CENTRALINES LIMITED

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CONTENTS


VERTEX
BEST
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OUR MISSION

TO PROVIDE A SAFE, EFFICIENT & RELIABLE ELECTRICITY NETWORK THAT MEETS THE NEEDS OF CONSUMERS.

OUR VALUES

SAFETY
–IS PART OF OUR LIVES

OPENNESS
–WE ARE TRANSPARENT

TEAM WORK
–WE ARE ONE TEAM

PASSION
–IN EVERYTHING WE DO

INTEGRITY
–WE ARE ALWAYS HONEST

ONE CHAIR & CHIEF EXECUTIVE'S ANNUAL REVIEW

A YEAR OF STRONG PERFORMANCE AND EXTRAORDINARY GROWTH

It was a year of unprecedented growth for Centralines – growth which hasn't been seen in a decade – with the company delivering a reliable electricity supply and a solid return on investment for Central Hawke's Bay power consumers and shareholders.

CUSTOMER GROWTH

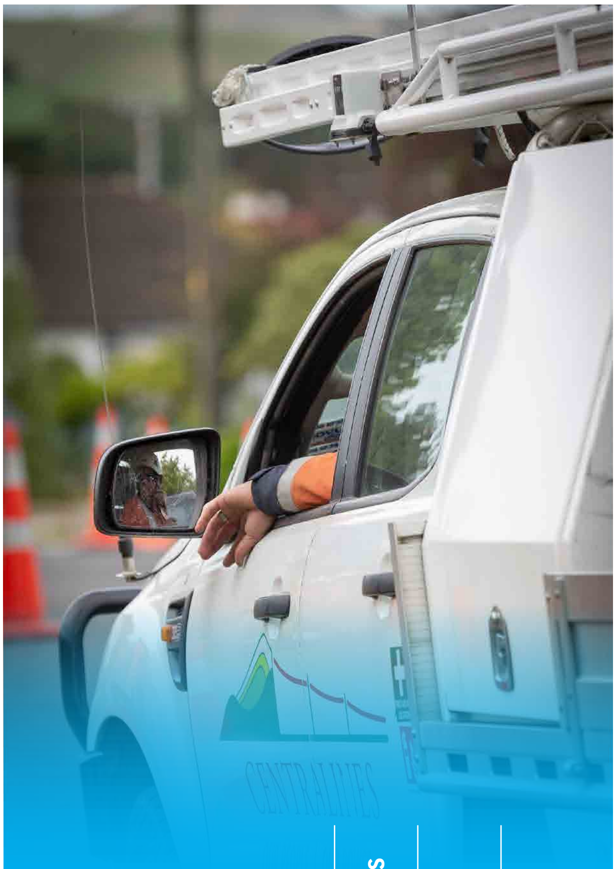
Off the back of Centralines' high-performing network, we saw an increase in new connections contributing to business growth and the region's prosperity.

This year we completed several unique and challenging projects to ensure Central Hawke's Bay has the infrastructure it needs to accommodate its fast-growing population, while enabling our network to be reliable and resilient into the future.

An example of this was work undertaken at the Wilder Road substation to improve system protection while bolstering the reliability and quality of supply. A collaborative cross-team effort across Centralines, Scanpower and Unison Contracting Services saw system improvements implemented and the addition of backup 11kV protection, which has the ability to maintain supply to the community while back-feeding on this system. A temporary substation was built to maintain security and breadth of supply while construction was undertaken at the Wilder Road substation.

The success of these projects can be attributed to the expertise and efficiency of Centralines' hard-working team and the company's investment in technology, while leveraging management partner Unison's smart network capability and re-certification to ISO 55001, widely regarded as the international standard for excellence in asset management.

Centralines' excellent network performance means we continued to meet 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). These outstanding results are a credit to Centralines' tight-knit team and the company's asset management practices.



RELIABILITY MEASURES	2018/19 CORPORATE INTENT TARGETS	2018/19 REGULATORY LIMITS	2018/19 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	107.7 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	2.06 OUTAGES

"This year we completed several unique and challenging projects to ensure Central Hawke's Bay has the infrastructure it needs to accommodate its fast-growing population, while enabling our network to be reliable and resilient into the future."

EMPLOYEE GROWTH

As well as investing in the network, we continue to invest in our people. Centralines' close, diverse team is our most valuable asset who, through their skills and commitment to delivering a reliable, safe and resilient network for Central Hawke's Bay, ultimately determine the success of our business.

Our focus on employee training and development ensures our people are engaged, productive and equipped with the skills to drive successful business and customer outcomes, while empowering them to meet the challenges and opportunities that a new energy future will bring.

Improving the safety of our people, customers and the community in which we live is at the forefront of everything we do, with our ultimate goal being to ensure no one is injured while working for Centralines, or as a result of our work in the public domain.

In light of this, Centralines this year reinvigorated its safety culture, investing in a health and safety accreditation programme for its staff by revisiting the historical relationship with Australian psychological safety consultants, Sentis. Equipping our employees with the knowledge, skills, motivation and attitude to make better choices not only achieves a positive safety culture change, it benefits the company and the wider community in ensuring our people get home safely every day.

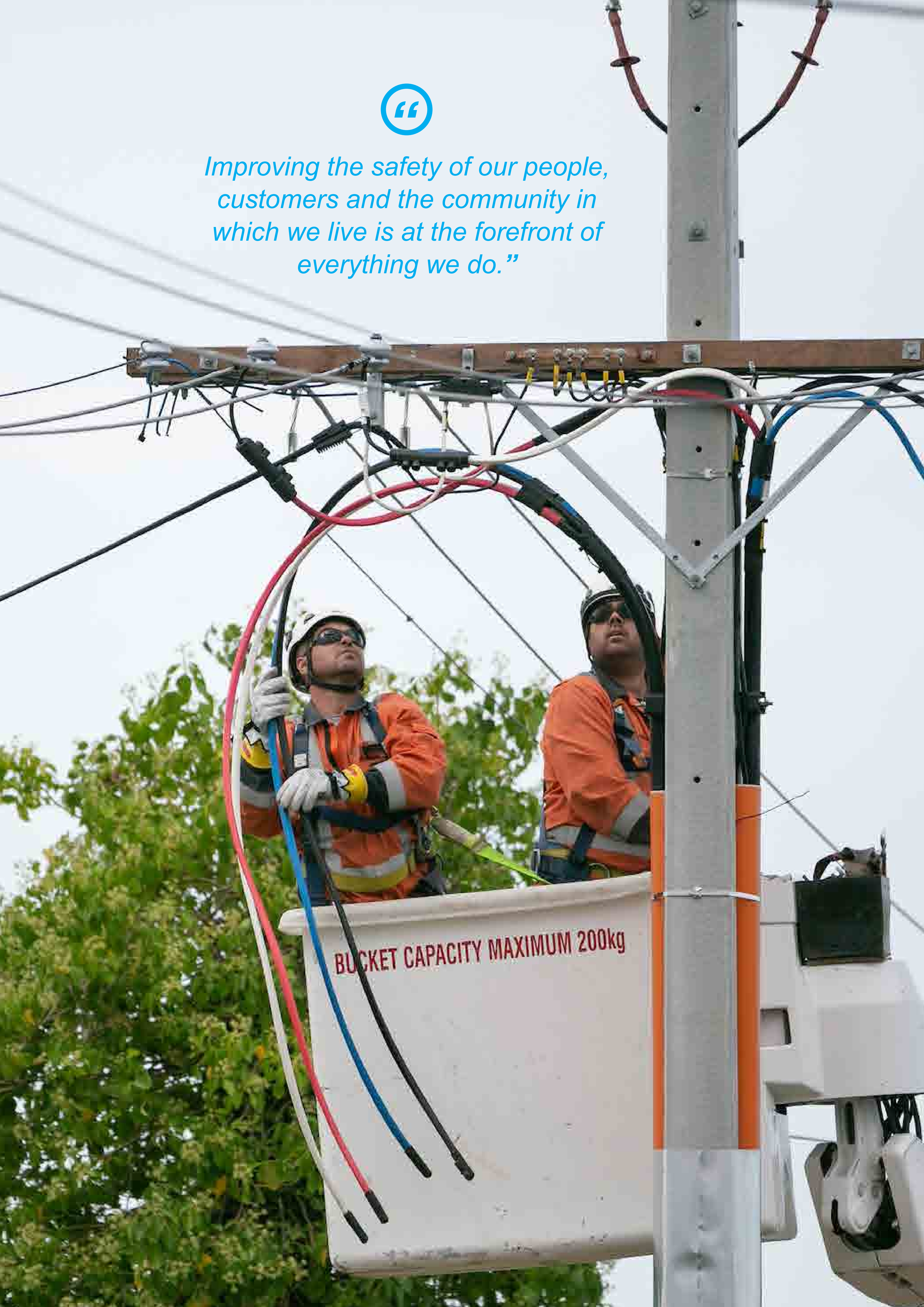
There was unfortunately one lost-time injury this year, however we are heartened that this was not in the key risk areas of working at heights, with electricity or around heavy machinery. We are confident that improvements to our safety-based culture and focus on continuous improvement will enable us to increase our vigilance and lift our performance further.

We believe it is crucial that Centralines engages the talents of its people and the wider community to harness new ideas and support the economic growth and development of Central Hawke's Bay. We do this through the provision of career opportunities and scholarships for our young local talent to continue to grow our diverse and inclusive team.

In response to regional and business growth, and to enhance our local service provision and the work environment for our people, land has been purchased to enable the development of the Centralines depot and premises in the coming financial year. We look forward to embarking on a journey to revitalise our corporate strategy, which includes a refresh of our vision and values with input from our employees.

"Our focus on employee training and development ensures our people are engaged, productive and equipped with the skills to drive successful business and customer outcomes."

“Improving the safety of our people, customers and the community in which we live is at the forefront of everything we do.”



COMMUNITY GROWTH

As a consumer-owned company, Centralines is committed to serving a vibrant Central Hawke's Bay. We play an important role not only by delivering a reliable network, but in supporting the social and economic development of our region.

In November we were proud to see the opening of the new multisport turf, Centralines Sports Park – a sponsorship that we believe will help in supporting Central Hawke's Bay to be a great place to live and work. Centralines also contributed, through sponsorship, to many other organisations that add to the well-being and strength of our rural community. This includes key sponsorships such as the Hawke's Bay Rescue Helicopter Trust, Waipukurau Community Heated Pool complex and the Central Hawke's Bay Technology Centre.

Supporting electric vehicle (EV) uptake continues to form part of our ongoing work to ensure our customers, and visitors to the region, have efficient service solutions available to support their current and future energy choices. Use of the Central Hawke's Bay public EV fast-charging station in Waipukurau – commissioned in July 2016 – continues to grow steadily, with the number of charging sessions more than doubling year-on-year. We expect this level of growth will continue into the coming year and beyond.

We are pleased to play an important role in the social and economic development of Central Hawke's Bay through the provision of career opportunities to 35 employees, and we look forward to growing and developing our workforce in the coming financial year.

It has also been a pleasure to have Rachel Baker from Central Hawke's Bay on the Centralines Board as a Board Observer during this financial year, as part of the company's commitment to developing leaders in our community.

"We play an important role not only by delivering a reliable network, but in supporting the social and economic development of our region."

FINANCIAL PERFORMANCE

Centralines delivered another strong financial result this year, with an after-tax profit of $3.3 million.

During the year, Centralines paid out a dividend of $8.1 million that was declared as part of its annual results in the previous financial year. This was a record distribution to its shareholder – the power consumers of Central Hawke's Bay – and meant consumers connected to the Centralines' network on 31 May 2018 continued to share in the company's success, receiving a $905 tax-paid distribution payment and a discount on their August electricity bill.

The company remains in a sound financial position, with assets of $71.2 million and no debt.

	TOTAL REVENUE[1]	EBITDA[2]	NET PROFIT AFTER TAX	CAPITAL EXPENDITURE	TOTAL DISCOUNT PAID[3]
2018/19	$14.5 M	$6.7 M	$3.3 M	$5.7 M	$1.4 M
2017/18	$16.1 M	$6.6 M	$3.3 M	$2.3 M	$1.3 M

Higher vegetation and overhead line maintenance costs were offset through rigorous cost management, ensuring Centralines EBITDA was just ahead of the prior year.

Centralines total capital expenditure for the year was $5.7 million, compared to $2.3 million the prior year. This can be attributed to higher capital spend with the building of the new Wilder Road substation, higher customer driven work, and the purchase of land for the development of new depot and premises in the coming financial year.

2018/19 FINANCIAL PERFORMANCE HIGHLIGHTS

$ 1.4 million
TOTAL DISCOUNT PAID[3]

$ 161 thousand
DIVIDEND DECLARED

$ 3.3 million
NET PROFIT AFTER TAX

$ 4.0 million
ELECTRICITY NETWORK CAPITAL EXPENDITURE

$ 14.5 million
TOTAL REVENUE[1]

$ 6.7 million
EBITDA[2]

[1] Centralines adopted NZ IFRS 15 in 2018/19. Without adopting this accounting standard Total Revenue for 2018/19 would be $15.9 million

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

[3] This is the discount paid out during the financial year

"Centralines delivered another strong financial result this year, with an after-tax profit of $3.3 million."

OUR REGULATORY ENVIRONMENT

This year the Government's Electricity Price Review into electricity affordability and fairness identified that while there are many positive aspects to New Zealand's electricity market and regulatory arrangements, electricity is becoming increasingly unaffordable for a group of customers.

As a consumer-owned distribution business, we believe industry structures and regulatory arrangements are largely fit for purpose. However, steps need to be taken to look after our customers in energy hardship, requiring a partnership between the Government and our industry.

At an industry level, the principal role network companies can play is in reforming network pricing approaches to ensure that charges are fair and equitable to all consumers. It is important to ensure that customers who are unable to access new technologies are not left disadvantaged over the longer term, and that customers investing in technologies – such as EVs – either pay the full costs of any additional network capacity required to meet their charging requirements at peak times, or enjoy effective rewards for charging during off-peak times when network capacity is available.

From a company perspective, Centralines' role is to balance price, reliability and resilience to ensure our consumers' electricity needs continue to be met. We will continue to work closely with our peers in the Electricity Networks Association to influence a supportive regulatory environment focused on delivering long-term benefits to our consumers, while ensuring any decisions made reflect the needs of the Central Hawke's Bay community.

THE FUTURE

As we look to the coming year, it is essential that Centralines continues to support its customers beyond ensuring the network meets their electricity needs, to powering a vibrant region that is well-positioned for growth.

By remaining close to its customers, Centralines will continue to build insights and understanding of their changing needs. This will involve working towards reforming current network prices to reduce electricity costs for families at the highest risk of energy hardship, while enabling our customers to embrace new technologies and recognising the investment requirements needed to maintain a resilient, reliable network.

Emerging technologies such as solar, EVs and battery storage are becoming a more cost-effective, viable and practical energy solution and we look forward to what the new energy future will bring. Centralines and its management partner Unison see opportunities to use all three new technologies, and we continue to explore and trial options to understand the costs and benefits for consumers to make plans for the future. However, the regulatory environment needs to be supportive of the transition to alternative technologies, particularly in enabling research and development expenditure.

A strategic investment road map was developed this year with a long-term view of increasing the distributions available to beneficiaries, and to supporting the Central Hawke's Bay economy without exposing the business to undue risk. This will be achieved by investing in regional infrastructure that can support economic growth, and energy related assets that have a link to Central Hawke's Bay electricity consumers.

The Central Hawke's Bay Consumers Power Trust held its five-yearly ownership review at the end of 2018, allowing consumer shareholders to consider future ownership of shares in Centralines. Public consultation unanimously supported that the company's ownership would remain in the hands of consumers – being wholly owned by the Trust. The Trust will continue to review this ownership structure every five years.

The Board welcomed the re-appointment of Trustees Alistair Setter and Marcus Peacock, and the appointment of new Trustees Karen Middelberg and Kate Taylor, to the Central Hawke's Bay Consumers Power Trust following the triennial election in October 2018. We look forward to the Trustees' valuable contribution in advocating for the power consumers of Central Hawke's Bay as Centralines moves towards a new energy future.

> *"It is essential that Centralines continues to support its customers beyond ensuring the network meets their electricity needs, to powering a vibrant region that is well-positioned for growth."*

ACKNOWLEDGEMENTS

We acknowledge and thank the excellent work and commitment of the Centralines team, the professional leadership of our management partner – Unison Networks – and the Central Hawke's Bay community for their support, all of which has contributed to the company achieving such a strong result this year.

We thank the Trustees for their continued confidence, support and for the vital role they play in serving the interests of the power consumers of Central Hawke's Bay and our rural communities, which helps to ensure Centralines' continued success.

We are encouraged that all facets of Centralines' business and operations are in a solid position and we look forward to seeing Central Hawke's Bay continue to thrive and grow in the year ahead.

JON NICHOLS
CHAIR

KEN SUTHERLAND
CHIEF EXECUTIVE

TWO

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 on 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.

THREE BOARD OF DIRECTORS

JON NICHOLS – CHAIR

Audit and Risk Committee Member

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 is a Fellow 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 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

Audit and Risk Committee Member

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

IAN WALKER

Audit and Risk Committee Member

Ian was appointed as Director to Centralines in July 2013. Ian moved with his family into the district over 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, and DeeResearch Limited, and Chair of Deer Industry New Zealand.

FENTON WILSON

Audit and Risk Committee Member

Fenton was appointed to the Centralines Board in 2018. He has been a Hawke's Bay Regional Councillor since May 2009 and is a Director of OSPRI New Zealand Limited, which manages National Animal Identification and Tracing and the TBfree programme. A passionate community advocate, Fenton is also Chair of the Wairoa Community Development Trust and Chair of the Predator Free New Zealand Trust while farming a 235 hectare sheep and beef property in Wairoa. Previously, he was Operations Manager at iFarm NZ Limited. He sees Centralines as a key contributor to the CHB community.

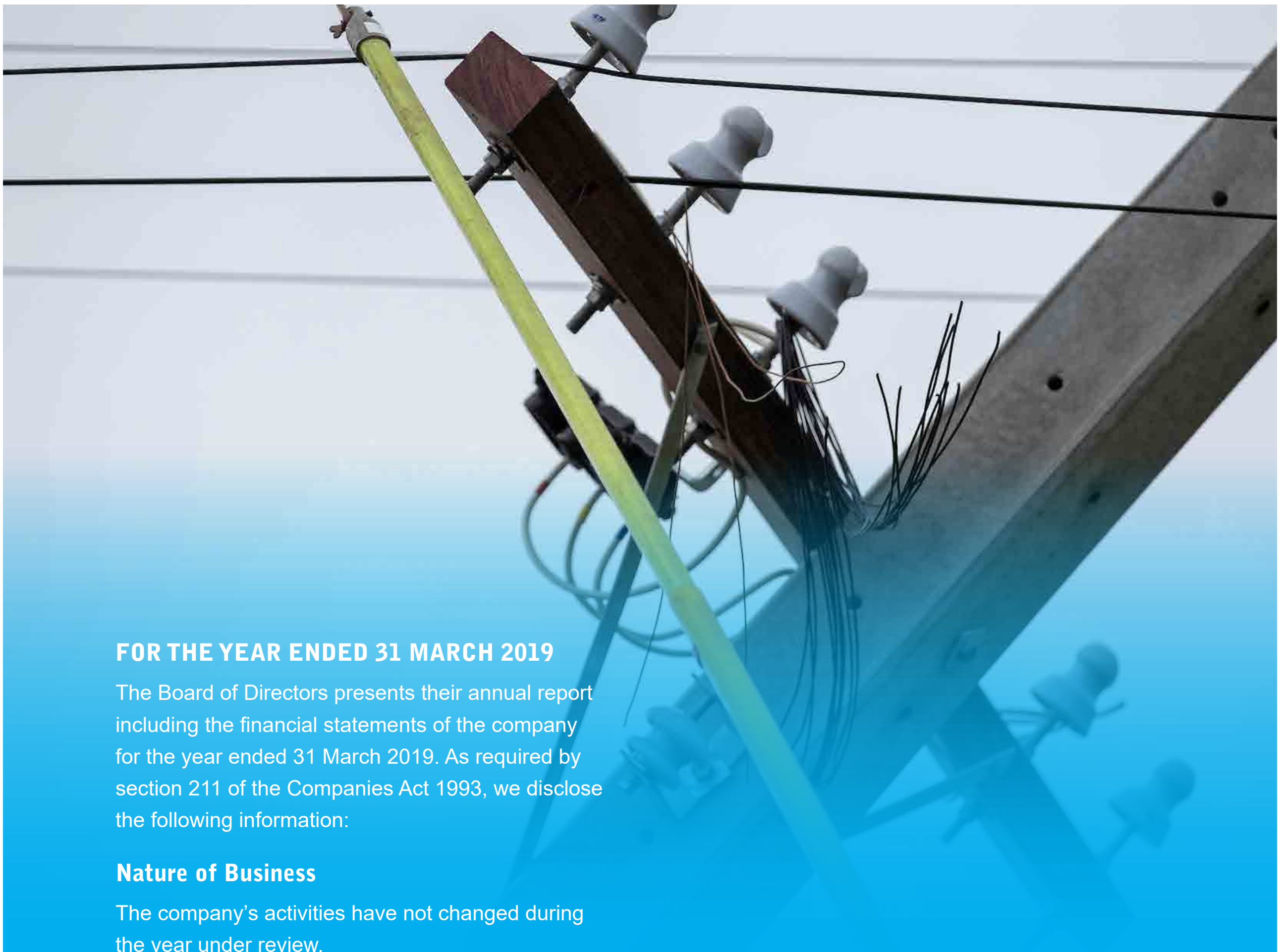
RACHEL BAKER

Board Observer

Rachel was appointed as the Centralines Board Observer in October 2018 to gain experience and insight of local governance in action. Farming locally in Ashley Clinton, Rachel is also involved in primary sector leadership and management positions, including Executive Chair of the NZ Dairy Industry Awards and business consultant for MyFarm Investments. She is a Kellogg Rural Leadership scholar and a member of the NZ Institute of Primary Industry Management and NZ Institute of Directors.

FOUR
STATUTORY INFORMATION


GK



FOR THE YEAR ENDED 31 MARCH 2019

The Board of Directors presents their annual report including the financial statements of the company for the year ended 31 March 2019. 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 $6.04 million. The annual net profit was $3.29 million after allowance for discount and tax. This compares with an operating profit in 2018 of $5.86 million, a net profit of $3.27 million after allowance for discount and tax.

Directors

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

J.E. Nichols (Chair) $54,839.00
Re-appointed 23 July 2018

D.N. Walker (Director) $31,769.51
Appointed 6 August 2016

F.D. Wilson (Director) $27,516.91
Appointed 20 April 2018

I.H. Walker (Director) $29,053.14
Re-appointed 31 July 2017

W.N. Harvey (Director) $29,053.23
Re-appointed 23 July 2018

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

Dividend

Dividends of $161,000 were declared during the year ended 31 March 2019 (2018: $8,100,000).

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 2019 were $55,959 (2018: $53,812).

Accounting Policies

The accounting policies applied are generally consistent with those applied in the last audited financial statements. The Company has initially applied NZ IFRS 15: Revenue from contracts with customers from 1 April 2018. A number of other new standards are also effective from 1 April 2018 including NZ IFRS 9: Financial Instruments, but they have not had a material effect on the Company's financial statements. The impact of adopting NZ IFRS 15 is disclosed in the financial statements. All other policies have been applied consistently with the previous period.

DIRECTORS' INTEREST

Directors disclosed an interest or cessation of interest in the following entities during the year ended 31 March 2019.

Jon 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

Ian Walker

- Centralines Limited – Director
- Kilgaren Farm Limited – Owner and Director
- Marama Farming Limited – Shareholder and Director
- DeeResearch NZ – Director
- Board of Deer Industry New Zealand (DINZ) – Chair and Director

Wendie Harvey

- Centralines Limited – Director
- Excellence in Business Solutions Limited – Director
- Napier Port Limited – Director and Chair of Health and Safety Committee
- Quality Roading Services Limited – Director (retired 19 February 2019)
- New Zealand Gambling Commission – Commissioner
- The Electrical Training Company Limited – Director
- Hawke's Bay Airport Limited – Director
- Tangihanga Joint Venture – Director (ceased 15 October 2018)
- Eastern Institute of Technology (EIT) – Council Member
- Fire and Emergency New Zealand – Director
- Aurora Energy – Director
- Hawke's Bay Airport Construction Limited – Chair and Director

Derek Walker

- Centralines Limited – Director
- The Factory NZ Limited – Chair and Director (change of name from BCC Limited, 17 December 2018)
- Speirs Group Limited and subsidiaries – Chair and Director
- Third Bearing Limited – Director/Beneficial Shareholder
- Wilson Cook Limited – Director/Beneficial Shareholder (amalgamated into Third Bearing Limited March 2019)
- TBL Investments Limited – Director/Beneficial Shareholder
- Elmira Consulting Limited – Director/ Shareholder
- Wildbase Recovery Community Trust – Trustee

Fenton Wilson

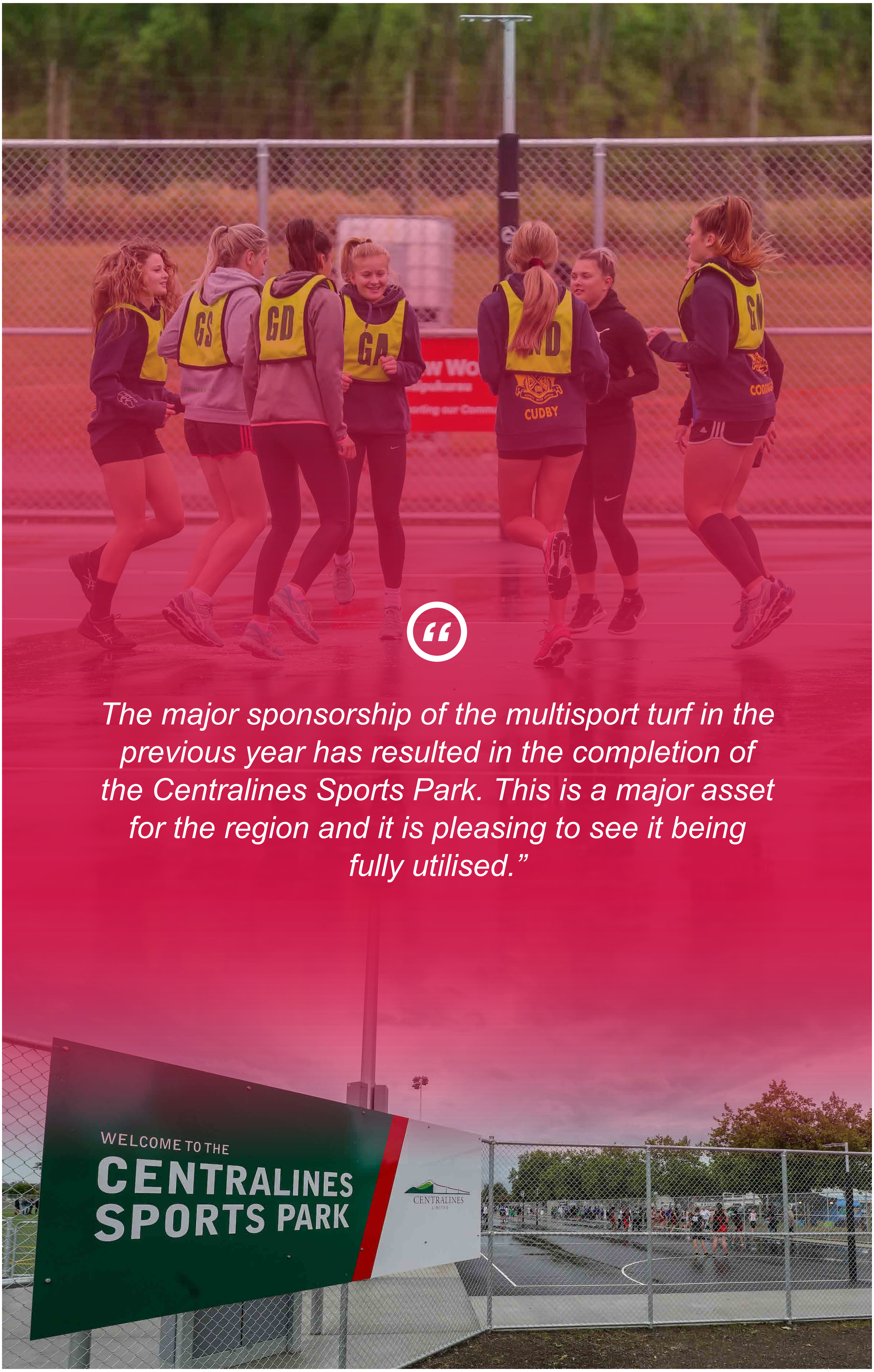
- Centralines Limited – Director
- OSPRI NZ Limited – Director
- TBFree NZ Limited – Director
- National Animal Identification Traceability (NAIT) Limited – Director
- Oruru Land Company Limited – Director/ Beneficial Shareholder
- Hawke's Bay Regional Council – Councillor
- Predator Free New Zealand – Chair and Trustee
- Wairoa Community Development Trust – Trustee and Chair
- Hawke's Bay Tourism – Director (term ceased 1 July 2018)

FOR AND ON BEHALF OF THE BOARD

Jon Nichols – Chair

FIVE
TRUSTEES' STATEMENT


CENTRALINES
OUR PEOPLE | OUR POWER



"The major sponsorship of the multisport turf in the previous year has resulted in the completion of the Centralines Sports Park. This is a major asset for the region and it is pleasing to see it being fully utilised."

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.

During the year the Trust held elections and we are pleased to welcome two new Trustees – Kate Taylor and Karen Middelberg. We also thank Tim Gilbertson and Kate Laugesen who both retired at the end of their term. Both contributed, with effort and wisdom, for the benefit of Centralines and the electricity consumers in Central Hawke's Bay. Kate was instrumental in making the dividend to consumers possible, and Tim was a major advocate for advancing Centralines in terms of growth and future opportunities.

The beneficiaries of the Trust are the electricity consumers in the Central Hawke's Bay region. This year the Trust was paid an $8 million dividend. The Trust voted to distribute all of the dividend to consumers, which amounted to $905 per electricity connection. The positive effect on the entire region was fantastic to see – the Trust received numerous letters and phone calls detailing the positive activities consumers were able to do with the funds.

Additionally, Centralines provided the maximum allowable discount to our consumers, which totalled $1,390,000. To the average residential consumer this meant a discount in the order of $122 in July/August 2018, 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 54 charitable organisations for a total of $110,000. These organisations included numerous sports teams, community events, social services and schools. The major sponsorship of the multisport turf in the previous year has resulted in the completion of the Centralines Sports Park. This is a major asset for the region and it is pleasing to see it being fully utilised. We are grateful to the Turf Fundraising Committee for completing such a successful project.

The above achievements are all possible by keeping our core business strong. Centralines had another good year financially, driven by strong growth in new connections and a growing regional economy. The network performed very reliably again this year, which is a great result given the growth and planned work on the network.

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. Additionally, 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. In recent years this included 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. Being up to date with industry changes means that we will be able to meet our consumers' future needs, which is likely to include distributed generation, energy storage and electric vehicles.

We have confidence that these expectations are being progressed. The Trust is very pleased with the land purchase for a new depot 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 to oversee future challenges and opportunities.

Alistair Setter
Chair – Central Hawke's Bay Consumers Power Trust

SIX
FINANCIAL STATEMENTS

STATEMENT OF PERFORMANCE

For the year ended 31 March 2019	2019 Corporate Intent Targets	2019 Actual	2018 Actual
Safety Measures			
Number of lost-time Injuries	0	**1**	1
Financial Measures			
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) excluding discounts ($ millions)	$7.62	**$8.17**	$7.97
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) (excluding discounts) as a percentage of Average Assets Employed	10.53%	**11.16%**	10.40%
Net Profit After Tax (adjusted for discounts) as a percentage of Average Shareholders' Funds	6.97%	**7.66%**	6.99%
Network Operational Costs – $ per ICP (excluding Transmission Costs and Depreciation)	$474	**$499**	$452
Network Operational Costs – $ per kilometre of line (excluding Transmission Costs and Depreciation)	$2,086	**$2,195**	$1,987
Total Planned Electricity Network Capital Expenditure ($ millions)	$3.17	**$4.04**	$1.67
Reliability Measures			
System Average Interruption Duration Index SAIDI represents the average number of minutes the customer was without power in any one year	119.10	**107.73**	131.67
System Average Interruption Frequency Index SAIFI is the average number of supply interruptions that a customer experiences in the period, including maintenance but excluding transmission (Transpower)	3.52	**2.06**	2.23
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	**2**	2

If a Network Revaluation had not been completed in 2018 the ratios would have been as follows:

** Pre 2018 Network Revaluation 9.96%*

*** Pre 2018 Network Revaluation 6.72%*

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2019	Notes	2019 $000	2018 $000
Revenue			
Revenue from contracts with customers	2	**15,738**	15,741
Posted discount accrued	2	**(1,482)**	-
Net revenue from contracts with customers	2	**14,256**	15,741
Other income	2	**203**	359
		14,459	16,100
Expenses			
Transpower charges		**(2,934)**	(3,050)
Network maintenance		**(1,617)**	(1,268)
Employee related expenses		**(850)**	(762)
Other expenses	3	**(2,275)**	(3,055)
Discounts		**-**	(1,336)
Business development		**(99)**	-
Total operating expenses		**(7,775)**	(9,471)
Earnings before interest, taxes, depreciation and amortisation expenses (EBITDA)		**6,684**	6,629
Depreciation and amortisation expense	5	**(2,122)**	(2,108)
Profit before income tax		**4,562**	4,521
Income tax	4	**(1,269)**	(1,253)
Profit for the year		**3,293**	3,268
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Gains/(Losses) on revaluation of electricity distribution network	5	**-**	(6,692)
Deferred tax impact		**-**	1,873
		-	(4,819)
Items that may be subsequently reclassified to profit or loss:		**-**	-
		-	-
Other comprehensive income for the year, net of tax		**-**	(4,819)
Total comprehensive income for the year		**3,293**	(1,551)

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

BALANCE SHEET

As at 31 March 2019	Notes	2019 $000	2018 $000
ASSETS			
Current assets			
Cash and cash equivalents		**2,186**	8,023
Investments	7	**5,414**	7,312
Trade and other receivables	6	**1,931**	1,707
Inventories		**375**	276
Total current assets		**9,906**	17,318
Non-current assets			
Property, plant and equipment	5	**61,253**	57,680
Intangible assets		**85**	79
Total non-current assets		**61,338**	57,759
Total assets		**71,244**	75,077
LIABILITIES			
Current liabilities			
Trade and other payables		**2,420**	1,564
Contract liabilities	2	**1,482**	-
Current tax liabilities		**(152)**	342
Employee provisions		**230**	217
Dividend payable		**-**	8,000
Total current liabilities		**3,980**	10,123
Non-current liabilities			
Employee provisions		**47**	46
Deferred tax liabilities	4	**9,385**	9,207
Total non-current liabilities		**9,432**	9,253
Total liabilities		**13,412**	19,376
Net assets		**57,832**	55,701
EQUITY			
Share capital	8	**8,000**	8,000
Reserves		**856**	856
Retained earnings		**48,976**	46,845
Total equity		**57,832**	55,701

For and on behalf of the Board of Directors of Centralines Limited, who authorised these financial statements presented on pages 41 to 56 for issue on 25 June 2019.

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 2019	Notes	Share capital $000	Revaluation reserve $000	Retained earnings $000	Total equity $000
Balance as at 1 April 2018		**8,000**	**856**	**46,845**	**55,701**
Adjustment on initial application of IFRS 15, net of tax	1(e)	**-**	**-**	**(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**

Balance as at 1 April 2017		8,000	5,675	51,677	65,352
Profit/(loss) for the year		-	-	3,268	3,268
Other comprehensive income					
Revaluation of electricity distribution network		-	(6,692)	-	(6,692)
Deferred tax on revaluation		-	1,873	-	1,873
Total comprehensive income		-	(4,819)	3,268	(1,551)
Dividends		-	-	(8,100)	(8,100)
Balance as at 31 March 2018		8,000	856	46,845	55,701

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 2019	2019 $000	2018 $000
Cash flows from operating activities		
Receipts from customers	**13,486**	15,253
Contributions for capital works	**548**	384
Interest received	**171**	334
Payments to suppliers and employees	**(6,918)**	(9,139)
Income taxes paid	**(1,196)**	(1,199)
Net cash inflow/(outflow) from operating activities	**6,091**	5,633
Cash flows from investing activities		
Proceeds from disposal of investments	**13,346**	23,025
Purchases of Investments	**(11,447)**	(21,035)
Purchase and construction of property, plant and equipment	**(5,699)**	(2,327)
Proceeds from disposal of property, plant and equipment	**33**	21
Net cash inflow/(outflow) from investing activities	**(3,767)**	(316)
Cash flows from financing activities		
Payment of dividends	**(8,161)**	(100)
Net cash inflow/(outflow) from financing activities	**(8,161)**	(100)
Net increase (decrease) in cash and cash equivalents	**(5,837)**	5,217
Cash and cash equivalents at the beginning of the financial year	**8,023**	2,806
Cash and cash equivalents at end of year	**2,186**	8,023

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 the Central Hawke's Bay. The Company also provides vegetation and electrical contracting services.

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

(b) Basis of preparation

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

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

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) Changes in accounting policies

The Company has initially applied NZ IFRS 15 (see (i) below) from 1 April 2018. A number of other new standards are also effective from 1 April 2018, including NZ IFRS 9, but they do not have a material effect on the Company's financial statements. The Company has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

Due to the transition methods chosen by the Company in applying NZ IFRS 15, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standard.

The effect of initially applying NZ IFRS 15 is mainly attributed to the following:

– timing of the recognition of discounts paid to consumers and the disclosure of this in the statement of comprehensive income.

(i) NZ IFRS 15 Revenue from contracts with customers

NZ IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced NZ IAS 18 Revenue, NZ IAS 11 Construction Contracts and related interpretations. Under NZ IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Company has adopted NZ IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 April 2018). Accordingly, the information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under NZ IAS 18, NZ IAS 11 and related interpretations. Additionally, the disclosure requirements in NZ IFRS 15 have not generally been applied to comparative information.

The table on the following page summarises the impact, net of tax, of transition to IFRS 15 on retained earnings at 1 April 2018.

	Impact of adopting NZ IFRS 15 at 1 April 2018 $000
Retained earnings	
Discount paid to consumers for electricity line revenue	**(1,001)**
	(1,001)

Electricity line revenue discount: Previously, discounts paid to electricity consumers was recognised as an expense in the statement of comprehensive income in the year that it was paid. Under NZ IFRS 15, an entity recognises revenue that it expects to be entitled in exchange for transferring promised goods or services to a customer. Therefore, under NZ IFRS 15 Centralines is required to recognise as revenue for electricity distribution services the line revenue less the discount expected to be paid to consumers in the following financial year, from revenue earned in the current financial year. The impact of this is that the discount expected to be paid is now accrued and netted off against the revenue earned in the current financial year. This accrued discount is accounted for as a contract liability in the balance sheet. NZ IFRS 15 did not have a significant impact on the Company's accounting policies with respect to other revenue streams.

For additional information about the Company's accounting policies relating to revenue recognition, see note 2.

See note 12 for an analysis of the impact of adopting NZ IFRS 15 on the Company's balance sheet as at 31 March 2019 and its statement of comprehensive income for the year then ended for each of the line items affected.

(f) New standards and interpretations not yet adopted

There are a number of new standards, amendments to standards and interpretations, which have been issued but are not yet effective. The Company has not yet determined the potential impact of the following standards:

– NZ IFRS 16, 'Leases' (effective for the Company's 2020 financial statements).

(g) Critical accounting judgements and estimates

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

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

– Valuation of electrical distribution network (note 5)

– Estimation of useful lives for depreciation (note 5)

2 REVENUE

The effect of initially applying IFRS 15 on the Company's revenue from contracts with customers is described in note 1(e). Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirements.

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

	2019 $000	2018 $000
Net revenue from contracts with customers[1]	**14,256**	15,741
Other income:		
Interest income	**171**	334
Recovery of debt previously written off	**-**	-
Miscellaneous income	**32**	25
Total revenue	**14,459**	16,100

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

	2019 $000	2018 $000
Electricity line revenue[1]	**13,104**	14,400
Capital contributions	**548**	384
Contracting revenue	**560**	911
Other	**44**	46
	14,256	15,741

[1]Net of the accrued posted discount of $1,481,845.90 to be paid to consumers connected to the Company's electricity network as at 31 March 2019 and scheduled to be paid to consumers in July 2019.

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

	2019 $000	2018 $000
Contract liabilities – posted discount payable to consumers	**1,482**	-
Total contract liabilities	**1,482**	-

Significant changes in contract assets and liabilities
The Company has recognised a contract liability for the discount to be paid to consumers following the adoption of NZ IFRS 15. The Company will pay a posted discount of $0.0226 c/kWh to all consumers registered on its electricity network as at 31 March 2019. The discount is calculated using ten months of consumption data from 1 June 2018, and is scheduled to be paid to consumers in the month of July 2019. The minimum discount payable to any consumer is $52.50 and the maximum is $5,575.

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 over time as a result of there being no alternative use to the asset without significant economic losses and the Company having a right to payment for performance completed to date.

(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.

	2019 $000	2018 $000
Other expenses		
Bad debt expense	**-**	(3)
Audit of the annual financial statements – Audit New Zealand	**56**	54
Regulatory audit and assurance work – Audit New Zealand	**70**	33
Directors' fees	**172**	161
Donations	**1**	1
Community sponsorship	**110**	544
Other operating expenses	**1,866**	2,265
	2,275	3,055

4 TAXATION

(a) Income tax expense	2019 $000	2018 $000
Current tax on profits for the year	**711**	1,114
Deferred tax associated with timing differences	**178**	152
Adjustments in respect of prior years	**(9)**	(13)
Prior period discount	**389**	-
Income tax expense	**1,269**	1,253

(b) Reconciliation of income tax expense to prima facie tax payable	2019 $000	2018 $000
Profit from continuing operations before income tax expense	**4,562**	4,521
Income tax @ 28%	**1,278**	1,266
Tax effects of:		
• Income not subject to tax	**-**	-
• Expenses not deductible for tax purposes	**-**	-
Prior period current tax adjustment	**(9)**	(13)
Income tax expense	**1,269**	1,253

(c) Deferred tax liabilities	2019 $000	2018 $000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	**9,464**	9,288
Employee provisions	**(75)**	(76)
Other provisions	**(4)**	(5)
Total deferred tax liabilities	**9,385**	9,207
Movements:		
Opening balance	**9,207**	10,928
Deferred portion of current year tax expense	**178**	152
Amounts charged or credited direct to equity	**-**	(1,873)
Closing balance	**9,385**	9,207

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 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 amount	**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**

	Electrical distribution network $000	Fibre network $000	Land and buildings $000	Other assets $000	Total $000
Year ended 31 March 2018					
Opening net book amount	61,136	835	1,195	989	64,155
Additions	1,668	-	402	257	2,327
Disposals	-	-	-	(2)	(2)
Depreciation charge	(1,676)	(115)	(17)	(300)	(2,108)
Revaluation	(6,692)	-	-	-	(6,692)
Closing net book value	54,436	720	1,580	944	57,680
At 31 March 2018					
Cost	412	1,345	1,664	4,308	7,729
Valuation	54,024	-	-	-	54,024
Accumulated depreciation	-	(625)	(84)	(3,364)	(4,073)
Net book amount	54,436	720	1,580	944	57,680

(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 2019, 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 value in use 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 2019/20 year as the base year for line revenue. The model then uses the current Commerce Commission's revenue cap model as the basis for modelling an estimated price reset in 2020/21, using the 2019 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 5.04%.
- A post tax discount rate of 5.96% per annum (2018: 6.5%).

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 $2.3 million.

(b) Capital work in progress

Capital work in progress as at 31 March 2019 of $495,630 (2018: $412,074) is included in electrical distribution network additions.

(c) Capital commitments

The value of contractual capital commitments as at 31 March 2019 is estimated at $Nil (2018: 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 3 – 10 years
  - Office furniture and equipment 5 – 15 years
  - Information technology 3 – 10 years

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

Impairment of assets

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

6 TRADE AND OTHER RECEIVABLES

	2019 $000	2018 $000
Trade receivables	**1,920**	1,647
Provision for doubtful receivables	**(14)**	(17)
	1,906	1,630
Sundry receivables and accruals	**25**	77
	25	77
Total trade and other receivables	**1,931**	1,707

(a) Impaired receivables

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

At 1 April	2019 $000	2018 $000
Opening balance	**17)**	(20)
Provision for impairment recognised during the year	**(3)**	-
Receivables written off during the year as uncollectible	**3**	-
Amounts recovered during the year	**3**	3
At 31 March	**(14)**	(17)

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:

	2019 $000	2018 $000
Fair value of financial assets at amortised cost		
Cash and cash equivalents	**2,186**	8,023
Investments	**5,414**	7,312
Trade and other receivables	**1,931**	1,708
	9,531	17,043
Fair value of financial liabilities at amortised cost		
Trade and other payables	**2,420**	1,564
	2,420	**1,564**

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 (2018: loans and receivables). 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 principal 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 3.25% and 3.52% (2018: between 3.40% to 3.60%).

These deposits have a remaining maturity between 47 days and 173 days (2018: between 3 days and 167 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	2019 $000	2018 $000
Interest rates – increase by 50 basis points	**27**	36
Interest rates – decrease by 50 basis points	**(27)**	(36)

(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

	2019 Shares '000	2018 Shares '000	2019 $000	2018 $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 2019, the amounts incurred by Unison Networks Limited for the provision of key management personnel amounted to $127,320 (2018: $124,946).

The compensation paid or payable to Directors was $172,232 (2018: $161,394).

(b) Transactions with related parties

Related party	Nature of transactions	Relationship with company	Transaction 2019 $000	Transaction 2018 $000	Year-end 2019 $000	Year-end 2018 $000
Central Hawke's Bay Consumers Power Trust	Dividend	Parent	**161**	8,100	**-**	8,000
Unison Networks Limited	Purchases materials and management services	Key management personnel	**4,089**	2,326	**833**	244
Trustees	Sale of contracting services	Trustee	**10**	81	**10**	40
Farmlands	Retail purchases	Directors' interest	**6**	8	**1**	1

10 COMMITMENTS

(i) Operating lease commitments

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

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

	2019 $000	2018 $000
No later than 1 year	**1**	4
Later than 1 year and no later than 5 years	**-**	2
Later than 5 years	**-**	-
Total	**1**	6

11 CONTINGENCIES

As at 31 March 2019 the Company had no contingent liabilities or assets (2018: $Nil).

12 IMPACT OF ADOPTION OF NZ IFRS 15

Impact of change in accounting policy on balance sheet

The following tables summarise the impacts of adopting NZ IFRS 15 on the Company's balance sheet as at 31 March 2019 and its statement of comprehensive income for the year then ended for each of the line items affected. There was no material impact on the Company's statement of cash flows for the year ended 31 March 2019.

Impact on the balance sheet	As at 31 March 2019 (without adoption of NZ IFRS 15) $000	Adjustments $000	As at 31 March 2019 (as presented) $000
ASSETS			
Cash and cash equivalents	2,186	-	2,186
Trade and other receivables	1,931	-	1,931
Inventories	375	-	375
Investments	5,414	-	5,414
	9,906	-	9,906
Property, plant and equipment	61,253	-	61,253
Intangible assets	85	-	85
Total non-current assets	61,338	-	61,338
Total assets	71,244	-	71,244
LIABILITIES			
Trade and other payables	2,420	-	2,420
Current tax liabilities	(152)	-	(152)
Provisions	230	-	230
Contract Liabilities	1,482	-	1,482
	3,980	-	3,980
Non-current liabilities			
Provisions	47	-	47
Deferred tax liabilities	9,385	-	9,385
Total non-current liabilities	9,432	-	9,432
Total liabilities	13,412	-	13,412
Net assets	57,832	-	57,832
EQUITY			
Share capital	8,000	-	8,000
Reserves	856	-	856
Retained earnings	48,976	-	48,976
Total equity	57,832	-	57,832

Impact on the statement of comprehensive income	As at 31 March 2019 (without adoption of NZ IFRS 15) $000	Adjustments $000	As at 31 March 2019 (as presented) $000
Revenue	**15,941**	(1,482)	**14,459**
Transpower charges	**(2,934)**	-	**(2,934)**
Network maintenance costs	**(1,617)**	-	**(1,617)**
Employee related expenses	**(850)**	-	**(850)**
Other expenses	**(2,275)**	-	**(2,275)**
Discounts	**(2,872)**	2,872	**-**
Business development expense	**(99)**	-	**(99)**
Depreciation and amortisation expense	**(2,122)**	-	**(2,122)**
Total expenses	**(12,769)**	2,872	**(9,897)**
Profit before income tax	**3,172**	1,390	**4,562**
Income tax	**(888)**	(381)	**(1,269)**
Profit for the year	**2,284**	1,009	**3,293**

Impact of change in accounting policy on statement of comprehensive income

Discounts are no longer classified as an expense under NZ IFRS 15, these are recognised as negative revenue.

Under NZ IAS 18, two discounts would have been recognised being the discretionary amount paid in August 2018 and the non-discretionary amount included in the 2018/19 price schedule. The recognition point has changed on the adoption of NZ IFRS 15 as it requires earlier recognition of the variable consideration. As a result, the prior period discount has been recognised through an adjustment to retained earnings (refer to note 1(e)).

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 2019.

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 56, that comprise the balance sheet as at 31 March 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of performance of the company on page 40.

In our opinion:

- the financial statements of the company:
  - o present fairly, in all material respects:
    - its financial position as at 31 March 2019; 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 2019.

Our audit was completed on 25 June 2019. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

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

Responsibilities of the Board of Directors for the financial statements and the 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.

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

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.

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

We did not evaluate the security and controls over the electronic publication of the financial statements and the 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 10 to 37, 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 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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W Harvey
I Walker
D Walker
F Wilson

Chief Executive

K Sutherland

Trustees

A Setter – Chair
C Avery – CHB Mayoral Representative
G Williams – CHB District Council Appointee
R Dakins – Silver Fern Farms Appointee
K Middleberg
K Taylor
M Peacock

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