

The logo for EA networks. The letters 'EA' are in a stylized, orange, sans-serif font with a white swoosh underneath. The word 'networks' is in a grey, lowercase, sans-serif font.

EA networks

ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2014



2014 Annual Report

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Board of Directors:

John Tavendale (Chairman)
Gary Leech (Deputy Chairman)
Ray Davy
Murray Frost
Phil McKendry
Bruce McPherson appointed 1 July 2013

Shareholders Committee:

Stuart Leadley retired 1 October 2013
Sandra Curd
Ian Cullimore (Chairman)
Jim Lischner
Bev Fraser appointed 1 July 2013
Bruce McPherson retired 1 July 2013
Chris Robertson
David Ward
Anne Marett appointed 1 October 2013

Management:

General Manager	Gordon Guthrie
Network Manager	Brendon Quinn
Contracting Manager	Wayne Watson
Commercial Manager	Jeremy Adamson
Finance Manager	Mark Lester

Office:

EA Networks
Private Bag 802
22 JB Cullen Drive
Ashburton Business Estate
Ashburton

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DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

EA Networks principal activities are:

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

ANNUAL RESOLUTION (Section 10 of Co-operative Companies Act 1996)

The Directors of EA Networks unanimously resolved on 11 June 2014 that in the opinion of the Directors for the year ended 31 March 2014, Electricity Ashburton has been a Co-operative Company.

The terms of the resolution were:

1. Shareholders of the Company were transacting shareholders during the financial year taking into account provisions of the Electricity Act 2010.
2. The Company has throughout the financial year been carrying on a co-operative activity as defined in the Co-operative Companies Act 1996.

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 to provide the essential link between shareholders and management.

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 to enhancing the prosperity of the Company and its shareholders over time.

The Board discharges this responsibility through effective leadership, by enabling and encouraging an environment for innovation and being responsive to the 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 regular basis.

DIRECTORS' REPORT (CONTINUED)

Role of the Board (Continued)

Board operation

The operation of the Board is governed by the Company's constitution and the Board's code of conduct.

The Board Chairman 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 Chairman maintains a professional relationship with the Company's General Manager, and through him, the Company's management team.

Board meetings

The Board meets a minimum of 8 times a year. Additional meetings are convened as and when required.

Directors receive formal agenda papers 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 Committees

Audit Committee:

The Audit Committee comprises the whole board and is chaired by Mr G.R. Leech B.Com, FCA, AFInstD. It meets periodically with the Company's external auditors and reviews with management the financial statements and accounting policies, the effectiveness of management information and other systems of internal control.

Remuneration Committee:

The Remuneration Committee is Messrs J.B. Tavendale and P.J. McKendry. It seeks external advice as required to ensure that the senior executives are fairly rewarded for their individual contribution to the Company's performance.

DIRECTORS

At the 2013 Annual General Meeting Messrs M.W. Frost and P.J. McKendry retired by rotation. It was the unanimous decision of the Shareholders Committee to reappoint Messrs M.W. Frost and P.J. McKendry for a further three year term and to appoint Mr B.R. McPherson for a one year term.

DIRECTORS' REMUNERATION

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

J B Tavendale (Chairman)	64,460	P J McKendry	32,230
G R Leech (Deputy Chairman)	38,676	R J Davy	32,230
B R McPherson (appointed 1 July 2013)	24,173	M W Frost	32,230
Total			223,999

INTERESTS REGISTER

Directors' Interests

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

DIRECTORS' REPORT (CONTINUED)

Role of the Board (Continued)

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 2014 are specified in the following bands:

Band	Number of staff in band	Band	Number of staff in band
\$100,000 - \$110,000	5	\$140,000 - \$150,000	2
\$110,000 - \$120,000	8	\$190,000 - \$200,000	1
\$120,000 - \$130,000	4	\$290,000 - \$300,000	1
\$130,000 - \$140,000	4		

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 are as follows:

	2014	2013
Financial audit	\$31,000	\$30,000
Regulatory audits	\$47,775	\$30,750
Regulatory consulting	\$16,474	\$ 4,939

LOANS OR GUARANTEES

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

Financial Statements

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

For and on behalf of the Board



DIRECTOR
DATE: 11 June 2014



DIRECTOR

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2014

	Notes	2014 \$000	2013 \$000
Operating Revenue	2	41,831	39,749
Less			
Operating Expenses	3	(15,738)	(15,327)
Interest and Associated Costs	4	(3,166)	(3,474)
Depreciation and Amortisation	5	(9,126)	(7,819)
		(28,030)	(26,620)
Operating Surplus before share of Joint Venture, Customer Deferred Discount and Taxation		13,801	13,129
Preferential right to income from the BCI Joint Venture	17	1,200	1,109
Share of BCI Joint Venture loss for the year	17	(713)	(887)
Operating Surplus before Customer Deferred Discount and Taxation		14,288	13,351
Customer Deferred Discount		(4,194)	(4,015)
Operating Surplus before Taxation		10,094	9,336
Taxation	6	(2,766)	(2,586)
Operating Surplus after Taxation		7,328	6,750
Total Comprehensive Income		7,328	6,750

STATEMENT OF CHANGES IN EQUITY AND MEMBERS' INTERESTS

FOR THE YEAR ENDED 31 MARCH 2014

	Equity \$000	Members' Interests \$000	Total \$000
BALANCE AS AT 1 APRIL 2012	117,151	1,286	118,437
Comprehensive Income:			
Operating Surplus after Taxation	6,750	0	6,750
Transactions with Owners:			
Shares Issued	0	104	104
Shares Repaid	0	(74)	(74)
	0	30	30
BALANCE AS AT 31 MARCH 2013	123,901	1,316	125,217
BALANCE AS AT 1 APRIL 2013	123,901	1,316	125,217
Comprehensive Income:			
Operating Surplus after Taxation	7,328	0	7,328
Transactions with Owners:			
Shares Issued	0	111	111
Shares Repaid	0	(92)	(92)
	0	19	19
BALANCE AS AT 31 MARCH 2014	131,229	1,335	132,564

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2014

	Notes	2014 \$000	2013 \$000
EQUITY AND MEMBERS' INTERESTS:			
Deferred Shares	7	31,484	31,484
Retained Earnings	8	99,745	92,417
Total Equity		131,229	123,901
Rebate Shares	7	1,335	1,316
TOTAL EQUITY AND MEMBERS' INTERESTS		132,564	125,217
REPRESENTED BY:			
CURRENT ASSETS:			
Cash and Cash Equivalents	9	0	25
Inventories	10	4,615	5,263
Trade and Other Receivables	11	6,536	6,131
Assets Held for Sale	15	0	1,098
Derivative Financial Instruments	18	0	15
Total Current Assets		11,151	12,532
NON-CURRENT ASSETS:			
Intangibles	12	468	611
Naming Rights to EA Networks Centre	13	1,000	0
Property, Plant, and Equipment	14	219,037	210,388
Investment Property	16	1,166	0
Investment in the BCI Joint Venture	17	7,355	8,068
Derivative Financial Instruments	18	653	42
Total Non-Current Assets		229,679	219,109
TOTAL ASSETS		240,830	231,641
CURRENT LIABILITIES:			
Cash and Cash Equivalents	9	111	0
Borrowings	21	0	17,500
Current Income Tax Liabilities		673	300
Trade and Other Payables	19	2,934	3,017
Employee Entitlements	20	1,726	1,611
Deferred Income Tax Liabilities	6	183	649
Derivative Financial Instruments	18	45	51
Total Current Liabilities		5,672	23,128
NON-CURRENT LIABILITIES:			
Deferred Income Tax Liabilities	6	21,944	20,605
Borrowings	21	80,650	62,450
Derivative Financial Instruments	18	0	241
Total Non-Current Liabilities		102,594	83,296
TOTAL LIABILITIES OTHER THAN REBATE SHARES		108,266	106,424
TOTAL NET ASSETS		132,564	125,217

For and on behalf of the Board



DIRECTOR

11 June 2014



DIRECTOR

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2014

	Notes	2014 \$000	2013 \$000
CASH FLOWS FROM OPERATING ACTIVITIES :			
Cash was Provided from:			
Receipts from Customers		41,860	39,000
Insurance Proceeds		100	0
Receipts from Interest		27	49
		5	0
		<u>41,992</u>	<u>39,049</u>
Cash was Applied to:			
Payments to Suppliers & Employees		(15,898)	(14,050)
Customer Deferred Discount		(4,088)	(3,912)
Interest Paid		(3,938)	(3,540)
Net GST Movement		0	(74)
Taxation Paid		(1,520)	(1,200)
		<u>(25,444)</u>	<u>(22,776)</u>
Net Cash Flows from Operating Activities	22	16,548	16,273
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash was Provided from:			
Preferential right to income from the Joint Venture		1,200	835
Sale of Property, Plant and Equipment		134	42
		<u>1,334</u>	<u>877</u>
Cash was Applied to:			
Investment in Property, Plant and Equipment		(17,626)	(31,022)
Purchase of Naming Rights to EA Networks Centre		(1,000)	0
		<u>(18,626)</u>	<u>(31,022)</u>
Net Cash Flows From Investing Activities		(17,292)	(30,145)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash was Provided from:			
Bank Loans – Borrowings		700	10,950
		<u>700</u>	<u>10,950</u>
Cash was Applied to:			
Purchase of Shares from Owners		(92)	(74)
		<u>(92)</u>	<u>(74)</u>
Net Cash Flows From Financing Activities		608	10,876
NET INCREASE (DECREASE) IN CASH HELD		(136)	(2,996)
Cash and Cash Equivalents at start of year		25	3,021
Cash and Cash Equivalents at end of year		(111)	25

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES

PROFIT-ORIENTED

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

STATEMENT OF COMPLIANCE

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

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

The Company has adopted External Reporting Board Standard A1 Accounting Standards Framework (For-profit Entities Update) ('XRB A1') for the year ended 31 March 2014. The Company meets the criteria of a Tier 1 entity under XRB A1 and is reporting in accordance with Tier 1 For-profit Accounting Standards. EA Networks has previously applied full NZ IFRS in its financial statements which continues to be a requirement for Tier 1 entities. Thus, adopting Tier 1, for-profit entities, has not changed the Company's recognition and measurement accounting policies.

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

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

PRINCIPAL ACTIVITIES

EA Networks' principal activities are:

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

All operations are conducted in New Zealand.

ADDRESS OF REGISTERED OFFICE

22 JB Cullen Drive
Ashburton Business Estate
Ashburton 7772

FUNCTIONAL AND PRESENTATION CURRENCY

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

MEASUREMENT BASE

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

USE OF ESTIMATES AND JUDGEMENTS

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

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

Property, Plant and Equipment

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

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

Borrowings

Borrowings are initially measured at fair value plus transaction costs.

Derivatives Financial Instruments

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each quarter. The resulting gain or loss is recognised in the Statement of Comprehensive Income immediately. The Company has not adopted hedge accounting. Further details of derivative financial instruments are disclosed in note 18.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (continued)

SPECIFIC ACCOUNTING POLICIES

PROPERTY, PLANT AND EQUIPMENT

EA Networks has the following classes of property, plant and equipment:

- Network Reticulation Assets
- Buildings
- Land
- Motor Vehicles
- Plant
- Office Furniture & Equipment
- Communication Network

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

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

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

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

Land is stated at cost.

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

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

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

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

Capitalisation of qualifying assets

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

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

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

IMPAIRMENT

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

Other Assets

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

INTANGIBLES

Intangible assets mainly consist of software which is shown at cost less amortisation. Amortisation of software is charged on a diminishing value base from 40% to 60%. Intangible assets which are not amortised over their useful life are assessed annually for impairment.

CAPITAL AND OPERATING EXPENDITURE

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

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

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

ASSETS HELD FOR SALE

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

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

INVESTMENT PROPERTY

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

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

Item	Rate	Method
• Buildings	1.00% to 2.50%	Straight line
• Fixtures and Fittings	10.00% to 40.00%	Diminishing value

NAMING RIGHTS

Naming rights are stated at cost less accumulated amortisation.

The rights are amortised over the contractual period of the naming right agreement.

Naming Right	Period
• EA Networks Centre	15 Years from the date that the Council officially opens the project.

DIVIDENDS

When necessary provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date. Dividend distribution to the Company shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's directors. No dividends were declared in 2014 or 2013.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (continued)

INCOME TAX

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

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the periods when the asset and liability giving rise to them are realised or settled, based on the rates and tax laws that have been enacted or substantively enacted by reporting date.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax asset and liabilities on a net basis.

GOODS AND SERVICES TAX (GST)

The statement of comprehensive income has been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

EMPLOYEE BENEFITS

Employee benefits are allocated into:

(a) Wages and salaries, annual leave, long service leave.

Liabilities for wages, salaries and annual leave expected to be settled in the next 12 months of reporting date are recognised in other payables at the amount expected to be paid when the liabilities are settled.

Liability for long service leave is the actual cost of the benefit for employees who have this leave due and is apportioned on the number of years' service to the first qualifying period at the employee's ordinary rate of pay.

(b) 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.

FINANCIAL INSTRUMENTS

The Company has financial instruments which are classified in the following categories: financial assets at fair values through the statement of comprehensive income, loans and receivables and financial liabilities at amortised cost.

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

Cash and Cash Equivalents

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

Trade Receivables

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

Trade Payables

This amount represents 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 payables are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (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 and foreign currency forward exchange contracts.

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.

INVENTORIES

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

The cost of work in progress and finished goods includes the cost of direct materials.

REVENUE RECOGNITION

Sale of Goods and Services

Revenue from the sale of goods and services is recognised in the statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the customer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or where there is continuing management involvement with the goods.

Customer Contributions

Contributions from customers in relation to the construction of new lines and connection charges for the network have been accounted for as income in the year the Company completes the actual work prior to 1 April 2014. From the 1 April 2014 capital contributions received from customers have been offset against the cost of the electricity reticulation networks property plant and equipment.

Other Income

Interest is recognised using the effective interest method.

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

Revenues from lines, sales of services, contracting and network contributions are recognised in the accounting period in which the service is provided.

Foreign Currency Translation – Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except where deferred in equity as qualifying cash flow hedges.

Foreign currency monetary items at balance date are translated at the exchange rate in effect at the balance date.

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.

Joint Venture

The Company's interests in jointly controlled entities are accounted for using the equity method. The Joint Venture accounting policy has been changed where necessary to ensure consistency with the policies adopted by the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (continued)

New Standards and Interpretations not yet adopted

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

NZ IFRS 9 Financial Instruments (effective for annual reporting periods beginning on or after 1 January 2015):

This standard replaces the parts of NZ IAS 39 Financial Instruments: Recognition and Measurement that relates to the classification and measurement of financial instruments.

All financial assets are required to be classified into two measurement categories: at fair value and at amortised cost. The determination is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

For financial liabilities, the standard retains most of the NZ IAS 39 requirements. An additional presentational requirement has been added for liabilities designated at fair value through profit and loss. Where the fair value option is taken, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income. The Joint Venture does not have any financial liabilities designated at fair value through profit or loss.

The Joint Venture does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 31 March 2016.

Changes in Accounting Policies

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

Change in accounting policy concerning the treatment of capital contributions

From 1 April 2013, EA Networks changed its accounting policy in regard to how capital contributions are recognised within the financial statements, in order to supply stakeholders with more relevant information concerning how the Company's return on investment in electricity reticulation network assets is measured.

The level of return that the Company is able to earn on its investment in electricity reticulation network assets is regulated by part 4 of the Commerce Act 1986. Historically the regulator has required that capital contributions are included as income when calculating the Company's allowable return on investment for electricity reticulation assets. The regulator changed its methodology for calculating the allowable return on electricity distribution assets in 2013 by requiring that capital contributions be offset against the cost of constructing the asset concerned.

If the existing accounting policy of recognising capital contributions as income were continued, network assets would be recorded at a higher value than that which would be used in the regulatory asset base. As the Company is only permitted by regulation to earn a certain level of return on the net value of electricity reticulation network assets (actual construction cost – capital contribution), a change in accounting policy was made to record the initial cost of an asset at the value which is used by the regulator to set the allowable return on electricity reticulation assets.

The Directors of EA Networks have considered how the change in accounting policy will affect the requirements of stakeholders and the practicality of retrospective restatement. We have determined that it was not practicable to account for the change in capital contribution retrospectively, or to account for that change prospectively from any earlier date than 1 April 2014. Historically all capital contributions were recognised as income. No record was maintained of the individual asset for which a contribution was received. As there is no information on which individual assets and contributions related to, no adjustment can be made to either the asset value, accumulated depreciation or the depreciation charge in years prior to 2014. Therefore, the policy has been applied prospectively from the start of 2014. Accordingly, the adoption of the new policy has no effect on prior years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (continued)

Changes in Accounting Policies (continued)

The effect of the change in the accounting policy in the current year is:

	2014 without change in accounting policy \$000	Differences due to change in accounting policy \$000	2014 with change in accounting policy \$000
STATEMENT OF FINANCIAL PERFORMANCE			
Revenue	42,592	761	41,831
Depreciation*	(9,134)	(8)	(9,126)
Other items	(22,611)	0	(22,611)
Taxation	(2,977)	(211)	(2,766)
Operating Surplus after Taxation	7,870	542	7,328
*The effect on change in accounting policy on depreciation is estimated as a definitive number cannot be calculated using the Company's financial systems.			
STATEMENT OF FINANCIAL POSITION			
Equity and Members' Interest			
Retained Earnings	100,287	542	99,745
Total equity and members' interest	133,106	542	132,564
Current Assets			
	11,151	0	11,151
Non-Current Assets			
Other non-current assets	10,642	0	10,642
Property, plant and Equipment	219,790	753	219,037
	230,432	753	229,679
Current Liabilities			
Other current liabilities	4,816	0	4,816
Current Income Tax Liability	694	21	673
Deferred Income Tax Liability	204	21	183
	5,714	42	5,672
Non-Current Liabilities			
Other non-current liabilities	80,650	0	80,650
Deferred Income Tax Liability	22,113	169	21,944
	102,763	169	102,594
	133,106	542	132,564
STATEMENT OF CASH FLOWS			
Cash flows from Operating Activities	17,301	753	16,548
Cash Flows from Investment Activities	(18,045)	(753)	(17,292)
Cash Flows from Financing Activities	608	0	608
NET INCREASE (DECREASE) IN CASH HELD	(136)	0	(136)
Cash and Cash Equivalents at start of year	25	0	25
Cash and Cash Equivalents at end of year	(111)	0	(111)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note	2014 \$000	2013 \$000
2 Operating Revenue		
Line Services	36,998	35,062
Customer Contributions	0	582
Connection Fees	442	311
Communication Network Revenue	654	540
Rental Property	265	155
Other income including contracting revenue	3,445	2,913
Interest Income	27	49
Depreciation Recovered	0	137
	41,831	39,749
3 Operating Expenses		
Transmission Costs	5,640	6,300
Employee Benefit Costs*	4,737	3,698
Distribution System Maintenance	2,375	1,871
Directors Fees	224	193
Shareholder Committee Fees	52	50
Bad debts written off	40	12
Rental & Operating Lease Payments	41	148
Audit Fees – PWC	31	30
Audit Fees – Regulatory Disclosures	48	31
Regulatory Consulting - PWC	16	0
Loss on Sale of Property, Plant and Equipment	292	0
Other operating expenses including contracting activities*	2,242	2,994
	15,738	15,327
*Includes all employee benefit cost nets of internal labour charged to: capital, network maintenance and faults. The total wages, salaries and benefits excluding FBT paid to employees in 2014 was \$9.3 million (2013: \$8.2 million).		
4 Interest and Associated Cost		
Interest Expense on loans	3,349	3,021
Capitalised Interest	0	(263)
Bank Fees Associated with Financing	660	728
Movements in Derivatives Associated with Financing	(843)	(12)
	3,166	3,474
5 Depreciation and Amortisation		
<i>Depreciation:</i>		
Network Reticulation Assets	6,026	5,702
Buildings	667	116
Motor Vehicles	607	470
Plant and Equipment	509	265
Office Equipment	174	86
Communication Network	974	900
Investment Property	26	0
<i>Amortisation</i>	143	280
	9,126	7,819
6 Taxation		
Tax Reconciliation:		
Operating surplus before taxation	10,094	9,336
Prima Facie taxation at 28%	2,826	2,614
<i>Movements in Tax Due to:-</i>		
Permanent Differences		
Non-Assessable Income	(96)	(32)
Non-Deductible Expenses	36	4
Tax Expenses	(60)	(28)
	2,766	2,586
Timing Differences		
Depreciation	(629)	(455)
Capital Contributions	44	(110)
Other	(288)	(161)
Deferred Tax	(873)	(726)
	1,893	1,860
Current Taxation charge for the Year		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note	2014 \$000	2013 \$000
6 Taxation (continued)		
Comprising		
Current Taxation	1,893	1,860
Deferred Taxation	873	726
	2,766	2,586
Imputation Credit Account		
Opening balance	15,179	13,979
Income Tax Paid During the Year	1,520	1,200
Closing Balance	16,699	15,179

Deferred Tax Account

	Depreciation	Capital Contributions	Other	Total
Opening Balance as at 1 April 2012	20,433	305	(210)	20,528
Change in the Year	455	110	161	726
Closing Balance as at 31 March 2013	20,888	415	(49)	21,254
Opening Balance as at 1 April 2013	20,888	415	(49)	21,254
Change in the year	629	(44)	288	873
Closing Balance as at 31 March 2014	21,517	371	239	22,127

Current and Non-Current Deferred Tax

2013

Current Deferred Tax	658	53	(62)	649
Non-Current Deferred Tax	20,230	362	13	20,605
	20,888	415	(49)	21,254

2014

Current Deferred Tax	805	(44)	(578)	183
Non-Current Deferred Tax	20,712	415	817	21,944
	21,517	371	239	22,127

7 Share Capital

There are 30,366,000 shares in the Company (2013 30,269,901) and they are as follows:

	Number of Shares	Shares Value \$
2013		
Deferred Shares	28,750,000	31,484,118
Rebate Shares Issued Fully Paid	1,315,813	1,315,813
Unpaid Allocated Shares	204,088	0
	30,269,901	32,799,931
2014		
Deferred Shares	28,750,000	31,484,118
Rebate Shares Issued	1,334,570	1,334,570
Unpaid Allocated Shares	281,430	0
	30,366,000	32,818,688

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:

- There is no right to distributions, dividends or rebates.
- 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.
- The shares are not transferable, except to another local authority, or if 25 per cent of the voting shares are controlled by one person.
- The right to an equal distribution with the holders of the rebate shares on a winding up of the Company.

Rebate Shares issued

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note	2014 \$000	2013 \$000
8 Reconciliation of Retained Earnings		
Balance at start of the Year	92,417	85,667
Add Total Comprehensive Income for the Year	7,328	6,750
Closing balance at end of the Year	99,745	92,417
9 Cash and Cash Equivalents		
Cash at bank	(111)	25
	(111)	25
10 Inventories		
Distribution System	4,030	4,604
Communication Network	585	659
	4,615	5,263
No inventories are subject to retention of title clause or hedged as security for liability (2013: Nil).		
11 Trade and Other Receivables		
Account Receivables	6,013	5,763
Prepayments	528	371
Provision for impairment	(5)	(3)
	6,536	6,131
Ageing of Receivables is as follows:		
Current	6,408	5,825
Overdue 30-60 Days	49	287
61-90 Days	9	4
91 Days and over	70	15
	6,536	6,131
Individually impaired accounts receivable relate to customers for whom there is objective evidence of ability to pay. Generally, no collateral is held for account receivables.		
Changes in the impaired allowance amount		
Opening Balance	3	3
Addition/(Released)	2	0
Closing Balance	5	3
12 Intangible Assets		
Software		
Opening Purchase Cost	2,627	1,865
Additions in the Year	10	763
Scrapped in the Year	(9)	(1)
Closing Purchase Cost	2,628	2,627
Opening Accumulated Amortisation	2,026	1,747
Amortisation for the Year	143	280
Scrapped in the Year	(9)	(1)
Closing Accumulated Amortisation	2,160	2,026
Net Book Value	468	601
Add Work in Progress	0	10
Total Intangibles	468	611

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note	2014 \$000	2013 \$000
13 Naming Rights		
EA Networks Centre		
Purchase cost	1,000	0
Opening Accumulated Amortisation	0	0
Amortisation for the Year	0	0
Closing Accumulated Amortisation.	<u>0</u>	<u>0</u>
Book value of naming rights	<u>1,000</u>	<u>0</u>

EA Networks has purchased the naming rights to the Ashburton Stadium Complex Trust stadium for a period of 15 years from the date that the council officially opens the complex. The complex is due to be opened in the middle of 2015.

14 Property Plant and Equipment

	Electricity Reticulation Assets \$000	Buildings \$000	Land \$000	Vehicles \$000	Plant \$000	Office Equipment \$000	Communication Network \$000	Total \$000
Purchase cost as at 1 April 2012	251,475	1,624	7,426	5,524	3,482	1,024	13,865	284,420
Addition in year	15,827	10,383	8	526	1,465	566	1,537	30,312
Assets sold or scrapped	(2,222)	(31)	0	(215)	(8)	(66)	0	(2,542)
Purchase cost as at 31 March 2013	265,080	11,976	7,434	5,835	4,939	1,524	15,402	312,190
Purchase cost as at 1 April 2013	265,080	11,976	7,434	5,835	4,939	1,524	15,402	312,190
Addition in year	18,647	195	0	1,638	361	178	944	21,963
Assets sold or scrapped	(1,197)	0	0	(235)	(15)	(448)	(92)	(1,987)
Transferred to Inventory	(127)	0	0	0	0	0	0	(127)
Purchase cost as at 31 March 2014	282,403	12,171	7,434	7,238	5,285	1,254	16,254	332,039
Accumulated Depreciation as at 1 April 2012	92,861	450	0	3,652	2,408	836	1,274	101,481
Additional depreciation in the year	5,702	116	0	470	265	86	900	7,539
Recovery of depreciation on disposal	(974)	(29)	0	(175)	(8)	(65)	0	(1,251)
Accumulated Depreciation as at 31 March 2013	97,589	537	0	3,947	2,665	857	2,174	107,769
Accumulated Depreciation as at 1 April 2013	97,589	537	0	3,947	2,665	857	2,174	107,769
Additional depreciation in the year	6,026	667	0	607	509	174	974	8,957
Recovery of depreciation on disposal	(853)	0	0	(211)	(15)	(434)	(49)	(1,562)
Accumulated Depreciation as at 31 March 2014	102,762	1,204	0	4,343	3,159	597	3,099	115,164
Net Book Value 31 March 2013	167,491	11,439	7,434	1,888	2,274	667	13,228	204,421
Add Work in Progress	4,365	450	0	742	23	42	345	5,967
	<u>171,856</u>	<u>11,889</u>	<u>7,434</u>	<u>2,630</u>	<u>2,297</u>	<u>709</u>	<u>13,573</u>	<u>210,388</u>
Net Book Value 31 March 2014	179,641	10,967	7,434	2,895	2,126	657	13,155	216,875
Add Work in Progress	985	358	0	625	0	16	178	2,162
	<u>180,626</u>	<u>11,325</u>	<u>7,434</u>	<u>3,520</u>	<u>2,126</u>	<u>673</u>	<u>13,333</u>	<u>219,037</u>

Wage and Salary Capitalised to property, plant and equipment \$1,400,636 (2013: \$1,148,244)

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note	2014 \$000	2013 \$000
15 Assets Held for Sale		
Buildings	0	1,015
Land	0	83
	<u>0</u>	<u>1,098</u>

The assets held for sale relate in particular to the Company's administration office in Kermode Street Ashburton, which was on the market. However it is now being held as an investment property, refer to note 16.

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

16 Investment Property

	Land \$000	Buildings \$000	Fixture and fittings \$000	Total \$000
Purchase cost at 1 April 2012	0	0	0	0
Additions in the year	0	0	0	0
Transferred from held for sale	0	0	0	0
Purchase cost at 31 March 2013	0	0	0	0
Purchase cost at 1 April 2013	0	0	0	0
Additions in the year	0	10	0	10
Transferred from held for sale	83	1,471	128	1,682
Purchase cost at 31 March 2014	83	1,481	128	1,692
Accumulated Depreciation at 1 April 2012	0	0	0	0
Transferred from held for sale	0	0	0	0
Additional depreciation in the year	0	0	0	0
Accumulated depreciation at 31 March 2013	0	0	0	0
Accumulated Depreciation at 1 April 2013	0	0	0	0
Transferred from held for sale	0	488	96	584
Additional depreciation in the year	0	20	6	26
Accumulated depreciation at 31 March 2014	0	508	102	610
Book value at 31 March 2013	0	0	0	0
Book value at 31 March 2014	83	973	26	1,082
Add Work in Progress	0	84	0	84
Book value at 31 March 2014	83	1,057	26	1,166

Direct operating revenue and expenses associated with rental properties

	2014 \$000	2013 \$000
Rental income received from investment property	203	0
Direct operating expenses arising from investment property that generated rental income during the period.		
Maintenance	(34)	0
General	(27)	0
Depreciation	(26)	0
	<u>(87)</u>	<u>0</u>
Direct operating expenses arising from investment property that did not generate rental income during the period.	0	0
	<u>116</u>	<u>0</u>

At 31 March 2014 and 31 March 2013 no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements existed.

There are no restrictions on the realisability of investment property or the remittance of income associated with it as at 31 March 2014 or 31 March 2013.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note

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

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

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

Summarised financial information for the BCI joint venture	2014 \$000	2013 \$000
Statement of Financial Position		
Current assets		
Cash and cash equivalents	0	165
Other current assets	771	856
	771	1,021
Current liabilities		
Cash and cash equivalents	132	0
EA Networks preferential right to income	900	900
Financial liabilities (excluding trade payables)	168	329
Other current liabilities (including trade payables)	1,106	1,741
	2,306	2,970
Non-current assets	31,180	30,417
Non-current liabilities		
Financial liabilities	12,028	9,906
Other liabilities	4,240	4,461
	16,268	14,367
Net assets	13,377	14,101
Statement of Financial Performance		
The Company's share of income and expenses are:		
Income	7,353	5,920
Expenses	(5,886)	(5,015)
Interest	(509)	(494)
Depreciation and amortisation	(1,185)	(1,075)
Net Loss for the Period	(227)	(664)
EA Networks preferential right to income	(1,200)	(1,109)
Pre-tax profit from continuing operations	(1,427)	(1,773)
Income tax expenses	0	0
Post-tax profit from continued operations	(1,427)	(1,773)
Other comprehensive income	0	0
Total comprehensive income	(1,427)	(1,773)

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

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

Reconciliation of summarised financial income

Opening net assets as at 1 April 2013	14,101	14,984
Capital contributions made by Barrhill Chertsey Irrigation Limited in the year.	703	890
Loss for period	(1,427)	(1,773)
Closing net assets	13,377	14,101
Interest in joint venture' (55% 2014, 57% 2013)	7,355	8,068
Carrying value	7,355	8,068

Under the terms of the JV agreement Barrhill Chertsey Irrigation Limited is required to increase its equity share to match EA Networks equity contribution over an agreed period. Until that time EA Networks will have a proportionally larger interest in the Joint Venture.

The Joint Venture agreement includes a schedule detailing preferential right to income for EA Networks. For the 2014 year this preferential right to income was \$1,200,000 (2013 \$1,108,817). This payment is classed as an operating cost and operating income in the Joint Venture's and EA Networks financial statements.

EA Networks Annual Report for the year ended 31 March 2014

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 Derivative financial Instruments	2014	2013
Cash flow Hedges	\$000	\$000
Current Assets		
Interest Rate CAPS	0	15
Non-Current Assets		
Interest Rate CAPS	310	42
Interest Rates SWAPS	343	0
	653	42
Current Liabilities		
Interest Rate SWAPS	(45)	(51)
Non-Current Liabilities		
Interest Rate SWAPS	0	(241)
Total Value of Derivate Financial Instruments	608	(235)

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

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

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

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

19 Trade and other payables		
Trade Creditors	2,530	2,685
Interest Accrual	404	332
	2,934	3,017

20 Employee Entitlements	Leave Entitlement \$000	Other Entitlement \$000	Total Entitlement \$000
Balance as at 1 April 2012	950	606	1,556
Movement During the Period	15	40	55
Balance as at 31 March 2013	965	646	1,611
Balance as at 1 April 2013	965	646	1,611
Movement During the Period	82	33	115
Balance as at 31 March 2014	1,047	679	1,726

21 Financial Instruments

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note

21 Financial Instruments (continued)

	Loans and Receivables \$000	Assets at fair value through statement of financial performance \$000	Other financial liabilities at amortised cost \$000
Assets as per Statement of Financial Position as at 31 March 2013			
<i>Current Assets</i>			
Cash and Cash equivalents	25		
Trade receivables	6,131		
Derivate financial instruments		15	
<i>Non-Current Assets</i>			
Derivate financial instruments		42	
Total	6,156	57	0
Liabilities as per Statement of Financial Position as at 31 March 2013			
<i>Current Liabilities</i>			
Trade payables			3,017
Borrowings			17,500
Derivate financial instruments		51	
<i>Non-Current Liabilities</i>			
Borrowings			62,450
Derivate financial instruments		241	
Total	0	292	82,967

	Loans and Receivables \$000	Assets at fair value through statement of financial performance \$000	Other financial liabilities at amortised cost \$000
Assets as per Statement of Financial Position as at 31 March 2014			
<i>Current Assets</i>			
Trade receivables	6,536		
<i>Non-Current Assets</i>			
Derivate financial instruments		653	
Total Derivate financial instruments	6,536	653	0
Liabilities as per Statement of Financial Position as at 31 March 2014			
<i>Current Liabilities</i>			
Cash and Cash equivalents	111		
Trade payable			2,934
<i>Non-Current Liabilities</i>			
Derivate financial instruments		45	
Borrowings			80,650
Total Derivate financial instruments	45	45	83,584

Foreign Exchange Risk

The Company has no foreign exchange contracts in place at 31 March 2014 or 31 March 2013.

Interest Rate Risk

The Company has external long term funding arrangements that exposes it to interest rate risk. In order to manage the interest rate risk the Company employs a treasury policy, which requires the use of Swaps; Interest rate options; Caps; Collars and Swaptions. The treasury policy requires the following loan profile to be maintained:

	now and 2 years	Between 2-3 years	3-5years
Make-up of external funding:			
Floating	20%	30%	40%
Hedged	30%	30%	50%
Management discretion	50%	40%	10%
Total external funding	100%	100%	100%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note

21 Financial Instruments (continued)

Credit Risk

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

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

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

The maximum exposure to credit risk is the disclosed carrying values of cash, cash equivalents and accounts receivable. No security is held on any of these items. Further disclosures on accounts receivable are outlined in Note 11.

Liquidity Risk

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

	2014	2013
External funding arrangements		
Overdraft facility - BNZ	\$500,000	\$500,000
Long Term funding		
<i>Maturing within 12 months</i>		
Cash advance facility with BNZ	0	\$17,500,000
<i>Maturing greater than 12 months</i>		
Drawn down Westpac multi option credit line facility	\$32,000,000	\$32,000,000
Cash advance facility with BNZ	\$53,000,000	\$35,500,000
	\$85,000,000	\$67,500,000
Total long term funding available	\$85,000,000	\$85,000,000
Contractual Performance Bonds		
Dollar value of bonds in place with Westpac	\$41,107	\$41,107
Number of bonds in place with Westpac	2	2

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

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

Interest Rate Risk					
		6 months and less \$000	6-12 months \$000	1-2 years \$000	2-5 years \$000
2013					
Effective Total		38,950	3,000	13,000	25,000
Interest Rate	From	3.70%	5.40%	4.96%	3.60%
	To	3.83%	5.40%	6.55%	5.81%
2014					
Effective Total		37,150	3,000	18,000	22,500
Interest Rate	From	3.72%	6.60%	4.02%	4.26%
	To	4.96%	6.60%	5.86%	5.64%

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. It is estimated for the 2014 year there will be an increase in interest rates above the present fixed rates the Company have with its bankers. It is estimated that a one per cent increase/decrease in average interest rates would reduce/increase profit and equity by \$806,500 (2013 \$799,500).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note

21 Financial Instruments (continued)

Liquidity Forecast

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

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

Maturity of long term external funding				
	6 months and less \$000	6-12 months \$000	1-2 years \$000	2-5 years \$000
2013				
Effective Total	17,500	0	46,800	15,650
Interest on principal from now to maturity	1,532	1,373	1,158	215
Effective Total	19,032	1,373	47,958	15,865
Interest on principal due				
From	3.60%	0.00%	3.70%	3.79%
To	5.54%	0.00%	6.55%	6.32%
2014				
Principal	0	0	80,650	0
Interest payable	1,803	2,769	2,596	0
Effective Total	1,803	2,769	83,246	0
Interest on principal due				
From	3.72%	3.72%	3.72%	0.00%
To	6.60%	6.60%	6.60%	0.00%

The funding agreement with Westpac is due for renewal in September 2015. Traditionally when this loan comes up for renewal it has been renewed. All indications are that this loan will be renewed.

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

Capital Risk Management

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

Interest Coverage: Earnings before interest, tax, and rebate / Interest. Coverage of which is to be greater than or equal to 2.0.
Shareholder Funds Ratio: Total Shareholder Funds to be maintained in excess of 45% of Total Tangible Assets.

In order to maintain or adjust the capital structure, the Company may adjust the amount of discount paid to consumers.

Guarantees

The Company has given an interlocking guarantee for a funding facility supplied by The Bank of New Zealand for the Barrhill Chertsey Irrigation Ltd and Electricity Ashburton Ltd Joint Venture. The value of the interlocking guarantee as at 31 March 2014 is \$17,500,000. If Electricity Ashburton Ltd is called under the guarantee the Joint Venture assets are effectively secured for Electricity Ashburton Ltd.

Fair value hierarchy for derivatives

Fair Value hierarchy for derivatives as at 31 March 2013				
	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial asset at fair value through the Statement of Financial Performance				
Derivatives used for hedging				
Interest contracts	0	57	0	57
Total assets	0	57	0	57
Financial liabilities at fair value through the Statement of Financial Performance				
Derivatives used for hedging				
Interest contracts	0	292	0	292
Total liabilities	0	292	0	292

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note

21 Financial Instruments (continued)

Fair value hierarchy for derivatives (continued)

Fair Value hierarchy for derivatives as at 31 March 2014				
	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial asset at fair value through the Statement of Financial Performance				
Derivatives used for hedging				
Interest contracts	0	653	0	653
Total assets	0	653	0	653
Financial liabilities at fair value through the Statement of Financial Performance				
Derivatives used for hedging				
Interest contracts	0	45	0	45
Total liabilities	0	45	0	45

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

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

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

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

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

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

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

	2014 \$000	2013 \$000
Operating Surplus After Taxation	7,328	6,750
Add / (Less) Non-Cash Items:-		
Depreciation and Amortisation	9,126	7,818
Movement in Financial Derivatives	(843)	(12)
Movement in Deferred Taxation	873	726
Loss on sale	(292)	(137)
Discount used by shareholders to purchase shares	111	103
Return on Investment in Joint Venture	(1,200)	(835)
Loss from Joint Venture	713	887
	8,488	8,550
Movement in net Current Assets / Liabilities:-		
Decrease / (Increase) in Inventory	648	883
Decrease / (Increase) in Trade and Other Receivables	(405)	(668)
Decrease / (Increase) in Income Tax Refund Due	0	359
Increase / (Decrease) in Trade and Other Payables	(83)	(695)
Increase / (Decrease) in Employee Entitlement	115	55
Increase / (Decrease) in Taxation payable	373	300
	648	234
Other:-		
Inventory transferred from Property, Plant and Equipment	127	0
Trade and Other Payables relating to Property, Plant and Equipment.	(43)	739
	84	739
Net Cash Flows from Operating Activities	16,548	16,273

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 Operating Lease	2014 \$	2013 \$
Lessee		
Not later than 1 year	747	781
Later than 1 year and not later than 5 years	2,922	3,052
Lessor		
Not later than 1 year	528	458
Later than 1 year and not later than 5 years	1,279	1,225
24 Capital Commitments		
Electricity Ashburton Limited		
New Head Office	0	150
Transformers	979	0
Consignment Stock	811	104
Circuit breakers	0	207
Vehicle	157	129
	1,947	590
Share of Barrhill Chertsey Irrigation Limited and Electricity Ashburton Limited Joint Venture		
Construction cost	2,382	151
Total Capital Commitments	4,329	741
25 Contingent Liabilities		
EA Networks has guaranteed the funding agreement between the BNZ and the Barrhill Chertsey Irrigation Ltd and Electricity Ashburton Joint Venture Banking. The value of the guarantee at balance date was \$17,500,000 (2013 \$17,500,000).		
26 Related Party Transactions		
Ashburton District Council		
Ashburton District Council is a significant shareholder that holds 28,750,000 deferred shares		
<i>EA Networks has paid Ashburton District Council:</i>		
Rates	199,153	160,002
Lease	0	40,583
Other services	16,295	7,400
<i>Outstanding at balance date</i>		
Rates	34,404	27,137
Other services	1,297	312
<i>Ashburton District Council has paid EA Networks:</i>		
Contracting and Capital Contributions	148,800	159,296
Other	9,090	57,760
<i>Outstanding at balance date</i>		
Contracting and Capital Contributions	15,067	9,040
Other	713	713
Ashburton Trading Society (ATS)		
Mr P J McKendry is a Director of EA Networks and chairman of directors for ATS		
<i>Ashburton Trading Society has paid EA Networks:</i>		
Lease	160,031	27,705
Outstanding at balance date	11,998	0

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note		2014	2013
26	Related Party Transactions (continued)		
		\$	\$
	Ashburton Contracting Limited (ACL)		
	Mr M W Frost a Director of EA Networks and a Director of ACL		
	<i>EA Networks has paid Ashburton Contracting Limited:</i>		
	Contracting Services	717,325	164,070
	Vehicle Repairs	15,817	
	Outstanding at balance date		
	Contracting Services	84,050	4,012
	Vehicle Repairs	1,421	0
	<i>Ashburton Contracting Limited has paid EA Networks:</i>		
	Contracting Services	14,589	5,971
	Outstanding at balance date	5,109	124
	Barrhill Chertsey Irrigation Limited Electricity Ashburton Limited Joint Venture		
	<i>The Joint venture has paid EA Networks</i>		
	Management Fees	24,722	23,172
	Preferential right to income	1,200,000	835,267
	Contracting Services	33,754	1,316
	Outstanding at balance date		
	Right to income (not due for payment until 30 June)	900,000	900,000
	Management Fee	1,851	1,391
	Irrigo Centre Limited		
	<i>Irrigo Centre limited has paid EA Networks:</i>		
	Lease	7,810	0
	Outstanding at balance date	3,905	0
	The Barrhill Chertsey Irrigation Limited Electricity Ashburton Limited Joint Venture holds 20% of the shares in Irrigo Limited.		
	All related parties transactions are carried out under normal commercial terms.		
27	Key Management Personnel Compensation		
	The compensation of executives being the key management personnel of the Company is set out below:		
	Short term employment benefits	1,142	1,052
	Post-employment benefits	0	0
	Long term benefits	0	0
	Termination benefits	0	0
	Outstanding benefits at balance date		
	Long term benefits outstanding	13	12
	Termination benefits outstanding	99	87

28 Subsequent Events

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



Independent Auditors' Report

to the shareholders of Electricity Ashburton Limited

Report on the Financial Statements

We have audited the financial statements of Electricity Ashburton Limited ("the Company") on pages 5 to 27, which comprise the balance sheets as at 31 March 2014, the statements of comprehensive income, statement of cash flow, and the statements of changes in equity and members' interests for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for the Company.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We have no relationship with, or interests in, Electricity Ashburton Limited other than in our capacities as auditors and we have carried out assignments in the areas of compliance with the Electricity Distribution (Information Disclosure) Requirements 2008 and other regulatory requirement of the Commerce Act 1986. These services have not impaired our independence as auditors of the Company.

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Opinion

In our opinion, the financial statements on pages 5 to 27:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company as at 31 March 2014, and its financial performance for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1) (d) and 16(1) (e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year 31 March 2014:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Use of our Report

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' 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.

A handwritten signature in black ink, appearing to read 'Priscilla Handberg', is written over the printed name.

Chartered Accountants
11 June 2014

Christchurch