



Annual Report

For the Year Ended 31 March 2020

2020 Annual Report

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Board of Directors:

Philip McKendry (Chairman)
Bruce McPherson
Paul Munro
Richard Fitzgerald
Roger Sutton (retired 1 February 2020)
Andrew Barlass

Shareholders Committee:

Ian Cullimore (Chairman)
Anne Marett
Chris Robertson
David Ward
Jeanette Maxwell
Robert Newlands
Alister Lilley

Management:

Chief Executive Officer
Network Manager
GM Field Services
GM Customer and Commercial Manager
Chief Financial Officer

Roger Sutton
Brendon Quinn
Tony Hannah
Jeremy Adamson
Mark Lester

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Christchurch Central
Christchurch 8013

General Company Solicitor:

Tavendale and Partners
Level 1 Tavendale and Partners Centre
62 Cass Street
Ashburton 7700

Company Solicitor for Shareholders Related Issues:

David Stock
Level 3, White Fox and Jones House
22 Moorhouse Avenue
Christchurch 8011



Statement of comprehensive income

Audited financial statements - EA Networks - year ended 31 March 2020

	Notes	2020 \$000	2019 \$000
Operating revenue		61,011	51,953
Consumer discount		(2,943)	(2,883)
Operating revenue after consumer discount	2	58,068	49,070
Operating expenses	3	(30,076)	(21,843)
Interest and associated costs	4	(3,493)	(3,285)
Depreciation and amortisation		(11,472)	(10,149)
Net Profit before taxation		13,027	13,793
Taxation	5	(4,032)	(3,717)
Net profit after taxation		8,995	10,076
Other comprehensive income		-	-
Total comprehensive income		8,995	10,076

Statement of changes in equity and members' interests

Audited financial statements - EA Networks – year ended 31 March 2020

	Notes	Retained earnings \$000	Deferred shares \$000	Rebate shares \$000	Total \$000
Balance as at 1 April 2018		150,510	31,484	1,328	183,322
Comprehensive income:					
Net profit after taxation		10,076	-	-	10,076
Transactions with owners:					
Shares issued	7	-	-	95	95
Shares repaid	7	-	-	(96)	(96)
Balance as at 31 March 2019		160,586	31,484	1,327	193,397
NZ IFRS 16 Adoption	13	(1,436)	-	-	(1,436)
Comprehensive income:					
Net profit after taxation		8,995	-	-	8,995
Transactions with owners:					
Shares issued	7	-	-	93	93
Shares repaid	7	-	-	(118)	(118)
Balance as at 31 March 2020		168,145	31,484	1,302	200,931



The above statement of changes in equity and members' interests should be read in conjunction with the accompanying notes

Statement of financial position

Audited financial statements - EA Networks – as at 31 March 2020

	Notes	2020 \$000	2019 \$000
Equity and members' interests		200,931	193,397
<i>Represented by:</i>			
Current assets			
Cash and cash equivalents		90	91
Inventories	8	5,161	5,684
Tax refund due		41	-
Trade and other receivables	10	7,221	6,470
Naming rights to EA Networks Centre	11	67	67
Total current assets		12,580	12,312
Non-current assets			
Intangible assets	9	1,204	1,156
Naming rights to EA Networks Centre	11	600	667
Property, plant and equipment	12	278,760	269,938
Right of use assets	13	8,647	-
Derivative financial instruments	14	15	39
Total non-current assets		289,226	271,800
Total assets		301,806	284,112
Current liabilities:			
Cash and cash equivalents		1,659	-
Trade and other payables	15	4,353	4,071
Lease liabilities	13	5,294	-
Borrowings	19	-	23,300
Tax payable		-	1,114
Employee entitlements	16	2,183	2,009
Derivative financial instruments	14	-	112
Total current liabilities		13,489	30,606
Non-current liabilities:			
Deferred tax liabilities	6	29,152	27,486
Lease liabilities	13	5,181	-
Borrowings	19	51,290	31,290
Derivative financial instruments	14	1,763	1,333
Total non-current liabilities		87,386	60,109
Total liabilities		100,875	90,715
Net assets		200,931	193,397

For and on behalf of the Board

Director

Director

3 August 2020

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of cash flows

Audited financial statements - EA Networks - year ended 31 March 2020

	Notes	2020 \$000	2019 \$000
Cash flows from operating activities			
Receipts from customers		59,941	51,860
Consumer discount paid		(2,849)	(2,789)
Interest received		1	3
Payments to suppliers & employees		(29,304)	(22,216)
Interest paid		(3,212)	(2,642)
Taxation paid		(2,961)	(1,200)
Net cash flows from operating activities	17	21,616	23,016
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		378	4,959
Investment in property, plant and equipment		(19,689)	(23,539)
Net cash flows from investing activities		(19,311)	(18,580)
Cash flows from financing activities			
Net movement in bank loans		(3,300)	(4,460)
Principal elements of lease payments		(547)	-
Payments for shares bought back from owners		(118)	(95)
Net cash flows from financing activities		(3,965)	(4,555)
Net decrease in cash held		(1,660)	(119)
Cash and cash equivalents at start of year		91	210
Cash and cash equivalents at end of year		(1,569)	91



The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

Principal activities

EA Networks' principal activities are:

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

All operations are conducted in New Zealand.

1 Significant changes in the current reporting period

Other than the adoption of NZ IFRS 16 Leases (see note 13) there have been no changes in accounting policies. All policies have been applied on basis consistent with those used in prior years.

Other matters

The New Zealand Government announced a nationwide lockdown on 26 March 2020 due to the COVID-19 pandemic. The Company was deemed an essential service due to the nature of its operations being the distribution of electricity and therefore continued operations through the lockdown period under strict operating measures. There was no material impact on the financial statements. The financial statements have therefore been prepared on a going concern basis, consistent with the prior period.

2 Operating revenue

	2020 \$000	2019 \$000
<i>Revenue from contracts with customers:</i>		
Distribution line charge revenue	55,772	44,307
Less consumer discount	(2,943)	(2,883)
<i>Net distribution line charges revenue</i>	<u>52,829</u>	<u>41,424</u>
Capital Contributions	676	1,319
Fibre network revenue	1,379	1,294
Other income including contracting revenue	3,183	4,727
<i>Total Revenue from contracts with customers</i>	<u>58,067</u>	<u>48,764</u>
<i>Other revenue</i>		
Interest income	1	3
Profit on sale of PPE	-	303
<i>Total other revenue</i>	<u>1</u>	<u>306</u>
Total operating revenue	<u>58,068</u>	<u>49,070</u>

Accounting policies relating to revenue recognition

Distribution line charge revenue

We generate revenue from consumers, via electricity retailers, who pay a mixture of a daily fee and a variable charge. With the fixed charge being based on the consumers loads groups and the variable charge based on the amount of electricity entering their ICP.

Revenue is recognised on daily bases for fixed charge and when electricity enters an ICP for variable charges. As this approach best reflects the transfer of value to the customer. Measurement is based on fair value.

Consumer discount

Each year we set and pay a consumer discount to all consumers connected to the electricity distribution network at a point of time. The allocation of an individual consumer share of the consumer discount pool is based on their charges over a measurement period.

Capital Contributions

We may require a contribution towards our capital cost associated with work requested from the consumer. The revenue from capital contributions is recognised when we have completed the capital work associated with the requested work, and control of the asset has transferred to the customer.

Fibre network revenue

We generate revenue by charging a daily fee to use the fibre network.

Other income includes contracting revenue

Other income is primarily made up of contracting revenue. For most of our contracting work, we recognise a sale when the requested work has been completed, and control of the asset has transferred to the customer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or where there is continuing management involvement with the goods.

All other revenue

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

3 Operating expenses

	2020 \$000	2019 \$000
Pass-through and recoverable costs [^]	15,963	8,052
Employee benefit costs*	6,576	6,962
Distribution system maintenance & fault cost	4,454	3,979
Harmonics incentive	-	18
Directors and shareholders committee fees	366	366
Rental expenses	22	22
Audit fees – financial statements**	81	55
Loss on sale	14	-
Other operating expenses including contracting activities	2,600	2,389
	<u>30,076</u>	<u>21,843</u>



3 Operating costs (continued)

^Pass-through and recoverable costs include transmission costs, system rates, Commerce Commission levies and other regulatory levies which is recovered through transmission prices.

	2020	2019
	\$000	\$000
<i>*Employee benefit costs</i>		
Expensed in the year	6,576	6,962
Included as part of distribution system maintenance & fault cost and capitalised as part of property, plant and equipment	5,716	4,292
Total employee benefit costs for the year	12,292	11,254

	2020	2019
	\$000	\$000
<i>**Total expenses incurred for services acquired from PwC</i>		
Audit of financial statements	81	55
Other assurance services relating to regulatory compliance	69	85
Other non-assurance services – regulatory advice	22	49
Total fees for the year	172	189

4 Interest and associated cost

Interest expense on lease liabilities	720	-
Interest expense on loans	2,002	2,237
Bank fees associated with financing	428	510
Movements in derivatives associated with financing	343	538
Total	3,493	3,285

5 Taxation

<u>Income tax expense</u>		
Current tax on profit for the year	1,808	2,159
Increase in deferred tax liabilities for the year	2,224	1,558
Total income tax expense	4,032	3,717

<u>Numeric reconciliation of income tax</u>		
Net profit before taxation	13,027	13,793
Prima facie taxation at 28%	3,648	3,862
<i>Tax effect of:</i>		
Non-deductible expenses	37	61
Prior year tax adjustments	347	(206)
Income tax expense for the year	4,032	3,717

5 Taxation (continued)

Imputation credit account

	Opening balance \$000	Tax paid \$000	Tax refunded \$000	Closing balance \$000
31 March 2019	23,709	2,314	-	26,023
31 March 2020	26,023	2,961	-	28,984

6 Deferred tax liabilities

	Depreciation \$000	Leases \$000	Other \$000	Total \$000
Balance at 1 April 2018	26,558	-	(630)	25,928
Tax expense	1,786	-	(228)	1,558
Balance as at 31 March 2019	28,344	-	(858)	27,486
NZ IFRS 16 Adoption	-	(558)	-	(558)
Balance at 1 April 2019	28,344	(558)	(858)	26,928
Tax expense	2,387	46	(209)	2,224
Balance as at 31 March 2020	30,731	(512)	(1,067)	29,152

Accounting policies relating to Income Tax

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

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the periods when the asset and liability giving rise to them are realised or settled, based on the rates and tax laws that have been enacted or substantively enacted by reporting date. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax asset and liabilities on a net basis. The reinstatement of deferred tax on buildings as announced by the NZ Government in March 2020 did not have a material impact on the financial statements.

7 Share capital

	Deferred shares	Rebated shares issued and fully paid	Unallocated rebate shares	Total shares
2019				
Shares (thousands)	28,750	1,327	289	30,366
Value of shares (\$000)	\$31,484	\$1,327	\$0	\$32,811
2020				
Shares (thousands)	28,750	1,302	148	30,200
Value of shares (\$000)	\$31,484	\$1,302	\$0	\$32,786

7 Share capital (continued)

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 equity securities 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 offers those connected to the Network \$100 of non-tradable rebate shares with the following provisions:

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

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

8 Inventories

	2020 \$000	2019 \$000
Distribution system	4,380	4,867
Fibre network	781	817
	5,161	5,684

No inventories are subject to a retention of title clause or held as security for a liability (2019: Nil).

Accounting policies relating to inventory

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

9 Intangible assets

	2020 \$000	2019 \$000
Software		
Opening purchase cost	4,828	3,780
Additions in the year	452	1,048
Closing purchase cost	5,280	4,828
Opening accumulated amortisation	3,698	2,984
Amortisation for the year	608	714
Closing accumulated amortisation	4,306	3,698
Net book value	974	1,130
Add work in progress	230	26
Total intangibles	1,204	1,156

Accounting policies relating to intangible assets

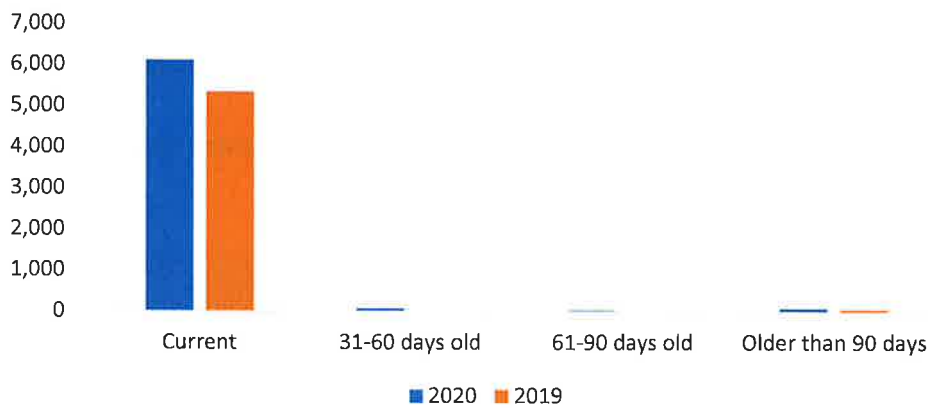
Intangible assets mainly consist of software which is shown at cost less amortisation. Amortisation of software is charged on a diminishing value basis using rates from 40% to 60% p.a.

10 Trade and other receivables

Trade receivables
Prepayments
Expected credit loss provision

	2020 \$000	2019 \$000
Trade receivables	6,299	5,456
Prepayments	930	1,014
Expected credit loss provision	(8)	-
	7,221	6,470

Age of trade receivables
\$000's



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

Changes in expected credit loss

Opening balance
Addition/(Released)
Closing balance

	2020 \$000	2019 \$000
Opening balance	-	2
Addition/(Released)	8	(2)
Closing balance	8	-

Accounting policies relating to trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. EA Networks holds the trade receivables with the objective to collect the contractual cashflows and therefore measures them subsequently at amortised cost using the effective interest method. EA Networks applies the simplified approach to providing for the expected credit losses prescribed by NZ IFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables.

how the numbers are calculated



11 Naming rights

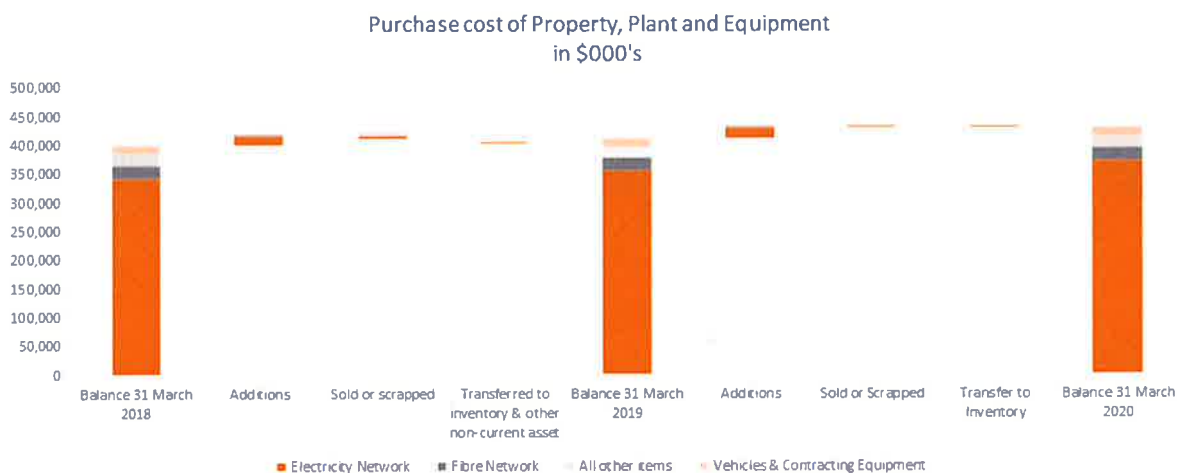
	2020 \$000	2019 \$000
EA Networks Centre		
Purchase cost	1,000	1,000
Opening accumulated amortisation	266	200
Amortisation for the year	67	66
Closing accumulated amortisation	333	266
Carrying value of naming rights	667	734
Made-up from		
Current asset naming right	67	67
Non-current asset naming right	600	667
Carrying value of naming right	667	734

EA Networks has purchased the naming rights to the Ashburton Stadium Complex from the Ashburton Stadium Complex Trust for a period of 15 years from May 2015 when the council officially opened the complex. The naming rights are amortised over 15 years, which is the life of the naming right.

Accounting policies relating to naming rights

Naming rights are stated at cost less accumulated amortisation.

12 Property, plant and equipment

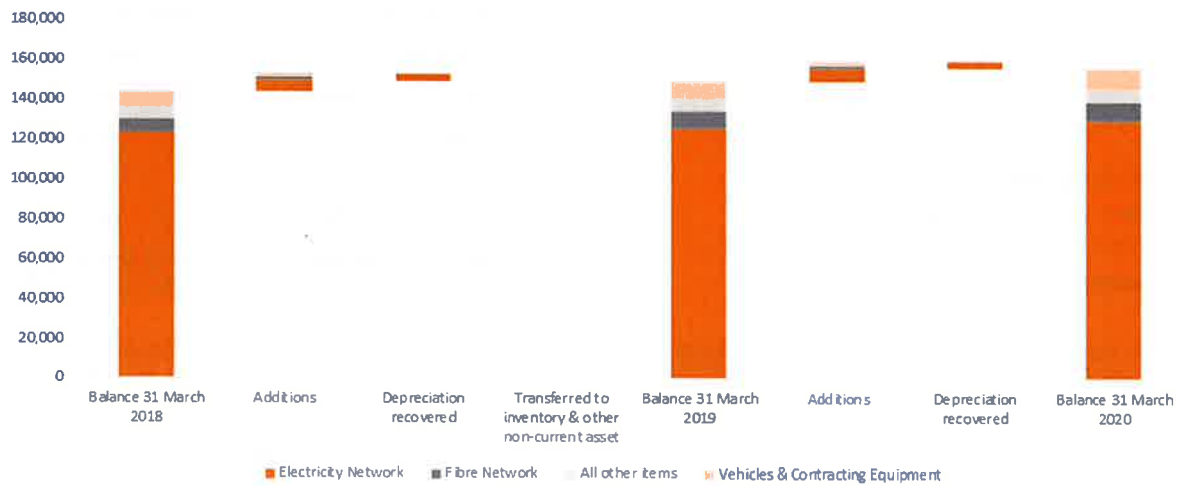


	Electricity Network	Fibre Network	All other items	Vehicles & Contracting Equipment	Total
Balance 31 March 2018	342,823	21,467	23,433	13,719	401,442
Additions	16,271	1,124	243	1,743	19,381
Sold or scrapped	(3,798)	0	(4,473)	(664)	(8,935)
Transferred to inventory & other non-current asset	(18)	0	0	0	(18)
Balance 31 March 2019	355,278	22,591	19,203	14,798	411,870
Additions	18,984	1,181	62	1,312	21,539
Sold or Scrapped	(3,362)	0	0	(332)	(3,694)
Transfer to Inventory	(15)	0	0	0	(15)
Balance 31 March 2020	370,885	23,772	19,265	15,778	429,700

how the numbers are calculated

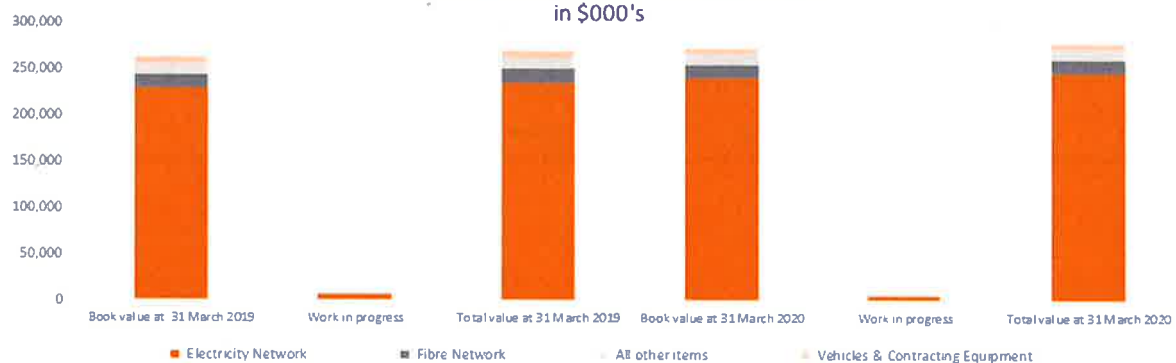
12 Property, plant and equipment (continued)

Accumulated Depreciation
In \$'000's



	Electricity Network	Fibre Network	All other items	Vehicles & Contracting Equipment	Total
Balance 31 March 2018	123,072	7,208	5,757	7,672	143,709
Additions	6,045	1,124	694	1,572	9,435
Depreciation recovered asset	(3,453)	0	(274)	(556)	(4,283)
	0	0	0	0	0
Balance 31 March 2019	125,664	8,332	6,177	8,688	148,861
Additions	6,894	1,196	551	1,775	10,416
Depreciation recovered	(3,031)	0	0	(271)	(3,302)
Balance 31 March 2020	129,527	9,528	6,728	10,192	155,975

Book value of Property, Plant and Equipment
in \$'000's



	Electricity Network	Fibre Network	All other items	Vehicles & Contracting Equipment	Total
Book value at 31 March 2019	229,614	14,259	13,026	6,110	263,009
Work in progress	5,953	421	4	551	6,929
Total value at 31 March 2019	235,567	14,680	13,030	6,661	269,938
Book value at 31 March 2020	241,358	14,244	12,537	5,586	273,725
Work in progress	4,604	213	136	82	5,035
Total value at 31 March 2020	245,962	14,457	12,673	5,668	278,760

how the numbers are calculated

Accounting policies concerning property, plant and equipment

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

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

Land is stated at cost and not depreciated.

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

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

Item	Rate	Method
Electricity network	1.43% to 6.67%	Straight line
Fibre network	3.00% to 17.50%	Straight line
Other:		
- Buildings	1.00% to 2.50%	Straight line
- All other items	4.80% to 12.00%	Diminishing value
Vehicles & contracting equipment	7.50% to 70.00%	Straight line Diminishing value

The assets residual values and useful lives are reviewed and adjusted if appropriate at each balance date. The standard physical assets lives reflect the useful life defined in the Electricity Distribution Input Methodologies determination 2012, downloadable from: <https://comcom.govt.nz/regulated-industries/input-methodologies/electricity-distribution-ims>.

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

Impairment

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

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

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

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

Capital Work in Progress is stated at cost and is not depreciated.

	New investment contracts \$000	Land \$000	Office equipment \$000	Total \$000
<i>Lease liabilities</i>				
Balance 1 April 2019	10,662	213	-	10,875
New leases entered during the year	-	-	102	102
Lease modifications	45	-	-	45
Payments made	(1,214)	(20)	(33)	(1,267)
Interest charged	707	10	3	720
Balance 31 March 2020	10,200	203	72	10,475
Disclosed as follows:				
Current				5,294
Non-current				5,181
<i>Right-of-use asset</i>				
Balance 1 April 2019	8,677	204	-	8,881
New leases entered during the period	-	-	102	102
Lease modifications	45	-	-	45
Depreciation	(336)	(14)	(31)	(381)
Closing Balance 31 March 2020	8,386	190	71	8,647

Adoption of NZ IFRS 16 Leases

EA Networks has adopted IFRS 16 Leases retrospectively from 1 April 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

On adoption of IFRS 16, EA Networks recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate represented by the rate implicit to the lease for new investment contracts as of 1 April 2019.

For leases previously classified as finance leases EA Networks recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

(i) Practical expedients applied

In applying IFRS 16 for the first time, EA Networks has used the following practical expedients permitted by the standard:

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 April 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

13 Right of use assets and lease liabilities (continued)

	2020
	\$000
Operating lease commitments disclosed as at 31 March 2019 (refer note 21)	17,980
Present value of future lease payments	10,662
Contracts reassessed as lease contracts	213
Lease liability recognised as at 1 April 2019	10,875
<i>Of which are:</i>	
Current lease liabilities	517
Non-current lease liabilities	10,358
	10,875

(iii) Measurement of right of use asset

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 March 2019.

(iv) Adjustments recognised in the balance sheet on 1 April 2019

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:	
• Right of use asset	8,881
• Deferred tax asset	558
• Lease liabilities	(10,875)
	(1,436)
The net impact on retained earnings on 1 April 2019	(1,436)

(v) Lessor accounting

EA Networks did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

A) The length of term we lease items for.

EA Networks leases various network assets from Transpower (new investment contracts). Other items we lease include land on which networks assets are situated and office equipment (photocopiers and printers). Lease contracts are typically made for fixed periods of 1 to 40 years but may have extension options as described in H below. Contracts may contain both lease and non-lease components. We allocate the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

B) Securities

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purpose.

C) Change in accounting policy.

Until the 2019 financial year, leases of property, plant and equipment were classified as operating leases, see note 21 for details. From 1 April 2019, leases are recognised as a right-of-use assets and a corresponding lease liabilities at the date at which the leased asset is available for use by EA Networks.



D) Measurement of financial leases

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the group under residual value guarantees,
- the exercise price of a purchase option if the group is reasonably certain to exercise that option,
- payments of penalties for terminating the lease if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

E) Discount rate

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for land and office equipment leases, our incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Under the terms of our new investments leases we are exposed to potential future increases/decrease in lease payments as Transpower allowable cost of capital increases/decreases. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset as a lease modification.

F) Allocation of lease payments

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

G) Right-of-use assets depreciation

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Right of-use assets associated with new investment contracts are depreciated over the underlying asset's useful life.

H) Extension and termination options

EA Networks have extension and termination options associated with property and equipment lease. These are used to maximise operational flexibility in terms of managing the assets used in EA Networks operations. The majority of extension and termination options held are exercisable only by EA Networks and not by the respective lessor.

I) Payments associated with short-term and low-value leases

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise electricity networks equipment.

13 Right of use assets and lease liabilities (continued)

J) Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases associated with the electricity network the life of EA Networks assets associated with the lease is the predominate factor used to determine expected term associated with extension of a lease.

When the ability for EA Networks to use its own property, plant and equipment is contingent on the right to use assets associated with the lease, extension options have been included in assessment of lease liability

The lease term is reassessed if an option is actually exercised (or not exercised) or EA Networks becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. During the current financial year no lease terms were reassessed.

14 Derivative financial instruments

Non-current assets

Interest rate CAPS

	2020 \$000	2019 \$000
	15	39
	15	39
	-	(112)
	-	(112)
	(1,763)	(1,333)
	(1,763)	(1,333)
	(1,748)	(1,406)

Current liabilities

Interest rate SWAPS

Non-current liabilities

Interest rate SWAPS

Net value of derivative financial instruments

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

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

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

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

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

15 Trade and other payables

Trade creditors
Interest accrual

	2020 \$000	2019 \$000
	4,195	3,852
	158	219
	4,353	4,071

15 Trade and other payables (continued)

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.

16 Employee entitlements

	Leave entitlement \$000	Retirement gratuity \$000	Total entitlement \$000
Balance as at 1 April 2018	1,178	818	1,996
Movement during the period	4	9	13
Balance as at 31 March 2019	1,182	827	2,009
Movement during the period	125	49	174
Balance as at 31 March 2020	1,307	876	2,183

Accounting policy for employee entitlements

Employee benefits are allocated into:

Leave entitlement

Represents entitlement earned for Annual, alternative, and long service leave. A provision is also made towards long service leave entitlement.

Retirement gratuity

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

17 Reconciliation of net cash flows from operating activities to operating surplus after taxation

	2020 \$000	2019 \$000
Net profit after taxation	8,995	10,076
<i>Add / (Less) non-cash items:</i>		
Depreciation and amortisation	11,472	10,216
Movement in financial derivatives	343	538
Movement in deferred taxation	2,226	1,556
Loss / (Gain) on sale of property, plant and equipment	14	(303)
Discount used by shareholders to purchase shares	93	94
Total non-cash items	14,148	12,101
<i>Movement in net current assets / liabilities:</i>		
Decrease / (Increase) in inventory	522	(1,045)
Increase in trade and other receivables	(751)	(58)
Increase in trade and other payables	281	219
Increase in employee entitlement	173	13
(Decrease) / Increase in taxation payable	(1,157)	960
Total net current assets/liabilities movement	(932)	89
<i>Other:</i>		
Inventory transferred from property, plant and equipment	(15)	(17)
Trade and other payables relating to property, plant and equipment.	(580)	767
Total Other	(595)	750
Net cash flows from operating activities	21,616	23,016

18 Transactions with related parties

Who are our related parties and what is the relationship?

Ashburton District Council is a significant shareholder that holds 28,750,000 deferred shares.

Ashburton Contracting Limited is 100% owned by Ashburton District Council.

Cullimore Engineering Limited is 50% owned by Ian Cullimore who is the chairperson of the EA Networks Shareholders Committee.

The value that we have transacted with related party is:

	Ashburton District Council \$000	Ashburton Contracting Limited \$000	Cullimore Engineering Limited \$000
For the year ended 31 March 2019			
EA Networks has payments to the related party for:			
Contracting services	-	275	56
Rates	200	-	-
Other services	39	-	-
Outstanding to the related party at 31 March 2019			
Contracting services	-	4	-
The related party has paid EA Networks for:			
Contracting services and capital contributions	1,914	97	-
Other	46	4	-
Outstanding to EA Networks at 31 March 2019:			
Contracting services and capital contributions	97	2	-
Other	4	-	-
For the year ended 31 March 2020			
EA Networks has payments to the related party for:			
Contracting services	-	159	96
Rates	264	-	-
Other services	10	-	-
Outstanding to the related party at 31 March 2020			
Contracting	-	3	-
The related party has paid EA Networks for:			
Contracting services and capital contributions	725	18	-
Other	57	-	-
Outstanding to EA Networks at 31 March 2020			
Contracting services and capital contributions	36	3	-
Other	7	-	-
Other related party transactions relating to director Andrew Barlass:			
On property work for Kowhai Farmlands Ltd			5

how the numbers are calculated

19 Financial instruments

The Company is exposed to several 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:

	Financial assets at amortised cost \$000	Financial assets at fair value through profit or loss \$000	Financial liabilities at fair value through profit or loss \$000	Financial liabilities at amortised cost \$000
Assets as per Statement of Financial Position as at 31 March 2020				
<i>Current Assets</i>				
Cash and cash equivalents	90	-	-	-
Trade and other receivables	6,291	-	-	-
<i>Non-Current Assets</i>				
Derivative financial instruments	-	15	-	-
Total	6,381	15	-	-
Liabilities as per Statement of Financial Position as at 31 March 2020				
<i>Current Liabilities</i>				
Cash and Cash equivalents	-	-	-	1,659
Trade and other payables	-	-	-	4,353
Lease liabilities	-	-	-	5,294
<i>Non-Current Liabilities</i>				
Lease liabilities	-	-	-	5,181
Borrowings	-	-	-	51,290
Derivative financial instruments	-	-	1,763	-
Total	-	-	1,763	67,777
Assets as per Statement of Financial Position as at 31 March 2019				
<i>Current Assets</i>				
Cash and Cash equivalents	91	-	-	-
Trade receivables	5,456	-	-	-
<i>Non-Current Assets</i>				
Derivative financial instruments	-	39	-	-
Total	5,547	39	-	-
Liabilities as per Statement of Financial Position as at 31 March 2019				
<i>Current Liabilities</i>				
Trade and other payables	-	-	-	4,071
Borrowings	-	-	-	23,300
Derivative financial instruments	-	-	112	-
<i>Non-Current Liabilities</i>				
Borrowings	-	-	-	31,290
Derivative financial instruments	-	-	1,333	-
Total	-	-	1,445	58,661

19 Financial instruments (continued)

Cash and Cash Equivalents

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

Foreign exchange risk

The Company has no foreign exchange contracts in place or exposure to foreign exchange risk at 31 March 2020 or 31 March 2019.

Interest rate risk

The Company has external long-term funding arrangements that exposes it to interest rate risk. To manage interest rate risk, we use swaps and caps and a treasury policy (see note 14).

Credit risk

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

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

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

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

Liquidity risk

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

	2020 \$000	2019 \$000
External short-term funding arrangements		
Overdraft facility - BNZ	500	500
Visa – BNZ	20	20
External long-term funding		
<i>Maturing less than 12 months</i>		
Westpac multi option credit line facility	-	42,000
<i>Maturing greater than 12 months</i>		
Westpac multi option credit line facility	42,000	-
Revolving credit facility with BNZ	33,000	50,000
Total long-term funding available	75,000	50,000
Contractual performance bonds		
Dollar value of bonds in place with Westpac	162	162
Number of bonds in place with Westpac	5	5

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

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

Interest rate spread associated with SWAPS and CAPS in place				
	Less than 6 months	6-12 months	1-2 years	2-5 years
	\$000	\$000	\$000	\$000
2020				
Maturity of swaps and caps in place	-	-	22,000	12,500
<i>Interest rate</i>				
From	0%	0%	3.98%	4.84%
To	0%	0%	5.60%	5.27%
2019				
Maturity of swaps and caps in place	1,500	18,000	-	27,500
<i>Interest rate</i>				
From	4.56%	3.20%	0%	4.08%
To	4.56%	5.27%	0%	5.65%

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

Liquidity forecast

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

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

Maturity of long-term of external funding and associated interest cost				
	6 months and less	6-12 months	1-2 years	2-5 years
	\$000	\$000	\$000	\$000
2020				
Locked in interest cost on principal from now to maturity	854	849	1,115	3
Principal repayment	-	-	15,000	36,290
Effective Total	854	849	16,115	36,293
<i>Interest rates on principal due</i>				
From	2.29%	2.29%	2.29%	2.29%
To	5.27%	5.27%	5.27%	5.27%
2019				
Locked in interest cost on principal from now to maturity	1,307	786	1,568	825
Principal repayment	23,300	-	13,290	18,000
Effective Total	24,607	786	14,858	18,825
<i>Interest rates on principal due</i>				
From	3.74%	4.17%	4.17%	4.08%
To	5.65%	5.27%	5.27%	5.15%

Long-term funding maturity dates		
Westpac multi option credit line facility	1 April 2023	42,000,000
BNZ		
Revolving credit facility	1 April 2021	17,000,000
Revolving credit facility	1 April 2022	16,000,000

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

19 Financial Instruments (continued)

Interest rate risk

EA Networks considers that a reasonably possible movement in New Zealand interest is a 1% movement in either direction. The impacts of a 1% movement are summarised in the table below:

	2020 \$000	2019 \$000
Increase of 1% interest rates as at reporting date		
Profit before income tax	328	528
Other comprehensive income	236	380
Decrease of 1% in interest rates as at reporting date		
Profit before income tax	(328)	(528)
Other comprehensive income	(236)	(236)

Capital risk management

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

Interest Coverage: Earnings before interest, tax, and rebate / Interest. Coverage of which is to be greater than or equal to 3.5.

Shareholder Funds Ratio: Total Shareholder Funds to be maintained in excess of 45% of Total Tangible Assets.

Net debt reconciliation

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

Net debt		
Cash and cash equivalents		
Liquid investments	(1,569)	91
Borrowings – repayable within one year*	-	(23,300)
Borrowings – repayable after one year (including overdraft)	-	-
Net debt	(51,290)	(31,290)
	<u>(52,859)</u>	<u>(54,499)</u>
Cash and liquid investments		
Gross debt – fixed interest rates	-	91
Gross debt – variable interest rates	-	-
Net debt	(52,859)	(54,590)
	<u>(52,859)</u>	<u>(54,499)</u>

*The \$23.3 Million borrowings due within one year as at 31 March 2019, relates to the amount drawn down against the Westpac facility.

19 Financial Instruments (continued)

	Cash/bank overdraft \$000	Borrowings due within 1 year \$000	Borrowings due after 1 year \$000	Total \$000
Net debt as at 1 April 2018				
Cash flows	-	-	(59,050)	(59,050)
Net debt as at 31 March 2019	-	(23,300)	27,760	4,460
Cash flows	-	(23,300)	(31,290)	(54,590)
Net debt as at 31 March 2020	(1,659)	23,300	(20,000)	1,641
	(1,659)	-	(51,290)	(52,949)

20 Fair value hierarchy for derivatives

Fair value hierarchy for derivatives as at 31 March 2020

	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial assets at fair value through the Statement of comprehensive income				
Interest rate swaps and caps	-	15	-	15
Total assets	-	15	-	15
Financial liabilities at fair value through the Statement of comprehensive income				
Interest rate swaps and caps	-	1,763	-	1,763
Total liabilities	-	1,763	-	1,763

Fair value hierarchy for derivatives as at 31 March 2019

	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial asset at fair value through the Statement of comprehensive income				
Derivatives used for hedging				
Interest rate swaps and caps	-	39	-	39
Total assets	-	39	-	39
Financial liabilities at fair value through the Statement of comprehensive income				
Derivatives used for hedging				
Interest rate swaps and caps	-	1,445	-	1,445
Total liabilities	-	1,445	-	1,445

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

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

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

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

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

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

Accounting policies relating to financial instruments**Classification**

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

Recognition

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

20 Fair value hierarchy for derivatives (continued)

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.

Interest rate swaps and caps

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

Borrowings

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

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

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

21 Operating leases

	2020 \$000	2019 \$000
Lessee		
Not later than 1 year	-	1,240
Later than 1 year and not later than 5 years	-	4,864
Later than 5 years	-	11,876
Lessor		
Not later than 1 year	-	249
Later than 1 year and not later than 5 years	-	999
Later than 5 years	-	2,876

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.

At 1 April 2019 EA Networks adopted NZ IFRS 16 (see note 13).

22 Capital commitments

	2020 \$000	2019 \$000
EA Networks		
Electricity distribution network	523	1,211
Vehicles & contracting equipment	5	52
Total capital commitments	528	1,263

23 Contingent Liabilities

EA Networks contravened the requirements of price path component (price path) of the Default Price-Quality Path for the 2020 Assessment Period by \$52,905 for the year ended 31 March 2020. The Commerce Commission issued a formal notice of intent to investigate the breach on 25 June 2020. The Commerce Commission has informed EA Networks that their enforcement response may include taking no action, issuing compliance advice, issuing a warning letter, an out-of-court settlement, enforceable undertakings, or seeking pecuniary penalties through High Court proceedings. Currently we are unable to estimate what the potential liability (if any) will be as a result of this matter.

24 Key Management Personnel Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of that entity.

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

	2020 \$000	2019 \$000
Short term employment benefits	1,518	1,231
Post-employment benefits	-	-
Long term benefits	-	-
Termination benefits	65	8
Outstanding benefits at balance date		
Long term benefits outstanding	-	-
Termination benefits outstanding	184	119

25 Subsequent Events

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

For-profit

EA Networks is the trading name for Electricity Ashburton Limited, a for-profit 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 for-profit Company.

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

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

The Company is an issuer in terms of the Financial Markets Conduct Act 2013 and its financial statements comply with that Act. The Company is included in the small co-operative exemption in accordance with this Act.

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 on a historical cost basis, except where state otherwise in the accounting policies.

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

We make judgements about whether costs incurred should be capitalised or expensed.

Lease terms

We make judgements covering the length of the terms associated with leases, when right of renewal exists.

Specific Accounting Policies

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

New Standards and Interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 March 2020 reporting periods and have not been early adopted by the Company. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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 Fibre network.
- Contracting electrical construction and maintenance services for distribution networks and end users.
- Investment in other infrastructural assets such as:
 - Energy utilisation enhancement projects
 - Fibre Network

Annual Resolution (Section 10 of Co-operative Companies Act 1996)

The Directors of EA Networks unanimously resolved on 27 May 2020 that in the opinion of the Directors for the year ended 31 March 2020, Electricity Ashburton Limited has been a Co-operative Company.

Corporate Governance

Role of the Shareholders Committee

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

Role of the Board

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

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

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

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

Board evaluation process

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

Board operation

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

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

Board Chairperson

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

Board meetings

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

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

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

Board Charter

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

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

Board Committees

Audit and Finance Committee

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

To do this, the committee will:

- Provide oversight of accounting policies and professional accounting requirements.
- Provide oversight of internal & external audit functions.
- Provide oversight of all statutory regulatory requirements.
- Provide oversight of the internal control environment.

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

Risk Committee

The committee purpose is to assist the Board to:

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

Governance and Remuneration Committee

The purpose of the Governance and Remuneration Committee:

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

Health and Safety Committee

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

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

Directors

At the 2019 Annual General Meeting Messrs P McKendry and P Munro retired by rotation. It was the unanimous decision of the Shareholders Committee to reappoint Messers P McKendry and P Munro for a further three-year term.

Directors' Remuneration

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

	Chairman	Committee Chairs	Base Directors	Total
P McKendry	41,820	-	42,850	84,670
P Munro	-	5,100	42,850	47,950
A Barlass	-	-	42,850	42,850
R Sutton^	-	-	38,600	38,600
B McPherson	-	3,470	42,850	46,320
R Fitzgerald	-	3,470	42,850	46,320
	41,820	12,040	252,850	306,710
Payments to members of the Shareholders Committee				58,832
Total as per note 3 of the financial statements				365,542

^Mr Sutton retired on 1 February 2020

Related party transactions

All transactions between Directors or members of the Shareholders Committee and EA Networks have been undertaken on an arm length basis.

Interests Register

Directors' Interests

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

Interested Transactions

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

Directors' Indemnity and Insurance

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

Employee Remuneration

The number of employees whose total remuneration including non-cash benefits was over \$100,000 during the year ended 31 March 2020 are specified in the following bands:

Salary Band	Number of staff	Salary Band	Number of staff	Salary Band	Number of staff
\$100,000 - \$110,000	12	\$140,000 - \$150,000	4	\$200,000-\$210,000	1
\$110,000 - \$120,000	6	\$150,000 - \$160,000	2	\$210,000-\$220,000	2
\$120,000 - \$130,000	7	\$160,000 - \$170,000	2	\$240,000-\$250,000	1
\$130,000 - \$140,000	5	\$180,000 - \$190,000	1	\$360,000-\$370,000	1

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

Use of Company Information

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

Donations

There were no donations made during the financial year.

Audit Fees and Other Services

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

	2020	2019
Regulatory consulting and other services	\$21,919	\$49,205
Financial statement audit related services	\$81,000	\$54,875
Regulatory compliance audits	\$68,760	\$84,500

Loans or Guarantees

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

Financial Statements

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

For and on behalf of the Board



Director



Director



3 August 2020



Independent auditor's report

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

We have audited the financial statements which comprise:

- the statement of financial position as at 31 March 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity and members' interests for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include summaries of significant accounting policies.

Our opinion

In our opinion, the accompanying financial statements of Electricity Ashburton Limited (trading as "EA Networks") (the Company), present fairly, in all material respects, the financial position of the Company as at 31 March 2020, 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 regulatory requirements of the Commerce Act 1986 and the provision of regulatory update advisory services. The provision of these 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.



Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's Members, 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 Members, 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 Elizabeth Adriana (Adri) Smit.

For and on behalf of:

A handwritten signature in black ink that reads 'Elizabeth Adriana (Adri) Smit'.

Chartered Accountants
3 August 2020

Christchurch