



ANNUAL REPORT 2013



OUR PEOPLE

OUR POWER



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“Centralines continues to work toward its vision of delivering a secure future for our customers.”

CHAIRMAN'S ANNUAL REVIEW

Over the last year, Centralines has continued to invest in programmes to enhance the resilience and security of our network, whilst achieving a solid financial result.

NETWORK PERFORMANCE

The benefits of our continued focus on resilience have been evidenced by our excellent network performance this year, reporting the lowest combined SAIDI and SAIFI results that Centralines has experienced.

To ensure customers experience a minimum standard of quality of supply, the Commerce Commission establishes a regulatory limit dictating the maximum duration and frequency of interruptions for customers, measured by the SAIDI (System Average Interruption Duration Index) and SAIFI (System Average Interruption Frequency Index).

For the year ending 31 March 2013, Centralines recorded 123.85 minutes for SAIDI, well below our regulatory limit of 197.5, and the lowest in Centralines' history. Our SAIFI was 2.69 outages per customer; also well below our limit of 4.55. This was in part due to a relatively settled year in relation to the weather, with our network not challenged by the severe weather events that bookended our previous year. This good result also reflects the benefits of our programme of capital investment which has improved the resilience of the network.

REGULATORY ENVIRONMENT

After a considerable period in the courts, the Commerce Commission released its final ruling on Default Price-Quality paths for sixteen of New Zealand's Electricity Distributors.

In recent years, our average price increases have been capped at the rate of inflation while our industry has experienced cost increases well in excess of CPI.

For Centralines, the ruling will see our pricing commensurate with our costs, ensuring we can continue to operate as a sustainable business in the long term.



FUTURE GROWTH

We are working closely with the Hawke's Bay Regional Council as it goes through the consultation process on the proposed Ruataniwha irrigation and generation proposal.

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 Grid Exit Point. Centralines is well positioned to be able to build this line.

The addition of an irrigation system would also increase load on the network, and will stimulate growth through increased production, resulting in the existing electrical infrastructure requiring an upgrade to support the increased demand.

FINANCIAL PERFORMANCE

A drought during the later months of the 2012/13 financial year saw farmers increasingly use irrigation, increasing line revenue and off-setting the negative impact of a mild winter and contributing to a profit before interest, customer discounts and tax of \$3.01m.

This is a solid result for the Company, and we end the year in a sound financial position. Centralines has a strong balance sheet, with no debt on the books, whilst also possessing a well maintained distribution network delivering a reliable supply to customers.

As a result, we are pleased to announce a discount to beneficial consumers totalling \$652,000.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to thank the trustees of the CHB Consumers Power Trust for their diligence in their role and their interactions with the Board. As the shareholder of Centralines, the open and consultative relationship between the Company and the Trust ensures we continue to challenge assumptions and strive towards delivering real benefits to our customers, who are in turn our owners, now and into the future.

We have gained great benefit from our management partnership with Unison Networks, and the Board thanks Chief Executive Ken Sutherland for his overview in leading Centralines to a strong and secure future, Area Manager Trevor Hanson for his on-ground leadership, and the wider Unison management team for their strong contributions during the last year. Through the sharing of knowledge and expertise, our network is 'punching above its weight'.

The results of this year (as always) are in no small part due to the diligence and commitment of Centralines' employees, and we sincerely thank them for their efforts.

At the Board table, James Aitken stepped down as Chairman, thirteen years after his initial appointment to the Board in July 2000, and subsequent appointment as Chairman in September 2000.

James will leave the Board in a strong financial position, and with enhanced quality and reliability of supply. James is known as a decisive, 'no nonsense' leader, and this pragmatic style helped shape Centralines to the Company it is today. I thank him for his passion and valuable contribution to Centralines during his tenure.

I would also like to thank my fellow directors for their support in the governance of the Company over the last year. With the addition of new Board members Ian Walker and Nick Story at the AGM, the Centralines Board will have a dedicated and able team to lead the Company forward in the years ahead.



S A Robinson
CHAIRMAN



“ We have continued to place the wellbeing of our employees and our community at the core of business decisions as we make strides towards providing a secure electricity network. ”

CHIEF EXECUTIVE'S ANNUAL REVIEW

OUR NETWORK

Over the last year, we have completed a significant programme of works, all contributing to ensuring our customers enjoy quality and reliability of supply.

We have completed a major project at the Waipukurau and OngaOnga Grid Exit Points (GXP). This project, which included the installation of automated protection equipment, will significantly improve the security of supply to Centralines' main centres of Waipukurau and Waipawa. Throughout the year we also continued installing automated switch gear across the network.

In 2010 it was determined that over 40% of unplanned outages were caused by vegetation, and as a result, we developed a proactive vegetation programme to survey the network and remove trees posing a risk to powerlines. As a result of this programme, we have already seen a 50% decrease in vegetation-related outages, with a further two years' work still to be completed.

OUR CUSTOMER

The benefits of our work have been acknowledged by customers, who reported an increase in overall satisfaction with Centralines, with an average rating of 4.32 (out of 5) in the 2012 Centralines Customer Survey, up from 4.10 in 2010. 19.1% of respondents stated their power quality had improved, highlighting the value of our continued focus on enhancing reliability of supply.

In addition to a bi-annual customer satisfaction survey, Centralines surveys 15% of customers who have received services during the last twelve-month period. The survey results showed 98% of customers were satisfied with the service delivery, and 100% reported that working with Centralines was a positive experience.

OUR PEOPLE

We were very proud to achieve a milestone this year of three years with no lost time injuries.

Our employees operate in a challenging environment; surrounded by the invisible danger of electricity, as well as working at heights, driving narrow remote roads, negotiating challenging terrain, and performing repairs in storm conditions. To have achieved three years without so much as a sprained ankle is a testament to our team's commitment to safety.



OUR COMMUNITY

We are intrinsically linked to our community; our team live and work in our regions, alongside our consumers. We value the strong relationships and community networks established in our region, and look for opportunities to make a contribution to the vibrancy and on-going wellbeing of our region.

As such, we have continued our support of the Lowe Corporation Rescue Helicopter Trust, providers of essential emergency services in our area.

Our passion for supporting our community at grass roots has seen Centralines contribute funds to the Waipukurau Community Heated Pool complex, and assist a number of small sporting groups that have struggled in the past to find sponsors.

Ken Sutherland
CHIEF EXECUTIVE



CORPORATE GOVERNANCE STATEMENT

ROLE OF THE BOARD OF DIRECTORS

The Board of Directors (the “Board”) is appointed by the shareholders’ representatives, the trustees of the Central Hawke’s Bay Consumers’ Power Trust.

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

The Board has a formal charter that outlines the responsibilities of the Board and the Chief Executive, 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

During the year, Centralines formally constituted an 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 is chaired by Josie Willis, and will meet an average of six times per 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.





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 became a director to Centralines in 2006 and was appointed Chairman in 2013. A hill country farmer on the periphery of the Centralines network, Sam also serves on the Boards of The Co-Operative Bank, AgResearch Limited, and AsureQuality Limited. Sam was involved in the Project Leadership Group for the Ruataniwha Water Storage Scheme, and is now on the Board of the Hawke's Bay Regional Investment Council (HBRIC). He was recently awarded the Bledisloe Medal from Lincoln University for advancing the interests of New Zealand.



James Aitken

James stepped down as Chairman in 2013, and will leave the Board at the 2013 AGM. He was appointed as a Director and Chairman in 2000. A farmer at Omakere, he joined the Board to serve the community and to ensure Centralines remains a strategic asset for the district's consumers. James is an acknowledged industry leader, in particular for his involvement in the reform of the electoral system for New Zealand's Meat & Wool Boards, and in the foundation of Richhold Ltd.

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 also has considerable experience in the electricity industry including a period as Commercial General Manager at Unison Networks Limited, where he was involved in major acquisitions, significant project developments and sustainable pricing strategies for long term assets. He serves on the boards of Port of Napier, Nichols Consulting Ltd, Palmerston North Airport, and the Mid Central Zone of Rugby League New Zealand, and is a member of the Institute of Chartered Accountants.



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. Appointed as a director in 2006, Josie brings financial and analytical skills to the Centralines Board.

STATUTORY INFORMATION

For the year ended 31 March 2013

The Board of Directors present their annual report including financial statements of the Company for the year ended 31 March 2013. As required by section 211 of the Companies Act 1993, we disclose the following information:

Nature of Business

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

Results

The operating profit before discount, interest and tax for the year was \$3.01m. The annual net profit was \$1.92m after allowance for discount and tax. This compares with an operating profit in 2012 of \$3.45m, a net profit of \$2.27m after allowance for discount and tax.

Directors

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

SA Robinson	(Chairman)	\$31,126.49	Reappointed 18 July 2012
JR Aitken	(Director)	\$48,948.19	Reappointed 28 July 2011
JE Nichols	(Director)	\$27,028.85	Appointed 28 July 2011
JM Willis	(Director)	\$28,358.56	Reappointed 18 July 2012

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

Dividend

There was a dividend of \$265,000 paid for the year ended 31 March 2013.

Audit Fees

Audit fees payable to Audit New Zealand as at 31 March 2013 were \$51,134 (2012 \$50,104).

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, 2013.

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
- AsureQuality Limited - Director
- Silver Fern Farms Limited - Shareholder
- The Co-operative Bank Limited - Director
- AgResearch Limited - Chairman
- Hawke's Bay Regional Investment Company (Subsidiary of the HBRC) - Director
- Ruataniwha Water Storage - Project Leadership Group
- FAME (Food & Agribusiness Market Experience Trust) - Chairman

J.R. Aitken

- Centralines Limited - Director
- Centralines Limited - Consumer
- Silver Fern Farms Limited - Shareholder
- Rangitapu Station Limited - Director/Shareholder

J. Nichols

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

J.M Willis

- Centralines Limited - Director
- Centralines Limited - Consumer
- DL & JN Willis - Partner
- Sampford Trust - Trustee & Beneficiary
- Silver Fern Farms Limited - Shareholder



FOR AND ON BEHALF OF THE BOARD
Sam Robinson
Chairman

TRUSTEES' STATEMENT

The Central Hawke's Bay Consumer 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.

The Company performance has exceeded most of the targets set down in the SCI. The reliability measures are well ahead of target, continuing an improving trend over the last few years. From a consumer point of view it means less outages, and those incurred have been shorter in duration.

The financial performance remains strong. More money was put into maintenance than planned but taken from the capital spend ensuring any immediate deficiencies have been resolved. Overall the network is in very good order and the improvement in the asset base reflects this.

The Trust is delighted that the 'no lost time injuries' continue and have reached (at time of writing) over 1200 days. As in any business it is important that we look after our staff, and this is a fantastic achievement.

A discount of \$652,000 was credited to consumers during the year compared with \$801,000 in 2012, and \$769,000 in the previous year. The Company decides this amount depending on what future projects or costs are anticipated. The Trust is kept informed on these matters.

Mr James Aitken, who has been on the Board for the last thirteen years and Chairman of the last twelve of those, signalled his intention to step down from the Board at this year's AGM. Under his stewardship the Company performance has improved significantly, and on behalf of the consumers I would like to acknowledge the effort and contribution Mr Aitken has made to the Company.

The Trust has decided to appoint two directors to replace Mr Aitken, taking the number to five on the Board. Centralines is a comparatively small Company and the Trust has a duty to ensure we have the best governors' in place for our Company. Due to its local ownership and standing in the community, we also believe it is an excellent environment to develop directors. Our appointments are Mr Ian Walker and Mr Nick Story. We look forward to the contribution they will make.

In 2012 the Trust had made provision for a further \$150,000 to go towards the refurbishment of the Central Hawke's Bay Municipal Theatre. This is reflected in the increased dividend paid to the Trust in the 2013 year.

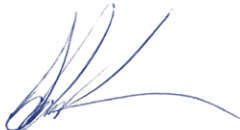
TRUSTEES' STATEMENT (continued)

This year has seen a robust debate around the possible involvement of Centralines in instigating increased broadband and telecommunications into the region. It was decided by the Trust that this wasn't a viable option at this time. A positive outcome from this was the engagement with consumers as to the activities we should or should not be involved in. It is an on-going debate, and one that I would hope the community continues to participate in.

Mr Pat Gallagher stepped aside late last year having served his four terms on the Trust. I would like to acknowledge his input and sound contribution made on behalf of the consumers. Following their election in October, we welcome to the Trust Mrs Kate Laugesen and Mr Alistair Setter.

The Trust remains focussed on ensuring a reliable and reasonably priced electricity supply for our consumers. The performance Centralines has achieved this year reflects this.

Sarah von Dadelszen



Chair
CHB Consumer Power Trust

FINANCIAL STATEMENTS



Statement of Performance

	2013 Corporate Intent Targets	2013 Actual Post Revaluation	2012 Actual
Financial Measures			
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) (excluding discounts) as a percentage of Average Assets Employed	9.67%	8.68% *	10.18%
Net Profit After Tax (adjusted for discounts) as a percentage of Average Shareholders' Funds	4.45%	4.47% **	5.93%
Network Operational Costs - per ICP (excluding transmission costs and depreciation)	\$435	\$471	\$372
Network Operational Costs - per kilometre of line (excluding Transmission Costs and Depreciation)	\$2,077	\$2,275	\$1,783
Total Planned Electricity Network Capital Expenditure	\$4.19m	\$3.55m	\$1.49m
Reliability Measures			
System Average Interruption Duration Index SAIDI represents the average number of minutes the customer was without power in any one year	167.00	123.85	156.75
Customer Average Interruption Duration Index CAIDI represents the average length of time (in minutes) a customer was without power during an interruption	56.00	45.87	43.16
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	2.70	3.63
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	1.91	2.09
Safety Measures			
Number of Lost Time Injuries	0	0	0

If a Network Revaluation had not been completed in 2013 the ratios would have been as follows

* Pre 2013 Network Revaluation 9.29%

** Pre 2013 Network Revaluation 4.79%

Statement of Financial Performance

For the year ended 31 March 2013

	Notes	2013 \$000	2012 \$000
Operating revenue	3	11,864	11,033
Surplus before discounts and tax	3	3,012	3,449
Discount		(652)	(801)
Operating surplus before taxation	3	2,360	2,648
Taxation expense	4	(437)	(378)
Net surplus after income tax		1,923	2,270

Statement of Movements in Equity

For the year ended 31 March 2013

	Notes	2013 \$000	2012 \$000
Net surplus for the year		1,923	2,270
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		9,159	2,270
Distribution to owners	15	(265)	(50)
Movements in equity for the year		8,894	2,220
Equity at start of the year		49,123	46,903
Equity at end of the year		58,017	49,123

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

Centralines Limited Annual Report

Statement of Financial Position

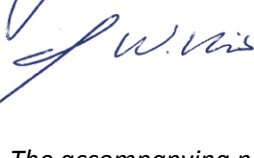
For the year ended 31 March 2013

	Notes	2013 \$000	2012 \$000
EQUITY			
Share capital		8,000	8,000
Asset revaluation reserve	14	29,568	22,332
Retained earnings	15	20,449	18,791
		58,017	49,123
Represented by:			
NON CURRENT ASSETS			
Property, plant and equipment	6	54,615	45,834
		54,615	45,834
CURRENT ASSETS			
Cash		1,202	71
Short term investments	5	3,347	3,117
Receivables	7	1,230	1,064
Inventories		229	242
Taxation refund	4	-	4
		6,008	4,498
TOTAL ASSETS		60,623	50,332
NON CURRENT LIABILITIES			
Employee entitlements	16	104	104
		104	104
CURRENT LIABILITIES			
Accounts payable and accruals	19	2,206	927
Taxation payable	4	112	-
Employee entitlements	16	184	178
		2,502	1,105
TOTAL LIABILITIES		2,606	1,209
NET ASSETS EMPLOYED		58,017	49,123

For and on behalf of the Board



Jon Nichols - Director



Josie Willis - Director

Date: 26 June 2013

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

Statement of Cash Flows

For the year ended 31 March 2013

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	2013 \$000	2012 \$000
Cash was provided from:			
Receipts from customers		11,284	10,709
Contributions for capital works		252	308
Tax refunds		104	-
Interest received		129	91
		<u>11,769</u>	<u>11,108</u>
Cash was disbursed to:			
Payments to suppliers and employees		7,122	7,008
Income taxes paid		425	620
		<u>7,547</u>	<u>7,628</u>
Net cash flows from operating activities	10	<u>4,222</u>	<u>3,480</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Proceeds from disposal of property, plant and equipment		<u>34</u>	<u>53</u>
		34	53
Cash was applied to:			
Purchase of investments		230	537
Purchase and construction of property, plant and equipment		<u>2,630</u>	<u>4,317</u>
		2,860	4,854
Net cash flows from investing activities		<u>(2,826)</u>	<u>(4,801)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was applied to:			
Payment of dividends		<u>265</u>	<u>50</u>
		(265)	(50)
Net cash flow from financing activities		<u>(265)</u>	<u>(50)</u>
Net (decrease) increase in cash held		1,131	(1,371)
Cash balances at beginning of year		71	1,442
Cash balances at end of year		<u><u>1,202</u></u>	<u><u>71</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

1 Basis of Preparation

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

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

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice.

The accounting policies that materially affect the measurement of financial performance, financial position and cash flows are set out below.

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

2 Specific Accounting Policies

2.1 OPERATING REVENUE

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

2.2 INCOME TAX

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

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

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

2.3 GOODS AND SERVICES TAX (GST)

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

2.4 RECEIVABLES

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

2.5 INVENTORIES

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

2.6 PROPERTY, PLANT AND EQUIPMENT

Distribution Assets

Distribution assets are 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.

Centralines Limited Annual Report

Notes to the Financial Statements - For the year ended 31 March 2013

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.

2.7 EMPLOYEE ENTITLEMENTS

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

2.8 INVESTMENTS

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

2.9 LEASES

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

2.10 FINANCIAL INSTRUMENTS

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

2.11 STATEMENT OF CASH FLOWS

The Statement of Cash Flows is prepared exclusive of GST, which is consistent with the method used in the Statement of Financial Performance.

The following are the definitions of the terms used in the Statement of Cash Flows:

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

Centralines Limited Annual Report

Notes to the Financial Statements - For the year ended 31 March 2013

3 Surplus before Taxation	2013	2012
	\$000	\$000
<u>Operating Revenue</u>		
Network	10,855	9,912
Contracting	591	667
Customer contributions	252	308
Interest revenue	129	91
Other Income	37	55
	<u>11,864</u>	<u>11,033</u>
<u>Depreciation</u>		
Electrical distribution system	1,427	1,369
Freehold buildings	18	17
Fibre network	89	22
Motor vehicles	139	140
Plant, equipment and tools	50	36
Office furniture and equipment	28	21
GIS	55	55
	<u>1,806</u>	<u>1,660</u>
<u>Operating Expenses</u>		
Audit New Zealand - audit services	51	50
Audit New Zealand - disclosure accounts	10	10
Fees paid to other auditors	12	30
Audit New Zealand - other audits	12	10
Remuneration paid to directors	135	131
Bad debts written off	1	-
Increase/(decrease) in provision for doubtful debts	1	2
Donations	3	1
Transpower charges	2,629	2,313
Maintenance costs	2,006	1,401
Broadband initiative	82	3
Employment related expenses	642	650
All other operating expenses	1,462	1,323
	<u>7,046</u>	<u>5,924</u>
Surplus before discounts and tax	<u>3,012</u>	<u>3,449</u>
Discount	652	801
Surplus before taxation	<u><u>2,360</u></u>	<u><u>2,648</u></u>

Centralines Limited Annual Report

Notes to the Financial Statements - For the year ended 31 March 2013

4 Income Tax	2013	2012
	\$000	\$000
<u>Taxation</u>		
Operating surplus before taxation	2,360	2,648
Prima facie tax @ 28%	661	741
Permanent differences	400	298
Timing differences not recognised	(628)	(572)
Prior period adjustments	4	(89)
Taxation expense/(benefit)	437	378

Taxation expense/(benefit) is represented by:

Current tax	437	378
	437	378

The Company has not recognised a deferred tax liability of \$6.8 million (2012 \$5.6 million)

Taxation payable/(refund)

Opening balance	(4)	238
Current year taxation expense/(benefit)	437	378
Taxation paid	(425)	(620)
Taxation refund received	104	-
	112	(4)

Imputation credit account

Opening balance	6,618	6,025
Prior period adjustment	-	(6)
Taxation paid	425	620
Taxation refund received	(104)	-
Imputation credits attached to dividends paid	(114)	(21)
Closing balance	6,825	6,618

5 Investments	2013	2012
	\$000	\$000

Current

Short term deposits held with registered banks	3,347	3,117
	3,347	3,117

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	2.35% - 4.10%	4% - 5%
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Centralines Limited Annual Report

Notes to the Financial Statements - For the year ended 31 March 2013

6 Property, Plant and Equipment	2013	2012
	\$000	\$000
<u>Electrical Distribution Network</u>		
at valuation (<i>The last revaluation was completed 31 March 2013</i>)	51,536	36,115
additions at cost	-	8,949
Work in progress	49	512
accumulated depreciation	-	(2,664)
	51,585	42,912
<u>Freehold Buildings</u>		
at valuation*	682	611
at cost	-	38
accumulated depreciation	-	(65)
at valuation	682	584
<u>Freehold Land</u>		
at valuation	495	380
<u>Fibre Network</u>		
at cost	1,093	1,041
accumulated depreciation	(112)	(22)
	981	1,019
<u>Motor Vehicles</u>		
at cost	1,622	1,594
accumulated depreciation	(1,048)	(1,017)
	574	577
<u>Plant, Equipment and Tools</u>		
at cost	686	623
accumulated depreciation	(514)	(464)
	172	159
<u>Office and Computer Equipment</u>		
at cost	407	401
accumulated depreciation	(311)	(283)
	96	118
<u>GIS</u>		
at cost	551	551
accumulated depreciation	(521)	(466)
	30	85
Total net carrying value	54,615	45,834

This is represented by:

Property, plant and equipment at valuation	52,713	37,106
Property, plant and equipment at cost	4,359	13,197
Work in progress	49	512
Accumulated depreciation	(2,506)	(4,981)

* Land and Buildings were independently valued by Peter A Brabyn, B Ag Comm, M Sc, (Ag Econ) ANZPI, MNZIPIIM as at 31 March 2013.

	54,615	45,834
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Centralines Limited Annual Report

Notes to the Financial Statements - For the year ended 31 March 2013

7 Receivables and Prepayments	2013	2012
	\$000	\$000
Trade debtors	1,194	1,044
Provision for doubtful debts	(9)	(9)
Sundry receivables and accruals	45	29
Prepayments	-	(0)
	1,230	1,064

8 Related Party Information

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

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

	2013	2012
	\$	\$
Goods and services supplied by Centralines	2,478	4,859
J Nichols provided consulting services to Centralines in relation to various communication initiatives.	780	3,471

As at 31 March 2013, no amount was owing to related parties (2012 \$2,561)

As at 31 March 2013, no amount was receivable from related parties (2012 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 2013 Centralines had \$168,728 of capital commitments. (2012 Nil).

Centralines Limited Annual Report

Notes to the Financial Statements - For the year ended 31 March 2013

10 Reconciliation of Cashflow with Operating Surplus	2013	2012
	\$000	\$000
Reported surplus after taxation	1,923	2,270
<u>Add Non Cash Items</u>		
Increase/(decrease) in doubtful debts	1	2
Depreciation	1,806	1,660
	<u>1,807</u>	<u>1,662</u>
<u>Changes in Working Capital</u>		
(Increase) decrease in receivables and prepayments	(166)	128
(Increase) decrease in inventories	14	50
Increase (decrease) in accounts payable, accruals	1,279	(1,734)
(Increase) decrease in capital accounts payable	(722)	1,389
Increase (decrease) in employee entitlements	5	10
Increase (decrease) in provision for taxation	116	(242)
	<u>526</u>	<u>(399)</u>
<u>Items Classified as Investing Activities</u>		
Net (surplus) loss on disposal of property plant and equipment	(34)	(53)
Net cash flow from operating activities	<u>4,222</u>	<u>3,480</u>

11 Contingent Liabilities

Centralines has no contingent liabilities as at the 31 March 2013.

12 Financial Instruments

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

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

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

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

13 Segment Information

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

14 Reserves

	2013 \$000	2012 \$000
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Asset Revaluation Reserve

Balance at beginning of year	22,332	22,332
Revaluation of electrical distribution network	7,015	-
Revaluation of land/buildings	221	-
Balance at end of year	29,568	22,332

Detailed as:

Land/buildings	759	538
General	421	421
Revaluation of electrical distribution network	28,388	21,373
	29,568	22,332

15 Retained Earnings

	2013 \$000	2012 \$000
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Balance at beginning of year	18,791	16,571
Net surplus	1,923	2,270
Dividends paid	(265)	(50)
Balance at end of year	20,449	18,791

16 Employee Entitlements

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

17 Employee Remuneration

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

	2013 Employees	2012 Employees
Remuneration Range		
Current Employees		
\$100,000 - 110,000	0	0

Centralines Limited Annual Report

Notes to the Financial Statements - For the year ended 31 March 2013

18 Events Subsequent to Balance Date

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

19 Accounts Payable and Accruals

	2013 \$000	2012 \$000
Trade creditors	1,696	735
Sundry creditors and accruals	510	192
	<u>2,206</u>	<u>927</u>

20 Impacts of the Adoption to International Financial Reporting Standards

In March 2012 the XRB Board issued a document outlining a new Accounting Standards Framework that will become effective progressively over the period 2012-2016. That document, which was entitled "Proposals for the New Zealand Accounting Standards Framework Incorporating the Draft Tier Strategy", was submitted to the Minister of Commerce on 22 March 2012 in accordance with the requirements of Section 34A of the Financial Reporting Act. The Minister approved the document in accordance with Section 34D of the Act on 2 April 2012.

The new Accounting Standards Framework involves a two sector, multi-standards, 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 January 2014 must do so in accordance with the "new" Accounting Standards Framework.

Centralines has opted to not early adopt and will apply the "new" Accounting Standards Framework from the financial year beginning 1 April 2014. Centralines has yet to determine the impact of the above on its accounting policies and financial statements.

INDEPENDENT AUDITOR'S REPORT

To the readers of Centralines Ltd financial statements and statement of performance for the year ended 31 March 2013

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

We have audited:

- the financial statements of the company on pages 17 to 30, that comprise the statement of financial position as at 31 March 2013, the statement of financial performance, the statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of performance of the company on page 16.

Opinion

Financial statements and the statement of performance

In our opinion,

- the financial statements of the company on pages 17 to 30:
 - 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 2013 ; 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 2013.

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 26 June 2013. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements and statement of service performance that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control.

An audit also involves evaluating:

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

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. 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 service performance that:

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

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and a statement of 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 of the annual financial statement, we have carried out three other engagements for the company, which are compatible with those independence requirements:

- an assurance engagement with respect to the company's compliance with respect to the issuing of certificates pursuant to the Electricity Distribution (Information Disclosure) Requirements 2008 (distribution requirements); and the Electricity Information Disclosure Requirements consolidating all amendments to 31 October 2008 (original requirements), for the regulatory period ending 31 March 2012;
- an assurance engagement with respect to the information request prepared by the Company in accordance with the Commerce Commission's requirements issued by notice in writing to the company under section 53ZD of the Commerce Act 1986 on 22 June 2012; and
- an assurance engagement with respect to the Compliance Statement in respect of the default price-quality path prepared by the company for the Assessment Period ended on 31 March 2013 for the purposes of clause 11 of the Electricity Distribution Services Default Price-Quality Path Determination 2010.

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



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

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

DIRECTORY

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Directors

SA Robinson (Chairman)
JR Aitken
JE Nichols
JM Willis

Chief Executive

Ken Sutherland

Area Manager

Trevor Hanson

Trustees

S Von Dadelszen (Chairman)
P Butler
K Laugesen
A Mabin
A Setter
A Watts
G Williams

Auditors

Audit New Zealand, P O Box 149, Palmerston North

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