

OUR

PEOPLE

OUR

POWER

ANNUAL REPORT 2014





OUR PEOPLE

A Centralines team working on an underground project at Pourere beach.



OUR POWER

Centralines' employee trimming trees near overhead power lines



ANNUAL REPORT 2014



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“...we continue to invest in developing and maintaining the network to deliver a reliable service to all customers...”

CHAIRMAN'S ANNUAL REVIEW



As a key infrastructure connecting our rural community, we continue to invest in developing and maintaining the network to deliver a reliable service to all customers, whilst ensuring the long-term sustainability of Centralines.

NETWORK PERFORMANCE

Despite two outages resulting from a loss of supply from the National Grid, the network again performed well, delivering performance well within the quality of supply standards, SAIDI and SAIFI, set by the Commerce Commission.

REGULATORY ENVIRONMENT

In April 2013, Centralines applied the first of two permitted line charge increases, in accordance with the Commerce Commission's final ruling on Default Price-Quality paths for sixteen of New Zealand's Electricity Distributors.

Since 2004, our average price increases have been capped at the rate of inflation, while our industry has experienced cost increases well in excess of CPI. The Board remains keenly aware of the impact of price increases on its customers; however the Commerce Commission ruling ensures network pricing is commensurate with our costs, essential for the long-term sustainability of the business.

As a Board, we continue to balance the cost of investment against the benefits to consumers. As a result of careful planning and managing of resources, the majority of the year's schedule of work was completed in-house, reducing contracting costs and providing cost efficiencies that flow through to the bottom line.

	2013-14 SCI Target	2013-14 Actual Performance	2013-14 Regulatory Limit
SAIDI (System Average Interruption Duration Index)	163 mins	163.01 mins	197.5 mins
SAIFI (System Average Interruption Frequency Index)	3.5 outages	3.32 outages	4.25 outages

FINANCIAL PERFORMANCE

Centralines has once again performed solidly, delivering another good financial result for its shareholder.

Total Revenue	\$12.37 million
Net Profit After Tax	\$1.625 million
Capital Expenditure	\$2.04 million
Lost Time Injuries	ZERO

A mild winter, combined with consumer-driven energy efficiencies, resulted in line revenue being down on budget. This decrease in revenue from the mass market was marginally off-set by an increase in demand from industrial customers, driven largely by increase in irrigation, resulting in a profit before interest, customer discounts and tax of \$2.909 million.

As a result, we are pleased to have distributed a discount to beneficial consumers totalling \$999,000.

As a community-owned business, we are pleased to be able to report the continued good health of Centralines; a strong balance sheet, with no debt against a well maintained distribution network, ensures our consumers can continue to enjoy and invest in their community in the knowledge they have a reliable and sustainable electricity infrastructure.

FUTURE GROWTH

The potential remains for significant growth to the network, pending the outcome of the consultation process for the Ruataniwha irrigation scheme.

Should the scheme go ahead, a new sub-transmission line will be required to transport the electricity generated by the hydro dam to the OngaOnga GXP. The use of irrigation resulting from this project could see demand increase by up to 6MWh per annum, or an additional 33% increase on existing network demand. We continue to work closely with the Hawke's Bay Regional Investment Company on this project, and Centralines is well positioned to be able to build this line should the scheme proceed.



ACKNOWLEDGEMENTS

I am very pleased to be able to report that, for the fourth year in a row, Centralines achieved zero 'Lost Time Injuries'. This is testament to the focus and dedication to safety by our team, and I thank them for their continued diligence and commitment.

This year we welcomed on to the Board two new Directors, with Ian Walker and Nick Story appointed at the last AGM. A significant topic on the Board's agenda in the year under review was the re-negotiation of the Management Services Agreement with Unison (referred to below) and I thank all the Directors for their diligent contribution to this process.

At this year's AGM Josie Willis will be retiring from the Board after providing what can only be described as outstanding service to the electricity consumers of CHB. Josie was a foundation Trustee of the Central Hawke's Bay Consumers' Power Trust and served as a Trustee for twelve years. Since then, she has been a Director of Centralines for eight years. Josie brought strong financial and analytical skills to the Board and was a very conscientious Director. On behalf of all consumers, we thank her very much for her contribution.

On behalf of the Board, I would like to also thank the trustees of the Central Hawke's Bay Consumers' Power Trust for their professional and courteous dealings with the Board. The Board initiated quarterly reporting to the Trust during the last year, updating Trustees on the performance of Centralines and any issues that may have arisen. I believe this has further improved communication between the Board and the Trust, enhancing the strength and transparency of our relationship.

We continue to gain benefit from our management partnership with Unison Networks. Chief Executive Ken Sutherland's experience and insights into the industry continue to support Centralines' vision to deliver a strong and secure network for our customers, and the Board thanks him for his contribution. We also thank Area Manager, Trevor Hanson, for his on-ground leadership that has seen Centralines continue to develop its in-house strengths and capabilities whilst fostering a culture that values safety and quality in all aspects of daily operations. We also wish to acknowledge the wider Unison management team for their support during the last year, ensuring that our network continues to deliver excellent results for consumers and shareholders alike.


S A Robinson
 CHAIRMAN

“ We have also continued to support our industrial customers to ensure they can rely on our network to power their business - every hour, of every day. ”

CHIEF EXECUTIVE'S ANNUAL REVIEW



OUR NETWORK

As a rural network, we are faced with a different set of challenges to our urban peers. Seasonal demand, remote network areas and lower customers per kilometre of network, all present cost and reliability challenges that require us to carefully balance the needs of our customers against the cost of delivering those services.

Over the last year, we have completed a programme of works to further enhance the reliability of the network, the majority of which was completed without the need for external contractors. The continued focus on installing interconnected and automated technology is already delivering benefits to our customers, reducing the frequency and duration of interruptions to customer supply.

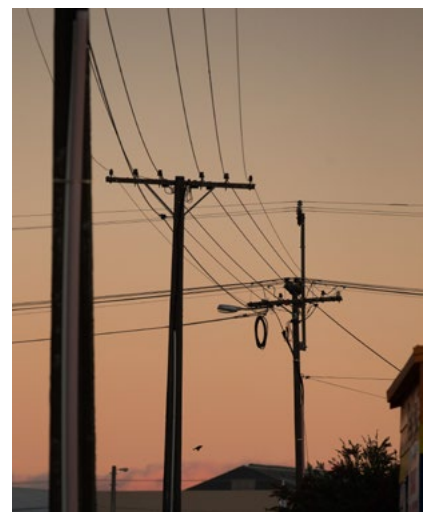
We have continued our increased focus on removing hazardous trees within falling distance of overhead power lines. Since 2010, we have worked hard to reduce the number of unplanned outages caused by vegetation from 40% and, each year, we have seen a decrease in this figure. Vegetation remains a major contributor to unplanned outages, but through our proactive vegetation programme, we have seen a shift from trees falling on to our network, to vegetation damage from debris blowing on to the lines during high winds.

OUR CUSTOMER

In addition to ensuring a high quality of supply to our customers, Centralines has continued to maintain strong relationships with key stakeholders within the Company for the benefit of the wider community.

Centralines and the Central Hawke's Bay District Council have developed a strong partnership, to establish efficient processes for civil works, as well as collaborating on projects to minimise disruption to the community.

We have also continued to support our industrial customers to ensure they can rely on our network to power their business - every hour, of every day. Centralines is proud to support these major contributors to our local economy; from offering maintenance contracts on electricity assets, through to providing network planning and development advice for the long-term needs of customers.



The benefit of a protection scheme installed on Centralines' network was put to the test this year, following a bird strike that would have normally cut power to hundreds of customers.

Using Centralines' fibre network, the scheme detected the fault and re-routed the electricity supply to reconnect the majority of customers without any interruption in supply. The technology also enabled the Control Room to isolate the location of the fault on the network, reducing outage time for fault crews to find and repair the cause.



A Centralines team working on an undergrounding project at Pourere beach.

OUR PEOPLE

I would like to thank all the employees of Centralines for their on-going commitment and passion to the Company. As a small Company, they are the backbone to our network; their dedication to our customers and to supporting each other in their roles is what keeps the lights on.

For the fourth year in a row, we were very proud to achieve a year where no employee suffered an injury requiring time off work. To achieve four years of zero 'Lost Time Injuries' (LTIs) is a significant achievement, and testament to the close-knit and supportive culture at Centralines.

Our annual Employee Engagement has shown an increase in employee satisfaction, also for the fourth consecutive year. We have focused on improving planning and internal communications, further strengthening our team, and enhancing our performance for our customers.

OUR COMMUNITY

We remain passionate about supporting the community we live and work in. We value the contributions of the many individuals who volunteer their time to enable sporting and community groups to survive in a rural township. We continue to sponsor a number of these groups, who add to the vibrancy and on-going well-being of our communities.

Centralines is proud to continue its support of the Waipukurau Community Heated Pool complex, as well as the Lowe Corporation Rescue Helicopter Trust, providers of a life-saving service to our region.

Ken Sutherland
CHIEF EXECUTIVE



A Centralines' employee on the job at Pourere beach.

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, that provides a code of ethics to guide Directors and the Chief Executive in carrying out their duties and responsibilities.

The Board meets on a monthly basis 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 appointment of the external auditor, audit relationship matters and fees.

The Committee will meet an average of six times a year, with additional meetings being convened when required.

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 advisers 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.





Mark Boltman (Centralines, Operations Manager), Laurie Davies (Silver Fern Farms, Plant Manager) and Trevor McDonnell (Silver Fern Farms, Engineering Manager) discussing a planned protection upgrade on the Takapau 33kV line.

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.

DIRECTOR PROFILES



Sam Robinson - Chairman

Sam was appointed Chairman in 2013. He became a Director to Centralines in 2006. Sam has a hill country farm on the periphery of Centralines' Network and serves on the Board of The Co-operative Bank Limited, AgResearch Limited, the Hawke's Bay Regional Investment Company, and FAME (Food & Agribusiness Market Experience Trust). Sam was recently awarded the Bledisloe Medal from Lincoln University for advancing the interests of New Zealand.



Josie Willis

Josie is a qualified accountant who farms at Porangahau in partnership with her husband, Donald. She previously served on the Central Hawke's Bay Power Consumers' Trust as the appointee of CHB District Council. Josie brings financial and analytical skills to the Board. Josie was appointed as a Director in 2006.



Jon Nichols

Jon was appointed as a Director to Centralines in July 2011. 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 Port of Napier and Palmerston North Airport Limited, and is a member of the Institute of Chartered Accountants.



Nick Story

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.



Ian Walker

Ian was appointed as Director to Centralines in July 2013. Ian moved with his family into the district over 30 years ago as a Veterinarian for Vet Services (HB) Ltd, and has obtained a good knowledge of the geographical distribution area over the years. Ian is directly involved with a family sheep, deer and beef farm, and is also involved in several community sporting and cultural groups. Ian has been the Chief Executive of Veterinary Services (HB) Ltd for the last twelve years, with the practice being supreme "Westpac Business of the Year" for 2012. He is a Director with Kilgaren Farm Limited and Marama Farming Limited.

STATUTORY INFORMATION

For the year ended 31 March 2014

The Board of Directors present their annual report including financial statements of the Company for the year ended 31 March 2014. 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 \$2.91m. The annual net profit was \$1.63m after allowance for discount and tax. This compares with an operating profit in 2013 of \$3.01m, a net profit of \$1.92m after allowance for discount and tax.

Directors

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

S.A Robinson	(Chairman)	\$50,503.65	Re-appointed 18 July 2012
J.M Willis	(Director)	\$29,639.29	Re-appointed 18 July 2012
J.E Nichols	(Director)	\$26,689.15	Re-appointed 31 July 2013
N.M Story	(Director)	\$17,987.18	Appointed 31 July 2013
I.H Walker	(Director)	\$17,987.20	Appointed 31 July 2013
J.R Aitken	(Director)	\$8,318.08	Retired 31 July 2013

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

Dividend

There was a dividend of \$260,000 paid for the year ended 31 March 2014.

Audit Fees

Audit fees payable to Audit New Zealand as at 31 March 2014 were \$51,333 (2013 \$51,134).

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.

STATUTORY INFORMATION (continued)

Interests Register

Directors disclosed an interest or cessation of interest in the following entities during the year ended 31 March, 2014.

S.A Robinson

- Centralines Limited - Chairman
- Centralines Limited - Director
- Centralines Limited - Consumer (4 ICPs)
- Tourere Water Supply Limited - Consumer (1 ICP)
- S.A Robinson Family Trust - Trustee & Beneficiary
- Silver Fern Farms Limited - Shareholder
- The Co-operative Bank Limited - Director
- AgResearch Limited - Chairman
- FAME (Food & Agribusiness Market Experience Trust) - Chairman
- Hawke's Bay Regional Investment Company (Subsidiary of the HBRC) - Director
- Assure Quality - Director - Ceased

J.E Nichols

- Centralines Limited - Director
- Nichols Consulting Limited - Director
- Port of Napier Limited - Director
- New Zealand Rugby League (Mid Central Zone) - Director
- Northpower Limited - Consultant
- Consultant to WEL Networks - Ceased
- Palmerston North Airport Limited - Director

J.M Willis


- Centralines Limited - Director
- Centralines Limited - Consumer
- D.L & J.M Willis - Partner
- Sampford Trust - Trustee & Beneficiary
- Silver Fern Farms Limited - Shareholder

N.M Story

- Centralines Limited - Director
- Hawke's Bay Airport Limited - Chief Executive

I.H Walker

- Centralines Limited - Director
- Centralines Limited - Consumer
- Veterinary Services (HB) Limited - Chief Executive & Shareholder
- Veterinary Services (Dannevirke) Limited - Chairman
- Kilgaren Farm Limited - Owner & Director
- Marama Farming Limited - Shareholder & Director
- Farmlands Co-operative Society Limited - Shareholder
- Ballance Agri-Nutrients Limited - Shareholder



FOR AND ON BEHALF OF THE BOARD

Sam Robinson

Chairman

TRUSTEES' STATEMENT

The Central Hawke's Bay Consumers' Power Trust is the owner of Centralines, on behalf of the Consumers in our region. As Trustees our greatest responsibility is the appointment of Directors to the Centralines Board. Through the Statement of Corporate Intent (SCI) document we actively monitor performance. We also discuss the future strategy of the Company with the Board.

This year the revenue streams for the Company were reduced due to the climatic conditions throughout the year resulting in less power usage than budgeted. This had the adverse effect of EBITDA, but costs were contained to ensure the negative impact on the budget was limited.

Core maintenance of the network was continued; with the main areas of expenditure being overhead lines and tree trimming, to ensure less outages in storms.

The Company has performance targets for ensuring minimal disruption to our consumers, and these were largely met and exceeded. The lines are in good condition and we continue to ensure targets are kept stringent to maintain the Company focus on the key areas that have a direct impact on our consumers.

It was pleasing to see that our trend of no 'Lost Time Injuries' (LTIs) continued until the end of the financial year; a record for the Company which also compares favourably with other lines companies. The safety of our people has become part of the culture of Centralines, and the results are testament to this.

A discount of \$999,000 was credited to consumers during the year. This is also a record, and it continues to be a focus that any surplus not required for capital projects are distributed back to our owners.

Mrs Josie Willis has indicated to the Trust that she is not seeking re-appointment and will be stepping aside at the AGM in late July. Josie served on the Trust for twelve years as the Council representative, and was subsequently appointed to the Centralines Board, where she has remained for the past eight years. She has served both the Board and the Trust competently, and has been an asset to both. I would like to acknowledge the contribution Josie has made.

We had a change in the composition of the Trust with Mr Andrew Watts taking on a position with the Council. We thank Andrew for his contribution over the last ten years, and wish him well in his new position. As the next highest polling candidate, the Trust appointed Mr Marcus Peacock.

The Trust continues to have an open and honest relationship with the Board, receiving quarterly updates and more where required. We remain focussed on ensuring the Company delivers reliable and cost effective electricity to our consumers. We believe this has been achieved over the last twelve months.

Sarah von Dadelszen

Chair
CHB Consumer Power Trust

FINANCIAL STATEMENTS



STATEMENT OF PERFORMANCE

Financial Measures	2014 Corporate Intent Targets	2014 Actual Post Revaluation	2013 Actual
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) (excluding discounts) as a percentage of Average Assets Employed.	8.47%	8.03%	8.68%
Net Profit after tax (adjusted for discounts) as a percentage of Average Shareholders' Funds.	4.04%	3.99%	4.47%
Network Operational Costs - per ICP (excluding Transmission Costs and Depreciation)	\$521	\$507	\$471
Network Operational Costs - per kilometre of line (excluding Transmission Costs and Depreciation)	\$2,536	\$2,461	\$2,275
Total Planned Electricity Network Capital Expenditure	\$2.71m	\$2.04m	\$3.55m

Reliability Measures

System Average Interruption Duration Index			
SAIDI represents the average number of minutes the customer was without power in any one year	163.00	163.01	123.85
The 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)	3.50	3.32	2.70
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	0.00	1.91

Safety Measures

Number of Lost Time Injuries	0	0	0
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STATEMENT OF FINANCIAL PERFORMANCE

<i>For the year ended 31 March 2014</i>	Notes	2014 \$000	2013 \$000
Operating Revenue	3	12,370	11,864
Surplus before discounts and tax	3	2,909	3,012
Discount		(999)	(652)
Operating Surplus before taxation	3	1,910	2,360
Taxation expense	4	(285)	(437)
Net Surplus after income tax		1,625	1,923


STATEMENT OF MOVEMENTS IN EQUITY

<i>For the year ended 31 March 2014</i>	Notes	2014 \$000	2013 \$000
Net Surplus for the year		1,625	1,923
Other recognised revenues and expenses			
Revaluation of land and buildings	14	-	221
Revaluation of network assets	14	-	7,015
Total recognised revenues and expenses for the period		1,625	9,159
Distribution to owners	15	(260)	(265)
Movements in equity for the year		1,365	8,894
Equity at start of the year		58,017	49,123
Equity at end of the year		59,382	58,017

STATEMENT OF FINANCIAL POSITION

<i>For the year ended 31 March 2014</i>	Notes	2014 \$000	2013 \$000
EQUITY			
Share capital		8,000	8,000
Asset revaluation reserve	14	29,568	29,568
Retained earnings	15	21,814	20,449
		59,382	58,017
Represented by:			
NON CURRENT ASSETS			
Property, plant and equipment	6	55,305	54,615
		55,305	54,615
CURRENT ASSETS			
Cash		1,028	1,202
Short term investments	5	3,063	3,347
Receivables	7	1,226	1,230
Inventories		238	229
Taxation refund	4	9	-
		5,564	6,008
TOTAL ASSETS		60,869	60,623
NON CURRENT LIABILITIES			
Employee entitlements	16	108	104
		108	104
CURRENT LIABILITIES			
Accounts payable and accruals	19	1,176	2,206
Taxation payable	4	-	112
Employee entitlements	16	203	184
		1,379	2,502
TOTAL LIABILITIES		1,487	2,606
NET ASSETS EMPLOYED		59,382	58,017

For and on behalf of the Board


Sam Robinson - Director


Josie Willis - Director

Date: 23 June 2014

STATEMENT OF CASH FLOWS

<i>For the year ended 31 March 2014</i>	Notes	2014 \$000	2013 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers		11,835	11,284
Contributions for capital works		338	252
Tax refunds		59	104
Interest received		128	129
		12,360	11,769
Cash was disbursed to:			
Payments to suppliers and employees		9,081	7,122
Income taxes paid		465	425
		9,546	7,547
Net cash flows from operating activities	10	2,814	4,222
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Proceeds from disposal of investments		3,347	-
Proceeds from disposal of property, plant and equipment		73	34
		3,420	34
Cash was applied to:			
Purchase of investments		3,063	230
Purchase and construction of property, plant and equipment		3,085	2,630
		6,148	2,860
Net cash flows from investing activities		(2,728)	(2,826)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was applied to:			
Payment of dividends		260	265
		(260)	(265)
Net cash flow from financing activities		(260)	(265)
Net (decrease) increase in cash held		(174)	1,131
Cash balances at beginning of year		1,202	71
Cash balances at end of year		1,028	1,202

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

NOTES TO THE FINANCIAL STATEMENTS

1 General Information

Centralines Limited provides electricity distribution and line function services to consumers and businesses throughout Central Hawke's Bay. The company also provides an electrical contracting service.

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

These financial statements have been approved for issue by the company's Board of Directors on 23 June 2014

2 Summary Of Significant Accounting Policies

2.1 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, Financial Reporting Act 1993 and the Energy Companies Act 1992.

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.

2.2 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.

2.3 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.

2.4 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.

2.5 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.

2.6 Inventories

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

2.7 Property, Plant and Equipment

Distribution Assets

Distribution assets are stated at fair value based on periodic, but at least five yearly, valuations based on a Discounted Cashflow method (DCF). This DCF model is updated internally by suitably qualified employees and the basis, methodology and assumptions underpinning the valuation is 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.

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 assets.

Land and Buildings

Land and buildings are stated at fair value based on periodic, but at least five yearly, valuations determined by an independent registered valuation company, and are adjusted for additions at cost and depreciation at appropriate rates.

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.

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
Network Fibre	0 - 12 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.

2.8 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.

2.9 Investments

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

2.10 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.

2.11 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.

2.12 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.

2.13 Revenue Recognition

Revenue comprises the fair value for the sale of goods and services, (net of Goods and Services Tax), rebates and discounts. Revenue is recognised as follows:

(i) Sales of Goods

The Group has transferred to the buyer the significant risk and rewards of ownership of the goods;

The amount of revenue can be measured reliably;

It is probable the economic benefits with the transaction will flow to the entity; and

The costs incurred in respect of the transaction can be measured reliably.

(ii) Capital Contributions

Where the Group 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 Company recognises the asset at the cost incurred to construct the asset and recognises the cash received as revenue.

(iii) Sale of Services

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

(iv) Interest Income

Interest income is recognised on an accruals basis.

2.14 Dividends

Dividend distributions to the Company's shareholders are recognised in the period in which the dividends are distributed to the Company's shareholders.

3 Surplus before Taxation	2014 \$000	2013 \$000
Operating Revenue		
Network	11,229	10,855
Contracting	603	591
Customer contributions	338	252
Interest revenue	128	129
Other Income	72	37
	12,370	11,864
Depreciation		
Electrical distribution system	1,540	1,427
Freehold buildings	16	18
Fibre Network	93	89
Motor vehicles	188	139
Plant, equipment and tools	74	50
Office furniture and equipment	25	28
GIS	30	55
	1,966	1,806
Operating Expenses		
Audit New Zealand - audit services	51	51
Audit New Zealand - regulatory disclosures	20	10
Fees paid to other auditors	-	12
Audit New Zealand - other audits	22	12
Remuneration paid to directors	151	135
Bad debts written off	3	1
Increase/(decrease) in provision for doubtful debts	9	1
Donations	1	3
Transpower charges	2,697	2,629
Maintenance costs	2,182	2,006
Broadband Initiative	-	82
Employment related expenses	676	642
All other operating expenses	1,683	1,462
	7,495	7,046
Surplus before discounts and tax	2,909	3,012
Discount	999	652
Surplus before taxation	1,910	2,360

4 Income Tax	2014 \$000	2013 \$000
Taxation		
Operating surplus before taxation	1,910	2,360
Prima facie tax @ 28%	535	661
Permanent differences	432	400
Timing differences not recognised	(677)	(628)
Prior period adjustments	(5)	4
Taxation expense/(benefit)	<u>285</u>	<u>437</u>
Taxation expense/(benefit) is represented by:		
Current tax	<u>285</u>	<u>437</u>
	<u>285</u>	<u>437</u>
The Company has not recognised a deferred tax liability of \$6.811 million (2013 \$6.247 million)		
Taxation payable/(refund)		
Opening balance	112	(4)
Current year taxation expense/(benefit)	285	437
Taxation paid	(465)	(425)
Taxation refund received	59	104
	<u>(9)</u>	<u>112</u>
Imputation credit account		
Opening balance	6,825	6,618
Prior period adjustment	-	-
Taxation paid	465	425
Taxation refund received	(59)	(104)
Imputation credits attached to dividends paid	(101)	(114)
Closing balance	<u>7,130</u>	<u>6,825</u>

5 Investments

Current

Short term deposits held with registered banks	<u>3,063</u>	<u>3,347</u>
	<u>3,063</u>	<u>3,347</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

Fixed interest securities - interest rates

The range of interest rates on investments were:

Short term bank investments	3.0% - 5.20%	2.35% - 4.10%
-----------------------------	--------------	---------------

6 Property, Plant and Equipment	2014 \$000	2013 \$000
Electrical distribution network		
at valuation (The last revaluation was completed 31 March 2013)	51,536	51,536
additions at cost	2,056	-
work in progress	17	49
accumulated depreciation	(1,540)	-
	52,069	51,585
Freehold buildings		
at valuation*	682	682
additions	50	-
accumulated depreciation	(16)	-
	716	682
Freehold Land		
at valuation	495	495
Fibre Network		
at cost	1,115	1,093
accumulated depreciation	(205)	(112)
	910	981
Motor vehicles		
at cost	1,870	1,622
accumulated depreciation	(1,011)	(1,048)
	859	574
Plant, equipment and tools		
at cost	708	686
accumulated depreciation	(529)	(514)
	179	172
Office and computer equipment		
at cost	414	407
accumulated depreciation	(337)	(311)
	77	96
GIS		
at cost	551	551
accumulated depreciation	(551)	(521)
	(0)	30
Total net carrying value	55,305	54,615
This is represented by:		
Property, plant and equipment at valuation	52,713	52,713
Property, plant and equipment at cost	6,764	4,359
Work in progress	17	49
Accumulated depreciation	(4,189)	(2,506)
* Land and Buildings were independently valued by Peter A Brabyn, B Ag Comm, M Sc, (Ag Econ) ANZPI, MNZIPIM as at 31 March 2013.	55,305	54,615

7 Receivables and prepayments	2014 \$000	2013 \$000
Trade debtors	1,212	1,194
Provision for doubtful debts	(18)	(9)
Sundry Receivables and Accruals	32	45
Prepayments	-	-
	1,226	1,230

8 Related Party Information

Central Hawke's Bay 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.

	2014 \$	2013 \$
Goods and services supplied by Centralines	19,717	2,478
J. Nichols provided consulting services to Centralines in relation to various communication initiatives.	0	780

As at 31 March 2014, no amount was owing to related parties (2013 nil).

As at 31 March 2014, no amount was receivable from related parties (2013 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 value of this contract is not disclosed.

9 Capital Commitments

As at 31 March 2014 Centralines had no capital commitments. (2013 \$168,728).

10 Reconciliation of Cashflow with Operating Surplus	2014 \$000	2013 \$000
Reported surplus after taxation	1,625	1,923
Add Non Cash Items		
Increase/(decrease) in doubtful debts	9	1
Depreciation	1,966	1,806
	1,975	1,807
Changes in Working Capital		
(Increase) decrease in receivables and prepayments	4	(166)
(Increase) decrease in inventories	(10)	14
Increase (decrease) in accounts payable, accruals	(1,030)	1,279
(Increase) decrease in capital accounts payable	420	(722)
Increase (decrease) in employee entitlements	24	5
Increase (decrease) in provision for taxation	(121)	116
	(713)	526
Items Classified as Investing Activities		
Net (surplus) loss on disposal of property plant and equipment	(73)	(34)
Net cash flow from operating activities	2,814	4,222

11 Contingent Liabilities

Centralines has no contingent liabilities as at 31 March 2014. (2013 Nil).

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 one such bond was 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	2014 \$000	2013 \$000
Asset revaluation reserve		
Balance at beginning of year	29,568	22,332
Revaluation of electrical distribution network	-	7,015
Revaluation of Land/Buildings	-	221
Balance at end of year	<u>29,568</u>	<u>29,568</u>
Detailed as:		
Land/Buildings	759	759
General	421	421
Revaluation of electrical distribution network	<u>28,388</u>	<u>28,388</u>
	<u>29,568</u>	<u>29,568</u>

15 Retained Earnings	2014 \$000	2013 \$000
Balance at beginning of year	20,449	18,791
Net surplus	1,625	1,923
Dividends paid	<u>(260)</u>	<u>(265)</u>
Balance at end of year	<u>21,814</u>	<u>20,449</u>

16 Employee Entitlements

Employee entitlements expected to be taken within the twelve 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.

	Number of Employees 2014	Number of Employees 2013
Remuneration Range		
Current Employees \$100,000 - 110,000	0	0

18 Events Subsequent to Balance Date

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

19 Accounts payable and accruals	2014 \$000	2013 \$000
Trade creditors	946	1,696
Sundry creditors and accruals	230	510
	<u>1,176</u>	<u>2,206</u>

20 Impacts of the Adoption to International Financial Reporting Standards

In December 2012 the XRB Board issued XRBA1: Accounting Standards Framework (For Profit Entities Update). The Standard establishes the accounting standards framework for those entities that have a statutory obligation to prepare general purpose financial reports.

The new Accounting Standards Framework involves a multi-sector, multi-tiered approach. Centralines falls into the Tier 2 category which will enable it to apply New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRSRDR).

In accordance with Standard XRB A1 (For-profit Entities Update) Tier 2 for-profit entities preparing general purpose financial reports for periods beginning on or after 1 April 2014 must do so in accordance with the "new" Accounting Standards Framework.

Centralines will apply the "new" Accounting Standards Framework from the financial year beginning 1 April 2014. Centralines has yet to determine all of the impacts of adopting IFRS. However, one of the significant changes will be the recognition and calculation of deferred tax. At present, the company applies the partial basis under SSAP 12, and only discloses its deferred tax liability by note. IAS 12 requires recognition of all deferred tax liabilities, and calculates deferred tax on a different basis to SSAP 12. Under IAS 12, the company will be required to recognise a deferred tax liability of approximately \$8m at 1 April 2014.

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 2014

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 statement of performance of the company on her behalf.

We have audited:

- the financial statements of the company on pages 17 to 29, that comprise the statement of financial position as at 31 March 2014, 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 16.

Opinion

Financial statements and the statement of performance

In our opinion:

- the financial statements of the company on pages 17 to 29:
 - 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 2014; and
 - financial performance and cash flows for the year ended on that date;
- the statement of performance of the company on page 16:
 - complies with generally accepted accounting practice in New Zealand; and
 - gives a true and fair view of the company's achievements measured against the performance targets adopted for the year ended 31 March 2014.

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 23 June 2014. 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 performance are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and statement of 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 performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of performance whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements and statement of 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 performance; and
- the overall presentation of the financial statements and statement of performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of performance. Also we did not evaluate the security and controls over the electronic publication of the financial statements and statement of 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 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 view of its 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 performance that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and statement of performance, whether in printed or electronic form.

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 External Reporting Board.

In addition to the audit we have carried out other engagements for the company. These engagements are compatible with those independence requirements:

- an assurance engagement involving the issuance of a report on the company's compliance with the Electricity Distribution (Information Disclosure) Requirements 2012 for the regulatory year ended 31 March 2013;
- an agreed upon procedures engagement with respect to the Price 2013/2014 and Quantity 2012/13 disclosure schedule for the assessment year ending 31 March 2015;
- an assurance engagement involving the issuance of a report on the company's compliance statement prepared pursuant the default price-quality path under the Electricity Distribution Services Default Price Quality Path Determination 2012 NZCC 35 for the year ended 31 March 2014; and
- an assurance engagement involving the issuance of a report with respect to the information request prepared by the company in accordance with Commerce Commission requirements issued by notice in writing to the company under section 53ZD of the Commerce Act 1986 on 12 March 2014.

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



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

DIRECTORY

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J Nichols
N Story
I Walker
J Willis

Chief Executive

Ken Sutherland

Area Manager

Trevor Hanson

Trustees

S von Dadelszen (Chairman)
P Butler
K Laugesen
A Mabin
A Setter
M Peacock
G Williams

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