ANNUAL REPORT
2017

CENTRALINES
LIMITED

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CHAIRMAN'S & CHIEF EXECUTIVE'S ANNUAL REVIEW

Jon Nichols, *Chairman*

	2016/17 Corporate Intent Targets	2016/17 Actual Performance
SAIDI (System Average Interruption Duration Index)	119.10 mins	92.07 mins
SAIFI (System Average Interruption Frequency Index)	3.52 outages	1.67 outages

NETWORK PERFORMANCE

Centralines has produced another strong result for the 2016/17 financial year, delivering reliable network performance and a solid financial return for Central Hawke's Bay power consumers/shareholders.

Weather conditions were less favourable than the previous financial year, resulting in increased environmental and vegetation related faults. Despite this, Centralines easily met regulatory network performance requirements as well as internal targets.

While the average time customers were without power and the number of interruptions experienced increased from the previous year, this was off the back of a very strong performance in 2015/16 and reflects the adverse weather conditions. Centralines continues to deliver an electricity supply that is superior to most New Zealand rural electricity networks and rivals many other larger, mainly urban networks.

OUR PEOPLE

Thanks to the hard work and efforts of the 31 staff at Centralines, we have been able to achieve all targets with one exception this year.

Unfortunately, there was one lost-time injury. While this is disappointing, we are confident that our safety-based culture and focus on continual improvement will enable us to increase our vigilance and lift performance further. Both the Board and management remain committed to ensuring all employees have the tools and training to perform their roles safely. Staff are diligent and focused when going about their daily work, ensuring they put their safety, and the safety of others, first.

Centralines' strong health and safety culture has ensured we were well prepared for the new Health and Safety at Work Act that came into force 2016.

The Act has resulted in Centralines introducing new policies and procedures, and we would like to acknowledge the efforts of our people who have embraced the changes and fully committed to undertaking the education and training.

Centralines continues to work closely with its management partner Unison, leveraging their expertise in asset management to benefit our customers. Some of our crews helped Unison with its power restoration efforts in the Taupo Plains following extensive damage to Unison's network as a result of a historic snowstorm. This is not only a natural extension of the value Centralines places on supporting our industry peers, but it's also important technical experience for our crews.

OUR COMMUNITY

At Centralines, we know our support for customers must extend beyond ensuring the network meets their electricity needs to powering a vibrant region.

In 2016/2017, Centralines contributed, through sponsorship, to 60 organisations who all add to the wellbeing and strength of our rural community.

In addition to key services, such as the Hawke's Bay Rescue Helicopter Trust and the Waipukurau Community Heated Pool complex, Centralines has supported a mix of education, arts, and sporting groups.

We also commissioned Central Hawke's Bay's first public electric vehicle (EV) fast-charging station in Waipukurau. This is part of our ongoing work to help ensure our customers and those visiting the region have efficient network solutions available to support their energy choices now and in the years ahead.

Ken Sutherland, *Chief Executive*

REGULATORY ENVIRONMENT

2016 has seen the Commerce Commission's Input Methodologies (IM) review and the Electricity Authority continuing to review the transmission pricing methodology.

The IM review, which determines how Centralines' costs are recovered through regulated lines charges, is largely complete. Overall, it provided Centralines with growing confidence that the Commission is committed to providing a stable regulatory environment to invest within. While there are aspects of the regime that require fine-tuning over time - for example, the approach to setting quality standards and various aspects of the incentive schemes that are intended to reward efficiency improvements - we expect the core elements of the regime to endure.

By contrast, the Electricity Authority's review of transmission pricing, which could result in a substantial reallocation of transmission charges around the country, has remained controversial with value swings affecting certain regions adversely. From Centralines' perspective, however, the impact of the changes appears to be neutral. The Authority was due to make its final decisions on the revised methodology in the first quarter of 2017, but has recently deferred this to undertake more analysis. Implementation of any new methodology would be 1 April 2020 at the earliest.

The Inland Revenue is currently reviewing the payment of discounts by electricity lines companies. In October 2016, they issued a paper outlining their revised view that discounts are not tax deductible. The industry was invited to make submissions, which the Inland Revenue is now considering. Should the Inland Revenue retain its view on the tax deductibility of discounts, it will have a significant negative cash impact on Centralines. Electricity network businesses are increasingly coming under competitive pressure from alternative sources of supply. We consider that discounts will take on even greater significance in the future in terms of maintaining customer loyalty and use of the network, especially in parts of the country like Central Hawke's Bay where costs to serve are high.

FINANCIAL PERFORMANCE

The 2016/17 year has seen Centralines deliver a strong financial result for its shareholders.

Total revenue was favourable as a result of higher line revenue and higher contracting revenue. Stringent cost management across capital and operational expenditure also contributed to a Net Profit After Tax result of $3.27 million.

Centralines is in a strong financial position, with a solid balance sheet, and no debt against its well-maintained and reliable distribution network, which positions us well to make the most of the opportunities that await our region.

	2016/17	2015/16
Total Revenue	**$15.08 million**	**$14.06 million**
EBITDA[1]	**$7.87 million**	**$7.39 million**
Net Profit After Tax	**$3.27 million**	**$2.87 million**
Electricity Network Capital Expenditure	**$1.73 million**	**$2.06 million**
Total Discount Paid	**$1.28 million**	**$1.21 million**

[1] Earnings before interest, tax, depreciation, amortisation and customer discounts

We also commissioned Central Hawke's Bay's first public electric vehicle (EV) fast-charging station in Waipukurau....

Ken Sutherland, ***Chief Executive***

Given our strong balance sheet, Centralines is well placed to invest in growth opportunities for our network...

Jon Nichols, ***Chairman***

THE FUTURE

Given our strong balance sheet, Centralines is well placed to invest in growth opportunities for our network and is actively pursuing opportunities.

Our main investment focus remains on the Hawke's Bay Regional Investment Company (HBRIC) Ruataniwha Water Storage Scheme. We are awaiting an announcement as to whether the project will proceed. We are firmly of the view that the scheme will provide our rural communities with unparalleled opportunity for economic growth.

The way consumers use electricity is changing. An exciting range of technologies – solar panels, electric vehicles, consumer apps, smart metering, battery storage – are giving consumers more choice and control.

As the new future crystallises, Centralines continues to work with Unison Networks to understand the use of solar generation, energy storage and how other alternative technologies are being used in a rural context. These insights are shaping how we will structure our network in the future and ensure we can continue to deliver high-quality, reliable electricity as well as solid financial returns for our shareholders.

In order for consumers to make the most of these new technologies, the way consumers pay for electricity distribution needs to change. In the past financial year, Centralines has worked with Unison Networks to identify a roadmap for pricing reform.

In the next few years, we will be consulting with retailers and consumers to look at the options available to set more fair and efficient electricity distribution pricing for all network users. Ultimately, our goal along with the industry and Electricity Authority is to move towards pricing that is shared fairly amongst all users and is more reflective of the network costs and different services customers receive.

ACKNOWLEDGEMENTS

In August, we welcomed Derek Walker to the Board. Derek is a very experienced director and has extensive governance experience in many sectors, including Chairperson of Palmerston North Airport Ltd, NZ Windfarms and Spiers Group Ltd. Derek also served 11 years as Chief Executive and Managing Director of the electricity distribution company, CentralPower (now Powerco).

Our thanks go to the Trustees of the Central Hawke's Bay Consumers Power Trust for their valuable work and professional dealings with the Board and management again this year. Their continued work to serve the interests of the power consumers of Central Hawke's Bay and our rural communities is appreciated.

The Board also wishes to thank Unison Networks for its professional leadership and support as our management partner. We appreciate the strong contributions they have made to Centralines over the last year, both at executive and management level.

Finally, our thanks to the Central Hawke's Bay community for its support. We look forward to another successful year ahead.

Jon Nichols
CHAIRMAN

Ken Sutherland
CHIEF EXECUTIVE

CORPORATE GOVERNANCE STATEMENT

ROLE OF THE BOARD OF DIRECTORS

The Board of Directors (the "Board") is appointed by the shareholders' representatives, the Trustees of the Central Hawke's Bay Consumers Power Trust.

The Board is responsible for setting and monitoring the strategic direction, policies and control of the Company's activities, with day-to-day management delegated to the Chief Executive.

The Board has a formal charter that outlines the responsibilities of the Board and the Chief Executive, and provides a code of ethics to guide Directors and the Chief Executive in carrying out their duties and responsibilities.

The Board met eight times during the financial year, with additional full meetings and sub-committee meetings being convened when required.

BOARD COMMITTEES

Audit & Risk Committee

Centralines has a formally constituted Audit & Risk Committee, responsible for reviewing the Company's accounting policies, financial management, financial statements, management of information systems and systems of internal control, external and internal risk management functions and the treasury policy. The Committee also considers internal risk assessments and external audit reports as well as the appointment of the external auditor, audit relationship matters and fees.

The Committee meets on average of six times a year, with additional meetings being convened when required.

TREASURY POLICY

Exposure to treasury-related financial risks is managed in accordance with the Company's treasury policy. This policy sets out financial and treasury management objectives, specific responsibilities, limits on management authority, permissible financial instruments, counterparty credit limits and reporting and monitoring requirements.

Under the treasury policy the Board is responsible for approving all treasury and interest rate strategies and any changes to those strategies.

STATEMENT OF CORPORATE INTENT

In accordance with Section 39 of the Energy Companies Act 1992, the Directors annually submit a Statement of Corporate Intent for the coming financial year to the Central Hawke's Bay Consumers Power Trust for endorsement.

This document outlines the Company's overall objectives, intentions and financial performance targets and is available on the Company's website.

DIRECTORS' INTERESTS REGISTER

The Company maintains and reviews on a monthly basis an Interests Register to record particulars of transactions or matters involving Directors.

RISK MANAGEMENT

The Board oversees a formal risk policy and risk management framework that is consistent with the Australian and New Zealand standard for risk management AS/NZS ISO 31000:2009 Risk Management - Principles and Guidelines.

The Board is responsible for reviewing and ratifying systems of risk management and the Company's system of internal controls.

The Board monitors the operational and financial aspects of the Company's activities and, principally through the Audit & Risk Committee, the Board considers the recommendations and advice of external and internal auditors and other external advisors on the operational and financial risks that face the Company.

The Board ensures that recommendations made by the external and internal auditors and other external advisors are investigated and appropriate action is taken to ensure that the Company has an appropriate internal control environment in place to manage the key risks identified.

BOARD OF DIRECTORS

1

Jon Nichols - Chairman

Audit and Risk Committee Member

Jon was appointed as a Director to Centralines in July 2011 and then as Chairman in August 2016. Jon is a business consultant involved in a number of strategic growth, regulatory and performance based initiatives for infrastructure related businesses in New Zealand and the Pacific Islands. He serves on the Boards of the Port of Napier Limited and Palmerston North Airport Limited. He is also a member of the Chartered Accountants Australia and New Zealand, is a Chartered Member of the New Zealand Institute of Directors. Jon is also the independent Chairperson of the Hastings District Council and Maungaharuru Tangitu Trust Audit and Risk Committees.

2

Wendie Harvey

Audit and Risk Committee Member

Wendie was appointed as a Director to Centralines in July 2014. Following a career that began as a lawyer specialising in employment relations and human resources, in 2004 Wendie entered the electricity sector taking up a position with Unison Networks Limited as a member of the senior management team. In 2011, she established Excellence in Business Solutions Limited, providing strategic management and human resources support to employers, predominantly operating in the Hawke's Bay region. As well as the Board of Centralines, Wendie is a Director of the Port of Napier Limited, the Hawke's Bay Airport Limited, the Electrical Training Company Limited, and Quality Roading Services Limited (Wairoa). She is also a Commissioner on the NZ Gambling Commission.

3

Nick Story

Audit and Risk Committee Chairperson

Nick was appointed to the Centralines Board in July 2013. He is Chief Executive of Hawke's Bay Airport Limited. Nick brings marketing strategy, business development skills and experience to the Board. Nick also acts as the Chairman for the Audit and Risk Committee.

4

Ian Walker

Audit and Risk Committee Member

Ian was appointed as Director to Centralines in July 2013. Ian moved with his family into the district over 30 years ago, working as a veterinarian for Vet Services (Hawke's Bay) Ltd until March 2016, and subsequently obtained a good knowledge of the geographical distribution area. Ian is directly involved with a family sheep, deer and beef farm, and is also involved in several community sporting and cultural groups. Ian was the Chief Executive of Veterinary Services (Hawke's Bay) Ltd for 12 years, retiring in March 2016. He is a Director of Kilgaren Farm Limited, Marama Farming Limited, and Deer Industry New Zealand.

5

Derek Walker

Audit and Risk Committee Member

Derek joined the Centralines Board in August 2016. He is a widely-experienced director with current and past directorships that include Palmerston North Airport Limited (Chair), BCC Limited (Chair), NZ Windfarms Limited, Speirs Group Limited (Chair) and Quotable Value Limited. He is also a Director and Principal of the business consulting practice, Third Bearing Limited. He has an honours degree in electrical engineering, a business studies degree, and has extensive management, governance and consulting experience in the electricity sector including 11 years as Chief Executive and Managing Director of the electricity distribution company, CentralPower Limited.

STATUTORY INFORMATION

FOR THE YEAR ENDED 31 MARCH 2017

The Board of Directors present their annual report including the financial statements of the Company for the year ended 31 March 2017. 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 $5.83m. The annual net profit was $3.27m after allowance for discount and tax. This compares with an operating profit in 2016 of $5.35m, a net profit of $2.87m after allowance for discount and tax.

DIRECTORS

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

J.E Nichols	(Chairman)	$53,245.50	Re-appointed 27 July 2016
D.N Walker	(Director)	$18,273.94	Appointed 6 August 2016
N.M Story	(Director)	$31,371.64	Re-appointed 29 July 2015
I.H Walker	(Director)	$28,207.04	Re-appointed 29 July 2015
W.N Harvey	(Director)	$28,207.05	Re-appointed 27 July 2016

Directors' and Officers' Liability Insurance premiums of $3,550 were paid during the year under review.

DIVIDEND

A dividend of $100,000 paid for the year ended 31 March 2017 (2016: $105,000).

AUDITORS

In accordance with Section 45 of the Energy Companies Act 1992 the Auditor-General continues as Auditor.

Audit fees payable by the Company to Audit New Zealand as at 31 March 2017 were $57,812 (2016: $52,906).

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 March, 2017.

Jon Nichols

- Centralines Limited - Chairperson
- Nichols Consulting Limited - Director
- Port of Napier Limited – Director and Chairperson of Audit & Risk Committee
- Northpower Limited - Consultant
- Palmerston North Airport Limited – Director and Chairperson of Audit & Risk Committee
- Maungaharuru Tangitu Trust – Independent Chair of Audit and Risk Committee
- Hastings District Council – Independent Chairperson of Audit and Risk Committee

Wendie Harvey

- Centralines Limited – Director
- Excellence in Business Solutions Limited – Director
- Port of Napier Limited – Director and Chairperson of Health & Safety Committee
- Quality Roading Services Limited – Director
- New Zealand Gambling Commission - Commissioner
- The Electrical Training Company Limited – Director
- Hawke's Bay Airport Limited - Director

Nick Story

- Centralines Limited – Director and Chairperson of Audit & Risk Committee
- Hawke's Bay Airport Limited - Chief Executive

Ian Walker

- Centralines Limited - Director
- Centralines Limited - Consumer
- Kilgaren Farm Limited – Owner and Director
- Marama Farming Limited - Shareholder and Director
- Farmlands Co-operative Society Limited - Shareholder
- Ballance Agri-Nutrients Limited – Shareholder
- DeerResearch NZ – Director
- Hawke's Bay Regional Investment Company (HBRIC – subsidiary of HB Regional Council) – potential water user (signed contract)
- Board of Deer Industry New Zealand (DINZ) – Director

Derek Walker

- Centralines Limited – Director
- BCC Limited and subsidiaries – Chairperson and Director
- Speirs Group Limited and subsidiaries – Chairperson and Director
- Third Bearing Limited – Director and Beneficial Shareholder
- TBL Investments Limited – Director and Beneficial Shareholder
- Wilson Cook Limited – Director and Beneficial Shareholder
- Elmira Consulting Limited – Director and Shareholder
- Wildbase Recovery Community Trust – Trustee
- Palmerston North Airport Limited – Chairperson and Director (resigned)

FOR AND ON BEHALF OF THE BOARD

Jon Nichols
Chairperson

TRUSTEES' STATEMENT

The Central Hawke's Bay Consumers Power Trust is the owner of Centralines. There are seven Trustees of which four are elected and three are appointed by the highest electricity consumer, the Mayor and the local Council.

The Trust has had two changes in members during the year. The Mayoral Appointee, Peter Butler and the highest electricity consumer appointee, Angus Mabin have both departed after a substantial contribution to the Trust. We thank them for their service and wish them all the best. We welcome Catherine Avery as the Mayoral Appointee and Richard Dakin as the highest electricity consumer appointee.

A core responsibility of the Trust is to appoint and monitor the performance of the Directors. We have an excellent Board with our consumers' best interest in mind. They have overseen an impressive result during the year and have placed the company on an improving plane with the strategies they have put in place in recent years. We are grateful for their expertise.

The new financial year will bring more challenges and some great opportunities for Centralines and the wider community in Central Hawke's Bay. Technology is changing in the electricity distribution business. Regulation is changing around these developments. It will be important for the company to execute a sound strategy to maintain shareholder value and to serve our consumers in this changing landscape.

Once again, Centralines has provided the maximum allowable discount to our consumers. This totalled $1,280,000. To the average residential consumer this meant a discount of $115 in September 2016, which is meaningful and valued to our consumer owners. To the larger users, the discount was in the thousands of dollars, with the highest user receiving a discount of $5,500. In addition to the discount we recognise and value the donations Centralines makes to community organisations in Central Hawke's Bay, which this year totalled $91,254.

Also highly important to our consumers is the network reliability, which again has been outstanding. In a network with such long distances and low density of ICPs, this result is very noteworthy. We would like to acknowledge the dedication and professionalism of all the staff at Centralines for this result. In addition it is worthwhile noting that this result is due to management's focus and the many years of investment in the lines, substations and tree maintenance. The Centralines' company slogan of Our People / Our Power is valued by the Trustees and this result reinforces our commitment to our local community.

Health and Safety is paramount to the Trust. The constant monitoring of workplace risks as well as safety improvements in all workplace processes is expected.

Looking ahead we are optimistic for Centralines and believe that we have the best Directors in place overseeing future challenges and opportunities.

Alistair Setter
Chair
Central Hawke's Bay Consumers Power Trust

FINANCIAL STATEMENTS

STATEMENT OF PERFORMANCE

For the year ended 31 March 2017	2017 Corporate Intent Targets	2017 Actual	2016 Actual
Financial Measures			
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) (excluding discounts) as a percentage of Average Assets Employed.	10.75%	**10.59% ***	10.73%
Net Profit After Tax (adjusted for discounts) as a percentage of Average Shareholders' Funds.	6.64%	**6.75%****	6.50%
Network Operational Costs - $ per ICP (excluding Transmission Costs and Depreciation)	$437	**$429**	$410
Network Operational Costs - $ per kilometre of line (excluding Transmission Costs and Depreciation)	$1,898	**$1,867**	$1,781
Total Planned Electricity Network Capital Expenditure ($millions)	$1.72	**$1.73**	$2.06
Reliability Measures			
System Average Interruption Duration Index			
SAIDI represents the average number of minutes the customer was without power in any one year	119.10	**92.07**	72.67
System Average Interruption Frequency Index			
SAIFI is the average number of supply interruptions that a customer experiences in the period including maintenance but excluding transmission (Transpower)	3.52	**1.67**	1.41
Number of major faults (33kV) which result in interruptions to supply, per 100km of line per year (as per the Electricity Distribution information Disclosures Determination 2012)	2	**2**	0
Safety Measures			
Number of Lost Time Injuries	0	**1**	1

If a Network Revaluation had not been completed in 2017 the ratios would have been as follows:
* Pre 2017 Network Revaluation 10.91%
** Pre 2017 Network Revaluation 6.92%

The above statement of performance should be read in conjunction with the accompanying notes

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2017	Notes	2017 $000	2016 $000
Revenue	2	**15,084**	14,059
Transpower charges		**(2,913)**	(2,773)
Network maintenance costs		**(1,388)**	(1,313)
Discounts		**(1,280)**	(1,206)
Employee related expenses		**(701)**	(579)
Other expenses	3	**(2,213)**	(2,009)
Earnings Before Interest, Taxes, Depreciation and Amortisation expenses (EBITDA)		**6,589**	6,179
Depreciation and amortisation expense	5	**(2,043)**	(2,038)
Profit before income tax		**4,546**	4,141
Income tax	4	**(1,273)**	(1,267)
Profit for the year		**3,273**	2,874
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Gains on revaluation of electricity distribution network		**4,425**	-
Deferred tax impact		**(1,240)**	-
		3,185	-
Items that may be subsequently reclassified to profit or loss:		**-**	-
Other comprehensive income for the year, net of tax		**3,185**	-
Total comprehensive income for the year		**6,458**	2,874

The above statement of comprehensive income should be read in conjunction with the accompanying notes

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2017	Share capital $000	Revaluation reserve $000	Retained earnings $000	Total equity $000
Balance as at 1 April 2016	8,000	2,490	48,504	58,994
Profit/(loss) for the year	-	-	3,273	3,273
Other comprehensive income				
Revaluation of electricity distribution network	-	4,425	-	4,425
Deferred tax on revaluation	-	(1,240)	-	(1,240)
Total other comprehensive income	-	3,185	-	3,185
Total comprehensive income	-	3,185	3,273	6,458
Dividends	-	-	(100)	(100)
Balance as at 31 March 2017	8,000	5,675	51,677	65,352

Balance as at 1 April 2015	8,000	2,490	45,735	56,225
Profit/(loss) for the year	-	-	2,874	2,874
Other comprehensive income				
Revaluation of electricity distribution network	-	-	-	-
Deferred tax on revaluation	-	-	-	-
Total comprehensive income	-	-	2,874	2,874
Dividends	-	-	(105)	(105)
Balance as at 31 March 2016	8,000	2,490	48,504	58,994

The above statement of changes in equity should be read in conjunction with the accompanying notes

BALANCE SHEET

As at 31 March 2017	Notes	2017 $000	2016 $000
ASSETS			
Current assets			
Cash and cash equivalents	6	**2,806**	3,619
Investments	6	**9,302**	5,187
Trade and other receivables	6	**1,597**	1,482
Inventories		**220**	258
Total current assets		**13,925**	10,546
Non current assets			
Property, plant and equipment	5	**64,155**	59,846
Intangible assets		**73**	63
Total non-current assets		**64,228**	59,909
Total assets		**78,153**	70,455
LIABILITIES			
Current liabilities			
Trade and other payables	6	**1,190**	1,247
Current tax liabilities		**438**	442
Employee provisions		**163**	164
Total current liabilities		**1,791**	1,853
Non-current liabilities			
Deferred tax liabilities	4	**10,928**	9,527
Employee provisions		**82**	81
Total non current liabilities		**11,010**	9,608
Total liabilities		**12,801**	11,461
Net assets		**65,352**	58,994
EQUITY			
Share capital	7	**8,000**	8,000
Reserves		**5,675**	2,490
Retained earnings		**51,677**	48,504
Total equity		**65,352**	58,994

The Board of Directors of Centralines Limited authorised these financial statements presented on pages 21 to 33 for issue on 27 June 2017.

The above balance sheet should be read in conjunction with the accompanying notes

Jon Nichols - Chairman

Nick Story - Director

Date: 27 June 2017

STATEMENT OF CASH FLOWS

For the year ended 31 March 2017	2017 $000	2016 $000
Cash flows from operating activities		
Inflows		
Receipts from customers	14,315	13,478
Contributions for capital works	377	283
Interest received	257	225
Total cash inflow from operating activities	14,949	13,986
Outflows		
Payments to suppliers and employees	(8,516)	(7,811)
Income taxes paid	(1,120)	(829)
Total cash outflow from operating activities	(9,636)	(8,640)
Net cash inflow / (outflow) from operating activities	5,313	5,346
Cash flows from investing activities		
Inflows		
Proceeds from disposal of investments	8,544	5,010
Proceeds from disposal of property, plant and equipment	30	41
Total cash inflow from investing activities	8,574	5,051
Outflows		
Purchase of investments	(12,659)	(7,612)
Purchase and construction of property, plant and equipment	(1,941)	(2,468)
Total cash outflow from investing activities	(14,600)	(10,080)
Net cash inflow (outflow) from investing activities	(6,026)	(5,029)
Cash flows from financing activities		
Outflows		
Payment of dividends	(100)	(105)
Total cash outflow from financing activities	(100)	(105)
Net cash inflow (outflow) from financing activities	(100)	(105)
Net increase (decrease) in cash and cash equivalents	(813)	212
Cash and cash equivalents at the beginning of the financial year	3,619	3,407
Cash and cash equivalents at end of year	2,806	3,619

Cash and cash equivalents

Recognition and measurement

For the purpose of presentation in the above statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term deposits, highly liquid investment with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

NOTES TO THE FINANCIAL STATEMENTS

1 ABOUT THIS REPORT

(a) Entity reporting

Centralines Limited is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 2 Peel Street, Waipukurau, New Zealand. It is registered under the Companies Act 1993 and is an energy company in terms of the Energy Companies Act 1992.

Centralines Limited ('the Company') provides electricity distribution and line function services to consumers and businesses, as well as fibre optic network interconnections and related services throughout the Central Hawke's Bay. The Company also provides vegetation and electrical contracting services.

Centralines Limited is 100% owned by the Central Hawke's Bay Consumers Power Trust.

(b) Basis of preparation

The financial statements of the Company have been prepared in accordance with Generally Accepted Accounting Practice (GAAP). The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'), and other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS Reduced Disclosure Regime (NZ IFRS RDR).

The Company is eligible and has elected to report in accordance with Tier 2 for profit accounting standards, NZ IFRS RDR on the basis that the Company has no public accountability and is not a large for profit public sector entity. The Company has elected to report in accordance with NZ IFRS RDR and has applied disclosure concessions.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain classes of property, plant and equipment, which are adjusted to fair value through other comprehensive income.

(c) Notes to the financial statements

Information that is considered material and relevant to the users of these financial statements is included within the notes to the financial statements. The assessment of materiality and relevance includes qualitative as well as quantitative factors including the size and nature of the balance and if the balance is important in understanding the Company's current or future performance.

Other relevant accounting information not included in the notes to the accounts is included below.

(d) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 March 2016:

- Annual Improvements to NZ IFRSs 2012 – 2014 cycle
- Disclosure Initiative – Amendments to NZ IAS 1
- XRB A1 Application of the Accounting Standards Framework, and
- Amendments to For-profit Accounting Standards as a Consequence of XRB A1 and Other Amendments.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(e) Critical accounting judgements and estimates

The preparation of financial statements in conformity with NZ IFRS RDR requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

In particular, information about significant areas of estimation and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements are as follows:

- Valuation of electrical distribution network (note 5)
- Estimation of useful lives for depreciation (note 5)

(f) 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 statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

2 REVENUE

Recognition and measurement

Revenue is measured at the fair value for the consideration received or receivable, and represents amounts receivable for goods and services supplied, (net of Goods and Services Tax) and rebates.

(i) Network line revenue

Sales of services are recognised in the accounting period in which the services are rendered, based upon usage or volume throughput during that period.

(ii) Contracting revenue

Revenue from contracting services is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(iii) Customer contributions

Where the Company constructs assets at its own cost and receives a cash payment from a third party as part, or full payment for the development of such assets, the Group recognises the asset at the cost incurred to construct the asset and recognises the cash received as revenue.

(iv) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

	2017 $000	2016 $000
Revenue		
Network line revenue	13,522	13,018
Contracting	911	518
Customer contributions	377	283
Interest revenue	257	225
Other income	17	15
Total revenue	15,084	14,059

3 OTHER EXPENSES

Other operating expenses are recognised in the statement of comprehensive income as an expense when they are incurred.

	2017 $000	2016 $000
Other expenses		
Increase/(decrease) for impairment of receivables	-	8
Bad debts written off	(5)	8
Audit of the annual financial statements - Audit New Zealand	58	53
Regulatory audit and assurance work - Audit New Zealand	48	63
Directors fees	159	157
Donations	-	-
Other operating expenses	1,953	1,720
	2,213	2,009

4 TAXATION

Income tax

Income tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantively enacted by balance date.

	2017 $000	2016 $000
(a) Income tax expense		
Current tax on profits for the year	1,116	980
Deferred tax associated with timing differences	161	181
Adjustments in respect of prior years	(4)	106
Income tax expense	1,273	1,267
(b) Reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	4,546	4,141
Income tax @ 28%	1,273	1,159
Tax effects of:		
- Income not subject to tax	-	-
- Expenses not deductible for tax purposes	4	2
Prior period current tax adjustment	(4)	106
Income tax expense	1,273	1,267

(c) Deferred tax liabilities

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by balance date.

	2017 $000	2016 $000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	11,001	9,604
Employee provisions	(67)	(70)
Other provisions	(6)	(7)
Total deferred tax liabilities	10,928	9,527
Movements:		
Opening balance	9,527	9,346
Deferred portion of current year tax expense	161	181
Amounts charged or credited direct to equity	1,240	-
Closing balance	10,928	9,527

5 PROPERTY, PLANT AND EQUIPMENT

Recognition and measurement

Property, plant and equipment

Property, plant and equipment, except the electrical distribution network, is stated at historical cost less depreciation and impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

The electrical distribution network is carried at fair value using a discounted cash flow model. The electrical distribution network is revalued with sufficient regularity to ensure that the carrying amount does not significantly differ from fair value at the date of the financial statements. Additions are recognised at cost and are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- Electrical distribution network	0-70 years
- Fibre network	0-12 years
- Buildings	50-100 years
- Land	Indefinite
- Other Assets	
• Motor vehicles	3-15 years
• Plant and equipment	5-10 years
• Office furniture and equipment	5-15 years
• Information technology	3-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Impairment of assets

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

For the year ended 31 March 2017	Electrical distribution network $'000	Fibre network $'000	Land and buildings $'000	Other assets $'000	Total $000
Year ended 31 March 2017					
Opening net book amount	56,629	949	1,209	1,059	59,846
Additions	1,725	-	3	212	1,940
Disposals	-	-	-	(13)	(13)
Depreciation charge	(1,643)	(114)	(17)	(269)	(2,043)
Revaluation	4,425	-	-	-	4,425
Closing net book amount	61,136	835	1,195	989	64,155
At 31 March 2017					
Cost	313	1,345	1,262	4,110	7,030
Valuation	60,823	-	-	-	60,823
Accumulated depreciation	-	(510)	(67)	(3,121)	(3,698)
Net book amount	61,136	835	1,195	989	64,155
Year ended 31 March 2016					
Opening net book amount	56,176	815	1,225	1,226	59,442
Additions	2,057	230	1	180	2,468
Disposals	-	-	-	(26)	(26)
Depreciation charge	(1,604)	(96)	(17)	(321)	(2,038)
Closing net book amount	56,629	949	1,209	1,059	59,846
At 31 March 2016					
Cost	2,150	1,345	1,259	3,978	8,732
Valuation	56,083	-	-	-	56,083
Accumulated depreciation	(1,604)	(396)	(50)	(2,919)	(4,969)
Net book amount	56,629	949	1,209	1,059	59,846

(a) Valuations of electrical distribution network

As at the date of revaluation 31 March 2017, the electricity distribution assets fair values are based on valuations using the Discounted Cash Flow method (DCF). This DCF model is updated internally by suitably qualified employees and the basis, methodology and assumptions underpinning the valuation are independently reviewed by PricewaterhouseCoopers.

The use of fair value is considered to be the most appropriate basis of valuation because it represents the exchange value of the future economic benefits embodied in the assets.

The value in use calculation uses the following key assumptions

- ICP growth rate: The valuation model uses the Commerce Commission's growth assumption (0.63%), which management consider is a reasonable reflection of the economic and demographic situation with Centralines' network region.

- Line revenue price increase: The valuation model uses the Board approved budget as the base year for line revenue and then applies CPI as allowed under the Commerce Commission's default price quality paths for electricity distributors through to the 2020 year. From 2021 the model uses the Commerce Commission's reset model which management has extrapolated out over the 10 years using capex and opex forecasts in the most recent Asset Management Plan.

- The calculation assumes that there would be no significant changes to Centralines and that growth rates used are in line with long term average market growth rates.

- A post tax discount rate of 6.14% per annum.

A sensitivity analysis of the key assumptions shows that the biggest impact on the NPV of the future cash flows for Centralines' electrical distribution network is the post tax discount rate used. An increase of 0.5% to the post tax discount rate would decrease the network's fair value by $1.9m.

(b) Capital work in progress

Capital work in progress as at 31 March 2017 of $312,573 (2016: $86,602) is included in electrical distribution network additions.

(c) Capital commitments

The value of contractual capital commitments as at 31 March 2017 is estimated at $Nil (2016: Nil).

6 FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, including credit risk and liquidity risk. The Company's overall risk management programme seeks to minimise potential adverse effects on the Company's financial performance.

(a) Fair value estimation

The methods and assumptions used are that carrying amounts in the financial statements reflect the estimated fair value of the financial instruments including receivables, cash and cash equivalents, investments, and accounts payable.

Financial assets and liabilities	2017 $000	2016 $000
Financial assets at fair value		
Cash and cash equivalents	2,806	3,619
Investments	9,302	5,187
Trade receivables	1,498	1,465
	13,606	10,271
Amounts charged or credited direct to equity		
Closing balance	1,190	1,247
	1,190	1,247

Note, the Company only has one classification of its financial assets, as all cash and cash equivalents and investments are classed as loans and receivables. Loans and receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate less any impairment. Amortisation or impairment losses are recognised in the profit or loss.

(b) Market risk

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

The range of interest rates on deposits on call were 1.20% to 1.25% (2016: 1.10% to 2.00%).

The range of interest rates on short term bank investments were 3.45% to 3.75% (2016: 3.45% to 3.75%).

(c) Credit risk

In the normal course of its business the Company incurs credit risk from accounts receivable, bank balances and investments. There is no significant concentration of credit risk and the Company has a policy of assessing the credit risk of significant new customers and monitors the credit quality of existing customers. Counterparties to cash and investments are major banks, which are approved by the directors under the Company's Investment Policy. The Company's maximum credit risk exposure is as disclosed in the statement of financial position and collateral or other security is not held.

(d) Trade and other receivables

Recognition and measurement

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non current assets.

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. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the statement of comprehensive income.

	2017 $000	2016 $000
Trade receivables	1,498	1,465
Provision for doubtful debts	(20)	(24)
	1,478	1,441
Sundry receivables and accruals	119	41
	119	41
Total trade and other receivables	1,597	1,482

(e) Liquidity risk

Liquidity risk represents the risk that the Company may not have the financial ability to meet its contractual obligations. The Company evaluates its liquidity requirements on an ongoing basis. Overall the Company generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has funding in place to cover potential shortfalls.

7 SHARE CAPITAL

	2017 Shares '000	2016 Shares '000	2017 $000	2016 $000
Ordinary shares				
Fully paid (no par value)	8,000	8,000	8,000	8,000

8 RELATED PARTY TRANSACTIONS

The amounts owing to related parties are paid in accordance with the Company's normal commercial terms of trade. No related party debts have been written off or forgiven during the year. Certain directors of the Company are also directors of other companies with whom the Company transacts. All such transactions are on normal commercial terms.

(a) Key management and personnel compensation

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.

Key management includes directors of the Company, and members of the Executive Committee of Unison Networks Limited who provide key management personnel services as part of the management contract with Centralines Limited. There are no employees of the Company who are classified as key management personnel.

For the year ended 31 March 2017, the amounts incurred by Unison Networks Limited for the provision of key management personnel amounted to $122,979 (2016: $121,521).

The compensation paid or payable to Directors was $159,305 (2016: $157,465).

(b) Transactions with related parties

			Transaction		Year-end	
Related party	*Nature of transactions*	*Relationship with company*	2017 $000	2016 $000	2017 $000	2016 $000
Central Hawke's Bay Consumers Power Trust	Dividend	Parent	100	105	-	-
Unison Networks Limited	Purchases materials and management services	Key management personnel	2,246	2,371	268	344
Directors	Sale of contracting services	Director	1	9	-	-
Gifford Devine	Legal fees	The brother of a director was an employee of Gifford Devine Barristers and Solicitors.	-	29	-	7

9 COMMITMENTS

Recognition and measurement

Lease payments under operating leases, where the lessor effectively retains substantially all the risks and benefits of ownership of the leased property, plant and equipment are expensed to the statement of comprehensive income in equal instalments over the lease term.

Note disclosure

Operating lease commitments

The future aggregate minimum lease payments under non cancellable operating leases are as follows:

	2017 $000	2016 $000
No later than 1 year	6	8
Later than 1 year and no later than 5 years	6	12
Later than 5 years	-	-
Total	12	20

10 CONTINGENCIES

As at 31 March 2017 the Company had no contingent liabilities or assets (2016:$Nil).

INDEPENDENT AUDITOR'S REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To the readers of Centralines Limited's financial statements and statement of performance for the year ended 31 March 2017

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

Opinion on the financial statements and the statement of performance

We have audited:

- the financial statements of the company on pages 21 to 33, that comprise the balance sheet as at 31 March 2017, the statement of comprehensive income, statement of changes 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 20.

In our opinion:

- the financial statements of the company:
    - present fairly, in all material respects:
        - its financial position as at 31 March 2017; and
        - its financial performance and cash flows for the year then ended; and
    - comply with generally accepted accounting practice in New Zealand in accordance with the New Zealand Equivalents to International Financial Reporting Standards (for-profit entity Tier 2 Reduced Disclosure Regime).
- the statement of performance of the company presents fairly, in all material respects, the company's achievements measured against the performance targets adopted for the year ended 31 March 2017.

Our audit was completed on 27 June 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the statement of performance, we comment on other information and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor General's Auditing Standards.

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

Responsibilities of the Board of Directors for the financial statements and the statement of performance

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is also responsible on behalf of the company for preparing statement of performance that is fairly presented.

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

In preparing the financial statements and the statement of performance, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the company or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Energy Companies Act 1992.

Responsibilities of the auditor for the audit of the financial statements and the statement of performance

Our objectives are to obtain reasonable assurance about whether the financial statements and the statement of performance, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit carried out in accordance with the Auditor General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and statement of performance.

For the budget information reported in the statement of performance, our procedures were limited to checking that the information agreed to the company's statement of corporate intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the statement of performance.

As part of an audit in accordance with the Auditor General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the statement of performance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit 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.

- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and statement of performance or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the statement of performance, including the disclosures, and whether the financial statements and the statement of performance represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 19, but does not include the financial statements and the statement of performance, and our auditor's report thereon.

Our opinion on the financial statements and the statement of performance does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the statement of performance, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the statement of performance or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the company in accordance with the independence requirements of the Auditor General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit, we have carried out the following engagements which are compatible with those independence requirements:

- an assurance engagement in compliance with the Electricity Distribution (Information Disclosure) Requirements 2012 for the regulatory period ended 31 March 2016;

- an agreed-upon procedures engagement for the company in connection with its price 2017/2018 and quantity 2015/16 disclosure schedule for the assessment period ending 31 March 2018; and

- an assurance engagement in compliance with the Electricity Distribution Services Default Price Quality Path Determination 2015 for the assessment period ended 31 March 2017.

Other than the audit and these engagements, we have no relationship with or interests in the company.

Julian Tan
Audit New Zealand
On behalf of the Auditor-General
Palmerston North, New Zealand

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