(1,759)	109
Tax on sale of JV	2,866	0
Total Other	**1,364**	**(747)**
Net cash flows from operating activities	**20,822**	**16,806**

17 Changes in the structure that occurred during the year and the disposal of discontinued operations

Group structure and investments

This section provides information which will help users understand how the group structure affects the financial position and performance of EA networks. In particular, there is information about:

- changes to the structure that occurred during the year as a result of business combinations and the disposal of a discontinued operation
- transactions with non-controlling interests, and
- Interests in joint operations.

EA Networks sold its 50% interest in the Barrhill Chertsey Irrigation Joint Venture in September 2017, and recognised a gain on sale as follows:

	2018 $000	2017 $000
Net book value of investment at 31 March 2017	14,122	0
Adjustment on sale	(1)	0
Share of loss for the 2018 year	(954)	0
BCI revaluation reserve	(1,800)	0
Net book value of investment at 30 September 2018	11,367	0
Sale price of the Joint Venture	26,000	0
Accounting profit on sale before tax adjustment	14,633	0
Reversal of deferred tax on sale of JV	2,866	0
Accounting profit on sale	17,499	0

18 Transactions with related parties

	2018 $000	2017 $000
Ashburton District Council		
Ashburton District Council is a significant shareholder that holds 28,750,000 deferred shares		
EA Networks has paid Ashburton District Council:		
Rates	178	249
Other services	15	13
Outstanding at balance date		
Rates	36	66
Other services	9	6
Ashburton District Council has paid EA Networks:		
Contracting services and Capital Contributions	533	648
Other	42	28
Outstanding at balance date		
Contracting services and Capital Contributions	138	50
Other	13	4
Barrhill Chertsey Irrigation Limited Electricity Ashburton Limited Joint Venture*		
The Joint venture has paid EA Networks		
Management Fees	11	30
Preferential right to income	1,184	2,321
Contracting Services	3	1

	2018 $000	2017 $000
Outstanding at balance date		
Right to income receivable	0	1,758
Management fee	0	2
Irrigo Centre Limited *		
Irrigo Centre limited has paid EA Networks:		
Lease	0	38
Other	9	9
Outstanding at balance date	0	1

*When EA networks sold its interest in the BCI JV these entities ceased to be related parties.

19 Investment in Barrhill Chertsey Irrigation Limited / Electricity Ashburton Limited Joint Venture (BCI JV)

The BCI JV has been accounted for using the equity method of accounting.

	2018 $000	2017 $000
Summarised financial information for the BCI JV		
Statement of financial position as at 30 September 2017		
Current assets		
Cash and cash equivalents	0	808
Other current assets	0	2,007
	0	**2,815**
Current liabilities		
EA Networks preferential right to income	0	1,757
Financial liabilities (excluding trade payables)	0	3,331
Other current liabilities (including trade payables)	0	2,100
	0	**7,188**
Working capital	**0**	**(4,373)**
Non-current assets	**0**	**83,953**
Non-current liabilities		
Financial liabilities	0	46,328
Other liabilities	0	5,009
	0	**51,337**
Net assets	**0**	**28,243**
Statement of Financial Performance for the six-month period ending 30 September 2017		
The Company's share of income and expenses are:		
Income	5,996	14,741
Expenses	(3,085)	(10,028)
Interest	(1,484)	(1,990)
Depreciation and amortisation	(2,152)	(4,182)
Net Loss for the Period	(725)	**(1,459)**
EA Networks preferential right to income	(1,184)	(2,321)
Pre-tax profit from continuing operations	**(1,909)**	**(3,780)**
Income tax expenses	0	0
Post-tax profit from continued operations	**(1,909)**	**(3,780)**
Other comprehensive income	0	0

	2018 $000	2017 $000
Total comprehensive income (loss)	**(1,909)**	**(3,780)**
Share of BCI JV loss for the year	**(954)**	**(1,890)**

The information above reflects the amounts, recognised post distribution of assets, presented in the financial statements of the BCI JV, and not EA Networks Limited share of those amounts.

	2018 $000	2017 $000
Reconciliation of summarised financial income		
Opening net assets	14,122	30,248
Capital contributions made by BCIL in the year.	0	905
Capital contributions made by EA Networks	0	904
Total comprehensive income	(954)	(3,780)
Revaluation reserve	(1,800)	(33)
Adjustment	(1)	0
Share of JV sold	(11,367)	0
Closing net assets	0	28,244
Interest in joint venture' (50%)	0	14,122
Carrying value	**0**	**14,122**
Made up of		
Equity invested	0	19,585
Retained earnings	0	(7,263)
JV revaluation	0	1,800
Carrying value	**0**	**14,122**

The Company held a 50% participating interest in the BCI Joint Venture. Under the arrangement income and expenses are shared equally, excluding interest on current accounts. EA Networks has a preferential right to income from the BCI Joint Venture to an agreed amount between the parties of the Joint Venture.

The Joint Venture agreement includes a schedule detailing preferential right to income for EA Networks. For the 2018 year this preferential right to income was $1,183,514 (2017 $2,320,706). This payment is classed as an operating cost and operating income respectively in the Joint Venture's and EA Networks' financial statements.

Accounting policy concerning Joint Venture

Equity Method
The Company's interests in jointly controlled entities are accounted for using the equity method.

Joint Venture accounting policies
There have been no adjustments for differences in accounting policies between the BCI joint venture financial statements and EA Networks financial statements.

Revaluation
The Joint venture water reticulation assets were revalued at 31 March 2015 by Rationale Limited, an independent valuer, using a depreciation replacement cost of equivalent asset methodology

Depreciation replacement cost methodology used
Water reticulation pipe lines: The unit rate has been derived from the schedule of work estimate provided to Rationale Limited from the JV and is based on the cost per linear meter for each combination of pipe diameter and pressure rating.

Offtakes: A similar method to water reticulation pipe line was used to derive the unit rates of the offtakes.

Remainder: The unit rate is based on the initial cost with the appropriate inflation index applied to convert the value into a March 2015 equivalent. The inflation indices are based on the Statistics New Zealand Capital Goods Price Index - Civil Construction.

20 Financial instruments

The Company is exposed to serval financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Company focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance. The major area of financial risks faced by the Company and the information on the management of the related exposures are detailed below:

	Loans and Receivables	Financial assets at fair value through profit or loss	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost
	$000	$000	$000	$000
Assets as per Statement of Financial Position as at 31 March 2018				
Current Assets				
Cash and Cash equivalents	210	-	-	-
Trade receivables	6,412	-	-	-
Derivative financial instruments	-	-	-	-
Non-Current Assets				
Derivative financial instruments	-	149	-	-
Total	**6,622**	**149**	**-**	**-**
Liabilities as per Statement of Financial Position as at 31 March 2018				
Current Liabilities				
Trade and other payables	-	-	-	3,853
Derivative financial instruments	-	-	54	-
Non-Current Liabilities				
Borrowings	-	-	-	59,050
Derivative financial instruments	-	-	964	-
Total	**-**	**-**	**1,018**	**62,903**
Assets as per Statement of Financial Position as at 31 March 2017				
Current Assets				
Cash and Cash equivalents	27	-	-	-
Trade receivables	8,000	-	-	-
Derivative financial instruments	-	-	-	-
Non-Current Assets				
Derivative financial instruments	-	438	-	-
Total	**8,027**	**438**	**-**	**-**
Liabilities as per Statement of Financial Position as at 31 March 2017				
Current Liabilities				
Cash and Cash equivalents	-	-	-	-
Trade payables	-	-	-	3,697
Derivative financial instruments	-	-	10	-
Non-Current Liabilities				
Borrowings	-	-	-	89,000
Derivative financial instruments	-	-	757	-
Total	**-**	**-**	**767**	**92,697**

Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in value.

Foreign exchange risk

The Company has no foreign exchange contracts in place at 31 March 2018 or 31 March 2017.

Interest rate risk

The Company has external long-term funding arrangements that exposes it to interest rate risk. To manage the interest rate risk, the Company employs a treasury policy.

Credit risk

The Company has exposure to credit risk with eighteen electricity retailers' who have more than 80% of the total trade receivables balance. Credit risk with each of these customers is managed by the prudential requirements in the use of system agreement.

The Company's historical records associated with the collection of trade receivables gives Directors the belief that no additional credit risk beyond the amounts provided for doubtful debts is required in the Company's trade receivables.

The Company has a policy of holding cash in minimal quantities and spreading investments between registered trading banks, where the possibility of these institutions failing is considered remote.

The maximum exposure to credit risk is the disclosed carrying values of cash, cash equivalents and accounts receivable. No security is held on any of these items. Further disclosures on accounts receivable are outlined in Note 10.

Liquidity risk

This represents the Company's ability to meet its financial obligations on time. The Company generates sufficient cash flows from its operating activities to make timely payments. It does however maintain committed credit lines to cover any shortfalls.

	2018 $000	2017 $000
External funding arrangements		
Overdraft facility - BNZ	500	500
Long-term funding		
Maturing greater than 12 months		
Westpac multi option credit line facility	42,000	42,000
Revolving credit facility with BNZ	50,000	53,000
Total long-term funding available	92,000	95,000
Contractual performance bonds		
Dollar value of bonds in place with Westpac	162	162
Number of bonds in place with Westpac	5	5

Short and long-term funding is secured by a negative pledge over assets.

The following table identifies the periods in which financial instruments will mature, that are subject to interest rate risk, re-pricing, and the effective rate at balance date.

Interest rate risk	Less than 6 months $000	6-12 months $000	1-2 years $000	2-5 years $000
2018				
Financial instrument amount	3,000	6,500	18,000	30,500
Interest rate				
From	4.43%	3.79%	3.74%	3.88%
To	4.48%	3.90%	4.90%	5.30%
2017				
Financial instrument amount	20,500	0	9,500	48,500
Interest rate				
From	2.60%	0%	3.34%	3.38%
to	4.01%	0%	4.64%	4.95%

By managing interest rate risk, the Company aims to moderate the impact of short term fluctuations in interest rates. Over the longer term, changes in rates will have an impact on profit.

Liquidity forecast
The Company policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The table below analyses the financial liabilities into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date.

Maturity of long term external funding	6 months and less $000	6-12 months $000	1-2 years $000	2-5 years $000
2018				
Locked in interest cost on principal from now to maturity	1,295	1,288	907	2
principal repayment	0	0	38,500	20,550
Effective Total	1,295	1,288	39,407	20,552
Interest rates on principal due				
From	3.74%	3.74%	3.74%	3.74%
To	5.30%	5.30%	5.30%	5.30%
2017				
Locked in interest cost on principal from now to maturity	1,683	1,674	1,524	761
Principal repayment	0	0	48,450	40,550
Effective Total	1,683	1,674	49,974	41,311
Interest rates on principal due				
From	2.96%	2.96%	2.96%	2.96%
To	4.95%	4.95%	4.95%	4.95%

Long-term funding maturity dates		
Westpac multi option credit line facility	30 September 2019	42,000,000
BNZ		
Revolving credit facility	1 April 2020	17,000,000
Revolving credit facility	1 April 2021	17,000,000
Revolving credit facility	1 April 2022	16,000,000

There are no current indications that these loan facilities will not be renewable as and when they mature in future.

Capital risk management

The Company's objective when managing capital is to safeguard the ability to continue as a going concern in order to provide returns to shareholders, consumers, and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Total capital is calculated as total equity including members' interests plus total borrowings as shown in the balance sheet. The Company is subject to the following externally imposed capital requirements, which are measured at balance date, which the Company fully complies with.

Interest Coverage: Earnings before interest, tax, and rebate / Interest. Coverage of which is to be greater than or equal to 3.5.
Shareholder Funds Ratio: Total Shareholder Funds to be maintained in excess of 45% of Total Tangible Assets.

Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt	2018 $000	2017 $000
Cash and cash equivalents	210	27
Liquid investments	0	0
Borrowings – repayable within one year	0	0
Borrowings – repayable after one year (including overdraft)	(59,050)	(89,000)
Net debt	(58,840)	(88,973)
Cash and liquid investments	210	27
Gross debt – fixed interest rates	0	0
Gross debt – variable interest rates	(59,050)	(89,000)
Net debt	(58,840)	(88,973)

	Other Assets	Liabilities from financing activities		
	Cash/bank overdraft $000	Borrow due within 1 year $000	Borrow due after 1 year $000	Total $000
Net debt as at 1 April 2016	**(50)**	**0**	**(88,800)**	**(88,850)**
Cash Flows	77	0	(200)	(123)
Net debt as at 31 March 2017	**27**	**0**	**(89,000)**	**(88,973)**
Cash flows	183	0	29,950	30,133
Net debt as at 31 March 2018	**210**	**0**	**(59,050)**	**(58,840)**

21 Fair value hierarchy for derivatives

Fair value hierarchy for derivatives as at 31 March 2018	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets at fair value through profit or loss				
Interest rate swaps and caps	0	149	0	149
Total assets	0	149	0	149
Financial liabilities at fair value through profit or loss				
Interest rate swaps and caps	0	1,018	0	1,018
Total liabilities	0	1,018	0	1,018

Fair value hierarchy for derivatives as at 31 March 2017	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial asset at fair value through the Statement of Financial Performance				
Derivatives used for hedging				
Interest rate swaps and caps	0	438	0	438
Total assets	0	438	0	438
Financial liabilities at fair value through the Statement of Financial Performance				
Derivatives used for hedging	0	10	0	10
Interest rate swaps and caps	0	757	0	757
Total liabilities	0	767	0	767

The Company relies on the fair valuation of derivatives from Trading Banks that the derivatives have been placed with. The fair valuation represents the value which the derivative could be sold for at balance date.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

Level 3: inputs from asset or liability that are not based on observable market data (unobservable inputs)

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Accounting policies relating to financial instruments

Classification
The Company has financial instruments which are classified in the following categories: financial assets at fair value through profit or loss, financial liabilities at fair value through profit or loss, loans and receivables and financial liabilities at amortised cost.

Recognition
Financial instruments are recognised in the balance sheet when the Company becomes party to a financial contract. They include cash and cash equivalents, bank overdrafts, receivables, derivatives and payables and term borrowings.

Other Financial Assets or Liabilities
The Company is also party to financial instruments to meet financing needs and to reduce exposure to fluctuations in foreign currency exchange rates. These financial instruments include bank overdraft facilities, derivatives, contractors' bonds and foreign currency forward exchange contracts.

Interest rate swaps and caps
Interest rate swaps and caps are included as 'derivative financial instruments' on the statement of financial position and classified as movements in derivatives associated with financing through the statement of comprehensive income.

Borrowings
Borrowings are initially recognised at fair value plus transaction costs incurred, and are subsequently recorded at amortised cost.

Borrowings are recognised as current liabilities unless the Company has an unconditional right to defer settlement of the liability at least 12 months after balance date (financial liabilities at amortised cost).

The Company has borrowings with Westpac Banking Corporation and the Bank of New Zealand, all of which are secured by a negative pledge over assets.

22 Operating leases

	2018 $000	2017 $000
Lessee		
Not later than 1 year	1,248	1,239
Later than 1 year and not later than 5 years	4,934	4,956
Later than 5 years	13,173	15,534
Lessor		
Not later than 1 year	255	353
Later than 1 year and not later than 5 years	1,019	990
Later than 5 years	3,186	3,096

Leases consist of new investment agreements with Transpower (Lessee), and long-term network communication (Lessor).

Accounting policies concerning leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

23 Capital commitments

	2018 $000	2017 $000
EA Networks		
Electricity distribution network	1,141	2,793
Land building chattels & office equipment	304	0
Vehicles & contracting equipment	305	65
Broadband fibre network	64	51
	1,814	**2,909**
Share of Barrhill Chertsey Irrigation Limited and Electricity Ashburton Limited Joint Venture		
Construction cost	0	395
Total capital commitments	**1,814**	**3,304**

24 Contingent Liabilities

Due to the sale of the Joint Venture during the 2018 financial year, EA Networks no longer guarantees the funding agreement between the BNZ and the Barrhill Chertsey Irrigation Ltd and Electricity Ashburton Joint Venture Banking. The value of the guarantee at balance date is $0 (2017 $17,500,000).

25 Key Management Personnel Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of that entity.
The compensation of executives being the key management personnel of the Company is set out below:

	2018 $000	2017 $000
Short term employment benefits	1,135	1,063
Post-employment benefits	0	0
Long term benefits	0	0
Termination benefits	16	7
Outstanding benefits at balance date		
Long term benefits outstanding	0	0
Termination benefits outstanding	112	96

26 Subsequent Events

There are no other events subsequent to balance date that would materially affect these financial statements.

27 Other accounting policies

Profit-Oriented

EA Networks is the trading name for Electricity Ashburton Limited, a profit-oriented Co-operative Company registered under the Co-operative Companies Act 1996 and domiciled and incorporated in New Zealand.

Statement of Compliance

The financial statements of EA Networks have been prepared in accordance with New Zealand Generally Accepted Accounting Practices (NZ GAAP).

The financial statements comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and IFRS, and other applicable reporting standards as appropriate for a profit-oriented Company.

The Company has adopted External Reporting Board Standard A1 Accounting Standards Framework (For-profit Entities Update) ('XRB A1') for both years contained in these financial statements. The Company meets the criteria of a Tier 1 entity under XRB A1 and is reporting in accordance with Tier 1 For-profit Accounting Standards. EA Networks has previously applied full NZ IFRS in its financial statements which continues to be a requirement for Tier 1 entities.

The financial statements are for Electricity Ashburton Limited trading as EA Networks as a separate legal entity.

Functional and presentation currency

The Company's Financial Statements are presented in New Zealand dollars, which is the Company's functional and presentation currency.

Measurement base

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets as identified in specific accounting policies below.

Use of estimates and judgements

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods affected.

Information about significant areas of estimated uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Capital and Operating Expenditure

Capital expenditure relates to expenditure incurred in the creation of a new asset and expenditure incurred on existing reticulation system assets to the extent the system is enhanced.

Operating expenditure is that expenditure incurred in maintaining and operating the property, plant and equipment of the Company.

Specific Accounting Policies

Dividends when necessary provision is made for any dividend declared on or before the end of the financial year but not distributed at balance date. Dividend distribution to the Company shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's directors. No dividends were declared in 2018 or 2017.

Goods and Services Tax (GST) the statement of comprehensive income has been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, apart from receivables and payables, which include GST invoiced.

Customer deferred discount

The customer deferred discount is a 'discretionary discount' on use of system revenue that is recorded and paid to eligible consumers in the financial year that it is declared.

New Standards and Interpretations not yet adopted

Certain new standards, amendments and interpretations of existing standards have been published that are mandatory for later periods and which the Company has not early adopted. These will be applied by the Company in the mandatory periods listed below. The key items applicable to the Company are:

NZ IFRS 16: Leases (Effective date: periods beginning on or after 1 January 2019)

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

We will be adopting NZ IFRS 16 from 1 April 2019, with our first reporting period under the standard being 31 March 2020. Currently EA Networks have several new investment contracts with Transpower, disclosed under the lease note, which will meet the requirements of NZ IFRS 16. As the result of this standard, the following impact is expected:

Statement of comprehensive income		
Operating expenses	↓	By the value of new investment contracts
Interest expense	↑	Interest cost of the new investment agreements
Amortisation	↑	Amortisation of the NPV of lease over its life
Net Profit before tax	↕	Profit will decrease initially and increase towards the end of the leases.
Statement of financial position		
Asset	↑	Will increase by the present value of all lease payments to be made
Liabilities	↑	Will increase by the present value of all lease payments to be made

For lessors, the accounting for leases under NZ IFRS 16 is almost the same as NZ IAS 17. However, because the guidance on the definition of a lease has been updated (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.

NZ IFRS 15: Revenue from contracts with customers (Effective date: periods beginning on or after 1 January 2018)

NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations.

EA Networks will be adopting NZ IFRS 15 (revenue from contracts with customers) from 1 April 2018, with first report period ending 31 March 2019. Based on work performed to date, we believe that after adoption of the standard, capital contributions which are currently offset against the assets which the contributions are used to construct, will meet the requirements of revenue. The effect of this transition will be:

Statement of comprehensive income		
Revenue	↑	Will increase by the value of network capital contributions made in the year
Depreciation	↑	Will increase due to the associated increase in property, plant and equipment
Total comprehensive income	↑	Will increase by the net movement of the items above
Statement of financial position		
Equity and members interests	↑	Will increase by the movement in total comprehensive income
Non-Current Assets – Property, plant and equipment	↑	Will increase by the value of capital contributions made in the period
Statement of cash-flows		
Free cash from operating activities	↑	Will increase by the value of capital contributions made in the year
Free cash from investing activities	↓	Will decrease by the value of capital contributions made in the year

NZ IFRS 9: Financial Instruments (Effective date: periods beginning on or after 1 January 2018)

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. NZ IFRS 9 replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. EA Networks intends to adopt NZ IFRS 9 on its effective date and believe that it will not have any material impact.

Changes in Accounting Policies

Other than those due to new standards or amendments and the treatment of capital contributions there have been no changes in accounting policies. All policies have been applied on bases consistent with those used in the prior year.

Directors' Report

Trading Name
EA Networks is the trading name of Electricity Ashburton Limited.

Principal Activities
EA Networks principal activities are:

- Development, operation and maintenance of an electricity distribution and communication network.
- Contracting electrical construction and maintenance services for distribution networks and end users.
- Investment in other infrastructural assets such as:
  - Energy utilisation enhancement projects
  - Communication Network

Annual Resolution (Section 10 of Co-operative Companies Act 1996)
The Directors of EA Networks unanimously resolved on 27 June 2018 that in the opinion of the Directors for the year ended 31 March 2018, Electricity Ashburton Limited has been a Co-operative Company.

Corporate Governance

Role of the Shareholders Committee
The Shareholders Committee has four members directly elected by rebate shareholders (Consumers) and three members appointed by the deferred shareholder, the Ashburton District Council. The specific duties of the Shareholders Committee are to: appoint the Directors of the Company, receive the annual Statement of Corporate Intent and to report on a regular basis to shareholders on the performance of the Company.

Role of the Board
The Board of Directors is appointed by the Company's Shareholders Committee which provides the essential link between shareholders and the Company.

The Board directs the affairs of the Company and supervises the management of the business. Their prime responsibility is setting the strategic direction of the Company, establishing goals and monitoring performance with a view over time to enhance the prosperity of the Company and its shareholders.

The Board discharges this responsibility through effective leadership, by enabling and encouraging an environment for innovation and being responsive to any need for "change".

The Board seeks to maintain a balance between conformance and performance, dynamic strategic leadership, and to ensure governance best practice systems, procedures, policies and guidelines are in place.

Board evaluation process
The Board carries out a structured Director and Board evaluation process on a periodic basis.

Board operation
The operation of the Board is governed by the Company's constitution and the 'Directors Corporate Governance Manual'.

The Directors Corporate Governance Manual sets out the responsibilities, code of conduct and expectations from each Director and members of the executive team of EA Networks.

Board Chairperson
The Board Chairperson is elected by board members and has a leadership role in the conduct of the Board and its relationship with the shareholders committee and the Company's other major stakeholders. The Chairperson maintains a professional relationship with the Company's CEO, and through him, the Company's management team.

Board meetings
The Board meets a minimum of 10 times a year. Additional meetings are convened as and when required.

Meetings are governed by a formal policy which sets when, where and how meetings are to be held. Directors receive a formal agenda and regular papers in advance of meetings.

Executive managers are regularly involved in board discussions. Directors also have other opportunities to gain information and expert advice in relation to the Company and its operation.

Board Charter
The Board operates under a formal charter which sets out the objectives and responsibilities of the Board. Contained within the charter is the relationship between and responsibilities of the Board, Shareholder Committee and the CEO.

The Charter allows for the Board to establish committees to assist with the Board responsibilities.

Board Committees

Audit and Finance Committee
The objectives of the Audit and Finance Committee is to assist the Board to fulfil its statutory & fiduciary responsibilities by providing objective, non-executive review of the effectiveness of the external reporting of financial information, and the internal control environment of the company, including obtaining an understanding of the tax & financial risks which effect the Group.

To do this, the committee will:
- Provide oversight of accounting policies and professional accounting requirements
- Provide oversight of internal & external audit functions
- Provide oversight of all statutory regulatory requirements.
- Provide oversight of the internal control environment.

The existence of the Audit Committee does not remove responsibility from the Board for duties which have been delegated to the Committee, or the need for the Board to monitor that delegation.

Risk Committee
The committee purpose is to assist the Board to:

- Formulate its risk appetite, at least annually.
- Understand the risks that EA Networks face for each of these types of risks: market, insurance, assets & asset management, operational, cyber security regulatory and reputational, except:
  - Tax & financial risks which will be similarly covered by the Audit and Finance Committee.
  - Strategic risks which will be governed by the full Board with input from all Committees.
- Ensure that all policies and decisions are made in accordance with EA Networks corporate values and guiding principles.

Governance and Remuneration Committee
The purpose of the Governance and Remuneration Committee:

- To oversee a formal and transparent method of recommending director remuneration to shareholders.
- To assist the board in establishing remuneration policies and practices for the company and in discharging its responsibilities for reviewing and setting the remuneration of the Chief Executive of EA Networks and senior executives.
- To assist the board in reviewing the board's composition and the competencies required of prospective directors, identifying prospective directors, developing succession plans for the board and making recommendations to the Shareholders Committee accordingly.
- To ensure that the Company maintains best practice corporate governance.

Health and Safety Committee
The board is responsible for approving and overseeing the planning, delivering, monitoring and reviewing, of EA Networks' Health and Safety and Environment programme. Under the Boards charter all board members are health and safety champions of the Company. The Board is totally committed to keep safe all persons working for the company. To discharge this responsibility, the Health and Safety Committee acts as the interface between management and the board regarding issues associated with health and safety. The function of the Health and Safety Committee is:

- To set clear expectation that the organisation has a fit-for-purpose health and safety management system.
- To exercise due diligence to ensure that the system is fit-for-purpose, effectively implemented, regularly reviewed and continuously improved.
- To be sufficiently informed about the generic requirements of a modern, 'best practice' health and safety management system and about their organisation and its risks to know whether its system is fit-for-purpose, and effectively implemented.
- To ensure sufficient resources are available for the development, implementation and maintenance of the system.

Directors
At the 2017 Annual General Meeting Messrs R Davy and B McPherson retired by rotation. Mr R Davy did not seek re-appointment. It was the unanimous decision of the Shareholders Committee to reappoint Mr B McPherson for a further three-year term. Mr R Sutton was appointed to the board for a three-year term.

Directors' Remuneration
Directors, who held office during the year, received the following remuneration for their services:

	Chairman	Deputy Chairman	Committee Chairman's	Directors	Total
G Leech	80,500				80,500
P McKendry		45,500			45,500
P Munro			5,000	40,500	45,500
R Davy^				16,866	16,866
R Sutton*				23,634	23,634
B McPherson			3,000	40,500	43,500
R Fitzgerald			3,000	40,500	43,500
	80,500	**45,500**	**11,000**	**162,000**	**299,000**
Payments to members of the shareholders committee					**56,000**
Total as per note 3 of the financial statements					**355,000**

*Mr R Sutton was appointed on 30 August 2017
^Mr R Davy retired on 30 August 2017

Interests Register

Directors' Interests

The Company maintains an interest register in which certain transactions and matters involving Directors must be recorded. EA Networks Directors may also be Director, Trustee or members of other organisations who transact with the Company from time to time on normal trade/commercial terms. There were no material transactions recorded in the Directors interest register during the accounting period.

Interested Transactions

No material transactions involving Directors' interests were entered into during the financial year.

Directors' Indemnity and Insurance

The Company has indemnified directors and employees against all liabilities to persons (other than the Company) which arise out of the performance of their normal duties as director or executive officer unless the liability relates to conduct involving a lack of good faith or criminal offense. Directors' and officers' liability insurance to a value of $10 million has been affected to cover such risks.

Employee Remuneration

The number of employees whose total remuneration including non-cash benefits was over $100,000 during the year ended 31 March 2018 are specified in the following bands:

Salary Band	Number of staff	Salary Band	Number of staff	Salary Band	Number of staff
$100,000 - $110,000	5	$140,000 - $150,000	3	$220,000-$230,000	1
$110,000 - $120,000	9	$150,000 - $160,000	1	$340,000-$350,000	1
$120,000 - $130,000	6	$170,000 - $180,000	1		
$130,000 - $140,000	4	$190,000 - $200,000	2		

A number of executive employees also receive the use of a Company motor vehicle.

Use of Company Information

During the year, the Board did not receive any notices from Directors requesting the use of Company information, received in their capacity as Directors, which could not otherwise have been available to them.

Donations

There were no donations made during the financial year.

Audit Fees and Other Services

Details of audit fees and other services, paid to PricewaterhouseCoopers are as follows:

	2018	2017
Regulatory consulting and other services	$48,176	$29,310
Financial statement audit	$36,000	$35,000
Regulatory compliance audits	$61,707	$56,500

Loans or Guarantees

There were no loans made or guarantees given by the Company to Directors or their associates.

Financial Statements

The owners of EA Networks or others have no power to amend the financial statements after issue.

For and on behalf of the Board

....	....	27 June 2018
Director	Director	

Independent auditor's report

To the shareholders of Electricity Ashburton Limited, trading as EA Networks

The financial statements comprise:

- the statement of financial position as at 31 March 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity and members' interests for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which includes significant accounting policies.

Our opinion

In our opinion, the financial statements of Electricity Ashburton Limited, trading as EA Networks (the Company), present fairly, in all material respects, the financial position of the Company as at 31 March 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Company in the areas of assignments relating to compliance with other regulatory requirements of the Commerce Act 1986, and the provision of other advisory services. The provision of these other services has not impaired our independence as auditor of the Company.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, express any form of assurance conclusion on the other information.

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

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T: +64 3 374 3000, F: +64 3 374 3001, pwc.co.nz

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, 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 conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-8/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Nathan Wylie.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
28 June 2018

Christchurch