

# ***CENTRALINES LIMITED***

## ***ANNUAL ACCOUNTS***

For the year ended 31 March 2011

17A

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## Company Vision

- Striving to secure the future

## Mission Statement

- To sustainably provide a safe, efficient and reliable electricity network system
  - To efficiently provide high quality services for all customers
  - To actively contribute to the development of the CHB community
    - To be a great place to work

## Values

### ▪ Safety First

Centralines values the wellbeing and safety of its staff, its contractors and the community above all else

### ▪ Team Work

Centralines values the contribution of all the members of the team. We place ambitions of the team and company above personal ambitions

### ▪ Continuous Improvement

All staff are encouraged to be innovative and creative in the ongoing improvement of processes, services and results

### ▪ Integrity

Centralines is committed to the achievement of the highest levels of integrity, with all staff encouraged to set a great example in all facets of their work

### ▪ Accountability

All staff are encouraged to exercise appropriate judgement and be accountable for their actions

### ▪ Respect and Appreciation

We treat all people with dignity and respect; we appreciate diversity of backgrounds, and recognise the contribution of others

### ▪ Enjoyment

Centralines believes that coming to work should be a rewarding experience.

## Statutory Information

### For the year ended 31 March 2011

The Board of Directors present their annual report including financial statements of the Company for the year ended 31 March 2011. As required by section 211 of the Companies Act 1993, we disclose the following information:

#### Nature of Business

The Company's activities have not changed during the year under review.

#### Results

The operating profit before discount, interest and tax for the year was \$3.61m. The annual net profit was \$2.18m after allowance for discount and tax. This compares with an operating profit in 2010 of \$2.90m, a net profit of \$1.62m after allowance for discount and tax.

#### Directors

The Directors received the following remuneration during the year under review:

J R Aitken	(Chairman)	\$51,014.00	Reappointed 23 July 2009
S A Robinson	(Director)	\$26,000.00	Reappointed 19 July 2010
J J Loughlin	(Director)	\$26,000.00	Reappointed 23 July 2009
J M Willis	(Director)	\$26,000.00	Reappointed 19 July 2010

Directors and Officers Liability Insurance premiums of \$4,775 were paid during the year under review.

#### Dividend


There was a dividend of \$400,000 paid for the year ended 31 March 2011.

#### Audit Fees

Audit fees payable to Audit New Zealand as at 31 March 2011 were \$48,000 (2010-\$49,000).

#### Accounting Policies

There have been no changes from the accounting policies adopted in the last audited financial statements. All other policies have been applied consistently with the previous period.



### **Interests Register**

Directors disclosed an interest or cessation of interest in the following entities during the year ended 31<sup>st</sup> March, 2011.

#### **J.R. Aitken**

Centralines Limited - Chairman  
Centralines Limited - Consumer  
Wool Grower Holdings - Director  
Silver Fern Farms – Shareholder  
Rangitapu Station – Director/Shareholder

#### **J.J. Loughlin**

Centralines Limited - Director  
Zespri Group Limited (and subsidiaries & associates) – Chairman  
Allied Farmers Limited (and subsidiaries & associates) – Chairman/Shareholder – Ceased  
Allied Nationwide Finance Ltd – Chairman - Ceased  
Metlifecare Limited – Director  
Kermadec Property Fund Ltd – Director/Shareholder  
Taupo Motorsport Park Ltd – Director/Shareholder  
Tru-Test Corporation Ltd - Chairman  
Askerne Estate Winery Ltd - Chairman/Shareholder  
Loughlin Viticulture & Consulting Ltd - Chairman/Shareholder  
Firstlight Foods NZ Ltd (and subsidiaries & associates) – Director  
Port of Napier - Director  
AgResearch Limited – Director

#### **S.A. Robinson**

Centralines Limited – Director  
Centralines Limited – Consumer (4 ICP's)  
Touere Water Supply Company (1 ICP)  
S A Robinson Family Trust - Trustee & Beneficiary  
Assure Quality Limited – Director  
Silver Fern Farms Ltd – Shareholder  
PSIS Limited – Director  
AgResearch Ltd – Chairman  
Project Leadership Group – Ruataniwha water storage

#### **J.M Willis**

Centralines Limited – Director  
Centralines Limited – Consumer  
DL & JN Willis – Partner  
Sampford Trust – Trustee & Beneficiary  
Silverfern Farms – Shareholder

**FOR AND ON BEHALF OF THE BOARD**

**James Aitken**  
**Chairman**



## Chairman and Chief Executive's report.

We are proud of what Centralines Limited has achieved for the year ended 31 March 2011 and are pleased to report on the financial and operational activities.

Highlights for the year include:

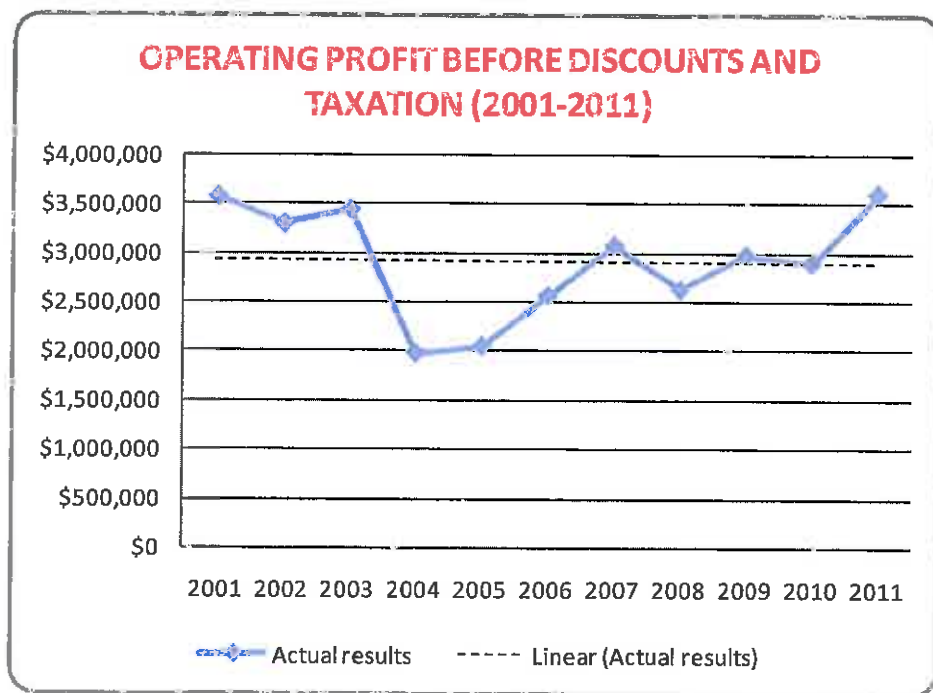
1. A sound profit result, enabling the payment of a discount to beneficial consumers totalling \$769,000.
2. Continued good network reliability.
3. Completion of a large capital programme, which will enable further improvement in the reliability and security of the network.
4. Completion of the fibre optic cable rollout from the OngaOnga GXP to two major substations and the Centralines office.
5. The customer satisfaction with service delivery was 98%, a 1% increase on the previous year.
6. Centralines staff satisfaction with their employment experience continues to be very positive with high levels of satisfaction recorded.
7. Significant improvement in Occupational Health and Safety performance.

## Financial Results

Centralines' profit before interest, customer discounts and tax reached \$3.6 million for the year which is in line with performance expectations and continues the sound and sustainable financial performance results being targeted by Centralines in recent years.

Regulated revenue has continued to increase in line with expectations to enable progression toward appropriate returns on investment. Non regulated business has decreased but has been offset by the increase in capital contributions. This enabled the payment of a continued high level of discount, with \$769,000 returned to beneficial consumers.

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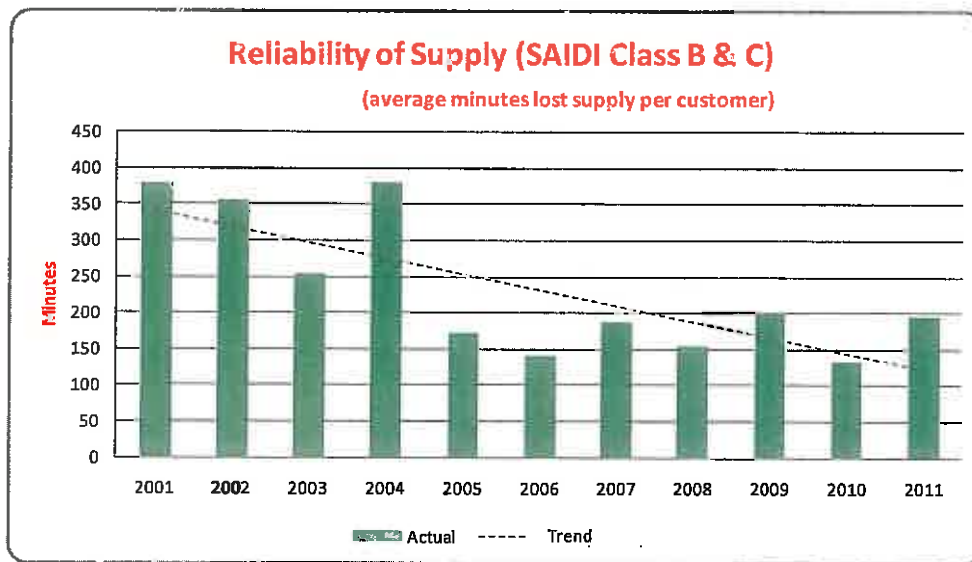
### Network Performance

Centralines monitors the performance of the network using both System Average Interruption Duration Index (SAIDI), which measures the average minute's loss of supply experienced per customer, as well as System Average Interruption Frequency Index (SAIFI), which measures the average number of losses of supply experienced per customer. In simple terms, these measures indicate how long our customers are without power during the year, on average, as well as how many times power has been off, on average.

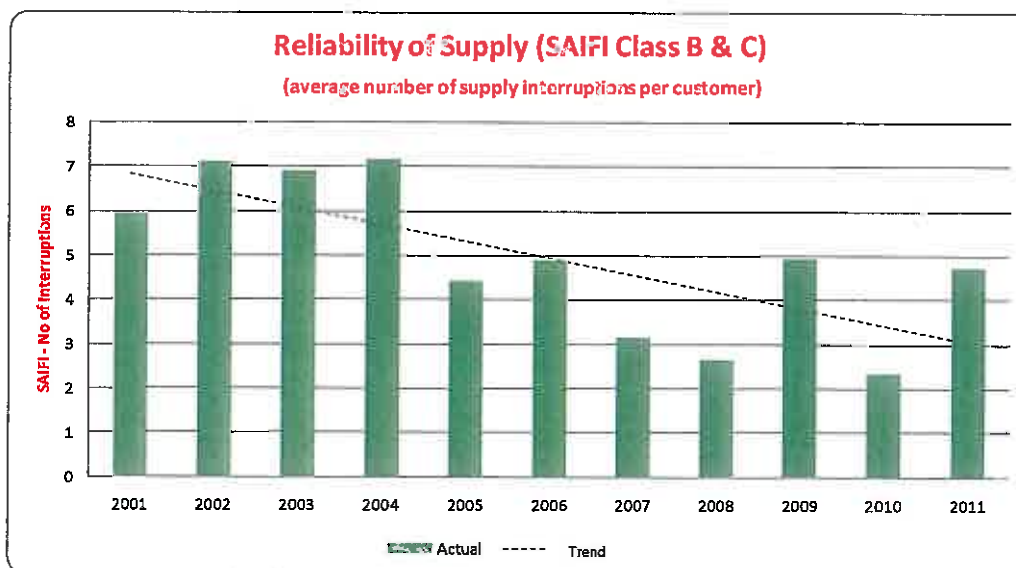
For the year ending 31 March 2011, the SAIDI result was ~~194.5~~ **194.5** minutes. This is higher than that achieved last year, due to an increase in planned outages associated to the large capital works program. The SAIDI graph following illustrates the performance over 10 years since 2001, clearly demonstrating the sustained improvement in performance that has been attained.

*J. A. A.*

*[Signature]*



For the year ending 31 March 2011, the SAIFI result was 4.71 interruptions. This is higher than the regulatory threshold of 4.22 and as SAIDI has, been affected by the large capital works program. The SAIFI graph illustrates the performance over 10 years since 2001, again demonstrating the sustained improvement in performance that has been attained.



Compared to other similar electricity lines companies, these are good network reliability results. These results have been achieved through the capital investment strategy which has focused on improving reliability through the use of new technology, coupled with a more traditional approach to lower the level of risk of asset failures at key locations on the network.

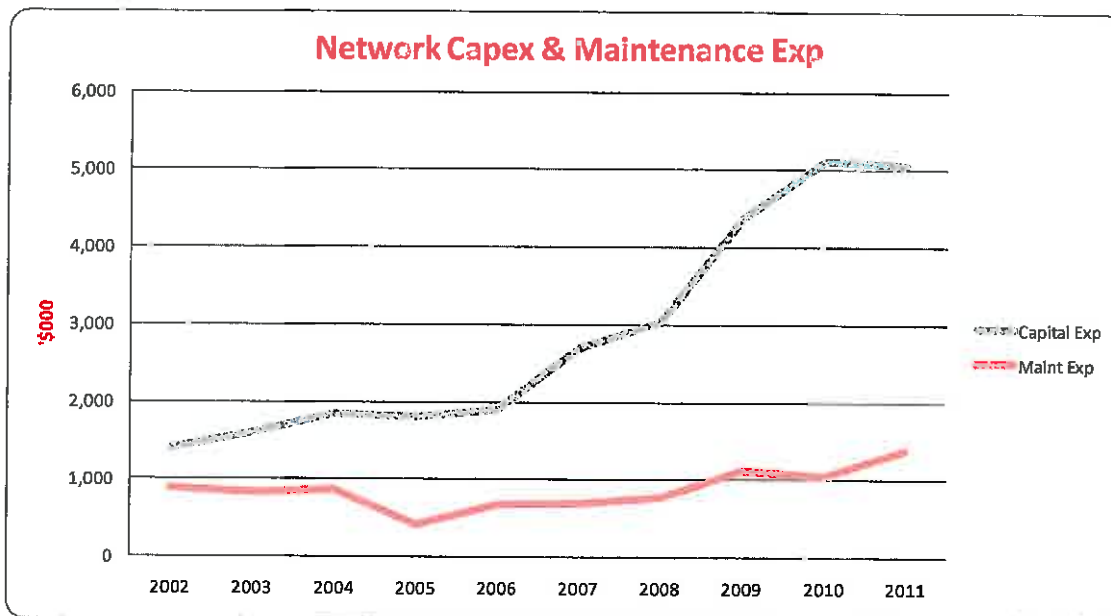
*J. J. A.*

### Network Investment

The prudent management of our electricity distribution assets continues to be the core of the Company's operations. The 2011-2021 Asset Management Plan details evolving asset management strategies aimed at ensuring reliability improvements attained are both efficiently sustained and continue to improve over time.

These strategies have included a period of greater capital investment which was completed in 2010/11. A more sustainable \$3.43 million of investment in the network is planned for 2011/12, (2009/10 \$5.12 million).

This expenditure is aimed at continuing the improvement of the overall level of security of supply to the majority of the Centralines network through reconfiguring the 33kV supply to the Waipukurau and Wilder Substations. In addition, these investments will also improve the reliability of supply to the areas where customers are experiencing the worst levels of performance on the network.



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### **Service Delivery**

Every customer contact is seen as an opportunity to enhance the relationship Centralines has with customers. In addition to monthly monitoring of service delivery performance for all services, Centralines undertakes a survey of a sample of customers who have received either regulatory or non regulatory services during the previous month to enable understanding of perceptions of our performance. For the 20010/11 year, 14% of all customers that services were performed for were surveyed and 98% of all customers were satisfied with our service delivery. This continues the previous strong results for Centralines and is indicative of the strong customer service focus within the company.

### **Regulation**

As a consumer trust owned company, Centralines is disappointed not to have been able to be recognised as "Consumer-owned" by the Commerce Commission as this would have provided Centralines with exemption from price-quality regulation. As a result, Centralines faces a future where key investment drivers that underpin the continued flow of capital into vital infrastructure may be compromised. Investment capital is a scarce resource in New Zealand and unless the sector can demonstrate it can continue to earn an adequate return on its inputs, sufficient investment will be compromised.

During 2010/11 the quality thresholds (SAIDI / SAIFI) were reset to the previous five year average (SAIDI = 197.5 minutes (previously 313.2) & SAIFI = 4.22 interruptions (previously 5.5)). Even though the large capital works program meant an increase in the number of planned outages, Centralines still managed to keep within the new SAIDI threshold. However there was a breach of SAIFI (4.7).

### **Business Development**

Identifying and developing new business opportunities that complement Centralines' core business and offer significant benefit to Central Hawke's Bay power consumers continues to be a key objective. To this end Centralines partnered with Hawke's Bay based Unison Fibre with two bids submitted under the Government Ultra Fast Broadband Initiative aimed at enabling fibre connections to the urban and rural areas of Central Hawke's Bay. Unfortunately both these bids were unsuccessful. Centralines, together with Unison Fibre, continue to look at opportunities that will help deliver better telecommunication services to Central Hawkes Bay.



### **The CHB Consumers Power Trust**

The Company continues to enjoy an open and consultative relationship with its shareholder, the Central Hawke's Bay Consumers Power Trust. This relationship has enabled robust and objective debate on the strategic intent of Centralines which continues to be of benefit to all.

### **Our People**

Centralines has a full appreciation of the need to maintain a highly skilled and dedicated team. Indeed Centralines' strong performance is a reflection of the levels of commitment and effort given by the entire team. In the current environment this often proves challenging to maintain with many opportunities existing for specialised staff within the industry. To provide a challenging and rewarding employment experience Centralines continues to invest in the further development of in-house capability.

Centralines' aim is to be considered as a great place to work by staff. To enable understanding of the individual perception of all staff members, annual surveys are conducted which revealed all staff reporting they were either satisfied or very satisfied with working at Centralines. While this is a good result, Centralines recognises the need for continual improvement and to that end a number of internal initiatives to enhance the employment experience and improve Centralines' operations have been undertaken during the year, including an employee wellbeing programme, a revised reward and recognition scheme and a safety focused culture change programme.

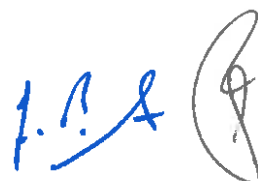
### **Community Initiatives**

In addition to the payment of a substantial discount to all beneficial consumers, Centralines continues to actively support a range of local events and initiatives. Over the past year these have included the Waipukurau Community Pool, the Lowe Walker Rescue Helicopter, The Art Extravaganza conducted in conjunction with "The Festival", as well as a number of smaller community based sponsorships.

### **Future Outlook**

The coming year promises to be exciting journey with a capital works programme that will continue to increase the utilisation of the new fibre optic network which will improve the speed of the protection of the sub-transmission network and Centralines' IT systems performance. The 2011/12 capital program will further enable improve the reliability and security of supply.

With strong network performance, a sound asset management plan, a great team and an excellent financial position, Centralines is well placed to take advantage of the emerging opportunities relative to its core business.

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### Acknowledgement

We also wish to express our gratitude to the Centralines Directors, Management Team and staff for their ongoing commitment, energy and enthusiasm, which has enabled achievement of the results for 2011. As a result of their efforts, Centralines remains well positioned to meet the challenges of the future.



**James Aitken**  
Chairman



**Ken Sutherland**  
Chief Executive



## TRUSTEES' REPORT

On behalf of consumers the Central Hawke's Bay Consumer Power Trust owns all the shares of Centralines Limited, the electricity lines company serving Central Hawke's Bay. The Trust exercises its ownership responsibilities through a Statement of Corporate Intent negotiated annually with the Centralines' Directors and by appointing these Directors. Communication between the Trust and Board and Management of Centralines continues to be regular and comprehensive.

Centralines' performance against specific targets set in the Statement of Corporate Intent can be seen in the Company's Annual Report. Reported 2011 financial performance has exceeded the targets set for the period. The Contracting division exceeded its SCI target but continues to feel the effects of prevailing economic constraints.

Expenditure on planned renewal and enhancement of network assets has continued and amounted to \$6m in the 2011 year. Such expenditure necessarily leads to a reduction of cash reserves but the Trustees remain content that the current expenditure on improvement is warranted. Events in Christchurch over recent months highlight the potential demand on resources, both physical and financial, in the event of a natural disaster and it will be appropriate for the Trustees and the Board to be discussing the Company's contingency planning. It is to be noted that the physical response by Centralines following the devastating coastal floods in April has drawn much favourable comment and the Company is to be commended for the speed and effectiveness of that response.

The Company has paid a discount to consumers in the 2011 year. As always, a decision to pay a discount in any year depends upon circumstances and future obligations and it is expected that the Trustees will continue to be kept well-informed on this matter.

Centralines has been involved, through association with Unison, in mounting a bid for the installation of ultra-fast-broadband in our region. However, with the awarding of the contract to Telecom, those efforts have come to nought. Centralines continues to have the infrastructure to facilitate UFB and opportunities may yet arise to take advantage of that infrastructure.

During the year the Trust became a principal sponsor for the refurbishment of the Waipawa Town Hall as part of Waipawa's 150<sup>th</sup> jubilee celebrations. At a cost of \$350,000 the Trust is entitled to exercise naming rights for the building for a period of 10 years. The Trustees consider that this is a very relevant project to be involved with; the iconic building plays a major role in Central Hawke's Bay life and the present project ensures that this will continue to be the case.

The primary focus of the Trust continues to be the security of our region's electricity reticulation network and the Trustees are satisfied that expectations in that regard continue to be met.

**Pat Gallagher - Chairman**



**CENTRALINES LIMITED**  
**Statement of Financial Performance**

For the year ended 31 March 2011

	Notes	2011 \$000	2010 \$000
Operating Revenue	3	10,943	10,332
Surplus before discounts and tax	3	3,612	2,898
Discount		(769)	(772)
Operating Surplus before taxation	3	2,843	2,126
Taxation expense	4	(663)	(509)
Net Surplus after income tax		2,180	1,617

**CENTRALINES LIMITED**  
**Statement of Movements in Equity**

For the year ended 31 March 2011

	Notes	2011 \$000	2010 \$000
Net Surplus for the year		2,180	1,617
Other recognised revenues and expenses			
Revaluation of land and buildings	14	-	-
Revaluation of network assets	14	-	(4,662)
Total recognised revenues and expenses for the period		2,180	(3,045)
Distribution to owners	15	(400)	(50)
Movements in equity for the year		1,780	(3,095)
Equity at start of the year		45,123	48,218
Equity at end of the year		46,903	45,123

The accompanying notes and significant accounting policies form part of these financial statements.

*J. 114* *[Signature]* *[Signature]*

**CENTRALINES LIMITED**  
**Statement of Financial Position**

As at 31 March 2011

	Notes	2011 \$000	2010 \$000
<b>EQUITY</b>			
Share capital		8,000	8,000
Asset revaluation reserve	14	22,332	22,332
Retained earnings	15	16,571	14,791
		<u>46,903</u>	<u>45,123</u>
<b>Represented by:</b>			
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment	6	44,569	40,634
Investments	5	-	1,648
		<u>44,569</u>	<u>42,282</u>
<b>CURRENT ASSETS</b>			
Cash		1,442	4,301
Short term investments	5	2,580	526
Receivables	7	1,192	1,131
Inventories		292	271
Taxation refund	3	-	-
		<u>5,506</u>	<u>6,229</u>
<b>TOTAL ASSETS</b>		<u>50,075</u>	<u>48,511</u>
<b>NON CURRENT LIABILITIES</b>			
Employee entitlements	16	100	130
		<u>100</u>	<u>130</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable and accruals	19	2,661	2,907
Taxation payable	4	238	195
Employee entitlements	16	173	156
		<u>3,072</u>	<u>3,258</u>
<b>TOTAL LIABILITIES</b>		<u>3,172</u>	<u>3,388</u>
<b>NET ASSETS EMPLOYED</b>		<u>46,903</u>	<u>45,123</u>

For and on behalf of the Board

Director

Director

Date: 27/6/2011

The accompanying notes and significant accounting policies form part of these financial statements.

*Handwritten signatures and initials:*  
 J.A. [Signature] M.M.

**CENTRALINES LIMITED**  
**Statement of Cash Flows**

For the year ended 31 March 2011

	Notes	2011 \$000	2010 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash was provided from:			
Receipts from customers		10,194	9,555
Contributions for capital works		389	270
Tax Refunds		-	183
Interest received		177	419
		<u>10,760</u>	<u>10,427</u>
Cash was disbursed to:			
Payments to suppliers and employees		6,356	8,203
Income taxes paid		620	558
		<u>6,976</u>	<u>8,761</u>
Net cash flows from operating activities	10	<u>3,784</u>	<u>1,666</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash was provided from:			
Proceeds from disposal of investments		1,648	5,900
Surplus on disposal of property, plant, equipment and investments		122	222
		<u>1,770</u>	<u>6,122</u>
Cash was applied to:			
Purchase of investments		2,055	200
Purchase and construction of property, plant and equipment		5,958	3,292
		<u>8,013</u>	<u>3,492</u>
Net cash flows from investing activities		<u>(6,243)</u>	<u>2,630</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash was applied to:			
Payment of dividends		400	50
Payment of finance leases		-	-
		<u>(400)</u>	<u>(50)</u>
Net cash flow from financing activities		<u>(400)</u>	<u>(50)</u>
Net (decrease) increase in cash held		(2,859)	4,246
Cash balances at beginning of year		4,301	55
Cash balances at end of year		<u>1,442</u>	<u>4,301</u>

The accompanying notes and significant accounting policies form part of these financial statements.

*f.B. f* *Nov*

**CENTRALINES LIMITED**  
**Notes to the Financial Statements**

For the year ended 31 March 2011

**1 Basis of Preparation**

The financial statements presented here are for the reporting entity Centralines Limited, a Company registered under the Companies Act 1993. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain assets as identified in specific accounting policies below.

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The accounting policies that materially affect the measurement of financial performance, financial position and cash flows are set out below.

There has been no change to accounting policies during the year.

**2 Specific Accounting Policies**

**2.1 Operating Revenue**

Revenue comprises amounts earned for the sale of the Company's products and services net of returns, trade allowances and taxes paid. Interest income is recognised on an accrual basis.

**2.2 Income Tax**

The income tax expense charged to the Statement of Financial Performance includes both the current year's provision and the income tax effects of timing differences calculated using the liability method.

The taxation charge against the surplus for the period is the estimated liability in respect of that surplus after allowance for all the permanent differences and timing differences not expected to crystallise in the foreseeable future. This is the partial basis for the calculation of deferred tax.

Future taxation benefits attributable to timing differences or losses carried forward are recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences will be realised or any losses utilised.

**2.3 Goods and Services Tax (GST)**

The financial statements have been prepared with revenue and expense items exclusive of GST. In the Statement of Financial Position, accounts receivable and accounts payable are inclusive of GST. All other assets and liabilities are exclusive of GST.

**2.4 Receivables**

Receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year end. Bad debts are written off during the year in which they are identified.

**2.5 Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

**2.6 Property, Plant and Equipment**

**Distribution Assets**

Distribution assets are valued at fair value based on a Discounted Cashflow model (DCF) as independently reviewed by Lynne Taylor, Director, PriceWaterhouseCoopers and Chris Taylor, Partner, PriceWaterhouseCoopers. These valuations were completed internally by suitably qualified employees as at 31 March 2010.



**CENTRALINES LIMITED**  
**Notes to the Financial Statements**  
For the year ended 31 March 2011

Land and Buildings

Land and Buildings are valued at market value as independently determined by Peter A Brabyn, B Ag Comm, M Sc, (Ag Econ) ANZPI, MNZIPIM. These valuations were completed as at 31 March 2008.

Vehicles, Plant, Furniture and Fittings and Office Equipment

The value of vehicles, plant, office equipment, furniture and fittings are at cost less depreciation.

Revaluations

Any revaluation surplus arising on the revaluation of a class of property, plant or equipment is transferred directly to the asset revaluation reserve. A revaluation deficit in excess of the asset revaluation reserve balance for that class of property, plant or equipment is recognised in the Statement of Financial Performance in the period it arises. Revaluation surpluses which reverse previous revaluation deficits recognised in the Statement of Financial Performance are recognised as revenue in the Statement of Financial Performance.

Disposal of Property, Plant and Equipment

When an item of property, plant or equipment is disposed of, any gain or loss is recognised in the Statement of Financial Performance and is calculated as the difference between the sale price and the carrying value of the asset.

The carrying values of property, plant and equipment do not exceed their estimated recoverable value.

Depreciation

Depreciation of property, plant and equipment, other than freehold land, is calculated on a straight line basis so as to expense the cost of the assets, or the revalued amounts, to their residual values over their useful lives as follows:

Estimated useful lives	
Buildings	50 - 100 years
Office and computer equipment	5 - 15 years
Distribution system	0 - 70 years
Motor vehicles	3 - 15 years
GIS	10 years
Plant, equipment and tools	5 - 10 years

Subsequent Expenditure

Subsequent expenditure relating to an item of property, plant and equipment is added to its gross carrying amount when such expenditure either increases the future economic benefits beyond its existing service potential, or is necessarily incurred to enable future economic benefits to be obtained, and that the expenditure would have been included in the initial cost of the item had the expenditure been incurred at that time.

Capitalisation

Capital expenditure is defined as all expenditure incurred in the creation of a new asset, replacement of an asset that has reached the end of its economic life, or increased service potential of an existing asset. Constructed assets are included in property, plant and equipment as each becomes operational and available for use.

**2.7 Employee Entitlements**

A liability for annual leave, long service leave and retirement gratuities is accrued and recognised in the Statement of Financial Position. Liabilities for annual and long service leave are calculated on an entitlement basis at current rates. Retirement gratuity liability is calculated using current rates and appropriate probabilities.

**2.8 Investments**

All investments are stated at cost price and then adjusted to account for amortisation of premiums or discounts to face value.

**CENTRALINES LIMITED**  
**Notes to the Financial Statements**

For the year ended 31 March 2011

**2.9 Leases**

Leases under which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance lease are stated at an amount equal to the present value of the future minimum lease payments, and are depreciated as described above.

**2.10 Financial Instruments**

Financial instruments recognised in the Statement of Financial Position include cash and bank balances, investments, receivables and trade creditors. These financial assets and financial liabilities are generally carried at their estimated fair values and, where appropriate, particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

**2.11 Statement of Cash Flows**

The statement of cash flows is prepared exclusive of GST, which is consistent with the method used in the statement of financial performance.

The following are the definitions of the terms used in the statement of cash flows:

- (1) Operating activities include all transactions and other events that are not investing or financing activities.
- (2) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Investments include securities not falling within the definition of cash.
- (3) Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash.
- (4) Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts.



**CENTRALINES LIMITED**  
**Notes to the Financial Statements**

For the year ended 31 March 2011

3 Surplus before Taxation	2011 \$000	2010 \$000
<u>Operating Revenue</u>		
Network	9,703	8,716
Contracting	548	698
Customer contributions	389	270
Interest revenue	177	419
Other Income	126	229
	<hr/> 10,943	<hr/> 10,332
<u>Depreciation</u>		
Electrical distribution system	1,297	1,926
Freehold buildings	16	16
Motor vehicles	113	104
Plant, equipment and tools	16	12
Office furniture and equipment	19	20
GIS	55	55
	<hr/> 1,516	<hr/> 2,133
<u>Operating Expenses</u>		
Audit New Zealand - audit services	48	49
Audit New Zealand - disclosure accounts	12	12
Fees paid to other auditors	25	20
Remuneration paid to directors	129	122
Bad debts written off	18	5
Increase/(decrease) in provision for doubtful debts	(1)	(2)
Donations	2	2
Loss on sale of property, plant and equipment	-	3
All other operating expenses	5,582	5,090
	<hr/> 5,815	<hr/> 5,301
<b>Surplus before discounts and tax</b>	<hr/> <b>3,612</b>	<hr/> <b>2,898</b>
Discount	769	772
<b>Surplus before taxation</b>	<hr/> <b>2,843</b>	<hr/> <b>2,126</b>

*1.12.11* *[Signature]* *[Signature]*

**CENTRALINES LIMITED**  
**Notes to the Financial Statements**  
For the year ended 31 March 2011

4 Income Tax	2011	2010
	\$000	\$000
<u>Taxation</u>		
Operating surplus before taxation	2,843	2,126
Prima facie tax @ 30%	853	638
Permanent differences	273	494
Timing differences not recognised	(462)	(520)
Prior period adjustments	(1)	(103)
<b>Taxation expense/(benefit)</b>	<b>663</b>	<b>509</b>

Taxation expense/(benefit) is represented by:

Current tax	663	509
	<b>663</b>	<b>509</b>

The Company has not recognised a deferred tax liability of \$5.1 million (2010 \$5 million)

Taxation payable/(refund)

Opening balance	195	61
Current year taxation expense/(benefit)	663	509
Taxation paid	(620)	(558)
Taxation refund received	-	183
Imputation credits attached to dividends received	-	-
	<b>238</b>	<b>195</b>

Imputation credit account

Opening balance	5,576	5,222
Prior period adjustment	-	-
Taxation paid	620	558
Taxation refund received	-	(183)
Imputation credits attached to dividends paid	(171)	(21)
Imputation credits attached to dividends received	-	-
<b>Closing balance</b>	<b>6,025</b>	<b>5,576</b>

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**CENTRALINES LIMITED**  
**Notes to the Financial Statements**

For the year ended 31 March 2011

5 Investments	2011	2010
	\$000	\$000
<u>Current</u>		
Short term deposits held with registered banks	2,580	526
Current Investments of other listed securities	-	-
	<u>2,580</u>	<u>526</u>

*Market fluctuations in interest rates affect the earnings on these investments but Company policy of placing deposits with high credit quality financial institutions minimises the credit exposure*

Non-Current

Other listed securities	-	1,648
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Fair and market value information

Listed securities	-	1,751
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*The market value is based on prices quoted on the stock exchanges at balance date*

Interest rates

*The range of interest rates on investments were:*

Short term bank investments - On Call	3.65%	-
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**CENTRALINES LIMITED**  
**Notes to the Financial Statements**  
For the year ended 31 March 2011

6 Property, Plant and Equipment	2011 \$000	2010 \$000
<u>Electrical distribution network</u>		
at valuation	36,115	36,115
additions at cost	7,294	-
Work in progress	679	2,989
accumulated depreciation	(1,297)	-
	<hr/> 42,791	<hr/> 39,104
<u>Freehold buildings</u>		
at valuation	611	611
at cost	27	14
accumulated depreciation	(48)	(32)
at valuation	<hr/> 590	<hr/> 593
<u>Freehold Land</u>		
at valuation	<hr/> 380	<hr/> 380
<u>Motor vehicles</u>		
at cost	1,659	1,253
accumulated depreciation	(1,134)	(1,021)
	<hr/> 525	<hr/> 232
<u>Plant, equipment and tools</u>		
at cost	498	469
accumulated depreciation	(428)	(412)
	<hr/> 70	<hr/> 57
<u>Office and computer equipment</u>		
at cost	335	316
accumulated depreciation	(262)	(243)
	<hr/> 73	<hr/> 73
<u>GIS</u>		
at cost	551	551
accumulated depreciation	(411)	(356)
	<hr/> 140	<hr/> 195
<b>Total net carrying value</b>	<hr/> <b>44,569</b>	<hr/> <b>40,634</b>

This is represented by:

Property, plant and equipment at valuation	37,106	37,106
Property, plant and equipment at cost	10,364	2,603
Work in progress	679	2,989
Accumulated depreciation	(3,580)	(2,064)
	<hr/> <b>44,569</b>	<hr/> <b>40,634</b>

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**CENTRALINES LIMITED**  
**Notes to the Financial Statements**

For the year ended 31 March 2011

7 Receivables and prepayments	2011 \$000	2010 \$000
Trade debtors	993	927
Provision for doubtful debts	(7)	(7)
Sundry Receivables and Accruals	199	211
Prepayments	7	-
	<b>1,192</b>	<b>1,131</b>

8 Related Party Information

CHB Consumers Power Trust owns all of the issued capital of Centralines Limited.

Directors and Trustees transactions with the company were made under normal terms and conditions of supply and sale. No discounts on electrical contracting were given during the year.

	2011	2010
Goods supplied	8,237	26,332

As at 31 March 2011, the total amount outstanding was nil (2010 nil)

Centralines Limited has a management contract operated by Unison Networks Limited, an electricity lines company based in Hastings. This contract provides for executive, financial and technical managerial services for Centralines Limited. For commercial reasons the values of this contract is not disclosed.

9 Capital Commitments

As at 31 March 2011 Centralines had capital commitments of \$168,374 (2010 \$832,490).

10 Reconciliation of Cashflow with Operating Surplus	2011 \$000	2010 \$000
<b>Reported surplus after taxation</b>	<b>2,180</b>	<b>1,617</b>
<u>Add Non Cash Items</u>		
Increase/(decrease) in doubtful debts	(1)	(2)
Depreciation	1,516	2,133
	<b>1,515</b>	<b>2,131</b>
<u>Changes in Working Capital</u>		
Decrease (increase) in receivables and prepayments	(61)	134
(Increase) decrease in inventories	(21)	161
Increase (decrease) in accounts payable, accruals	(246)	(211)
(Increase) decrease in capital accounts payable	508	(2,099)
Increase (decrease) in employee entitlements	(13)	21
(Decrease) increase in provision for taxation	44	134
	<b>211</b>	<b>(1,860)</b>
<u>Items Classified as Investing Activities</u>		
Net (surplus) loss on disposal of property plant equipment and investments	(122)	(222)
<b>Net cash flow from operating activities</b>	<b>3,784</b>	<b>1,666</b>

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**CENTRALINES LIMITED**  
**Notes to the Financial Statements**  
For the year ended 31 March 2011

**11 Contingent Liabilities**

Centralines has no contingent liabilities as at the 31 March 2011.

**12 Financial Instruments**

Centralines has no off balance sheet financing (other than those disclosed in these notes), nor any foreign exchange exposure.

The fair value of financial instruments is the carrying amount disclosed in the Statement of Financial Position.

The interest rates on the company's deposits are presented in note 5.

Interest Rate Risk

Interest Rate risk is the risk that the value of the assets and liabilities will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk primarily through cash balances, investments and finance leases.

Credit risk

Financial instruments which potentially subject the Company to credit risk principally consist of bank balances and accounts receivable. No collateral is held on these amounts. Maximum exposure to credit risk is the amount stated in the Financial Statements and is net of any recognised provision for losses on these financial instruments.

Concentration of credit risk

The Company has exposure to one electricity retailer that may account for up to 52% of accounts receivable. To minimise this risk, the company has contractual requirements contained within the use of system agreements operating with this party. A bond may be required where deemed necessary. At balance date no such bonds were held.

**13 Segment Information**

The Company operates predominantly in one industry – the ownership, management and operation of electricity networks within the Central Hawke's Bay region.

**14 Reserves**

	2011 \$000	2010 \$000
<u>Asset revaluation reserve</u>		
Balance at beginning of year	22,332	26,994
Revaluation of electrical distribution network	-	(4,662)
Revaluation of Land/Buildings	-	-
Balance at end of year	<u>22,332</u>	<u>22,332</u>
<u>Detailed as:</u>		
Land/Buildings	538	538
General	421	421
Revaluation of electrical distribution network	<u>21,373</u>	<u>21,373</u>
	<u>22,332</u>	<u>22,332</u>

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**CENTRALINES LIMITED**  
**Notes to the Financial Statements**  
For the year ended 31 March 2011

15 Retained Earnings	2011	2010
	\$000	\$000
Balance at beginning of year	14,791	13,224
Net surplus	2,180	1,617
Dividends paid	(400)	(50)
Balance at end of year	<u>16,571</u>	<u>14,791</u>

16 Employee Entitlements

Employee entitlements expected to be taken within the 12 months following balance date are recorded as current liabilities. All other employee entitlements are recorded as term liabilities

17 Employee Remuneration

Details of remuneration and benefits received by employees and former employees in their capacity as an employee during the year.

Remuneration Range	Number of Employees
Current Employees	
\$100,000 - 110,000	1

18 Events Subsequent to Balance Date

There have been no significant reporting events subsequent to balance date.

19 Accounts payable and accruals	2011	2010
	\$000	\$000
Trade creditors	2,365	2,667
Sundry creditors and accruals	296	240
	<u>2,661</u>	<u>2,907</u>

20 Impacts of the Adoption to international Financial Reporting Standards

In September 2007, the Accounting Standard Review Board announced that mandatory adoption of New Zealand International Financial Reporting Standards (NZIFRS) will be delayed for certain small entities that meet a specified criteria. Centralines fits the specified criteria and has opted to defer adopting NZIFRS in 2011.

Centralines will reassess the adoption of IFRS after the Accounting Standard Review board complete their consultation.

The impact on accounting policies and the financial statements should Centralines adopt at a later date are not known at this time.

*Handwritten signatures and initials in blue ink.*

**CENTRALINES LIMITED**  
**Statement of Performance**

For the year ended 31 March 2011

	2011 Corporate Intent Targets	2011 Actual	2010 Actual
<b>Financial Measures</b>			
Ratio of net surplus (before discount, interest and tax) to Opening Shareholders Funds	4.70%	8.01%	6.01%
Ratio of net surplus (before discount, interest and tax) as a percentage of Total Assets employed	4.50%	7.21%	5.97%
Contracting ratio of Gross profit (before tax) to Gross Revenue	12.00%	14.75%	19.28%
<b>Reliability Measures</b>			
<b>System Average Interruption Duration Index</b>			
SAIDI is the average length (in minutes) of interruptions for all customers that have interruptions in any one year	173.00	194.48	133.00
<b>Customer Average Interruption Duration Index</b>			
CAIDI is the average length (in minutes) of interruptions for an interruption that a customer will experience if the customer experiences an interruption. (Including maintenance but excluding transmission)	57.00	41.29	56.84
<b>The System Average Interruption Frequency Index</b>			
SAIFI is the average number of supply interruptions that a customer experiences in the period including maintenance but excluding transmission(Transpower)	3.00	4.71	2.34
Number of major faults (33kv) which result in interruptions to supply, per 100km of line per year (as per the Electricity Information Disclosures Requirements 2004)	2.00	4.18	2.10

**Independent auditor's report**

**To the readers of  
Centralines Limited's  
financial statements and statement of service performance  
for the year ended 31 March 2011**

The Auditor-General is the auditor of Centralines Limited (the company). The Auditor-General has appointed me, Mark Maloney, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the company on her behalf.

We have audited:

- the financial statements of the company on pages 12 to 24, that comprise the statement of financial position as at 31 March 2011, the statement of financial performance, statement of movements in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of performance of the company on page 25.

**Opinion on the financial statements and the statement of service performance**

In our opinion:

- the financial statements of the company on pages 12 to 24:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the company's:
    - financial position as at 31 March 2011; and
    - financial performance and cash flows for the year ended on that date;
- the statement of service performance of the company on page 25:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the company's service performance for the year ended on that date, including:
    - its performance achieved as compared with forecast targets specified in the statement of forecast service performance for the financial year; and

- its revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses specified in the statement of forecast service performance for the financial year.

## **Opinion on other legal requirements**

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 27 June 2011. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

## **Basis of opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and statement of service performance are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the company's preparation of the financial statements and statement of service performance that give a true and fair view of the matters to which they relate. We consider internal control 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 involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

## **Responsibilities of the Board of Directors**

The Board of Directors is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company's financial position, financial performance and cash flows; and
- give a true and fair of its service performance achievements.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error.

The Board of Directors' responsibilities arise from the Energy Companies Act 1992 and the Financial Reporting Act 1993.

## **Responsibilities of the Auditor**

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 45(1) of the Energy Companies Act 1992.

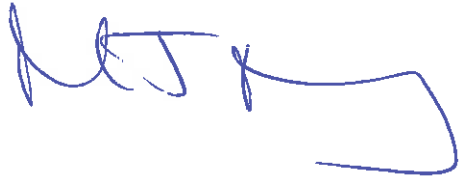
## **Independence**

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

In addition to the audit of the annual financial statement, we have carried out two other engagements for the company:

- an assurance engagement with respect to the company's compliance with respect to the issuing of certificates pursuant to the Electricity Distribution (Information Disclosure) Requirements 2008 (distribution requirements); and the Electricity Information Disclosure Requirements consolidating all amendments to 31 October 2008 (original requirements), for the regulatory period ending 31 March 2010; and
- An assurance engagement with respect to the company's compliance with the Schedule of Required Information for the regulatory period ended 31 March 2010 prepared by the company in accordance with the Commerce Commission's requirements issued by notice in writing to the company under section 53ZD of the Commerce Act 1986 on 16 March 2011.

These assignments are compatible with those independence requirements. Other than these engagements, and the audit of the annual financial statements, we have no relationship with or interests in the company or any of its subsidiaries.



Mark Maloney  
Audit New Zealand  
On behalf of the Auditor-General  
Palmerston North, New Zealand

**Matters relating to the electronic presentation of the audited financial statements and statement of service performance**

This audit report relates to the financial statements and statement of service performance of Centralines Limited (the company) for the year ended 31 March 2011 included on the company's website. The Board of Directors is responsible for the maintenance and integrity of the company's website. We have not been engaged to report on the integrity of the company's website. We accept no responsibility for any changes that may have occurred to the financial statements and statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from these financial statements and statement of service performance. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and statement of service performance and related audit report dated 27 June 2011 to confirm the information included in the audited financial statements and statement of service performance presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.