EA networks

ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2017

2017 Annual Report

Contents

Board of Directors:

Gary Leech (Chairman)
Philip McKendry (Deputy Chairman)
Bruce McPherson
Paul Munro (appointed 15 August 2016)
Richard Fitzgerald
Ray Davy

Shareholders Committee:

Ian Cullimore (Chairman)
Anne Marett
Bev Fraser
Chris Robertson
David Ward
Jim Lischner
Jeanette Maxwell

Management:

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

Office:

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22 JB Cullen Drive
Ashburton Business Estate
Ashburton

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Auditors
PricewaterhouseCoopers
Level 4, 60 Cashel Street
Christchurch Centre
Christchurch 8013

General Company Solicitor
Tavendale and Partners
234 Tancred Street
Ashburton 7740

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

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:
    - Water
    - Energy utilisation enhancement projects
    - Communication Network

ANNUAL RESOLUTION (Section 10 of Co-operative Companies Act 1996)
The Directors of EA Networks unanimously resolved on 31 May 2017 that in the opinion of the Directors for the year ended 31 March 2017, 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.

Role of the Board *(Continued)*

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

<u>Audit and Finance Committee:</u>
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.

Role of the Board *(Continued)*

Risk Committee

The committee purpose is to assist the Board to:

- Formulate its' risk appetite, at least annually.
- Understand the risks that EA Networks faces for each of these types of risks: market, insurance, assets & asset management, operational, cyber security regulatory and reputational, excepting:
  - 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. In order 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. In particular, the function of the Health and Safety Committee is to:

- 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.

Role of the Board (Continued)

DIRECTORS

At the 2016 Annual General Meeting Messrs M W Frost and P J McKendry retired by rotation. Mr M W Frost did not seek re-appointment. It was the unanimous decision of the Shareholders Committee to reappoint Mr P J McKendry for a further three-year term. Mr P J Munro 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	Director	Total
G R Leech	79,167				79,167
P J McKendry		47,500			47,500
P J Munro*			2,500	25,051	27,551
R J Davy				39,583	39,583
M W Frost^				14,532	14,532
B R McPherson			2,500	39,583	42,083
R G Fitzgerald			2,500	39,583	42,083
	79,167	47,500	7,500	158,332	292,499

*Mr Munro was appointed on 17 August 2016
^Mr Frost retired on 17 August 2016

INTERESTS REGISTER

Directors' Interests

The Company maintains an interests register in which particulars of 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 2017 are specified in the following bands:

Band	Number of staff in band	Band	Number of staff in band	Band	Number of staff in band
$100,000 - $110,000	11	$140,000 - $150,000	3	$210,000-$220,000	1
$110,000 - $120,000	4	$150,000 - $160,000	1	$330,000-$340,000	1
$120,000 - $130,000	6	$160,000 - $170,000	1		
$130,000 - $140,000	2	$170,000 - $180,000	2		

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

Role of the Board (Continued)

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:

	2017	2016
Financial audit	$35,000	$34,000
Regulatory audits	$56,500	$50,725
Regulatory consulting and other services	$29,310	$31,395

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

DIRECTOR
DATE: 31 May 2017

DIRECTOR

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 $000	2016 $000
Operating Revenue	2	46,691	47,129
Less			
Operating Expenses	3	(21,185)	(21,064)
Interest and Associated Costs	4	(3,253)	(4,908)
Depreciation and Amortisation	5	(10,081)	(9,645)
		(34,519)	(35,617)
Operating Surplus before share of Joint Venture, Customer Deferred Discount and Taxation		12,172	11,512
Preferential right to income from the BCI Joint Venture	17	2,321	2,068
Share of BCI Joint Venture loss for the year	17	(1,890)	(1,777)
Operating Surplus before Customer Deferred Discount and Taxation		12,603	11,803
Customer Deferred Discount		(2,782)	(3,473)
Operating Surplus before Taxation		9,821	8,330
Taxation	6	(2,778)	(2,434)
Operating Surplus after Taxation		7,043	5,896
Other Comprehensive Income			
Sale of discontinued business operation	16		
Proceeds from sale of Kermode Street property		2,989	0
Taxation associated with the sale of Kermode Street	6	177	0
Adjusted proceeds from sale of Kermode Street		3,166	0
Total Comprehensive Income		10,209	5,896

STATEMENT OF CHANGES IN EQUITY AND MEMBERS' INTERESTS

FOR THE YEAR ENDED 31 MARCH 2017

	Notes	JV Revaluation reserve $000	Equity $000	Members' Interests $000	Total $000
BALANCE AS AT 1 APRIL 2015		1,817	136,398	1,303	139,518
Comprehensive Income:					
Operating Surplus after Taxation		0	5,896	0	5,896
		0	5,896	0	5,896
Transactions with Owners:					
Shares Issued		0	0	94	94
Shares Repaid		0	0	(55)	(55)
		0	0	39	39
BALANCE AS AT 31 MARCH 2016		1,817	142,294	1,342	145,453
BALANCE AS AT 1 APRIL 2016		1,817	142,294	1,342	145,453
Comprehensive Income:					
Operating Surplus after Taxation		0	7,043	0	7,043
Adjusted proceeds from the sale of Kermode Street		0	3,166	0	3,166
Movement in JV revaluation reserve	17	(17)	0	0	(17)
		(17)	10,209	0	10,192
Transactions with Owners:					
Shares Issued		0	0	81	81
Shares Repaid		0	0	(90)	(90)
		0	0	(9)	(9)
BALANCE AS AT 31 MARCH 2017		1,800	152,503	1,333	155,636

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2017

	Notes	2017 $000	2016 $000
EQUITY AND MEMBERS' INTERESTS:			
Deferred Shares	7	31,484	31,484
JV Revaluation reserve	17	1,800	1,817
Retained Earnings	8	121,019	110,810
Total Equity		154,303	144,111
Rebate Shares	7	1,333	1,342
TOTAL EQUITY		**155,636**	**145,453**
REPRESENTED BY:			
CURRENT ASSETS:			
Cash and Cash Equivalents	9	27	0
Inventories	10	5,028	5,326
Trade and Other Receivables	11	8,000	7,645
Tax Refund Due		275	0
Naming rights	13	67	67
Held for Sale	16	0	946
Total Current Assets		**13,397**	**13,984**
NON-CURRENT ASSETS:			
Intangibles	12	633	378
Naming Rights to EA Networks Centre	13	800	867
Property, Plant, and Equipment	14	247,224	235,343
Investment in the BCI Joint Venture	17	14,122	15,124
Derivative Financial Instruments	18	438	28
Total Non-Current Assets		**263,217**	**251,740**
TOTAL ASSETS		**276,614**	**265,724**
CURRENT LIABILITIES:			
Cash and Cash Equivalents	9	0	50
Current Income Tax Liabilities		0	296
Trade and Other Payables	19	3,697	4,331
Employee Entitlements	20	1,866	1,932
Derivative Financial Instruments	18	10	65
Total Current Liabilities		**5,573**	**6,674**
NON-CURRENT LIABILITIES:			
Deferred Income Tax Liabilities	6	25,648	24,015
Borrowings	21	89,000	88,800
Derivative Financial Instruments	18	757	782
Total Non-Current Liabilities		**115,405**	**113,597**
TOTAL LIABILITIES		**120,978**	**120,271**
TOTAL NET ASSETS		**155,636**	**145,453**

For and on behalf of the Board

DIRECTOR **DIRECTOR**

31 May 2017

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 $000	2016 $000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash was Provided from:			
Receipts from Customers		46,799	47,107
Interest received		11	20
		46,810	47,127
Cash was Applied to:			
Payments to Suppliers & Employees		(21,549)	(22,844)
Customer Deferred Discount Paid		(2,701)	(3,380)
Interest Paid		(3,856)	(4,319)
Net GST Paid		(259)	(33)
Taxation Paid		(1,639)	(1,745)
		(30,004)	(32,321)
Net Cash Flows from Operating Activities	22	**16,806**	**14,806**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash was Provided from:			
Preferential right to income from the Joint Venture	17	2,212	2,068
Sale of Property, Plant and Equipment		4,300	341
		6,512	2,409
Cash was Applied to:			
Investment in Property, Plant and Equipment		(22,447)	(18,165)
Investment in BCI/EAL Joint Venture		(904)	(6,080)
		(23,351)	(24,245)
Net Cash Flows From Investing Activities		**(16,839)**	**(21,836)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash was Provided from:			
Bank Loans – Borrowings		200	6,850
		200	6,850
Cash was Applied to:			
Purchase of Shares from Owners		(90)	(54)
		(90)	(54)
Net Cash Flows From Financing Activities		**110**	**6,796**
NET INCREASE (DECREASE) IN CASH HELD		**77**	**(234)**
Cash and Cash Equivalents at start of year		(50)	184
Cash and Cash Equivalents at end of year		**27**	**(50)**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF 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 Co-operative Company and 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. Thus, adopting Tier 1, for-profit entities, has not changed the Company's recognition and measurement accounting policies.

EA Networks is a for profit Tier 1 reporting entity under the New Zealand accounting standard framework.

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

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 water, energy utilisation enhancement projects and communication network.

All operations are conducted in New Zealand.

ADDRESS OF REGISTERED OFFICE

22 JB Cullen Drive
Ashburton Business Estate
Ashburton 7772

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.

DIVIDENDS

When necessary provision is made for the amount of 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 2017 or 2016.

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, with the exception of receivables and payables, which include GST invoiced.

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (continued)

SPECIFIC ACCOUNTING POLICIES

CUSTOMER DEFERRED DISCOUNT

The customer deferred discount is a 'non-posted 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 of time 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.

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. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. EA Networks intends to adopt NZ IFRS 15 on its effective date and is currently assessing its full impact.

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. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. EA Networks intends to adopt NZ IFRS 9 on its effective date and has yet to assess its full 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.

Note		2017 $000	2016 $000
2	**Operating Revenue**		
	Use of System Revenue	41,839	42,254
	Connection Fees	317	396
	Communication Network Revenue	1,210	921
	Rental Property	273	344
	Other income including contracting revenue	3,041	3,194
	Interest Income	11	20
		46,691	**47,129**

Accounting policies relating to Revenue Recognition

Sale of Goods and Services

Revenue from the sale of goods and services is recognised in the statement of comprehensive income 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.

Customer Contributions

Capital contributions received from customers have been offset against the cost of the electricity reticulation networks property plant and equipment.

Rental Property

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

Interest Income

Interest is recognised using the effective interest method.

All other Income

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

Note		2017 $000	2016 $000
3	**Operating Expenses**		
	Transmission Costs	7,717	7,307
	Employee Benefit Costs*	5,894	5,758
	Distribution System Maintenance	2,921	2,959
	Harmonics Incentive	912	1,162
	Directors Fees	292	260
	Shareholder Committee Fees	52	58
	Bad debts written off	10	14
	Rental & Operating Lease Payments	54	26
	Audit Fees – PWC	35	34
	Audit Fees – Regulatory Disclosures	57	51
	Regulatory consulting and other services - PWC	29	31
	Loss on Sale of Property, Plant and Equipment	721	612
	Other operating expenses including contracting activities	2,491	2,792
		21,185	**21,064**

*Includes all employee benefit cost net of internal labour charged to: capital, network maintenance and faults. The total wages, salaries and benefits excluding FBT paid to employees in 2017 was $10.8 million (2016: $10.3 million).

Note		2017 $000	2016 $000
4	**Interest and Associated Cost**		
	Interest Expense on loans	3,197	3,681
	Bank Fees Associated with Financing	546	534
	Movements in Derivatives Associated with Financing	(490)	693
		3,253	**4,908**

Note		2017 $000	2016 $000
5	**Depreciation and Amortisation**		
	Depreciation:		
	Network Reticulation Assets	7,166	6,701
	Buildings	510	560
	Motor Vehicles	982	821
	Plant and Equipment	235	319
	Office Equipment	107	152
	Communication Network	1,024	1,017
	Investment Property/Held for Sale	10	58
	Amortisation	47	17
		10,081	**9,645**
6	**Taxation**		
	Tax Reconciliation:		
	Operating surplus before taxation	9,821	8,330
	Sale of discounted business	2,989	0
		12,810	8,330
	Prima Facie taxation at 28%	3,587	2,332
	Movements in Tax Due to:-		
	Permanent Differences		
	Non-Assessable Income	(1,014)	(400)
	Non-Deductible Expenses	31	500
	Tax Expenses	(983)	100
		2,604	2,432
	Timing Differences		
	Depreciation	(727)	(618)
	Capital Contributions	53	52
	Other	(959)	(174)
	Deferred Tax	(1,633)	(740)
	Current Taxation charge for the Year	971	1,692
	Prior year tax adjustment	(3)	2
	Taxation charge for the year	**968**	**1,694**
	Comprising		
	Current Taxation	971	1,692
	Deferred Taxation	1,633	740
	Prior Period Adjustment	(3)	2
		2,601	**2,434**
	Tax adjustment associated with the sale of Kermode street	177	0
	Tax Expense for the Year	**2,778**	**2,434**

Tax recognised in comprehensive income	Before tax $000	Current and Prior Year tax $000	Deferred tax $000	Tax expense $000	Net of tax $000
2017					
Operating surplus before taxation	9,821	(971)	(1,807)	(2,778)	7,043
Sale of discontinued business	2,989	3	174	177	3,166
	12,810	**(968)**	**(1,633)**	**2,601**	**10,209**
2016					
Operating surplus before taxation	**8,330**	**(1,694)**	**(740)**	**(2,434)**	**5,896**

	Opening balance $000	Tax paid $000	Tax refunded $000	Closing balance $000
Imputation Credit Account				
2016	18,831	1,744		20,575
2017	20,575	1,639	(98)	22,116

6 Taxation (continued)

Deferred Tax Account	Depreciation $000	Capital Contributions $000	Other $000	Total $000
Opening Balance as at 1 April 2015	22,254	310	711	23,275
Movement shown in tax expense	618	(52)	174	740
Closing Balance as at 31 March 2016	**22,872**	**258**	**885**	**24,015**
Opening Balance as at 1 April 2016	22,872	258	885	24,015
Movement shown in tax expense	727	(53)	959	1,633
Closing Balance as at 31 March 2017	**23,599**	**205**	**1,844**	**25,648**

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 loss 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 effect 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.

Note

7 **Share Capital**

There are 30,296,100 shares in the Company (2016: 30,366,000) and they are as follows:

	Number of Shares	Shares Value
2016		$
Deferred Shares	28,750,000	31,484,118
Rebate Shares Issued Fully Paid	1,342,116	1,342,116
Unpaid Allocated Shares	273,884	0
	30,366,000	32,826,234
2017		
Deferred Shares	28,750,000	31,484,118
Rebate Shares Issued Fully Paid	1,333,078	1,333,078
Unpaid Allocated Shares	213,022	0
	30,296,100	32,817,196

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

		2017 $000	2016 $000
8	**Reconciliation of Retained Earnings**		
	Balance at start of the Year	110,810	104,914
	Add Total Comprehensive Income for the year	10,209	5,896
	Closing balance at end of the Year	**121,019**	**110,810**
9	**Cash and Cash Equivalents**		
	Cash at bank	27	(50)
		27	**(50)**

Accounting policy relating to Cash and Cash Equivalents

Reflects the balance of cash and liquid assets used in the day to day cash management of the Company (loans and receivables).

		2017 $000	2016 $000
10	**Inventories**		
	Distribution System	4,425	4,610
	Communication Network	603	716
		5,028	**5,326**

No inventories are subject to a retention of title clause or hedged as security for a liability (2016: Nil).

Account 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.

		2017 $000	2016 $000
11	**Trade and Other Receivables**		
	Account Receivables	6,867	7,108
	Prepayments	1,146	539
	Provision for impairment	(13)	(2)
		8,000	**7,645**
	Ageing of Receivables is as follows:		
	Current	7,828	7,313
	Overdue 30-60 Days	80	300
	61-90 Days	51	15
	91 Days and over	41	17
		8,000	**7,645**

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

	2017 $000	2016 $000
Changes in the impaired allowance amount		
Opening Balance	2	9
Addition/(Released)	11	(7)
Closing Balance	**13**	**2**

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).

		2017 $000	2016 $000
12	**Intangible Assets**		
	Software		
	Opening Purchase Cost	2,648	2,648
	Additions in the Year	160	0
	Scrapped in the Year		0
	Closing Purchase Cost	**2,808**	**2,648**
	Opening Accumulated Amortisation	2,278	2,220
	Amortisation for the Year	47	58
	Scrapped in the Year	0	0
	Closing Accumulated Amortisation	**2,325**	**2,278**
	Net Book Value	**483**	**370**
	Add Work in Progress	150	8
	Total Intangibles	**633**	**378**

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 which are not amortised over their useful life are assessed annually for impairment.

		2017 $000	2016 $000
13	**Naming Rights**		
	EA Networks Centre		
	Purchase cost	1,000	1,000
	Opening Accumulated Amortisation	66	0
	Amortisation for the Year	67	66
	Closing Accumulated Amortisation.	**133**	**66**
	Book value of naming rights	**867**	**934**
	Made-up from		
	Current Asset Naming Right	**67**	**67**
	Non-Current Asset Naming Right	**800**	**867**
	Carrying value of Naming Right	**867**	**934**

EA Networks has purchased the naming rights to the Ashburton Stadium Complex from the Ashburton Stadium Complex Trust or a period of 15 years from the date that the council officially opens the complex. The complex was opened on 9 May 2015.

Accounting policies concerning naming rights

Naming Rights are stated at cost less accumulated amortisation.

14 Property Plant and Equipment

	Electricity Reticulation Assets $000	Buildings $000	Land $000	Vehicles $000	Plant $000	Office Equipment $000	Communication Network $000	Total $000
Purchase cost as at 1 April 2015	293,329	12,623	7,434	8,116	5,389	1,273	17,473	345,637
Addition in year	17,732	18	0	1,372	190	154	1,070	20,536
Assets sold or scrapped	(2,787)	0	0	(1,227)	0	(13)	0	(4,027)
Transferred to Inventory								
Purchase cost as at 31 March 2016	308,274	12,641	7,434	8,261	5,579	1,414	18,543	362,146
Purchase cost as at 1 April 2016	308,274	12,641	7,434	8,261	5,579	1,414	18,543	362,146
Addition in year	18,509	3	0	1,306	632	164	1,704	22,318
Assets sold or scrapped	(3,583)	(7)	0	(707)	0	0	0	(4,297)
Transferred to Inventory	(48)	0	0	0	0	0	0	(48)
Purchase cost as at 31 March 2017	323,152	12,637	7,434	8,860	6,211	1,578	20,247	380,119
Accumulated Depreciation as at 1 April 2015	107,970	1,816	0	4,735	3,574	755	4,095	122,945
Additional depreciation in the year	6,701	560	0	821	319	152	1,017	9,570
Recovery of depreciation on disposal	(1,876)	0	0	(1,152)	0	(4)	0	(3,032)
Accumulated Depreciation as at 31 March 2016	112,795	2,376	0	4,404	3,893	903	5,112	129,483
Accumulated Depreciation as at 1 April 2016	112,795	2,376	0	4,404	3,893	903	5,112	129,483
Additional depreciation in the year	7,166	510	0	982	235	107	1,024	10,024
Recovery of depreciation on disposal	(2,655)	(3)	0	(635)	0	0	0	(3,293)
Accumulated Depreciation as at 31 March 2017	117,306	2,883	0	4,751	4,128	1,010	6,136	136,214
Net Book Value 31 March 2016	195,479	10,265	7,434	3,857	1,686	511	13,431	232,663
Add Work in Progress	2,366	0	0	83	0	42	189	2,680
	197,845	10,265	7,434	3,940	1,686	553	13,620	235,343
Net Book Value 31 March 2017	205,846	9,754	7,434	4,109	2,083	568	14,111	243,905
Add Work in Progress	2,248	0	0	518	82	138	333	3,319
	208,094	9,754	7,434	4,627	2,165	706	14,444	247,224

Wage and Salary capitalised to property, plant and equipment $1,144,883 (2016: $1,066,640)

Accounting policies concerning Property, Plant and Equipment.

Valuation

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 purchase 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.

From 1 April 2013 the value of consideration given to acquire and construct property plant and equipment is net of capital contributions. Prior to 1 April 2013 the value of consideration given to acquire and construct property plant and equipment excluded any capital contribution.

Network Reticulation Assets comprises mainly 22kV and 66kV conductor, associated transformers and substations. Reticulation assets are shown at deemed cost less subsequent depreciation and impairment write down.

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.

14 Property Plant and Equipment (continued)

Accounting policies concerning Property, Plant and Equipment. (continued)

Measurement

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

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
• Network Reticulation Assets	1.43% to 6.67%	Straight line
• Communication Network	3.00% to 17.50%	Straight line
• Buildings- concrete	1.00%	Straight line
-brick	2.00%	Straight line
-wooden	2.50%	Straight line
• Motor Vehicles	14.40% to 31.20%	Diminishing value
• Plant and Equipment	7.50% to 60.00%	Diminishing value
• Other	4.80% to 12.00%	Diminishing value

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

Network reticulation assets depreciation rates reflect the depreciation rates in the ODV handbook issued by the Commerce Commission in 2004.

Easements

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

Capitalisation of qualifying assets

Qualifying assets are property, plant and equipment and intangible assets whose construction period is greater than 9 months.

When funds have been specifically borrowed for the construction of qualifying assets, the borrowing costs incurred during the qualifying period less any investment income on temporary investment of the borrowing is capitalised.

When funds have been generally borrowed for qualifying and non-qualifying assets, the weighted average cost of borrowing for the construction period of qualifying assets is used.

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

Other assets are impaired where there is objective evidence that as a result 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

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.

Note

15 Investment Property

	Land $000	Buildings $000	Fixture and fittings $000	Total $000
Purchase cost at 1 April 2015	83	1,147	51	1,281
Transferred to Held for Sale	(83)	(1,147)	(51)	(1,281)
Purchase cost at 31 March 2016	0	0	0	0
Purchase cost at 1 April 2016	0	0	0	0
Transferred to Held for Sale	0	0	0	0
Purchase cost at 31 March 2017	0	0	0	0
Accumulated Depreciation at 1 April 2015	0	295	23	318
Additional depreciation in the year	0	15	2	17
Transferred to Held for Sale	0	(310)	(25)	(335)
Accumulated depreciation at 31 March 2016	0	0	0	0
Accumulated Depreciation at 1 April 2016	0	0	0	0
Additional depreciation in the year	0	0	0	0
Transferred to Held for Sale	0	0	0	0
Accumulated depreciation at 31 March 2017	0	0	0	0
			0	0
Book value at 31 March 2016 Including Work in Progress	0	0	0	0
Add Work in Progress	0	0	0	0
Book value at 31 March 2016	0	0	0	0
Book value at 31 March 2017 Including Work in Progress	0	0	0	0

Direct operating revenue and expenses associated with rental properties

	2017 $000	2016 $000
Rental income received from investment property	0	239
Direct operating expenses arising from investment property that generated rental income during the period.		
Maintenance	0	(29)
General	0	(25)
Demolition cost	0	(340)
Loss on sale	0	0
Depreciation	0	(17)
	0	(411)
Direct operating expenses arising from investment property that did not generate rental income during the period.	0	0
	0	(172)

At 31 March 2017 no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements existed.

There are no restrictions on the realisability of investment property or the remittance of income associated with it as at 31 March 2017.

The rental property was placed on the market in March 2016 and sold in the 2016-2017 financial year.

Note

15 Investment Property (continued)

Accounting policies concerning investment property

Cost
Investment properties are stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation
Depreciation has been provided for on all Investment Properties 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
• Buildings	1.00% to 2.50%	Straight line
• Fixtures and Fittings	10.00% to 40.00%	Diminishing value

	2017 $000	2016 $000
16 Held for Sale		
Land	0	83
Buildings	0	837
Fixture and Fitting	0	26
	0	**946**

Assets held for sale are measured at the lower of their carrying amount prior to classification as held for sale or their net fair value. The expected revenue from the sale of the assets is greater than their carrying value and no impairment loss is expected.

In the 2017 year, the rental business was sold.

Accounting policies concerning assets held for sale

Classification
An asset is classified as 'held for sale' if its carrying amount will be recovered principally through a sale rather than continuing use. On classification as 'held for sale', assets are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment
Impairment losses on initial classification as 'held for sale' are included in the Statement of Comprehensive Income.

Note

17 **Investment in Barrhill Chertsey Irrigation Limited Electricity Ashburton Limited Joint Venture (BCI)**

The BCI Joint Venture has been accounted for using the equity method.

Summarised financial information for the BCI joint venture	2017 $000	2016 $000
Statement of Financial Position		
Current assets		
Cash and cash equivalents	808	40
Other current assets	2,007	2,432
	2,815	**2,472**
Current liabilities		
EA Networks preferential right to income	1,757	1,648
Financial liabilities (excluding trade payables)	3,331	1,322
Other current liabilities (including trade payables)	2,100	2,800
	7,188	**5,770**
Working capital	**(4,373)**	**(3,298)**
Non-current assets	**83,953**	**86,522**
Non-current liabilities		
Financial liabilities	46,328	47,380
Other liabilities	5,009	5,596
	51,337	**52,976**
Net assets	**28,243**	**30,248**
Statement of Financial Performance		
The Company's share of income and expenses are:		
Income	14,741	13,570
Expenses	(10,028)	(10,247)
Interest	(1,990)	(2,292)
Depreciation and amortisation	(4,182)	(2,516)
Net Loss for the Period	**(1,459)**	**(1,485)**
EA Networks preferential right to income	(2,321)	(2,069)
Pre-tax profit from continuing operations	**(3,780)**	**(3,554)**
Income tax expenses	0	0
Post-tax profit from continued operations	**(3,780)**	**(3,554)**
Other comprehensive income	0	0
Total comprehensive income (loss)	**(3,780)**	**(3,554)**
Share of BCI Joint Venture loss for the year	**(1,890)**	**(1,777)**

The information above reflects the amounts presented in the financial statements of the BCI joint venture, and not EA Networks Limited share of those amounts.

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

Reconciliation of summarised financial income		
Opening net assets	30,248	21,642
Capital contributions made by Barrhill Chertsey Irrigation Limited in the year.	905	6,080
Capital contributions made by EA Networks	904	6,080
Total comprehensive income	(3,780)	(3,554)
Revaluation Reserve	(33)	0
Closing net assets	28,244	30,248
Interest in joint venture' (50%)	14,122	15,124
Carrying value	**14,122**	**15,124**
Made up of		
Equity invested	19,585	18,680
Retained Earnings	(7,263)	(5,373)
JV Revaluation	1,800	1,817
Carrying Value	**14,122**	**15,124**

Note

17 **Investment in Barrhill Chertsey Irrigation Limited Electricity Ashburton Limited Joint Venture (BCI)** (continued)

The Company has 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 2017 year this preferential right to income was $2,320,706 (2016 $2,068,356). 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

The Joint Venture accounting policy has been changed where necessary to ensure consistency with the policies adopted by the Company.

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.

18 **Derivative Financial Instruments**

	2017 $000	2016 $000
Non-Current Assets		
Interest Rate CAPS	438	28
	438	28
Current Liabilities		
Interest Rate SWAPS	(10)	(65)
	(10)	(65)
Non-Current Liabilities		
Interest Rate SWAPS	(757)	(782)
	(757)	(782)
Total Value of Derivative Financial Instruments	**(329)**	**(819)**

The company has entered into interest rate swaps and caps to hedge against the financial risk associated with any potential movement in the cost of debt funding.

Financial instruments are recorded at the present 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 instrument 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.

Note

18 Derivative Financial Instruments (continued)

Accounting policies relating to derivative financial Instruments

The Company enters into SWAPS and CAPS contracts to manage its exposure to Interest rate movements.

Derivatives are initially recognised at fair value on the date the contract is entered into and are 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. The Company has not adopted hedge accounting.

19 Trade and Other Payables

	2017 $000	2016 $000
Trade Creditors	3,329	3,849
Interest Accrual	368	482
	3,697	**4,331**

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.

20 Employee Entitlements

	Leave Entitlement $000	Other Entitlement $000	Total Entitlement $000
Balance as at 1 April 2015	**1,017**	**738**	**1,755**
Movement during the period	88	89	177
Balance as at 31 March 2016	**1,105**	**827**	**1,932**
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**

Accounting policy for Employee Entitlements

Employee benefits are allocated into:

Leave Entitlement.

Leave Entitlement is made up of liabilities for wages, salaries and annual leave expected to be settled in the next 12 months of reporting date are recognised in other payables at the amount expected to be paid when the liabilities are settled. With the exception of long service leave which is made up of the actual cost of the benefit for employees who have this leave due and an accrual towards to an employee next entitlement.

Other Entitlement

Other Entitlements is made up of gratuities which is 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.

21 Financial Instruments

The Company is exposed to a number of 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 $000	Assets at fair value through statement of financial performance $000	Other financial liabilities at amortised cost $000
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			
Trade and other payables	3,697		
Derivative financial instruments		10	
Non-Current Liabilities			
Borrowings			89,000
Derivative financial instruments		757	
Total	3,697	767	89,000

	Loans and Receivables $000	Assets at fair value through statement of financial performance $000	Other financial liabilities at amortised cost $000
Assets as per Statement of Financial Position as at 31 March 2016			
Current Assets			
Trade receivables	7,645		
Derivative financial instruments			
Non-Current Assets			
Derivative financial instruments		28	
Total	7,645	28	0
Liabilities as per Statement of Financial Position as at 31 March 2016			
Current Liabilities			
Cash and Cash equivalents	50		
Trade payables			4,331
Derivative financial instruments		65	
Non-Current Liabilities			
Borrowings			88,800
Derivative financial instruments		782	
Total	50	847	93,131

Foreign Exchange Risk

The Company has no foreign exchange contracts in place at 31 March 2017 or 31 March 2016.

Interest Rate Risk

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

21 Financial Instruments (continued)

Credit Risk

The Company has exposure to credit risk by having six electricity retailers' customers who have in excess of 80% of the total trade receivables. 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 Director's 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 11.

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.

	2017 $000	2016 $000
External funding arrangements		
Overdraft facility - BNZ	$500	$500
Long Term funding		
Maturing within 12 months		
Cash advance facility with BNZ	$0	$0
Maturing greater than 12 months		
Drawn down Westpac multi option credit line facility	42,000	42,000
Cash advance facility with BNZ	53,000	53,000
	$95,000	$95,000
Total long term funding available	$95,000	$95,000
Contractual Performance Bonds		
Dollar value of bonds in place with Westpac	162	81
Number of bonds in place with Westpac	5	3

Short and long term funding is secured by a negative pledge over assets.
The following table identifies the periods in which financial instruments that are subject to interest rate risk, re-pricing and the effective rate at balance date.

Interest Rate Risk		6 months and less $000	6-12 months $000	1-2 years $000	2-5 years $000
2017					
Effective Total		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%
2016					
Effective Total		34,300	5,000	18,500	31,000
Interest Rate	From	2.99%	4.36%	4.01%	3.75%
	To	5.14%	4.80%	4.95%	5.36%

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.

21 Financial Instruments (continued)

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 sheet 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
2017				
Effective Total	1,683	1,674	1,524	761
Interest on principal from now to maturity	0	0	48,450	40,550
Effective Total	1,683	1,674	49,974	41,311
Interest on principal due				
From	2.96%	2.96%	2.96%	2.96%
To	4.95%	4.95%	4.95%	4.95%
2016				
Effective Total	1,850	2,991	2,857	6
Interest on principal from now to maturity	0			88,800
Effective Total	1,850	2,991	2,857	88,006
Interest on principal due				
From	2.99%	2.99%	2.99%	2.99%
To	5.36%	5.36%	5.36%	5.36%

The funding agreement with Westpac is due for renewal in September 2017. Traditionally when this loan comes up for renewal it has been renewed. All indications are that this loan will be renewed.

The funding agreement with The Bank of New Zealand is a rolling two year commitment.

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.

Guarantees

The Company has given an interlocking guarantee for a funding facility supplied by The Bank of New Zealand for the Barrhill Chertsey Irrigation Ltd and Electricity Ashburton Ltd Joint Venture. The value of the interlocking guarantee as at 31 March 2017 is $17,500,000. If Electricity Ashburton Ltd is called under the guarantee the Joint Venture assets are effectively secured for Electricity Ashburton Ltd.

Fair value hierarchy for derivatives

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				
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

21 Financial Instruments (continued)

Liquidity Forecast (continued)

Fair Value hierarchy for derivatives as at 31 March 2016	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	28	0	28
Total assets	0	28	0	28
Financial liabilities at fair value through the Statement of Financial Performance				
Derivatives used for hedging				
Interest rate swaps and caps	0	847	0	847
Total liabilities	0	847	0	847

The Company relies on the fair valuation of derivatives from Trading Banks that the derivate 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 the statement of comprehensive income, 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 rates 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.

Note		2017 $000	2016 $000
22	**Reconciliation of Net Cash Flows from Operating Activities to operating Surplus after Taxation**		
	Operating Surplus After Taxation	**7,043**	**5,896**
	Add / (Less) Non-Cash Items:-		
	Depreciation and Amortisation	10,081	9,645
	Movement in Financial Derivatives	(490)	693
	Movement in Deferred Taxation	1,810	740
	Loss on sale	721	612
	Discount used by shareholders to purchase shares	81	94
	Return on Investment in Joint Venture	(2,321)	(2,068)
	Amortisation of naming rights	67	66
	Revaluation reserve	0	0
	Loss from Joint Venture	1,890	1,777
	Total Non-Cash Items	**11,839**	**11,559**
	Movement in net Current Assets / Liabilities:-		
	Decrease / (Increase) in Inventory	298	135
	Decrease / (Increase) in Trade and Other Receivables	(356)	(383)
	Increase / (Decrease) in Trade and Other Payables	(633)	277
	Increase / (Decrease) in Employee Entitlement	(66)	177
	Increase / (Decrease) in Taxation payable	(572)	(19)
	Total net Current Assets/Liabilities movement	**(1,329)**	**187**
	Other:-		
	Inventory transferred from Property, Plant and Equipment	(48)	(42)
	Trade and Other Payables relating to Property, Plant and Equipment.	(808)	(2,794)
	Trade and Other Payables relating to investment in the JV	109	0
	Total Other	**(747)**	**(2,836)**
	Net Cash Flows from Operating Activities	**16,806**	**14,806**
23	**Operating Lease**		
	Lessee		
	Not later than 1 year	1,239	1,254
	Later than 1 year and not later than 5 years	4,956	5,015
	Lessor		
	Not later than 1 year	353	528
	Later than 1 year and not later than 5 years	990	1,320

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.

Note		2017 $000	2016 $000
24	**Capital Commitments**		
	Electricity Ashburton Limited		
	Transformers	47	2,882
	Consignment Stock	813	695
	Circuit breakers	0	362
	Cable and Conductor	17	650
	Substation Equipment	0	1,530
	Fault Finding Equipment	110	0
	Fibre Equipment	51	0
	External contractors	1,645	0
	Protection Equipment	87	0
	Other capital items	132	92
	Ring Main Units	0	310
	Software and computer equipment	0	120
	Vehicle	7	574
		2,909	**7,215**
	Share of Barrhill Chertsey Irrigation Limited and Electricity Ashburton Limited Joint Venture		
	Construction cost	395	151
	Total Capital Commitments	**3,304**	**7,366**

Note

25 **Contingent Liabilities**

EA Networks has guaranteed 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 was $17,500,000 (2016 $17,500,000).

26 **Related Party Transactions**

	2017 $000	2016 $1000
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	249	229
Other services	13	23
Outstanding at balance date		
Rates	66	39
Other services	6	1
Ashburton District Council has paid EA Networks:		
Contracting and Capital Contributions	648	224
Other	28	32
Outstanding at balance date		
Contracting and Capital Contributions	50	23
Other	4	7
Barrhill Chertsey Irrigation Limited Electricity Ashburton Limited Joint Venture		
The Joint venture has paid EA Networks		
Management Fees	30	22
Preferential right to income	2,321	1,507
Contracting Services	1	264
Other	1	82
Outstanding at balance date		
Right to income (not due for payment until 30 June)	1,758	1,648
Management Fee	2	2
Other	0	23
Contracting services	0	165
Irrigo Centre Limited		
Irrigo Centre limited has paid EA Networks:		
Lease	38	60
Other	9	0
Outstanding at balance date	1	5

The Barrhill Chertsey Irrigation Limited Electricity Ashburton Limited Joint Venture holds 20% of the shares in Irrigo Limited.

All related parties transactions are carried out under normal commercial terms.

27 **Key Management Personnel Compensation**

The compensation of executives being the key management personnel of the Company is set out below:

	2017	2016
Short term employment benefits	1,063	1,285
Post-employment benefits	0	0
Long term benefits	0	0
Termination benefits	0	0
Outstanding benefits at balance date		
Long term benefits outstanding	0	0
Termination benefits outstanding	96	89

28 **Subsequent Events**

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

Subsequent to balance date, EA Networks has continued to explore the opportunity to sell its JV investment in the BCI irrigation scheme to its JV partner. As at the date of approving this annual report the outcome of this potential sale was uncertain because it depends on factors that are outside the control of EA Networks.

Independent auditor's report

To the shareholders of Electricity Ashburton Limited

Electricity Ashburton Limited's financial statements comprise:

- the statement of financial position as at 31 March 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion the financial statements of Electricity Ashburton Limited, trading as EA Networks Limited, (the Company), present fairly, in all material respects, the financial position of the Company as at 31 March 2017, 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 compliance with the Electricity Distribution (Information Disclosure) Requirements 2008 and other regulatory requirements of the Commerce Act 1986, regulatory consulting in respect of the aforementioned regulatory requirements, the Holidays Act 2003 and the provision of treasury policy advice. 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.

PricewaterhouseCoopers
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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://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page8.aspx

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
31 May 2017

Christchurch