



**Jack
counts**

All our customers count!

Every day, the lives, livelihoods and goals of every one of Marlborough Lines' customers, rely on our providing a secure source of electricity. Whether it's running shops or restaurants in commercial areas of our towns, processing factories in industrial areas, irrigating crops, shearing sheep or just keeping warm at home – the comfort and safety of people like Jack Lucas, aged 3 (counting Marlborough export cherries on our cover), is what counts to us.

Maree Connolly
Executive Chef, Hotel d'Urville, Blenheim

Maree Connolly with sous chef Pravin Singh who puts the finishing touches on manuka honey cheesecakes served with ginger crumb, ice cream, and feijoa biscotti topped with cherries.



| crops
irrigated

| fruit
processed

| bread
baked

| ice cream
frozen



Hospitality and tourism counts

Canterbury-raised Maree has been in charge of the kitchen at Blenheim's multi-award winning Hotel d'Urville – listed among the best boutique hotels of the world – for the past four years. She regards it as 'pretty special' to be involved with such an internationally recognised establishment charged with showcasing the

best of a region that attracts 1.4 million visitors per year to experience natural beauty, fine weather, abundant local fresh produce, and unique adventure and leisure activities. Tourists and locals alike enjoy the warmth of local hospitality in a sector that contributes \$215m annually towards the Marlborough economy.

saucés
whiskéd

linén
crisp

wine
chilled

supplíers
billed

gúests
thrilled

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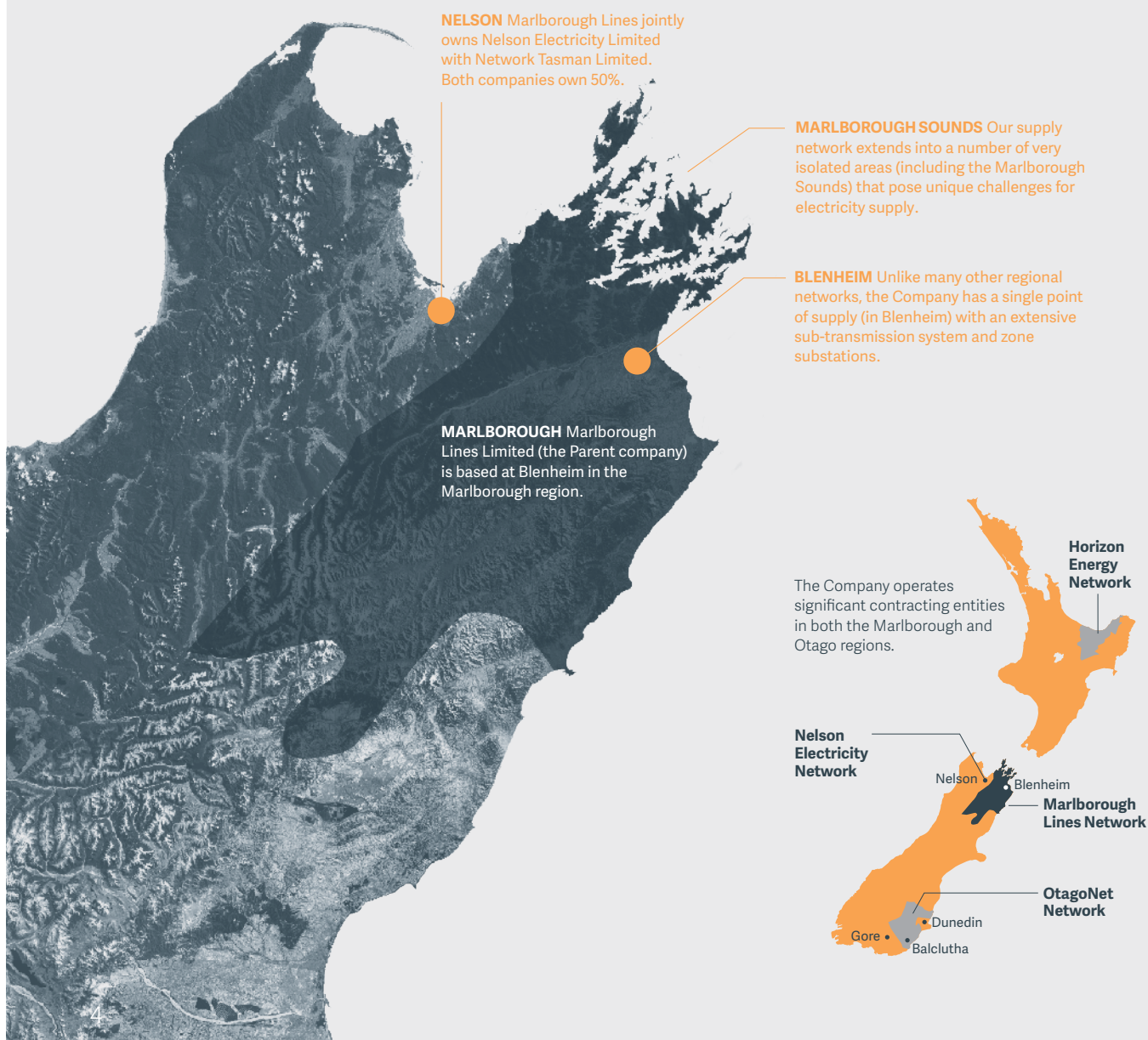
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About us

Directly and indirectly, our networks supply **72,500**

We are an electricity network owner/operator delivering electricity to more than 24,000 customers in the Marlborough region of New Zealand. Other network companies in which we have substantial investments supply a further 48,500 customers in the Nelson, Otago and Bay of Plenty regions of New Zealand.



customers

Our investment activities also include electricity contracting services (where we employ about 180 people) in the Marlborough, Otago and Southland regions.

Our contracting divisions undertake construction and maintenance of the electricity network assets that deliver electricity to customers from the national grid.

Vital statistics

Parent company

- Marlborough Lines Limited shareholding comprises 28m \$1.00 shares issued, fully paid up and held by the Marlborough Electric Power Trust.
- Annual revenue of \$47.654m.
- In excess of 24,000 network connections.
- An area for network supply covering 11,330km².
- Network of lines and cables in excess of 3,300km.
- 121 Blenheim-based staff.

The Group

Marlborough Lines Group has a 50% interest in Nelson Electricity Limited (the owner of the electricity network supply in the central Nelson city area), and a 51% share in the OtagoNet Joint Venture (OtagoNet supplies electricity to the greater Otago area). Between them, these two entities supply electricity to 23,900 customers. The Group also holds 13.9% of the shares in Horizon Energy – the owner of the electricity network that supplies a further 24,600 customers in the Bay of Plenty.

The entities in which Marlborough Lines has a significant financial interest:

- supply a total of some 48,500 customers
- deliver 1,095GWh of electricity
- have a peak load of 161MW
- use 7,022km of line
- bring a total revenue of \$88.4m
- employ 202 staff.

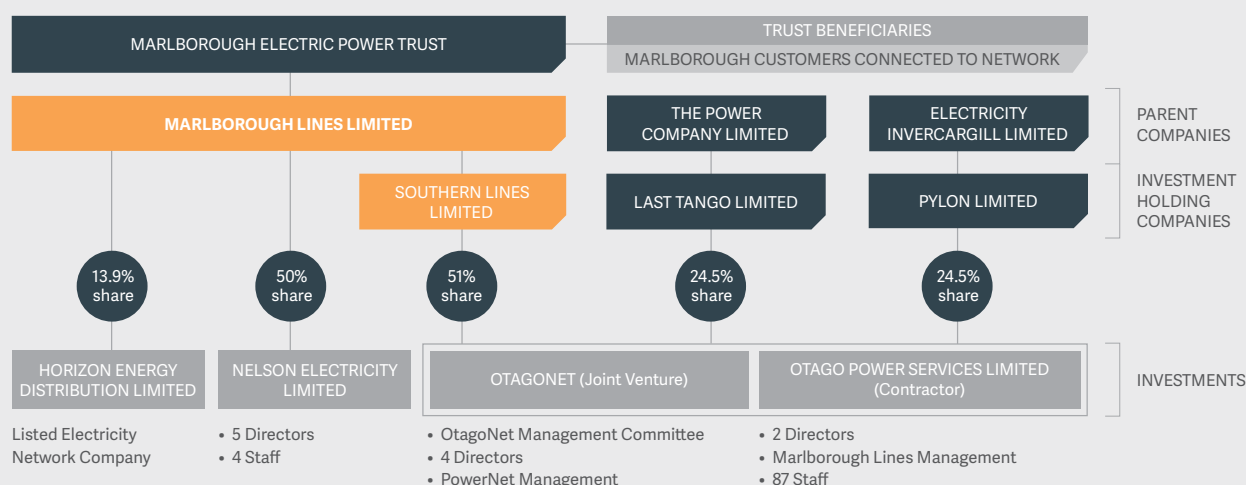
Marlborough Lines is based in Blenheim, a town with an enviable reputation for high sunshine hours.

We take our electricity supply from the Transpower grid via three circuits to a single point of supply in the Blenheim suburb of Springlands. Supply to Marlborough then radiates out to a number of very isolated rural areas including the Marlborough Sounds, Molesworth Station (New Zealand's largest farm at the top of the Awatere Valley) and the southern Marlborough coast; an area bordered by the Pacific Ocean on one side and the seaward and inland Kaikoura mountains on the other.

The Marlborough region has become famous for wine production and currently produces about 76% of New Zealand's wine volume including the world famous Sauvignon Blanc.

While parts of our region have a low population density and cover some very rugged terrain, the Company consistently maintains a very high level of network reliability. We are recognised as a leader in the operation and maintenance of rural electricity networks.

Marlborough Lines investment ownership structure



Performance overview

Our key results were solid...

\$47.654m

Group total revenue (down 0.8%)

Network revenue increased following an increase in charges of 3.5% from 1 April 2011 coupled with a small increase in energy consumption, but was offset by a corresponding reduction in revenue from investment companies. *Pages 7 & 9*

\$8.116m

Group surplus after taxation (up 298%)

Our surplus was 'normalised' following a significant reduction last year due to writing off the Group's share of goodwill (non-cash) in one of the equity accounted associate companies. *Page 58*

\$19.525m

Group earnings before interest, tax and depreciation EBITDA (up 39%)

Overall earnings were within 4.7% of target for the year. *Page 60*

\$7.269m

Total cash flows received from investments in Nelson, Otago and Horizon (down 2.2%)

Even though a \$166k reduction on last year, it represents a 6.90% return on investment based on current holding costs. *Pages 63-66*

0.24%

Increase in the volume of energy traded over the Marlborough network

Relative to the 0.4% increase in the number of network connections made during the year. See chart 'Energy delivered to the Marlborough network', *page 22*

24,359

Total Marlborough network connections (up 0.4%)

Marlborough has a unique lifestyle opportunity but still maintains a low growth rate. This is directly related to the lack of development occurring in the region. See customer statistics, *page 65*

\$19.794m

Capital and maintenance expenditure to increase capacity and improve reliability

A reduction of \$1.27m from last year. *Pages 30-31*

\$1.700m

Total dividend paid to the Marlborough Electric Power Trust for distribution to customers

Each network connection received \$50. *Page 26*

\$7.567m

Total discounts, inclusive of GST, paid to Marlborough customers, an increase of 3.7%

Combined discount and dividend for the 'average' customer defined by the MED was \$237. *Page 26*

... given a tough economic environment

Results in brief

Group

	Actual 2012	Target 2012	Change over previous year	Target 2013	2011	2010	2009
EBITDA ¹	\$19.525m	\$20.485m	39.0%	\$23.418m	\$14.048m	\$15.143m	\$20.401m
EBIT ²	\$11.895m	\$12.726m	84.1%	\$14.826m	\$6.461m	\$7.892m	\$13.574m
Total Revenue (Group)	\$47.654m	\$46.475m	-0.8%	\$50.860m	\$48.056m	\$44.241m	\$48.464m
Customer Discount	\$6.580m	\$6.614m	2.1%	\$7.105m	\$6.444m	\$6.067m	\$5.827m
Pre-tax Pre-discount Surplus ¹	\$16.601m	\$17.571m	46.2%	\$20.072m	\$11.353m	\$13.293m	\$17.829m
Surplus After Taxation ¹	\$8.116m	\$8.409m	297.8%	\$9.980m	\$2.040m	\$5.611m	\$9.076m
Total Value of Group Assets ²	\$334.285m	\$331.720m	2.2%	\$343.555m	\$327.052m	\$299.650m	\$276.048m
Share Capital	\$29.026m	\$29.026m	0.0%	\$29.026m	\$29.026m	\$29.026m	\$29.026m
Shareholders' Equity	\$240.026m	\$240.269m	2.7%	\$251.651m	\$233.610m	\$222.443m	\$202.181m
Net Asset Backing Per Share	\$8.57	\$8.58	2.8%	\$8.99	\$8.34	\$7.94	\$7.22
Pre-discount Return on Shareholders' Funds ³	6.92%	5.50%	22.0%	7.98%	5.67%	5.50%	6.46%
Net Interest Bearing Debt	\$39.300m	\$40.150m	3.1%	\$36.200m	\$38.100m	\$22.500m	\$21.100m
Interest Cover (x EBIT)	6.35	6.52	52.5%	7.98	4.16	11.85	8.64

Parent

EBITDA	\$17.783m	\$19.485m	-5.6%	\$22.168m	\$18.832m	\$15.143m	\$17.620m
EBIT	\$10.185m	\$11.726m	-9.7%	\$13.608m	\$11.277m	\$7.923m	\$10.849m
Customer Discount	\$6.580m	\$6.614m	2.1%	\$7.105m	\$6.444m	\$6.067m	\$5.827m
Surplus After Taxation	\$6.435m	\$7.409m	-6.3%	\$8.844m	\$6.869m	\$5.552m	\$7.169m

1. One of the investment companies within the Group during 2011 wrote off goodwill totalling \$12m. The Group's share of this write-off caused an unbudgeted 'above the line' reduction in the equity accounted earnings of \$6.4m for the investment companies.
2. Revaluation of infrastructure assets within the investment companies during 2011 added \$10.877m, more than offsetting the goodwill write-off referred to above.
3. Adjusted for the goodwill write-off for 2011. There has been no such adjustments during the 2012 year.

Performance overview

Parent company performance overview

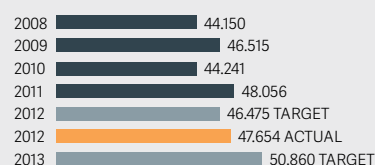
In a difficult economic environment, both nationally and within Marlborough, the Company again produced solid results, but our Group revenue failed to meet our expectations and fell 0.8% short of the previous year.

The economic conditions, mild weather and low irrigation all combined to produce a minimal increase in energy delivered over the network.

The cash flows produced by our investment companies approximated to expectations and overall provided a 6.9% return on investment, together with increases in shareholder value.

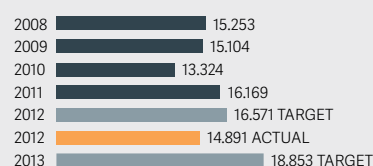
Fortunately our network was not subject to the same extreme weather events of the previous year and the minutes of lost supply markedly improved.

Total revenue Parent company \$(millions)



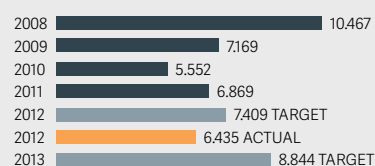
Revenue exceeded target through increased returns from investment companies. Slightly down on last year due to lower external income.

Pre-discount, pre-tax profit Parent company \$(millions)



The actual result for 2012 remains within 90% of the original target. The target for 2013 includes a 6.8% increase in underlying network charges.

Operating surplus after tax Parent company \$(millions)



An increase in system maintenance and a number of asset write-downs caused a reduced surplus in comparison to target.

Key targets and results – Parent company

TARGET 2012	RESULT 2012	TARGET 2013
Company surplus before tax and sales discounts \$16.571m	Achieved \$14.891m The Company has experienced reduced levels of vesting income (typically from any new development) and external contracting revenue as a result of the current economic downturn.	\$18.853m
Company net surplus after tax \$7.407m with \$6.614m discount	Achieved \$6.435m The Company had a reduced net surplus of \$6.435m with discounts totalling \$6.580m.	\$8.844m with \$7.105m discount
Network customer discounts of \$6.614m	Achieved \$6.580m (excluding GST) The result is slightly less than the estimate and is directly related to discounts being a posted component of electricity delivery charges and the total volume of energy delivered over the network.	\$7.105m
Capital expenditure target level of \$12.778m	Incurred \$12.951m The level of expenditure was very close to the targeted level.	\$13.685m
Operating turnover target \$46.475m	Achieved \$47.654m Network prices were increased this year with a stable volume in energy demand but this was offset with a reduction in the value of external contracting revenue and income from vested assets.	\$50.860m
Target shareholders' equity at year end \$265.888m inclusive of deferred tax provision	Achieved \$265.068m Reflective of the slightly reduced NPAT and no large movements within deferred tax.	\$274.527m
Average number of minutes power supply lost from all causes not to exceed 210 minutes per customer	Did not meet target – 241 minutes Total minutes lost were 44% down on last year. Reliability, however, is still affected by the vagaries of the weather.	Target remains 210 minutes or less
Faults per 100km of line not to exceed 10	Did not meet target – 14.1 faults	Target remains 10 or less

The primary sector counts

A diverse and increasingly sophisticated range of primary sector operations rely on our electricity supply to irrigate and develop locations that were once too dry, or too remote to reach. From the 1970's, much of the Marlborough region underwent a radical transformation, with farmland and fruit orchards giving way to grape vines and other

innovative, lifestyle-based, value added initiatives. As an illustration of the growth of diversity in a sector that counts wool and beef processing, cropping, forestry and aquaculture as key contributors, Terrace Farm once ran 3,500 ewes, lambs and hoggets and now runs around 100 sheep, plus operates three vineyards.



calves
born

sheep
shorn

wool
spun

clothes
sewn



**Ian Stuart
Shearer, Renwick**

Ian Stuart shears a last year's Perendale lamb in the 107-year old Terrace Farm woolshed on the property of Christopher and Melanie Hammond at Renwick.

trees
grown

fish
spawned

mussels
packed

shelves
stacked

exporters
rapt

Matthew Large
Operations Winemaker, Wither Hills

Using a 'wine thief', Matt checks the progress of the 2012 Pinot Noir as it matures in French Oak barrels over a 14 month period. Each contains 225 litres and has another 10 months left before the next stage.



grapes
sorted

temperature
monitored

humidity
checked

ferments
stabilised

Viticulture counts

The Marlborough region has earned a worldwide reputation for producing great quality wines – particularly Sauvignon Blanc; a varietal pioneered here in Marlborough, and introduced to the wine world approximately 26 years ago. As locally grown varieties and labels have proliferated, a good proportion of Marlborough Lines' capital investment

over the past two decades has helped develop the exponential growth of the viticulture industry that currently supports 142 individual wineries, 544 grape growers and 44 cellar doors. The region alone, was responsible for 76% of New Zealand's total wine vintage in 2011 and 91.8% of New Zealand's Sauvignon Blanc production.

functions
booked

visitors
hosted

orders
filled

reputations
made

festivals
staged

**Darren Stewart, John Agnew
and Jackson Hook
Safe Air Engineers, Blenheim**

Engineers work on a UH1H Iroquois helicopter in the maintenance hangar at Safe Air; one of Marlborough's largest electricity consumers and a business that embodies our region's passion for the aviation industry.



equipment
maintained

apprentices
trained

passengers
flown

industries
grown

Aviation and engineering counts

Marlborough is the third largest aviation engineering hub in New Zealand – after Christchurch and Auckland – and home to the Omaka Aviation Heritage Centre, the state-of-the-art facility famously patronised by Sir Peter Jackson, which Marlborough Lines helps light. Established in 1950, Safe Air, once a freight airline, is a 260-person

strong maintenance and repair business supporting the RNZAF with maintenance repairs and overhaul work, troop moving and tactical flying as well as supplying services for the Australian defence services and our national carrier, Air New Zealand, and other New Zealand and Australian commercial aircraft operators.

houses
up

holiday homes
connected

premises
protected

lives
saved

medals and
artefacts displayed

Anna, Tim, Seth and Brea Gifford
Residential customers, Springlands,
Blenheim

Anna and Tim Gifford and their children Seth, 5 and Brea 2 ½, moved into their new Peter Ray Homes designed and built house in the Springlands suburb of Blenheim in late 2011.

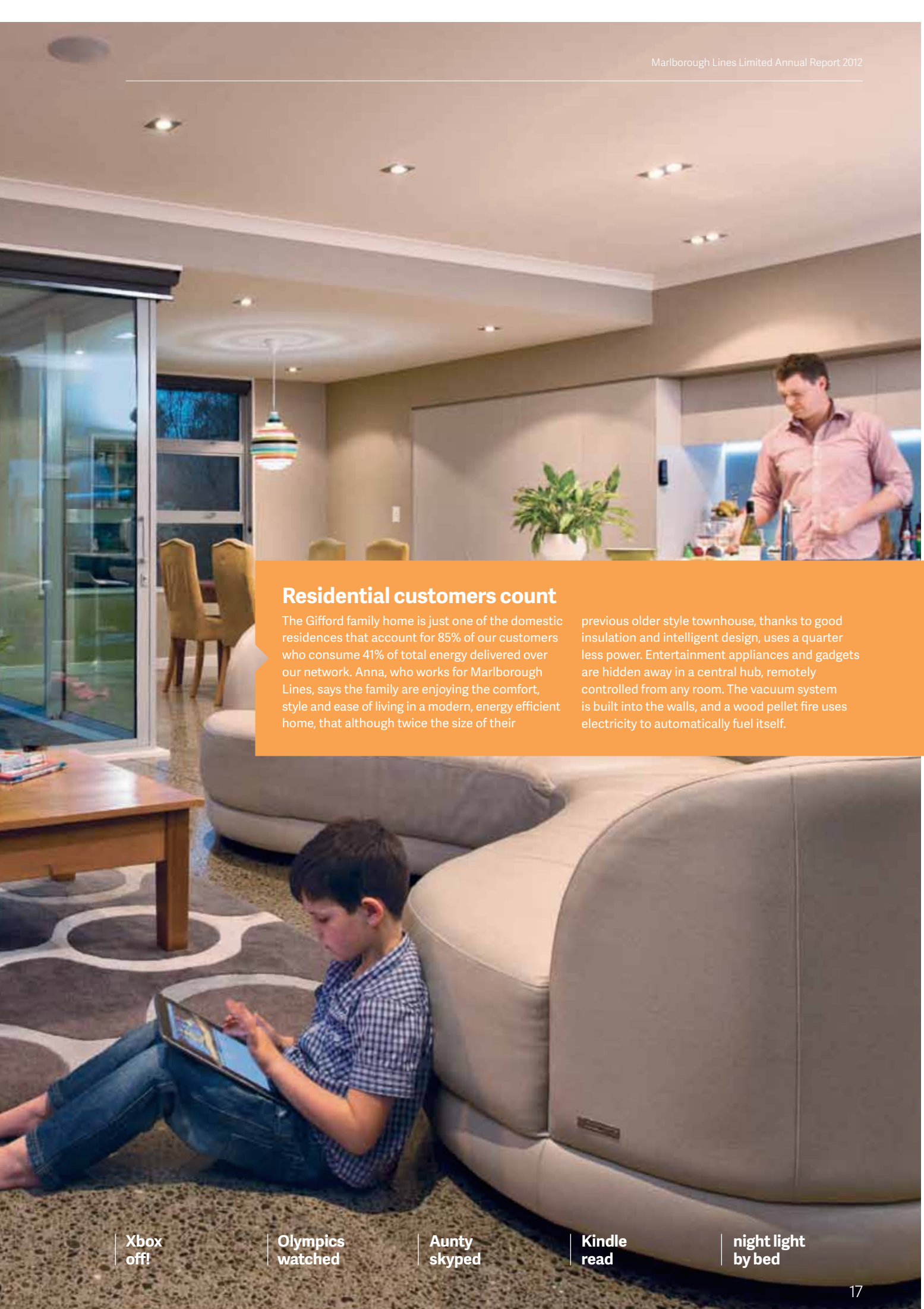


youngest
bathed

living room
snug

recipe
scanned

dinner
on



Residential customers count

The Gifford family home is just one of the domestic residences that account for 85% of our customers who consume 41% of total energy delivered over our network. Anna, who works for Marlborough Lines, says the family are enjoying the comfort, style and ease of living in a modern, energy efficient home, that although twice the size of their

previous older style townhouse, thanks to good insulation and intelligent design, uses a quarter less power. Entertainment appliances and gadgets are hidden away in a central hub, remotely controlled from any room. The vacuum system is built into the walls, and a wood pellet fire uses electricity to automatically fuel itself.

Xbox
off!

Olympics
watched

Aunty
skyped

Kindle
read

night light
by bed

Our mission

Our mission and how we're measuring up against our big goals

As a company we set out to:



Develop and maintain the region's electricity network

This year we continued increasing the capacity of our network to meet customer demand. The slowed Marlborough economy provided us with the opportunity to focus on the replacement of older lines and improve reliability of supply. Total capital expenditure of \$12.951m was marginally higher than the target of \$12.778m. See capital expenditure section on page 30.



Operate a successful business

Our pre-tax pre-discount profit for the year – although below the target and down on the previous year – was respectable given the harder economic environment. Consistent with previous years, customer discounts continue to increase. See graph of total discounts paid on page 26. Our investments ensured our Group shareholder value further increased by \$6.416m.



Respond to customer demand

Feedback from our customers continually reinforces the absolute requirement for reliability of supply which necessitates well maintained network assets capable of meeting customer demand. An emphasis on increased reliability was the primary focus of much of our expenditure during the year and this will continue into the future.



Use legislative powers fairly

We are a member of the Electricity and Gas Complaints Commissioner (EGCC) scheme, an independent body that provides a complaint service about electricity and gas issues – at no cost to customers. This year the Company had no complaints that required a decision from the EGCC. Details in relation to the scheme are available on our website or at www.egccomplaints.co.nz.



Fulfil market requirements in terms of quality and price

We are committed to excellence and continuous improvement and seek to achieve and maintain recognised quality standards. Our ongoing maintenance of ISO accreditation for Management, Environment and Health and Safety demonstrates our dedication to quality.



Exceed customer expectation

Our annual customer surveys continue to indicate a very high level of satisfaction with the Company's overall performance. Despite these results we constantly look at initiatives to improve our levels of customer service. During the year we reviewed our customer communications and made improvements to our quarterly newsletter 'Connections', which has received positive feedback from customers. We are also redesigning our website to make it a more valuable channel for our customers to connect with us, and this will go-live later in 2012. See 'Customer information' on page 26.

Our mission: we aim to *exceed our customers'* expectations in all aspects of our operations while providing our shareholder (the Marlborough Electric Power Trust) with a *commercial return*.



Meet commercial and productivity targets

Energy delivered through the network this year totalled 385GWh, which was close to the target of 384GWh and last year's result. We expect the result to be similar next year and this is a reflection of the current economic environment which has restricted commercial growth within the region.



Be a good employer

Our employment statistics indicate a very stable workforce, which is further reinforced when viewed over a longer period. Our wellness programme, commitment to developing our people and providing them with options to achieve the right level of work-life balance all contribute to this result. See 'Staff' on page 38.



Ensure and promote electrical safety

Safety is integral to everything we do as the lives of our staff, customers and community depend on it. During the year in review we participated in the Safety Climate Project in conjunction with the Electricity Engineers Association. This project has required a wide level of staff involvement and resulted in a renewed focus on safety in all areas of our work. See 'Safety' on page 44.



Use energy as efficiently as possible

We continue to promote energy efficiency to our communities through our technical advisory service, customer newsletters, website and trade promotion in the news media. Within the Company we seek to minimise losses in the operation of our network. We monitor our own electricity use, and adopt changes where appropriate to reduce consumption.



Minimise our environmental impact

During the year our vision to grow our own cross arm timber on a sustainable basis was further progressed by the planting of a 60ha Eucalypt forest on land purchased previously for this purpose. We recognise that everyone wants an electricity supply but many do not necessarily want to see or hear the assets which provide for its delivery.

We are dedicated to looking for solutions that meet customer needs and minimise our environmental impact – not only for today but for future generations. See 'Environment' on page 50.

Chairman's report

We have resilience and the capacity to move forward



The Company has achieved a respectable pre-tax, pre-discount profit of \$14.891m for the year ended 31 March 2012. This is a 7.9% reduction on the previous year but was achieved in a harder economic environment.

This was the second year in succession in which the delivered energy has been less than that of the 2010 year.

Again, it was a year in which the New Zealand economy was sluggish with minimal growth. Locally the situation was exacerbated by the further decline of the region's most dominant industry – viticulture. What counts is Marlborough Lines' resilience and our capacity to move forward, whatever the circumstances.

We have made timely investment in our assets and our financial base is sound, with a relatively low level of debt.

We have solid foundations upon which we will continue to build.

The Directorate is committed to increasing shareholder value through efficiency of operations, pursuit of appropriate investment opportunities relative to our core business, and increasing the reliability of our electricity supply.

The Board has charged the Company's management with implementing its vision in accord with structured plans and measurement criteria. Within the Company overall there is dedication and a commitment to achieve. We are committed to successful growth. Maintenance of the status quo is not our aim.

Innovation, continuous improvement and greater sustainability are the hallmarks of our operations.

Every dollar of expenditure must count. Every dollar we save is a dollar available for reinvestment or return to our shareholders.

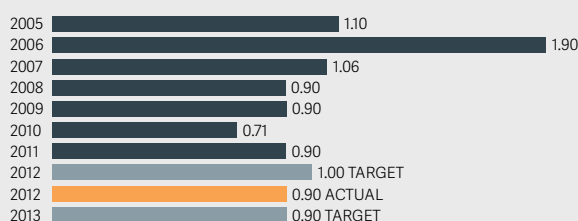
What counts most is not words but action. Again, the Company has a programme in place to critically review the cost benefit of expenditure.

Maintaining our knowledge of an increasing plethora of regulations specific to our industry is something that costs us more than we believe it should. Our active participation in the ongoing submission process of the regulatory mire in which the network industry is becoming increasingly immersed is expensive.

The direct and indirect costs of regulation specific to the electricity industry are continuing to escalate and we remain sceptical about the cost benefit of it.

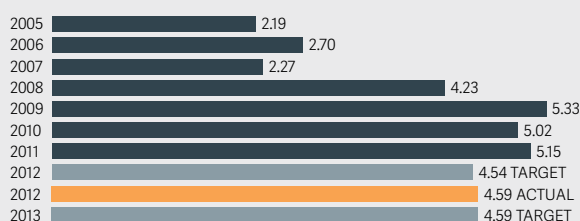
We are not alone in our criticism of the regulatory environment. During the past year the High Court determined in the Vector decision that the Commerce Commission had not undertaken proper consultation relative to the implementation of the price path regulation. As this report was being compiled, the Court of Appeal

Dividends received from Nelson Electricity \$(millions)



Marlborough Lines continues to receive dividends from Nelson Electricity as well as ensuring that sufficient funds are left in the business for ongoing capital expenditure.

Distributions received from OtagoNet Joint Venture \$(millions)



From the purchase date in 2002, shareholder returns from the OtagoNet Joint Venture have steadily increased. The reduction for 2012 and target for 2013 allows for funds to be reinvested in further capital projects within the Otago network.

The potential for Government entities to impact on the profitability of Marlborough Lines is real and is a risk that needs to be properly managed.

—David Dew Chairman

overturned the judgment of the High Court which illustrates that even among the judiciary there is disparity of view over the manner in which the regulations are to be effected and this matter may yet be subject to further appeal.

The Auditor General has voiced criticism of the manner in which the Commerce Commission failed to properly follow appropriate procedures around regulation of the electricity industry.

The High Court has also determined – in a declaratory judgment brought by Marlborough Lines – that the tree regulations are deficient in several respects and necessitate change. All of which demonstrates why Marlborough Lines must be active in regulation and industry matters.

The potential for Government entities to impact on the profitability of Marlborough Lines is real and is a risk that needs to be properly managed.

Our previous actions and our ongoing interest in the pursuit of investment opportunities has proven prudent.

The Company has a long-held view that further rationalisation of the electricity industry must occur and we intend to participate actively in the process to benefit our shareholders and Marlborough customers.

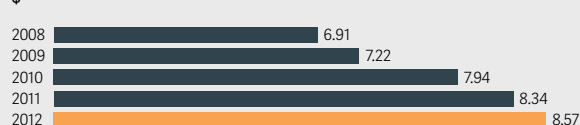
Equally we will continue to invest to grow our core business as opportunities become available or can be created.

It is our intent to further increase discounts to customers when our current major capital expenditure programme is diminished and the Company's need for capital is correspondingly reduced. Equally it is expected the dividend to our shareholders will increase over time.

Looking forward, we are confident of our capacity to pursue opportunities and meet whatever challenges come our way. We can count on our staff whose willing endeavours I am pleased to acknowledge. Similarly I am pleased to acknowledge my fellow Directors, our shareholder the Marlborough Electric Power Trust and the support of our customers, whom it is a pleasure to serve.

DWR (David) Dew
Chairman

Net asset backing per share



Marlborough Lines Directors are focused on growing the underlying value of the business for the benefit of our shareholders and community.

	2012 EBITDA \$m	2012 EBIT \$m	2012 SURPLUS \$m	2012 TAX \$m
Marlborough Lines	17,783	10,185	6,435	1,876
Consolidated Group	19,525	11,895	8,116	1,905

EBITDA = Earnings Before Interest, Tax, Depreciation and Amortisation.

Managing Director's report

We know what counts most for customers is reliability



Feedback from our customers continually reinforces a need for the reliability of their electricity supply.

Regardless of the nature of their requirements, all expect electricity to be ever-present at the flick of a switch or to meet their needs automatically. It is not their concern as to how we deliver their electricity or meet the complexities of regulation specific to our industry. What counts for customers is reliability of supply and they rely on us to deliver regardless of the circumstances.

To achieve that, it is paramount we have reliable network assets capable of meeting customer demand. This is achieved through ongoing customer engagement, network surveillance, planning, and timely execution of our plans.

Commensurate with increasingly heightened customer expectations for reliability of supply, our network is becoming ever more complex and sophisticated. Switching that has previously been undertaken manually is now often operated remotely at the touch of a keyboard or automatically in accord with programmed criteria. Much of what we do is unknown and unseen by customers.

It is a paradox of our industry, that the more successful we become in providing uninterrupted supply, the less visible we are to customers.

The inaccessibility of our terrain in some areas, together with such factors as rapidly growing vegetation and sources external to the network can impact on our reliability. Regardless, this has not inhibited us from setting an objective to halve the number of minutes of lost supply from the average of 293.5 over the last five years. In these circumstances the actions of our dedicated team count 24 hours a day, 365 days of the year.

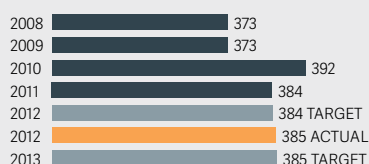
Just as it is important to have reliability, it is also imperative to ensure the safety of our network, our customers, the public and importantly – our people.

It was for this reason during the year we reassessed and refocused our approach to all aspects of the work environment that have the potential to impact upon safety. For just as we are in continual pursuit of increased reliability, so too we have an irrevocable commitment to achieve zero accidents and zero harm to our people, many of whom frequently work in difficult circumstances in adverse weather over difficult terrain to restore our electricity supply.

Looking forward, we intend to continue our emphasis in meeting customer demand and achieving increased reliability and this will be the primary focus of much of our expenditure.

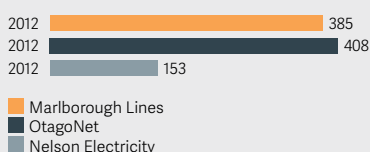
Equally, we will continue to investigate opportunities relevant to our core business which will benefit the Company and our shareholders.

Energy delivered to the Marlborough network GWh



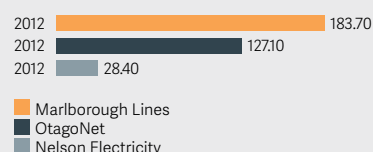
Favourable weather conditions and a slowdown in economic activity have combined to plateau total energy delivered across the network for the past two years.

Energy delivered to all our networks GWh



Despite having about 40% fewer electricity connections, the Otago network distributes more electricity than the Marlborough network due to the presence of New Zealand's largest gold mining operation at Macraes Flat.

Network asset values ODV roll forward at 2011 \$(millions)



ODV is a regulatory value of the network asset base used by the Commerce Commission but does not reflect the full value of a company's assets. The larger comparative regulatory value of the Marlborough network reflects higher levels of capital expenditure necessitated by growth in customer demand.

It is a paradox of our industry, that the more successful we become in providing uninterrupted supply, the less visible we are to customers.

— Ken Forrest Managing Director

Marlborough Lines is in a good position to move forward because it has sound assets, a solid financial base, and a committed team ready to meet the challenges and pursue investment opportunities, whilst continuing to fulfil our primary purpose of serving the electricity customers of Marlborough.

It is only appropriate that I acknowledge the efforts of all Marlborough Lines personnel who have made their individual and collective efforts count in the interests of our customers.

I also record my appreciation of the outstanding contribution of Mr Geoff Hoare who retired from the Company after some 34 years service of which 32 were as Company Secretary.

I am also pleased to record the support of the Chairman and Board of Directors.

K J (Ken) Forrest
Managing Director

Our summarised scorecard:

TARGET	RESULT
Achieve a pre-tax, pre-discount profit of \$16.571m	Achieved \$14.891m (see page 78)
No serious lost time injuries	Achieved (see page 44)
Increase shareholder value	Achieved an increase of \$4.735m to \$222.2m
Increase shareholder dividend	Dividend remained consistent at \$1.700m
Reduce total customer minutes of lost supply	Achieved 241 minutes, a decrease of 44%
Achieve increased customer satisfaction	Customer satisfaction decreased from 96% to 93%
Maintain our international accreditation for systems management, environment, health and safety	Achieved

Total electricity consumption by end use category



Non-domestic electricity consumption as a proportion of total consumption has increased significantly in the last ten years and primarily has been driven by the wine industry.

Number of network connections



Although non-domestic consumption comprises 59% of our delivered energy, only 15% of our customer connections are non-domestic.

Regulation

Counting the costs of unsatisfactory regulation

The record of successive governments and their regulating agencies over the last ten years has not been a proud one in relation to the electricity network industry.

Ill conceived policies, poorly implemented, have created an environment of uncertainty, discouraged investment in innovation and inhibited rationalisation within the industry.

Some costs can be counted directly – others indirectly.

In direct terms, Marlborough Lines expended some \$300,000 over the last year in costs specific to electricity industry regulation. Cumulatively, approximately \$2m has been expended by the Company on regulation specific to industry costs over the previous six years.

We continue to harbour concerns that there has never been a publicly available cost benefit analysis of the regulation of the network industry.

Over the year we have continued our involvement in making further submissions and representations to the regulatory agencies with a view to achieving a regulatory regime which satisfies Government policy and does not incur unnecessary costs or inhibit investment and innovation.

Whilst we have properly criticised aspects of the regulatory regime, we also recognise the role of the regulators and have sought to maintain an ongoing dialogue and have appreciated the opportunity to make submissions.

Strikingly, the Office of the Auditor General (OAG) has also raised concerns relative to the requirements of the Commerce Commission in relation to the Commission's disclosure requirements for Electricity Distribution Companies.

In particular, the OAG expressed "some difficulty in understanding the expectations of the Commission because of what appear to be contradictory statements in the 2012 draft determination and the accompanying draft reasons paper". A key concern of the OAG was the cost effectiveness of the disclosure requirements. This has previously been raised by Marlborough Lines and the network industry.

One of our greatest concerns is that the regulatory regime specific to the electricity network industry continues to be dogged with uncertainty – particularly for investor owned networks such as Nelson Electricity, OtagoNet and Horizon Energy.

The current regulatory period was supposed to have commenced with the introduction of a new regime from 1 April 2010. Initially, implementation was delayed by

machinations within the Commerce Commission itself, and the Commission's revised implementation date was thwarted by a decision of the High Court which essentially determined in the Vector case that the Commission had not undertaken sufficient consultation.

The Vector High Court decision against the Commerce Commission was appealed by the Commission and overturned. It is unclear whether this decision will be further appealed. In any event, the decisions of the Courts reflect the uncertainty of the regulatory process.

In the interim, the Commerce Commission has advised it expects that its previously determined and disclosed price path regime from 2010 should prevail and that in instances where network companies exceed the Commerce Commission criteria which is yet to be finalised, negative adjustments may ultimately be imposed.

The Commerce Commission's proposed regulatory regime allows that should a network company dispute the Commerce Commission's price path determination, it can seek what is described as a 'customised price path' from the Commission. However the regulatory regime also specifies that the Commission only need consider four applications per annum and that the applicant company is liable not only for its own costs but the open ended costs of the Commerce Commission.

Fortunately, Marlborough Lines as a Trust-owned company ceased to be within the jurisdiction of the Commerce Commission's controlled price path regime with effect from 1 April 2010.

However Marlborough Lines is still subject to the oversight of the Commerce Commission on pricing and is required to satisfy the same disclosure requirements as those applicable to investor owned companies. This disclosure information is all subject to a special independent audit and must be supported by a statutory declaration when submitted.

Looking forward, it remains a concern that the outcome of the regime (when implemented) should not discourage investment. The curtailment of prudent investment is certainly not in the longer term interests of electricity users.

In our industry prudent expenditure may be deferred for a period, but invariably becomes increasingly urgent and



often more expensive over time. This has been demonstrated in regulatory jurisdictions external to New Zealand.

Similarly, the substantial expenditure programme now necessarily being implemented by Transpower is a direct consequence of years of inadequate investment, although in Transpower's case it is unfair to entirely blame regulation for the lack of timely investment in previous years.

The fact is that in the electricity industry, the risks of under investment are asymmetric; any savings gained by delaying prudent expenditure have the potential to be outweighed many times over by the overall economic costs should electricity users suffer a loss of supply.

Marlborough Lines, along with other network companies, continues to be subject to the jurisdiction of the Commerce Commission in relation to the reliability of our network. Performance is measured against the average outages of the last five years and where a company exceeds the mandated average target it is subject to investigation to ascertain whether or not appropriate levels of capital expenditure or maintenance have been undertaken.

The Commission's oversight of this information needs to be reassessed, with network companies only investigated in exceptional circumstances. Generally faults are caused by factors totally beyond the network company's control, such as interference by diggers, motor vehicles, unauthorised persons dropping trees across lines, and storm events.

Aside from issues relating to the Commerce Commission, Marlborough Lines also has concerns over some aspects of approaches adopted by the Electricity Authority which has replaced the former Electricity Commission.

One of our concerns is the increased prudential risk faced by a network company for retailer default as a consequence of a changed requirement of the Electricity Authority.

Since 1999, when network businesses separated from retailers, network companies typically required the retailers trading on their networks to either hold recognised financial accreditation (of BB) or satisfy prudential requirements on the arrears which may be faced by the network company in the billing process.

The fact is that in the electricity industry, the risks of under investment are asymmetric; any savings gained by delaying prudent expenditure have the potential to be outweighed many times over by the overall economic costs should electricity users suffer a loss of supply.

Marlborough Lines' position is that it has no choice but to make its network available to all energy retailers regardless of financial strength, and equally should have the right to implement sensible prudential requirements consistent with the risk faced. It is not only in the interests of Marlborough Lines to mitigate risk as it is ultimately the Company's shareholders and its customers who will meet the potential losses incurred by retailer default – either through increased charges or from reduced discounts.

In any event, against the submissions from Marlborough Lines and others within the network industry, the Electricity Authority decided as part of its quest to introduce more retailers to the market, that from 1 May 2012 the prudential period for retailers operating on an electricity network would be a maximum of two weeks. Alternatively, the network company has to pay a penalty interest of 15% over the bank bill rate where it seeks a more realistic level of prudential requirement consistent with the risk faced by the network company.

Although Marlborough Lines supports competition within the retail energy sector, we cannot accept that our revenue be sacrificed when we have no jurisdiction over the risks undertaken by a retailer.

From Marlborough Lines' perspective this situation should not be allowed to continue. We have made representations to the Auditor General in this regard.

Customer information

Q&A: The answers to some of our customers most frequently asked questions

Q Who owns Marlborough Lines?

A The electricity consumers connected to the Marlborough network. All of the Company's shares are held by the Marlborough Electric Power Trust (MEPT) for the collective benefit of Marlborough's electricity consumers. The beneficiaries of the MEPT are all the electricity consumers connected to the Marlborough network.

Q What are the main duties of the Marlborough Electric Power Trust?

A The MEPT operates as the nominal shareholder, appointing Directors, approving the annual Statement of Corporate Intent and receiving dividends. The MEPT is also able to make dividend distributions to electricity customers.

Q What happens to Marlborough Lines' Company profits?

A All surpluses of the Company are either returned to Marlborough electricity consumers as a discount, paid to the MEPT as dividends, or reinvested in the Company's capital development programme.

Q How do customers benefit from Marlborough Lines' investments?

A The purpose of Marlborough Lines' investments is to provide benefits to those connected to Marlborough Lines' network. During the year each customer received a tax-paid dividend of \$50 paid via the Company from the MEPT. This was in addition to the discount which averaged \$187 per customer – bringing the total amount paid to a typical customer to \$237 in the last financial year.

Q How are customer benefits calculated – are they increasing or decreasing?

A The total customer discount for the year ended 31 March 2012 was \$6.58m (up from \$6.44m last year).

The total, including GST, was \$7.567m. As previously noted, a typical domestic customer (consuming 8,000 kWh) received a discount of \$187. The actual discount paid varies per customer as there is a fixed portion and a variable component related to the quantity of electricity used. Total accumulated customer dividends and discounts paid to customers to date is \$75.2m.

Q Does the community benefit in any other way from the Company's activities?

A Marlborough Lines provides sponsorship for a range of youth, sporting and community events. A more detailed outline of our community support programme is provided beginning on page 46.

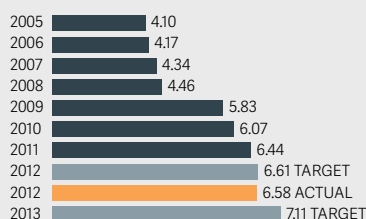
Q Are customers in Marlborough paying higher line charges than in other parts of New Zealand?

A The Company's charges after discount compare favourably with charges for similar rural based networks in New Zealand. (See graph opposite.)

Q What proportion of my electricity bill goes to Marlborough Lines?

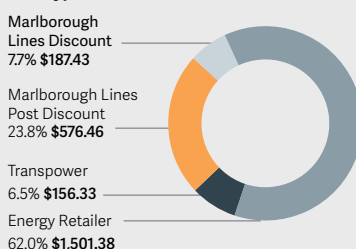
A A customer pays a pre-discount line charge (excluding Transpower charges) of 32 cents in each dollar of total electricity account (post-discount 26 cents). (See graph below.)

Total customer dividends/discounts
Paid to Marlborough Lines customers
\$(millions)



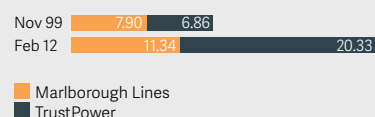
Since 1993, electricity customers in Marlborough have received dividends and discounts totalling \$75.2m.

Allocation of the average electricity account
for a typical domestic customer

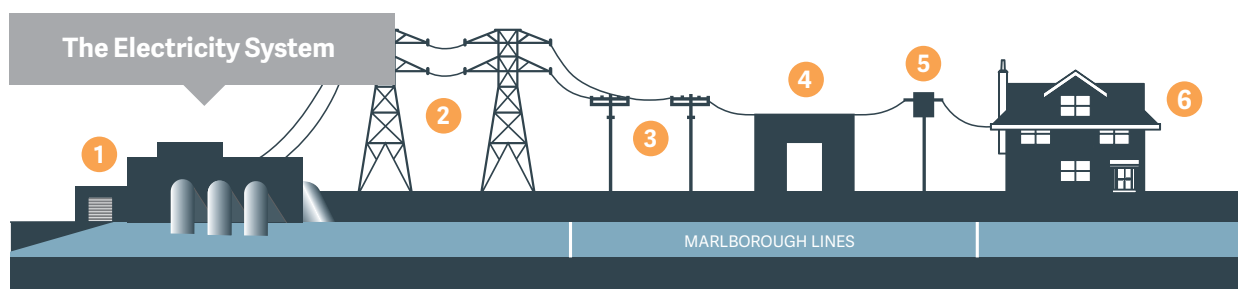


Marlborough Lines' charges, on a post-discount basis, comprise only 23.8% of the total bill for the average domestic customer.

Increase in components of average domestic electricity cost from 1999 to 2012
c/kWh



In the period from November 1999 to February 2012, Marlborough Lines' network charges have increased by 43.54%, whilst TrustPower's average domestic charge for retail electricity has increased by 196.36%. (Source: Ministry of Economic Development.)



The process of electricity transfer, from the original generation source to the end user.

1. Power stations Electricity is generated by wind and hydro-electric power stations in the South Island. The North Island also has thermal and geo-thermal plants. The DC link allows energy to be transmitted between the North and South Islands.

2. Transmission lines Transpower own and operate the National Grid. This consists of the Transmission Lines (220kV and 110kV) and the equipment

used to connect the major generators with the distribution networks (eg. Blenheim substation).

3. Distribution network Marlborough Lines owns and operates the distribution network (ie. the power lines and equipment that transport power from the national grid to a customer's property boundary) within Marlborough. We also operate a business unit for the construction and maintenance of lines. Marlborough Lines has 285km of 33kV lines, 2,400km of 11kV lines, and 500km of 400/230V lines.

4. Zone substations Marlborough Lines owns 15 zone substations which convert 33kV electricity to 11kV.

5. Distribution transformers Marlborough Lines has 3,000 distribution transformers which convert the 11kV electricity into 400/230V.

6. Electricity user The final part of the 400/230V lines from the street to the house is owned by the electricity user.

Q What do the customer surveys undertaken by the Company show?

A 92.5% of customers responding to an independent survey said they were either very satisfied or satisfied with the Company's overall performance. Customers were asked to rate the Company on a range of performance areas including faults service, reliability, discounts, information, sponsorship, management and Directors.

Q What is the system for feedback or reporting a fault?

A During working hours, fault calls and other calls are received directly at our Blenheim head office and are answered

by our staff in person. After hours, we use a call answering service based in Blenheim which contacts our faults staff. We do not use recorded messages, other than when callers have been transferred to individual extensions.

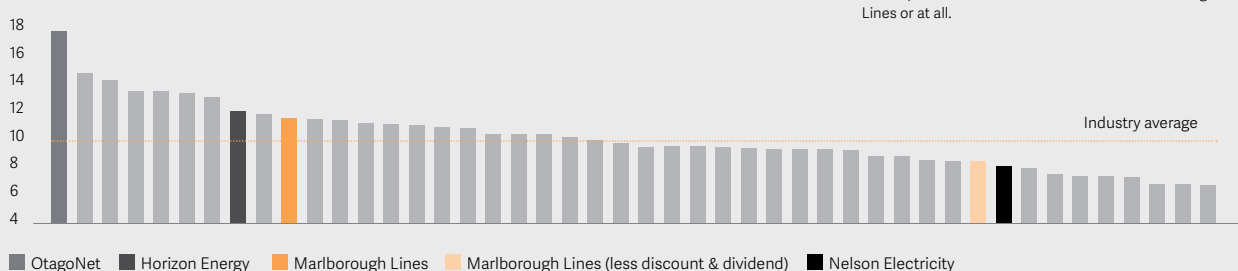
Q Can customers get advice from Marlborough Lines about energy efficiency?

A We provide a free energy efficiency and electrical advisory service to customers. Our call centre head office staff can assist with customer inquiries about electricity supply, retail electricity company contacts and complaint systems.



Each year, Marlborough Lines sends out 'Connections', our quarterly topical newsletter, to all electricity customers in the Marlborough region. It outlines issues of interest to customers and provides advice on energy efficiency and electrical safety.

New Zealand network companies annual line cost to typical domestic customer as at February 2012
Line charges c/kWh



This graph depicts actual annual line charges reduced to a c/kWh basis for a typical domestic customer (definition page 114) as at February 2012 for each network company in New Zealand. It is relevant many network companies do not provide discounts to the extent of Marlborough Lines or at all.

Operational review

29	Network
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46	Community
50	Environment

Stuart Prattley, one of the Company's Technicians, commissioning remote SCADA communications.

Operational review Network

Proactivity counts for a reliable network

Subject to surveillance every second of the day, seven days a week, 365 days of the year, the network is our raison d'être. Our planning, investment and operations all count in delivering a reliable and safe supply of electricity to all our customers regardless of location.

Yet at times our work in meeting these objectives can be challenging – particularly for our people in the field who work to restore power supply despite the conditions. Regardless of their place in the team – whether they are field staff, involved in engineering, or providing support and administration – all are involved directly or indirectly in ensuring a reliable supply of electricity for our customers.

We are proactive in our work and seek to eliminate potential faults before they cause disruption to supply. Prudent maintenance and capital expenditure really counts in the delivery of a reliable power supply which remains paramount at all times.

We have an ongoing programme of innovation and continuous improvement and where economically justified, invest in the latest technology to improve reliability of supply or reduce costs. It almost goes without saying there will be no compromise on investment in safety which remains a priority. All expenditure must be effected in a timely manner. We have no intention of waiting for a potential fault to cause loss of supply or sacrificing necessary work for short-term profit.

Transpower counts in our delivery of electricity

Transpower owns and operates the national grid and conveys electricity from the major generators – in Marlborough's case, typically from Otago.

Supply to the top of the South Island is delivered via three 220kV lines and supply to our Marlborough network is provided by way of a dual 110kV circuit from Stoke and a single 110kV circuit from Kikiwa.

We have no intention of waiting for a potential fault to cause loss of supply or sacrificing necessary work for short-term profit.

At Transpower's Blenheim substation the voltage is transformed from 110kV to 33kV via three transformers, two of 50MVA and a further transformer of 60MVA.

The latter was installed last year to provide an increased firm (N-1) capacity of 100MVA.

As an integral part of this work, Marlborough Lines in conjunction with Transpower, undertook significant landscaping in the area which included our removal of a number of overhead 33kV feeder lines. The cost of the increased Transpower capacity will be met by Marlborough Lines through increased charges. This represents a very necessary investment which will continue to benefit Marlborough for up to 30 years depending on growth in maximum demand, and the installation of further generation within our network.

In recent years the management of Transpower has recognised the folly of unnecessarily postponing new investment and – aside from the work undertaken in the Marlborough region – is busily progressing the reinforcement of its grid further south, the DC link, and its North Island grid.

Despite the overall increase in Transpower charges for the current year and as projected into the future its investment programme is to be applauded. Without a secure grid, Marlborough, along with the rest of New Zealand, would be denied a reliable electricity supply.

Combined load management pays

For the third successive year we have participated in a combined load management programme with Transpower and other network companies in the top half of the South Island. This initiative has operated to the benefit of all concerned and collectively we have been able to reduce the Upper South Island system demand by approximately 40MW. Individually the participant network companies have benefitted through lower charges because of the diversity of peak load times within the various networks.

Operational review Network



Marlborough Lines' load at the time of the chargeable Upper South Island maximum demand was only 54.6MW relative to the Company's own maximum demand of 72.1MW. This compares with a chargeable maximum demand for Marlborough Lines of 59.6MW and an actual maximum demand of 70.2MW for the previous year. The significant variation from the previous year can be attributed to the weather conditions across the top of the South Island and such variations must be expected. Overall the benefit of a shared management system has been well demonstrated.

Demand drives capital expenditure

In recent years the bulk of our capital expenditure has been devoted to increasing the capacity of our network. By way of example, we have constructed five 33/11kV zone substations in Blenheim and Picton all with a firm capacity of 16.5MVA. In rural areas we have similarly increased the capacity of zone substations and we have also increased the conductor size of a number of our lines. All of this was driven by increased customer demand.

We had intended to install a second 10MVA transformer at the Seddon substation but a transformer at the Woodbourne substation failed and the transformer intended for Seddon was diverted to Woodbourne. A replacement transformer has been purchased and will be installed at Seddon this year.

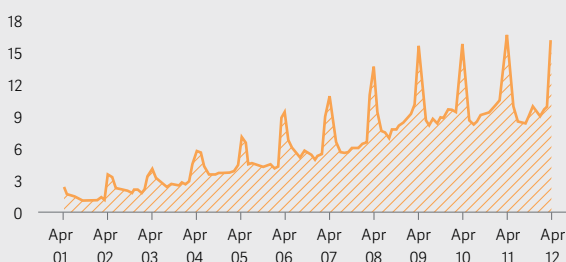
We also will construct a new 33/11kV zone substation at the Cloudy Bay industrial park with dual 16.5MVA transformers. This substation will supplement the existing Riverlands substation and improve security of supply for the industrial customers in the area.

The slowing Marlborough economy has presented us with the opportunity to refocus on the replacement of our older 33kV lines which are approaching the end of their lives.

During the year we constructed 7km of 110kV line (operated at 33kV), 9.3km of 33kV line and 21km of 22kV and 11kV line.

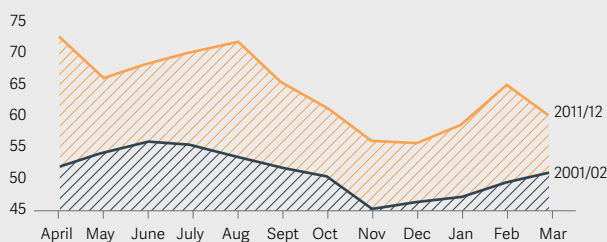
Over the past few years we have sought to improve reliability to our rural customers through the increased utilisation of SCADA and the remote operation of an increased number of

Winery maximum demand by month
Total all wineries MVA



The halt in the growth of the viticulture industry is reflected in a slowed demand for electricity within our network.

Total system monthly maximum demand
MW



The growth in maximum demand over a ten year period illustrates why our growth in capital expenditure has been necessary. The relatively much higher load in April shows the impact of vintage (grape harvest). Load between October and January is affected by the need for irrigation.



Opposite page: Delivering a reliable electricity supply to remote communications and radar systems counts in terms of public service and aviation safety.

Left: Andrew McFarlane, Graduate Electrical Engineer, commissioning our 500kVA mobile generator, which will help us reduce outage hours.

Interaction with customers, and data gained from network monitoring, together with our ongoing network surveillance, drives our capital expenditure.

circuit breakers. The goal of this work is to halve the number of customer minutes of lost supply.

Interaction with customers, and data gained from network monitoring, together with our ongoing network surveillance, drives our capital expenditure.

Always when capital expenditure is undertaken we endeavour to take a longer term view, in recognition of the fact that network assets typically have a life span in the vicinity of 50 years.

Marlborough Lines has a comprehensive Asset Management Plan which provides details of all capital and maintenance expenditure over a 10 year period and is available from the Company's website, www.marlboroughlines.co.nz.

	2012 ACTUAL \$m	2011 ACTUAL \$m	2013 TARGET \$m
Capital Expenditure	12.951	14.457	13.685

Timely maintenance averts outages

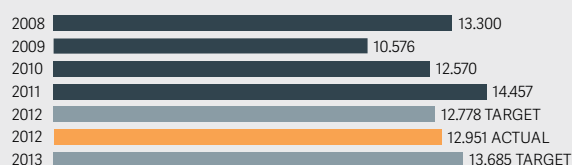
Timely maintenance is an investment that typically averts future problems either in terms of safety or reliability of supply. We have a rigorous surveillance programme which ensures all maintenance happens at the optimum time.

Our surveillance programme includes a number of fault preventive techniques such as infra-red detection, dissolved gas analysis and partial discharge testing.

We also inspect all parts of our network on a continuous basis with our staff and contractors and this inspection frequently employs helicopters. Of course regular liaison with customers and analysis of our network performance also has a major part in the planning of our maintenance programme.

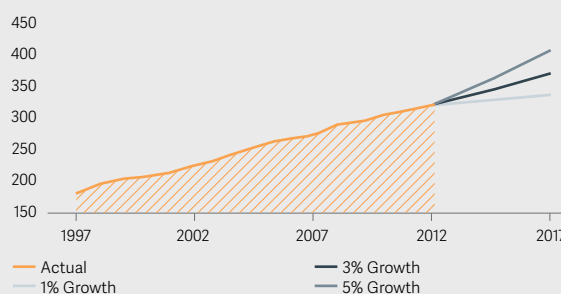
	2012 ACTUAL \$m	2011 ACTUAL \$m	2013 TARGET \$m
Network Maintenance	6.843	6.516	6.636

Capital expenditure \$(millions)



Although the decline in the economy has slowed the need for increased capacity it has provided the opportunity to replace assets which are approaching the end of their lives. Future capital expenditure will focus on improving reliability.

Distribution transformer capacity connected to network MVA

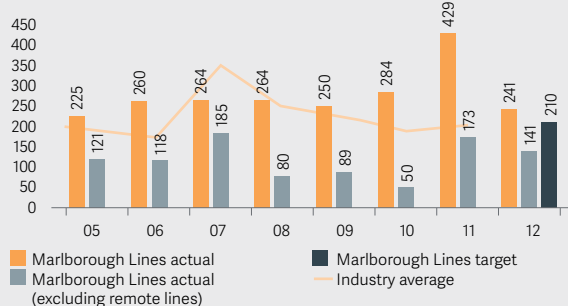


Future growth in distribution transformer capacity will be totally dependent upon customer requirements which typically reflect the state of Marlborough's economy.

Operational review Network

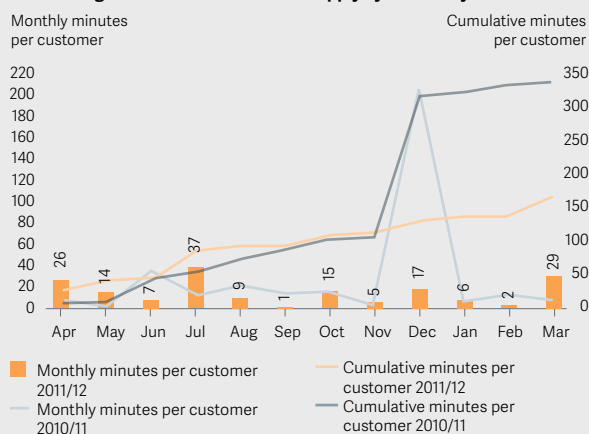
	2012 SAIDI	2011 SAIDI
Total Minutes Lost	241	429
Less Planned Outages	73	86
Total Minutes Lost by Faults	168	343
Less Minutes Lost by Extreme Events	–	146
Less Minutes Lost by Remote Lines	100	119
Total Minutes Lost by Urban and Rural Faults	68	78

Total minutes of lost supply comparison
Total SAIDI (minutes)



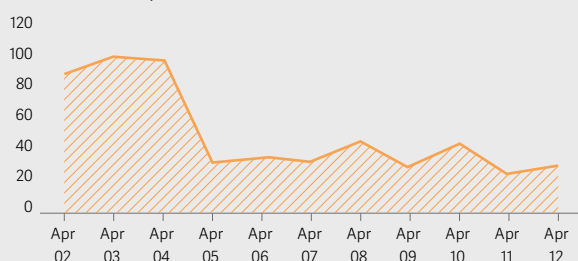
The total number of minutes of lost supply for 2012 was a marked reduction on the previous year when there were a number of extreme storm events. The lower total outage time for 2012 is also the combination of significant work which has been undertaken within recent years to improve the reliability of the network.

Marlborough network minutes of lost supply by faults only



The minutes of lost supply in any month follow a random pattern and are primarily dependent upon storm events and interference by trees together with interference by factors external to the network such as motor vehicles and diggers.

Outages between 10pm and 4am
Number of interruptions



The marked reduction in outages between 10pm and 4am has largely been achieved through the retrospective installation of some 16,000 long length possum guards. The remaining outages and the yearly variations can be attributed to a range of factors including trees, rather than possums.

Our commitment to reliability is absolute

A continuous supply of electricity to each of our customers is dependent upon thousands of components within 3,300 kilometres of lines performing reliably and without being subject to external interference.

It would be easy to say that 80% of our customers are supplied via only 20% of our lines and focus on these. But it is our view that the remaining 20% of our customers are also entitled to a reliable supply of electricity – albeit a customer at the end of a single feeder with some 327 kilometres of line can never expect the same reliability as a customer adjacent to a substation in Blenheim where there are several alternative sources of supply. Unfortunately in some remote areas the provision of supply by an alternative line is totally impracticable and the cost prohibitive.

For this reason, during the year we installed a remotely operated 500kVA generator at Elaine Bay. The generator was necessary because of repeated and sustained outages to the line caused by a significant number of trees in forested areas interfering with the line. This occurred despite the trees complying with the minimum regulatory distance from the line.

Faults were down this year

Fortunately our network was not subject to the extreme storms of the 2010/2011 year and the total minutes of customer supply lost by faults was down from 343 minutes for the previous year to 168. However our reliability was still affected by the vagaries of weather and external interference by trees and other causes such as motor vehicles, diggers and boring machines etc.

Looking forward, it is our objective to further improve our reliability through seeking greater distances between lines and trees (where appropriate) and further utilisation of remotely operated generators.

Customer minutes lost due to faults during the year were 49% of the previous year. Planned outages were reduced by 15% due to increased use of mobile generators during shutdowns and live line work.

49%

Customer minutes lost due to faults during the year were 49% of the previous year.



Carol Cairns, our Vegetation Control Supervisor, had a key role in the development of our new surveillance systems.

By using helicopters, cameras and GPS equipment we have been able to reduce our administration costs and maximise expenditure where it counts – cutting or eliminating vegetation.

The value of advanced vegetation control

It is absolutely imperative that we have an effective vegetation control programme given we must keep trees and vegetation clear of some 3,300 kilometres of line – much of which runs through tree covered terrain.

Our ongoing tree and vegetation control programme now benefits from utilisation of the latest technology.

All lines are flown by helicopters equipped with a video and GPS equipment. Problem trees are identified by our staff, recorded by GPS and the information synchronised with our computer mapping system. Landowners are then advised of problem trees and provided with photographs, without Marlborough Lines or its contractors needing to inspect the trees on site.

Similarly when our field staff or contractors identify problem trees all information is recorded in a PDA (handheld computer device) and the information is downloaded automatically and used to update our plans, records and advise customers.

By using helicopters, cameras and GPS equipment we have been able to reduce our administration costs and maximise expenditure where it counts – cutting or eliminating vegetation.

Over the last year, due to a combination of factors, expenditure in relation to the control of vegetation and trees has been reduced by 33% from \$1.8m to \$1.2m.

We have for years been inhibited in the control of vegetation and trees by the vagaries of current tree regulations that, in some cases, permit us to identify risks but not to act to remove them. During the year we sought a declaratory judgment on aspects of these regulations. The Court agreed the regulations were deficient in several areas and recommended that they be altered.

It is a reasonable regulatory requirement and is always our practice to seek landowner approval in the cutting of trees or removal of vegetation.

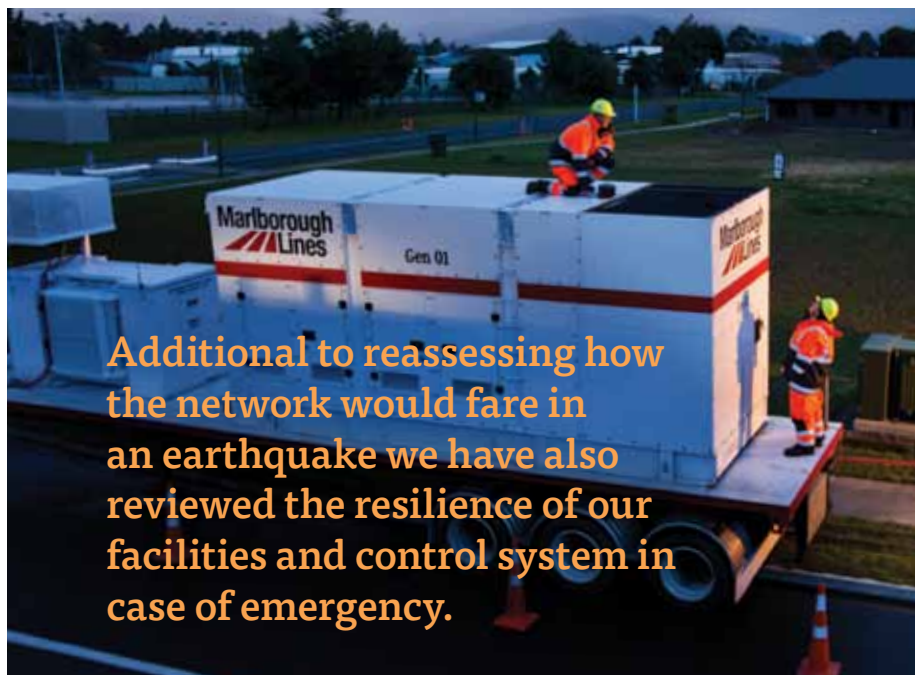
Unfortunately the situation becomes complicated when absentee landowners (a number of whom live overseas and cannot be contacted) do not respond, and reliability of supply to other customers is potentially threatened. This puts us in an invidious position where we identify a potential risk of loss of supply to other customers but we have no authority to act until a fault occurs. This is a bizarre situation. The current tree regulations prevent us taking the required action, yet the Company is required to meet the reliability criteria set by the Commerce Commission who are also charged with the investigation of incidences of loss of supply!

We have produced a video to illustrate the absurdity of the current tree regulations as a catalyst to regulatory change. Aside from loss of electricity supply, the current regulations incur significant unnecessary cost particularly in remote areas where the cost of access is high. In some instances repeated visits need to be made to an area to meet with landowners prior to cutting trees or spraying vegetation.

It is no comfort to us to have our predictions of tree interference confirmed and customers inconvenienced by loss of supply. In these instances, removal of the problem and restoration of supply far exceeds the cost of addressing the problem when first identified.

15%

Planned outages were reduced by 15% due to increased use of mobile generators during shutdowns and live line work.



Additional to reassessing how the network would fare in an earthquake we have also reviewed the resilience of our facilities and control system in case of emergency.



Is our network safe from earthquakes?

The potential risk of an earthquake striking our area is ever present because the Wairau fault and other significant fault lines pass through Marlborough. In geological terms we should expect one soon. However the same can be said in relation to other parts of New Zealand. Because of the recent Canterbury and Christchurch earthquakes, it has been prudent to further reassess the likely potential damage to our network and our ability to respond should a major earthquake occur.

This is notwithstanding that we have always designed our structures to meet all relevant earthquake standards and have undertaken regular reviews.

Aside from the work undertaken by our own staff we have also engaged independent professional civil/structural engineers to reassess the resistance of all assets to a major earthquake.

These studies determined that generally our assets would withstand significant earthquakes. But as has been demonstrated in Canterbury when underground cables traverse fault lines or are subject to liquefaction, damage typically results.

Apart from residential suburbs, the majority of our underground cables are installed within Blenheim and Picton's commercial areas. To an extent we have sought to alleviate risk by providing options for alternative power supply but it is inescapable that a severe earthquake could readily inflict serious damage particularly when it is known that some areas are prone to liquefaction.

It was demonstrated in Canterbury that when severe liquefaction occurs in close proximity to zone substations, substantial damage can occur.

Elsewhere within the Marlborough network we expect that our substations and lines would survive a major earthquake and that any significant damage would likely be localised.

As is typical within the network industry in New Zealand – aside from major substations – Marlborough does not have its network insured. This is because the network assets are spread over a wide area which minimises risk, and in any event the costs are prohibitive.

Additional to reassessing how the network would fare in an earthquake we have also reviewed the resilience of our facilities and control system in case of emergency.

As a consequence of our review of earthquake preparedness we have now established a new control room, installed water storage tanks at our depot, and increased the capacity of our diesel generation. The need for further diesel generation will be reviewed during the year but we have doubled the capacity of our mobile generation following the Canterbury earthquakes.

Does having a smart network count?

Ideally a smart network has the ability to provide real time feedback and interaction between customers and those generating and delivering their electricity to achieve optimum overall efficiency and customer benefit.

The technology already exists to achieve a truly interactive smart electricity system in New Zealand.

But before a truly smart overall electricity system can be implemented, such has to have the unwavering commitment of the Government, its regulators and be supported by unequivocal principled regulation. There also has to be engagement by customers and an acceptance of the disadvantages as well as the advantages of a completely interactive electricity supply system.

So long as there are pricing distortions driven by politics rather than costs related to the supply a genuine interactive pricing system cannot properly exist. The Government mandated low user fixed charges for domestic customers and the restrictions in relation to price changes in rural areas are examples that negate the effectiveness of cost



Left: We have doubled the capacity of our mobile generation, which can be used to provide electricity anytime, anywhere.

Right: Sharena Zandi, Milton Staples and Anna Gifford are all part of the new System Control Centre.

Ideally a smart network has the ability to provide real time feedback and interaction between customers and those generating and delivering their electricity.

of supply interaction between customers, retailers, networks, national grid and generators. Similarly, the current masking of network charges by retailers to reduce the impact of price signals which flow from peak charges is a further distortion of providing truly interactive signals.

Essentially if New Zealand were to have a completely smart interactive electricity system there would have to be coherent overlying smart regulatory environments that enabled the economic efficiencies to be achieved because otherwise those likely to be disadvantaged from interactive pricing would seek to opt out or seek political influence.

Invariably in other jurisdictions where increased levels of interactive customer prices have been contemplated, when customers become aware of potential for higher charges (such as in Victoria, Australia), the Government resolve for the utilisation of time of use pricing signals from the use of smart meters dissipates.

In the majority of instances, both in New Zealand and overseas, the 'smart meters' installed at customer premises have primarily been restricted to the remote reading and disconnection of meters, and in some cases the accumulation of customer load use data and the determination of the status of the electricity supply.

Within the Marlborough Lines network the meters are the property of the retailers and it makes no sense for Marlborough Lines to proceed with the installation of smart meters in tandem with those already installed, nor do we have the authority to replace the existing meters owned by retailers. And in any event unless there is complete agreement between retailers and network companies as to payment for the meters, together with an over-arching commitment to utilise pricing signals, the full benefits of smart meters will not be derived.

However there is much more to a smart network than the installation of 'smart meters at customer premises'.

Within the Marlborough network, Marlborough Lines and its predecessors have operated automated customer load management in relation to water heating, irrigation and

other off-peak loads for some 60 years. This system is still used to good effect to restrict the chargeable demand to Marlborough and the Upper South Island through working cooperatively with Transpower and other network companies.

Marlborough Lines also has a SCADA system that enables real time monitoring of electricity supply across the Marlborough region and the remote control of a number of circuit breakers. Our system also has a number of pre-programmed circuit breakers that automatically enables supply from an alternative source in the event of the detection of a fault.

During the year we have also integrated a remotely operated generator into a remote radial 11kV feeder to provide an alternate supply beyond a section of line subject to interference by a forestry plantation.

We have also increased the number of remotely operated circuit breakers with a resultant reduction in operating costs and customer minutes of lost supply.

In the current year it is our intent to increase the number of remotely operated circuit breakers by a further 25 and install remotely operated generation in our longest radial feeder (327 kilometres) to increase the reliability of our supply.

All of these devices will result in our network becoming smarter and delivering what really counts in a smart electricity network – benefits to our customers.

International quality systems count

In keeping with our commitment to excellence and continuous improvement, Marlborough Lines seeks and achieves compliance with recognised standards. We have achieved the internationally recognised ISO accreditation for:

- Management ISO 19001
- Environment ISO 14001, and
- Health and Safety OHSAS 18001.

These standards are integral to all aspects of our operations and to ensure our systems remain worthy of international accreditation we are independently audited every six months.

Operational review Contracting

We are resourced to provide rapid response

When major storms occur, the roads into Marlborough are blocked and our customers lose electricity supply – that’s when our Contracting division really counts. Our Contracting team has the resources to ensure we can restore supply on a 24 hour basis, 365 days of the year.

The division operates independently of our network but is a significant part of our operations and frequently our Contracting people are our most visible presence with the public.

Within the electricity sector in New Zealand there is a shortage of skilled staff so one of the real advantages of our Contracting division is that we retain sufficient resources and staff at all times and are able to provide a rapid response in the event of a major outage on the network such as those caused by extreme storm events.

Our people are all conversant with the area, know how our network can be accessed and importantly are part of the Marlborough community.

We employ some 90 people in our Contracting team with a broad range of skill sets, including the ability to design and construct overhead and underground reticulation and undertake a wide range of network maintenance including live line work. We also have a specialised arborist team of nine staff who ensure the timely and cost effective control of vegetation in the vicinity of our network.

Our people also have the capacity to undertake a wide range of work for customers external to Marlborough Lines.



Senior Supervisor, Rex Lawrence, is always at the forefront of action.

Right: Jason Null takes a leading role in Project Management.

By way of example, our Contracting division has a long term contract for managing and maintaining the Branch and Waihopai Power Schemes for TrustPower.

Similarly, our staff are trained to undertake operations at Transpower’s Blenheim substation.

ISO quality extends to our Contracting division

Marlborough Lines Contracting is one of the few electrical contracting entities in New Zealand with three ISO quality system accreditations for management, environmental management, and health and safety.

The upside of economic downturn

Over the last year the sluggish economy within Marlborough and indeed in other parts of New Zealand has resulted in external customer work, particularly in relation to subdivisions and the demand for the provision of supply to new vineyards, virtually ceasing.

In a way the downturn in the economy has been turned to advantage in that the Contracting division has been able to increase the level of work on the Company’s own network, particularly in terms of replacing some of the older lines.

As in previous years we have continued an ongoing programme of recruitment and training to ensure we have the necessary resources to provide for succession and meet our future workloads. Over the year we have added to our staff:

- Two Line Mechanic trainees.
- One Electrical apprentice.

Over the same period one trainee qualified as a Line Mechanic.



One of the benefits of Marlborough Lines' involvement in Otago Power Services is that our contracting people can be interchanged between areas should circumstances demand.

Revenue from Contracting

For the year ended 31 March 2012 the Contracting division's total revenue was \$19.69m which compares with \$20.69m for the previous year. The surplus prior to taxation was calculated at \$1.50m compared to \$1.84m the previous year. These results are on a margin inclusive basis and include the work carried out on the Marlborough Lines network.

Aside from managing our own Contracting division, our Contracting manager, Mr Steve McLauchlan, has responsibility for managing Otago Power Services, a contracting company of which Marlborough Lines owns 51% and employs some 87 people in Otago.

Otago Power Services is a successful business in its own right and we have grown the business from a staff of 30 in 2003 to a total of 87 today. For the same period Otago Power Services has changed from marginal profitability to achieving an after-tax profit of \$1.142m for the year (\$1.184m 2011).

One of the benefits of Marlborough Lines' involvement in Otago Power Services is that our contracting people can be interchanged between areas should circumstances demand.

Staff in the Contracting division.

90

Over the year we have added to our staff: two Line Mechanic trainees and one Electrical apprentice.



The Contracting division's total revenue was \$19.69m which compares with \$20.69m for the previous year.

\$19.69m

Operational review Staff

Our people count... they are the heart of our business

Our people provide the administrative and technical expertise that enables Marlborough Lines to thrive. They have a strong connection with the Marlborough region and are committed to being there for our customers and communities, who include their family, friends and neighbours.

Our workforce comprises 121 fulltime equivalent staff in a diverse range of vocations including: electrical engineering, network design and construction, arboriculture, administration, accountancy, economics, information technology, and project management.

We are dedicated to ensuring the wellbeing of our people and providing them with opportunities to achieve their full potential through trade and tertiary qualifications, as well as participating in work that grows their skills and abilities.

Essential to wellbeing is providing options for our people to achieve the right level of work-life balance. This also helps us to attract and retain the right staff and ensure we get the best from them.

We pride ourselves on a skilled and competent workforce our communities can count on.

Our mission to support our employees

The Company will be a good employer and will:

- Share a commitment with employees to improve customer service and productivity.
- Provide remuneration consistent with performance.
- Do our best to ensure a safe environment in every respect.
- Create a workplace that gives employees work satisfaction and provides training opportunities so that each can achieve their maximum potential.
- Work within the framework of current legislation and liaise effectively with employees or their designated representatives on all employment matters.
- Be committed to a policy of equal employment opportunities for all employees and prospective employees in compliance with the Human Rights Act.

Wellness programme – nurturing a healthy workforce

Over a period of years we have introduced employee initiatives and benefits to improve the collective health of the workforce and enhance their individual life skills.

Our 'wellness programme' includes the following initiatives:

- Annual employee medical checks. These are available to all staff and although voluntary, they provide staff with benchmarks in relation to problems that might be discovered and provide advice on follow-up care.
- All staff are entitled to fully subsidised medical insurance under one of the Southern Cross schemes.
- All staff have the option of pre-winter influenza immunisation.
- During the year total sick leave was the same as the previous year at 3% of total hours.
- All staff are covered by a Group death and disability insurance scheme.
- All staff are provided with the opportunity to undertake First Aid training (this being compulsory for all electrical staff.) The training includes use of defibrillator equipment which is kept on site at our main buildings and in key front line vehicles.
- Our employer assisted counselling programme (EAP) enables employees to have counselling on a confidential basis without needing management approval or consultation. Counselling may cover a range of problems – personal or work related.
- Additionally, there are a number of benefits which the Company cannot claim the credit for introducing, but which we support.

At the end of the review year we have some 58% of our total staff enrolled in the KiwiSaver Superannuation Scheme with annual employer contributions at a level of \$102,000.

Full-time equivalent staff
As at 31 March 2012

121

Total staff

129

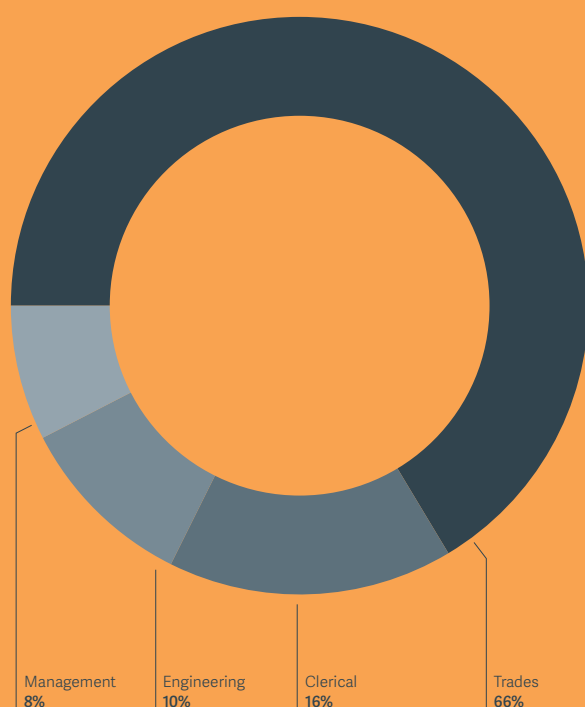
Male

83%

Female

17%

Employees by occupation 2012



The majority of our employees work in the field.

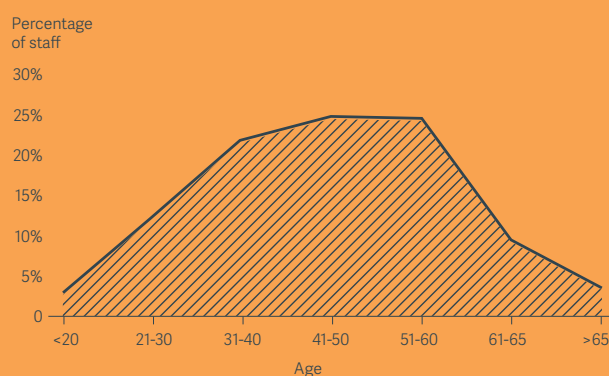
Employee length of service



Nearly a third of our workforce has served with the Company for over ten years.

Our workforce comprises 121 fulltime equivalent staff in a diverse range of vocations including: electrical engineering, network design and construction, arboriculture, administration, accountancy, economics, information technology, and project management.

Staff age



Overall the average age of our workforce is 45 years which is indicative of a depth of experience.

Operational review Staff

Our primary focus is on the wellness of staff and generally the state of the Company culture. We achieve this in a variety of ways including measurement of productive hours against down-time arising from sickness, accidents and a number of other employment demographics.

How we made a difference for our people in 2011/12

- Maintained our OHSAS 18001:2007 Occupational Health and Safety ISO standard.
- Provided flexibility of work hours consistent with the mutual requirements of our employees and Marlborough Lines.

Training and development

- Provided the opportunity for a management team member to attend a university advanced management programme.
- Continued provision of assistance to staff undertaking technical and accountancy studies.
- Continued to assist a staff member to achieve an MBA extramurally, and supported an additional staff member to undertake an MBA extramurally.
- Training for one staff member towards achieving a Level 4 National Certificate in Electricity Supply, Line Mechanic, Distribution.
- Training for one staff member towards achieving a Level 3 National Certificate in Electricity Supply, Line Mechanic, Distribution.

- Training for three staff members towards achieving a Level 4 National Certificate in Horticulture, Arboriculture.
- Training for one staff member towards achieving a Level 3 National Certificate in Horticulture, Arboriculture.
- Training for one staff member towards achieving a Level 6 New Zealand Diploma in Business.
- Training for one staff member towards achieving a Level 5 New Zealand Institute of Management Diploma in Management.
- Safety training.
- Project management training for some 20 staff.

Trainees and apprentices

Marlborough Lines has an ongoing trainee and apprenticeship programme. During the review year we provided on-the-job training as well as the opportunity to participate in block learning courses for the following trainees and apprentices:

- Four Line Mechanic trainees.
- One Electrical apprentice.
- Seven Arboriculture trainees.

Providing opportunities for students

Each year Marlborough Lines also provides opportunities for tertiary students to work during their university holidays.

For the year in review we employed three engineering students (one of them on a Marlborough Lines scholarship) in a variety of roles which all contributed towards the practical work they are required to perform in order to gain their engineering degrees.

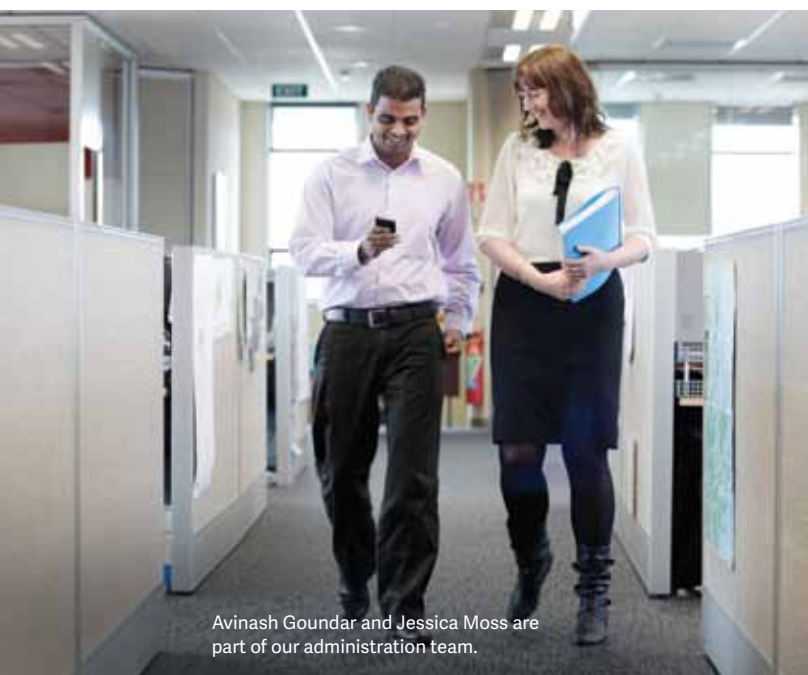
We also provided holiday employment for a law student, and office administration work experience for a Marlborough Boys College student, which has now led to a fulltime administrative job with the Company.

... and what we will do for our people in 2012/13

- Continue to assist two staff members to achieve an MBA extramurally.
- Continue provision of assistance and mentoring to staff undertaking technical and accountancy studies.

- Maintain our OHSAS 18001:2007 Occupational Health and Safety ISO standard.
- Recognise qualification of our people is essential and we also must provide for growth within our business and replacements for employees approaching retirement.

- Seek to provide flexibility of work hours consistent with the mutual requirements of our employees and Marlborough Lines.
- Obtain registration as a member of the Arboricultural Association.



Avinash Goundar and Jessica Moss are part of our administration team.



Our Executive Project Manager, Rebeca Clifton, has overseen a number of projects over the year, including our upgraded computer billing system which was delivered within time and budget.

Looking forward

Within the electricity industry globally there is generally a shortage of skilled workers at all levels and within New Zealand this situation is exacerbated by the proximity of opportunities in Australia.

The recruitment and retention of staff, together with succession is important to Marlborough Lines and it is for this reason we have implemented a range of measures to ensure that our requirements are met.

By way of example Marlborough Lines has been a foundation supporter of the establishment of the Electric Power Engineering Centre of Excellence at Canterbury University to increase the number of electrical engineering students.

We have supported and continue to support students in engineering and accountancy, and currently have five staff studying extramurally – three of whom are pursuing professional accounting and two are undertaking an MBA.

Within the Company, promotion is always undertaken on merit and against this background it is pleasing to note the number of women in senior roles is continuing to increase with five currently in senior positions.

Leave statistics – percentage of total hours

TYPE	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Normal Working Hours	84.41%	85.22%	85.08%	85.80%	85.40%	83.14%	84.86%	83.17%	84.90%	84.52%
Annual Leave	6.37%	5.90%	5.73%	5.28%	6.21%	6.63%	7.00%	7.64%	6.83%	7.35%
Sick Leave	2.87%	2.18%	2.95%	3.22%	2.80%	2.90%	2.97%	3.20%	2.55%	2.86%
ACC	1.16%	1.46%	0.91%	1.22%	0.40%	1.13%	0.73%	1.53%	1.13%	0.24%
Public Holidays	4.11%	4.17%	4.22%	3.54%	4.16%	4.99%	3.40%	3.24%	3.30%	3.75%
Special Leave	0.06%	0.16%	0.11%	0.08%	0.28%	0.25%	0.09%	0.09%	0.03%	0.03%
Bereavement Leave	0.07%	0.08%	0.09%	0.17%	0.15%	0.20%	0.16%	0.32%	0.26%	0.12%
Leave Without Pay	0.52%	0.46%	0.51%	0.31%	0.25%	0.41%	0.62%	0.52%	0.47%	0.55%
Other	0.40%	0.32%	0.37%	0.36%	0.33%	0.33%	0.15%	0.28%	0.52%	0.57%
Total Hours	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Operational review Staff

Within the global electricity industry there is a shortage of skilled workers. Attracting and retaining fresh talent is very important to our future.

1. Sally-Ann King is part of our estimating team, and is primarily involved with our maintenance programme.

2. Alan Wright, Purchasing Manager, ensures we have the right gear in store at the right time to effect our work and respond in emergency situations.





3. Some of the people from our Contracting division, which has the resources and staff to ensure we can restore supply on a 24 hour basis, 365 days of the year.

4. Glenn Robertson, Network Project Manager and MBA student, checking the location of lines in Port Underwood as part of our capital work planning.

5. Our ability to work 'live line' enables us to conduct maintenance activities without turning off the power supply.

Operational review Safety

Safety counts – in fact it counts more than anything else!

Safety can never be compromised and must be integral to everything we do as the lives of our staff, customers and community depend on it. For this reason our approach to improving safety is unyielding.

Over the last year we continued our impetus to maximise safety and participated in the Safety Climate Project in conjunction with the Electricity Engineers Association. This project has enabled wide levels of staff participation and as a consequence there has been a renewed focus on safety in all areas of our work and a number of improvements in relation to our safety operations, and the work is ongoing.

Coincident with the implementation of this programme the number of lost time injuries has reduced to 3.7 per 100,000 hours worked, compared to 5.5 the previous year. Fortunately none of these injuries were serious. Significantly, staff ACC leave was only 21.2% of the previous year.

Irrespective, we cannot claim success until we achieve zero lost time injuries on a continuing basis over some years.

During the year we were again accredited the internationally recognised ISO standard OHSAS 18001:2007 (Health and Safety). This system is an integral part of our health and safety management, assists us in meeting our safety objectives, and is subject to independent audit on a six monthly basis.

We also continue to maintain 'tertiary' status in the ACC Workplace Safety Management programme.

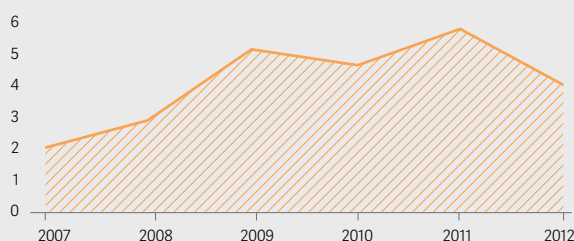
Aside from safety benefits to our staff, tertiary status provides a reduction in ACC premiums and recognition that our safety culture and systems meet the highest ACC standard.

Our mission in relation to safety

Marlborough Lines management and staff are committed to providing a safe and healthy work environment by ensuring:

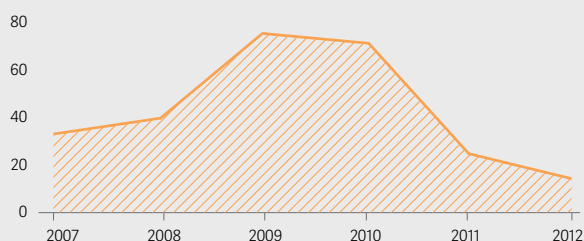
- Systems are in place to identify, minimise and wherever practical eliminate hazards.
- Commitment by management and staff to be fully involved in detecting and managing hazards and safety issues, and continually improving the Company's health and safety systems.
- All plant and tools used in, or in association with, our work must be fit for the purpose and be subject to safety inspections with current certification.
- All Company assets must be subject to regular inspections.
- All network assets will be subject to inspections in accordance with relevant legislation and codes so that they are fit for their purpose and do not compromise public safety or security of supply.
- Each of the Company's operating divisions will establish a set of health and safety objectives each year from which the Company will compile an overall set of objectives. These will be reviewed each year as part of the Company's annual ISO quality control programme review and will ensure compliance with the Health and Safety in Employment Act 1992.
- The Company will work with ACC and Occupational Health and Safety agencies to maintain appropriate status and approved systems for health and safety,

Lost time incidents
Frequency rate per 100,000 hours worked



The increase in incidents over a period of years has arisen from changing to report every lost time incident regardless of its seriousness.

Lost time incidents
Days lost per 100,000 hours worked



Although the seriousness of incidents has diminished our target will continue to be zero.



Malcolm Browne, working 'live', installing a strain point to allow for the installation of an airbreak switch.

and will support the safe and early return to work of injured employees should injury occur.

- All our contractors and subcontractors will be advised of our commitment to safety and will be required to accept and share the responsibility to carry out all work in accordance with accepted safety criteria.
- Our staff will always be fully trained in safe working practices in accordance with the relevant codes of practice and legislative requirements and all staff, including managers, will be required to understand health and safety management relative to their roles.

Notwithstanding our approach to safety we are still concerned that we have had nine lost time accidents when our target was zero. None of these lost time accidents were serious but our results have caused us to reflect on ways to improve going forward.

Ongoing employee involvement

Safety in the workplace is a standing agenda item for all staff meetings. Health and safety legislation provides for appointed workplace representatives and a list of situations where Marlborough Lines, as the employer, is responsible for safety. Because of the nature of our operations, that responsibility extends beyond immediate employees to our customers and public. Again we take this matter seriously and play an active role in the community in ensuring that all aspects of our network are safe – not only for our employees but for the general public, and in keeping the public informed about electrical safety.

Zero tolerance to drugs and alcohol

For some years, Marlborough Lines has had a drug and alcohol policy in place which requires pre-employment and post-incident drug and alcohol testing.

As part of ensuring a safe working environment for all employees and our public, and in consultation with our staff, we also intend implementing a random drug testing policy for all staff in the current year. This policy provides for counselling and rehabilitation should it be required.

How we improved our Health and Safety performance in 2011/12

Reduced our staff ACC leave to 21.2% of the previous year.

Maintained the OHSAS 18001:2007 Occupational Health and Safety ISO standard.

Maintained our tertiary level safety status with ACC.

Recorded another year of fewer off work accidents.

Implemented the Safety Climate Project.

Continued our focus on the Contracting strategic safety plan.

Improved the marking of pillar boxes adjacent to driveways and all residential subdivisions.

Extended our audit of health and safety compliance.

Implemented a safety management system in accord with Section 47 of the Electricity (Safety) Regulations 2010.

Extended our Spidertrack GPS system to monitor the safe travel of our staff in remote areas.

Improved our monitoring of switching through a new system control centre.

Health and Safety targets for 2012/13

Maintain accreditation for the OHSAS 18001:2007 Occupational Health and Safety ISO standard.

Retain our tertiary level safety status with ACC.

Achieve zero workplace accidents.

Implement the action points of the Safety Climate Project.

Extend the coverage of our radio network to all parts of our electricity network.

Operational review Community

Our community counts – we not only deliver electricity but also sponsor a wide range of activities

As a major company within Marlborough we believe we have a responsibility to contribute to the community other than through the delivery of electricity – and we do.

Our mission to support the community

We are committed to being a responsible member of the community we serve by:

- Consulting interested parties or community groups before undertaking any activities or plans that may impact on them.
- Consulting wherever practical the Tangata Whenua about any activity in which they may have an interest.
- Sponsoring appropriate community organisations and individuals including the current programme of providing tertiary education grants, assisting youth development initiatives and advancing education.
- Jointly participating in sponsorship opportunities with the Marlborough Electric Power Trust as agreed between the Trustees and Directors.
- Continuing to provide technical support and advice on a range of regional events which benefit local people and the economy.

In discharging our public responsibility, we consider projects and events that:

- Are associated with the education advancement of youth.
- Promote the region in either a commercial, educational, sporting, cultural or historic sense.
- Benefit greater rather than fewer numbers of people.
- Provide the Company with recognition of its community role and commercial presence in the local economy.

We supported the community by:

Marlborough Lines has some involvement in most major community events and provides varying levels of sponsorship to a range of entities and activities. During the year we supported our community by:

- Being the lead sponsor of the Marlborough Lines Stadium 2000.
- Sponsoring the Marlborough community Business Awards.
- Providing tertiary education grants to secondary school students.
- Contributing to the Marlborough Sounds Restoration Trust through funding and field support to assist in the eradication of wilding pines.
- Supporting the Life Flight Trust.
- Continuing our support of the University of Canterbury Electric Power Engineering Centre of Excellence.
- Sponsoring the Blenheim and Picton Christmas Parades.
- Maintaining and upgrading the Pollard Park decorative lighting.
- Being the primary sponsor for the Marlborough Lines Science and Technology Fair (sponsorship and prizes).
- Sponsoring Carols by Candlelight.
- Providing power supplies for community events including Blues Brews & BBQs, the Marlborough Wine Festival and Marlborough Classic Fighters Airshow.
- Sponsoring the Marlborough Wine and Cuisine event as part of the 2011 Rugby World Cup.



Marlborough Lines Stadium 2000

The stadium and aquatic centre has always been a popular amenity used by a broad cross-section of the community to host a wide variety of sport and community events.

It will be even more popular in the future, given that in April this year the upgraded expanded facilities, costing some \$15.5m, were opened.

The stadium now boasts a more significant sport and exhibition complex that includes heated indoor swimming pools, children's pools, a large fully equipped gymnasium and two food outlets.

Overall, the Marlborough Lines Stadium 2000 complex is the most popular community facility in Marlborough and we are proud to be the primary sponsor.



Marlborough Lines Science and Technology Fair

Marlborough Lines has been the primary sponsor of the Marlborough primary and secondary schools Science and Technology Fair programme for nearly 30 years.

This event continues to be as popular as ever and provides the opportunity for the young minds of Marlborough to participate in the wonders of science.

We continue to be impressed with the ideas conceived across a wide range of scientific topics. Whether the participants continue to pursue a career in science or not, the knowledge they have gained in preparing their exhibits will stand them in good stead through life. It is pleasing to observe that those who have excelled in the science and technology fairs have gone on to significant achievements at university and are making valuable contributions in their professional careers.



We provide energy to community events

Almost every major outdoor community event requires temporary power supplies and we are pleased to assist the annual Blues Brews & BBQs and Marlborough Wine Festival, and the very successful bi-annual Marlborough Classic Fighters Airshow. Not only do we provide the temporary power supplies, we assist with connecting various other requirements and ensuring that everything – and everybody – is safe. Of course, we are also on hand should any unexpected failure occur.

Aside from these major events we also provided assistance with power supplies for smaller events such as school fairs and community building projects.

Our sponsorship intentions for 2012/13 will be to:

- Continue our major sponsorship of the Marlborough Lines Stadium 2000.
- Continue support (in kind wherever appropriate) for iconic Marlborough events including the Marlborough Wine Festival, Blues Brews & BBQs, Marlborough Classic Fighters Airshow and annual Christmas Parades in Blenheim and Picton.
- Maintain our school and education focus by underwriting the Marlborough Lines Science and Technology Fair and again by providing tertiary education scholarships, including the Māori Tertiary Scholarship administered by the Iwi of Marlborough.
- Consider new applications for assistance (on a smaller scale) from clubs, cultural productions and interest groups which meet the criteria outlined on page 46.
- Assist with the provision of emergency generation for the Marlborough Hospice.
- Continue with the decorative illumination of Pollard Park.

Operational review Community

The Marlborough Lines Stadium 2000 complex is the most popular community facility in Marlborough used by young and old and we are proud to be the primary sponsor.



500,000+

visits annually



4. Marlborough Lines has had a long-standing involvement with the science fair, which provides an opportunity to highlight the fundamental role that science plays in our daily lives and the need to stimulate educational youth interest in science. Photographed with Katherine Hume-Pike, the Company's Commercial Manager, is Clara van Wel who was the 2011 Gold award winner.

5. Exhibit by Jack Rainbird, Fairhall School, entered in the 2011 science fair.



1. Adam and Katelyn Cairns and Flynn and Logan Cain enjoying the upgraded Stadium facilities.

2. The Marlborough Classic Fighters Airshow has become a significant event attracting some 50,000 visitors and bringing significant benefit to Marlborough. Photos by Gavin Hadfield.

3. The annual Marlborough Wine Festival attracts some 8,000 wine and food lovers from all over New Zealand and the world. It is New Zealand's most popular and successful wine festival. Photos by Frank Gasteiger.

Operational review Environment

Our environment counts – not only for today but for future generations

The beautiful Marlborough landscape is a major asset to the people of our region. It draws thousands of tourists annually and supports a unique lifestyle. We are very proud of it and we take our responsibilities in relation to the environment seriously. An environmental impact assessment is included in the decision making process across all areas of the business.

Everyone wants an electricity supply but an increasing number do not want to see or hear the assets which provide for its delivery.

We share this desire, however we also have to deliver electricity at an affordable cost. Regrettably the cost of making all network assets invisible is prohibitive.

Our network assets typically have lives in the vicinity of 50 years and their location and design needs to be carefully considered, together with the manner of construction.

Minimising the impact of our operations on the environment is achieved through us having specific environmental objectives which are fundamental to our operations. And we have policies and procedures in place to ensure these objectives are achieved.

As an indication of the quality of our systems, Marlborough Lines was accredited the international environmental standard AS/NZS ISO 14001:2004 in 2002. As part of the ISO accreditation process, we continue to be independently audited on a six monthly basis to ensure that our quality environmental standards are maintained.

As an indication of the quality of our systems, Marlborough Lines was accredited the international environmental standard AS/NZS ISO 14001:2004 in 2002.

Meeting the international environmental management standard requires a properly considered and organised approach to environmental matters. Our obtaining and maintaining this standard allows the Company to properly demonstrate it has adopted effective environmental management practices and met quantifiable goals in the pursuit of improved performance.

An example of how the standard can be applied, or is applied to our work, is best explained by the table opposite.



Ian Aston is our Quality Assurance Manager, and has responsibility for overseeing our ISO systems and ensuring their implementation, ongoing maintenance and improvement.

Environmental policy objectives

OUR AIM	AND IN PRACTICE
Comply with legislation as a minimum standard and where practicable, exceed it.	Marlborough Lines managers must sign off on legislative, environmental and occupational health and safety compliance every quarter and report any non-compliance to the Company's Directors.
Regularly review our practices, objectives and targets relative to the environment to ensure ongoing compliance and improvement.	All Company staff – through a regular meeting process – continually review environmental requirements. As well as external auditing every six months, we follow a programme of internal audit to document variations and/or improvements made to environmental management processes. Awareness is raised through training programmes, eg. oil spill response and sump cleaning training (undertaken by Store staff), site compliance reviews relating to storing dangerous or inflammable goods, and fire response training undertaken by vegetation control staff.
Promote employee and contractor environmental awareness through appropriate training and education programmes.	External contractors' commitment to environmental management is considered when evaluating for preferred contractor status. Company management and external auditors undertake regular inspections of worksites where external contractors are used.
Cooperate with all regulatory agencies.	The Company maintains a close relationship with the Marlborough District Council (the local government agency responsible for environmental matters), who we consult with about potential hazards and actual occurrences.
Responsibly manage transformer oil and other hazardous substances to avoid, reduce or mitigate the effect of any accidental release of contaminants.	A significant risk is the accidental or malicious release of transformer oil. This is mitigated by spill control materials, and more recently – in relation to the larger zone substations – civil construction design, which ensures that no oil disperses into the surrounding ground.
Recycle components and materials where practicable.	The Company has moved to ensure that recycling everyday materials (paper, cardboard, glass) happens at all levels of the business. Overhead line materials with steel components are re-galvanised to give them a second life. Significant quantities of aluminium, brass and copper also become available for recycling as we maintain and replace the electricity supply system. These are tendered to recycling firms.
Promote energy efficiency to the community by providing advice.	The Company provides advice on energy efficiency through its technical advisory service (available to anyone), customer newsletters, our website and trade promotions in the news media.
Facilitate the connection of renewable energy resources within our network.	The Company is responsible for providing a grid that will accommodate new technology, including small-scale, renewable, embedded generation. We work with generation providers to enable connection to the local network. We think it's inevitable that small-scale generation will provide for surpluses to be fed-back into local networks.
Ensure environmental considerations are properly taken into account in planning network extensions or reconstructing existing networks.	We have always supported converting electricity reticulation (in key arterial routes) from overhead to underground for ease of maintenance as well as the obvious aesthetic benefit. We have begun converting a number of key higher voltage lines from 1920s-style steel lattice work towers and older hardwood poles to newer (and importantly fewer) taller steel poles with significantly less visual impact. There has been a major rethink of urban substation design. See page 52.
Seek to minimise losses through the operation of our network.	All contributing factors are monitored and considered when capital expenditure is undertaken eg. purchasing low loss transformers.
Make our additional environmental policy publicly available.	The Company's environmental policy is outlined on our website: www.marlboroughlines.co.nz .



Our major zone substations do not have any impact on the environment

Our 33/11kV zone substations in Blenheim and Picton are an example of our success in integrating our operations with the environment. We believe that we are the only network company in New Zealand which has constructed all of its major substations to emit zero noise.

EMFs (electro magnetic fields) at the boundary of our properties are minimal and are a small fraction of the permitted level.

Not only do these substations emit zero noise, their design has ensured they are integrated with the surroundings.

All substations are located adjacent to residential properties, and the large transformers and switchgear are housed in premises which disguise the purpose of the buildings.

The design of our substations has been praised by residents in the vicinity and applauded by other network companies who have undertaken an inspection.

The lowering of the buildings' heights has been achieved by providing transformer oil bunds below ground level within the buildings. A further feature is that unlike most transformers in New Zealand, those we have utilised are fully sealed with a nitrogen cushion on top of the oil so the oil cannot vent to the atmosphere, nor can ingress of moisture from the atmosphere contaminate the oil.

The design and operation of these zone substations has proven to be a significant success to the extent that during the year we adopted the same concept for the new Cloudy Bay substation which will be located within an industrial estate.

As testimony to the public's acceptance of our major substations, the Fairhall Golf Club – in the knowledge that a substation was required in the area – approached us and offered land upon which a substation could be constructed, an offer subsequently accepted by Marlborough Lines.

The integration of our major substations within residential areas has proven to be a worthwhile investment, in terms of electricity supply and for the environment, and importantly this has been recognised by the community.

We minimise the impact of overhead lines

Our largest component of network capital expenditure during the year was the replacement of an old 33kV line, from Lansdowne Park to Riverlands, which had attained the end of its life. Rather than rebuilding the line on similar poles and steel lattice towers we took the opportunity to make a significant environmental improvement.

Unfortunately the cost of replacing the lines with underground cable was prohibitive but what an improvement we have made with the new line.

The old poles and towers have been replaced with mono-steel construction. These poles were galvanised to minimise their impact on the environment and they can support greater spans than the previous poles. The result is a new line constructed at 110kV with far greater capacity, fewer poles and a smaller land footprint.

The new poles have also been relocated to better suit the needs of vineyard owners and the overall result is a line which has minimal impact on the environment and a life in excess of 60 years.

The integration of our major substations within residential areas has proven to be a worthwhile investment, in terms of electricity supply and for the environment, and importantly this has been recognised by the community.



Opposite page: The replacement of the old 33kV line from Lansdowne Park to Riverlands has increased capacity and made a significant environmental improvement.

Left: During the year we planted a 60ha Eucalypt forest, which will ultimately become a sustainable source of cross arm timber.

As a result of the trials undertaken by the NZDFI, two main species have been identified as having the potential to produce quality cross arm timber and the ability to grow well in Marlborough.

We will have our own locally grown cross arms

Within our Marlborough network we have some 50,000 hardwood cross arms and within New Zealand overall the total number of cross arms used by the industry would be in the order of millions.

In due course these cross arms will need to be replaced. Traditionally, the hardwood has been sourced from indigenous forests in Australia and South-East Asia and in more recent years from Australia, where our suppliers advise the timber is removed on a sustainable basis.

The reality is that with the future projections of cross arm timber requirements, current sources may not be sustainable particularly given the tightening legislative requirements in Australia around the logging of native trees. This will consequently create increased demand for sustainable timber.

Although steel offers an alternative to hardwood for cross arms it does not offer the same flexibility of use.

Marlborough Lines has taken a close interest in a number of trials of durable Eucalypt (gum) species undertaken in Marlborough and Canterbury to select individual trees/species which show the best growth and strength characteristics for future breeding. Specifically our interest in the trials was to identify the best type of tree to produce sustainable quality cross arm timber.

This was why Marlborough Lines became a foundation member of the New Zealand Dryland Forests Initiative (NZDFI) when it was established in 2008. We have maintained a close interest in this organisation and the Company Secretary, Mr Geoff Hoare, was previously a member of the NZDFI Board, along with experts from Canterbury University and the forestry industry.

Following Geoff's retirement his position has been taken up by the Company's Executive Project Manager, Rebeca Clifton.

As a result of the trials undertaken by the NZDFI, two main species have been identified as having the potential to produce quality cross arm timber and the ability to grow well in Marlborough.

The Company has also cut timber from mature species of the identified trees and made cross arms which have been independently strength tested by a professional engineer. Some cross arms have also been utilised within the network for ongoing in-service trials.

We're planting renewable timber

Our belief in this opportunity resulted in our purchasing a property of some 60ha which was planted in the spring of 2011 with two predominant species, *E.Qadrangulata* and *E.Globoidiea*. Planting density was in the order of 1,000 stems per hectare and a selective thinning regime will follow.

Although these Eucalypt varieties are native to the eastern seaboard of Australia, the soil type and Marlborough's climate have been determined as ideal for their growth. It has already been demonstrated by trials and by our plantation, that as a consequence of the higher rainfall in Marlborough, the trees grow at a faster rate than in Australia, yet still produce timber of the appropriate density.

We envisage that the plantation will be ready for harvest in 18-25 years time based on trials of trees that have been grown in Marlborough for more than 20 years.

At maturity we intend that the timber from the Company's plantation will be harvested and locally processed into cross arm timber. Thus, the Company's Eucalypt forest will provide a sustainable and saleable supply of locally produced cross arm timber which will also eliminate the carbon footprint caused by transporting cross arm timber from Australia to New Zealand.

A further feature of the variety selected is that they have the ability to coppice, i.e. when a tree is cut down it will regrow and not need to be replanted.

Marlborough Lines is the only network company involved in the New Zealand Dryland Forests Initiative and is, to the best of our knowledge, the only network company to embark on a programme of producing sustainable cross arm timber.

Of course apart from the direct benefits of producing our own hardwood cross arms, we will have the advantage of producing carbon credits.



Ken Walters, part of our dedicated Stores team, pictured with reinforcing steel obtained from shattered concrete poles – one of our many recycling initiatives.

We actively support killing wilding pines

Originally, the majority of the Marlborough Sounds was covered by native bush and significant areas are regenerating after initial clearance by early settlers for farming.

Because of the afforestation that has occurred in parts of the Sounds, a significant number of wilding pines have become interspersed with native bush. These pines detract from the appearance of the natives and suppress growth.

In other instances, the wilding pines have become established in close proximity to power lines posing a risk to the reliability of our electricity supply.

The concern is that these trees will continue to spread and mar the visual attractiveness of the Sounds.

Aside from cutting down all wilding pine trees in the vicinity of our lines, Marlborough Lines is a sponsor of the Marlborough Sounds Restoration Trust which has been specifically formed to eradicate wilding pines in the Marlborough Sounds.

We are a lead sponsor in this process and in the five years the Restoration Trust has been operating, substantial numbers of wilding pines have been eradicated throughout the Sounds.

In addition to financially contributing to the Restoration Trust, the Company assists the Trust in creating access tracks and removing trees in the proximity of line routes.

Increasingly the work of the Restoration Trust is becoming apparent and this will be to the benefit of future generations.

Our recycling programme has provided significant benefits

Marlborough Lines has an ongoing commitment to recycling materials, ranging from recovering reinforcing steel within power poles, to plastic milk bottles.

Procedures under our environmental ISO accreditation provide for continuous review and development of materials recycling. Where appropriate all items are recycled, including broken concrete power poles which are shattered using a special attachment on a mechanical

digger so that we are left with the reinforcing steel and the shattered concrete can then be utilised as hardfill or further crushed for roading aggregate. Hundreds of poles have been disposed of in this manner and the cost of demolition has been offset by the sale of scrap steel.

Items made of ferrous and non-ferrous metals which are taken from our network and cannot be used are sold for scrap.

We continue to connect wind and solar generation

We seek to facilitate the connection of distributed generation within our network and have seven wind turbines with a total capacity of 1.7kVA connected at Lulworth and Weld Cone on Marlborough's East Coast.

Marlborough's high incidence of sunshine hours has also encouraged a few customers to install photo voltaic panels which, depending upon capacity and the actual demand at the customers premises, have the ability to inject electricity into the network.

Looking forward, it is our expectation that as the cost of photo voltaic panels further reduce their incidence will increase. Marlborough Lines is committed to facilitating the connection of such initiatives.

Industry environmental awards

In recognition of Marlborough Lines' commitment to the environment we were a finalist in the Deloitte Energy Excellence Awards – 2011. It is great to be selected as a finalist, but even better to achieve environmental solutions!

We were first to measure our carbon footprint

In March 2008, Marlborough Lines became the first New Zealand network company to assess its carbon footprint. A second assessment was undertaken based on data for the year ended 31 March 2011 and consistent with our environmental programme a further assessment will be made later this year.

The assessment process involved:

- Adopting the Greenhouse Gas (GHG) protocol, the standard outlined by the World Resources Institute/World Business Council for Sustainable Development.
- Appointing an independent verification consultant, in our case PricewaterhouseCoopers.
- Defining precisely the Company's organisational boundaries and therefore its limits of responsibility.
- Recognising and assessing emissions originating from the Company's operations, the generation of electricity flowing over the Company's system and our use of other entities such as external contractors.

The table opposite outlines the omission type and the quantity in kilograms produced from the various categories for the financial year ended 31 March 2011.

Collectively these emissions totalled 5,108 tonnes of CO₂ equivalent.

When our carbon footprint was first assessed in 2008 we had the capacity to offset some 1,926 tonnes of carbon as a consequence of our ownership of forested land. Because of changes in the requirements for offsetting carbon footprints by the use of native trees, this full offset is no longer possible.

However it is salient that our Eucalypt forest planted during the year will ultimately provide a far greater carbon offset.

What the table illustrates is that although the Company produces some 5,108 tonnes of carbon, it also absorbs 1,926 tonnes of carbon with a net emission of 3,181 tonnes.

This net emission can be directly attributed to transmission and distribution losses incurred in the delivery of electricity.

Directly reducing our transmission and distribution losses, which total 3,635 tonnes, is not practical physically nor would a marked reduction of network losses be economically feasible. To do so would require the reconfiguration of the Transpower grid and the replacement of some 3,300km of distribution lines with larger conductors. It would also mean replacing some 4,000 transformers (which can only be marginally improved in terms of reducing losses).

The laws of physics dictate that losses must always be inherent in the transmission and distribution of electricity. Taking the renewable hydro and wind generation in the South Island into account (North Island thermal generation rarely flows to the top of the South Island), it is reasonable to conclude that no carbon emissions are associated with the transmission and distribution losses on the Marlborough Lines distribution network.

Looking at our other carbon emissions (1,473 tonnes), the Company generates more carbon offsets (1,926 tonnes) than the direct emissions we produce.

Of course having established our carbon emission benchmark in 2008 and reassessed it in 2011, it is important to continue to monitor our carbon emissions on a triennial basis and more importantly on an ongoing basis seek to further reduce our emissions.

Our carbon emissions footprint

SCOPE 1 – EMISSIONS	KGS OF CO ₂
Fuel/Diesel Usage	623,711
Fugitive Emissions (SF ₆)	6,040

SCOPE 2 – EMISSIONS	
Electricity Usage	104,911
Distribution Losses	3,511,823

SCOPE 3 – EMISSIONS	
Transmission Losses	123,350
Contractor Vehicle Usage	611,108
Waste to Landfill	61,082
Business Air Travel	22,807
Water Taxi Hire	7,692
Helicopter Usage	35,310
Total Emissions	5,107,834

REMOVALS	
Forested Land	1,926,400
Total Removals	1,926,400
NET CARBON EMISSIONS	3,181,434

Environmental targets for 2012/13

Maintain

Maintain AS/NZS ISO 14001:2004 certification.

Reduce

Reduce our carbon footprint by the further planting of trees.

Recycle

Recycle all condemned poles, scrap metal, PVC and plastics and look for further recycling opportunities.

Provide support

Provide support to Marlborough Sounds Restoration Trust for pinus radiata eradication.

Senior management



Ken Forrest

BSc Hons (Electrical Eng), MIPENZ
Managing Director

Ken has been Managing Director of the Company since its establishment in 1993, having previously been General Manager of the Marlborough Electric Power Board. He holds an honours degree in electrical engineering and has extensive management and industry experience. Ken has held a range of positions at a national level within the New Zealand electricity industry and associated organisations and served on a wide range of committees.

Wayne Stronach

*BE (Electrical), MIPENZ (Electrical),
CPEng, IntPE(NZ)*
Engineering Manager

A graduate of Canterbury University, Wayne is responsible for engineering design and asset management. He has held a number of senior posts within the electricity network industry and has also undertaken various electrical engineering consultancy roles, including design and installation of control equipment for electricity generation schemes.

Katherine Hume-Pike

B Com, LLB, CSAP
Commercial Manager

Katherine joined Marlborough Lines in 2009 and is responsible for network pricing, maintaining the Company's relationships with the energy retailers, forward budgeting and modelling and special project work. Katherine has degrees in economics and law and has been admitted to the bar as a barrister and solicitor of the High Court. Katherine's previous work experience includes working for one of the State Owned Enterprise electricity retailers and with one of the larger investment broking/advisor firms.



This year the senior management team were photographed at the Omaka Aviation Heritage Centre of which Marlborough Lines has been a sponsor.

Stephen McLauchlan

MNZIM
General Manager Contracting

Stephen manages the Company's Contracting division, which employs the majority of the Company's staff. He also manages Otago Power Services Ltd, which is 51% owned by Marlborough Lines. He has electrical and management qualifications, and is a member of the New Zealand Institute of Management (MNZIM).

Kelvin Deaker

BCom, CA
**Chief Financial Officer/
Company Secretary**

Kelvin joined Marlborough Lines in February 2012 and is responsible for the Group's finance, administration and ICT systems. He is a graduate of Lincoln College with a Bachelor of Commerce, and is a Chartered Accountant. Kelvin has significant work experience within the manufacturing sector and is a former professional rugby referee.

Brian Tapp

NZCE, REA
Operations Manager

Brian is a registered engineering associate and manages the day-to-day operations of the Company's network. He has substantial experience within the electrical supply industry, particularly in network design, construction and operation. He has also served on national industry committees.

Review of financial statements

Profitability is what really counts

The Marlborough Lines Group achieved a respectable result in a challenging business environment with an operating profit of \$10.105m for the 2012 financial year. The operational result is – on the surface of it – a 10% decrease compared with the previous year.

Group net profit after tax from continuing operations was \$8.116m compared to \$2.040m for 2011 and a budget for 2012 of \$8.409m. The 2011 after tax result included a goodwill write-off from one of the equity accounted investment companies and excluding that adjustment, a like with like comparison would be \$8.314m. The real result is therefore a 2.4% decrease on the same period last year.

There were no revaluations of system reticulation assets during 2012 following net revaluation gains totalling \$10.877m in 2011. The revaluation gains arose from cyclic revaluations of infrastructure assets in Nelson Electricity and the OtagoNet Joint Venture. Total comprehensive income of \$8.116m for 2012 is consequently 37% down on last year. There is a cyclic revaluation of the Marlborough Lines network planned for the 2013 year.

Parent company operating profit for 2012 fell by \$0.675m (11.8%), from the previous year to \$5.049m – see page 78. Parent company revenue at \$42.518m was very similar to last year, however there were notable changes in the revenue mix with the increase in network revenue being eliminated by decreases in external contracting revenue and vested assets as discussed later in the trading environment section. Overall operating expenditure was up \$0.690m (1.9%) with Transpower costs accounting for two thirds of this (a 9.1%

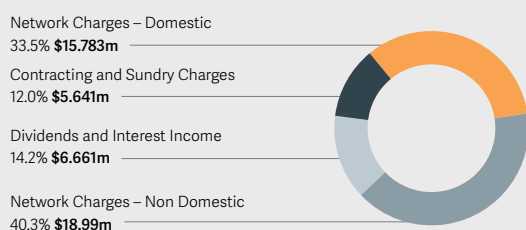
increase in costs). Customer discounts paid of \$6.580m were up 2.1% on 2011.

Total turnover for the Group and Parent company at \$47.654m was 0.8% behind last year. Turnover for the Group and Parent company is the same, and any net surplus available to the Group from the investment companies is equity accounted rather than taken as a share of revenue and expenses, as would happen in a conventional consolidation. (See section on Accounting for investments – page 66.)

Interest costs for the Parent company and Group increased (\$1.874m this year compared to \$1.552m last year) primarily as a result of revaluing interest rate hedges at balance date. As at 31 March 2012 the Company had moved to apply interest rate hedges against \$22m of the \$39.3m total debt. (See note 22.2 Interest rate risk on page 100 of the financial statements). As with any interest rate hedge the main intent for the Company is to fix a proportion of the interest rate exposure going forward. Hedged rates are very favourable compared to historical values but at balance date the market had gone even lower leaving a loss on the revaluation.

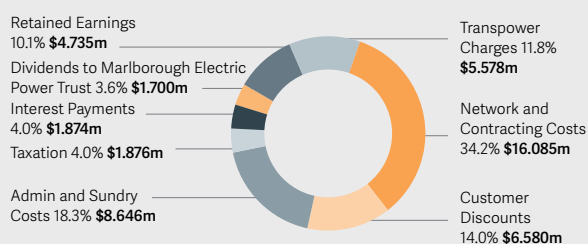
Interest cover for the Group is 6.35 times EBIT and comfortably exceeds bank covenant ratios.

Marlborough Lines Parent income



This graph shows a breakdown of the Marlborough Lines Parent company income for the year.

Marlborough Lines Parent expenditure



This graph provides a breakdown of the Marlborough Lines Parent company expenditure categories for the year.

Problems in the trading environment have been well publicised this year. The influence of the global financial crisis is widespread and has been different in each place. The impact arrived later in Marlborough but has remained as other regions have shown some improvement.

The Directors are satisfied with the financial results and in particular the returns from investment companies. (See Review of investments section page 63). There are mixed signs that the economic recession might be easing with firming primary produce prices nationally, and signs that Marlborough's principal industry – the wine industry – is stabilising after a period of uncertainty. (See later section on the Trading environment.)

Regulation – counting the cost

Marlborough Lines has for the last three years been categorised under the current Commerce Commission regulations as 'exempt'. Exempt status is available to community owned networks and the most significant advantage of it is independence from price/revenue control requirements. In theory 'exempt' companies have a circular form of ownership which allows the consumer owners to effect changes to boards of directors if dissatisfaction exists to a sufficiently serious extent. Coincidentally, provision exists within the Commerce Act for consumers to petition the Commission to bring exempt companies back under price/revenue control.

For the time being Marlborough Lines is in charge of its own pricing, a position which helps the current Board set prices to reflect maintenance requirements and allows a revenue contribution to the current level of capital works.

For the non-exempt networks in which Marlborough Lines has investments (Nelson Electricity, OtagoNet and Horizon), the Commerce Commission has introduced individual price paths which will now apply – initially announced as the 'default price path'. These individual price paths could bring a retrospective adjustment, impacting on the current revenue streams.

All network companies remain subject to the information disclosure requirements which provide for annual regulatory financial statements – not GAAP compliant, standard regulatory asset valuations and a range of performance/reliability statistics which demonstrate the Company's trends in service reliability. These disclosure requirements are reported on in August each year.

The trading environment – what is happening out there

Problems in the trading environment have been well publicised this year. The influence of the global financial crisis is widespread and has been different in each place. The impact arrived later in Marlborough but has remained as other regions have shown some improvement.

Marlborough has a number of small communities spread over a large area. The past 10 or so years has seen enormous growth and development across the region particularly the change in primary industry with such a large move to viticulture. This required large infrastructure spends to upgrade existing services and install new lines for irrigation and winery development. This development and changed land use has tapered off with the slowdown in the economy and the reduction in the financial returns to vineyards and wineries.

External contracting activity is directly related to resource and building consents issued by District Councils. There has been a marked decline in numbers since peak times. Regional economies affect electricity networks to the extent that expanding economies demand more capacity and connections. This has impacted on the level of private work (line building and maintenance) available, however as noted last year, both Marlborough Lines Contracting and Otago Power Services were able to maintain staffing levels by diverting resources into maintenance and capital expenditure works within their respective associated networks. The financial result is affected through reduced profits posted in relation to external contracting work. Additionally all companies within the greater Group have been fortunate to be able to retain staff in the face of continued overseas demand for qualified engineering and technical staff.

Although trading conditions have been tight, both contracting companies have recorded good results. The emphasis in terms of infrastructure work has turned from system expansion to concentrating on reliability and quality of supply – with targeted renewal of existing assets in both Marlborough and Otago.

Review of financial statements

Investment income – make it count

Dividend income flowing from Nelson Electricity to Marlborough Lines was maintained at \$0.900m for the current year. Nelson had a small increase in network charges during the year (the Commerce Commission 'Default Price Path' was applied), but also experienced a reduction in domestic electricity consumption. The distribution policy adopted by the Nelson directors is that generally dividends will equate to tax paid profit, but this will also depend on immediate requirements for capital expenditure and a review of borrowing capacity.

Accounted for on a cash basis, dividends totalling \$0.625m were received from Horizon during the financial year.

Dividend income received from Otago Power Services and OtagoNet is channelled through the subsidiary Southern Lines Limited. Southern Lines then transfers the funds to Marlborough Lines either as interest on its shareholder debt or as dividends.

Dividend and interest funds received by Southern Lines from southern investments this year totalled \$5.088m (2011 \$5.531m) and was remitted to Marlborough Lines as interest on shareholder loans.

The Marlborough Lines Parent company uses equity accounting to take up the undistributed profits of Nelson Electricity. Southern Lines must also use the same system to book its share of the undistributed surpluses of Otago Power Services and OtagoNet. In the 2012 year these equity adjustments amounted to a \$1.742m credit compared to the \$4.784m (debit) in the 2011 year as a result of a goodwill write-off in the OtagoNet Joint Venture.

Equity accounting is required to be used in accordance with the New Zealand equivalents to the International Financial Reporting Standards (NZ IFRS). The use of equity

accounting, whilst technically correct, results in Group numbers only marginally different in a number of key areas from the Parent company accounts. Application of the New Zealand equivalents to the International Financial Reporting Standards is mandatory given the size of the Parent entity, Marlborough Lines Limited. (See separate section on Accounting for investments on page 66.)

Taxation – something that you can count on

Parent company tax expense for the year at \$1.876m, comprises current tax payable, \$2.057m, credits from prior year adjustment, \$4k, and deferred tax expense of \$177k.

The combined Group tax expense at \$1.905m comprises current tax, \$2.000m, credits from prior period adjustment, \$4k, and deferred tax expense, \$91k.

The adoption of NZ IFRS (as noted in previous years) requires the creation of a deferred tax liability equal to the tax effect of the difference between the accounting and tax values of the revalued infrastructure assets. In the first year of adoption (2008), retrospective adjustment was also required. By 2012 this 'liability' has increased to \$42.841m in the Parent company and \$50.339m in the Group.

Cash flow – the money go round

Parent company net cash flows from operating activities of \$13.465m for 2012 decreased by \$1.234m from last year due to the profit and turnover reduction outlined previously.

The transfer of funds from Southern Lines to Marlborough Lines took place through interest payments, and shifting income from the subsidiary (Southern Lines) to the Parent company (Marlborough Lines).

Dividend receipts in the Parent company totalled \$1.525m in the 2012 year, representing dividends from Nelson

Financial indicators

	GROUP ACTUAL 2011 \$m	GROUP TARGET 2012 \$m	GROUP ACTUAL 2012 \$m	GROUP TARGET 2013 \$m	PARENT ACTUAL 2011 \$m	PARENT TARGET 2012 \$m	PARENT ACTUAL 2012 \$m	PARENT TARGET 2013 \$m
EBITDA	14.048	20.485	19.525	23.418	18.832	19.485	17.783	22.167
EBIT	6.461	12.726	11.895	14.826	11.277	11.726	10.185	13.607
Earnings After Tax	2.040	8.409	8.116	9.980	6.869	7.409	6.435	8.844
Shareholders' Equity	233.610	240.269	240.026	251.651	217.492	222.872	222.227	240.054
Current Assets	9.095	10.809	9.285	8.288	9.095	10.809	9.285	8.289
Non Current Assets	317.957	333.824	325.000	335.267	294.426	311.553	299.685	323.422
Current Liabilities	4.407	3.866	3.938	4.463	4.406	6.066	3.921	6.705
Non Current Liabilities	89.035	86.564	90.320	87.441	81.623	78.064	82.822	84.951

Electricity of \$0.900m and dividends from Horizon Energy Distribution of \$0.625m. Included in the Southern Lines (subsidiary) revenue were dividends from Otago Power Services of \$0.459m.

For the 2012 year Group operating cash flow of \$13.465m was applied against the purchase of plant, property and equipment (\$13.045m) and the payment of dividends by the Parent Marlborough Lines to the Marlborough Electric Power Trust.

This year the Marlborough Electric Power Trust again requested a dividend with a view to making a further independent distribution to the electricity consumers of the Marlborough region.

Expenditure on plant, property and equipment (substantially network system assets) at a Group level of \$13.045m is consistent with the target spend. As noted, the reduction in private sector work has provided resources for ongoing capital project work which concentrated this year on consolidation and renewal projects that will ultimately improve reliability and system resilience.

Assets and liabilities – finding the balance

Group and Parent company total assets increased by 2.2% and 1.8% respectively. There were no cyclic revaluations of network infrastructure assets undertaken in any of the Group companies. A breakdown of Parent company capital expenditure is provided in note 5 of the supplementary information on page 111, and also in commentary in the operations report.

The most recent Asset Management Plan for the Marlborough Lines network completed in March 2012 provides estimates of proposed capital expenditure going forward. (See table below.)

Total Group current assets increased slightly by \$190k to \$9.285m at 31 March 2012 with a current ratio of 2.35:1. The level of inventory has increased due to the timing of delivery of materials planned for use in capital and maintenance jobs.

A small amount of goodwill remains as part of the Nelson Electricity investment value. Under NZ IFRS, goodwill is subject to an annual impairment review rather than automatic amortisation. Goodwill which previously existed in the OtagoNet balance sheet has now been written off.

Parent company (and Group) term debt increased by \$1.2m, to fund the combined capital expenditure and dividend requirements. Term debt at 31 March amounted to \$39.3m (last year \$38.1m) and the current facility limit is \$42m. With term debt of \$39.3m, the Parent company remains very lightly geared with a 71.9% equity ratio.

The bank term loan facility is due for renewal on 30 April 2013 therefore the full balance is included as non-current borrowing. Maturities of individual loan tranches and interest rate SWAPs are spread over 30 days to 4.4 years with an average duration on all maturities of 1.56 years which is relatively short but commercially beneficial given current market pricing.

The Group and Parent company debt to debt plus equity ratios increased to 14.07% (2011: 14.02%) and 15.03% (2011: 14.91%) respectively as at 31 March 2012.

The Directors remain very comfortable with the current funding/gearing ratios in both the Group and Parent company.

Target capital expenditure for the next 10 years

Projected capital expenditure totals as published in the Marlborough Lines Limited Asset Management Plan April 2012

FINANCIAL YEAR	CUSTOMER CONNECTION \$(000)	SYSTEM GROWTH \$(000)	RELIABILITY, SAFETY AND ENVIRONMENT \$(000)	RENEWAL \$(000)	ASSET RELOCATION \$(000)	TOTAL \$(000)
2013	520	5,105	2,160	3,965	1,900	13,650
2014	450	510	3,100	5,300	800	10,160
2015	450	520	3,300	5,000	800	10,070
2016	450	520	3,400	5,100	800	10,270
2017	450	520	3,400	4,800	800	9,970
2018	450	520	3,400	5,300	800	10,470
2019	450	520	3,400	5,300	800	10,470
2020	450	520	3,400	5,300	800	10,470
2021	450	520	3,400	5,300	800	10,470
2022	450	520	3,400	5,300	800	10,470

Review of financial statements

The challenge for Marlborough to maintain growth and innovation within the region is to add value to the goods and services Marlborough offers within the region, rather than shipping in an unprocessed state.

International Financial Reporting Standards

Marlborough Lines Limited adopted the New Zealand equivalents to the International Financial Reporting Standards (NZ IFRS) for the first time in Financial Statements for the year ending 31 March 2008.

As noted in all the annual reports since, the most significant aspect from the introduction of these standards is the change to the Company's balance sheet arising from the calculation of deferred tax. A deferred tax liability equal to the tax effect (currently 28%) of the difference between the Company's accounting value for fixed assets and the equivalent tax carrying value for the same assets was created as at 1 April 2006. This was in effect for the Parent company a straight transfer from shareholders' equity to non current liabilities. At 31 March 2012 the balance sheets for the Group and Parent company include deferred tax liabilities of \$50.339m and \$42.841m respectively.

The international accounting body which is charged with designing reporting standards (IFRSB) is still continuing to examine the inclusion of different deferred tax provisions for companies which operate in a tax jurisdiction (such as New Zealand) which has no capital gains tax. This alternative would require companies only to create a deferred tax liability equal to the extent that tax depreciation (assessable income) might be recovered in any asset sale.

To ensure consistency with the Parent company Marlborough Lines, the equity accounting process used to account for Nelson Electricity in the Group financials, also includes adjustments to proportionally account for a deferred tax liability notwithstanding Nelson Electricity's decision to adopt a differential (non NZ IFRS) basis for reporting its results. In the same way the Southern Lines Group must account for deferred tax arising from asset revaluations within the OtagoNet Joint Venture.

The future – extra value will count

Major factors such as the international market demand for Marlborough wines, the future rebuild of Canterbury following the earthquakes and the possibility of moving the port terminal from Picton to Clifford Bay are compounded by decisions of multi-nationals, small businesses and individual traders as to the future growth of the region.

The challenge for Marlborough to maintain growth and innovation within the region is to add value to the goods and services Marlborough offers within the region, rather than shipping in an unprocessed state. Extra value extracted within the region and the development of a processing industry has the added benefits of driving population growth. Marlborough Lines is committed to supporting local infrastructure development to benefit long term community growth.

The Company continues to be in a strong position financially, going forward with an efficient level of borrowing and an Asset Management Plan which provides for the region's electricity needs in the foreseeable future. The Company's commitment to quality management and staff drive the need to continually look for improvement in the Company's operations.

The Directors continue to consider investment opportunities which may benefit our shareholder and consumers, and with a strong balance sheet, we are well positioned to weather volatility and grow the business sustainably.

Review of investments

Networks are our business – and our future

The Marlborough Lines Board has a strong preference for investing in electricity networks rather than other non-core investment options.

Beginning with the acquisition of 50% of Nelson Electricity Limited (owner of the central Nelson electricity network) in 1996, the Company then followed up with an investment in a joint venture with Southland interests to buy the Otago regional network (now known as the OtagoNet Joint Venture) in 2003. During 2010, the Company moved to acquire a 13.89% strategic share in the Bay of Plenty based network owner Horizon Energy Distribution Limited.

Since the initial flurry of sales, mergers and share issues after industry corporatisation in 1993, electricity distribution industry participants have been very reluctant to embrace merger and acquisition activity. There remain some 29 different network companies trading throughout New Zealand and most would be regarded as very small in any country-by-country comparison. Marlborough Lines was in a relatively unique position, in that following the restructuring process in 1999 the Company had – through the sale of its generation assets – funds with which to embark on further investment in networks.

The Directors continue to regard the electricity network industry as their preferred area for investment and believe that adding shareholder value to the business through investment in similar businesses is in the best long term interests of the owners. The acquisition of additional electricity network and contracting businesses is seen as complementary to the Parent company operations and a good investment fit with the Company's strong management experience and staff competencies.

Individual investments

This section of the report provides some additional information in relation to the investments in the Nelson and Otago regions, their vital statistics and operational results and the basis by which Marlborough Lines must include the results from the investments in our Group financial statements.

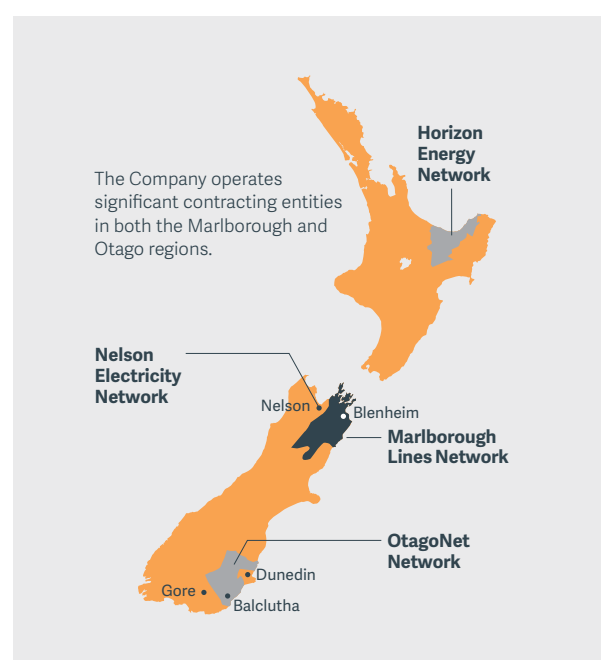
Investments in separate companies and joint ventures, inevitably add complexity in ownership structures and accounting and taxation requirements. In a separate note on page 66 in this section we consider the various accounting treatments required for the investment companies. We have also included separate tables providing financial

information to give readers some perspective of the scope and scale of these separate operations. All entities achieved unqualified financial audits and record full compliance with the many industry regulatory requirements.

Nelson Electricity Ltd (NEL)

The Nelson Electricity network delivers electricity to the city of Nelson and has been owned and operated jointly by Marlborough Lines and Network Tasman Limited since 1996. Each company owns 50% of the issued shares. The objective in ownership of Nelson Electricity is to deliver a reliable supply of electricity at a reasonable cost and to furnish shareholders with a commercial rate of return.

Nelson Electricity has a management staff of four, with all maintenance and capital work being undertaken on a contract basis by independent contractors. The two shareholding companies provide additional financial and technical resources to assist the operation and draw management fees on a commercial scale. Nelson Electricity has continued to perform at a satisfactory level of



Review of investments

profitability despite being subject to price and revenue regulation administered by the Commerce Commission.

The Board of Nelson Electricity comprises five directors, two of whom are appointed by Marlborough Lines with two appointed by Network Tasman and an independent Chairman. The directors appointed by Marlborough Lines are Messrs David Dew and Ken Forrest.

Nelson Electricity – vital statistics:

- Supplies 9,090 (2012) consumers in the central Nelson area.
- Has a network which is approximately 85% underground.
- Has one of the highest customer densities per kilometre of line ratio of any network in New Zealand at 35.8 (2012) customers per kilometre of line.
- Has one of the most reliable networks in New Zealand.
- Has a single point of supply from Transpower at Stoke.

In the year to 31 March 2012, Nelson Electricity recorded a surplus after taxation of \$2.322m, (\$2.199m in 2011). The Nelson Electricity directors consider this an acceptable result given the level of price regulation and the cost structures in place. Dividend payments totalling \$1.80m were paid to the two shareholding companies (2011 \$1.80m).

Nelson Electricity complies with the price path and all requirements of the quality standards at the assessment date, 31 March 2012, as specified in the Commerce Act (Electricity Distribution Default Price-Quality Path) Determination 2010.

During the 2011 year the Nelson Electricity directors resolved to spend in excess of \$8m on providing a fourth 33kV feeder from the Transpower substation at Stoke and replacing a zone substation (33/11kV) in central Nelson. This capital expenditure is forecast for completion mid 2013 and will be funded mostly from a term debt facility with one of the major trading banks. Projections indicate that balance sheet gearing will peak at about 30% – this is still very modest in comparison to a number of listed companies.

OtagoNet Joint Venture (OJV)

Networks owned by the OtagoNet Joint Venture deliver electricity to the wider Otago region, excluding Dunedin and Central Otago. Shares in the joint venture are

beneficially held by Marlborough Lines Ltd, 51%, Electricity Invercargill Ltd, 24.5%, and The Power Company Ltd, 24.5%, through their respective investment holding companies: Southern Lines Ltd, Pylon Ltd and Last Tango Ltd. The joint venture is managed on a commercial basis by the Invercargill based network management company, PowerNet Ltd. PowerNet also manages the neighbouring Southland networks for Electricity Invercargill Ltd and The Power Company Ltd.

OtagoNet – vital statistics:

- 14,824 (2012) customers supplied over an extensive transmission and distribution network, comprising 4,404 kilometres of lines.
- 3.37 connections per kilometre of line, the lowest customer density of any network in New Zealand.
- Three points of supply from Transpower.
- No direct employees.

The board of OtagoNet comprises four directors with one each being appointed by Electricity Invercargill and The Power Company and two being appointed by Marlborough Lines.

The Marlborough Lines representatives on the board are Messrs Ken Forrest and Terry Shagin.

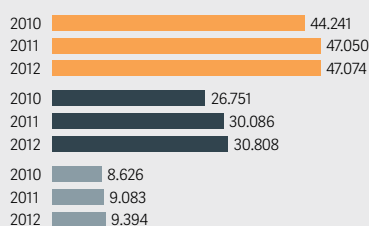
In the year to 31 March 2012 the joint venture recorded a net operating surplus of \$11.673m (\$12.135m in 2011). Significant projects completed during the year were: the upgrade of the 45km 66kV line from Ranfurly to Oceana Gold's Macraes Mine and the connection of the Mount Stuart wind farm, comprising of nine wind turbines, to the 33kV network. Cash distributions to the joint venture parties in 2012 totalled \$9.0m compared to \$10.1m for the previous year. The reduction in distributions made was due to the timing of capital expenditure payments. OtagoNet also complies with the Default Price-Quality Path requirements.

The OtagoNet Joint Venture is unincorporated and has no tax status. Thus, the tax liability on net income is transferred to the joint venture partners on a proportional basis in relation to their respective shareholdings.

The OtagoNet directors consider this result to be satisfactory given that network pricing is constrained by the Commerce Commission's price revenue regulations.

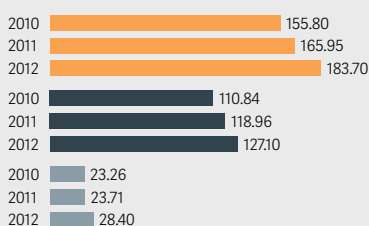
The graphs across these two pages provide comparative statistics for the Marlborough, Otago and Nelson networks.

Individual company turnover \$(millions)



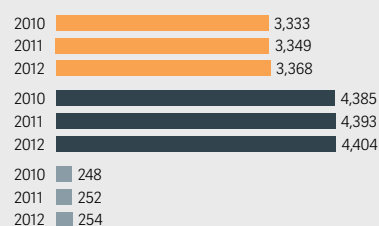
Marlborough Lines OtagoNet
Nelson Electricity

Network asset values (regulatory) ODV equivalent 2011 \$(millions)



Marlborough Lines OtagoNet
Nelson Electricity

Network system length Kilometres



Marlborough Lines OtagoNet
Nelson Electricity

Otago Power Services Ltd (OPSL)

Otago Power Services Ltd provides electrical contracting services and network construction and maintenance throughout the Otago and Southland regions.

Otago Power Services has a staff of 87, and is based in the rural Otago town of Balclutha with additional branches in Gore, Palmerston and Ranfurly. The company is managed by Marlborough Lines in conjunction with its own contracting business.

The board of Otago Power Services comprises two directors, Mr Ken Forrest of Marlborough Lines (Chairman) and Mr Greg Buzzard of PowerNet.

In the 2012 financial year, the company's turnover increased from \$11.132m to \$11.688m and it recorded a tax paid surplus of \$1.142m (2011 \$1.183m). Total dividends of \$900k were distributed to shareholders (2011, \$700k).

In view of the recessionary period currently being experienced, the OPSL directors and management are pleased with this result. This has been achieved by reinvestment within the business, improvement of systems and a focus on staff training that has resulted in better utilisation of the available resources.

Horizon Energy Distribution Ltd

The attainment of a 13.89% holding in Horizon has given Marlborough Lines a strategic foothold in a third separate network company. Horizon and Marlborough are very similar in size and face very similar futures being essentially rural and under populated. Because Horizon is a listed company (on the NZAX board at the NZX) and its shares trade, the company cannot be exempt for regulatory purposes. Given the regulatory constraints on its income, and the lack of liquidity in its shareholding (two shareholders hold over 90%), the benefits of NZX listing are somewhat doubtful. Horizon's largest shareholder, the Eastern Bay Energy Trust (EBET) has previously signalled its desire to de-list which would remove another tier of costly compliance. With the Trust owning 77% of Horizon, Marlborough Lines holds negative control.

During the year the EBET applied to the High Court seeking a Declaratory Judgment around the status of its Trust Deed

and its ability to hold shares in excess of the 25.03% issued in accord with the Deed of Trust dated August 1994. The EBET brought these proceedings because it was uncertain as to the interpretation of its Deed and to the propriety of its position in holding more than 25% of Horizon's shares. The Court found in favour of the EBET but the Te Mana o Ngati Rangitihui Trust, a local iwi trust and itself a consumer from Horizon's network, has subsequently appealed this decision.

The 13.89% shareholding held by Marlborough Lines is categorised per NZ IFRS as a non-current asset 'held for sale' investment and must be assessed for fair value each year. An independent valuation undertaken at year end indicated that the holding value of \$4.17 per share was within the valuation range and no adjustment to the carrying value (\$14.474m) was required.

Dividends totalling \$625k were received from Horizon during the financial year.

Investments income generally

The test of any investment is its ability to generate cash flow which exceeds the associated cost of funding and/or grows its existing capital value. Marlborough Lines Directors continue to be satisfied with the results achieved by all of the investment companies, particularly given the income constraints imposed on Nelson Electricity and OtagoNet by the Commerce Commission.

Total cash flows generated from the investments – including management fees – were \$7.176m for the year. This compares to \$7.364m for the 2011 year.

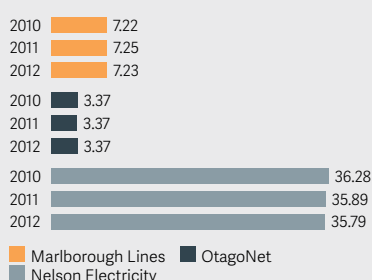
A summary of cash flows generated from investments is provided in the table below.

Analysis of investments

	2012	2011	2010
Cash Flows from Investments	\$7.176m	\$7.364m	\$6.762m
Holding Value	\$103.993m	\$101.958m	\$79.099m
Return from Investments	6.90%	7.22%	8.55%

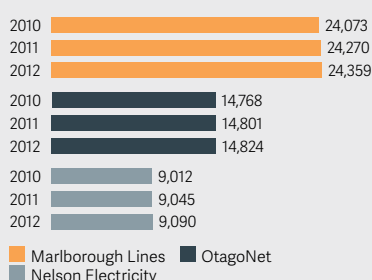
Network customer density

Customers per km of line



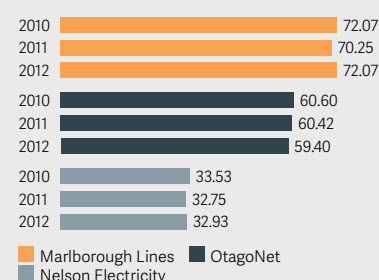
Network customer numbers

Number of connections on each network



System maximum demand

Megawatts (MW)



Review of investments

Accounting for investments

1. Marlborough Lines acquired a 50% share in Nelson Electricity in June 1996. Nelson Electricity is defined under the Financial Reporting Standards (FRSs) as an associate company. That is a company in which an interest in the equity is held and significant influence is exercised but control is not established. In such cases, equity accounting is applied in accord with NZ IAS 28. This requires Marlborough Lines to carry the investment at cost, less any impairment in the Parent company accounts and to equity account its share of Nelson Electricity's undistributed surplus or deficit in the Group accounts. This means that if Nelson has undistributed current year earnings, then Marlborough Lines' share of these earnings is picked up in the consolidation process.
2. The investments in the OtagoNet Joint Venture and Otago Power Services were completed in July 2002 and are held by Marlborough Lines' fully owned subsidiary Southern Lines Ltd. Both of these investments are equity accounted in Southern Lines' financial statements prior to consolidation with the Marlborough Lines Parent company into the Group accounts.
3. Southern Lines, being a fully owned subsidiary of Marlborough Lines, is then consolidated into the Marlborough Lines Group financial statements in accord with NZ IAS 27.
4. An outline of the formal relationship between the Parent company Marlborough Lines and its investments and investment partners is shown in the diagram at the bottom of page 5.

Investment company profit and loss summary

For the year ended 31 March 2012

	OTAGONET \$(000)	NELSON ELECTRICITY \$(000)	OTAGO POWER SERVICES \$(000)
Income			
Operating Revenue	29,978	9,118	11,688
Interest Revenue	10	10	–
Other Revenue	185	266	–
Total Revenue	30,173	9,394	11,688
Expenditure			
Operations and Maintenance	11,526	4,339	–
Cost of Sales	–	–	9,129
Depreciation	6,771	1,328	843
Interest Expense	–	171	82
Audit Fees	83	35	18
Directors' Fees	120	90	23
Total Expenditure	18,500	5,963	10,095
Surplus Before Taxation	11,673	3,431	1,593
Taxation	–	1,109	451
Surplus After Taxation	11,673	2,322	1,142

Investment company balance sheet summary

As at 31 March 2012

	OTAGONET \$(000)	NELSON ELECTRICITY \$(000)	OTAGO POWER SERVICES \$(000)
Shareholders' Equity			
Share Capital	108,500	1	1,050
Reserves	22,188	30,176	–
Retained Earnings	12,312	825	3,277
	143,000	31,002	4,327
REPRESENTED BY:			
Current Assets			
Bank	108	–	761
Accounts Receivable	2,810	722	1,616
Inventories	–	296	48
	2,918	1,018	2,425
Current Liabilities			
Bank	–	32	–
Creditors and Accruals	2,198	847	921
Employee Entitlements	–	28	785
Provision for Tax	–	320	108
Deferred Tax	–	–	–
	2,198	1,227	1,814
Non Current Assets			
Property, Plant and Equipment	142,280	33,673	5,259
Deferred Tax	–	8	176
	142,280	33,681	5,435
Non Current Liabilities			
Term Debt	–	2,470	1,719
Net Assets	143,000	31,002	4,327

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Board of Directors

The Marlborough Lines constitution provides for a Board of up to eight Directors.



David Dew LLB
Chairman

David Dew is a commercial and personal lawyer and principal of Blenheim legal firm Dew and Company. He has been a member of the Board since December 2001. David is a director of Nelson Electricity Ltd, a director of various other companies and a Councillor on the Marlborough District Council.



Ken Forrest BSc Hons (Electrical Eng), MIPENZ
Managing Director

Ken Forrest has been the Managing Director of the Company since 1993, prior to which he was General Manager of the Marlborough Electric Power Board. Ken has a long history of service to the New Zealand electricity industry at a national level. His current directorships include: Nelson Electricity Ltd, Otago Power Services Ltd, OtagoNet and Cuddon Ltd – along with other private companies.



Ross Butler BA (Econ), Post Grad Dip Applied Fin & Investments

Ross Butler is a professional company director, and has been a member of the Board since 2007. He has an international executive and board background in insurance, banking, investments, strategy and governance. Ross is Chair of the Nelson Marlborough Institute of Technology, Southern Response Earthquake Services, Mercer Investment Nominees NZ, and the Code Committee for Financial Advisers.



Jo Buckner BBS, PGradDipApp/Sc(NRM), MInstD,
MCILT NZ, MEIANZ

Jo Buckner joined the Marlborough Lines Board of Directors in September 2009. She is a strategic policy specialist with 10 years experience across energy, transport and natural resource issues, including the New Zealand energy strategies and a supporting national policy statement. Prior to 2002, she held an executive supply chain management role with Fletcher Wood Panels and also worked on business improvement initiatives with other large corporates. She has ongoing not-for-profit governance interests.



Terry M Shagin JD (UCLA), BA (CSUN)

Terry Shagin has been a member of the Marlborough Lines Board of Directors since December 2001. Prior to moving to Marlborough in 1982, Terry was senior partner in a Los Angeles legal firm. He has served on several New Zealand boards and is currently Chairman of No. 1 Family Estate, and a member of the OtagoNet Joint Venture Management Committee.



Des Ashton BE CEng (UK), MRAS

Des Ashton has been a Board member since August 2003. He has a background in senior management, directorships and consulting in the RNZAF, civil aviation and technology industries in New Zealand and overseas, including senior management appointments at Safe Air Ltd, Ansett Australia, Air New Zealand, Port Marlborough, Ashton Technologies Ltd and the Ministry of Defence.



Anthony Beverley MCom (VPM) (Hons) First Class, FNZIV, FPNZ, FINSIA

Anthony joined the Marlborough Lines Board of Directors in September 2009. He has a background in property and investment having worked in the property investment and fund management industries for 27 years, 20 of those with AMP Capital Investors Ltd, New Zealand's largest fund management company. Anthony is a director of Property for Industry Ltd, AMP NZ Office Ltd, AMP Haumi Management Ltd, Harbour Quays A1, D4 and F1F2 Ltd, and other companies. In 2005, he was presented with the Property Institute of New Zealand's premier award in recognition of his contribution to the property industry and wider economy over the course of his career.

Corporate governance

1. Directors' and management commitment

The Directors of Marlborough Lines acknowledge the need for the highest standards of corporate governance practice and ethical conduct by all Directors and employees of the Company, its subsidiary and associates.

Directors and management are committed to effective governance. Like safety and quality, governance includes a set of systems and processes, supported by people with the appropriate competencies and principles. This provides shareholders and other stakeholders with the assurance that the Company delivers on its promises.

Governance, by its very nature, is never complete. It is not a project that has a finite end. There is always more to do, new techniques, learning from past experiences and other organisations that need to be considered, and if deemed necessary, incorporated into our systems. More importantly the culture has to be assessed on a continual basis to ensure it remains healthy and appropriate and actions taken accordingly to rectify this.

The Board endorses the principles embodied in the New Zealand Institute of Directors Code of Best Practice for New Zealand Directors and accepts overall responsibility for corporate governance practices within the Company.

The Directors recognise that good governance is not merely a matter of achieving legislative compliance but also of ensuring that exemplary standards and behaviour are attained. This involves the establishment and maintenance of a culture at Board level and throughout the Company which ensures that the Directors and employees deal fairly with others, with transparency and to protect the interests of all stakeholders.

It is the objective of the Board to ensure that all issues within the Company are dealt with in a manner which if subject to scrutiny will reinforce or enhance the reputation of the Company and those involved.

In order to formalise their commitment to good governance, in 2005 the Directors considered and adopted a new set of governance policies which includes the following component statements:

- A Corporate Code of Conduct.
- A Board Charter.
- A Directors Code of Conduct.
- A Standard Committee Charter.
- A Financial Accounting and Reporting (Audit) Protocol.
- A Performance Evaluation Policy.
- A Stakeholder Communication Policy.
- A Risk Management Policy.
- An Executive Remuneration Policy.

Consistent with these principles the Board seeks at all times to ensure that the Company is properly governed within the broader framework of corporate social responsibility and regulatory oversight.

2. Role of Directors

The Board of Directors is responsible to the shareholder of Marlborough Lines Limited for the setting of strategies and objectives in accord with key policies endorsed by the Company's shareholder in the Company's annual Statement of Corporate Intent.

The Energy Companies Act 1992 provides that the Directors will forward a draft Statement of Corporate Intent within the first working month of the year and the shareholder will respond with its views during the following month. It is then the Directors' responsibility to monitor management's operation of the business in accord with the targets and policies noted in the Statement of Corporate Intent.

The relationship between the Directors and the shareholder is governed by the Company's constitution. The shareholding body of Marlborough Lines is the Marlborough Electric Power Trust, a body formed to undertake the shareholder role for Marlborough Lines Limited when the Company was created in 1993 pursuant to the Energy Companies Act. In a purely legal sense the six trustees individually hold the shares on behalf of the Trust and its beneficiaries.

The Trust Deed which governs the conduct and activities of the Marlborough Electric Power Trust also requires the shareholder to support the Company in its fundamental obligation to be a successful business. This is a requirement of section 36 of the Energy Companies Act 1992.

3. Statement of Corporate Intent

In accordance with Section 39 of the Energy Companies Act 1992, the Board submits to the Marlborough Electric Power Trust a draft Statement of Corporate Intent (SCI) for the coming financial year. The SCI sets out the Company's overall objectives, intentions and financial performance targets.

4. Appointment and remuneration of Directors

The shareholders through a collective resolution of the Trust are responsible for the selection and appointment of the Directors. It is then the Directors prerogative to select (from amongst their number) a Managing Director if they so decide.

Each year the Company's constitution requires one-third of the Directors to retire by rotation. This effectively means that two Directors retire each year. The shareholders may re-appoint retiring Directors or make new appointments following advertising for applications for appointment.

The constitution also provides that the shareholders will set the Directors' remuneration and this is undertaken following an independent external evaluation of remuneration levels and workloads.

The Board sets the remuneration of the Managing Director.

5. Responsibility of Directors

In fulfilling its role the responsibilities of the Board include:

- Setting and reviewing strategic direction.
- Approving income and expenditure estimates.
- Approving network pricing requirements.
- Approving capital expenditure requirements.
- Evaluating the performance of the Managing Director.
- Determining the terms, conditions and remuneration package for the Managing Director.
- Planning for executive succession.
- Regularly monitoring and reviewing financial performance against budgets and projections.
- Approving budget revisions.
- Monitoring compliance with regulatory and legislative requirements.
- Establishing and maintaining appropriate risk management strategies.
- Considering and approving interim (quarterly) and full year financial statements.
- Reporting financial results to shareholders.
- Reviewing relevant financial and non-financial key performance indicators reported by management.
- Reviewing the control environment.
- Defining the scope of the external audit function.

Responsibility for the day-to-day management and administration of the Group is delegated by the Board to the Company's Managing Director, who is assisted by an executive team comprising five senior managers.

The Managing Director manages the Marlborough Lines Group in accordance with strategy and delegations approved by the Board.

6. Regulatory framework

The Company operates in New Zealand and is governed by a range of legislation and regulation.

Marlborough Lines aims to make sufficient disclosure so that readers of the Annual Report will be able to assess the effectiveness of the Company's corporate governance.

7. Current Board membership

The Marlborough Lines constitution provides for a maximum of eight Directors. The Board presently comprises six non-executive Directors and a Managing Director. At the AGM in September 2011 Messrs Terry Shagin and Des Ashton were reappointed to the Board.

The Company's constitution provides that one third (or the number nearest one third) of the Directors will retire from office at the Annual General Meeting each year. The Managing Director remains a Director at the prerogative of the shareholders but is not subject to the retirement provisions.

This year at the Annual General Meeting Mr Anthony Beverley and Ms Jo Buckner will retire according to the rotation rule. Both Mr Beverley and Ms Buckner are available for reappointment.

8. Board operation

The Chairman fulfils a leadership role in the conduct of the Board and its relationship with shareholders and other major stakeholders. He maintains a close professional relationship with the Managing Director and through him with the Company's senior management team.

Procedures for operation of the Board including the appointment and removal of Directors are governed by the Company's constitution.

All new Directors undertake an induction process at the time of their appointment to the Board to familiarise them with matters relating to the Company's present business strategy and outlook, its relationship with the shareholder, current issues before the Board and the Company's operations generally.

As part of its governance process the Board undertakes a self review of its performance once per year. This process considers the effectiveness of the Board in working as a unit, and the extent to which additional skills might be needed from time to time to achieve its strategic goals.

9. Board meetings

The Board meets at intervals of approximately six weeks and additional meetings are convened as and when required.

The Board's annual programme and agenda for the meetings is determined by the Chairman in conjunction with the Managing Director. Directors receive formal papers for consideration and regular management reports in advance of all meetings.

Executive staff are regularly involved in Board meetings and Directors have other opportunities to gain information relative to the Company through regular visits and meetings in relation to Company operations and the activities of investment companies in the wider Group.

The Company ensures that all of its current Directors are appointed to its subsidiary Southern Lines Limited and it nominates individual directors from time to time to boards of the associated investment companies, Nelson Electricity Limited, Otago Power Services Limited and the OtagoNet Joint Venture.

10. Board committees

The present Directorate has agreed that the full Board should meet to consider all matters. This means that currently there is no requirement for standing Board committees with specific responsibilities. When appropriate, such committees will be established for the life of a specific project.

11. Audit Committee

The Company's auditors are appointed by the Controller and Auditor General, pursuant to Section 45 of the Energy Companies Act 1992.

Corporate governance continued

The entire Board meets as an Audit Committee in respect of all audit matters. In particular the Board recognises that it has specific responsibility for:

- External reporting in relation to statutory financial statements.
- General (statutory) disclosures and Companies Office returns.
- Compliance with Commerce Commission Regulatory (Information Disclosure) requirements.
- The application of correct accounting policies and principles and any changes to them.
- Effecting changes to procedures as may be identified by the Auditors from time to time.
- Compliance with related party disclosures.
- Discussion of financial reports with the management and auditors as appropriate.
- Implementation of procedures to ensure compliance with the current industry regulatory requirements as determined by the Commerce Commission and the Electricity Authority.
- Implementation of risk management practices relative to legal compliance, treasury management, taxation, internal control and insurance.

The Board also meets with the Auditor at least once annually in the absence of the Managing Director and executive staff and there is an open invitation from the Board to the Auditor to discuss any issue at any time.

In addition to undertaking the statutory audit function on behalf of the Controller and Auditor General, Deloitte also undertake audit of the Company's financial and performance disclosure information provided as a requirement of the Commerce Act. This function is also undertaken on behalf of the Controller and Auditor General.

12. Audit Committee meetings

The Board met and held discussion as the Audit Committee as follows:

- On 14 June 2011, to formally adopt the financial statements and general disclosures and to endorse signing of the financial statements for the year ended 31 March 2011.
- On 9 September 2011, for consideration of the 'Auditor's Report to Directors' for the year ended 31 March 2011 including the 'Summary of Audit Findings'.
- On 30 March 2012, for discussion with the Auditor, Mr Paul Bryden of Deloitte and consideration of the engagement letter and planning report in relation to the audit of the financial statements for the year ended 31 March 2012.

13. Board attendance

Details of Board meeting attendance by Directors during the year are set out in the following table.

DIRECTORS	MEETINGS HELD	ATTENDED
D A Ashton	8	8
A M Beverley	8	7
J I Buckner	8	8
R G Butler	8	8
D W R Dew	8	8
K J Forrest	8	8
T M Shagin	8	7

14. Conflicts of interest

When any conflict of interest situation arises Directors are required to observe the following procedures:

- To disclose any actual or potential conflicts of interest which may exist as soon as they become aware of the issue;
- To take necessary and reasonable measures in accord with the Directors Code of Conduct to resolve such conflict; and
- To follow the guidelines of the Institute of Directors.

Entries in the Company's interests register are detailed in the general disclosures section of the report.

15. Shareholders

It is the view of the Directorate that the Company's shareholders play an integral part in corporate governance. To give effect to this role the Board ensures that the shareholders are kept fully informed through the provision of relevant information including:

- The annual report.
- Half yearly and quarterly financial reports.
- Opportunities for questions at shareholder meetings.
- Special meetings and visits to operational sites.
- Briefings as required by representatives of the Board.

The shareholders are able to raise matters for discussion at annual and special meetings of the Company and maintain ultimate control through the appointment process for Directors.

The Company makes a wide range of additional information available to the shareholders (and other stakeholders) through the publication of topical newsletters which are sent to every connected customer, completion of the required performance related statistical and financial returns to the Commerce Commission and the provision of an extensive selection of information statistics and reports on the Company's website.

16. Risk management

The Board has overall responsibility for the Company's systems of financial and operational control. The Board ensures that recommendations made by the external auditors, and other external advisers, are carefully considered and that appropriate action is taken to ensure that the Company has an adequate control environment to manage the risks identified.

A range of risk management/legal compliance policies have been developed including:

- Treasury Risk.
- Insurance Risk.
- Trade Practices Compliance.
- Environment and Resource Management.
- Employment and Human Rights.
- IT Risk (including e-mail/Internet usage and disaster recovery).

Operational risks to the Company are assessed regularly including through:

- Prudent site management.
- Meetings between relevant staff.
- Monthly management meetings which address current and ongoing issues as part of the quality management system.
- Review and amendment of the annual Asset Management Plan.
- Separate emergency preparedness plans.
- Review and audit of disaster recovery procedures.
- Evaluation of operational risk and procedures as part of the Company's ISO quality management system.
- Evaluation of Company wide risks through the use of external consultants.

Management reports to the Board on a quarterly basis in respect of legal compliance and risk management.

17. Quality management

Marlborough Lines holds the following accreditations for management systems.

- Quality Management Standard AS/NZS ISO 9001:2008.
- Environmental Standard AS/NZS ISO 14001:2004.
- Occupational Health and Safety Assessment Series OHSAS 18001:2007.

The Company first gained quality accreditation in 1996 for its management systems. In general terms these accreditations require precise documentation of systems and procedures together with monthly review meetings, internal audit of all procedures annually and twice yearly external audits. These external audits examine a random selection of procedures and review the operation of the system.

Additionally the Board requires that the Company meet requirements for the Accident Compensation Corporation Workplace Safety Management Practices programme 'Tertiary' status. This status recognises that there are high level systems in place for the prevention of accidents in the workplace and achievers are granted annual premium reductions. Systems must undergo an external audit every two years to maintain accreditation.

18. Marlborough Lines Limited – Company Code of Conduct

The Company's Code of Conduct (the 'Code') is the framework of the standards of corporate behaviour that the Company's Directors and employees are expected to conduct their professional lives by.

The Company's Directors and executive team are expected to lead according to these standards of ethical and professional conduct and to ensure that they are communicated to the people who report to them.

All Directors and employees are expected to act honestly in all of their business dealings and to act in the best interests of the Company at all times.

The Code includes detailed requirements in the following areas:

- The Company's commitment.
- Responsibilities to shareholders and the Marlborough community.
- Responsibilities to customers, clients, suppliers and competitors.
- Responsibilities to employees.
- Conflicts of interest.
- Gifts.
- Corporate opportunities.
- Confidentiality.
- Behaviours.
- Compliance with laws and policies.
- Delegated authority.
- Reporting concerns.
- Review.

The Code is subject to annual review.

General disclosures

FOR THE YEAR ENDED 31 MARCH 2012

Introduction

The Directors of Marlborough Lines Limited submit the following report to shareholders. The report has been prepared so as to include all information required to be disclosed under the Companies Act 1993.

1. Principal activities of the Company

During 2011/12 Marlborough Lines Limited has maintained its focus as a leading and innovative electricity network investor, owner and operator. The Company also invests in and operates related electrical contracting services. Beyond Marlborough, investments are held in electricity networks in the Nelson and Otago regions and in a medium size contracting company based in Balclutha. The Otago investments are held through the wholly owned subsidiary company Southern Lines Limited. The Marlborough Lines Parent company also holds an investment in the Nelson based electricity network company, Nelson Electricity Limited, and during 2010 the Company acquired a 13.89% shareholding in the Whakatane based network, Horizon Energy Distribution Ltd.

2. Review of financial performance

2.1 Results for the year ended 31 March 2012

	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
Operating Profit Before Tax Expense	10,021	4,909	8,311	9,725
Income Tax Expense	1,905	2,869	1,876	2,856
Net Profit for the Year	8,116	2,040	6,435	6,869
Other Comprehensive Income Net of Tax	–	10,877	–	(906)
Net Surplus Attributable to the Shareholders	8,116	12,917	6,435	7,775

All results are stated in current accounting terms and are derived in accord with the New Zealand equivalents of the International Financial Reporting Standards, adopted by Marlborough Lines Ltd in the reporting year ended 31 March 2008.

As a result of the activities undertaken during the year the Directors are of the view that the Company's affairs are in a very satisfactory state.

3. Dividends

The Directors and shareholders authorised the following dividend payments for the 2011/2012 financial year.

1. First and Final Dividend	30 March 2012	\$1,700,000
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Full imputation credits were attached to all dividend payments.

Ordinary Shares Issued	28 million
Value of Share Capital (Parent Net Assets at Current Valuation)	\$222.2 million

4. Auditors

In accordance with Section 45 of the Energy Companies Act 1992, the Audit Office is responsible for the audit of Marlborough Lines Limited. In accordance with Section 29 of the Public Finance Act 1977 the Audit Office has contracted the audit of Marlborough Lines Limited to Mr Paul Bryden of Deloitte.

FEES PAID TO AUDITORS (FOR GROUP)	AUDIT FEES	OTHER FEES
Deloitte	\$72,000	\$24,458

5. Information on Directors of Marlborough Lines Ltd

DIRECTOR	QUALIFICATIONS AND EXPERIENCE	SPECIAL RESPONSIBILITIES	TOTAL REMUNERATION AND OTHER BENEFITS	
			2012	2011
D W R Dew	LLB Principal Dew & Company, Solicitors, Blenheim. Director Nelson Electricity Ltd. Director of other companies.	Chairman, Non-executive Director	\$78,725	\$89,433
D A Ashton	BE, C Eng (UK), MRAeS Defence Acquisition Executive.	Non-executive Director	\$32,309	\$31,992
A M Beverley	M Com (VPM) (Hons) First Class, FNZIV, FFINZ, FINSIA Director, AMP NZ Office Ltd. Director Property for Industry Ltd. Director AMP Haumi Management Ltd. Director, Harbour Quays A1, D4 and F1F2 Ltd. Director of other companies.	Non-executive Director	\$32,309	\$31,992
J I Buckner	BBS, PGradDipApplSc(NRM), MInstD, MCILTNZ, MEIANZ Strategic Policy Advisor. Vice-President (NZ) – Environment Institute of Australia and New Zealand.	Non-executive Director	\$32,309	\$31,992
R G Butler	BA (Econ), Post Grad Dip Applied Finance and Investments Chairman, Mercer Investment Nominees NZ Ltd. Chairman of Council, Nelson Marlborough Institute of Technology. Chairman, Southern Response Earthquake Services Limited. Chairman, Code Committee, Financial Advisers Act. Director of other companies and trustee of community trusts.	Non-executive Director	\$32,309	\$31,992
K J Forrest	BSc Hons (Eng), MIPENZ Registered Electrical Engineer. Managing Director of Marlborough Lines Ltd. Director Nelson Electricity Ltd. Chairman Otago Power Services Ltd. Member OtagoNet Joint Venture Management Committee. Director of other companies.	Managing Director	\$459,200	\$457,309
T M Shagin	Doctor of Law JD (UCLA), BA (CSUN) Member OtagoNet Joint Venture Management Committee. Director No.1 Family Estate Ltd.	Non-executive Director	\$32,309	\$31,992

Director's fees totalling \$54,000 earned by Mr K Forrest through membership of the boards of Nelson Electricity Limited, Otago Power Services Limited and the OtagoNet Joint Venture are paid to Marlborough Lines Limited.

All Marlborough Lines Limited Directors are directors of the Company's wholly owned subsidiary Southern Lines Limited.

The Directors hold no shares in Marlborough Lines Limited or Southern Lines Limited.

General disclosures continued

FOR THE YEAR ENDED 31 MARCH 2012

6. Interests Register

The Interests Register records the following matters:

6.1 Directors' interests in contracts

There have been no instances of payments being made to entities in which Directors have an interest in during the financial year other than payments made in accord with shareholder resolutions for Directors' fees and reimbursement of travel costs.

6.2 Directors' insurance

The Company has arranged policies of Directors' Liability Insurance together with deeds of indemnity which provide cover against costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons, incurred in their position as a Director.

7. Directors' benefits

No Director of the Company has since the end of the previous financial year received or become entitled to receive a benefit other than a benefit included in the total remuneration and other benefits as listed previously in this report.

There were no notices from Directors of the Company requesting to use Company information received in their capacity as Directors, which would not otherwise have been available to them.

8. Employee remuneration

Details of remuneration paid to employees of Marlborough Lines which are required to be disclosed are:

REMUNERATION RANGE	NUMBER OF EMPLOYEES 2012	NUMBER OF EMPLOYEES 2011
\$100,000 - \$110,000	6	7
\$110,000 - \$120,000	3	2
\$120,000 - \$130,000	1	–
\$130,000 - \$140,000	1	1
\$150,000 - \$160,000	1	–
\$170,000 - \$180,000	–	1
\$180,000 - \$190,000	1	1
\$210,000 - \$220,000	2	1
\$240,000 - \$250,000	1	1

Company motor vehicles, group death and disability insurance and group medical insurance are also provided to senior managers and to the Managing Director.

9. Donations

During the year the Company made tertiary education grants totalling \$29,765.

For and on behalf of the Board of Marlborough Lines Limited.



D W R Dew
Chairman



K J Forrest
Managing Director

22 June 2012

Financial statements 2012



The Directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of Marlborough Lines Limited and the Group and the results of their operations and cash flows for the year ended 31 March 2012.

The Directors consider that the financial statements of the Company and Group have been prepared using accounting policies appropriate to the Company and Group circumstances, consistently applied, and supported by reasonable and prudent judgements and estimates and that all applicable New Zealand Equivalents to the International Financial Reporting Standards have been followed.

The Directors have responsibility for ensuring that proper accounting records have been kept, which enable with reasonable accuracy, the determination of the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Financial Reporting Act 1993.

The Directors have responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken to safeguard the assets of the Company and Group and to prevent and detect fraud and other irregularities.

The Directors are pleased to present the financial statements of Marlborough Lines Limited and Group for the year ended 31 March 2012.

This report is dated 22 June 2012 and is signed in accordance with a resolution of the Directors made pursuant to section 211 (1) (k) of the Companies Act 1993.

For and on behalf of the Board and Management of Marlborough Lines Limited.

A handwritten signature in black ink, appearing to be 'DWR Dew'.

D W R Dew
Chairman

A handwritten signature in black ink, appearing to be 'KJ Forrest'.

K J Forrest
Managing Director

A handwritten signature in black ink, appearing to be 'KM Deaker'.

K M Deaker
Chief Financial Officer/Company Secretary

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2012

	NOTES	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
Continuing Operations					
Operating Revenue	2	47,606	48,034	42,518	42,503
Total		47,606	48,034	42,518	42,503
Operating Expenses	3	23,291	22,780	23,291	22,780
Depreciation, Amortisation and Impairment	3	7,630	7,587	7,598	7,555
Customer Discounts		6,580	6,444	6,580	6,444
Total		37,501	36,811	37,469	36,779
OPERATING PROFIT		10,105	11,223	5,049	5,724
Finance Income	2	48	22	5,136	5,553
Finance Costs		1,874	1,552	1,874	1,552
Net Finance Income (Cost)		(1,826)	(1,530)	3,262	4,001
Share of Equity Accounted Investments Net Surplus (Loss)	17.5	1,742	(4,784)	–	–
PROFIT BEFORE TAX EXPENSE		10,021	4,909	8,311	9,725
Income Tax Expense	4	1,905	2,869	1,876	2,856
NET PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		8,116	2,040	6,435	6,869
Other Comprehensive Income					
Revaluation of Plant, Property and Equipment		–	13,169	–	–
Income Tax on Other Comprehensive Income		–	(2,292)	–	906
OTHER COMPREHENSIVE INCOME NET OF TAX		–	10,877	–	906
TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		8,116	12,917	6,435	7,775

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2012

	GROUP SHARE CAPITAL \$(000)	GROUP REVALUATION RESERVES \$(000)	GROUP RETAINED EARNINGS \$(000)	GROUP TOTAL EQUITY \$(000)
CONSOLIDATED GROUP				
Balance as at 1 April 2010	29,026	44,661	148,756	222,443
Total Comprehensive Income for the Year				
Net Profit for the Year	–	–	2,040	2,040
Other Comprehensive Income Net of Tax				
Revaluation of Plant, Property and Equipment	–	10,877	–	10,877
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	–	10,877	2,040	12,917
Transactions with Owners Recorded Directly in Equity				
Dividends Paid to Equity Holders	–	–	(1,750)	(1,750)
BALANCE AS AT 31 MARCH 2011	29,026	55,538	149,046	233,610
Balance as at 1 April 2011	29,026	55,538	149,046	233,610
Total Comprehensive Income for the Year				
Net Profit for the Year	–	–	8,116	8,116
Other Comprehensive Income Net of Tax				
Revaluation of Plant, Property and Equipment	–	–	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	–	–	8,116	8,116
Transactions with Owners Recorded Directly in Equity				
Dividends Paid to Equity Holders	–	–	(1,700)	(1,700)
BALANCE AS AT 31 MARCH 2012	29,026	55,538	155,462	240,026

The accompanying notes form an integral part of these financial statements.

Parent Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2012

	PARENT SHARE CAPITAL \$(000)	PARENT REVALUATION RESERVES \$(000)	PARENT RETAINED EARNINGS \$(000)	PARENT TOTAL EQUITY \$(000)
PARENT				
Balance as at 1 April 2010	29,026	37,638	144,803	211,467
Total Comprehensive Income for the Year				
Net Profit for the Year	–	–	6,869	6,869
Other Comprehensive Income Net of Tax				
Revaluation of Plant, Property and Equipment	–	906	–	906
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	–	906	6,869	7,775
Transactions with Owners Recorded Directly in Equity				
Dividends Paid to Equity Holders	–	–	(1,750)	(1,750)
BALANCE AS AT 31 MARCH 2011	29,026	38,544	149,922	217,492
Balance as at 1 April 2011	29,026	38,544	149,922	217,492
Total Comprehensive Income for the Year				
Net Profit for the Year	–	–	6,435	6,435
Other Comprehensive Income Net of Tax				
Revaluation of Plant, Property and Equipment	–	–	–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	–	–	6,435	6,435
Transactions with Owners Recorded Directly in Equity				
Dividends Paid to Equity Holders	–	–	(1,700)	(1,700)
BALANCE AS AT 31 MARCH 2012	29,026	38,544	154,657	222,227

The accompanying notes form an integral part of these financial statements.

Statement of Financial Position

AS AT 31 MARCH 2012

	NOTES	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
Equity					
Share Capital	5	29,026	29,026	29,026	29,026
Revaluation Reserves	6	55,538	55,538	38,544	38,544
Retained Earnings	6	155,462	149,046	154,657	149,922
TOTAL EQUITY		240,026	233,610	222,227	217,492
Non Current Liabilities					
Retirement Benefit Obligations	11	681	505	681	505
Deferred Income Tax Liabilities	4	50,339	50,430	42,841	43,018
Term Borrowings	10	39,300	38,100	39,300	38,100
TOTAL NON CURRENT LIABILITIES		90,320	89,035	82,822	81,623
Current Liabilities					
Trade and Other Payables	9	2,458	3,155	2,458	3,155
Employee Entitlements	9	808	818	808	818
Current Income Tax Liabilities		176	280	159	279
Other Current Liabilities	9	496	154	496	154
TOTAL CURRENT LIABILITIES		3,938	4,407	3,921	4,406
TOTAL EQUITY AND LIABILITIES		334,284	327,052	308,970	303,521
Non Current Assets					
Investment in Horizon Energy Distribution Limited		14,474	14,474	14,474	14,474
Investments in Subsidiaries	17	–	–	5,000	5,000
Loans and Advances to Subsidiaries	17	–	–	47,683	47,463
Investments in Associates Accounted for Using the Equity Method	17	89,519	87,484	11,670	11,670
Plant, Property and Equipment	12,13,14	217,302	212,586	217,154	212,406
Investment Property	15	2,210	2,210	2,210	2,210
Intangible Assets	16	1,494	1,203	1,494	1,203
TOTAL NON CURRENT ASSETS		324,999	317,957	299,685	294,426
Current Assets					
Cash and Cash Equivalents		171	403	171	403
Trade and Other Receivables	7	4,493	4,394	4,493	4,394
Inventories	8	4,621	4,298	4,621	4,298
TOTAL CURRENT ASSETS		9,285	9,095	9,285	9,095
TOTAL ASSETS		334,284	327,052	308,970	303,521

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2012

	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
Cash Flows from Operating Activities				
Receipts from Customers	45,251	45,343	40,163	39,812
Interest Received	48	22	5,136	5,553
Dividends Received	1,525	1,254	1,525	1,254
Payments to Suppliers and Employees	(29,654)	(28,005)	(29,654)	(28,005)
Interest Paid	(1,532)	(1,452)	(1,532)	(1,452)
Income Tax Paid	(2,173)	(2,463)	(2,173)	(2,463)
NET CASH GENERATED FROM OPERATING ACTIVITIES	13,465	14,699	13,465	14,699
Cash Flows from Investing Activities				
Proceeds from Sale of Plant, Property and Equipment	68	60	68	60
Purchase/Sale of Investments	–	(14,534)	–	(14,534)
Purchase of Plant, Property and Equipment (Net of Disposals)	(13,045)	(13,862)	(13,045)	(13,862)
Loans Granted to Associates	(220)	–	(220)	–
NET CASH USED IN INVESTING ACTIVITIES	(13,197)	(28,336)	(13,197)	(28,336)
Cash Flows from Financing Activities				
Proceeds from Borrowings	9,900	15,600	9,900	15,600
Repayment of Borrowings	(8,700)	–	(8,700)	–
Dividends Paid to Company's Shareholders	(1,700)	(1,750)	(1,700)	(1,750)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(500)	13,850	(500)	13,850
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(232)	213	(232)	213
Cash and Cash Equivalents at Beginning of Year	403	190	403	190
CASH AND CASH EQUIVALENTS AT 31 MARCH	171	403	171	403

The accompanying notes form an integral part of these financial statements.

Reconciliation of profit for the period to net cash generated from operating activities

FOR THE YEAR ENDED 31 MARCH 2012

	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
PROFIT AFTER TAXATION	8,116	2,040	6,435	6,869
Add/(Less) Non Cash Items				
Depreciation and Amortisation	7,630	7,587	7,598	7,555
Income from Vested Assets	(731)	(1,494)	(731)	(1,494)
Gains on Revaluation of Existing Investments	(73)	–	–	–
Non Cash Items in Relation to Investing/Financing Activities				
Share of Associate Net Profit	(1,742)	4,784	–	–
Loss on Sale of Fixed Assets	1,071	921	1,071	921
Current Charge to Deferred Taxation	(91)	406	(177)	365
CHANGES IN WORKING CAPITAL ITEMS				
(Increase)/Decrease in Assets				
(Increase) in Accounts Receivable	(99)	(65)	(99)	(65)
Decrease in Inventories	(323)	352	(323)	352
Increase/(Decrease) in Liabilities				
Increase in Accounts Payable and Other Payables	(355)	103	(355)	103
Increase/(Decrease) in Current Tax Payable Balance	(104)	–	(120)	28
Increase/(Decrease) in Non Current Employee Entitlements	166	65	166	65
NET CASH FLOWS FROM OPERATING ACTIVITIES	13,465	14,699	13,465	14,699

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

FOR THE YEAR ENDED 31 MARCH 2012

1. Summary of significant accounting policies

1.1 Statement of compliance

Marlborough Lines Limited (the Company) is a profit-oriented company incorporated in New Zealand. The Company operates primarily in the field of electricity distribution and also undertakes ancillary contracting services in relation to the Marlborough regional electricity network and other South Island regional networks in which it has investments. The 'Group' for financial reporting purposes comprises the Marlborough Lines Parent company and its fully owned subsidiary Southern Lines Limited. The Group also includes investments in the associate companies Nelson Electricity Limited, Otago Power Services Limited and the OtagoNet Joint Venture. A significant shareholding is also held in the listed electricity network owner Horizon Energy Distribution Limited.

These financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Energy Companies Act 1992. The financial statements have also been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with the New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable financial reporting standards as are appropriate for profit-oriented entities.

The consolidated financial statements comply with International Financial Reporting Standards (IFRS). The Parent company financial statements also comply with IFRS.

1.2 Basis of preparation

The financial statements have been prepared on the basis of historical cost except for the revaluation of certain financial instruments, plant, property and equipment and investment properties. Separate accounting policies are outlined below for the valuation of these types of assets. Cost is based on the fair value of the consideration given in exchange for assets.

The functional currency for the Parent and Group is the New Zealand dollar rounded to the nearest \$(000). This is also the presentation currency. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The other principal accounting policies are also detailed below.

1.3 Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements.

1.4 Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are based on historical experience and are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The key assumptions concerning the future and other key sources of estimation uncertainty at 31 March 2012, that have the potential to cause a material adjustment to the carrying amounts of assets and liabilities, are disclosed below.

The valuation of plant, property and equipment particularly in relation to the electricity distribution network has a material impact on the financial statements due to the sensitivities of the valuation methodology. Refer to note 14.

Determining whether there has been impairment in relation to goodwill requires an assessment of the value in use of the cash generating assets with which the goodwill is associated. This is undertaken by estimating the future cash flows expected to arise and using a suitable discount rate to estimate the present value of the future cash flows.

1.5 Basis of consolidation

Subsidiaries

Subsidiaries are all those entities over which the Group has control.

The Group financial statements incorporate the financial statements of the entities that comprise the consolidated Group, being the Parent company, Marlborough Lines Limited, and its subsidiary, Southern Lines Limited.

Consistent accounting policies are used in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired, is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit or loss in the period of acquisition.

In preparing the consolidated financial statements all inter-company balances and transactions and unrealised gains arising within the Group are eliminated.

Associates

Associate entities are those entities in which the Group has significant influence but not control. This is generally indicated through the holding of between 20% and 50% of the voting rights.

Investments in associates are accounted for at cost less impairment in the Parent's financial statements and using the equity method in the Group financial statements.

The Group's share of the associates post acquisition profits or losses is recognised in the Statement of Comprehensive Income and its share of post acquisition movements in reserves is recognised in reserves.

Dividends received from associates are initially recognised in the Parent financial statements. Such dividends received typically reduce the equity adjustment for the share of associates' post acquisition profits.

Joint Ventures

Joint Ventures are those entities over whose activities the Group has shared control, established by contractual agreement. These entities are accounted for using the equity method.

1.6 Goods and Services Tax (GST)

The Statement of Comprehensive Income and Statement of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Balance Sheet are stated net of GST except for receivables and payables which include GST.

1.7 Revenue recognition

Revenue comprises the fair value for the sale of goods and services, excluding GST, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of goods

Revenue from the sales of goods is recognised when an entity in the Group has delivered to the buyer the significant risks and rewards of ownership of the goods.

(ii) Contracting revenue

Contracting revenue is recognised by reference to the stage of completion at balance date measured by progress invoices calculated on the basis of the percentage of the contract completed compared to the total estimated cost.

(iii) Dividend revenue

Dividend revenue is recognised when the shareholders' right to receive payment is established.

(iv) Interest income

Interest income is recognised in the Statement of Comprehensive Income as it accrues at the effective interest rate.

(v) Capital contributions

Capital contributions received from customers towards the cost of new lines or in relation to uneconomic supply are recognised in the Statement of Comprehensive Income.

(vi) Rental income

Rental income is recognised on an accruals basis in accord with the underlying rental agreement.

(vii) Vesting income

Certain network extensions are gifted to companies in the Group in return for the company concerned assuming maintenance responsibility. In such cases the Company will capitalise the value of the asset at its fair value, being its current replacement cost, and treat the difference between the actual cost to the Company and the fair value as income.

1.8 Income tax

Current tax is based on the net profit for the period adjusted for non deductible expenditure and non assessable income.

It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences between the carrying values of the assets and liabilities in the consolidated financial statements and the corresponding tax bases of those items.

In principle deferred tax liabilities are 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 unused tax losses can be utilised.

A deferred tax liability is not recognised in relation to any taxable temporary differences arising from goodwill or in relation to temporary differences arising from the initial recognition of assets or liabilities which affect neither taxable income or accounting profit. Similarly deferred tax liabilities are not recognised where temporary differences arise on acquisition of subsidiaries, associates and joint ventures where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets or liabilities giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects at the reporting date to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company or Group intends to settle its current tax assets and liabilities on a net basis.

No other assets and liabilities have been offset unless this is specifically permitted by accounting standards.

Current and deferred tax is recognised as an expense or income in the Statement of Comprehensive Income, except when it relates to items credited or debited directly to equity, in which case the current or deferred tax is also recognised directly in equity or where it arises from the initial accounting for a business combination in which case it is taken into account in the determination of goodwill or excess.

1.9 Inventories and work in progress

Inventories predominantly comprise network system spares and materials and are valued on the basis of the lower of cost and net realisable value. Cost is determined on the basis of weighted average of purchase costs. Due allowance is made for damaged and obsolete inventory. Work in progress comprises the cost of direct materials and labour together with direct overheads.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 MARCH 2012

1.10 Plant, property and equipment and depreciation

Land and buildings are measured at fair value. Fair value is determined on the basis of a periodic independent valuation prepared by external valuers, and based on discounted cash flows or capitalisation of net income (as appropriate).

In the case of investment properties (investment properties are held specifically to earn rentals or for capital appreciation), valuation will be undertaken annually and based on observable market prices.

The electricity distribution network is measured at fair value. Fair value is determined on the basis of a periodic independent valuation prepared by external valuers based on the depreciated replacement cost methodology. The fair values are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings and electricity distribution network is not materially different from their fair values.

Any revaluation increase arising on the revaluation of land and buildings or the electricity distribution network is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit and loss, in which case the increase is credited to the Statement of Comprehensive Income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings and the electricity distribution system is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation is provided on plant, property and equipment, including freehold buildings but excluding land.

Depreciation on revalued buildings and the electricity distribution system is charged to profit and loss. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

Depreciation is calculated on a straight line basis for buildings and electricity distribution assets so as to write off the cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Plant and equipment items are depreciated on a diminishing value basis so as to expense the cost of the assets over their useful lives.

The following estimated useful lives are used in the calculation of depreciation rates:

CATEGORY		
Buildings	Straight line over	40 to 70 years
Electricity Distribution Network	Straight line over	15 to 70 years
Plant, Equipment and Motor Vehicles	Diminishing value basis	2 to 20 years

The cost of assets constructed by the Company includes all materials used in construction, direct labour and an allowance for overheads.

1.11 Impairment of assets

The Group reviews the carrying value of its tangible assets (primarily the electricity distribution network and investments) at balance date to determine whether there is any indication that the assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The Group considers that the electricity network represents a single cash generating unit for the purposes of impairment assessment.

Goodwill and other intangible assets are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment to goodwill is not subsequently reversed.

The recoverable amount is the higher of fair value less the costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, then the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in profit and loss immediately unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease. A reversal of an impairment loss is recognised in profit and loss, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.12 Intangible assets

(i) Goodwill

Goodwill representing the excess of the cost of acquisition over the fair value of identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and not subsequently reversed.

(ii) Software

Computer software is capitalised as an intangible asset on the basis of the costs incurred to acquire and bring the software into service and it is amortised over its expected useful economic life. Costs associated with developing and maintaining computer software programmes are recognised as expenses as incurred. Software has a finite life and is amortised over the period of its life (5-8 years).

(iii) Easements

Easements obtained in relation to access, construction and maintenance of electricity distribution system assets are capitalised as intangible assets to the extent of survey, legal

and registration costs and any lump sum payments made to landowners in exchange for certain rights. Such easements capitalised represent a right in perpetuity, are considered to have an infinite life and are not depreciated.

1.13 Employee benefits

Provision is made for employee entitlements accruing in relation to wages and salaries, annual leave, long service leave, retiring gratuities and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Employee benefits expected to be settled within the next 12 months are measured at the amounts expected to be paid when the obligations are settled. Provisions made in relation to employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees to the Group up to reporting date. In relation to retirement gratuities the present value calculations also provide for the probability of the employees completing employment to the point of entitlement (retirement).

Contributions to defined contribution superannuation schemes are expensed when incurred. The Group has no liability for any changing values in relation to future defined benefit obligations other than through employer contributions as all superannuation scheme funds are held by external fund managers.

1.14 Financial instruments issued by the Group

Debt and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement.

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

Financial instruments are not offset unless there is a legally enforceable right to offset.

1.15 Financial assets

(i) Investments

Investments in subsidiaries, associates and joint ventures are recognised at cost less impairment in the Parent accounts. Investments in associates are accounted for in the Group financial statements using the equity method.

(ii) Financial assets at fair value through income statement

The Group has certain derivatives which are classified as current assets or current liabilities and recorded at fair value. Any resulting gain or loss is recognised in the Statement of Comprehensive Income.

(iii) Loans and receivables

Accounts receivable are valued at amortised cost less impairment. All known bad debts have been written off during the period under review. Inter group balances due from associates and subsidiaries are stated at amortised cost less impairment.

(iv) Available for sale

These are non derivative financial assets that are designated as available for sale or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. Such financial instruments are recognised initially at cost, including related acquisition costs, and are revalued to their fair value at reporting date. Any revaluation movements are recognised in other comprehensive income.

1.16 Financial liabilities

(i) Payables

Trade payables and other accounts payable are recognised at fair value when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services, and subsequently at amortised cost.

(ii) Borrowings

Borrowings are recorded initially at fair value plus any transaction costs. Borrowings are subsequently recognised at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method. Borrowings are classified as non current liabilities where the Group holds an agreement with the lender which includes the right to settle the liability in an accounting period at least 12 months after the balance date.

Borrowing costs are expensed using the effective interest rate method. No borrowing costs have been capitalised.

1.17 Derivative financial instruments

The Group enters into interest rate swap agreements and forward foreign currency contracts to manage its exposure to interest rate and foreign exchange rate risk. Interest rate swaps are considered to be a 'Level 2' fair value measurement financial instrument. Such financial instruments are those derived from inputs that are observable for the instrument either directly or indirectly.

The Group has not designated any derivatives as hedges. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting date. The resulting gain or loss is recognised in the Statement of Comprehensive Income immediately.

The fair values of these financial derivatives are determined by reference to the market rates for interest and currency and the resulting gain or loss that would accrue if the derivative was terminated at balance date.

1.18 Foreign currency transactions

Transactions denominated in foreign currencies are translated into the reporting currency using the exchange rate in effect at the transaction date.

Foreign currency monetary items at balance date are translated at the exchange rate ruling at that date. Non-monetary assets and liabilities carried at fair value that are

Notes to the financial statements continued

FOR THE YEAR ENDED 31 MARCH 2012

denominated in foreign currencies are translated at the rates ruling at the date when the fair value was determined. Exchange differences are recognised in the Statement of Comprehensive Income in the period in which they arise.

1.19 Cash flows and definitions

Cash and cash equivalents comprise cash on hand and demand deposits and other short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the Group.

1.20 Adoption of new and revised standards, interpretations and other changes

The Company has adopted all new standards and interpretations as issued by the Financial Reporting Standards Board (except those listed in note 1.21 opposite). Those standards with a disclosure impact in these financial statements are as follows:

1.21 Standards and interpretations in issue not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 April 2012, and have not been applied in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Group, with the exception of:

(i) Amendment to NZ IAS 1 – Presentation of Financial Statements – Presentation of Items in Other Comprehensive Income

The amendment requires items of other comprehensive income to be grouped into those that will and will not subsequently be reclassified to profit or loss. Tax on items of other comprehensive income is required to be allocated on the same basis, while the measurement and recognition of items of profit or loss and other comprehensive income are not affected by the amendments. These amendments come into effect for periods beginning on or after 1 July 2012 and have not been early adopted by the Group.

(ii) IFRS 13 Fair Value Measurement

Issued in May 2011 by the IASB, the standard will become effective from 1 January 2013. The potential impact of this new standard has not yet been assessed. This is expected to be adopted by the Group for the year ended 31 March 2014.

2. Income

	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
Network Revenue	34,773	33,477	34,773	33,477
Operating Revenue – Related Parties	5,088	5,531	–	–
Transmission Loss Rental Rebates	498	521	498	521
Interest Income:				
– Bank Deposits	48	22	48	22
– Related Parties	–	–	5,088	5,531
External Contracting Revenue	3,085	3,766	3,085	3,766
Property Rentals:				
– Investment Properties	48	48	48	48
– Other Properties	56	44	56	44
Dividends:				
– Equity Accounted Associates	900	900	900	900
– Others	625	354	625	354
Capital Contributions	580	1,006	580	1,006
Vested Assets	731	1,494	731	1,494
Miscellaneous Income	1,222	893	1,222	893
Total	47,654	48,056	47,654	48,056

3. Expenditure

	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
Profit before taxation has been arrived at after charging:				
Remuneration of Auditors:				
– Audit of the Financial Statements	72	70	72	70
– Other Audit Related Services Provided by the Principal Auditor	24	18	24	18
Directors' Fees	240	249	240	249
Depreciation:				
– Buildings	251	236	251	236
– Network Reticulation System	6,255	6,018	6,223	5,986
– Plant and Equipment	899	1,237	899	1,237
Amortisation Expense	225	96	225	96
Bad Debts Written Off	38	23	38	23
Employee Benefits:				
– Retirement Gratuities	253	51	253	51
– Employer Superannuation Contributions (Defined Contribution Schemes)	115	108	115	108
Donations (Educational Grants)	30	22	30	22
Loss on Disposal of Plant, Property and Equipment	1,071	921	1,071	921
Rental and Operating Lease Expenses	21	21	21	21

4. Taxation

4.1 Income tax expense recognised in the Statement of Comprehensive Income

	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
Tax expense comprises:				
Current Tax Expense/(Income)	2,000	2,427	2,057	2,455
Adjustments Recognised in the Current Year in Relation to the Current Tax of Prior Years	(4)	36	(4)	36
Deferred Tax Expense Relating to the Origination and Reversal of Temporary Differences and Net of Change in Tax Rate	(91)	406	(177)	365
Total Tax Expense	1,905	2,869	1,876	2,856

The prima facie income tax expense on pre tax accounting profit reconciles to the income tax expense in the financial statements as follows:

Profit Before Tax from Continuing Operations	10,021	4,909	8,311	9,725
Prima Facie Income Tax Calculated at 28% (2011:30%)	2,806	1,473	2,327	2,918
Tax effect of:				
Non Deductible Items	3,683	5,902	2,633	2,933
Non Assessable Items	(4,580)	(4,542)	(3,080)	(3,031)
Under/(Over) Provision of Income Tax in Previous Year	(4)	36	(4)	36
Income Tax Expense Recognised in the Statement of Comprehensive Income	1,905	2,869	1,876	2,856

Included in the income tax expense for 2012 is a credit of nil (2011 \$1.998m for the Company and \$2.057m for the Group) resulting from the reduction in company tax rate to 28%.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 MARCH 2012

4.2 Deferred taxation

	OPENING BALANCE \$(000)	CHARGED TO INCOME \$(000)	CHARGED TO EQUITY \$(000)	OTHER \$(000)	CLOSING BALANCE \$(000)
CONSOLIDATED GROUP FOR THE YEAR ENDED 31 MARCH 2012					
Deferred Tax Liabilities					
Plant, Property and Equipment	50,814	(93)	–	–	50,721
	50,814	(93)	–	–	50,721
Deferred Tax Assets					
Provisions	(347)	11	–	–	(336)
Doubtful Debts and Impairment Losses	(37)	(9)	–	–	(46)
	(384)	2	–	–	(382)
Net Deferred Tax Liability	50,430	(91)	–	–	50,339

CONSOLIDATED GROUP FOR THE YEAR ENDED 31 MARCH 2011

Deferred Tax Liabilities					
Plant, Property and Equipment	48,073	449	2,292	–	50,814
	48,073	449	2,292	–	50,814
Deferred Tax Assets					
Provisions	(315)	(32)	–	–	(347)
Doubtful Debts and Impairment Losses	(26)	(11)	–	–	(37)
	(341)	(43)	–	–	(384)
Net Deferred Tax Liability	47,732	406	2,292	–	50,430

PARENT FOR THE YEAR ENDED 31 MARCH 2012

Deferred Tax Liabilities					
Plant, Property and Equipment	43,400	(179)	–	–	43,221
	43,400	(179)	–	–	43,221
Deferred Tax Assets					
Provisions	(346)	11	–	–	(335)
Doubtful Debts and Impairment Losses	(36)	(9)	–	–	(45)
	(382)	2	–	–	(380)
Net Deferred Tax Liability	43,018	(177)	–	–	42,841

PARENT FOR THE YEAR ENDED 31 MARCH 2011

Deferred Tax Liabilities					
Plant, Property and Equipment	43,898	408	(906)	–	43,400
	43,898	408	(906)	–	43,400
Deferred Tax Assets					
Provisions	(314)	(32)	–	–	(346)
Doubtful Debts and Impairment Losses	(25)	(11)	–	–	(36)
	(339)	(43)	–	–	(382)
Net Deferred Tax Liability	43,559	365	(906)	–	43,018

Included in income tax recognised in equity for 2012 is a credit of nil (2011 \$0.906m for the Company and \$1.125m for the Group) resulting from the reduction in company tax rate to 28%.

4.3 Imputation credit memorandum account

	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
Balance at Beginning of Year	28,699	26,233	27,692	25,379
Imputation Credits Attached to Dividends Paid in the Year	(661)	(750)	(661)	(750)
Imputation Credits Attached to Dividends Received	841	706	644	553
Tax Refund/Transfer	(44)	–	(44)	–
Income Tax Payments During the Year	2,178	2,510	2,178	2,510
Balance at End of Year	31,013	28,699	29,809	27,692

5. Share capital

5.1 Shareholding

Marlborough Lines' shares are held by the Trustees to the Marlborough Electric Power Trust. The Company issued 28 million \$1 shares at incorporation in 1993. A small residual value in a share premium reserve was previously absorbed into the share capital value to arrive at the present value. The authorised capital is 28,000,000 shares and all shares are fully paid up. All shares carry equal rights to distributions.

5.2 Share capital

	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
28 million Ordinary Shares	29,026	29,026	29,026	29,026

6. Retained earnings/revaluation reserves

	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
Retained Earnings Balance at Beginning of Year	149,046	148,756	149,922	144,803
Net Profit for the Year	8,116	2,040	6,435	6,869
Dividends	(1,700)	(1,750)	(1,700)	(1,750)
Retained Earnings Balance at End of Year	155,462	149,046	154,657	149,922
Revaluation Reserve Balance at Beginning of Year	55,538	44,662	38,544	37,638
Transfers to Revaluation Reserves	–	10,876	–	906
Revaluation Reserve Balance at End of Year	55,538	55,538	38,544	38,544
Total Retained Earnings and Revaluation Reserves	211,000	204,584	193,201	188,466

The Parent company's associate Nelson Electricity Limited revalued its assets to adjusted depreciated replacement cost at 1 April 2010. In accordance with NZ IAS 28 the Parent company's share of this revaluation is reflected in the carrying amount of the investment and in the Revaluation Reserve.

The Parent company and Group revaluation reserve comprises revaluations in the following categories:

	2,905	2,905	2,905	2,905
Land and Buildings	2,905	2,905	2,905	2,905
Reticulation System Assets	35,858	35,858	35,639	35,639
Associate Entities	16,775	16,775	–	–
Total	55,538	55,538	38,544	38,544

Notes to the financial statements continued

FOR THE YEAR ENDED 31 MARCH 2012

7. Trade and other receivables

	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
The balance of Accounts Receivable comprises:				
Network and Other Trade Debtors	3,701	3,705	3,701	3,705
GST Receivable	886	817	886	817
Allowance for Impairment of Accounts Receivable	(94)	(128)	(94)	(128)
Total	4,493	4,394	4,493	4,394

Included in the Company's trade receivables balance are debtors with a carrying value of \$129,850 (2011 \$208,000) which are past due at reporting date. The Company has provided for \$94,483 (2011 \$127,787) of this balance through the allowance for impairment in the table above. The remaining amount has not been provided for as there has been no significant change in the credit quality and the amounts are considered recoverable.

8. Inventories and work in progress

	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
Reticulation Stock	4,621	4,295	4,621	4,295
Work in Progress	–	3	–	3
Total	4,621	4,298	4,621	4,298

9. Trade and other payables

	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
In current liabilities the balance of Trade and Other Payables comprises:				
Trade Creditors	2,458	3,155	2,458	3,155
Other Current Financial Liabilities:				
– Foreign Exchange Hedge Instruments	–	–	–	–
– Interest Rate Swaps	496	154	496	154
Employee Entitlements (Annual Leave)	808	818	808	818
Total	3,762	4,127	3,762	4,127

Employee entitlements in non current liabilities recognises the Company's liability for retirement gratuities.

10. Non current borrowings

The Parent company operates a term debt facility with the Westpac Banking Group.

	FACILITY LIMIT	MATURITY DATE	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
Bank Term Debt Facility	\$42m	30 April 2013	39,300	38,100	39,300	38,100

No security has been issued by Marlborough Lines Limited in respect of the Company's loans. Southern Lines Limited has provided a guarantee. The interest rate is linked to the 90 day Bank Bill Rate. The effective rate at 31 March was 3.84% (2011: 3.68%).

This Westpac facility has been in place since 2002. The maturity date is set two to three years forward to ensure that the facility is a term liability in nature.

11. Other non current liabilities – employee entitlements

The Company makes provision for the payment of retirement gratuities to staff who were employed by Marlborough Lines Limited prior to 1992. Calculation of the present value of the provision at the end of each year is undertaken on an actuarial basis.

The discount rate used in the valuation is the 10 year NZ Government bond rate.

	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
Employee Entitlements	681	505	681	505

12. Plant, property and equipment – Group

GROUP	CAPITAL WORK IN PROGRESS AT COST \$(000)	LAND AT FAIR VALUE \$(000)	BUILDINGS AT FAIR VALUE \$(000)	ELECTRICITY RETICULATION NETWORK AT FAIR VALUE \$(000)	PLANT AND EQUIPMENT AT COST \$(000)	TOTAL \$(000)
Cost or Valuation						
Balance 1 April 2010	1,608	7,592	15,890	325,585	11,616	362,291
Additions	1,073	186	1,004	13,894	535	16,692
Revaluations	–	–	–	–	–	–
Disposals/Adjustments	(1,608)	–	(16)	(2,578)	(416)	(4,618)
Balance 31 March 2011	1,073	7,778	16,878	336,901	11,735	374,365
Additions	1,899	352	607	10,395	1,081	14,334
Revaluations	–	–	–	–	–	–
Disposals/Adjustments	(1,073)	–	(94)	(3,769)	(168)	(5,104)
Balance 31 March 2012	1,899	8,130	17,391	343,527	12,648	383,595

Accumulated Depreciation and Impairment

Balance 1 April 2010	–	–	5,959	142,445	7,900	156,304
Disposals/Adjustments	–	–	–	(1,652)	(364)	(2,016)
Revaluations	–	–	–	–	–	–
Depreciation Expense	–	–	236	6,018	1,237	7,491
Balance 31 March 2011	–	–	6,195	146,811	8,773	161,779
Disposals/Adjustments	–	–	–	(2,698)	(193)	(2,891)
Depreciation Expense	–	–	251	6,255	899	7,405
Revaluation Adjustments	–	–	–	–	–	–
Balance 31 March 2012	–	–	6,446	150,368	9,479	166,293
Net Book Value as at 31 March 2011	1,073	7,778	10,683	190,090	2,962	212,586
Net Book Value as at 31 March 2012	1,899	8,130	10,945	193,159	3,169	217,302

Notes to the financial statements continued

FOR THE YEAR ENDED 31 MARCH 2012

13. Plant, property and equipment – Parent entity

PARENT ENTITY	CAPITAL WORK IN PROGRESS AT COST \$(000)	LAND AT FAIR VALUE \$(000)	BUILDINGS AT FAIR VALUE \$(000)	ELECTRICITY RETICULATION NETWORK AT FAIR VALUE \$(000)	PLANT AND EQUIPMENT AT COST \$(000)	TOTAL \$(000)
Cost or Valuation						
Balance 1 April 2010	1,608	7,592	15,890	325,151	11,616	361,857
Additions	1,073	186	1,004	13,894	535	16,692
Revaluations	–	–	–	–	–	–
Disposals/Adjustments	(1,608)	–	(16)	(2,578)	(416)	(4,618)
Balance 31 March 2011	1,073	7,778	16,878	336,467	11,735	373,931
Additions	1,899	352	607	10,396	1,081	14,335
Revaluations	–	–	–	–	–	–
Disposals/Adjustments	(1,073)	–	(94)	(3,769)	(168)	(5,104)
Balance 31 March 2012	1,899	8,130	17,391	343,094	12,648	383,162
Accumulated Depreciation and Impairment						
Balance 1 April 2010	–	–	5,959	142,224	7,899	156,082
Disposals/Adjustments	–	–	–	(1,652)	(364)	(2,016)
Revaluations	–	–	–	–	–	–
Depreciation Expense	–	–	236	5,986	1,237	7,459
Balance 31 March 2011	–	–	6,195	146,558	8,772	161,525
Disposals/Adjustments	–	–	–	(2,698)	(192)	(2,890)
Depreciation Expense	–	–	251	6,223	899	7,373
Revaluation Adjustments	–	–	–	–	–	–
Balance 31 March 2012	–	–	6,446	150,083	9,479	166,008
Net Book Value as at 31 March 2011	1,073	7,778	10,683	189,909	2,963	212,406
Net Book Value as at 31 March 2012	1,899	8,130	10,945	193,011	3,169	217,154

14. Plant, property and equipment – continued

Carrying amounts of plant, property and equipment had they been recognised under the cost model.

	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
Land	3,833	3,482	3,833	3,482
Buildings	7,110	6,922	7,110	6,922
Electricity Reticulation Network	50,439	46,532	50,291	46,352
Plant and Equipment	3,506	3,132	3,506	3,132
Total	64,888	60,068	64,740	59,888

Reticulation system assets belonging to the Parent company were revalued as at 1 April 2009 to fair value using depreciated replacement cost methodology as assessed and certified by independent valuers Lynne Taylor and Chris Taylor of PricewaterhouseCoopers. Subsequent additions are recorded at cost.

Land and buildings belonging to the Parent company were revalued to fair value as at 1 April 2009 in accord with values provided by Hadley and Lyall Limited, registered property valuers. Subsequent additions are recorded at cost.

The Parent company's plant and equipment assets are recorded at cost less depreciation. The Company's Directors are of the view that there is no significant impairment in value existing in relation to the carrying values both at the recognition date for NZ IFRS purposes (1 April 2006) and at subsequent balance dates following the addition of new purchases at cost, annual depreciation charges and disposals in the usual course of business.

Regulatory valuation – modified Optimised Deprival Valuation

The latest modified ODV (Regulatory Asset Value) for the Parent and the Marlborough Network System assets is \$187.8m as at 31 March 2011.

The latest equivalent value for the Nelson Electricity Limited Network System assets (50% owned by the Marlborough Lines Group) is \$25.6m as at 31 March 2011.

The latest equivalent value for the OtagoNet Network System assets (51% owned by the Marlborough Lines Group) is \$127.3m as at 31 March 2011.

15. Investment property

	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
Opening Balance as at 1 April 2011	2,210	2,210	2,210	2,210
Acquisitions	–	–	–	–
Disposals	–	–	–	–
Revaluation Gains/(Losses)	–	–	–	–
Closing Balance as at 31 March 2012	2,210	2,210	2,210	2,210

The Parent company has one investment property which is carried at fair value as at 31 March 2012. This property was valued by Alexander Hayward Limited, registered property valuers, in accord with NZ Property Practice Standard 3. This property is subject to a five year lease at balance date and is expected to generate \$48,000 in lease revenue in the 2013 financial year.

16. Intangible assets – Parent and Consolidated Group

PARENT AND CONSOLIDATED GROUP	SOFTWARE \$(000)	EASEMENTS \$(000)	TOTAL \$(000)
Cost			
Balance at 1 April 2010	2,102	695	2,797
Additions	198	149	347
Disposals	(50)	–	(50)
Balance at 31 March 2011	2,250	844	3,094
Additions	364	152	516
Disposals	–	–	–
Balance at 31 March 2012	2,614	996	3,610

Accumulated Amortisation and Impairment

Balance at 1 April 2010	1,844	–	1,844
Amortisation Expense	96	–	96
Disposals	(49)	–	(49)
Balance at 31 March 2011	1,891	–	1,891
Amortisation Expense	225	–	225
Disposals	–	–	–
Balance at 31 March 2012	2,116	–	2,116
Net Book Value as at 31 March 2011	359	844	1,203
Net Book Value as at 31 March 2012	498	996	1,494

Notes to the financial statements continued

FOR THE YEAR ENDED 31 MARCH 2012

17. Investments

17.1 Marlborough Lines investments in subsidiaries

		2012 % INTEREST HELD – 100	2011 % INTEREST HELD – 100
Name of Entity	Southern Lines Limited	100	100
Principal Activity	Investments in Electricity Networks		
Balance Date	31 March		
Capital Investment Date	30 June 2002		
		\$(000)	\$(000)
Shares		5,000	5,000
Term Loan		26,000	26,000
Shareholder Loan		21,683	21,463
Total		52,683	52,463

17.2 Marlborough Lines investments in associate entities

		2012 % INTEREST HELD – 100	2011 % INTEREST HELD – 100
Name of Entity	Nelson Electricity Limited	50	50
Principal Activity	Electricity Network Operator		
Balance Date	31 March		
Acquisition Date	19 June 1996		

17.3 Southern Lines investments in associates (Otago Power Services Limited)

Name of Entity	Otago Power Services Limited	51	51
Principal Activity	Electricity Network Construction and Maintenance		
Balance Date	31 March		
Acquisition Date	30 June 2002		

This investment is treated as an associate for accounting purposes because effective control of Otago Power Services is shared on an equal basis with the other shareholders.

17.4 Southern Lines investments in associates (OtagoNet Joint Venture)

Name of Entity	OtagoNet Joint Venture	51	51
Principal Activity	Owner of Otago Regional Electricity Network		
Balance Date	31 March		
Acquisition Date	30 June 2002		

17.5 Results of the Group's associate entities

	GROUP 2012 \$(000)	GROUP 2011 \$(000)
The Group share of the results of its associate entities is as follows:		
Share of Surpluses Before Tax	8,475	2,498
Less Taxation	(784)	(874)
Less Dividends/Distributions Received	(5,949)	(6,408)
(Loss)/Gain Attributable to Associate Entities	1,742	(4,784)

17.6 Interest in associate entities (Nelson Electricity Limited)

	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
Shares	12,950	12,950	12,950	12,950
Less Share Repurchase (2001)	(2,500)	(2,500)	(2,500)	(2,500)
Plus Share of Associate Revaluation	3,563	3,489	–	–
Less Share of Post Acquisition Results	(1,736)	(1,996)	–	–
Interest in Associate Entity (Excluding Goodwill)	12,277	11,943	10,450	10,450
Current Balance Associate Goodwill	1,220	1,220	1,220	1,220
Total Interest in Associate Entities	89,519	87,484	11,670	11,670

17.7 Interest in associate entities (Otago Power Services Limited)

Shares	535	535	–	–
Plus/Less Share of Post Acquisition Results	1,726	1,608	–	–
Plus Term Advance to Associate Entity	831	611	–	–
Interest in Associate Entity (Excluding Goodwill)	3,092	2,754	–	–

17.8 Interest in associate entities (OtagoNet Joint Venture)

Joint Venture Capital	55,335	55,335	–	–
Plus/Less Share of Post Acquisition Results	893	(470)	–	–
Plus Share of Associate Revaluation	16,702	16,702	–	–
Interest in Associate Entity	72,930	71,567	–	–

17.9 Marlborough Lines share in associate capital commitments and contingencies (50%)

		2012 \$(000)	2011 \$(000)
Nelson Electricity Limited	Capital Commitments	165	170
	Contingencies	–	–

17.10 Southern Lines share in associate capital commitments and contingencies (51%)

Otago Power Services Limited	Capital Commitments	–	–
	Contingencies	–	–
OtagoNet Joint Venture	Capital Commitments	1,973	2,435
	Contingencies	–	–

17.11 Marlborough Lines share of associate (Nelson Electricity Limited) assets, liabilities, revenue and expenditure

Assets as at 31 March	34,699	34,990
Liabilities as at 31 March	3,697	4,510
Revenue for Year Ended 31 March	9,394	9,083
Net Profit After Tax	2,322	2,199
Share of Profit (50%)	1,161	1,099

Notes to the financial statements continued

FOR THE YEAR ENDED 31 MARCH 2012

17.12 Southern Lines share of associate (Otago Power Services Limited) assets, liabilities, revenue and expenditure

	2012 \$(000)	2011 \$(000)
Assets as at 31 March	7,861	7,464
Liabilities as at 31 March	3,534	3,373
Revenue for Year Ended 31 March	11,688	11,132
Net Profit After Tax	1,142	1,183
Share of Profit (51%)	582	603

17.13 Southern Lines share of associate (OtagoNet Joint Venture) assets, liabilities, revenue and expenditure

Assets as at 31 March	145,198	143,226
Liabilities as at 31 March	2,198	2,900
Revenue for Year Ended 31 March	30,808	30,086
Net Profit Before Tax	11,673	(167)
Share of Profit (51%)	5,953	(85)

17.14 Revaluation of plant, property and equipment in associates

	NET REVALUATION INCREASE 2012 \$(000)	GROUP'S SHARE 2012 \$(000)	NET REVALUATION INCREASE 2011 \$(000)	GROUP'S SHARE 2011 \$(000)
During the year the following associates revalued their network assets:				
OtagoNet Joint Venture	–	–	22,188	11,316
Nelson Electricity Limited	–	–	3,704	1,852
Total	–	–	25,892	13,168

In accordance with NZ IAS 28 'Investment in Associates' the Group's share of Associate Other Comprehensive Income has been recognised as Other Comprehensive Income in the Group accounts.

18. Current provisions

	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
PROVISION				
Allowance for Impairment of Receivables				
Opening Balance	128	86	128	86
Debts Written Off Against Provision	(36)	(5)	(36)	(5)
Additions to Provision	2	47	2	47
Closing Balance	94	128	94	128

19. Dividends

	GROUP 2012	GROUP 2011	PARENT 2012	PARENT 2011
Amounts recognised as distributions to equity holders in the period:				
Total Dividends (\$000)	1,700	1,750	1,700	1,750
Cents per Share	6.071	6.250	6.071	6.250

20. Commitments

20.1 Capital commitments

	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
Capital Expenditure Committed to at Balance Date but Not Recognised in the Financial Statements	2,402	2,369	2,402	2,369

20.2 Operating leases

(a) Operating Lease Commitments Payable

The Parent company leases a small number of indoor substation sites and rural radio repeater sites and is subject generally to rental commitments for at least ten years going forward.

The Parent company also leases various plant and machinery under cancellable operating lease agreements. The lease expenditure charged to the income statement during the year is disclosed in note 3.

	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:				
No Later than One Year	26	25	26	25
Later than One Year and No Later than Five Years	96	106	96	106
Later than Five Years	221	189	221	189
	343	320	343	320

21. Contingent liabilities

As at 31 March 2012 the Company has no contingent liabilities.

22. Financial instruments

22.1 Credit risk

Credit risk is the risk that an outside party will not be able to meet its obligations to the Group resulting in financial loss to the Group. Financial instruments which potentially subject the Group to concentrations of credit risk consist principally of cash deposits, short term deposits and trade receivables.

The maximum credit risk is the book value of these financial instruments, however, the Group considers the risk of non-recovery of these amounts to be minimal. The Group places its cash deposits with high credit quality financial institutions. Credit risk exists in respect of accounts receivable. The Group is able to impose bond requirements on retailers trading across its network in accord with the Use of System Agreements held with the retailers. The amounts presented in the Balance Sheet are net of allowances for doubtful receivables, estimated by the Company's management based on prior experience and their views in relation to the current trading environment. See also note 18.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 MARCH 2012

22.2 Interest rate risk

Interest rate risk is the risk that interest rates will change, increasing or decreasing the cost of borrowing or lending. The Group's short term deposits are at fixed interest rates and mature within one year. Interest rates on non-current borrowings are linked to the 90 day Bank Bill Rate (Westpac Bank buy rates).

During the past year the Company has undertaken to hedge a portion of its interest rate exposure using interest rate swaps.

	INTEREST RATE %	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
Interest rate swaps in place as at 31 March 2012 were as follows:					
Maturing in Less than One Year	3.76	2,000	10,000	2,000	10,000
Maturing in Greater than:					
– One Year	4.01	4,000	2,000	4,000	2,000
– Two Years	4.09	7,000	4,000	7,000	4,000
– Three Years	4.25	5,000	2,000	5,000	2,000
– Four Years	4.20	4,000	3,000	4,000	3,000
– Five Years	–	–	4,000	–	4,000

Interest rate sensitivity

The sensitivity analysis provided below assesses the Company's exposure to significant interest rate movement in relation to the quantum of term debt facility (see note 10) drawn down at balance date.

At reporting date, if interest rates had been 50 basis points lower or higher the Group's net profit would increase/decrease by \$196,500 (2011 \$190,351).

22.3 Currency risk

Currency risk is the risk that amounts payable in foreign currencies will change due to movements in exchange rates. The Company enters into foreign currency forward exchange contracts in order to manage its exposure to fluctuations in foreign currency exchange rates on the purchase of specific plant and equipment items from overseas suppliers.

As at 31 March 2012 Marlborough Lines Limited had no foreign currency contracts outstanding (2011 – Nil).

22.4 Liquidity risk

Liquidity risk is the risk that the Group may not have the financial ability to meet payment commitments as they fall due. The Group assesses its liquidity requirements on a regular basis and has funding arrangements in place to cover short term variations and shortfalls where capital expenditure requirements cannot be met from operating cash flows.

22.5 Fair values

The carrying amount of cash and cash equivalents, trade receivables, trade payables and non-current borrowings and other financial assets and liabilities reflect their fair values.

Investments in subsidiaries and equity accounted investments have not been fair valued as there is no observable market price.

22.6 Maturity analysis

All financial assets and liabilities mature within 12 months except for investments in subsidiaries and those accounted for using equity accounting which have no maturity date (Term loans are discussed in note 10).

22.7 Capital management

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern. The capital structure comprises share capital (note 5), reserves and retained earnings (note 6). The entity reviews the capital structure as part of its annual budgeting process and at intervals throughout the year when budgets are subject to review and reset.

Marlborough Lines Limited and its subsidiary Southern Lines Limited are subject to a number of banking covenants in relation to the term debt facility outlined in note 10.

There have been no material changes to the Group's management of capital during the reporting period.

22.8 Classification of financial instruments

	AVAILABLE FOR SALE FINANCIAL ASSETS \$(000)	LOANS AND RECEIVABLES \$(000)	OTHER \$(000)	OTHER AMORTISED COST \$(000)	TOTAL CARRYING AMOUNT \$(000)
CONSOLIDATED GROUP AS AT 31 MARCH 2012					
Current Assets					
Cash and Cash Equivalents	–	171	–	–	171
Trade and Other Receivables	–	4,493	–	–	4,493
Other Current Financial Assets	–	–	–	–	–
Non Current Assets					
Investment in Horizon Energy Distribution Limited	14,474	–	–	–	14,474
Investments Accounted for Using the Equity Method	–	–	–	89,519	89,519
Total Financial Assets	14,474	4,664	–	89,519	108,657
Current Liabilities					
Trade and Other Payables	–	–	–	2,458	2,458
Other Current Financial Liabilities	–	–	496	–	496
Employee Entitlements	–	–	–	808	808
Non Current Liabilities					
Term Loans	–	–	–	39,300	39,300
Employee Entitlements	–	–	–	681	681
Total Financial Liabilities	–	–	496	43,247	43,743
CONSOLIDATED GROUP AS AT 31 MARCH 2011					
Current Assets					
Cash and Cash Equivalents	–	403	–	–	403
Trade and Other Receivables	–	4,394	–	–	4,394
Other Current Financial Assets	–	–	–	–	–
Non Current Assets					
Investment in Horizon Energy Distribution Limited	14,474	–	–	–	14,474
Investments Accounted for Using the Equity Method	–	–	–	87,484	87,484
Total Financial Assets	14,474	4,797	–	87,484	106,755
Current Liabilities					
Trade and Other Payables	–	–	–	3,155	3,155
Other Current Financial Liabilities	–	–	154	–	154
Employee Entitlements	–	–	–	818	818
Non Current Liabilities					
Term Loans	–	–	–	38,100	38,100
Employee Entitlements	–	–	–	505	505
Total Financial Liabilities	–	–	154	42,578	42,732

Notes to the financial statements continued

FOR THE YEAR ENDED 31 MARCH 2012

22.8 Classification of financial instruments – continued

	AVAILABLE FOR SALE FINANCIAL ASSETS \$(000)	LOANS AND RECEIVABLES \$(000)	OTHER \$(000)	OTHER AMORTISED COST \$(000)	TOTAL CARRYING AMOUNT \$(000)
PARENT AS AT 31 MARCH 2012					
Current Assets					
Cash and Cash Equivalents	–	171	–	–	171
Trade and Other Receivables	–	4,493	–	–	4,493
Non Current Assets					
Investment in Horizon Energy Distribution Limited	14,474	–	–	–	14,474
Investment in Subsidiaries	–	–	5,000	47,683	52,683
Investments Accounted for Using the Equity Method	–	–	11,670	–	11,670
Total Financial Assets	14,474	4,664	16,670	47,683	83,491
Current Liabilities					
Trade and Other Payables	–	–	–	2,458	2,458
Other Current Financial Liabilities	–	–	496	–	496
Employee Entitlements	–	–	–	808	808
Non Current Liabilities					
Term Loans	–	–	–	39,300	39,300
Employee Entitlements	–	–	–	681	681
Total Financial Liabilities	–	–	496	43,247	43,743
PARENT AS AT 31 MARCH 2011					
Current Assets					
Cash and Cash Equivalents	–	403	–	–	403
Trade and Other Receivables	–	4,394	–	–	4,394
Non Current Assets					
Investment in Horizon Energy Distribution Limited	14,474	–	–	–	14,474
Investment in Subsidiaries	–	–	5,000	49,722	54,722
Investments Accounted for Using the Equity Method	–	–	11,670	–	11,670
Total Financial Assets	14,474	4,797	16,670	49,722	85,663
Current Liabilities					
Trade and Other Payables	–	–	–	3,155	3,155
Other Current Financial Liabilities	–	–	154	–	154
Employee Entitlements	–	–	–	818	818
Non Current Liabilities					
Term Loans	–	–	–	38,100	38,100
Employee Entitlements	–	–	–	505	505
Total Financial Liabilities	–	–	154	42,578	42,732

23. Key management personnel

The compensation of the Directors and Executives being the key management personnel of the entity is set out below.

	GROUP 2012 \$(000)	GROUP 2011 \$(000)	PARENT 2012 \$(000)	PARENT 2011 \$(000)
Directors' Fees	240	249	240	249
Salaries and Short Term Employee Benefits	1,483	1,466	1,483	1,466
Termination Benefits	231	100	231	100
Total	1,954	1,815	1,954	1,815

24. Group entities

Investments in subsidiaries, associates and other entities within the Marlborough Lines Limited Group as at 31 March were as follows:

	EFFECTIVE OWNERSHIP 2012	EFFECTIVE OWNERSHIP 2011	YEAR END
Southern Lines Limited	100%	100%	31 March
Nelson Electricity Limited	50%	50%	31 March
OtagoNet Joint Venture	51%	51%	31 March
Otago Power Services Limited	51%	51%	31 March
Horizon Energy Distribution Limited	13.89%	13.89%	31 March

All shares in the Parent entity Marlborough Lines Limited are held by the Trustees of the Marlborough Electric Power Trust.

25. Related parties

25.1 Marlborough Electric Power Trust

The Company pays dividends to the Marlborough Electric Power Trust. The Company contracts to provide information to the Trust to enable trustee elections to be undertaken every two years. The Company may also make short term advances to the Trust.

	2012 \$(000)	2011 \$(000)
Dividends Paid to the Trust	1,700	1,750
Administrative Costs Charged to the Trust	–	–
Amounts Owed by the Trust to the Company as at 31 March	–	–

25.2 Parties associated with Directors

During the year Marlborough Lines purchased goods and services from Cuddon Limited, a Company in which a Marlborough Lines Director is a director. These services cost \$79,648 (2011 \$47,713). All services were received and supplied on normal commercial terms. The balance outstanding at year end was \$6,291 (2011 \$5,624).

The Parent company and Group did not undertake any other transactions with parties associated with Directors of Marlborough Lines Limited.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 MARCH 2012

25.3 Subsidiary companies – Southern Lines Limited

Marlborough Lines' investment subsidiary Southern Lines Limited funded its purchase of its OtagoNet Joint Venture investment through a mixture of fixed term debt and shareholder debt.

	2012 \$(000)	2011 \$(000)
Term Debt Borrowing from Marlborough Lines Limited	26,000	26,000
Shareholder Loans from Marlborough Lines Limited	21,683	21,463
Interest Payments to Marlborough Lines Limited	5,088	5,531

25.4 Associate entities – Nelson Electricity Limited

Nelson Electricity Limited is considered an associate company for accounting purposes by virtue of Marlborough Lines Limited owning 50% of that company's shares. Effective control is shared with one other shareholder. During the year the Company provided management and accounting services to Nelson Electricity Limited and these services were charged for at commercial rates. Marlborough Lines also received dividends from Nelson Electricity Limited.

	2012 \$(000)	2011 \$(000)
Director's Fees Paid to Marlborough Lines for Mr K Forrest	15	15
Management Fees Charged to Nelson Electricity by the Company	257	257
Amounts Owed by Nelson Electricity	52	52

25.5 Associate entities – Otago Power Services Limited

Otago Power Services Limited is considered an associate company for accounting purposes by virtue of Southern Lines Limited owning 51% of that company's shares. Effective control is shared with two other shareholders. Southern Lines Limited also received dividends from Otago Power Services Limited. Marlborough Lines Contracting provides management services and both companies contract with and invoice each other for a variety of contracting work undertaken at commercial rates.

	2012 \$(000)	2011 \$(000)
Dividend Paid by Otago Power Services to Southern Lines	459	357
Director's Fees Paid to Marlborough Lines for Mr K Forrest	14	14
Interest Received by Southern Lines for Short Term Advances	39	22
Management Fees Paid by Otago Power Services to Marlborough Lines	230	230
Services Provided by Otago Power Services to Marlborough Lines	–	66
Services Provided by Marlborough Lines to Otago Power Services	15	36
Director's Fees Owed by Otago Power Services to Marlborough Lines in respect of Mr K Forrest	4	4
Management Fees Owed by Otago Power Services to Marlborough Lines	19	19

25.6 Joint venture investment

Marlborough Lines' subsidiary Southern Lines Limited owns 51% of the OtagoNet Joint Venture.

	2012 \$(000)	2011 \$(000)
Revenue Received from the OtagoNet Joint Venture	4,590	5,151
Management Fees Paid to Marlborough Lines	115	115
Management Fees Paid to Marlborough Lines for Mr K Forrest	25	20
Management Fees Owed by the OtagoNet Joint Venture to Marlborough Lines	18	–

25.7 Common ownership

Southern Lines Limited owns 51% of the OtagoNet Joint Venture and Otago Power Services Limited. The balance of ownership in both entities is held by two Southland based holding companies which are subsidiaries of The Power Company Limited and Electricity Invercargill Limited. Otago Power Services Limited provides network maintenance and construction services to the OtagoNet Joint Venture. Marlborough Lines and Otago Power Services also contract with each other at commercial rates for network construction and maintenance.

25.8 Key management personnel

For part of the year Marlborough Lines Limited contracted with Stronach Power Consulting Limited for the provision of engineering management. Under NZ IAS 24 this contract meets the criteria for key management personnel and Stronach Power Consulting Limited is thus a related party.

	2012 \$(000)	2011 \$(000)
Payments Made to Stronach Power Consulting Limited	2	78

26. Events subsequent to balance date

On 30 May 2012 Horizon Energy Distribution Limited announced an audited net profit after tax of \$6.4 million for the year ended 31 March 2012. A fully imputed dividend of 9.0 cents per share will be paid on 28 June 2012. The total dividend of 17.0 cents for the year, which includes the interim dividend of 8.0 cents per share paid in December 2011, is the same total dividend as paid in 2011.

The Directors are not aware of any matter or circumstance since the end of the financial year not otherwise dealt with in these financial statements, that has or may significantly affect the operations of the Marlborough Lines Limited Parent or Group operations.

Performance report

FOR THE YEAR ENDED 31 MARCH 2012 (STATISTICS FOR PARENT COMPANY)

Explanatory Note: Requirements of Sections 39 and 44 of the Energy Companies Act 1992

Marlborough Lines is required to publish a Statement of Corporate Intent each year which must be approved by the Company's shareholders prior to publication. This document must include a number of financial and operational targets, and the Performance Report detailed on this page notes the Company's performance against these targets for the year in review.

TARGET	RESULT
1 To achieve a percentage net operating surplus after interest and tax to shareholders' funds of at least 4.50%, adding back discounts and using DRC to establish the value of net assets/shareholders' funds.	Achieved 5.08% on average shareholders' funds of \$219.8m for the year. This result is after including Marlborough Lines network assets at Depreciated Replacement Cost (a higher value than the regulatory Optimised Deprival Valuation) and adding back customer discounts adjusted for tax.
2 To achieve a percentage of shareholders' funds to total assets which is prudent but able to accommodate business expansion (31 March 2011 Actual 71.13%).	Achieved a percentage of 71.40%. No significant activity has occurred during the period under review with only a small increase in borrowings required.
3 To achieve a target return on equity (ROE) of at least 10% after tax from Nelson Electricity Ltd (31 March 2011 Actual 7.21%).	Achieved 7.49% on shareholders' funds. Profit from Nelson Electricity Limited increased 5.6% over last year to \$2.322m.
4 To achieve a target return on equity of at least 10% after tax from the Company's OtagoNet Joint Venture investment (31 March 2011 Actual 6.36% excluding adjustments for goodwill and revaluations).	Achieved 6.19% with the profit from the OtagoNet Joint Venture similar to last year at \$11.673m.
5 Customer minutes lost by scheduled shutdowns of the Company's network to not exceed 90 minutes compared with an average of 95 minutes lost per customer for the years 2009/2010/2011.	The outcome was an average of 73.1 minutes lost per customer with no major incidents being recorded.

6

Customer minutes lost on the Company's system through internal faults to not exceed an average of 120 minutes compared with an average of 224.8 for the years 2009/2010/2011.

The outcome was an average of 167.9 minutes lost per customer.

7

FAULT RESTORATION TARGETS

AREA	TARGET TIMES	REPAIRED OUT OF TARGET	REPAIRED WITHIN TARGET	TOTAL NUMBER OF FAULTS	% IN TARGET	% OUT OF TARGET
Urban	0.50	9	5	14	36%	64%
Urban Other	1.50	7	32	39	82%	18%
Rural	1.50	86	100	186	54%	46%
Rural Remote	8.00	31	98	129	76%	24%
Total		133	235	368		

8

The Company will distribute discounts to the region's electricity customers.

In accord with the posted price/discount requirements \$6.580m (excl GST) was paid to Electricity Retailers in March 2012 (2011 \$6.444m).

9

The anticipated total dividend for the year to 31 March 2012 was \$1,700,000.

During the year the Company paid fully imputed dividends to the Marlborough Electric Power Trust totalling \$1,700,000 (2011 \$1,750,000).

10

The Company will encourage network users to utilise electricity wisely and efficiently.

The Company has continued to provide free advice in relation to the safe and efficient use of energy to a wide range of electricity customers. Energy efficiency and the safe use of electricity have also been promoted through the Company's newsletters to customers. The Company has additionally continued to provide advice and technical assistance for a wide range of cultural and regional events which celebrate the province of Marlborough.

Audit report



To the readers of Marlborough Lines Limited and Group's financial statements and statement of service performance for the year ended 31 March 2012.

The Auditor-General is the auditor of Marlborough Lines Limited (the Company) and Group. The Auditor-General has appointed me, Paul Bryden, using the staff and resources of Deloitte, to carry out the audit of the financial statements and statement of service performance of the Company and Group on her behalf.

We have audited:

- the financial statements of the Company and Group on pages 78 to 105 that comprise the statement of financial position as at 31 March 2012, 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 service performance of the Company and Group on pages 106 to 107.

Opinion

Financial statements and the statement of service performance

In our opinion,

- the financial statements of the Company and Group on pages 78 to 105:
 - comply with generally accepted accounting practice in New Zealand;
 - comply with International Financial Reporting Standards; and
 - give a true and fair view of the Company and Group's:
 - financial position as at 31 March 2012; and
 - financial performance and cash flows for the year ended on that date;
- the statement of service performance of the Company and Group on pages 106 to 107:
 - complies with generally accepted accounting practice in New Zealand; and
 - gives a true and fair view of the Company and Group's achievements measured against the performance targets adopted for the year ended 31 March 2012.

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 and Group as far as appears from an examination of those records.

Our audit was completed on 22 June 2012. 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 would affect a reader's 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 and Group's financial statements

Deloitte.

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. 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 and Group's financial position, financial performance and cash flows; and
- give a true and fair view of the Company and Group'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 service performance that are free from material misstatement, whether due to fraud or error.

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 New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the Company or any of its subsidiaries.



Paul Bryden

Deloitte

On behalf of the Auditor-General
Christchurch, New Zealand

Supplementary information in relation to the Parent company

1. Network pricing

Marlborough Lines' network charges were increased by 3.5% for the financial year ended 31 March 2012. From 1 April 2012 the Company has elected to increase average prices by 6.8%, due to additional Transpower charges arising from new substation (point of supply) investment and to meet current projections for operating expenditure. Economic activity in the Marlborough region continues to be impacted by the recession with fewer new connections being established and with demand from larger electricity users levelling off. Some pressure for funding of network system upgrades still exists and in taking a longer term view, Marlborough Lines has elected to continue improving the electricity network supply system to meet anticipated long term growth.

In reviewing electricity pricing in Marlborough since 1 April 1999, domestic network charges for an average customer, at 8,000 KWh per year, have increased by 43.5% over 13 years to February 2012. While the retail portion of the account for the same customer group has increased by up to 196% (depending on the retailer), over the same period. All figures have been sourced from the Ministry of Economic Development (MED).

Marlborough Lines network charges for a typical domestic customer (defined by the MED as using 8,000 kWh per year) were as follows at 31 March:

- Marlborough Lines (before discount) **2012** 11.34 cents / kWh
- Marlborough Lines (before discount) **1999** 7.90 cents / kWh

Marlborough Lines has continued to provide discounts to customers. In the year to 31 March 2012 discounts totalling \$6.580m excluding GST (\$6.444m in 2011) were paid to the electricity retailers for distribution to electricity customers. The discount to a typical domestic customer as defined by the Ministry of Economic Development was \$187. The Company anticipates providing total approximate discounts of \$7.105m excluding GST in the financial year ending 31 March 2013.

2. Network efficiency measures

Network reliability in New Zealand is monitored by the Commerce Commission who require the publication of a number of reliability statistics each year. A summary of such information which compares all network companies is published annually by PricewaterhouseCoopers. The following statistics are sourced from the latest PricewaterhouseCoopers summary published for the 31 March 2011 year end.

SAIDI Average total duration of interruptions that a customer experiences in the period

SAIFI Average number of interruptions that a customer experiences in the period

CAIDI Average duration of an interruption that a customer experiences in the period

	SAIDI MINUTES	SAIFI	CAIDI MINUTES	TOTAL NUMBER OF INTERRUPTIONS	FAULTS PER 100 KMS LINE
Marlborough Lines 2003	200	2.6	76.6	655	6.1
Marlborough Lines 2004	222	3.4	65.7	507	8.8
Marlborough Lines 2005	225	2.5	89.0	498	8.6
Marlborough Lines 2006	260	2.9	89.8	561	11.6
Marlborough Lines 2007	353	4.2	84.7	646	14.0
Marlborough Lines 2008	265	2.9	91.8	651	13.8
Marlborough Lines 2009	250	2.0	126.0	622	12.9
Marlborough Lines 2010	284	2.8	100.0	650	14.5
Marlborough Lines 2011	423	2.8	149.2	565	12.2
NZ Average 2011	202	2.3	89.1	619	8.4
Marlborough Lines 2012	241	2.1	117.6	615	14.1

All results, except 2012, have been audited. The 2012 numbers are due for audit in August 2012. The Company's rolling SAIDI was 30.94 minutes over target for faults in the 2012 year.

3. Network statistics – Marlborough Lines

	2008	2009	2010	2011	2012
Total System Length kms	3,286	3,319	3,334	3,349	3,368
Transformer Capacity kVA	288,456	298,366	303,867	309,560	318,088
Maximum Demand kW	70,054	68,720	72,073	70,247	72,068
Energy into Network kWh	372,775,671	372,815,364	391,777,576	383,814,773	384,754,319
Total Customers	23,584	23,870	24,073	24,270	24,359

4. Optimised Deprival Value

The original regulatory valuation (at Optimised Deprival Value – ODV) was completed in 2004. The notional regulatory value (now modified ODV) has increased to the values provided in the table below. These are audited annually by the Commerce Commission. Closing ODV as at 31 March 2004 \$100.396m.

ELECTRICITY NETWORK SYSTEM FIXED ASSETS	2006 \$000	2007 \$000	2008 \$000	2009 \$000	2010 \$000	2011 \$000
Regulatory Opening Value	104,324	118,374	128,407	141,680	155,802	165,955
Regulatory:						
– Additions	15,596	13,072	15,852	14,287	13,351	16,631
– Revaluations	3,503	3,004	4,323	4,207	3,189	7,413
– Depreciation	(5,246)	(6,460)	(7,531)	(7,636)	(6,387)	(6,290)
– Other Movements	197	417	629	3,264	–	–
Regulatory Closing Value	118,374	128,407	141,680	155,802	165,955	183,709

The notional regulatory value at 31 March 2011 had increased to \$183.709m as a result of indexing of all values, based on Commerce Commission specified indexation rates and after adding yearly asset movements as provided in the above table.

5. Capital expenditure

Marlborough Lines incurred capital expenditure in the following categories during the following years as at 31 March:

	ACTUAL 2010 \$	ACTUAL 2011 \$	TARGET 2012 \$	ACTUAL 2012 \$	PROJECTED 2013 \$
Transmission and Distribution	8,292,683	4,138,593	7,088,033	7,215,839	5,881,000
Main Substations	2,348,782	3,475,031	2,311,222	1,471,072	4,119,000
Underground Reticulation	22,318	4,937,208	1,505,081	2,147,499	2,351,000
Radio Equipment	22,350	62,143	115,000	49,002	70,000
Plant and Tools	500,921	355,097	93,200	528,874	192,000
Transport	591,786	101,084	214,680	503,447	430,000
Land and Buildings	476,291	1,189,276	730,000	673,406	365,000
Office Equipment	315,056	199,171	720,500	363,273	530,000
Total	12,570,187	14,457,603	12,777,716	12,952,412	13,938,000

Inclusion in the projected budget is not a guarantee that works will proceed and estimates are reviewed and updated on a regular basis. Completion of capital expenditure projects can also be significantly impacted by any of the following: securing property access and legal rights, timely receipt of project goods and materials in an acceptable condition, allocation of staff and construction equipment and acceptable weather conditions.

6. Asset Management Plans

In accordance with regulation 25 of the Electricity (Information Disclosure) Regulations, Marlborough Lines discloses an 'Asset Management Plan'. The plan is updated annually and covers the management of all of Marlborough Lines' network assets. Copies of the 2012 plan are available on request from Marlborough Lines or from the Company's internet site at www.marlboroughlines.co.nz.

7. Major contractual relationships

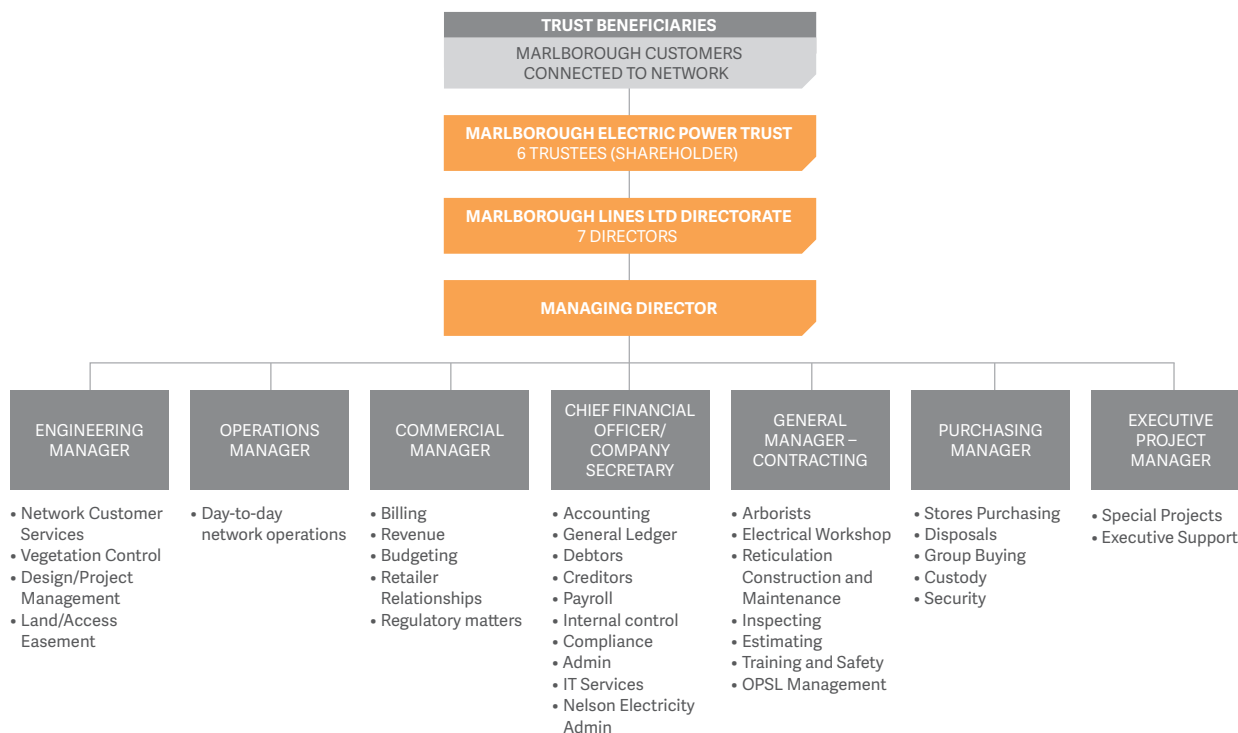
Marlborough Lines contracts with Transpower Ltd for the provision of national grid services. The Company supplies distribution network services to Trustpower, Genesis Energy, Meridian Energy, Mercury-Mighty River Power, Contact Energy, Pulse-Just Energy and Tiny Mighty Power, who retail electricity to customers in the Marlborough region.

8. Summary of financial results

PARENT COMPANY ONLY	ACTUAL 2010	ACTUAL 2011	TARGET 2012	ACTUAL 2012	PROJECTED 2013
Operating Turnover	\$44.241m	\$48.056m	\$46.475m	\$47.654m	\$50.860m
Discounts Paid (Excl GST)	\$6.067m	\$6.444m	\$6.614m	\$6.580m	\$7.105m
Total Shareholders Equity ¹	\$229.920m	\$260.510m	\$265.928m	\$265.068	\$274.527
Net Asset Backing	\$8.21	\$9.30	\$9.50	\$9.47	\$9.80
EBIT/Ave Net Funds Employed	5.78%	5.38%	5.33%	4.63%	6.00%
Return on Average Equity	3.82%	3.63%	3.36%	2.93%	3.90%

1. Includes deferred taxation provision transferred from equity to term liabilities under NZ IFRS.

Company structure



Further information

Email contact

General enquiries

info@linesmarl.co.nz

Network

network@linesmarl.co.nz

Contracting

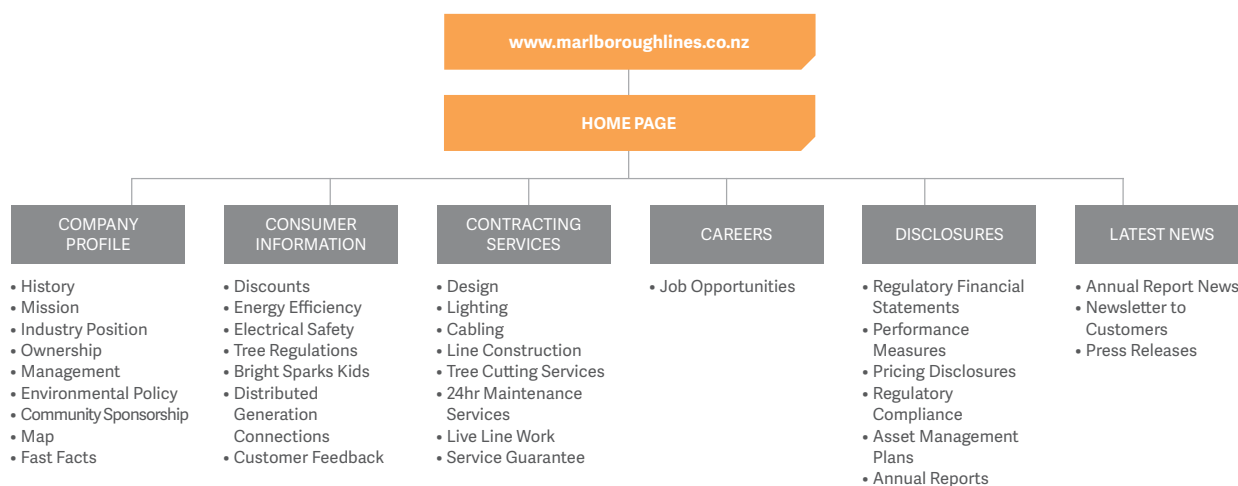
contracting@linesmarl.co.nz

Store and purchasing

store@linesmarl.co.nz

Website

Marlborough Lines provides a substantial amount of additional information on the Company's website, www.marbloroughlines.co.nz



Notice of Annual General Meeting

Notice is hereby given that the nineteenth Annual General Meeting of the shareholder of Marlborough Lines Limited will be held at the Company's offices in Alfred Street, Blenheim on 7 September 2012 at 3.00pm.

Ordinary business

1. To receive and consider the annual reports of the Chairman and Directors, the Statement of Accounts and Auditor's Report for the year ended 31 March 2012.
2. During the 2011/12 financial year the shareholder authorised payment of dividends totalling \$1.700m. There is no recommendation for a final dividend for the year ended 31 March 2012.
3. To elect Directors.
Note: The Directors advise that Mr Anthony Beverley and Ms Jo Buckner retire at the meeting by rotation as provided by Clause 21.7 of the Company's constitution. Mr Beverley and Ms Buckner are available for reappointment.
4. To determine remuneration of Directors.
5. Pursuant to Section 45 of the Energy Companies Act 1992, the Audit Office is responsible for appointing the Company's Auditors. The shareholder must resolve to authorise the Directors to determine the Auditors remuneration.
6. General Business.

By order of the Board of Directors

K M Deaker

Company Secretary
20 July 2012

Proxies

The Company's constitution does not presently provide for the exercising of proxy votes. The Company's shares are held by individual trustees on behalf of the Marlborough Electric Power Trust. The Trust Deed provides that resolutions exercising shareholder rights require a resolution of the Trust. Any such Trust resolution will be subject to the Trust's requirements for quorums and resolutions.

Financial calendar

Annual General Meeting

7 September 2012 at 3.00pm
Venue: Marlborough Lines registered office
1-3 Alfred Street, Blenheim

Financial results announced

Half year: November
Final year: June

Directory

Management

K J Forrest, BSc Hons (Electrical Eng), MIPENZ
Managing Director

K M Deaker, BCom, CA
Chief Financial Officer/Company Secretary

K L Hume-Pike, B Com, LLB, CSAP
Commercial Manager

S J McLauchlan, MNZIM
General Manager Contracting

R W Stronach, BE (Electrical), MIPENZ (Electrical),
CPEng, IntPE(NZ)
Engineering Manager

B L Tapp, NZCE, REA
Operations Manager

Address

Registered Office of Company
1-3 Alfred Street, Blenheim 7240

Postal Address
PO Box 144, Blenheim 7240

Auditors

Deloitte on behalf of the Controller and Auditor General

Bankers

Westpac Banking Corporation, New Zealand

Solicitors

Bell Gully, Wellington
Radich Law, Blenheim

Financial advisors

PricewaterhouseCoopers, Wellington/Auckland

Glossary

ACC Accident Compensation Corporation.	
AS/NZS ISO Australian/New Zealand Standard/International Organisation for Standardisation.	
Average Domestic Customer Defined by the Ministry of Economic Development as consuming 8,000 kWh per annum comprising 3,200 units for water heating at off-peak rates and the balance at 24-hour availability rate.	
BCF Bromochlorodifluoromethane.	
CAIDI Customer Average Interruption Duration Index – the average duration of an interruption that a customer experiences during the period.	
CPI Consumer Price Index.	
DRC Depreciated Replacement Cost.	
EBIT Earnings Before Interest and Taxation.	
EBITDA Earnings Before Interest Taxation Depreciation and Amortisation.	
ESITO Electricity Supply Industry Training Organisation.	
ETITO Electro Technology Industry Training Organisation.	
GWh Gigawatt hour – 10 ⁶ kWh, measurement of energy.	
Iwi Māori word for a set of people bound together by descent from a common ancestor or ancestors.	
km Kilometre.	
kV Kilovolt – 1,000 volts, measurement of electrical potential.	
kVA Kilovolt Ampere – measurement of apparent power.	
kWh Kilowatt hours – electrical energy equivalent to a power consumption of 1,000 watts for one hour, typically referred to as one unit.	
MW Megawatt – 1,000 kilowatt rate at which power is used.	
MVA 1,000 kVA.	
N-1 This status allows for capacity to be maintained if one unit of production (typically a line or transformer) is removed from service.	
NPAT Net Profit After Tax	
NZ IFRS New Zealand International Financial Reporting Standards.	
NZTA New Zealand Transport Authority.	
ODV Optimised Deprival Value – the lesser of the optimised depreciated replacement cost or the economic value of the Company's network system fixed assets.	
SAIDI System Average Interruption Duration Index – the average time supply unavailable to all customers.	
SAIFI System Average Interruption Frequency Index – the average length of each interruption to supply.	
SCADA Supervisory Control and Data Acquisition.	
SF₆ Gas Sulphahexafluoride Gas.	
SSAP Statements of Standard Accounting Practice.	
Tangata Whenua Māori term for indigenous inhabitants, literal translation means 'people of the land'.	
WACC Weighted Average Cost of Capital.	

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Annual report awards

Each year for the past eight years Marlborough Lines has submitted its annual report for appraisal in the Australasian Reporting Awards which recognise excellence by awarding Bronze, Silver or Gold awards depending upon the standard reached. The annual report has also been entered in the equivalent New Zealand appraisal administered by the New Zealand Institute of Chartered Accountants.

Australasian Reporting Awards

Gold Award – 2012, 2011

Silver Award – 2010, 2009, 2008, 2007, 2006, 2005

NZ Institute of Chartered Accountants

Best report by a small to medium corporate – 2008

A brief history of Marlborough Lines

- The original founding entity, the Marlborough Electric Power Board, was constituted under gazette on 25 October 1923. This followed local petition to the Government for the creation of a power board following the Government's refusal to provide a state supply of electricity to Marlborough.
- The first Board was elected in November 1923 and set about providing supply to an area embracing the Borough of Blenheim and the Marlborough and Awatere Counties, as then defined.
- The Power Board commissioned its first hydro generation plant in the remote Waihopai River at a site about 25 miles from Blenheim. This hydro scheme was commissioned in 1927 and subsequent diesel generation was added on the outskirts of Blenheim as demand increased. Additional hydro generation was established some 56 years later, in 1983, at the Branch River, west of Blenheim.
- Under Government decree New Zealand's electric power boards were corporatised in April 1993 and the Marlborough Electric Power Board became Marlborough Electric Limited.
- Ownership of shares in the Company was vested in the Trustees to the Marlborough Electric Power Trust, a body specifically created to hold the Company's shares on behalf of electricity consumers and to appoint commercial directors in place of the originally elected board members.
- Following a further period of industry reorganisation arising from the 'Bradford' bill, Marlborough Electric was forced to divest its generation assets and electricity trading business unit to become an electricity network owner and operator.
- In March 1999, Marlborough Electric became Marlborough Lines Limited – the name change reflecting the new focus. Since this restructuring period the Company has concentrated on the ownership and operation of its Marlborough electricity reticulation system, adding investments in electricity networks in the Nelson city and Otago region, as well as a shareholding investment in the listed electricity network Horizon Energy Distribution Limited.

The paper used for this report is Elemental Chlorine Free (ECF) paper made up of Chain of Custody fibre and pulp derived from tree farms. It is manufactured under environmental management systems ISO 14001 and the Eco-management and Audit Scheme (EMAS). The report is printed by a 100% New Zealand-owned and operated company that recycles its own inks and oil.

Design and Production: **Designworks.**



1-3 Alfred Street
PO Box 144, Blenheim 7240
New Zealand
T. +64 3 577 7007
F. +64 3 579 3806
www.marlboroughlines.co.nz

Marlborough
Lines