



Statement of Corporate Intent

2019/2020

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1. Introduction

Marlborough Lines Limited (“Marlborough Lines” or the “Company”) is the owner and operator of the electricity distribution network in the greater Marlborough region.

The Company’s shareholders are the six elected trustees of the Marlborough Electric Power Trust (“MEPT”) who hold the shares of the Company on behalf of the consumer beneficiaries. Each year since 1993, in accordance with Section 39 of the Energy Companies Act, the Statement of Corporate Intent (“SCI”) is submitted to the trustees of MEPT for their consideration and approval.

The consumer beneficiaries of the Trust are the electricity consumers of Marlborough connected to the Marlborough Lines electricity network.

The Company has grown from its base as the owner and operator of an electricity distribution network. The Company along with its subsidiaries (the Group) now also include:

- a Marlborough based electrical contracting business;
- 100% ownership of Yealands Wine Group Limited (a Marlborough based vineyard and winery); and
- 50% ownership of Nelson Electricity Limited (a Nelson based electricity distribution business).

This 2019/2020 SCI sets out objectives of the Company and its subsidiaries for the 2019/2020 financial year and for the two subsequent financial years.

2. A successful business

Section 36 of the Energy Companies Act 1992 establishes that the principal objective of an energy company is to operate as a successful business and have regard to the efficient use of energy. The directors and the shareholder of the Company believe that a "successful" energy company is one which earns a commercial rate of return, while providing a safe and reliable service that meets customer expectations.

Accordingly the Marlborough Lines vision statement is:

In the operation of our electricity network as a successful business, our vision is to be a leader in all that we do to facilitate the safe, efficient and reliable distribution of electricity for the benefit of our customers, shareholder and community. For our investments, we will undertake investment which maximises benefit to our shareholder the Marlborough Electric Power Trust through the provision of capital growth and dividend streams which will enable distributions to current and future beneficiaries.

Marlborough Lines, as a supplier of electricity lines services, is included within Part 4 of the Commerce Act 1986. The Commerce Commission has regulatory oversight of the

Marlborough Lines network through the Company being subject to information disclosure regulation, including monitoring levels of return on investment.

3. Commercial objectives

The commercial objectives of Marlborough Lines are set out below.

3.1 Efficient operations

The Company aims to invest in its network having regard to the safe and efficient utilisation of all resources including financial, physical and human resources. Wherever practicable, the procurement of all goods and services will be done on a competitive basis.

The Company will make provision for the future development of its network through undertaking investigations and acquiring land or access as appropriate.

3.2 Price appropriately

Set network line charges in a manner that is fair and efficient, which meets all regulatory requirements and recovers revenue appropriate to achieving a commercial rate of return.

3.3 Manage financial risks

Manage its assets and liabilities on a prudent basis with regard to risk arising from gearing, interest rates, currency values and any other forms of financial risk.

Ensure assets are adequately insured, where commercially appropriate.

3.4 Earn commercial returns

It is the intention of the directors' and the shareholder in the medium term to achieve an appropriate commercial rate of return on shareholders funds.

The directors intend to maximise, in the longer term, the value of shareholders funds. Options for the maximisation of the value of shareholders funds may include:

- the acquisition or sale of other businesses;
- the development of new businesses including the evaluation and adoption of emerging technologies which can complement the existing investment in network infrastructure;
- the expansion or sale of existing businesses; and
- entering joint ventures with other compatible businesses.

If the Company makes an investment outside of its regulated electricity distribution business, it will seek a return on that investment that it believes is appropriate to the risk involved. The focus will be on long term value creation, while being cognisant that the benefits of such investments should be received by the beneficiaries of the MEPT both today and in the future.

4. Health and safety objectives

The Company recognises safe working practices as a fundamental component of its operations and is committed to providing a safe environment for its consumers, staff, contractors and the general public. This includes:

- Health and safety in all aspects of its own operations and compliance with all relevant legislation such as the Health and Safety at Work Act 2015, Occupational Safety and Health requirements and Electrical Safety Regulations. The same commitment is required from the Boards of the Company's subsidiaries.
- The provision of a Public Safety Management System in accordance with NZS7901:2014.
- Maintaining ISO 45001:2018 Occupational Health and Safety certification.
- Meeting ACC requirements for "Workplace Safety Management Practices" and maintaining "Tertiary level" accreditation.
- The promotion of awareness in the community of maintaining safe clearance distances from power lines in respect of trees, machinery, buildings/structures and personnel.

The Company is committed to the continuous improvement of its safety systems. The Company will maintain its current level of participation in national based industry training programmes as part of its commitment to improvement in health and safety.

5. Community objectives

5.1 Service ethic

The Company's corporate social responsibility is to provide a safe and reliable electricity distribution service while working in partnership with communities to ensure that all services provided are responsive to customer requirements, are subject to regular monitoring and review and are provided with the highest standards of customer service.

5.2 Marlborough Lines in the community

The Company is committed to being a responsible member of the community it serves and will show that commitment in ways which include:

- Consultation wherever practicable with the Tangata Whenua in respect of any activity in which they may have an interest.
- Consulting wherever practicable with interested parties or community groups in advance of any activities or plans which may impact on their interests.
- Sponsorship activities with appropriate community organisations and individuals including the present programme of providing tertiary education grants, assisting with youth development initiatives, and advancement of education.

- Continuing to provide technical support and advice in relation to a range of regional events, which benefit the region's population and economy.

5.3 Energy efficiency

The Company recognises the importance of energy efficiency and commits to the following practices:

- Seeking to ensure that all losses within its electricity system are minimised on a cost-effective basis.
- Using energy efficiently in its operations.
- Providing energy efficiency advisory services to all consumers and where practical work with Government agencies to provide energy efficiency programmes and information for the benefit of its consumers.
- Embracing smart technology applications (distribution intelligence) to modernise and improve energy efficiency across the electricity grid.
- Facilitate the connection of new distributed generation connections within the capability of the network and appropriate commercial, regulatory and health and safety criteria.

5.4 Environment

The Company will plan to provide effective long term environmental solutions to all aspects of the business. In particular, it will:

- Seek environmental advice in relation to its activities wherever appropriate.
- Seek to minimise any negative impact of its activities on the environment.
- Meet any obligations under the Resource Management Act and any other environmental legislation.
- Keep informed on matters of research, technology and economics which are potentially beneficial and relevant to its operations.
- Complete all procedures necessary for the maintenance and enhancement of the ISO 14001:2015 Environmental Standard.
- Regularly update its carbon emissions assessment in order to assess operational environmental sustainability.
- Meet all requirements of emissions control legislation.

5.5 Line services

With respect to the provision of line services to electricity consumers in Marlborough, the Company will:

- Ensure that line services will continue to be available for all consumers on a fair and equitable basis recognising that some cost sharing (cross subsidy) of line

charges currently occurs and is presently inevitable under the amended Electricity Act 1992.

- Maintain all consumer lines in accordance with the requirements of the Electricity Act 1992 and any succeeding legislation.
- Seek to manage the frequency and duration of outages on the network with the aim of matching or bettering the industry benchmarks for comparable networks.
- Target fault restoration times of up to one hour within urban Blenheim and up to eight hours in the remote rural areas of the network.

6. Business management objectives

6.1 Productivity

The Company will subject all aspects of its operations to continual scrutiny and review in accordance with the requirements to maintain the following quality management system certifications:

- ISO 9001:2015 quality management;
- ISO 14001:2015 environmental management system;
- ISO 45001:2018 health and safety management systems; and
- NZS 7901:2014 public safety management system.

The Company will measure performance within the Company and will publish in its annual report the results attained against financial and operational targets published in the SCI.

6.2 Employment

The Company aims to be a good employer and will specifically:

- Share a commitment with its employees towards improved customer service and productivity.
- Provide remuneration consistent with performance.
- Provide an environment which is safe in every respect and which gives employees satisfaction in their work and training opportunities so that each employee will achieve to his or her maximum potential.
- Undertake to work within the framework of employment legislation and maintain an effective liaison with employees or their designated representatives in respect of all employment matters.
- Be committed to a policy of equal employment opportunities for all employees and prospective employees in compliance with the requirements of the Human Rights Act 1993.

6.3 Innovation

The Company will undertake innovation where that is in the best interests of the Company, its customers and shareholder consistent with the Company's commercial objectives. The Company will continue to monitor the take up of new technologies by consumers and respond in accordance with the commercial, business management and community objectives outlined in this document.

6.4 Board performance review and development

The process of evaluating the performance of the Board as a whole is the responsibility of the Board under the direction of the Chairperson. The Board Charter requires the Board to undertake an annual performance evaluation of itself.

Directors will commit to the appropriate level of ongoing training and continuing skills development to ensure they continue to contribute to governance oversight and the strategic direction of the Company in accordance with best practice.

6.5 Legislative authority

The Company will ensure that all legislative and other powers are used fairly and in accordance with the principles of natural justice.

7. Accounting policies

The Company's financial statements are prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993, and the Energy Companies Act 1992. The accounting policies utilised will comply with the aforementioned Acts and must meet the requirements of New Zealand equivalents to the International Financial Reporting Standards (NZ IFRS).

The Company undertakes cyclical revaluations of its infrastructure assets in accordance with the requirements of the relevant current reporting standards.

The values in this SCI are those of the Marlborough Lines Limited Parent entity in the financial statements, which shows dividend income received from the Company's investments on the income statement and recognises the value of those investments at cost on the balance sheet.

For the purposes of this SCI, a subsidiary is an entity over which the Company can exert control, and an associate is an entity that the company has significance influence over, but not control of.

The detailed accounting policies applied in the preparation of the financial statements are consistent with the accounting policies disclosed in the Company's annual report. Marlborough Lines Annual Report containing its detailed accounting policies can be viewed at:

<http://www.marlboroughlines.co.nz/About-us/Annual-reports.aspx>

8. Capital structure

The estimated capital structure and investment at 30 June 2019, and budgeted and forecast amounts for the next three financial years from 1 July 2019 to 30 June 2022, for the parent company is set out below:

Table 1: Company Capital Structure and Investment

Capital Structure and Investment	30 June 2019 Estimate	30 June 2020 Budget	30 June 2021 Forecast	30 June 2022 Forecast
Total Assets (\$ million)	407.1	413.2	419.7	426.0
Debt (\$ million)	0.0	0.0	0.0	0.0
Equity (\$ million)	353.9	360.5	366.7	372.8
Equity as a % of Total Assets	86.9%	87.2%	87.4%	87.5%
Capital Investment (\$ million)	12.6	12.7	12.2	12.8
Total revenue (\$ million)	59.4	59.5	59.8	60.1
Discounts paid to consumers (\$ million)	8.4	8.5	8.6	8.6
Dividends paid to MEPT (\$ million)	6.0	5.8	5.8	5.8

Total assets in the above table means all recorded tangible and intangible assets of the Company at their current book value as defined in the Company's Statement of Accounting Policies.

Equity means total assets minus total liabilities, and comprises issued share capital, retained profit and reserves.

The percentage of total assets not funded from shareholders funds represents that portion of current assets funded from short-term liabilities and an accumulated deferred tax liability.

The capital structure of the Group, including its subsidiary Yealands Wine Group (YWG) is significantly different, as YWG has total assets of approximately \$330m and borrowings of approximately \$110m. Upon consolidation, as at 30 June 2018, the total assets of the Group were \$620m and total equity of \$427m equating to a ratio of consolidated shareholders funds to total assets of 69.0%. The accounting requirements and nature of a winery and vineyard make this ratio more difficult to forecast with accuracy, but it is not expected to vary significantly. It is worth noting that at the Group level term borrowings are 16.5% of total assets, with deferred tax liability 8.5% and other current liabilities 5.3%.

Tables 2 and 3 depict the Parent Company projected profit and loss and capital expenditure for the year to 30 June 2020. The performance of the YWG subsidiary is included given dividends received from YWG are included within the investment income value.

Table 2: Company Projected Income Statement

Projected Income and Expenditure 2019/2020	\$000
Network Revenue	46,223
Discounts	(8,469)
Contracting Trading	4,000
Investment Income	6,550
Interest Income	576
Other Income	2,162
Total Revenue (net of discounts)	51,042
Transmission Charges	7,459
Contracting Cost of Sales	3,424
Maintenance and Operation expenditure	12,038
Administration Expense	3,695
Depreciation	9,902
Net Surplus Before Tax	14,524
Taxation	2,201
Tax Paid Surplus	12,323

Note: Tax Paid Surplus is before any revaluation of property, plant and equipment.

Table 3: Company Projected Capital Expenditure

Projected Capital Expenditure 2019/2020	\$000
Consumer Connection	102
System Growth	102
Asset Replacement and Renewal	8,044
Asset Relocations	190
Quality of Supply	1,072
Other Reliability Safety and Environment	864
Non-System Assets	2,356
TOTAL	12,730

The latest version of the Company's Asset Management Plan (AMP) is available on the Company's website at:

<http://www.marlbroughlines.co.nz/About-us/Disclosures/Asset-Management.aspx>

9. Performance targets

The Company's performance against its performance targets is published each year in the Annual Report within the Statement of Service Performance.

It is important to note that the percentage returns outlined in this SCI are based on the total Marlborough Lines business.

The Company's intended performance targets for the next three financial years are:

Type	Target
Financial	To achieve an overall post-tax rate of return on shareholders funds of 5.0%, measured by taking net profit after tax, and adding back discounts paid to consumers.
Financial	Cash flow return from investments greater than 6.0% post-tax.
Financial	Pay a dividend in accordance with the Company's dividend policy.
Financial	Pay discounts to consumers of at least \$8.4m (excluding GST).
Network reliability	Planned SAIDI (average duration of customer outages) not to exceed 65 minutes.
Network reliability	Unplanned SAIDI (average duration of customer outages) not to exceed 80 minutes.
Health & Safety	Achieve zero serious harm incidents.
Health & Safety	Maintain certification in ISO 45001:2018 Occupational Health and Safety and NZS 7901:2014 Safety Management Systems for Public Safety.
Customer	Maintain overall consumer satisfaction at above 85%.
Customer	Provide at least two newsletters to consumers providing financial, energy efficiency and health and safety information.
Environment	Maintain certification in ISO 14001:2015 Environmental Management System.

10. Discount policy

A policy on apportioning discounts to be distributed to consumers will be determined by the Board of Directors from time to time. The distribution of discounts will be considered alongside the objective of ensuring that an appropriate level of earnings are retained by the Company to meet capital expenditure and investment requirements.

Calculation of the quantum and treatment of discounts will be also subject to the requirements of the Commerce Commission in relation to the basis for calculating regulatory returns, the process which defines “exempt” status for “Trust owned” network companies and current tax law.

At present the Company will continue to detail discounts as a component part of the Company’s “posted prices” which are disclosed to the industry in accordance with Commerce Commission guidelines. This effectively means that the discount cannot be varied at year end to account for any profitability variation.

Full details of the Marlborough Lines Limited Discount Policy can be viewed at:

<http://www.marlboroughlines.co.nz/About-us/Disclosures/Discounts.aspx>

11. Dividends

The directors of the Company will include within the annual estimates and financial reports a provision for the quantum of payments to be paid as dividends to the MEPT. The Company will follow all procedures specified in the Companies Act 1993, together with the Company’s constitution, in relation to the authorisation and payment of dividends.

For the 2019/2020 financial year, the trustees have indicated a requirement for a net dividend totalling \$5.8m and provision exists within the budgets of the Group for payment of a dividend of this amount. The final dividend amount is subject to recommendation by the Board. This dividend payment is an increase on dividends paid in the years before 2016 on account of the additional dividend returns from Yealands Wine Group Limited.

In accordance with the Company’s constitution and the Company’s Act, it is the role of the Board to recommend the dividend and the trustees, as shareholders, to approve the dividend. The ability of the Company to pay the level of fully imputed dividends indicated above may be impacted in future by such factors as the Commerce Commission price threshold regulations, the Company’s capital expenditure commitments or future investment decisions.

12. Information to be provided to the shareholders

The Company will provide information which meets the requirements of the Companies Act 1993, the Energy Companies Act 1992, and the Financial Reporting Act 2013.

12.1 Statement of Corporate Intent

In accordance with the requirements of section 39 of the Energy Companies Act, this SCI will be provided to the shareholder for comment, evaluation and modification where necessary.

12.2 Annual Report

In accordance with section 44 of the Energy Companies Act 1992, within three months after the end of the financial year the directors will provide to the shareholders audited financial statements. The financial statements are to include a Statement of Service Performance that compares the performance of the operations of the Company and its subsidiaries against the targets outlined in this SCI.

12.3 Quarterly Report

Quarterly reports for the first three quarters of each financial year ending 30 June will be provided to the shareholders within eight weeks of the end of each quarter. These reports will contain timely information on the financial position and operations of the Company and subsidiaries and compare actual results with forecasts.

12.4 Network review

An independent review of the Company's network assets will be undertaken at least every three years, with a summary report provided to the Company's shareholders for comment.

12.5 Regulatory disclosures

The Company will report separately to the Commerce Commission in accordance with the requirements of the Electricity Information Disclosure Regulations and the Company will make such information publicly available as is required by those regulations and Acts.

12.6 Line charges and discounts

The Company will notify the trustees in relation to any proposed publicity release in relation to line charges and discounts.

Any planned changes to the discount policy are to be notified to the trustees promptly following a decision by the Board.

12.7 Debt ratios

The Company will report to the shareholders if the debt ratio of any subsidiary or associate increases above 40%. This is measured as interest bearing debt divided by total assets.

12.8 Other

The directors will provide such other reports and information where such information could be relevant to a decision to be made by the Company's shareholder.

13. Procedures for significant transactions

The directors will consult with the shareholder, subject to the provisions of the Marlborough Electric Power Trust Deed in relation to:

- Investigations into the merits or otherwise of significant closer liaison with other network companies; and
- The consideration of further strategic investment opportunities for the potential benefit of the shareholder.

Any transactions by the Company or its subsidiaries or associates to:

- acquire shares in any other company or organisation; or
- for the investment or disposal of non-electricity distribution assets (by transaction or series of related transactions);

will be dealt with in accordance with the table below. Any notifications requiring consultation must be provided to the shareholders with adequate time for the shareholders to consider the proposal and respond.

Type	Company	Subsidiary or associate
Advise	2.5% of total assets.	5% of total assets
Consult	5% of total assets	10% of total assets
Approve	50% of total assets	Not applicable

All share investment proposals will be the subject of independent professional evaluation and will be considered and decided by the Company's Board of Directors in accordance with the Company's investment policy. Questions of control and risk will be addressed.

All requirements of the Company's Constitution and the Companies Act 1993 will be met.

14. Transaction details

There are no transactions which are required to be disclosed under section 39 (2) (i) of the Energy Companies Act 1992.

15. Other matters

The directors acknowledge that Commerce Commission and Electricity Authority regulatory directives could give rise to outcomes which differ from the financial projections in this statement and which affect the manner in which the Company prices its goods and services. The Electricity Authority might similarly sanction policies which could affect the Company's results.

In the conduct of its business the Company will maintain the highest standards of propriety and professionalism and will encourage reciprocation from those with whom the Company has dealings.

The Company is currently exempt from price revenue control by the Commerce Commission by virtue of its "Trust" ownership. This exempt status is consequential upon the Marlborough Electric Power Trust undertaking the necessary statutory declarations to the Commerce Commission in accordance with the required criteria.

The move towards a lesser degree of price regulation follows the December 2007 Government energy policy revision statement which requires consumer trust owned network companies be subject to an information disclosure process only, on the basis that companies whose consumer base is synonymous with their community ownership are naturally self-regulating.