



Annual Report 2018

EA networks
connecting our community

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Chairman's Report

This year we have continued to provide world-class, reliable and resilient network infrastructure to customers in their homes, businesses and farms. As a company focussed on doing what it takes to keep the lights on and the web connected, our business understands the critical importance of our power and fibre networks to customers' day-to-day lives.

Our continued investment in leading-edge infrastructure for our region has meant that our electricity network performed well this year. Due to changes in how we undertake planned outages, we have seen an increase in the duration of this work – this is a consequence of our decision to cease live-line work whilst industry safety reviews were undertaken. We will be returning to live-line work in a controlled manner and expect to see the duration of planned outages reduce as a result. We remain committed to ensuring that faults are minimised and the services you've come to rely on are there when you need them. When faults do occur, our dedicated field teams work diligently in often harsh conditions to ensure that services are returned to normal as quickly and safely as possible.

Network resilience remained paramount during 2017/2018 and \$20 million was invested across the network, including a new substation in Fairton. We will continue to grow and maintain a modern and reliable electricity network that delivers to you and enhances the economic growth of our region.

Mid Canterbury has also continued to grow and prosper this year, which resulted in almost 200 new electrical connections made to our network. Our Field Services team is responsible for managing these new connections and they continuously work to improve and extend the services that we can provide to our region.

Our commitment to investing in local infrastructure has not inhibited us from keeping our line charges amongst the lowest in New Zealand for another year. We have maintained our charges to retailers, who in turn include these in the final pricing customers see in their electricity bills. While retailer and regulatory pricing increases are beyond our control, we are constantly reviewing pricing and regulations as they affect our business and lobby when appropriate in the interests of our customers.

We remain concerned with the current regulatory settings affecting transmission costs incurred by EA Networks from Transpower. Due to the methodology used to determine transmission costs, we have witnessed a significant increase in price volatility. While these charges are directly passed onto our customers through our line charges, they are completely out of our control. As such, we are actively working within the industry to try and mitigate this and the negative impact it may have in our region.

As New Zealand's only locally owned co-operative electricity distribution company, we are also pleased to have again invested back into the Mid Canterbury community. This year, EA Networks returned nearly \$3 million (including GST) in deferred discounts to local customers. With customers receiving an average of five weeks line charges, the discounts highlight the benefit of our co-operative model that squarely focuses on those that use and own the network.

You will also see in our accounts recognition of the sale of our interest in the Joint Venture with BCI. We are particularly proud of this investment. Not only did it secure significant water rights for our region – helping to drive productivity and ultimately economic growth, but it delivered on all the objectives that the board set, including a satisfactory return to our shareholders across the term of the investment.

At EA Networks, it is our people who give us the ability to do well for our customers, shareholders and the wider community. Our success and reputation depends on them. I, together with all the directors, would like to thank our team for their continued commitment and hard work. I also thank my fellow directors for their continued dedication to the success of our business and our local community. I speak for us all when I say that we look forward to the future and will continue to work hard to deliver exceptional services to you.

On a personal note, this is my last report to you as I retire as Chairman and Director at the completion of this year's Annual General Meeting. During my time as a Director I have been privileged to be part of the significant growth and development of our business and distribution network. Since joining EA Networks as a Director the business has invested more than \$300 million in network upgrades and related investments. Some notable achievements for the business during my tenure included;

- the major network upgrade to 22/66kV that has ensured we can continue to deliver energy across the district so that the region can grow and prosper;
- our continuing undergrounding programme that is seeing much of our urban pole network removed, increasing resilience and reliability of our electricity network;
- our continued focus on returning funds back to you as deferred discounts – totalling more than \$60 million since 2000; and
- our fibre network development that commenced during 2008. This saw Mid-Canterbury being the first district in New Zealand to connect every school to ultra-fast fibre broadband, broadening the learning horizons for our youth.

It has been a significant period of positive change for our company and region, all achieved whilst navigating a challenging economic and regulatory environment. These challenges will continue but the company remains well placed for whatever the future may hold.

My best wishes to my fellow directors, management and the wider team at EA Networks who will lead this company forward.

Gary Leech
Board Chairman

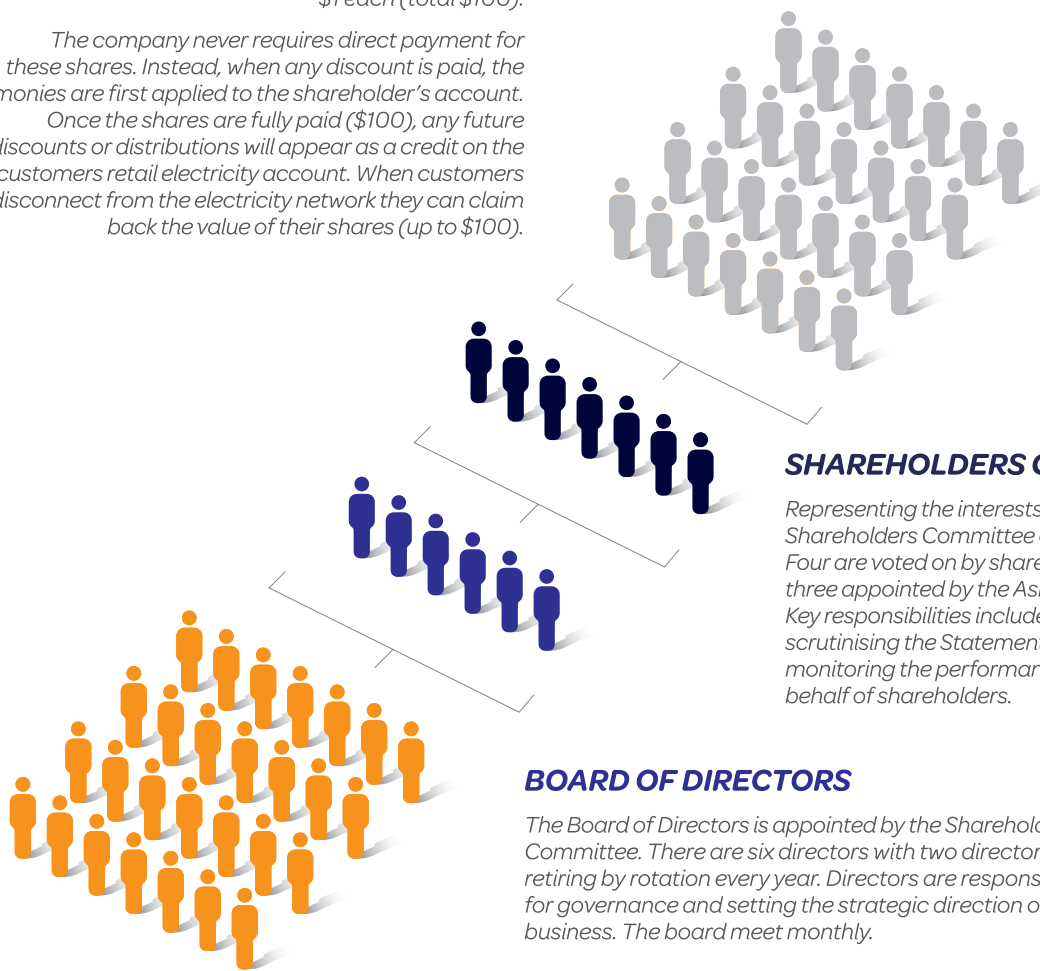
EA Networks, Our People & You

CUSTOMER SHAREHOLDERS

EA Networks is a co-operative company. Every customer that is connected to the electricity network is entitled to be a shareholder of the company and enjoy the benefits that ownership brings. Each shareholding comprises 100 shares valued at \$1 each (total \$100).

The company never requires direct payment for these shares. Instead, when any discount is paid, the monies are first applied to the shareholder's account.

Once the shares are fully paid (\$100), any future discounts or distributions will appear as a credit on the customers retail electricity account. When customers disconnect from the electricity network they can claim back the value of their shares (up to \$100).



SHAREHOLDERS COMMITTEE

Representing the interests of all shareholders, the Shareholders Committee consists of seven members. Four are voted on by shareholders with the remaining three appointed by the Ashburton District Council. Key responsibilities include; appointing directors, scrutinising the Statement of Corporate Intent and monitoring the performance of the company on behalf of shareholders.

BOARD OF DIRECTORS

The Board of Directors is appointed by the Shareholders Committee. There are six directors with two directors retiring by rotation every year. Directors are responsible for governance and setting the strategic direction of the business. The board meet monthly.

MANAGEMENT & STAFF

Together with the Chief Executive, four senior managers are responsible for the operations of the business. More than 100 staff support these operations including; field services, electrical engineering, project management, administration and support.

Business Report

A connected, electrified future

Consumers are embracing electrification. The benefits of electrical power are becoming increasingly recognised for the significant savings and efficiency provided, whilst also helping to reduce our national carbon emissions.

The way we use electricity is also changing. Devices which impact our everyday lives, both personally and in business, are being developed at a great rate. From the way we heat our homes to the vehicles we drive; there has been a shift in the way we think about and consume electricity.

In business, the use of electrically powered machinery is on the rise with the potential to increase production efficiency whilst reducing waste and down time. Electricity is incredibly efficient when compared against other sources. For instance, converting electric energy to transport energy is about 80% efficient, whilst petrol is only ~30% and diesel ~20%. For industrial process heat, electricity is about 95% efficient compared to ~80% for alternate coal, gas or oil. In terms of emissions, we are lucky to live in a country that is already served by more than 85% renewable generation capacity. This is growing with the government target now set to achieve 100% by 2050.



New Zealand's electricity network is transforming and becoming more complex than ever before

At EA Networks we're embracing the changes to our industry and the way our customers consume electricity. We are doing this whilst not losing sight of the importance of reliably delivering electrical energy to every home and business in our region.

Consumers are becoming more engaged and involved in the electricity system. There is a trend moving away from complete reliance on centrally generated energy (e.g. hydro) to distributed generation with customers wanting greater control by installing their own forms of generation (e.g. solar). Some wish to trade the energy they produce at home – this changes the way the grid is used and requires us to invest further in our network. Ultimately, we are seeing an increasing need for the distribution grid to perform at a higher level, facilitating the future of energy use.

The future of our network

The ground beneath our feet is changing as our region converts to underground electricity supply. You may have already started to notice the number of power poles you see around Mid Canterbury decreasing. In Ashburton and other urban areas like Rakaia, Chertsey and Hinds, our goal is to remove all poles and have all power lines installed underground within the next 6–7 years.

During the past year we have undertaken large projects in conjunction with the New Zealand Transport Agency which have seen 40 km of power lines move underground and the removal of power poles along State Highway 1 (SH1), from Works Road all the way to Rakaia. During the next 12 months we will be working to remove all power lines along SH1, back from Works Road to Ashburton. Similarly, we have already removed many poles from SH77 and plan to convert the remaining poles on SH77 in our region to underground electricity supply. By converting to underground we can decrease the influence of external factors causing outages (such as wind, snow and trees) on our network. We also improve road safety and the natural aesthetics of our region.

The day-to-day lives of Mid Cantabrians are reliant on our region's modern, reliable and sustainable electricity network...and demand is growing. We are working hard to support that growth and deliver for our region's future prosperity.

Faster with fibre

As our electricity cables move underground, we're presented with the opportunity to extend our fibre broadband network to new areas within the Mid Canterbury region. EA's fibre optic network provides an ultra-fast, highly reliable alternative to copper, wireless or satellite internet services for homes, farms and businesses.

Since 2008, we have installed more than 520km of direct access urban and rural fibre throughout Ashburton and extending to Mt Somers, Rakaia, Hinds, Mayfield, Chertsey and Lake Hood.

Starting in July this year, we will commence the upgrade of all Stage 1, 2 and 3 properties at Lake Hood to fibre broadband. This will mean that the whole of Lake Hood will have access to EA Networks' high-speed fibre broadband at their doorsteps.

*The number of retailers on our network
has increased by*

50%

*in the last 12-months, giving you more
choice and better prices through
greater competition*

1st April 2017

12

RETAILERS

1st April 2018

18

RETAILERS

Business Report – continued

New technology

A crucial change to our business this year has been the roll out of mobile technology to our Field Services staff. The ability for all staff in the field to remotely send and receive information from tablets and smart phones to our team in the office has been a major update for our business. This technology has allowed us to be more responsive to the needs of the network and our customers, in real time.



We will be achieving a major milestone during the next 18 months with the adoption of a new Advanced Distribution Management System which includes Outage Management Software. New Supervisory Control and Data Acquisition (SCADA) software will provide our business with industry-leading load management technology and will enable us to take advantage of smart technology within the network. Integration of this software with our current system will take time, but ultimately provides better information for outage reporting and management, as well as customer communication. This project is being developed in collaboration with WestPower.

This year we will also be installing the Tait Communications UnifyVehicle product on selected Field Services vehicles. EA Networks will be the first business in New Zealand to utilise this impressive product which uses an additional

aerial on our trucks to connect to Wi-Fi, 3/4G, LTE and Bluetooth. An app then allows our Field Service staff to make calls and receive improved coverage through the vehicle's radio so they can stay connected when working out in the field, no matter how remote the location.

High voltages for more power

EA Networks distribution lines have a variety of different capacities, dependent upon local demands and geographical considerations. Our primary operating voltages are now 66kV (66,000 volts) and 22kV and our low volt (urban) 400V. We still have some 33kV and 11kV lines remaining, these are being phased out with our shift to 66/22kV. Ultimately, this means that we can distribute more power further around the district and deliver the ever-increasing demand for electricity. A further benefit of this is the increased resilience of the larger assets required to operate at these higher levels.

The installation of a new 66/11kV transformer at our Ashburton Substation this year will see our network become even more secure in Ashburton. Installation of a 66kV cable from the Ashburton Substation to the town boundary on Beach Road will begin during September this year and will provide the area with an even more reliable supply than the 33kV line at present. This is a major project with the cable component alone costing over \$3M. Owing to the nature of the cable being installed this will unfortunately result in some inconvenience to customers along the route during development.

Concluding thoughts

Like most industries, energy is facing some enormous disruptive challenges. We are watching closely the changes that are occurring and keeping abreast of near-horizon technologies that could radically change the way we operate. Ultimately, we are here to serve you. Keeping the lights on and the web connected remains our primary focus. We want Mid Canterbury to prosper, and to prosper we need energy (amongst myriad other essential services). We will continue to do what it takes to ensure you have a reliable energy supply to your home, business and farm – now and in the future.

We will be achieving a major milestone during the next 18 months with the adoption of new Outage Management Software that will provide our business with industry-leading load management technology and will enable us to take advantage of smart technology within the network.

Key facts

181 MW *Maximum network demand*

581 GWh *Total energy consumed*

6,333 *Distribution substations*

19,500 *Consumer connections*

3,074 KM *Network length*

\$54M *Total revenue*

\$270M *Total assets*

\$3M *Total discounts returned to consumers*

\$20M *Total CAPEX spend*





Shareholders Committee Report

EA Networks is unique in the fact that, as a customer, you are more than likely also a shareholder of the business (unless you have elected not to retain your shareholding). The EA Networks Shareholders Committee exists to represent you as a shareholder, to appoint directors and to hold them accountable for the performance of the company. Therefore, it is important to us that EA Networks remains a reliable, trusted infrastructure business that delivers value to you.

During 2017/2018, EA Networks delivered a solid financial performance, increased its network capability and continued to develop strategies with the future requirements of customer shareholders in mind. Overall financial performance allows EA Networks to increase the value provided to the communities in which it operates.

EA Networks is New Zealand's only co-operatively owned electricity distribution company, which safely delivers secure and reliable power to nearly 19,500 homes, businesses, organisations and schools throughout Mid Canterbury.

This year, business priorities were balanced between investing strongly in local electricity infrastructure and maintaining revenue in line with previous years. Despite undertaking large-scale projects that will help ensure the stability of our network in the future, our profit performance has remained solid. The deferred discount, which most of you received in the form of a discount on your retail electricity bill, reduced only marginally from the previous year. We are pleased with how the board and management have dealt with this fine balancing act between operational and financial performance.

Keeping Mid Canterbury at the forefront of innovations in the electricity sector has also been a key focus this year. Emerging technologies are providing new ways to generate, store and sell electricity through technology such as solar panels, small wind turbines and batteries.

Our board has continued to focus on creating strategies to respond to this new and emerging diversity within our industry, while maintaining a focus on sustainable performance.

The importance and support of a strong, robust and reliable electricity network remains unchanged. Owning and controlling our own network is imperative to us if we wish to ensure Mid Canterbury is at the forefront of these new innovations. It is an exciting future and one that requires the keen focus of our company.

I take this opportunity to recognise and sincerely thank our Board Chairman, Gary Leech, who retires at the completion of this year's Annual General Meeting. Gary has served our board diligently and professionally for more than 18 years, the last three years as chairman. During his term EA Networks has undergone significant positive change and advancement and is well placed for the future. On behalf of the committee and shareholders I wish to thank Gary for the dedication, commitment and expertise that he has provided our company. His positive contribution to the company will not be forgotten.

I also thank my committee members for their hard work and dedication throughout the year. We bring a diverse set of skills to the committee and you can be sure that your views are represented. When we engage with directors, we are looking after the long-term interest of the company as it positions itself within the changing environment of our industry in the coming years.

We are confident that the board, management and wider staff who are delivering you with quality services will ensure that EA Networks remains a relevant, reliable and trusted player in the industry for many years to come.

Ian Cullimore
Chairman

Summary Financial Statements

FOR ELECTRICITY ASHBURTON LIMITED TRADING AS EA NETWORKS

SUMMARY STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2018

	2018 \$'000	2017 \$'000
Operating revenue		
Line services	49,526	42,156
Other income	4,778	4,535
Total operating revenue	54,304	46,691
Less		
Operating expenses		
Pass-through and recoverable costs	(13,315)	(7,717)
Employee benefit costs	(6,402)	(5,894)
Distribution system maintenance	(3,700)	(2,921)
Directors and shareholders committee fees	(355)	(344)
Audit fee	(36)	(35)
Harmonic subsidies	(48)	(912)
Other operating expenses	(2,792)	(3,362)
Total operating expenses	(26,648)	(21,185)
Net operating surplus	27,656	25,506
Interest expense and associated costs	(3,768)	(3,253)
Depreciation and amortisation	(9,281)	(10,081)
Operating surplus before share of Joint Venture (JV), customer deferred discount and taxation	14,607	12,172
Preferential right to income from the BCI Joint Venture	1,184	2,321
Share of loss from JV	(954)	(1,890)
Net return from Joint Venture	230	431
Operating surplus before customer deferred discount and taxation	14,837	12,603
Customer deferred discount	(2,858)	(2,782)
Operating surplus before tax	11,979	9,821
Taxation	(3,718)	(2,778)
Operating comprehensive income	8,261	7,043
Sale of Kermod Street property	0	3,166
Net proceeds from sale of JV *	17,499	0
Total comprehensive income	25,760	10,209

* EA Networks' interests in the BCI Joint Venture was sold on 30 September 2017.

SUMMARY STATEMENT OF CHANGES IN EQUITY AND MEMBERS' INTERESTS

FOR THE YEAR ENDED 31 MARCH 2018

	2018 \$'000	2017 \$'000
Opening equity	121,019	110,810
Total comprehensive income for the period	25,760	10,209
Closing equity	146,779	121,019
Rebate shares	1,327	1,333
Member interests	31,484	31,484
JV revaluation reserve	0	1,800
Total equity and members' interests	179,590	155,636

SUMMARY STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2018

	2018 \$000	2017 \$000
Current assets	11,328	13,397
Non-current assets	258,810	263,217
Total assets	270,138	276,614
Current liabilities	6,057	5,573
Non-current liabilities	84,491	115,405
Total liabilities	90,548	120,978
Net assets	179,590	155,636

SUMMARY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2018

	2018 \$000	2017 \$000
Net cash flow from operating activities	20,822	16,806
Net cash flow from investing activities	9,399	(16,839)
Net cash flow from financing activities	(30,038)	110
Net increase in cash on hand	183	77
Opening cash and cash equivalents on hand	27	(50)
Closing cash and cash equivalents on hand	210	27

SUMMARY OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2018

The specific disclosures included in this summary annual report have been extracted from the full annual report adopted by EA Networks on 28 June 2018. The full annual report has been audited and an unqualified audit report has been received.

The summary annual report cannot be expected to provide as complete an understanding as provided by the full annual report of the financial position and cash flows of the company. The summary annual report has been audited for consistency with the full annual report.

EA Networks is a tier 1 profit-oriented co-operative company registered under the Co-operative Companies Act 1996. The full financial statements of the company have been prepared in accordance with NZ GAAP. They comply with NZ IFRS and other applicable reporting standards as appropriate for a co-operative company and a profit-oriented company.

The company's financial statements are presented in New Zealand dollars, which is the company's functional and presentation currency.

The directors are not aware of any other matter or circumstance since the end of the financial year, not otherwise dealt with in the full financial report, that has significantly affected or may significantly affect the operation of EA Networks, the results of those operations, or the state of affairs of EA Networks.

The benefits of electrical power are becoming increasingly recognised for the significant savings and efficiency provided, while also helping to reduce carbon emissions.





REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

To the shareholders of Electricity Ashburton Limited (trading as "EA Networks")

The summary financial statements comprise:

- the summary statement of financial position as at 31 March 2018
- the summary statement of comprehensive income for the year then ended;
- the summary statement of changes in equity and members' interests for the year then ended;
- the summary statement of cash flows for the year then ended; and
- related notes.

Our opinion

The summary financial statements are derived from the audited financial statements of Electricity Ashburton Limited (trading as "EA Networks"), for the year ended 31 March 2018.

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with FRS-43: Summary Financial Statements issued by the New Zealand Accounting Standards Board.

Summary financial statements

The summary financial statements do not contain all the disclosures required by New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon. The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

The audited financial statements and our report thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated 28 June 2018.

Responsibilities of the Directors for the summary financial statements

The Directors are responsible, on behalf of the Company, for the preparation of the summary financial statements in accordance with FRS-43: Summary Financial Statements.

Auditor's responsibility

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (New Zealand) 810 (Revised), Engagements to Report on Summary Financial Statements.

We are independent of the Company. 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.

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.

Chartered Accountants
2 July 2018

Christchurch

ANNUAL REPORT

A copy of the annual report can be downloaded from www.eanetworks.co.nz or collected from our office; 22 JB Cullen Drive, Ashburton Business Estate, phone 0800 430 460 during business hours.

Investment in our next generation is an investment in our future.

EA Networks is proudly involved in activities that benefit educational outcomes across the region.



Notice of AGM

The Annual General Meeting for shareholders of EA Networks will be held at The Gallery, Hotel Ashburton, 11 Racecourse Road, Ashburton on Wednesday 29 August 2018 at 5.30pm.

BUSINESS

1. To review the minutes of the Annual General Meeting held on 30 August 2017.
2. To receive and review the Annual Report and Financial Statements for the year ended 31 March 2018.
3. To reappoint PricewaterhouseCoopers as the company's auditor.
4. To fix the remuneration of directors. It is proposed that total directors' fees for the year ending 31 March 2019 increase to \$308,263 (currently \$299,000).
5. To receive the report from the Shareholders Committee for 2017/18
6. To advise the appointment of directors.
7. To transact any other business that may be properly brought before the meeting.

Gordon Guthrie

Chief Executive

PROXIES

A shareholder may exercise the right to vote either by being present in person or by proxy of the meeting. A proxy form is available for collection from our office, or as a download from www.eanetworks.co.nz

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)

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)

MANAGEMENT

CHIEF EXECUTIVE – GORDON GUTHRIE
 NETWORK MANAGER – BRENDON QUINN
 FIELD SERVICES MANAGER – TONY HANNAH
 CHIEF FINANCIAL OFFICER – MARK LESTER
 COMMERCIAL MANAGER – JEREMY ADAMSON

AUDITOR

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 Level 4, 60 Cashel Street
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