

# Directors, Governance, Disclosures and Financial Statements

<b>76</b>	<b>Board of Directors</b>	<b>115</b>	<b>Performance report</b>
<b>78</b>	<b>Corporate governance</b>	<b>116</b>	<b>Audit report</b>
<b>82</b>	<b>General disclosures</b>	<b>118</b>	<b>Supplementary information in relation to the Parent company</b>
<b>85</b>	<b>Financial statements 2011</b>	<b>120</b>	<b>Further information</b>
86	Consolidated Statement of Comprehensive Income	<b>121</b>	<b>Notice of Annual General Meeting</b>
87	Consolidated Statement of Changes in Equity	<b>122</b>	<b>Directory</b>
88	Parent Statement of Changes in Equity	<b>122</b>	<b>Annual report awards</b>
89	Statement of Financial Position	<b>123</b>	<b>Glossary</b>
90	Consolidated Cash Flow Statement	<b>124</b>	<b>Index</b>
91	Reconciliation of profit for the period to net cash flows from operating activities		
92	Notes to the financial statements		
92	1. Summary of significant accounting policies		
96	2. Income		
96	3. Expenditure		
97	4. Taxation		
99	5. Share capital		
99	6. Retained earnings/revaluation reserves		
99	7. Trade and other receivables		
100	8. Inventories and work in progress		
100	9. Trade and other payables		
100	10. Non current borrowings		
100	11. Other non current liabilities – employee entitlements		
101	12. Plant, property and equipment – Parent entity		
102	13. Plant, property and equipment – Group		
103	14. Plant, property and equipment – continued		
103	15. Investment property		
104	16. Intangible assets – Parent and consolidated Group		
104	17. Investments		
107	18. Current provisions		
107	19. Dividends		
108	20. Commitments		
108	21. Contingent liabilities		
108	22. Financial instruments		
112	23. Key management personnel		
112	24. Group entities		
112	25. Related parties		
114	26. Miscellaneous		
114	27. Events subsequent to balance date		

## Board of Directors

The Marlborough Lines constitution provides for a Board of up to eight Directors. At the September 2010 Annual Meeting, Messrs David Dew and Ross Butler were reappointed for further terms on the Board.

### 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 and a director of various other companies.

### Ken Forrest

*BSc Hons (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 including: former Chairman of the New Zealand Electricity Networks Association, Vice-President of the Electricity Supply Association, President of the Electricity Managers Association and member of the Electricity Supply Engineers Association and Electrical Development Association. His current directorships include: Nelson Electricity Ltd, Otago Power Services Ltd, OtagoNet and Cuddon Ltd – along with other private companies.

### Terry M Shagin

*JD (UCLA), BA (CSUN)*

JD (UCLA), BA (CSUN)



Terry Shagin has been a member of 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 a director of Telephony Video Data Ltd, Chairman of No. 1 Family Estate, and a member of the OtagoNet Joint Venture Management Committee.

### Des Ashton

*BE CEng (UK), MRAeS*



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.

### 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, and the Code Committee for Financial Advisers. He is Deputy Chair of GNS Science Limited, Swimming New Zealand, and a director of Mercer Investment Nominees NZ Ltd.

### Jo Buckner

*BBS, PGradDipApplSc (NRM), MInstD, MCILTANZ, MEIANZ*



Jo Buckner joined the Board in September 2009. She has strategic leadership experience across the private and public sectors and has undertaken governance roles in not-for-profit organisations. Within central government, Jo has worked on a range of energy, natural resource management and primary sector policy issues, including the National Policy Statement for Renewable Electricity Generation. Her private sector experience includes supply chain management and operational improvement initiatives with Fletcher Wood Panels, Fletcher Forests, Messenger Services Ltd and New Zealand Post.

### Anthony Beverley

*MCom (VPM) (Hons) First Class, FNZIV, FFINZ, 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 these 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 and AMP Haumi Management Ltd. 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

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.

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 responsibility and regulatory oversight.

### 1. 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.

### 2. Appointment and remuneration of Directors

The shareholder 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.

The constitution also provides that the shareholder 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.

### 3. 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.

#### 4. 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 2010 Messrs David Dew and Ross Butler 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 shareholder but is not subject to the retirement provisions.

This year at the Annual General Meeting Mr Des Ashton and Mr Terry Shagin will retire according to the rotation rule. Both Mr Ashton and Mr Shagin are available for reappointment.

#### 5. Board operation

The Chairman fulfils a leadership role in the conduct of the Board and its relationship with the shareholder 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.

#### 6. 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.

#### 7. 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 at the present time for standing Board committees with specific responsibilities. When appropriate, such committees will be established for the life of a specific project.

#### 8. Audit Committee

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

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.

#### 9. Audit Committee meetings

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

- On 15 June 2010, to formally adopt the financial statements and general disclosures and to endorse signing of the financial statements for the year ended 31 March 2010.
- On 3 August 2010, for consideration of a share investment valuation recommendation from Deloitte.
- On 5 October 2010, for consideration of the 'Auditor's Report to Directors' for the year ended 31 March 2010 including the 'Summary of Audit Findings'.
- On 25 March 2011, for discussion with the Auditor, Mr Michael Wilkes of Deloitte and consideration of the engagement letter and planning report in relation to the audit of the financial statements for the year ending 31 March 2011.

## Corporate governance – continued

### 10. Board attendance

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

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

### 11. 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.

### 12. Shareholder

It is the view of the Directorate that the Company's shareholder play an integral part in corporate governance. To give effect to this role the Board ensures that the shareholder is 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 shareholder 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 shareholder (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.

### 13. 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.

### 14. 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.

### 15. Marlborough Lines Limited – Company Code of Conduct

The Company's Code of Conduct (the 'Code') is the framework of the standards 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.

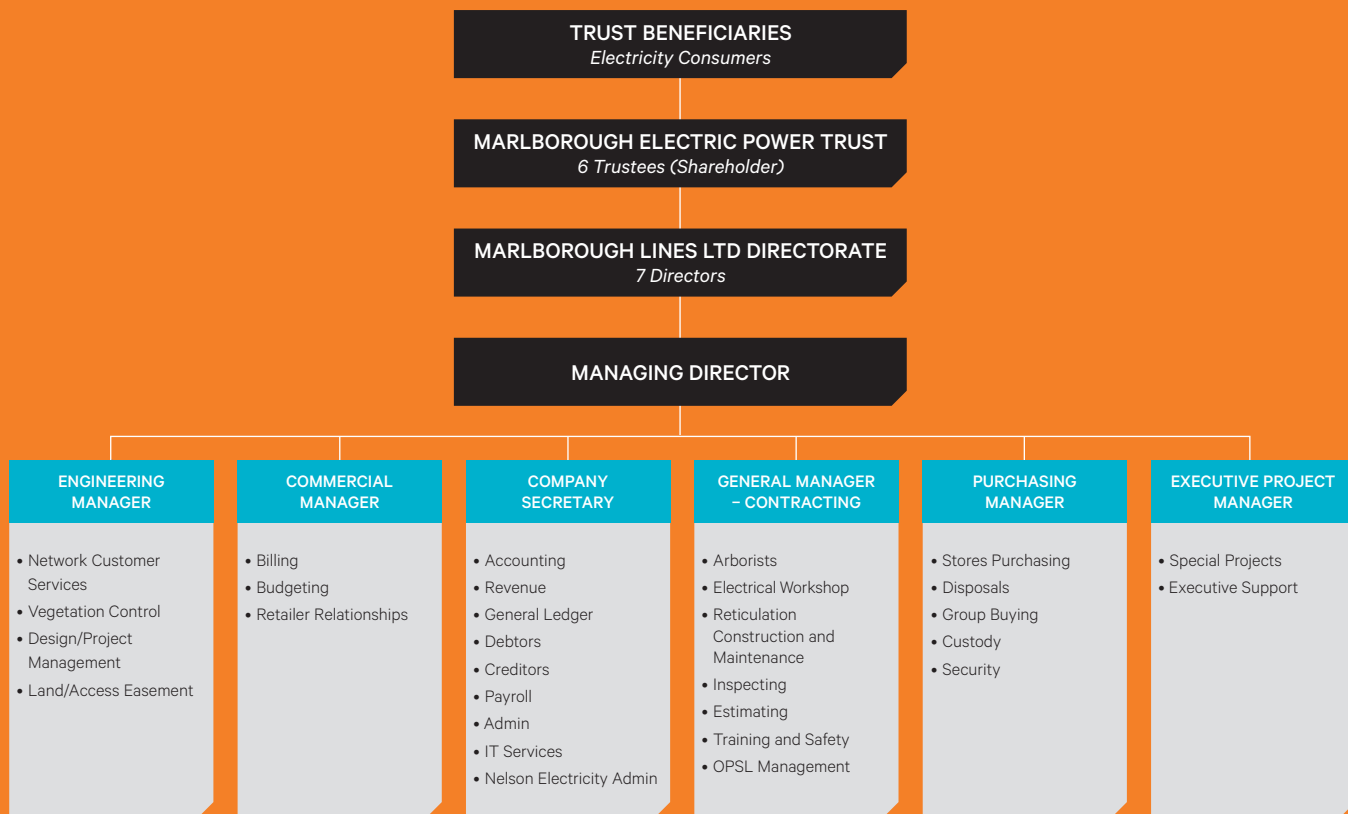
The code includes detailed requirements in the following areas:

- The Company's commitment.
- Responsibilities to the shareholder 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 and is reproduced in full on the Company's website – see [www.marlboroughlines.co.nz/Company Profile/Marlborough Lines Corporate Governance](http://www.marlboroughlines.co.nz/Company Profile/Marlborough Lines Corporate Governance).

### Company structure



## General disclosures

FOR THE YEAR ENDED 31 MARCH 2011

### Introduction

The Directors of Marlborough Lines Limited submit the following report to the shareholder. 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 2010/11 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 13.9% shareholding in the Whakatane based network Horizon Energy Distribution Limited.

### 2. Review of financial performance

	GROUP 2011 \$(000)	GROUP 2010 \$(000)	PARENT 2011 \$(000)	PARENT 2010 \$(000)
<b>RESULTS FOR THE YEAR ENDED 31 MARCH 2011</b>				
Operating Profit Before Tax Expense	4,909	8,245	9,725	7,257
Income Tax Expense	2,869	2,634	2,856	1,705
Net Profit for the Year	2,040	5,611	6,869	5,552
Other Comprehensive Income Net of Tax	10,877	16,351	906	16,351
Net Surplus Attributable to the Shareholders	12,917	21,961	7,775	21,903

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 Limited 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 the shareholder authorised the following dividend payments for the 2010/11 financial year.

First and Final Dividend	30 March 2011	\$1,750,000
Full imputation credits were attached to all dividend payments.		
Ordinary Shares Issued		28 million
Value of Share Capital (Parent Net Assets at Current Valuation)		\$217.492 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 Michael Wilkes of Deloitte.

FEES PAID TO AUDITORS (FOR GROUP)	AUDIT FEES \$	OTHER FEES \$
Deloitte	70,000	18,499

## 5. Information on Directors of Marlborough Lines Limited

DIRECTOR	QUALIFICATIONS AND EXPERIENCE	SPECIAL RESPONSIBILITIES	TOTAL REMUNERATION AND OTHER BENEFITS	
			2011	2010
<b>D W R Dew</b>	LLB Principal, Dew & Company, Solicitors, Blenheim. Director, Nelson Electricity Ltd. Director of other companies.	Chairman, Non-executive Director	\$89,433	\$93,300
<b>D A Ashton</b>	BE, C Eng (UK), MRAS Defence Acquisition Executive.	Non-executive Director	\$31,992	\$31,675
<b>A M Beverley</b>	M Com (VPM) (Hons) First Class, FNZIV, FPINZ, FINSIA Director, AMP NZ Office Trust. Director, Property for Industry Ltd. Director of other AMP Capital related companies.	Non-executive Director	\$31,992	\$16,011
<b>J I Buckner</b>	BBS, PGradDipAppSc (NRM), MinstD, MCILT NZ, MEIANZ Manager – Ministry of Agriculture and Forestry (based in Nelson).	Non-executive Director	\$31,992	\$16,011
<b>R G Butler</b>	BA (Econ), Post Grad Dip Applied Finance and Investments Chairman, Mortgage Link NZ Ltd. Chair of Council, Nelson Marlborough Institute of Technology. Deputy Chair, GNS Science Ltd. Vice President, Swimming New Zealand. Independent Director, Institute of Financial Advisers of NZ. Director of other companies and trustee of Community Trusts.	Non-executive Director	\$31,992	\$31,675
<b>K J Forrest</b>	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	\$457,309	\$388,975*
<b>T M Shagin</b>	JD (UCLA), BA (CSUN) Member, OtagoNet Joint Venture Management Committee. Director, TVD Ltd. Director, No.1 Family Estate Ltd.	Non-executive Director	\$31,992	\$31,675

\* Director's fees totalling \$49,000 earned by Mr K Forrest through membership of the boards of Nelson Electricity Ltd, Otago Power Services Ltd 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 2011

### 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 2011	NUMBER OF EMPLOYEES 2010
\$100,000 - \$110,000	7	3
\$110,000 - \$120,000	2	2
\$130,000 - \$140,000	1	-
\$140,000 - \$150,000	-	1
\$170,000 - \$180,000	1	2
\$180,000 - \$190,000	1	-
\$210,000 - \$220,000	1	-
\$230,000 - \$240,000	-	1
\$240,000 - \$250,000	1	-
\$310,000 - \$320,000	-	1*

\* Inclusive of retiring allowance.

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 \$21,500.

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



**D W R Dew**  
Chairman  
23 June 2011



**K J Forrest**  
Managing Director  
23 June 2011

## Financial statements 2011



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 2011.

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 2011.

This report is dated 23 June 2011 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  
23 June 2011

A handwritten signature in black ink, appearing to be 'GJ Hoare'.

**G J Hoare**  
Company Secretary/Chief Financial Officer

## Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2011

	NOTES	GROUP YEAR ENDED 31 MARCH 2011 \$(000)	GROUP YEAR ENDED 31 MARCH 2010 \$(000)	PARENT YEAR ENDED 31 MARCH 2011 \$(000)	PARENT YEAR ENDED 31 MARCH 2010 \$(000)
<b>Continuing Operations</b>					
Operating Revenue	2	42,503	38,688	42,503	41,988
<b>Total</b>		<b>42,503</b>	<b>38,688</b>	<b>42,503</b>	<b>41,988</b>
Operating Expenses	3	22,780	23,031	22,780	23,031
Depreciation, Amortisation and Impairment	3	7,587	7,251	7,555	7,220
Customer Discounts		6,444	6,067	6,444	6,067
<b>Total</b>		<b>36,811</b>	<b>36,349</b>	<b>36,779</b>	<b>36,318</b>
<b>RESULTS FROM OPERATING ACTIVITIES</b>		<b>5,692</b>	<b>2,339</b>	<b>5,724</b>	<b>5,670</b>
Finance Income	2	5,553	5,553	5,553	2,253
Finance Costs		1,552	666	1,552	666
Net Finance Income		4,001	4,887	4,001	1,587
Share of Equity Accounted Investments Net Surplus	17.5	(4,784)	1,019	-	-
<b>PROFIT BEFORE TAX EXPENSE</b>		<b>4,909</b>	<b>8,245</b>	<b>9,725</b>	<b>7,257</b>
Income Tax Expense	4	2,869	2,634	2,856	1,705
<b>NET PROFIT FOR THE YEAR</b>		<b>2,040</b>	<b>5,611</b>	<b>6,869</b>	<b>5,552</b>
<b>Other Comprehensive Income</b>					
Revaluation of Plant, Property and Equipment		13,169	21,254	-	21,254
Income Tax on Other Comprehensive Income		2,292	4,903	(906)	4,903
<b>OTHER COMPREHENSIVE INCOME NET OF TAX</b>		<b>10,877</b>	<b>16,351</b>	<b>906</b>	<b>16,351</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>12,917</b>	<b>21,962</b>	<b>7,775</b>	<b>21,903</b>

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

## Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2011

	GROUP SHARE CAPITAL \$(000)	GROUP REVALUATION RESERVES \$(000)	GROUP RETAINED EARNINGS \$(000)	GROUP TOTAL EQUITY \$(000)
<b>CONSOLIDATED GROUP</b>				
Balance as at 1 April 2009	29,026	28,311	144,844	202,181
<b>Total Comprehensive Income for the Year</b>				
Net Profit for the Year	-	-	5,611	5,611
<b>Other Comprehensive Income Net of Tax</b>				
Revaluation of Plant, Property and Equipment	-	16,351	-	16,351
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>-</b>	<b>16,351</b>	<b>5,611</b>	<b>21,962</b>
<b>Transactions with Owners Recorded Directly in Equity</b>				
Dividends Paid to Equity Holders	-	-	(1,700)	(1,700)
<b>BALANCE AS AT 31 MARCH 2010</b>	<b>29,026</b>	<b>44,662</b>	<b>148,755</b>	<b>222,443</b>
Balance as at 1 April 2010	29,026	44,662	148,755	222,443
<b>Total Comprehensive Income for the Year</b>				
Net Profit for the Year	-	-	2,040	2,040
<b>Other Comprehensive Income Net of Tax</b>				
Revaluation of Plant, Property and Equipment	-	10,877	-	10,877
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>-</b>	<b>10,877</b>	<b>2,040</b>	<b>12,917</b>
<b>Transactions with Owners Recorded Directly in Equity</b>				
Dividends Paid to Equity Holders	-	-	(1,750)	(1,750)
<b>BALANCE AS AT 31 MARCH 2011</b>	<b>29,026</b>	<b>55,539</b>	<b>149,045</b>	<b>233,610</b>

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

## Parent Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2011

	PARENT SHARE CAPITAL \$(000)	PARENT REVALUATION RESERVES \$(000)	PARENT RETAINED EARNINGS \$(000)	PARENT TOTAL EQUITY \$(000)
<b>PARENT</b>				
Balance as at 1 April 2009	29,026	21,287	140,951	191,264
<b>Total Comprehensive Income for the Year</b>				
Net Profit for the Year	-	-	5,552	5,552
<b>Other Comprehensive Income Net of Tax</b>				
Revaluation of Plant, Property and Equipment	-	16,351	-	16,351
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>-</b>	<b>16,351</b>	<b>5,552</b>	<b>21,903</b>
<b>Transactions with Owners Recorded Directly in Equity</b>				
Dividends Paid to Equity Holders	-	-	(1,700)	(1,700)
<b>BALANCE AS AT 31 MARCH 2010</b>	<b>29,026</b>	<b>37,638</b>	<b>144,803</b>	<b>211,467</b>
Balance as at 1 April 2010	29,026	37,638	144,803	211,467
<b>Total Comprehensive Income for the Year</b>				
Net Profit for the Year	-	-	6,869	6,869
<b>Other Comprehensive Income Net of Tax</b>				
Revaluation of Plant, Property and Equipment	-	906	-	906
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>-</b>	<b>906</b>	<b>6,869</b>	<b>7,775</b>
<b>Transactions with Owners Recorded Directly in Equity</b>				
Dividends Paid to Equity Holders	-	-	(1,750)	(1,750)
<b>BALANCE AS AT 31 MARCH 2011</b>	<b>29,026</b>	<b>38,544</b>	<b>149,922</b>	<b>217,492</b>

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

## Statement of Financial Position

AS AT 31 MARCH 2011

	NOTES	GROUP AS AT 31 MARCH 2011 \$(000)	GROUP AS AT 31 MARCH 2010 \$(000)	PARENT AS AT 31 MARCH 2011 \$(000)	PARENT AS AT 31 MARCH 2010 \$(000)
<b>Equity</b>					
Share Capital	5	29,026	29,026	29,026	29,026
Revaluation Reserves	6	55,538	44,662	38,544	37,638
Retained Earnings	6	149,046	148,755	149,922	144,803
<b>TOTAL EQUITY</b>		<b>233,610</b>	<b>222,443</b>	<b>217,492</b>	<b>211,467</b>
<b>Non Current Liabilities</b>					
Employee Entitlements	11	505	440	505	440
Deferred Taxation	4	50,430	47,732	43,018	43,558
Term Borrowings	10	38,100	22,500	38,100	22,500
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>89,035</b>	<b>70,672</b>	<b>81,623</b>	<b>66,498</b>
<b>Current Liabilities</b>					
Trade and Other Payables	9	3,155	3,288	3,155	3,289
Employee Entitlements	9	818	724	818	724
Taxation Payable		280	280	2,539	2,511
Other Current Liabilities	9	154	12	154	12
<b>TOTAL CURRENT LIABILITIES</b>		<b>4,407</b>	<b>4,304</b>	<b>6,666</b>	<b>6,536</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>327,052</b>	<b>297,419</b>	<b>305,781</b>	<b>284,501</b>
<b>Non Current Assets</b>					
Investment in Horizon Energy Distribution Limited		14,474	-	14,474	-
Investments in Subsidiaries	17	-	-	54,722	54,722
Investments Accounted for Using the Equity Method	17	87,484	79,099	11,671	11,671
Plant, Property and Equipment	12, 13, 14	212,586	205,987	212,406	205,775
Investment Property	15	2,210	2,210	2,210	2,210
Intangible Assets	16	1,203	953	1,203	953
<b>TOTAL NON CURRENT ASSETS</b>		<b>317,957</b>	<b>288,249</b>	<b>296,686</b>	<b>275,331</b>
<b>Current Assets</b>					
Cash and Cash Equivalents		403	190	403	190
Trade and Other Receivables	7	4,394	4,330	4,394	4,330
Inventories and Work in Progress	8	4,298	4,650	4,298	4,650
<b>TOTAL CURRENT ASSETS</b>		<b>9,095</b>	<b>9,170</b>	<b>9,095</b>	<b>9,170</b>
<b>TOTAL ASSETS</b>		<b>327,052</b>	<b>297,419</b>	<b>305,781</b>	<b>284,501</b>

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

## Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2011

	GROUP YEAR ENDED 31 MARCH 2011 \$(000)	GROUP YEAR ENDED 31 MARCH 2010 \$(000)	PARENT YEAR ENDED 31 MARCH 2011 \$(000)	PARENT YEAR ENDED 31 MARCH 2010 \$(000)
<b>Cash flows from Operating Activities</b>				
Receipts From Customers	39,812	40,316	39,812	36,311
Interest Received	5,553	121	5,553	2,253
Dividends Received	1,254	1,117	1,254	4,009
Payments to Suppliers and Employees	(27,876)	(24,550)	(27,876)	(25,569)
Interest Paid	(1,452)	(614)	(1,452)	(614)
Net GST (Paid)	(129)	(54)	(129)	(54)
Income Tax Paid	(2,463)	(2,808)	(2,463)	(2,808)
<b>NET CASH PROVIDED FROM OPERATING ACTIVITIES</b>	<b>14,699</b>	<b>13,528</b>	<b>14,699</b>	<b>13,528</b>
<b>Cash flows from Investing Activities</b>				
Proceeds from Sale of Plant, Property and Equipment	60	68	60	68
Purchase/Sale of Investments	(14,534)	-	(14,534)	-
Purchase of Plant, Property and Equipment (Net of Disposals)	(13,862)	(13,401)	(13,862)	(13,401)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(28,336)</b>	<b>(13,333)</b>	<b>(28,336)</b>	<b>(13,333)</b>
<b>Cash flows from Financing Activities</b>				
Proceeds from Borrowings	15,600	1,400	15,600	1,400
Repayment of Borrowings	-	-	-	-
Payment of Dividends	(1,750)	(1,700)	(1,750)	(1,700)
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<b>13,850</b>	<b>(300)</b>	<b>13,850</b>	<b>(300)</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>213</b>	<b>(105)</b>	<b>213</b>	<b>(105)</b>
Cash and Cash Equivalents at Beginning of Year	190	295	190	295
<b>CASH AND CASH EQUIVALENTS AT 31 MARCH</b>	<b>403</b>	<b>190</b>	<b>403</b>	<b>190</b>

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

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

FOR THE YEAR ENDED 31 MARCH 2011

	GROUP YEAR ENDED 31 MARCH 2011 \$(000)	GROUP YEAR ENDED 31 MARCH 2010 \$(000)	PARENT YEAR ENDED 31 MARCH 2011 \$(000)	PARENT YEAR ENDED 31 MARCH 2010 \$(000)
<b>PROFIT AFTER TAXATION</b>	<b>2,040</b>	<b>5,611</b>	<b>6,869</b>	<b>5,552</b>
<b>Add/(Less) Non Cash Items</b>				
Depreciation and Amortisation	7,587	7,251	7,555	7,220
Income from Vested Assets	(1,494)	(1,188)	(1,494)	(1,188)
<b>Non Cash Items in Relation to Investing/Financing Activities</b>				
Share of Associate Net Profit	4,784	(1,019)	–	–
Loss on Sale of Fixed Assets	921	2,015	921	2,015
Current Charge to Deferred Taxation	406	376	365	–
<b>CHANGES IN WORKING CAPITAL ITEMS</b>				
<b>(Increase)/Decrease in Assets</b>				
(Increase) in Accounts Receivable	(65)	(557)	(65)	(557)
Decrease in Inventories	352	825	352	825
<b>Increase/(Decrease) in Liabilities</b>				
Increase in Accounts Payable and Other Payables	103	822	103	822
Increase/(Decrease) in Current Tax Payable Balance	–	(550)	28	(1,103)
Increase/(Decrease) in Non Current Employee Entitlements	65	(58)	65	(58)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>14,699</b>	<b>13,528</b>	<b>14,699</b>	<b>13,528</b>

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

# Notes to the financial statements

FOR THE YEAR ENDED 31 MARCH 2011

## 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 2011, that have a significant risk

of causing 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, 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 sale 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 Finance, 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.

## 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.

## Notes to the financial statements – continued

FOR THE YEAR ENDED 31 MARCH 2011

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. Intergroup 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 Company 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 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 below). Those standards with a disclosure impact in these financial statements are as follows:

A change in accounting treatment for capital contributions has arisen this year through the New Zealand Government's May 2010 budget decision to remove the non assessable tax status from this income.

### 1.21 Standards and interpretations in issue not yet adopted

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet adopted.

The impact of initial application is unknown.

STANDARD	EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER	EXPECTED TO BE INITIALLY APPLIED IN THE YEAR ENDING
Amendments to NZ IAS 24 Related Party Disclosures	1 January 2011	31 March 2012
NZ IFRS 9 Financial Instruments and Revisions	1 January 2013	31 March 2014
Amendments to NZ IFRS 7 Financial Instruments Disclosures	1 July 2011	31 March 2013

## Notes to the financial statements – continued

FOR THE YEAR ENDED 31 MARCH 2011

### 2. Income

	GROUP YEAR ENDED 31 MARCH 2011 \$(000)	GROUP YEAR ENDED 31 MARCH 2010 \$(000)	PARENT YEAR ENDED 31 MARCH 2011 \$(000)	PARENT YEAR ENDED 31 MARCH 2010 \$(000)
Network Revenue	33,477	31,816	33,477	31,816
Transmission Loss Rental Rebates	521	325	521	325
Interest Income:				
– Bank Deposits	22	100	22	100
– Related Parties	5,531	5,453	5,531	2,153
External Contracting Revenue	3,766	3,398	3,766	3,398
Property Rentals:				
– Investment Properties	48	44	48	44
– Other Properties	44	34	44	34
Dividends:				
– Associates/Subsidiaries	900	708	900	4,008
– Others	354	–	354	–
Capital Contributions	1,006	293	1,006	293
Vested Assets	1,494	1,188	1,494	1,188
Miscellaneous Income	893	882	893	882
Total	48,056	44,241	48,056	44,241

### 3. Expenditure

	GROUP YEAR ENDED 31 MARCH 2011 \$(000)	GROUP YEAR ENDED 31 MARCH 2010 \$(000)	PARENT YEAR ENDED 31 MARCH 2011 \$(000)	PARENT YEAR ENDED 31 MARCH 2010 \$(000)
Profit before taxation has been arrived at after charging:				
Remuneration of Auditors:				
– Audit of the Financial Statements	70	65	70	65
– Other Audit Related Services Provided by the Principal Auditor	18	27	18	27
Directors' Fees	249	220	249	220
Depreciation:				
– Buildings	236	230	236	230
– Network Reticulation System	6,018	5,533	5,986	5,501
– Plant and Equipment	1,237	1,316	1,237	1,316
Amortisation Expense	96	173	96	173
Bad Debts Written Off	23	66	23	66
Employee Benefits:				
– Retirement Gratuities	51	28	51	28
– Employer Superannuation Contributions (Defined Contribution Schemes)	108	200	108	200
Donations (Educational Grants)	22	22	22	22
Losses from Foreign Currency	–	156	–	156
Loss on Disposal of Plant, Property and Equipment	921	2,015	921	2,015
Rental and Operating Lease Expenses	21	27	21	27

## 4. Taxation

### 4.1 Income tax expense recognised in the Statement of Comprehensive Income

	GROUP YEAR ENDED 31 MARCH 2011 \$(000)	GROUP YEAR ENDED 31 MARCH 2010 \$(000)	PARENT YEAR ENDED 31 MARCH 2011 \$(000)	PARENT YEAR ENDED 31 MARCH 2010 \$(000)
Tax expense comprises:				
Current Tax Expense/(Income)	2,427	2,127	2,455	1,575
Adjustments Recognised in the Current Year in Relation to the Current Tax of Prior Years	36	131	36	131
Deferred Tax Expense Relating to the Origination and Reversal of Temporary Differences and Net of Change in Tax Rate	406	376	365	(1)
Total Tax Expense	2,869	2,634	2,856	1,705

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	4,909	8,245	9,725	7,257
Prima Facie Income Tax Calculated at 30% (2010:30%)	1,473	2,474	2,918	2,177
Tax effect of:				
– Non Deductible Items	5,902	4,263	2,933	3,178
– Non Assessable Items	(4,542)	(4,234)	(3,031)	(3,781)
Under/(Over) Provision of Income Tax in Previous Year	36	131	36	131
Income Tax Expense Recognised in the Statement of Comprehensive Income	2,869	2,634	2,856	1,705

Included in the income tax expense is a credit of \$1.998m for the Company and \$2.057m for the Group resulting from the reduction in company tax rate to 28%.

### 4.2 Deferred taxation

	OPENING BALANCE \$(000)	CHARGED TO INCOME \$(000)	CHARGED TO EQUITY \$(000)	OTHER \$(000)	CLOSING BALANCE \$(000)
<b>CONSOLIDATED GROUP FOR THE YEAR ENDED 31 MARCH 2011</b>					
<b>Deferred Tax Liabilities</b>					
Plant, Property and Equipment	48,073	449	2,292	–	50,814
	48,073	449	2,292	–	50,814
<b>Deferred Tax Assets</b>					
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

## Notes to the financial statements – continued

FOR THE YEAR ENDED 31 MARCH 2011

### 4.2 Deferred taxation – continued

	OPENING BALANCE \$(000)	CHARGED TO INCOME \$(000)	CHARGED TO EQUITY \$(000)	OTHER \$(000)	CLOSING BALANCE \$(000)
<b>CONSOLIDATED GROUP FOR THE YEAR ENDED 31 MARCH 2010</b>					
<b>Deferred Tax Liabilities</b>					
Plant, Property and Equipment	42,779	391	4,903	–	48,073
	42,779	391	4,903	–	48,073
<b>Deferred Tax Assets</b>					
Provisions	(317)	2	–	–	(315)
Doubtful Debts and Impairment Losses	(9)	(17)	–	–	(26)
	(326)	(15)	–	–	(341)
Net Deferred Tax Liability	42,453	376	4,903	–	47,732

### PARENT FOR THE YEAR ENDED 31 MARCH 2011

<b>Deferred Tax Liabilities</b>					
Plant, Property and Equipment	43,898	408	(906)	–	43,400
	43,898	408	(906)	–	43,400
<b>Deferred Tax Assets</b>					
Provisions	(315)	(32)	–	–	(347)
Doubtful Debts and Impairment Losses	(25)	(11)	–	–	(36)
	(340)	(43)	–	–	(383)
Net Deferred Tax Liability	43,558	365	(906)	–	43,018

### PARENT FOR THE YEAR ENDED 31 MARCH 2010

<b>Deferred Tax Liabilities</b>					
Plant, Property and Equipment	38,981	14	4,903	–	43,898
	38,981	14	4,903	–	43,898
<b>Deferred Tax Assets</b>					
Provisions	(317)	2	–	–	(315)
Doubtful Debts and Impairment Losses	(8)	(17)	–	–	(25)
	(325)	(15)	–	–	(340)
Net Deferred Tax Liability	38,656	(1)	4,903	–	43,558

Included in income tax recognised in equity is a credit of \$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 2011 \$(000)	GROUP 2010 \$(000)	PARENT 2011 \$(000)	PARENT 2010 \$(000)
Balance at Beginning of Year	26,233	23,758	25,379	23,105
Imputation Credits Attached to Dividends Paid in the Year	(750)	(837)	(750)	(837)
Imputation Credits Attached to Dividends Received	706	505	553	304
Tax Refund/Transfer	–	–	–	–
Income Tax Payments During the Year	2,510	2,807	2,510	2,807
Balance at End of Year	28,699	26,233	27,692	25,379

## 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 2011 \$(000)	GROUP 2010 \$(000)	PARENT 2011 \$(000)	PARENT 2010 \$(000)
28 million Ordinary Shares	29,026	29,026	29,026	29,026

## 6. Retained earnings/revaluation reserves

	GROUP 2011 \$(000)	GROUP 2010 \$(000)	PARENT 2011 \$(000)	PARENT 2010 \$(000)
Retained Earnings Balance at Beginning of Year	148,755	144,844	144,803	140,951
Net Profit for the Year	2,041	5,611	6,869	5,552
Dividends	(1,750)	(1,700)	(1,750)	(1,700)
Retained Earnings Balance at End of Year	149,046	148,755	149,922	144,803
Revaluation Reserve Balance at Beginning of Year	44,662	28,311	37,638	21,287
Transfers to Revaluation Reserves	10,876	16,351	906	16,351
Revaluation Reserve Balance at End of Year	55,538	44,662	38,544	37,638
Total Retained Earnings and Revaluation Reserves	204,584	193,417	188,466	182,441

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:

	GROUP 2011 \$(000)	GROUP 2010 \$(000)	PARENT 2011 \$(000)	PARENT 2010 \$(000)
Land and Buildings	2,905	2,961	2,905	2,961
Reticulation System Assets	35,858	34,677	35,639	34,677
Associate Entities	16,775	7,024	-	-
Total	55,538	44,662	38,544	37,638

## 7. Trade and other receivables

	GROUP 2011 \$(000)	GROUP 2010 \$(000)	PARENT 2011 \$(000)	PARENT 2010 \$(000)
The balance of Accounts Receivable comprises:				
Network and Other Trade Debtors	3,705	3,728	3,705	3,728
GST Receivable	817	688	817	688
Allowance for Impairment of Accounts Receivable	(128)	(86)	(128)	(86)
Total	4,394	4,330	4,394	4,330

Included in the Company's trade receivables balance are debtors with a carrying value of \$208,000 (2010 \$206,000) which are past due at reporting date. The Company has provided for \$127,787 (2010 \$86,169) 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.

## Notes to the financial statements – continued

FOR THE YEAR ENDED 31 MARCH 2011

### 8. Inventories and work in progress

	GROUP 2011 \$(000)	GROUP 2010 \$(000)	PARENT 2011 \$(000)	PARENT 2010 \$(000)
Reticulation Stock	4,295	4,646	4,295	4,646
Work in Progress	3	4	3	4
Total	4,298	4,650	4,298	4,650

### 9. Trade and other payables

	GROUP 2011 \$(000)	GROUP 2010 \$(000)	PARENT 2011 \$(000)	PARENT 2010 \$(000)
In current liabilities the balance of Trade and Other Payables comprises:				
Trade Creditors	3,155	3,288	3,155	3,289
Other Current Financial Liabilities:				
– Foreign Exchange Hedge Instruments	–	–	–	–
– Interest Rate Swaps	154	12	154	12
Employee Entitlements (Annual Leave)	818	724	818	724
Total	4,127	4,024	4,127	4,025

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 2011 \$(000)	GROUP 2010 \$(000)	PARENT 2011 \$(000)	PARENT 2010 \$(000)
Bank Term Debt Facility	\$42m	30 April 2013	38,100	22,500	38,100	22,500

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 3.68% (2010: 3.43%).

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 2011 \$(000)	GROUP 2010 \$(000)	PARENT 2011 \$(000)	PARENT 2010 \$(000)
Employee Entitlements	505	440	505	440

## 12. Plant, property and equipment – 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)
<b>PARENT ENTITY</b>						
<b>Cost or Valuation</b>						
Balance 1 April 2009	794	6,730	13,923	286,566	10,575	318,588
Additions	1,609	327	371	11,473	1,279	15,059
Revaluations	-	548	1,894	31,686	-	34,128
Disposals/Adjustments	(795)	(13)	(298)	(4,574)	(238)	(5,918)
Balance 31 March 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
<b>Accumulated Depreciation and Impairment</b>						
Balance 1 April 2009	-	-	3,897	128,510	6,794	139,201
Disposals/Adjustments	-	-	(60)	(2,769)	(211)	(3,040)
Revaluations	-	-	1,892	10,982	-	12,874
Depreciation Expense	-	-	230	5,501	1,316	7,047
Balance 31 March 2010	-	-	5,959	142,224	7,899	156,082
Disposals/Adjustments	-	-	-	(1,652)	(364)	(2,016)
Depreciation Expense	-	-	236	5,986	1,237	7,459
Revaluation Adjustments	-	-	-	-	-	-
Balance 31 March 2011	-	-	6,195	146,558	8,772	161,525
Net Book Value as at 31 March 2010	1,608	7,592	9,931	182,927	3,717	205,775
Net Book Value as at 31 March 2011	1,073	7,778	10,683	189,909	2,963	212,406

## Notes to the financial statements – continued

FOR THE YEAR ENDED 31 MARCH 2011

### 13. Plant, property and equipment – 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)
<b>GROUP</b>						
<b>Cost or Valuation</b>						
Balance 1 April 2009	794	6,730	13,923	286,999	10,575	319,021
Additions	1,609	327	371	11,474	1,279	15,060
Revaluations	–	548	1,894	31,686	–	34,128
Disposals/Adjustments	(795)	(13)	(298)	(4,574)	(238)	(5,918)
Balance 31 March 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
<b>Accumulated Depreciation and Impairment</b>						
Balance 1 April 2009	–	–	3,897	128,700	6,794	139,391
Disposals/Adjustments	–	–	(60)	(2,770)	(210)	(3,040)
Revaluations	–	–	1,892	10,982	–	12,874
Depreciation Expense	–	–	230	5,533	1,316	7,079
Balance 31 March 2010	–	–	5,959	142,445	7,900	156,304
Disposals/Adjustments	–	–	–	(1,652)	(364)	(2,016)
Depreciation Expense	–	–	236	6,018	1,237	7,491
Revaluation Adjustments	–	–	–	–	–	–
Balance 31 March 2011	–	–	6,195	146,811	8,773	161,779
Net Book Value as at 31 March 2010	1,608	7,592	9,931	183,140	3,716	205,987
Net Book Value as at 31 March 2011	1,073	7,778	10,683	190,090	2,962	212,586

#### 14. Plant, property and equipment – continued

Carrying amounts of plant, property and equipment had they been recognised under the cost model.

	<b>GROUP 2011 \$(000)</b>	GROUP 2010 \$(000)	<b>PARENT 2011 \$(000)</b>	PARENT 2010 \$(000)
Land	3,482	3,039	3,482	3,039
Buildings	6,922	5,351	6,922	5,351
Electricity Reticulation Network	46,532	41,822	46,352	41,611
Plant and Equipment	3,132	3,971	3,132	3,971
Total	60,068	54,183	59,888	53,972

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 \$175.685m as at 31 March 2010.

The latest equivalent value for the Nelson Electricity Limited Network System assets (50% owned by the Marlborough Lines Group) is \$24.728m as at 31 March 2010.

The latest equivalent value for the OtagoNet Network System assets (51% owned by the Marlborough Lines Group) is \$118.059m as at 31 March 2010.

#### 15. Investment property

	<b>GROUP 2011 \$(000)</b>	GROUP 2010 \$(000)	<b>PARENT 2011 \$(000)</b>	PARENT 2010 \$(000)
Opening Balance 1 April 2010	2,210	2,210	2,210	2,210
Acquisitions	–	–	–	–
Disposals	–	–	–	–
Revaluation Gains/(Losses)	–	–	–	–
Closing Balance 31 March 2011	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 2011. 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 2012 financial year.

## Notes to the financial statements – continued

FOR THE YEAR ENDED 31 MARCH 2011

### 16. Intangible assets – Parent and Consolidated Group

	SOFTWARE \$(000)	EASEMENTS \$(000)	TOTAL \$(000)
<b>PARENT AND CONSOLIDATED GROUP</b>			
<b>Cost</b>			
Balance at 1 April 2009	1,904	569	2,473
Additions	198	126	324
Disposals	–	–	–
Balance at 31 March 2010	2,102	695	2,797
Additions	198	149	347
Disposals	(50)	–	(50)
Balance at 31 March 2011	2,250	844	3,094
<b>Accumulated Amortisation and Impairment</b>			
Balance at 1 April 2009	1,671	–	1,671
Amortisation Expense	173	–	173
Disposals	–	–	–
Balance at 31 March 2010	1,844	–	1,844
Amortisation Expense	96	–	96
Disposals	(49)	–	(49)
Balance at 31 March 2011	1,891	–	1,891
Net Book Value as at 31 March 2010	258	695	953
Net Book Value as at 31 March 2011	359	844	1,203

### 17. Investments

#### 17.1 Marlborough Lines investments in subsidiaries

		2011	2010
Name of Entity	Southern Lines Limited	% Interest Held – 100	% Interest Held – 100
Principal Activity	Investments in Electricity Networks		
Balance Date	31 March		
Capital Investment Date	30 June 2002		
Shares		5,000	5,000
Term Loan		26,000	26,000
Shareholder Loan		23,722	23,722
Total		54,722	54,722

### 17.2 Marlborough Lines investments in associate entities

		2011	2010
Name of Entity	Nelson Electricity Limited	% Interest Held – 50	% Interest Held – 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)

		2011	2010
Name of Entity	Otago Power Services Limited	% Interest Held – 51	% Interest Held – 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)

		2011	2010
Name of Entity	OtagoNet Joint Venture	% Interest Held – 51	% Interest Held – 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 2011 \$(000)	GROUP 2010 \$(000)
The Group share of the results of its associate entities is as follows:		
Share of Surpluses Before Tax	2,498	7,868
Less Taxation	(874)	(709)
Less Dividends Received and Interest	(6,408)	(6,140)
(Loss)/Gain Attributable to Associate Entities	(4,784)	1,019

### 17.6 Interest in associate entities (OtagoNet Joint Venture)

	GROUP 2011 \$(000)	GROUP 2010 \$(000)	PARENT 2011 \$(000)	PARENT 2010 \$(000)
Joint Venture Capital	55,335	55,335	–	–
Less/Plus Share of Post Acquisition Results	(470)	1,482	–	–
Plus Share of Associate Revaluation	16,702	8,670	–	–
Interest in Associate Entity	71,567	65,487	–	–

## Notes to the financial statements – continued

FOR THE YEAR ENDED 31 MARCH 2011

### 17.7 Interest in associate entities (Otago Power Services Limited)

	GROUP 2011 \$(000)	GROUP 2010 \$(000)	PARENT 2011 \$(000)	PARENT 2010 \$(000)
Shares	535	535	–	–
Plus/Less Share of Post Acquisition Results	1,608	1,356	–	–
Plus Term Advance to Associate Entity	611	611	–	–
Interest in Associate Entity (Excluding Goodwill)	2,754	2,502	–	–

### 17.8 Interest in associate entities (Nelson Electricity Limited)

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	3,489	1,637	–	–
Less Share of Post Acquisition Results	(1,996)	(2,197)	–	–
Interest in Associate Entity (Excluding Goodwill)	11,943	9,890	10,451	10,451
Current Balance Associate Goodwill	1,220	1,220	1,220	1,220
Total Interest in Associate Entities	87,484	79,099	11,671	11,671

### 17.9 Marlborough Lines share in associate capital commitments and contingencies (50%)

	2011 \$(000)	2010 \$(000)
Nelson Electricity Limited Capital Commitments	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	2,435	3,836
Contingencies	–	–

### 17.11 Southern Lines share of associate (OtagoNet Joint Venture) assets, liabilities, revenue and expenditure

Assets as at 31 March	143,226	130,408
Liabilities as at 31 March	2,900	2,004
Revenue for Year Ended 31 March	30,086	26,472
Profit	(167)	11,090
Share of Profit (51%)	(85)	5,656

**17.12 Southern Lines share of associate (Otago Power Services) assets, liabilities, revenue and expenditure**

	2011 \$(000)	2010 \$(000)
Assets as at 31 March	7,464	6,367
Liabilities as at 31 March	3,373	2,739
Revenue for Year Ended 31 March	11,132	9,779
Profit	1,183	1,062
Share of Profit (51%)	603	556

**17.13 Marlborough Lines share of associate (Nelson Electricity) assets, liabilities, revenue and expenditure**

Assets as at 31 March	34,990	29,978
Liabilities as at 31 March	4,510	4,256
Revenue for Year Ended 31 March	9,083	8,626
Profit	2,199	1,705
Share of Profit (50%)	1,099	853

**17.14 Revaluation of plant, property and equipment in associates**

	NET REVALUATION INCREASE \$(000)	GROUP'S SHARE \$(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 2011 \$(000)	GROUP 2010 \$(000)	PARENT 2011 \$(000)	PARENT 2010 \$(000)
<b>PROVISION</b>				
<b>Allowance for Impairment of Receivables</b>				
Opening Balance	86	30	86	30
Debts Written Off Against Provision	(5)	(8)	(5)	(8)
Additions to Provision	47	64	47	64
Closing Balance	128	86	128	86

**19. Dividends**

	GROUP 2011 \$(000)	GROUP 2010 \$(000)	PARENT 2011 \$(000)	PARENT 2010 \$(000)
Amounts recognised as distributions to equity holders in the period:				
Total Dividends	1,750	1,700	1,750	1,700
Cents per Share	6.250	6.070	6.250	6.070

## Notes to the financial statements – continued

FOR THE YEAR ENDED 31 MARCH 2011

### 20. Commitments

#### 20.1 Capital commitments

	GROUP 2011 \$(000)	GROUP 2010 \$(000)	PARENT 2011 \$(000)	PARENT 2010 \$(000)
Capital Expenditure Committed to at Balance Date but Not Recognised in the Financial Statements	2,369	2,892	2,369	2,892

#### 20.2 Lease commitments

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.

Commitments under present lease agreements over the next five years for the Parent company are presently estimated as follows: less than 1 year – \$17,732 (2010: \$56,560), less than 2 years – \$18,134 (2010: \$14,854), 2-5 years – \$58,308 (2010: \$61,315), greater than 5 years – \$99,375 (2010: \$102,440).

### 21. Contingent liabilities

As at 31 March 2011 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.

#### 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 2011 \$(000)	GROUP 2010 \$(000)	PARENT 2011 \$(000)	PARENT 2010 \$(000)
Interest rate swaps in place as at 31 March 2011 were as follows:					
Maturing in Less than One Year	3.37	10,000	–	10,000	–
Maturing in Greater than:	3.76	2,000	10,000	2,000	10,000
– One Year					
– Two Years	4.01	4,000	–	4,000	–
– Three Years	4.18	2,000	–	2,000	–
	4.28	3,000	–	3,000	–
– Four Years	4.32	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 higher or lower the Group's net profit would increase/decrease by \$190,351 (2010 \$103,875). As at balance date the Group's sensitivity to interest rates has decreased due to the increase in interest rate hedges held at 31 March 2011, and the quantum of loans held.

### 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 2011 Marlborough Lines Limited had no foreign currency contracts outstanding (2010 – 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.

## Notes to the financial statements – continued

FOR THE YEAR ENDED 31 MARCH 2011

### 22.8 Classification of financial instruments

	DESIGNATED AT FAIR VALUE \$(000)	LOANS & RECEIVABLES \$(000)	OTHER \$(000)	OTHER AMORTISED COST \$(000)	TOTAL CARRYING AMOUNT \$(000)
<b>CONSOLIDATED GROUP AS AT 31 MARCH 2011</b>					
<b>Current Assets</b>					
Cash and Cash Equivalents	–	403	–	–	403
Trade and Other Receivables	–	4,394	–	–	4,394
Other Current Financial Assets	–	–	–	–	–
<b>Non Current Assets</b>					
Investment in Horizon Energy Distribution Limited	–	–	14,474	–	14,474
Investments Accounted for Using the Equity Method	–	–	–	87,484	87,484
Total Financial Assets	–	4,797	14,474	87,484	106,755
<b>Current Liabilities</b>					
Trade and Other Payables	–	–	–	3,155	3,155
Other Current Financial Liabilities	–	–	154	–	154
Employee Entitlements	–	–	–	818	818
<b>Non Current Liabilities</b>					
Term Loans	–	–	–	38,100	38,100
Employee Entitlements	–	–	–	505	505
Total Financial Liabilities	–	–	154	42,578	42,732
<b>CONSOLIDATED GROUP AS AT 31 MARCH 2010</b>					
<b>Current Assets</b>					
Cash and Cash Equivalents	–	190	–	–	190
Trade and Other Receivables	–	4,330	–	–	4,330
Other Current Financial Assets	–	–	–	–	–
<b>Non Current Assets</b>					
Investments	–	–	–	–	–
Investments Accounted for Using the Equity Method	–	–	79,099	–	79,099
Total Financial Assets	–	4,520	79,099	–	83,619
<b>Current Liabilities</b>					
Trade and Other Payables	–	–	–	3,289	3,289
Other Current Financial Liabilities	–	–	12	–	12
Employee Entitlements	–	–	–	724	724
<b>Non Current Liabilities</b>					
Term Loans	–	–	–	22,500	22,500
Employee Entitlements	–	–	–	440	440
Total Financial Liabilities	–	–	12	26,953	26,965

	DESIGNATED AT FAIR VALUE \$(000)	LOANS & RECEIVABLES \$(000)	OTHER \$(000)	OTHER AMORTISED COST \$(000)	TOTAL CARRYING AMOUNT \$(000)
<b>PARENT AS AT 31 MARCH 2011</b>					
<b>Current Assets</b>					
Cash and Cash Equivalents	-	403	-	-	403
Trade and Other Receivables	-	4,394	-	-	4,394
<b>Non Current Assets</b>					
Investment in Horizon Energy Distribution Limited	-	-	14,474	-	14,474
Investment in Subsidiaries	-	-	54,722	-	54,722
Investments Accounted for Using the Equity Method	-	-	11,670	-	11,670
Total Financial Assets	-	4,797	80,866	-	85,663
<b>Current Liabilities</b>					
Trade and Other Payables	-	-	-	3,155	3,155
Other Current Financial Liabilities	-	-	154	-	154
Employee Entitlements	-	-	-	818	818
<b>Non Current Liabilities</b>					
Term Loans	-	-	-	38,100	38,100
Employee Entitlements	-	-	-	505	505
Total Financial Liabilities	-	-	154	42,578	42,732
<b>PARENT AS AT 31 MARCH 2010</b>					
<b>Current Assets</b>					
Cash and Cash Equivalents	-	190	-	-	190
Trade and Other Receivables	-	4,330	-	-	4,330
<b>Non Current Assets</b>					
Investments	-	-	54,722	-	54,722
Investments Accounted for Using the Equity Method	-	-	11,671	-	11,671
Total Financial Assets	-	4,520	66,393	-	70,913
<b>Current Liabilities</b>					
Trade and Other Payables	-	-	-	3,289	3,289
Other Current Financial Liabilities	-	-	12	-	12
Employee Entitlements	-	-	-	724	724
<b>Non Current Liabilities</b>					
Term Loans	-	-	-	22,500	22,500
Employee Entitlements	-	-	-	440	440
Total Financial Liabilities	-	-	12	26,953	26,965

## Notes to the financial statements – continued

FOR THE YEAR ENDED 31 MARCH 2011

### 23. Key management personnel

The compensation of the Directors and Executives being the key management personnel of the entity is set out below.

	<b>GROUP 2011 \$(000)</b>	GROUP 2010 \$(000)	<b>PARENT 2011 \$(000)</b>	PARENT 2010 \$(000)
Directors' Fees	249	220	249	220
Salaries and Short Term Employee Benefits	1,466	1,145	1,466	1,145
Termination Benefits	100	250	100	250
Total	1,815	1,615	1,815	1,615

### 24. Group entities

Investments in subsidiaries, associates and other entities within the Marlborough Lines Limited Group as at 31 March were as follows:

	<b>EFFECTIVE OWNERSHIP 2011</b>	EFFECTIVE OWNERSHIP 2010	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%	Nil	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.

	<b>2011 \$(000)</b>	2010 \$(000)
Dividends Paid to the Trust	1,750	1,700
Administrative Costs Charged to the Trust	-	-
Amounts Owed by the Trust to the Company as at 31 March	-	-

#### 25.2 Parties associated with Directors

The Parent company and Group did not undertake any transactions with parties associated with Directors of Marlborough Lines Limited.

#### 25.3 Subsidiary companies

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.

	<b>2011 \$(000)</b>	2010 \$(000)
Term Debt Borrowing from Marlborough Lines Limited	26,000	26,000
Shareholder Loans from Marlborough Lines Limited	23,722	23,722
Interest Payments to Marlborough Lines Limited	5,531	2,153

#### 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.

	2011 \$(000)	2010 \$(000)
Director's Fees Paid to Marlborough Lines for Mr K Forrest	15	15
Management Fees Charged to Nelson Electricity to the Company	257	257
Amounts Owed by Nelson Electricity	52	50

#### 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.

	2011 \$(000)	2010 \$(000)
Director's Fees Paid to Marlborough Lines for Mr K Forrest	14	14
Interest Received by Southern Lines for Short Term Advances	22	22
Management Fees Paid by Otago Power Services to Marlborough Lines	230	268
Services Provided by Otago Power Services to Marlborough Lines	66	183
Services Provided by Marlborough Lines to Otago Power Services	36	30
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	149

#### 25.6 Joint venture investment

Marlborough Lines subsidiary Southern Lines Limited owns 51% of the OtagoNet Joint Venture.

	2011 \$(000)	2010 \$(000)
Revenue Received from the OtagoNet Joint Venture	5,151	5,024
Management Fees Paid to Marlborough Lines	115	115
Management Fees Paid to Marlborough Lines for Mr K Forrest	20	20

#### 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.

	2011 \$(000)	2010 \$(000)
Payments Made to Stronach Power Consulting Limited	78	148

## Notes to the financial statements – continued

FOR THE YEAR ENDED 31 MARCH 2011

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### 26. Miscellaneous

#### 26.1 Budget 2010

The 2010 Budget announced by the Government on 20 May 2010 included a number of changes which will impact this Company.

From 1 April 2011 companies will pay income tax at the rate of 28 cents in the dollar. This will impact on the cash tax payable in respect of the 2012 income year and also on the calculation of the Company's deferred tax liability which is essentially the difference between the tax and accounting book values of assets held (excluding land) multiplied by the tax rate of the day.

The Government has determined that from 1 April 2011 tax depreciation deductions will no longer be available for buildings with an estimated useful life of 50 years or more. Building depreciation deducted for tax purposes amounted to \$193,648 in the 2011 financial year. Deferred tax will still arise in relation to buildings and will be calculated as the tax effect (28%) of the difference between the tax base value of the buildings (Nil) and the current accounting value.

The Government also determined that capital contributions received in relation to assets constructed is now taxable income over a period of ten years or alternatively it can be deducted from the tax value of the asset, reducing the tax depreciation claim. For tax purposes capital contributions totalling \$1,006,328 were credited against assets in the 2011 year.

#### 26.2 Horizon Energy Distribution Limited

On Friday 11 June 2010 Marlborough Lines Limited initiated a stand in the NZX market to acquire 10.1% of Horizon. The offer was subsequently extended and the Company now owns 13.9% of Horizon Energy Distribution. The investment in Horizon Energy Distribution Limited is accounted for as an available for sale financial instrument.

### 27. Events subsequent to balance date

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 2011 (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 shareholder 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 of net operating surplus after interest and tax to shareholder's funds of at least 6.92%, adding back discounts and using Depreciated Replacement Cost to establish the value of net assets/shareholder's funds.	Achieved 5.71% on average shareholder's funds of \$197.628m 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), adding back customer discounts adjusted for tax, and adjusting equity for the net revaluation gain made in March 2010 and not included in the target calculations.																																										
2	To achieve a percentage of shareholder's funds to total assets which is prudent but able to accommodate business expansion (31 March 2010 actual 74.33%).	Achieved a percentage of 71.03% after allowing for additional borrowing required in the purchase of a 13.9% stake in Horizon Energy Distribution Ltd.																																										
3	To achieve a target return on equity (ROE) of at least 10% after tax from Nelson Electricity Ltd (31 March 2010 actual 6.67%).	Achieved 7.82% on average shareholder's funds. Nelson Electricity's network assets were revalued in the year ending 31 March 2011. If revaluations (\$4.359m) are included in the numerator and the denominator of the ROE fraction then the ROE is 23.34%. If revaluations are removed from both the numerator and the denominator the ROE is 8.48%.																																										
4	To achieve a target return on equity of at least 10% after tax from the Company's OtagoNet Joint Venture investment (31 March 2010 actual 8.68%).	Achieved 9.38% excluding adjustments for goodwill and revaluations. Adding these adjustments gives a return of 16.39%																																										
5	Customer minutes lost by scheduled shutdowns of the Company's network to not exceed 90 minutes compared with an average of 101.4 minutes lost per customer for the years 2007/2008/2009.	The outcome was an average of 85.7 minutes lost per customer.																																										
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 157.8 for the years 2007/2008/2009.	The outcome was an average of 197.35 minutes lost per customer. For eleven months the company averaged 11.75 minutes. In December a significant storm event added 68.07 minutes, without which the target would have been met.																																										
7	Fault restoration targets:																																											
	<table border="1"> <thead> <tr> <th>AREA</th> <th>TARGET TIMES</th> <th>REPAIRED OUT OF TARGET</th> <th>REPAIRED WITHIN TARGET</th> <th>TOTAL NUMBER OF FAULTS</th> <th>% IN TARGET</th> <th>% OUT OF TARGET</th> </tr> </thead> <tbody> <tr> <td>Urban</td> <td>0.50 hours</td> <td>9</td> <td>7</td> <td>16</td> <td>44%</td> <td>56%</td> </tr> <tr> <td>Urban Other</td> <td>1.50 hours</td> <td>6</td> <td>24</td> <td>30</td> <td>80%</td> <td>20%</td> </tr> <tr> <td>Rural</td> <td>1.50 hours</td> <td>86</td> <td>100</td> <td>186</td> <td>54%</td> <td>46%</td> </tr> <tr> <td>Rural Remote</td> <td>8.00 hours</td> <td>25</td> <td>63</td> <td>88</td> <td>72%</td> <td>28%</td> </tr> <tr> <td>Total</td> <td></td> <td>126</td> <td>194</td> <td>320</td> <td></td> <td></td> </tr> </tbody> </table>	AREA	TARGET TIMES	REPAIRED OUT OF TARGET	REPAIRED WITHIN TARGET	TOTAL NUMBER OF FAULTS	% IN TARGET	% OUT OF TARGET	Urban	0.50 hours	9	7	16	44%	56%	Urban Other	1.50 hours	6	24	30	80%	20%	Rural	1.50 hours	86	100	186	54%	46%	Rural Remote	8.00 hours	25	63	88	72%	28%	Total		126	194	320			
AREA	TARGET TIMES	REPAIRED OUT OF TARGET	REPAIRED WITHIN TARGET	TOTAL NUMBER OF FAULTS	% IN TARGET	% OUT OF TARGET																																						
Urban	0.50 hours	9	7	16	44%	56%																																						
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Rural Remote	8.00 hours	25	63	88	72%	28%																																						
Total		126	194	320																																								
8	The Company will distribute discounts to the region's electricity customers.	In accord with the posted price/discount requirements \$6.444m (excl GST) was paid to Electricity Retailers in March 2011 (2010 \$6.067m).																																										
9	The anticipated total dividend for the year to 31 March 2011 was \$1.75m.	During the year the Company received one request from its shareholder and paid dividends to the Marlborough Electric Power Trust totalling \$1.75m.																																										
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. Additionally the Company has 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 2011

The Auditor-General is the auditor of Marlborough Lines Limited (the Company) and Group. The Auditor-General has appointed me, Michael Wilkes, 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 86 to 114, that comprise the statement of financial position as at 31 March 2011, 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 on page 115.

#### Opinion on the financial statements and the statement of service performance

In our opinion,

- the financial statements of the Company and Group on pages 86 to 114:
  - 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 2011; and
    - financial performance and cash flows for the year ended on that date;
- the statement of service performance of the Company on page 115:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the Company's service performance for the year ended on that date, including the performance achieved as compared with forecast targets specified in the statement of forecast service performance for the financial year.

#### Opinion on 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 23 June 2011. 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, and 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

## Deloitte.

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 and the Company's 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'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.



**Michael Wilkes**

*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 5.7% for the financial year ended 31 March 2011. From 1 April 2011 the Company has elected to increase average prices by 3.5%, 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 41% over 13 years to February 2011. While the retail portion of the account for the same customer group has increased by up to 184% (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)	<b>2011</b>	11.11 cents / kWh
Marlborough Lines (before discount)	<b>1999</b>	7.90 cents / kWh

Marlborough Lines has continued to provide discounts to customers. In the year to 31 March 2011 discounts totalling \$6.444m excluding GST (\$6.067m in 2010) 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 \$170.55. The Company anticipates providing total approximate discounts of \$6.614m excluding GST in the financial year ending 31 March 2012.

### 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 2010 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
NZ Average 2010	187	2.2	83.9	553	7.9
<b>Marlborough Lines 2011</b>	<b>283</b>	<b>2.6</b>	<b>109.1</b>	<b>569</b>	<b>12.2</b>

All results, except 2011, have been audited. The 2011 numbers are due for audit in August 2011. The Company's rolling SAIDI was 77.35 minutes over target for faults in the 2011 year. An extreme storm event with large amounts of precipitation and high winds during December 2010 resulted in 54.52 of lost SAIDI minutes.

### 3. Network statistics – Marlborough Lines

	2007	2008	2009	2010	<b>2011</b>
Total System Length kms	3,261	3,286	3,319	3,334	3,349
Transformer Capacity kVA	270,893	288,456	298,366	303,867	309,560
Maximum Demand kW	68,186	70,054	68,720	72,073	70,247
Energy into Network kWh	357,385,277	372,775,671	372,815,364	391,777,576	383,814,773
Total Customers	23,118	23,584	23,870	24,073	24,270

#### 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.

	2005 \$(000)	2006 \$(000)	2007 \$(000)	2008 \$(000)	2009 \$(000)	2010 \$(000)
<b>ELECTRICITY NETWORK SYSTEM FIXED ASSETS</b>						
Regulatory Opening Value	100,396	104,324	118,374	128,407	141,680	155,802
Regulatory						
– Additions	5,667	15,596	13,072	15,852	14,287	13,351
– Revaluations	2,705	3,503	3,004	4,323	4,207	3,189
– Depreciation	(4,453)	(5,246)	(6,460)	(7,531)	(7,636)	(6,387)
– Other Movements	9	197	417	629	3,264	–
Regulatory Closing Value	104,324	118,374	128,407	141,680	155,802	165,955

The notional regulatory value at 31 March 2010 had increased to \$165.955m as a result of indexing of all values, based on Commerce Commission specified indexation rates and after adding yearly assets 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 2009 \$	ACTUAL 2010 \$	TARGET 2011 \$	ACTUAL 2011 \$	PROJECTED 2012 \$
Transmission and Distribution	5,834,786	8,292,683	7,947,813	4,138,593	7,088,033
Main Substations	1,637,881	2,348,782	1,443,881	3,475,031	2,311,222
Underground Reticulation	1,278,403	22,318	2,439,944	4,937,208	1,505,081
Test Equipment	29,197	85,978	40,000	46,055	20,000
Radio Equipment	693	22,350	–	62,143	115,000
Plant and Tools	221,583	414,943	146,500	309,042	73,200
Transport	703,554	591,786	25,000	101,084	214,680
Land and Buildings	392,229	476,291	965,000	1,189,276	730,000
Office Equipment	478,005	315,056	810,000	199,171	720,500
Total	10,576,331	12,570,187	13,818,138	14,457,603	12,777,716

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 2011 plan are available on request from Marlborough Lines or from the Company's internet site at [www.marlboroughlines.co.nz](http://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

	ACTUAL 2009	ACTUAL 2010	TARGET 2011	ACTUAL 2011	PROJECTED 2012
<b>PARENT COMPANY ONLY</b>					
Operating Turnover	\$46.405m	\$44.241m	\$46.001m	\$48.056m	\$46.475m
Discounts Paid (Excl GST)	\$5.827m	\$6.067m	\$6.464m	\$6.444m	\$6.614m
Total Shareholders Equity*	\$222.994	\$229.920	\$261.350	\$260.510	\$265.928
Net Asset Backing	\$7.96	\$8.21	\$9.33	\$9.30	\$9.50
EBIT/Ave Net Funds Employed	6.94%	5.78%	5.65%	5.38%	5.33%
Return on Average Equity	5.85%	3.82%	3.90%	3.63%	3.36%

\* Includes deferred taxation provision transferred from equity to term liabilities under NZ IFRS.

## 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.marlboroughlines.co.nz](http://www.marlboroughlines.co.nz)



## Notice of Annual General Meeting

Notice is hereby given that the eighteenth Annual General Meeting of the shareholder of Marlborough Lines Limited will be held at the Company's offices in Alfred Street, Blenheim on 9 September 2011 at 3.00pm.

### Ordinary business

1. To receive and consider the annual reports of the Chairman and Directors, the Statement of Accounts and Auditors Report for the year ended 31 March 2011.
2. During the 2010/11 financial year the shareholder authorised payment of dividends totalling \$1,300,000. There is no recommendation for a final dividend for the year ended 31 March 2011.
3. To elect Directors.  
  
Note: The Directors advise that Mr D Ashton and Mr T Shagin retire at the meeting by rotation as provided by Clause 21.7 of the Company's constitution. Mr D Ashton and Mr T Shagin 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



**G J Hoare**  
Company Secretary  
19 July 2011

### 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*  
9 September 2011 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 (Eng), MIPENZ*  
Managing Director

**K L Hume-Pike**, *B Com, LLB, CSAP*  
Commercial Manager

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

**G J Hoare**, *BCA, CA*  
Company Secretary

**B L Tapp**, *NZCE, REA*  
Operations Manager

**S J McLauchlan**, *MNZIM*  
General Manager Contracting

### 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

## Annual report awards

Each year for the past seven 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.

### Awards received

2005	Silver Award	Australasian Reporting Awards
2006	Silver Award	Australasian Reporting Awards
2007	Silver Award	Australasian Reporting Awards
2008	Silver Award	Australasian Reporting Awards
2008	Best report by a small to medium corporate	NZ Institute of Chartered Accountants
2009	Silver Award	Australasian Reporting Awards
2010	Silver Award	Australasian Reporting Awards
2011	Gold Award	Australasian Reporting Awards

## Glossary

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**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.

**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.

**SF<sub>6</sub> 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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# Index

Audit report	116	Key results	9
Chairman's report	20	Managing Director's report	22
Community involvement	59	Network	
Company structure	81	• Capital expenditure	32
Contracting	42	• Maintenance	35
Corporate governance	78	• Reliability	35
Customer information	26	Notice of Annual General Meeting	121
Directors		Operational review	28
• Membership	76	Our mission	18
• Responsibilities	78	Outage information	36
• Role	78	Performance overview	6
Directory	122	Performance report (statutory)	115
Environment performance review	52	Profile	4
Financial calendar	102	Review and discussion of financial statements	66
Financial statements		Regulation (discussion on)	24
• Income Statement	86	Risk management	80
• Notes to the financial statements	92	Senior management	64
• New Zealand International Financial Reporting Standards	70	Sponsorship	60
• Profitability	66	Staff (our people)	45
• Reconciliation of profit for the period to net cash flows from operating activities	91	Supplementary information	118
• Statement of Cash Flows	90		
• Statement of Changes in Equity	87, 88		
• Statement of Financial Position	89		
General disclosures	82		
Glossary	123		
Group investment profile	4		
Health and safety	50		
Interests Register	83		
Investments			
• Nelson Electricity Ltd (NEL)	72		
• OtagoNet Joint Venture (OJV)	72		
• Otago Power Services Ltd (OPSL)	73		
• Horizon Energy Distribution Ltd	73		

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# A brief history of Marlborough Lines

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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.

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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.

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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.

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Under Government decree New Zealand's electric power boards were corporatised in April 1993 and the Marlborough Electric Power Board became Marlborough Electric Limited.

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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.

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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.

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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.

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**Marlborough**  
**Lines**