OUR PEOPLE OUR POWER

CENTRALINES LIMITED

CENTRALINES
ANNUAL REPORT 2020 //

CONTENTS

- OUR PEOPLE OUR POWER -

2020

OUR VISION

A COLLABORATIVE PARTNER THAT ENABLES GROWTH AND DELIVERS IN THE NEW ENERGY ECONOMY.

OUR PURPOSE

TO ENABLE LONG-TERM PROSPERITY FOR CENTRAL HAWKE'S BAY THROUGH DYNAMIC ENERGY AND INFRASTRUCTURE SOLUTIONS.

OUR VALUES

SAFTEY
OPENNESS
TEAMWORK
PASSION
INTEGRITY

IS PART OF OUR LIVES

WE ARE TRANSPARENT

WE ARE ONE TEAM

IN EVERYTHING WE DO

WE ARE ALWAYS HONEST

01

CHAIR & CHIEF EXECUTIVE'S ANNUAL REVIEW

A STRONG START TO A NEW DECADE

Centralines has entered the new decade in a strong position, delivering a reliable electricity supply and a healthy return on investment for Central Hawke's Bay power consumers and shareholders, along with a revitalised corporate strategy spearheaded by excellent network performance and exceptional growth throughout the year.

This has seen the launch of a refreshed purpose, vision and values to steer the company not only towards a new energy future, but through a period of uncertainty with the response to COVID-19 putting pressure on the economic climate and future regional growth.

OUTSTANDING GROWTH AND PERFORMANCE

Beyond providing a reliable network that meets the electricity needs of the power consumers of Central Hawke's Bay, Centralines has continued to power a vibrant region that is well positioned for ongoing growth. Off the back of this, and substantial building activity in the region, we saw a significant 42 percent increase in new connections this financial year. As a consumer-owned company it is pleasing to be able to play an important role in supporting Central Hawke's Bay to be a thriving and desirable region to live and work.

This year's strong network performance – driven by effective asset management practices and our highly capable team – meant we exceeded our own internal targets and those limits set by the Commerce Commission for both the average amount of time a customer is without power – System Average Interruption Duration Index (SAIDI) – and the number of power outages a customer experiences on average over the course of a year – System Average Interruption Frequency Index (SAIFI).

However, at the time of preparing this report we are acutely aware of the ongoing impacts of COVID-19, and the drought that is already the worst the region has experienced in over 50 years. Many of our customers and stakeholders are facing significant challenges today, and will likely do so into the forseeable future. Centralines remains committed to delivering ongoing support through high performing power delivery, our line discounts, local employment and strengthening our development of energy related projects.

RELIABILITY MEASURES	2019/20 CORPORATE INTENT TARGETS	2019/20 REGULATORY LIMITS	2019/20 ACTUAL
System Average Interruption Duration Index SAIDI represents the average number of minutes the customer was without power in any one year.	119.1 MINS	139.3 MINS	114.9 MINS
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 OUTAGES	4.20 OUTAGES	1.94 OUTAGES

EMPOWERING OUR PEOPLE AND THE COMMUNITY

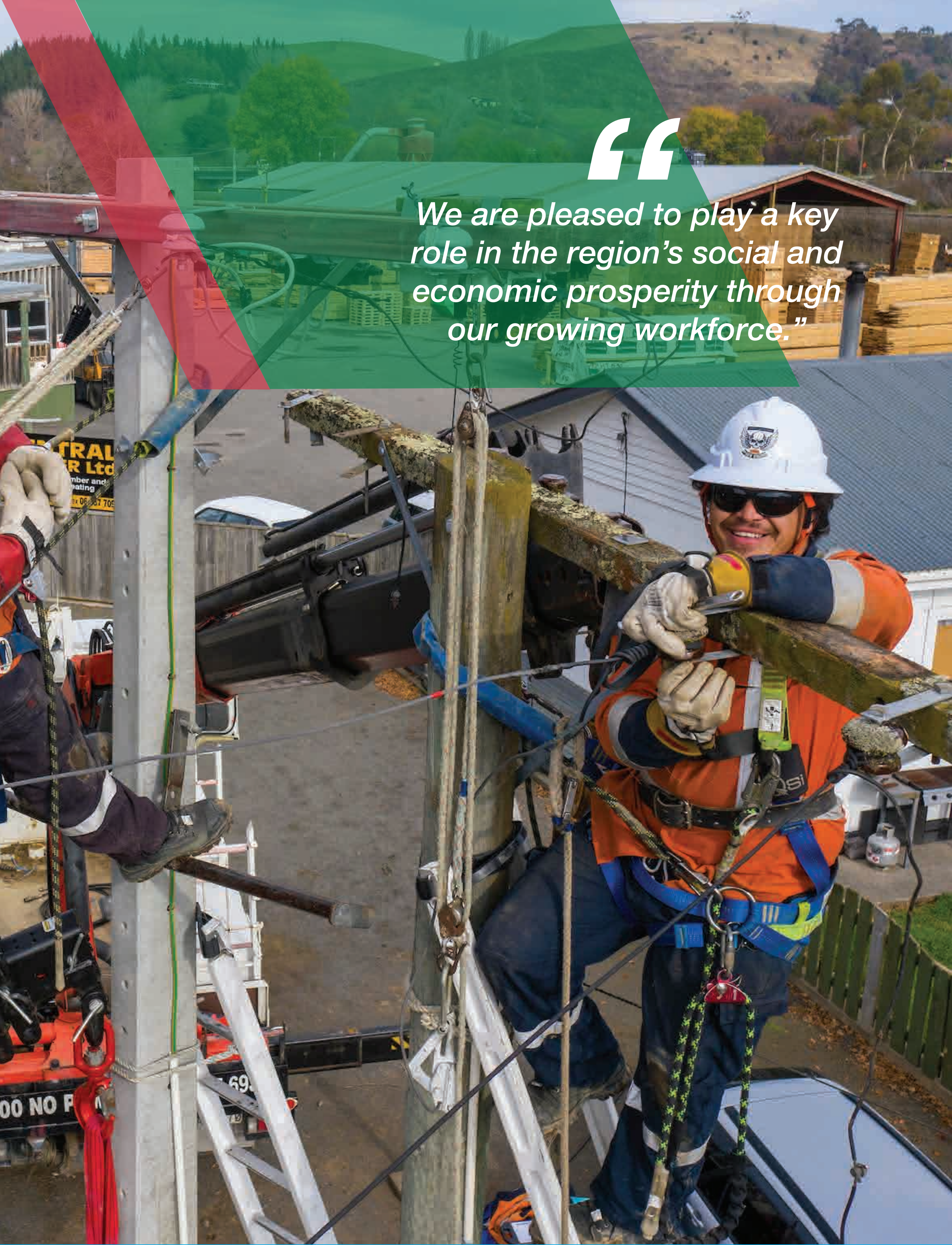
Our people, customers and the community are at the centre of our success and therefore their safety is at the forefront of everything we do. Through our continued relationship with Australian psychological safety consultants, Sentis, a 'One Page Safety Plan' was created to enhance our safety culture and equip our people with the knowledge and skills to ensure no one is harmed while working for Centralines, or as a result of our work in the community.

Unfortunately there was one lost-time injury this year, however we are heartened that this was not in the key risk areas of working at heights, with electricity or around heavy machinery. While there was an increase in near misses reported, we see this as a positive reflection of our improved safety culture and practices. We are confident that this focus on continuous improvement will enable us to increase our vigilance and performance further.

We are pleased to be playing an important role in the social and economic development of Central Hawke's Bay through our growing workforce, which this year included the appointment of our Relationship and Growth Manager who will help deliver further business growth for the company and economic benefits to the region.

We look forward to enhancing our local service provision and the work environment for our people with the construction of Centralines' new fit-for-purpose depot set to commence in November.

Through sponsorship, Centralines also contributed to many local groups and organisations that we believe support the wellbeing of our rural community including the Centralines Sports Park, Hawke's Bay Rescue Helicopter Trust, Waipukurau Community Heated Pool complex and the Central Hawke's Bay Technology Centre.



"We are pleased to play a key role in the region's social and economic prosperity through our growing workforce."

FINANCIAL PERFORMANCE

Centralines delivered another strong financial result for the year, with an after-tax profit of $3.8 million. This is after the company returned $1.4 million to its consumers through a discount payment on their August/September 2019 electricity bill.

An increase in line revenue and a decrease in network maintenance costs produced a $450K increase to EBITDA from 2019. At the same time, Centralines continued to reinvest in its network with a capital spend of $4.7 million. Customer driven work continues to surpass our expectations with a spend of $1.8 million.

Backed by a strong balance sheet with assets of $75 million and no debt, the company continues to look for future investment opportunities.

> *“Centralines delivered another strong financial result for the year, with an after-tax profit of $3.8m and assets of $75m.”*

	TOTAL REVENUE[1]	EBITDA[2]	NET PROFIT AFTER TAX	CAPITAL EXPENDITURE	TOTAL DISCOUNT PAID[3]
2019/20	$15.0 M	$7.1 M	$3.8 M	$4.7 M	$1.4 M
2018/19	$14.5 M	$6.7 M	$3.3 M	$5.7 M	$1.4 M

1 Centralines adopted NZ IFRS 15 in 2018/19. Without adopting this accounting standard Total Revenue for 2019/20 would be $16.6 million

2 Earnings before interest, tax, depreciation, amortisation and customer discounts

3 This is the discount paid out during the financial year

OUR REGULATORY AND PRICING ENVIRONMENT

It has been an important year in the regulatory environment, with the Government completing its review of the electricity sector and accepting a number of recommendations for improvement – which mostly impacts the retail and wholesale markets.

Although the review found that the industry is cost-efficient and not making excessive profits, it did find that vulnerable consumers who do not shop around for the best deals are missing out on cheaper prices. Additionally, small new entrant retailers have difficulties competing because of “win-back” offers made by retailers to retain the customer, as well as challenges managing their wholesale electricity price risks. New regulations are being put in place to improve these situations.

The biggest impact on Centralines following the review is the conclusion that the Low Fixed Charge (LFC) Regulations need reform. Although they are intended to benefit consumers using less electricity, they have unintended effects such as lifting prices for larger families living in poorly insulated homes. The Government has announced it will transition away from the LFC Regulations, which will allow Centralines to implement price structures that better reflect the costs of providing our services to residential consumers. However with the ongoing delays in changing the LFC Regulations, we expect current price structures to remain in place until 2022.

The Commerce Commission released its five-yearly revenue cap decision in November 2019, where it determines the amount of revenue Centralines needs for the next five years to cover the cost of operations. As a result of the significant fall in interest rates since 2014 – when the Commission last completed a reset – Centralines’ allowed revenue will decrease some 10% from 1 April 2021, after provisions for efficiencies from the previous regime are utilised in the 2020-21 financial year. Customers will not experience a price decrease this year however, as Centralines did not take maximum allowable revenue over the past two years.

Alongside the revenue reset, the Commission has also reset the quality standards that Centralines must meet. With strong reliability performance from 2010-2020, Centralines’ targets have become tougher, but we are confident that excluding major impacts from adverse weather or third party incidents – such as motor vehicle accidents – Centralines will meet these higher standards.

"With a new corporate strategy and track record of strong performance, Centralines is in a good position to support the Central Hawke's Bay community through these challenging and extraordinary times."

A SURREAL FUTURE

While the foreseeable future is somewhat uncertain and likely full of significant challenges, we remain confident that Centralines' new corporate strategy and track record of strong performance puts the company in a good position to support its customers, and the Central Hawke's Bay community, through these challenging and extraordinary times.

In light of this, we are very pleased that the company has partnered with our local council to create a 'Central Hawke's Bay Recovery Task Force' as part of an economic recovery plan that encourages fiscal stimulus to help the region respond in the face of challenging times with COVID-19 and ongoing drought. We look forward to seeing this plan come to life.

Along with supporting the region's ongoing growth and prosperity, it is critical that Centralines continues to meet the daily needs of the community by providing a safe, reliable and resilient electricity network, while looking ahead and working with our customers to satisfy their future energy needs. This has seen the company assisting our local council with a regional spatial planning exercise which will provide valuable insights to enable Centralines to plan its future investment in energy infrastructure to meet the needs of the community.

ACKNOWLEDGEMENTS

Centralines' continued success is a credit to the excellent work and commitment of the Centralines team, the professional leadership of our management partner – Unison Networks – and the support of the Central Hawke's Bay community.

We thank the Trustees for their ongoing confidence, support and for the important role they play in representing the interests of the power consumers of Central Hawke's Bay and our rural communities.

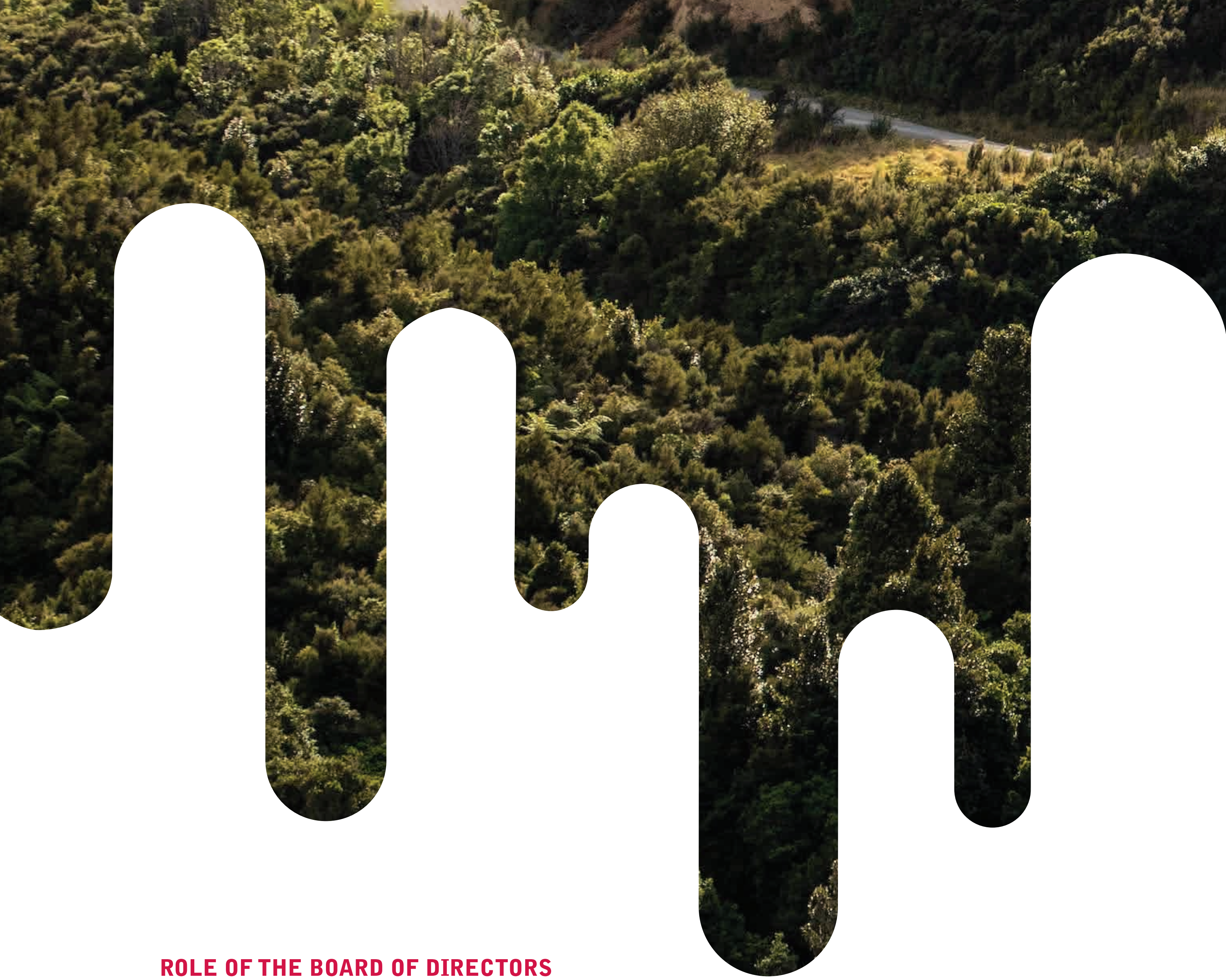
We also wish to acknowledge and thank Rachel Baker from Central Hawke's Bay for her valuable contribution on the Centralines Board as a Board Observer over the past 12 months as part of the company's commitment to developing leaders in our community.

As we enter a new decade in unprecedented times, it is encouraging that Centralines' business and operations are in a strong position and we look forward to seeing Central Hawke's Bay continue to thrive while facing the challenges that lie ahead.

Jon Nichols
CHAIR

Ken Sutherland
CHIEF EXECUTIVE

02 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 and Risk Committee

Centralines has a formally constituted Audit and 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 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 and 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.

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 2020

JON NICHOLS - CHAIR

Jon was appointed as a Director to Centralines in July 2011, and then as Chair in December 2015. Jon is an experienced director and 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 also serves on the Board of Palmerston North Airport Limited where he chairs the Audit and Risk Committee. Additionally, Jon is the independent chair of the Audit and Risk Committee for Hastings District Council and Maungaharuru Tangitu Trust. He has recently joined the Board of Eastland Group Limited and its subsidiaries. He is a Fellow Member of the Chartered Accountants Australia and New Zealand.

DEREK WALKER – CHAIR OF AUDIT AND RISK COMMITTEE

Derek joined the Centralines Board in August 2016. He is a widely-experienced director and is presently Chair of Speirs Group Limited and The Factory NZ Limited. Derek's previous directorships include Palmerston North Airport Limited, NZ Windfarms Limited and Quotable Value Limited. He is also a 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.

WENDIE HARVEY

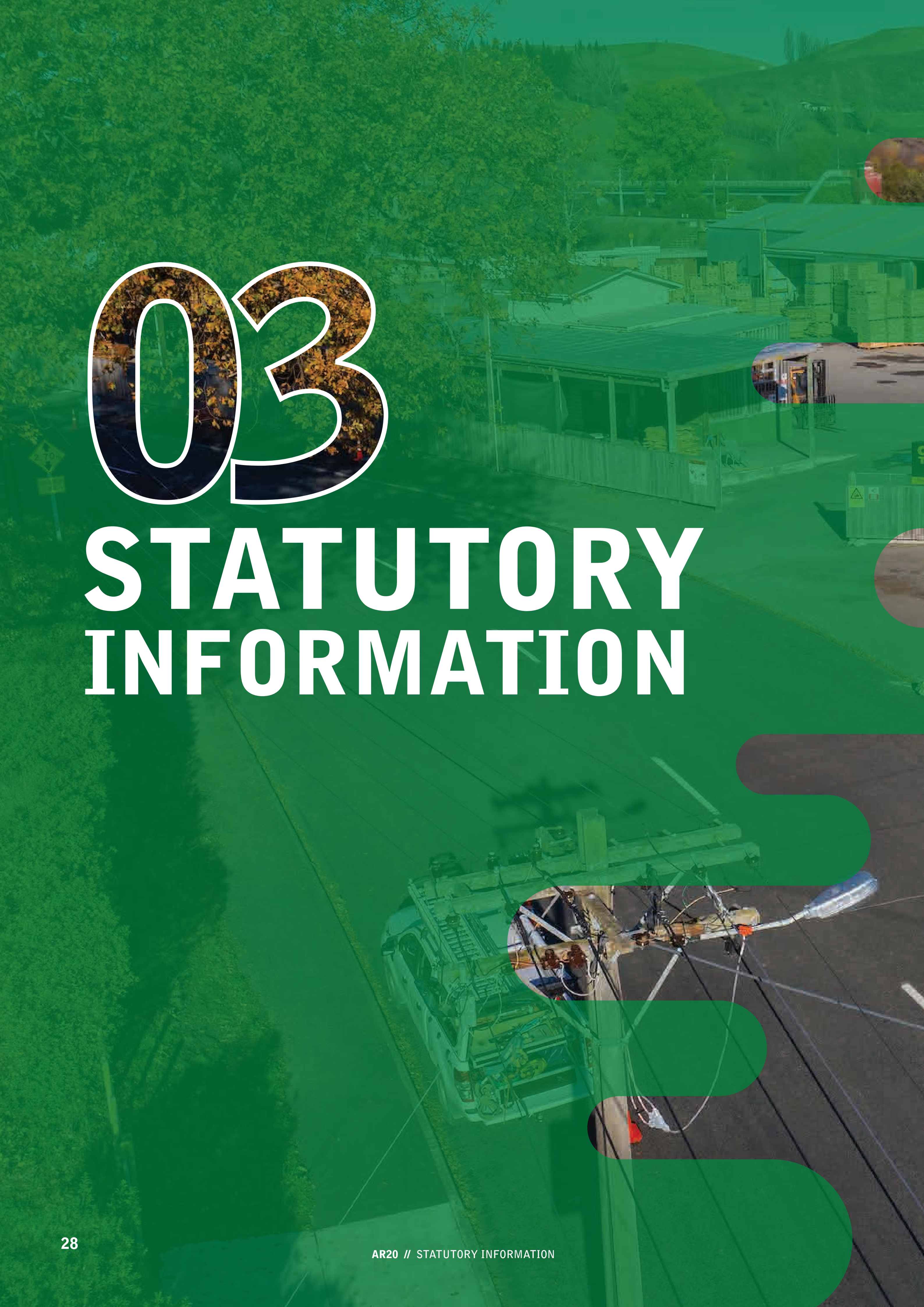
Wendie was appointed as a Director to Centralines in July 2014. Following a career that began as a lawyer specialising in employment relations and human resources, in 2004 Wendie entered the electricity sector taking up a position with Unison Networks Limited as a member of the executive leadership team. 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 Eastland Group Limited and its subsidiaries, Hawke's Bay Airport Limited, the Electrical Training Company Limited, and Aurora Energy Limited. She is the Chair of Hawke's Bay Airport Construction Limited. Wendie is also a Commissioner on the NZ Gambling Commission, and Board Member of Fire and Emergency NZ.

IAN WALKER

Ian was appointed as Director to Centralines in July 2013. Ian moved with his family into the district over 38 years ago, working as a veterinarian for Vet Services (Hawke's Bay) Limited until March 2016, and subsequently obtained a good knowledge of the geography of the 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) Limited for 14 years, retiring in March 2016. He is a Director of Kilgaren Farm Limited, DeeResearch Limited, and Chair of Deer Industry New Zealand.

FENTON WILSON

Fenton was appointed to the Centralines board in 2018. He was previously a Hawke's Bay Regional Councillor/ Chairman and has a good grasp of the issues and opportunities in Central Hawke's Bay. He is currently a Director of OSPRI New Zealand Limited, which manages National Animal Identification and Tracing and the TBfree program. He is also a director of QRS, the roading business owned by Wairoa District Council. A passionate community advocate, Fenton is Chairman of the Predator Free New Zealand Trust which encourages community scale pest control and enables community groups and schools to increase biodiversity in their communities. He farms a 235ha sheep and beef property in Wairoa and has a distinctly rural background. He sees Centralines as a key contributor to the CHB community in a time of real growth.



03 STATUTORY INFORMATION


CENTRAL
TIMBER Ltd
Wholesale Timber and
Custom Treating
MAERSK
ISUZU

FOR THE YEAR ENDED 31 MARCH 2020

The Board of Directors presents their annual report including the financial statements of the company for the year ended 31 March 2020. 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 $6.76 million. The annual net profit was $3.83 million after allowance for discount and tax. This compares with an operating profit in 2019 of $6.04 million, a net profit of $3.29 million after allowance for discount and tax.

DIRECTORS

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

J.E. Nichols (Chair) $54,840.00
Re-appointed 23 July 2018

D.N. Walker (Director) $32,312.76
Re-appointed 29 July 2019

F.D. Wilson (Director) $29,052.00
Appointed 20 April 2018

I.H. Walker (Director) $29,053.24
Re-appointed 29 July 2019

W.N. Harvey (Director) $29,053.20
Re-appointed 23 July 2018

Directors' and Officers' Liability Insurance premiums of $3,865 were paid during the year under review.

DIVIDEND

No dividend was declared during the year ended 31 March 2020 (2019: $161,000).

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 2020 were $61,828 (2019: $55,959).

ACCOUNTING POLICIES

The accounting policies applied are generally consistent with those applied in the last audited financial statements. The Company has applied the following standards and amendments for the first time from 1 April 2019.

Annual Improvements to NZ IFRSs 2015 – 2017 Cycle

2017 Omnibus Amendments to NZ IFRSs

NZ IFRS 16

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.

DIRECTORS' INTERESTS

Directors disclosed an interest or cessation of interest in the following entities during the year ended 31 March 2020.

J Nichols

- Centralines Limited - Chair
- Nichols Consulting Limited - Director
- Palmerston North Airport Limited – Director and Chair of Audit and Risk Committee
- Maungaharuru Tangitu Trust – Independent Chair of Audit and Risk Committee
- Hastings District Council – Independent Chair of Audit and Risk Committee
- Eastland Group Limited (incl. subsidiaries)
    - Eastland Network Limited
    - Eastland Port Limited
    - Gisborne Airport Limited

I Walker

- Centralines Limited - Director
- Centralines Limited - Consumer
- Kilgaren Farm Limited – Owner and Director
- Marama Farming Limited - Shareholder (ceased as Director 6 May 2019)
- Farmlands Co-operative Society Limited - Shareholder
- Ballance Agri-Nutrients Limited – Shareholder
- DeeResearch NZ – Director
- Board of Deer Industry New Zealand (DINZ) – Chair and Director

W Harvey

- Centralines Limited – Director
- Excellence in Business Solutions Limited – Director
- Port of Napier Limited – Director and Chair of Health and Safety Committee (ceased 3 October 2019)
- New Zealand Gambling Commission – Commissioner
- The Electrical Training Company Limited – Director
- Hawke's Bay Airport Limited – Director
- Eastern Institute of Technology (EIT) – Council Member (ceased April 2020)
- Fire and Emergency New Zealand – Board Member and Chair of the Remuneration and Health and Safety Committees
- Aurora Energy – Director and Chair of the Health and Safety Committee
- Hawke's Bay Airport Construction Limited – Chair and Director
- Eastland Group Limited (incl. subsidiaries) – Chair and Director of the Remuneration Committee
    - Eastland Network Limited
    - Eastland Port Limited
    - Gisborne Airport Limited

D Walker

- Centralines Limited – Director
- The Factory NZ Limited – Chair and Director
- Speirs Group Limited and subsidiaries – Chair and Director
- Third Bearing Limited – Beneficial Shareholder (ceased as Director 4 June 2019)
- TBL Investments Limited – Director/Beneficial Shareholder
- Elmira Consulting Limited – Director/Shareholder
- Wildbase Recovery Community Trust – Trustee

F Wilson

- Centralines Limited – Director
- OSPRI NZ Limited – Director
- TB Free NZ Limited – Director
- National Animal Identification Traceability (NAIT) Limited – Director
- Oruru Land Company Limited – Director/Beneficial Shareholder
- Predator Free New Zealand Trust – Chair and Trustee
- Hawke's Bay Regional Council – Councillor (ceased October 2019)
- Wairoa Community Development Trust – Trustee/Chairman (ceased October 2019)
- Quality Roading and Services (Wairoa) Limited - Director
- Tangihanga Quarry Joint Operation – Director Representative

04
TRUSTEES' STATEMENT

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.

We are pleased to have two new trustees taking the place of Richard Dakins and Kate Taylor who both retired during the year. They are Callum Gray and Libby Tosswill. We thank Kate Taylor and Richard Dakins for their service on the Trust. Both contributed with effort and wisdom for the benefit of Centralines and the consumers. Kate highlighted the importance of communication and Richard was a major advocate for advancing the needs of large users including irrigators.

The beneficiaries of the Trust are the electricity consumers in the Central Hawke's Bay region. This year a great number of our consumer beneficiaries have been negatively impacted by drought and COVID-19. The Trust, by way of Centralines, is fortunate to be in a position of strength to assist our consumers and plans are currently underway, or in action, to advance these measures.

Centralines has provided the maximum allowable discount to our consumers. This totalled $1,413,000. To the average residential consumer this meant a discount in the order of $182 in August/September 2019, which is meaningful and valued by our consumer owners. To the larger users, the rebate was in the thousands of dollars, with the highest user receiving a rebate of $5,575.

Centralines also gave generously to 65 charitable organisations for a total of $158,000. These organisations included numerous sports teams, community events, social services and schools.

Our core business is supported by the professionalism of Centralines' staff and their ability to operate and grow our electricity network. The directors of the company are making sound business decisions and guiding our business strategy well, as evidenced by the strong, growing and reliable performance trend over the last few years. And, our key partners at Unison are true professionals in the Electricity Distribution Business industry and we are fortunate to have their management expertise running the company.

As part of the governance of the organisation, the Trust issues a Letter of Expectations to the directors of Centralines at the start of each financial year. Included in recent years is the expectation that the directors focus on growth and on ensuring Centralines is ready for industry changes. Responsible growth and investment in the business will ensure that Centralines is in a position to continue to give back to our consumer beneficiaries. It also ensures that Central Hawke's Bay is in a position to grow on the back of an energy network that is reliable, scalable, fit for purpose and cost effective.

We have confidence that these expectations are being progressed. The Trust is very pleased with the new depot plans beside the Waipukurau Substation. This will indeed allow the company to grow and be a functional base for the Centralines of the future. With change there are always as many threats as opportunities. Navigating this requires sound judgement and courage to act in a timely manner.

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

This year a great number of our consumer beneficiaries have been negatively impacted by drought and COVID-19. The Trust, by way of Centralines, is fortunate to be in a position of strength to assist our consumers and plans are currently underway, or in action, to advance these measures.

05
FINANCIAL STATEMENTS

STATEMENT OF PERFORMANCE

FOR THE YEAR ENDED 31 MARCH 2020	2020 CORPORATE INTENT TARGETS	2020 ACTUAL	2019 ACTUAL
SAFETY MEASURES			
Number of lost-time Injuries	0	**1**	1
FINANCIAL MEASURES			
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) excluding discounts ($ millions)	$7.48	**$8.70**	$8.17
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) (excluding discounts) as a percentage of Average Assets Employed	10.49%	**11.90%**	11.16%
Net Profit After Tax (adjusted for discounts) as a percentage of Average Shareholders' Funds	6.62%	**8.30%**	7.66%
Network Operational Costs – $ per ICP (excluding Transmission Costs and Depreciation)	$511	**$503**	$499
Network Operational Costs – $ per kilometre of line (excluding Transmission Costs and Depreciation)	$2,251	**$2,257**	$2,195
Total Planned Electricity Network Capital Expenditure ($ millions)	$3.20	**$4.06**	$4.04
Dividend - paid in that year ($millions) *A decision was made to combine the payment of the 2020 dividend with the 2021 dividend early in the 2021 year. This would save on transaction costs.*	$2.10	**$0**	$0.16
Discount - paid in that year ($millions)	$1.48	**$1.41**	$1.39
RELIABILITY MEASURES			
System Average Interruption Duration Index *SAIDI represents the average number of minutes the customer was without power in any one year. The target was met due to less than expected adverse weather*	119.10	**114.91**	107.73
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). The successive interruptions have been treated in the same way for the 2020 financial year as they were for the 2019 financial year.*	3.52	**1.94**	2.06
An unplanned loss of supply event can, in some circumstances, be followed by restoration of supply to some consumers and then by a successive interruption as a result of isolating the initial cause or making repairs and completing the permanent restoration of supply to all consumers. For the avoidance of doubt, where this occurs, Centralines' reported SAIFI records the initial outage and not any subsequent short duration outages required to effect the restoration of supply. Centralines' reported SAIDI includes the consumer minutes from subsequent short duration outages required to effect the restoration of supply. This recording approach has not changed from Centralines' previous statements.			
Number of major faults (33kV) that result in interruptions to supply, per 100 km of line per year (as per the Electricity Distribution Information Disclosures Determination 2012)	2	**1**	2

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2020	NOTES	2020 $000	2019 $000
REVENUE			
Revenue from contracts with customers	2	**16,422**	15,738
Posted discount accrued	2	**(1,566)**	(1,482)
Net revenue from contracts with customers	2	**14,856**	14,256
Other income	2	**176**	203
		15,032	14,459
EXPENSES			
Transpower charges		**(2,907)**	(2,934)
Network maintenance		**(1,485)**	(1,617)
Employee related expenses		**(1,058)**	(850)
Other expenses	3	**(2,378)**	(2,275)
Business development		**(70)**	(99)
Total operating expenses		**(7,898)**	(7,775)
Earnings before interest, taxes, depreciation and amortisation expenses (EBITDA)		**7,134**	6,684
Depreciation and amortisation expense	5	**(1,940)**	(2,122)
Profit before income tax		**5,194**	4,562
Income tax	4	**(1,362)**	(1,269)
Profit for the year		**3,832**	3,293
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Gains/(Losses) on revaluation of electricity distribution network	5	**-**	-
Deferred tax impact		**-**	-
Items that may be subsequently reclassified to profit or loss:		**-**	-
		-	-
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive income for the year		**3,832**	3,293

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

BALANCE SHEET

AS AT 31 MARCH 2020	NOTES	2020 $000	2019 $000
ASSETS			
Current assets			
Cash and cash equivalents		**2,880**	2,186
Investments	7	**5,562**	5,414
Trade and other receivables	6	**1,975**	1,931
Inventories		**429**	375
Total current assets		**10,846**	9,906
Non-current assets			
Property, plant and equipment	5	**63,762**	61,253
Intangible assets		**97**	85
Investment property	12	**292**	-
Total non-current assets		**64,151**	61,338
Total assets		**74,997**	71,244
LIABILITIES			
Current liabilities			
Trade and other payables		**1,495**	2,420
Contract liabilities	2	**1,566**	1,482
Current tax liabilities		**295**	(152)
Employee provisions		**276**	230
Total current liabilities		**3,632**	3,980
Non-current liabilities			
Employee provisions		**47**	47
Deferred tax liabilities	4	**9,654**	9,385
Total non-current liabilities		**9,701**	9,432
Total liabilities		**13,333**	13,412
Net assets		**61,664**	57,832
EQUITY			
Share capital	8	**8,000**	8,000
Reserves		**856**	856
Retained earnings		**52,808**	48,976
Total equity		**61,664**	57,832

For and on behalf of the Board of Directors of Centralines Limited, who authorised these financial statements presented on pages 40 to 55 for issue on 30 June 2020.

Jon Nichols – Chair

Derek Walker – Director

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2020	NOTES	ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
		SHARE CAPITAL $000	REVALUATION RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
Balance as at 1 April 2019		8,000	856	48,976	57,832
Profit/(loss) for the year		-	-	3,832	3,832
Other comprehensive income:					
Revaluation of electricity distribution network	5	-	-	-	-
Deferred tax on revaluation		-	-	-	-
Total comprehensive income		-	-	3,832	3,832
Dividends		-	-	-	-
Balance as at 31 March 2020		8,000	856	52,808	61,664
Balance as at 1 April 2018		8,000	856	46,845	55,701
Effect of changes in accounting policies		-	-	(1,001)	(1,001)
Balance as at 1 April 2018 (restated)		8,000	856	45,844	54,700
Profit/(loss) for the year		-	-	3,293	3,293
Other comprehensive income:					
Revaluation of electricity distribution network	5	-	-	-	-
Deferred tax on revaluation		-	-	-	-
Total comprehensive income		-	-	3,293	3,293
Dividends		-	-	(161)	(161)
Balance as at 31 March 2019		8,000	856	48,976	57,832

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2020	2020 $000	2019 $000
Cash flows from operating activities		
Receipts from customers	**13,957**	13,486
Contributions for capital works	**854**	548
Interest received	**176**	171
Payments to suppliers and employees	**(8,756)**	(6,918)
Income taxes paid	**(646)**	(1,196)
Net cash inflow/(outflow) from operating activities	**5,585**	6,091
Cash flows from investing activities		
Proceeds from disposal of investments	**9,439**	13,346
Purchases of investments	**(9,587)**	(11,447)
Purchase and construction of property, plant and equipment	**(4,743)**	(5,699)
Proceeds from disposal of property, plant and equipment	**-**	33
Net cash inflow/(outflow) from investing activities	**(4,891)**	(3,767)
Cash flows from financing activities		
Payment of dividends	**-**	(8,161)
Net cash inflow/(outflow) from financing activities	**-**	(8,161)
Net increase (decrease) in cash and cash equivalents	**694**	(5,837)
Cash and cash equivalents at the beginning of the financial year	**2,186**	8,023
Cash and cash equivalents at end of year	**2,880**	2,186

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 and 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 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.

These financial statements are presented in New Zealand dollars ($), which is Centralines Limited functional currency, and have been rounded to the nearest thousand unless otherwise stated.

(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.

The 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) 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.

(d) 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.

(e) New and amended standards adopted by the Company

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 March 2019, except for the adoption of new standards effective as of 1 April 2019. The accounting policy for capital contributions has been amended in note 2(ii) to clarify the treatment of revenue based on the nature of the customer. The amendment did not have an impact on the current or any prior period. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The Company has applied the following standards and amendments for the first time for their interim reporting period commencing 1 April 2019:

• **Annual Improvements to NZ IFRSs 2015 2017 Cycle** (effective 1 January 2019): The Standard has been issued to make minor amendments to NZ IFRSs, including NZ IFRS 3, NZ IFRS 11, NZ IFRS 12, and NZ IAS 23.

• **2017 Omnibus Amendments to NZ IFRSs** (effective 1 January 2019): The Standard has been issued to make minor amendments to NZ IFRSs, including NZ IFRS 4, NZ IFRS 10, and NZ IAS 28.

• **NZ IFRS 16 Leases**

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.

(f) Critical accounting judgements and estimates, including impact of COVID-19

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)

On 11 March 2020, the World Health Organisation declared the outbreak of COVID-19 a pandemic and two weeks later the New Zealand Government declared a State of National Emergency. From this, the country was in lockdown at Alert Level 4 for the period 26 March to 27 April and remained in lockdown at Alert Level 3 until 13 May inclusive.

During Alert Levels 4 and 3, staff worked remotely and our services were limited to essential services, including electricity distribution and emergency response. We suspended our routine maintenance programme, and our capital works. After 13 May 2020, we resumed all our operations.

There was no significant impact on supply under Levels 3 and 4. In respect of SAIFI, the number of interruptions was consistent with the rest of the financial year, and similar to previous years. Although our staff were working remotely, this did not affect our response times to emergency repairs. This meant that there was also no significant impact on our SAIDI results.

The maintenance and capital works programmes are now some weeks behind the planned schedule of works. We expect to catch this up over the coming months and this is not expected to impact negatively on reliability of supply.

There were no other significant impacts on the business.

The Directors have considered the effects on the financial statements caused either directly or indirectly by COVID-19:

- The effect on the revenue and expenses in FY20 was not material because of the very short period of the lockdown within this financial year.

- The company also considered the possible impact on trade receivables and adjusted the allowance for impairment of trade receivables as detailed in note 6.

- Note 5 explains the impact on the carrying value of network assets at 31 March 2020 and the uncertainties in these values caused by COVID-19.

- Note 12 explains the impact on the carrying value of investment property at 31 March 2020 and the uncertainties in these values caused by COVID-19.

- Note 5 explains how the impacts of COVID-19 on cash generating units was considered through impairment testing. No impairment was found to be necessary.

The Directors also considered the impact of the COVID-19 pandemic going forward on the cashflows of the network. There has been no reduction in revenue during level 4 lockdown. As the local economy is based on primary industry it is not expected that the network cashflows will be detrimentally affected by the pandemic. In addition, any revenue shortfall due to reductions in demand can be caught up in later years under the revenue cap, with time value of money adjustments.

The Directors are continuing to closely monitor the COVID-19 situation and the Company is working closely with customers and contractors to ensure the appropriate actions are taken, with people's safety and wellbeing as the priority.

2 REVENUE

Revenue streams

The Company generates revenue primarily from electricity distribution and line function services provided to consumers and businesses in Central Hawke's Bay. Other sources of revenue include electrical contracting services and investment income.

	2020 $000	2019 $000
Net revenue from contracts with customers[1]	**14,856**	14,256
Other income:		
Interest income	**176**	171
Miscellaneous income	**-**	32
Total revenue	**15,032**	14,459

Disaggregation of revenue from contracts with customers
In the following table, revenue from contracts with customers is disaggregated by major products and service lines:

	2020 $000	2019 $000
Electricity line revenue[1]	**13,336**	13,104
Capital contributions	**854**	548
Contracting revenue	**629**	560
Other	**37**	44
	14,856	14,256

[1]Net of the accrued posted discount of $1,565,663 to be paid to consumers connected to the Company's electricity network as at 31 March 2020 and scheduled to be paid to consumers in April 2020.

Contract assets and liabilities
The Company has recognised the following revenue-related contract assets and liabilities:

	2020 $000	2019 $000
Contract liabilities – posted discount payable to consumers	**1,566**	1,482
Total contract liabilities	**1,566**	1,482

Changes in contract assets and liabilities

The Company has recognised a contract liability for the discount to be paid to consumers. The Company will pay a posted discount of $0.01978 c/kWh to all consumers registered on its electricity network as at 31 March 2020. The discount is calculated using twelve months of consumption data from 1 April 2019, and is scheduled to be paid to consumers in the month of April 2020. The minimum discount payable to any consumer is $55.00, and the maximum is $5,850.

Accounting policy

(i) Electricity line revenue

The Company owns, manages and operates an electricity distribution network. The Company distributes electrical energy on behalf of electricity retailers that has been brought to points of supply by the National Grid operator or produced by embedded generators, to consumers connected to the Company's electricity distribution network.

Line revenue relates to the provision of electricity distribution services and includes pass through revenue and recoverable cost revenue. Prices are regulated, and customers are charged through a mix of fixed charges which are recognised on a straight line basis and variable charges which are recognised based on the volume of distribution services provided. Consistent with NZ IFRS 15 this revenue is recognised over time at the fair value of services provided based on an output method as the service is delivered to match the pattern of consumption. Pass through and recoverable costs include transmission costs, statutory levies and utility rates.

The Company pays a discount to eligible consumers registered on its network as at 31 March each year. The basis of the discount is posted on the Company's Electricity Distribution Delivery Prices disclosure at the start of each financial year, and is paid to consumers via their retailer in the following financial year. The electricity line revenue recognised is net of the discount to be paid to consumers. A contract liability (included in trade and other payables) is recognised for the expected discount payable to consumers in relation to electricity distribution made until the end of the reporting period.

(ii) Capital contributions

Customer contribution revenue relates to contributions received from customers towards the costs of reticulating electricity to new subdivisions, constructing uneconomic lines and relocating existing lines. The revenue recognised is the fair value of the asset being constructed. Revenue is recognised at a point in time when the asset is connected to the network for customers whose supply of electricity is contracted to a retailer. For retailers, this revenue is recognised over time.

(iii) Contracting revenue

Contracting revenue relates to revenue from electrical contracting services provided to third parties and is recognised as the fair value of the service provided or asset being constructed. Where an asset is being constructed for a third party, revenue is recognised over time as a result of control of the asset transferring to the customer over the time. For electrical services revenue is recognised at a point in time when the performance obligation is satisfied.

(iv) Interest income

Interest income is recognised using the effective interest method.

3 OTHER EXPENSES

Other operating expenses are recognised in the statement of comprehensive income as an expense when they are incurred.	**2020 $000**	**2019 $000**
Other expenses		
Bad debt expense	**-**	-
Audit of the annual financial statements – Audit New Zealand	**62**	56
Regulatory audit and assurance work – Audit New Zealand	**66**	70
Directors' fees	**174**	172
Donations	**1**	1
Community sponsorship	**158**	110
Other operating expenses	**1,917**	1,866
	2,378	2,275

4 TAXATION

(a) Income tax expense	2020 $000	2019 $000
Current tax on profits for the year	**1,094**	711
Deferred tax associated with timing differences	**269**	178
Adjustments in respect of prior years	**(1)**	(9)
Prior period discount	**-**	389
Income tax expense	**1,362**	1,269

(b) Reconciliation of income tax expense to prima facie tax payable	2020 $000	2019 $000
Profit from continuing operations before income tax expense	**5,194**	4,562
Income tax @ 28%	**1,453**	1,278
Tax effects of:		
• Income not subject to tax	**-**	-
• Expenses not deductible for tax purposes	**-**	-
Prior period current tax adjustment	**(1)**	(9)
Reduction in deferred tax on buildings	**(90)**	-
Income tax expense	**1,362**	1,269

(c) Deferred tax liabilities	2020 $000	2019 $000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	**9,742**	9,464
Employee provisions	**(82)**	(75)
Other provisions	**(6)**	(4)
Total deferred tax liabilities	**9,654**	9,385
Movements:		
Opening balance	**9,385**	9,207
Deferred portion of current year tax expense	**269**	178
Amounts charged or credited direct to equity	**-**	-
Closing balance	**9,654**	9,385

Accounting policy

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.

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.

5 PROPERTY, PLANT & EQUIPMENT

	ELECTRICAL DISTRIBUTION NETWORK $000	FIBRE NETWORK $000	LAND AND BUILDINGS $000	OTHER ASSETS $000	TOTAL $000
Year ended 31 March 2020					
Opening net book amount	**56,820**	**606**	**2,345**	**1,482**	**61,253**
Additions	**4,060**	**-**	**94**	**587**	**4,741**
Disposals	**-**	**-**	**-**	**-**	**-**
Assets classified as investment property	**-**	**-**	**(292)**	**-**	**(292)**
Depreciation charge	**(1,454)**	**(61)**	**(20)**	**(405)**	**(1,940)**
Revaluation	**-**	**-**	**-**	**-**	**-**
Closing net book amount	**59,426**	**545**	**2,127**	**1,664**	**63,762**
At 31 March 2020					
Cost	**8,507**	**1,345**	**2,251**	**5,542**	**17,645**
Valuation	**54,024**	**-**	**-**	**-**	**54,024**
Accumulated depreciation	**(3,105)**	**(800)**	**(124)**	**(3,878)**	**(7,907)**
Net book amount	**59,426**	**545**	**2,127**	**1,664**	**63,762**
Year ended 31 March 2019					
Opening net book amount	54,436	720	1,580	944	57,680
Additions	4,035	-	785	878	5,698
Disposals	-	-	-	(3)	(3)
Depreciation charge	(1,651)	(114)	(20)	(337)	(2,122)
Revaluation	-	-	-	-	-
Closing net book value	56,820	606	2,345	1,482	61,253
At 31 March 2019					
Cost	4,447	1,345	2,449	4,955	13,196
Valuation	54,024	-	-	-	54,024
Accumulated depreciation	(1,651)	(739)	(104)	(3,473)	(5,967)
Net book amount	56,820	606	2,345	1,482	61,253

(a) Valuations of electrical distribution network

The current book value of the Electricity distribution network was assessed against the fair value as at 31 March 2020, calculated using the Discounted Cash Flow (DCF) method which showed that there was no material difference. On this basis, no revaluation has been recognised.

The 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 valuation model calculation uses the following key assumptions:

- Line Revenue price increase: As the Company is a regulated business it is subject to regulated pricing to ensure that it does not earn more than the Commerce Commission's allowed return on investment. As such Centralines' revenues are reset every five years. The next regulatory price reset will be on 1 April 2020 for the 2020/21 to 2024/25 financial years. Revenues will be reset again in 2025/26.

The valuation model uses the board approved budget for the 2020/21 year as the base year for line revenue. The model then uses the current Commerce Commission's DPP determination and the current revenue cap model as the basis for modelling an estimated price reset in 2025/26, using the 2020 AMP update for key Opex and Capex inputs, the most recent RBNZ forecasts for CPI inflation (as allowed under the Commerce Commission's default price quality paths for electricity distributors), and the WACC assumptions noted below.

- Weighted Average Cost of Capital (WACC) for regulated revenue calculation: The model for the calculation of regulated revenue uses a Vanilla WACC (67th percentile) of 4.57%.

- A post tax discount rate of 4.69% per annum (2019: 5.96%). The estimated discount rate considered the impacts of COVID-19.

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 $2.7m.

The impact of COVID-19 on the cashflows of the network has been considered. There has been no reduction in revenue during level 4 lockdown. As the local economy is based on primary industry it is not expected that the network cash flows will be detrimentally affected by the pandemic. In addition, any revenue shortfall due to reductions in demand can be caught up in later years under the revenue cap, with time value of money adjustments.

Management has evaluated the effect COVID-19 may have on the impairment of the remaining Company's assets. As the local economy is based on primary industry the expectations and data to date show little effect from the pandemic. Therefore, have assessed there is no impact on the Centralines' property, plant and equipment.

(b) Capital work in progress

Capital work in progress as at 31 March 2020 of $941,417 (2019: $495,630) of which $846,298 is included in Electrical distribution network additions and $95,119 included in the Land and Buildings additions.

(c) Capital commitments

The value of contractual capital commitments as at 31 March 2020 is estimated at $Nil (2019: Nil).

Accounting policy

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 re-valued 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

Depreciation on electrical distribution assets is calculated using the straight-line method to allocate their cost or re-valued amounts over their estimated remaining useful lives.

Any accumulated depreciation on electrical distribution assets as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the re-valued amount of the asset.

Depreciation on other assets (other than land, which is not depreciated) is calculated using the straight-line method to allocate their cost over their estimated useful lives.

The estimated useful lives of property, plant and equipment for current and comparative periods are 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	1 – 10 years
– Office furniture and equipment	5 – 15 years
– Information technology	2 – 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.

6 TRADE AND OTHER RECEIVABLES

	2020 $000	2019 $000
Trade receivables	**1,933**	1,920
Provision for doubtful receivables	**(22)**	(14)
	1,911	1,906
Sundry receivables and accruals	**64**	25
	64	25
Total trade and other receivables	**1,975**	1,931

(a) Impaired receivables

Movements on the provision for impairment of trade receivables are as follows:

AT 1 APRIL	2020 $000	2019 $000
Opening balance	**(14)**	(17)
Provision for impairment recognised during the year	**(16)**	(3)
Receivables written off during the year as uncollectible	**3**	3
Amounts recovered during the year	**5**	3
At 31 March	**(22)**	(14)

Accounting policy

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due within 30 days and therefore are all classified as current. There are no significant financing components.

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.

7 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:

	2020 $000	2019 $000
Fair value of financial assets at amortised cost		
Cash and cash equivalents	**2,880**	2,186
Investments	**5,562**	5,414
Trade and other receivables	**1,975**	1,931
	10,417	9,531
Fair value of financial liabilities at amortised cost		
Trade and other payables	**1,495**	2,420
	1,495	2,420

Note, the Company only has one classification of its financial assets, as all cash and cash equivalents and investments are classed as financial assets at amortised cost. Financial assets at amortised cost 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.

Investments consist of short term deposits held with registered banks and are classified as current assets if they mature within 12 months, otherwise they are classified as non current.

Investments are held to collect principle and interest as part of a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The short term deposits are bearing fixed interest rates between 2.30% and 2.92% (2019: between 3.25% to 3.52%). These deposits have a remaining maturity between 14 days and 66 days (2019: between 47 days and 173 days).

(b) Market risk

(i) Interest rate risk

The Company's interest rate risk arises from investments in short term deposits and cash held in bank accounts. To manage its exposure to interest rate risk the Company diversifies its investment portfolio. Diversification of the investment portfolio is done in accordance with the limits set by the Company's comprehensive investment policy.

Sensitivity

Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates.

IMPACT ON POST TAX PROFIT	2020 $000	2019 $000
Interest rates – increase by 50 basis points	**28**	27
Interest rates – decrease by 50 basis points	**(28)**	(27)

(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) 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.

8 SHARE CAPITAL

	2020 SHARES '000	2019 SHARES '000	2020 $000	2019 $000
Ordinary shares				
Fully paid (no par value)	**8,000**	8,000	**8,000**	8,000

9 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 2020, the amounts incurred by Unison Networks Limited for the provision of key management personnel amounted to $129,739 (2019: $127,320).

The compensation paid or payable to Directors was $174,311 (2019: $172,232).

(b) Transactions with related parties

Related party	Nature of transactions	Relationship with company	TRANSACTION 2020 $000	TRANSACTION 2019 $000	YEAR-END 2020 $000	YEAR-END 2019 $000
Central Hawke's Bay Consumers Power Trust	Dividend	Parent	**-**	161	**-**	-
Unison Networks Limited	Purchases materials and management services	Key management personnel	**3,457**	4,089	**202**	833
Trustees	Sale of contracting services	Trustee	**1**	10	**-**	10
Farmlands	Retail purchases	Directors' interest	**9**	6	**-**	1

10 COMMITMENTS

(i) Operating lease commitments

Lease payments under operating leases, for short term leases or leases for which the underlying asset is of low value are expenses in the statement of comprehensive income in equal instalments over the lease term.

The expense for the period is $3,414 (2019 $3,060)

The Company has applied NZ IFRS 16.6. No right of use asset has been recognised.

The future aggregate minimum lease payments under non cancellable operating leases are as follows:	**2020 $000**	**2019 $000**
No later than 1 year	**4**	1
Later than 1 year and no later than 5 years	**8**	-
Later than 5 years	**-**	-
Total	**12**	1

11 CONTINGENCIES

As at 31 March 2020 the Company had no contingent liabilities or assets (2019: $Nil).

12 INVESTMENT PROPERTY

	2020 $000	2019 $000
Balance at 1 April	**-**	-
Transfer from property, plant and equipment	**292**	-
Depreciation	**-**	-
Impairment	**-**	-
Balance at 31 March	**292**	-
Cost	**292**	-
Accumulated depreciation	**-**	-
Book value	**292**	-

Accounting Policy

Investment property is measured at cost less depreciation and impairment losses.

The estimated useful lives of investment property are:

Land	Indefinite
Buildings	50 - 100 years

The fair value at 31 March 2020 is $340,000.

The valuation to determine the fair value was performed by Mel Wilson, a registered valuer from SouthgateWilson. The fair value was determined using sales of comparable properties. COVID-19 has been considered in the valuation and it has been assessed that there is no significant impact given the nature of the property market in the area, there is strong demand driven by a housing shortage.

The investment property is a residential property purchased with the intention of being developed into a new depot for the company. This plan has now changed and there has been no decision made on the future of this property. The property is held at historical cost.

INDEPENDENT AUDITOR'S REPORT

Audit New Zealand
Mana Arotake Aotearoa

To the readers of Centralines Limited's financial statements and performance information for the year ended 31 March 2020.

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

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the company on pages 41 to 55, that comprise the balance sheet as at 31 March 2020, 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 performance information of the company on page 40.

In our opinion:

- the financial statements of the company:
  - o present fairly, in all material respects:
    - its financial position as at 31 March 2020; and
    - its financial performance and cash flows for the year then ended; and
  - o comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards(for-profit entity Tier 2 Reduced Disclosure Regime; and
- the performance information 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 2020.

Our audit was completed on 30 June 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw your attention to the impact of Covid-19. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Emphasis of Matter - COVID-19

Without modifying our opinion, we draw attention to note 1(f), 5 and 12 to the financial statements, which explains the impact of the Covid-19 pandemic on the company. As disclosed, the effect on revenue in the financial year was not material, there was no significant impact on supply under levels 3 and 4. Note 5 on page 51 also describes the impacts of Covid-19 and the uncertainties (where applicable) related to estimating the fair values of its Network assets. The impact on the cash flows of the network has been considered. As the local economy is based on primary industry it is not expected the network cash flows will be detrimentally affected by the pandemic. In addition, any revenue shortfall due to reductions in demand can be caught up in later years under the revenue cap, with time value of money adjustments. Note 12 on page 55 also describes the impacts of Covid-19 and the uncertainties (where applicable) related to estimating the fair value of investment property. The impact has been considered in the valuation and it has been assessed that there is no significant impact given the nature of the property market in the area, there is strong demand driven by a housing shortage.

Basis for our 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 performance information

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 inNew Zealand.

The Board of Directors is also responsible on behalf of the company for preparing performance information 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 performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, 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 performance information

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.

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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 performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, 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 performance information.

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

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 performance information, 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 performance information 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 performance information, including the disclosures, and whether the financial statements and the performance information 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 4 to 37 and 63, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information 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 performance information, 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 performance information 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 assurance engagements pursuant to the pursuant to the Electricity Distribution Information Disclosure Determination 2012 – (consolidated in 2015) and the Electricity Distribution Services Default Price-Quality Path Determination 2015, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the company.

Chantelle Gernetzky

Audit New Zealand

On behalf of the Auditor-General
Christchurch, New Zealand

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G Williams – CHB District Council Appointee
R Dakins / C Gray – Silver Fern Farms Appointee
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